

EUROPANOVA__ Jean-François Jamet - Guillaume Klossa

a Europe
that dares,



in the interest of

the **Europeans**

**60 practical proposals
to build a European power**

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*To Jacques Delors, Bronislaw Geremek, Michel Barnier,
Daniel Cohn-Bendit and Jean-Pierre Jouyet, five great
Europeans,*

*and to Daniel Cohen, Michael Porter and Maria Joao
Rodrigues who inspired us the methodology of this report*

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Introduction

60 years after the Schuman declaration on 9 May 1950 - the foundation stone of the European project -, the European Union is still in a position to be able to shape its future, provided that it wants to and rapidly gives itself the wherewithal to influence the future of the world. By 2030 the United States and China could have outstripped the European Union in terms of wealth. Above all, all the indications are that the two powers are working to establish a strategic partnership that could marginalise the Old Continent and relegate it to the status of an onlooker of History. For now, the European Union still has the chance to build leadership and disseminate its standards, but also the opportunity to define and share a vision of the future of the planet and its checks and balances that reflects its own values and interests, which are very different from those of the other regional powers.

The worldwide challenges posed by global warming, dwindling natural resources and economic and financial regulation make it urgent to start thinking of the collective interest of mankind. Yet the recent crises showed that the European Union alone was actually prepared to take, even unilaterally, the steps required to safeguard the planet. If the European Union wants to be able to promote a collective vision in a world in which regional powers tend to look exclusively to their own short-term interests, it must make itself credible, and thus powerful.

But it cannot now do without a new political narrative for the European adventure, one which enables the twenty-seven Member States and their citizens to answer as one the question why it matters that the citizens of Europe «live together» and «decide together». Only then will States and citizens sign up to active, long-term commitment to the European project. Speeches about peace or completion of the internal market are no longer enough to convince people that the European Union is effective and legitimate, precisely because these fundamental achievements of the Union are now taken for granted, particularly by the younger generations. What citizens expect of the European Union is that it helps change the realities of the world, for they are well aware now that only lasting unity between Europeans can alter the course of History.

If they are to change the world, Europeans must first adopt policies that will ensure them sustainable growth and high employment, which requires investment and innovation on a scale unknown since the end of the Second World War in priority industries and services that reflect global changes in technology, the environment and society (green growth; the challenges of health, ageing and migration; cutting-edge technologies, especially digital technologies; industrial and military security in a context of economic warfare; new energy technologies), as well as reinforced solidarity. Europe must be conceived as an innovative ecosystem, which is able to create the new trends of worldwide demand as well as new models of growth, production and consumption. The requirement is also to devise a strategy that will mobilise all national and community instruments and serve our common interests, but also to mobilise and motivate a population of half a billion men and women who are among the best qualified in the world.

It is a huge challenge, particularly as all the ingredients of European growth over the past sixty years are being severely questioned. Demographic decline is on the way and it will be rapid. The process of catch-up and convergence begun after the Second World War and continued with the recent enlargements is coming to an end. The geopolitical checks and balances which have allowed Europeans to win acceptance of their standards are now tilting less and less in their favour. Witness our inability to take any deep-rooted action on financial and currency regulation and our difficulty in establishing global environmental governance that is up to the task of Europe's climate ambitions. Is our loss of power and influence here inexorable? Can we find our way back to sustainable growth sufficiently strong for Europe still to be able to make its voice heard in 2050?

The European Union can no longer afford naivety. It must wake up to the realisation that the other powers play on its internal divisions. With a paradoxical result: when a power seeks to conclude a partnership with Europe it deals with a partner perceived as weak, whose word does not immediately commit it as to its actions. The European Union must therefore be better able to disseminate and explain its positions to political leaders, the media, opinion leaders and public opinion worldwide. Intelligent coexistence between the Union, its Member States and a diverse civil society involved in international fora and public debate worldwide is a strength not a weakness. It is the precondition for avoiding further resounding failures such as the Copenhagen Summit or the marginalisation of European interests in the G20. But for that to happen we must create awareness of our interests at every level in a way that is clear to our interlocutors and motivating for our fellow citizens, who must be able to take pride both in their nations and in the European Union.

Methodical action

The countdown to this Copernican Revolution in European action has started. By 2020-2030 the European Union will either be the power which determines the world's checks and balances, or it will be under the thumb

of the other powers, with no prospect of ever regaining any leadership. The European Union has many winning cards to play in taking up this challenge: new institutions in a more identifiable and democratic form, an exemplary capacity for political integration, a tradition of social cohesion but also of innovation and creativity long unequalled, a large, rich and well-qualified population. To prepare for the medium term, it must now act methodically and efficiently and again demonstrate imagination and boldness. In the short term, however, one priority will be decisive in preparing with equanimity for the future, and that is an ability to act in favour of renewed, more stable and more predictable international monetary relations. But to be credible externally, the European Union also needs effective and reasoned rules to ensure monetary and fiscal solidarity.

To plan for the future, the European Union must therefore identify more clearly the major internal and external challenges that will face it in 2020-2030 and agree on its strategic priorities in an open and transparent debate. It must then go on to define and implement a strategy to meet those challenges. That means identifying the final objectives, the intermediate objectives, the instruments of action and evaluation, the roles to be assigned to the various actors in the strategy (in particular the Member States and the European Union), effective means of communication in the context of a fresh political narrative and clear leadership, together with an ambitious but credible timetable. In this respect, lessons will have to be learned from the achievements and the limitations of the Lisbon Strategy and advantage taken of the dynamic made possible by the new EU institutions in terms not only of a recognisable political face for Europe but also of leverage on globalisation. In particular, the new common foreign policy must place itself fully at the service of European economic and strategic interests.

Guillaume Klossa, Jean-François Jamet

1. The challenges for the European Union in 2020-2030

Europe already faces multiple challenges which will affect the lives of Europeans and confront them with new global economic and geopolitical checks and balances.

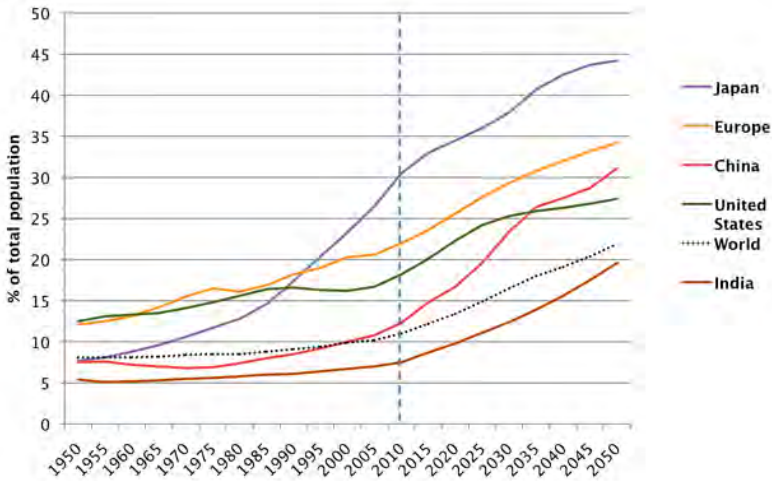
While facing the growing scarcity of essential productive resources resulting from ageing of the population and worldwide competition for natural resources, Europe must at the same time affirm its role in a world of changing economic and geopolitical balance. But to affirm itself outside, it must succeed in strengthening its cohesion inside, around a project to which Europeans can relate.

1.1. Dwindling essential productive resources

1.1.1. An ageing population

More than any other region in the world, Europe is ageing (Figure 1): in 2007 the over 65s already accounted for 16,9% of the population of the EU (and as much as 19,8% in Germany, compared with 12,3% in the United States and 7,4% worldwide), i.e. more than the under 15s (15,8% of the population of the EU, compared with 20,7% in the United States and 28% worldwide). In addition, the EU's population is falling (by an annual average of -0,1% for the period 2005-2010, compared with +1% for the world population), mainly because of a low fertility rate (1,43 in 2007 compared with 2,04 in the United States and 2,56 worldwide).

Figure 1. Population aged 60 or more, % of total population



Source: ONU, World Population Prospects: The 2008 Revision

Europe is already having to deal with the initial consequences of this ageing, which take several forms. Firstly they are economic: the expected fall in the population of Europe lowers growth potential. Europe will therefore have to rely for its growth on increases in productivity, investment and immigration. However, each of these possibilities is a challenge in itself. Ageing also has an unfortunate effect on public finances. In Member States where public debt rose significantly during the crisis, social accounts are unbalanced by the rapid progression of pension and health expenditure. Reform here is difficult: either other spending has to be cut or a way found of controlling social protection spending. Either option poses a considerable political challenge.

Another consequence of ageing concerns relations between the generations. The inter-generational balance has shifted: increasingly it will be older people who have to help out the younger generations. A larger proportion of assets and cash will be concentrated in the hands of the older generations, making it more difficult, for example, for the younger generations to enter the property market. In addition, the generations reaching retirement age represent a pool of skills which ought to be passed on to the young in order to preserve certain skills and know-how essential to the economic success of European businesses. The handing on of businesses, for example, will be an increasing challenge.

Lastly, population ageing raises the question of keeping the over 50s active and in good health. This means, for example, addressing the issues of work or voluntary work for older people, but also the public health challenges in the years to come, in particular combating cancer, Alzheimer's, cardiovascular disease, diabetes and depression. To do so, individuals' environments (in particular working environment) must be improved, along with their habits and way of life. Not only the welfare of the European population but also its economic dynamism will depend on Europe's ability to meet these various challenges.

1.1.2. A return to scarcity of natural resources

While globalisation brings down the prices of certain products by increasing production capacity and lowering costs, the same does not apply to products which are intrinsically in limited supply, in particular natural resources (Figure 2). World growth thus contributed to

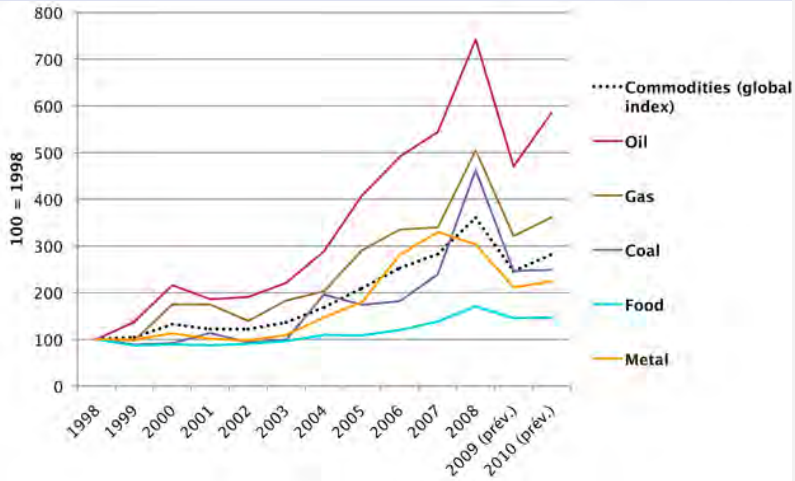
a spectacular increase in the cost of mineral and agricultural raw materials from 1998 to 2008. Apart from the short-term economic causes of this sharp rise in raw materials prices, there are underlying reasons: the growth and enrichment of the world population (which consumes more), the gradual exhaustion of certain scarce resources (such as water, fish, etc.).

One example made a particular impact on the European mind: the oil price rise. It was fostered by underinvestment in production and refinement capacity and political instability in many producer countries. It negatively affected growth in the importing countries, but also had other implications, such as the increasing importance of «pipeline geopolitics», which heightens energy insecurity.

Pressure on biological resources poses many environmental problems: climate change with an increase in the frequency of extreme climate events, exhaustion of water and fish resources, multiple pollution, loss of biodiversity. The list is long and the economic and human cost potentially high.

Pressure on resources will no doubt continue to mount in the next few years: with a world population set to rise from 6,5 billion in 2005 to 8,3 billion in 2030, the world's primary energy needs, for example, will rise by 55%. Similarly, if world supply and demand for cereals continues to follow the same trend as in 2005-07, there will be a 10% production deficit in 2015. Finally, it is very tempting

Figure 2. Increase in commodity prices (1998-2010)



Source: FMI

for producer countries to form cartels: Russia, for example, is openly in favour of a wheat cartel and has already laid the basis of a gas cartel. These attempts have failed but they emphasize the tensions and balance of power associated with the growing importance of natural resources.

The challenge for Europe - and for the world - is therefore to avoid a return to a Malthusian economy, where the increase in population ultimately results in a fall in per capita income owing to excessive pressure on natural resources. The risks are multiple: drop in purchasing power, increase in the number of «climate refugees», risk of conflicts relating to access to natural resources and increased energy dependency. Tension over energy is also a threat to European unity, as the gas crises of recent years have shown.

1.2. Europe's uncertain place in the new world economic and geopolitical order

1.2.1. The new face of the world economy: competition and imbalances

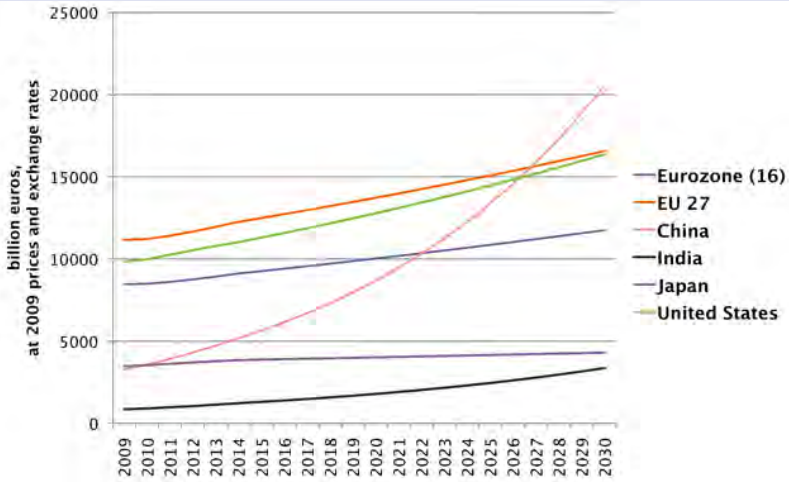
The face of the world economy is changing and will continue to change. Europe has difficulty in positioning itself vis-à-vis this external challenge. While it remains the principal player in globalisation (in terms of trade, investment flows and population movements) it seems to have no control over it, and that is a cause for

concern for the people of Europe.

World growth is now led by the BRICs (Brazil, Russia, India and China). In the space of ten years their share of world GDP has risen from 15,6% to 21,4%, and their share in international trade in goods and services from 5,8% to 11,5%. While the BRIC have introduced an unprecedented number of workers into the world economy, they also represent significant markets, with 2,8 billion inhabitants. Lastly, they are political powers which must now be reckoned with in world economic governance. This movement will continue. China should become the world's number one economic power in 2027 (Figure 3). The flow of labour into the world economy will also continue: while the EU's population of working age will fall from 331 million in 2010 to 268 million in 2050, that of the world as a whole will rise from 4,5 billion in 2010 to 5,9 billion in 2050 (Figure 4).

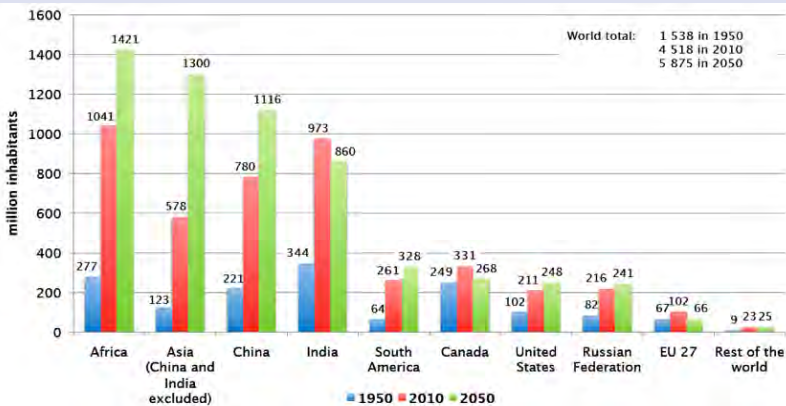
The world economy is also marked by major imbalances: the Asian countries are structurally net exporters of capital, while the United States are net importers because of their twin deficits (trade balance deficit and public deficit). The situation reflects the fact that the United States saves less than they need to finance their loans. The differential comes from foreign, in particular Asian, savings, which enabled the United States to enjoy particularly low interest rates in the 1990s and 2000s and thus finance an economy based on easy access to credit but also ever higher indebtedness. The current crisis demonstrates the risks inherent in such a situation. Under a system of floating exchange rates the result would have been depreciation of the dollar against Asian currencies, paving the way for rebalancing of capital flows and of the US trade balance. That did not happen because certain Asian countries, in particular China, want to preserve export-based growth and refuse to see their currency revalued: they maintain a fixed or quasi-fixed exchange rate against the dollar using their central banks' currency reserves (which are very high owing to the countries' trade surpluses). The current crisis highlights the need for rebalancing, which may be done in various ways: increase in US savings (which has begun, with a recessive effect on consumption), revaluation of Asian curren-

Figure 3. Main economic powers' GDP



Sources : IMF forecasts until 2014, then extrapolation on the basis of potential output growth (assumptions : Eurozone 1,6 %, EU 27 1,9 %, United States 2,5 %, Japan 0,7 %, China 9 %, India 6,5 %).

Figure 4. Working age population in 1950, 2010 et 2050



Sources : UN (World Population Prospects: The 2006 Revision) and authors' own calculations

cies, or monetisation of US debt (financing the debt with dollars issued by the Fed, resulting in higher inflation which reduces the real value of the US debt). Each of these solutions allows little room for manoeuvre and presupposes the sharing of costs between the Asian countries and the United States.

In this setup, Europe has difficulty in finding effective ways to intervene, even though its currency serves as the adjustment variable. The volatility of the euro and its overvaluation against the Chinese currency do a disservice to European external trade. Yet Europe seems unable to do anything to influence these issues, either in international organisations such as the IMF or in its bilateral relations with China. The challenge is considerable and a major question arises: will the soft power of Europe's internal market (particularly in terms of standardisation) be enough to influence the world economy (and particularly the United States-China «G2»)? In other words, can the European Union afford to do without a common external representation in economic matters?

The other persistent imbalance in the world economy is that of inequalities and poverty. Despite the rapid growth of the emerging countries, inequalities have remained stable at world level because of the increase in inequalities within countries. There are winners and losers in globalisation and in technological change within each country, as a result of the international relocation of work to the most productive sectors and sites. The changes can be particularly painful for the employees concerned. Lastly, the figures are a reminder that the fight against world poverty is far from won: in 2005, 1,4 billion people were living on less than 1,25 dollars a day. For Europe, that is both an internal challenge (reducing inequalities and poverty, which in particular means ensuring that the availability of skilled work increases as fast as demand) and an external challenge (regulation of financial globalisation - which IMF studies show to be a major source of inequality¹ - and development assistance).

The current crises and the adjustments entailed by globalisation reinforce protectionist tendencies, as was evident when the food crisis prompted taxing of exports or the banning of exports of certain foodstuffs. These tendencies were also reflected in the stalling of the Doha round, when the United States and India could not come to an agreement on the safeguard clause allowing special agricultural tariffs to be applied in the developing countries if the volume of imports rose too high or prices fell too far. In the developed countries, the difficulties of certain industries (for example, the automobile industry in the United States and the textile

1. See Jaumotte, F., Subir, L. and Papageorgiou, C. (2008). «Rising Income Inequality: Technology, or Trade and Financial Globalization?», **IMF Working Papers**, WP/08/185.

industry in Europe) and fear of relocation abroad or of foreign sovereign funds saw a resurgence of calls for protectionist measures. In Europe voices have been raised in support of using Community preference to counter what is presented as social, environmental and fiscal dumping by the emerging countries. Here the challenge for Europe is to continue promoting open trade (and access to emerging markets for its firms) while also trying to promote harmonisation of standards in a multilateral context and taking into account the difficulties encountered by those employed in declining industries at home.

Realistically, however, it has to be accepted that the next few years will see international competition become ever fiercer. Since 1975 the EU has seen the founding of just three companies that today figure in the world's top 500 by market value, while twenty-five such companies have been created in the United States and twenty-one in the emerging countries². In international competition Europe therefore relies on existing large groups, which buy up innovative undertakings. But it has to fight off new competitors and succeed in exporting to the emerging countries, which today are the most dynamic markets: that is harder than it seems, given that most of the big European companies have been keen to set up their new production and research units directly in the emerging countries, rather than invest in Europe and then export. It therefore seems necessary to encourage SMEs to export, as they are less likely to relocate, and the big European firms could serve as points d'appui to that end.

More generally, Europe must draw the necessary conclusions from the limits of the Lisbon Strategy. While a policy of competitiveness is absolutely necessary in a rapidly changing world economic landscape, a simple benchmark policy seems to yield disappointing results. The stagnation of European R&D testifies to that. The capacity to increase R&D effort is, however, decisive. It is interesting to note that it is chiefly in the service sector that Europe has lost ground here (services also being the sector in which productivity gains are smallest). Likewise, we are seeing rapid growth in international trade in services. So while an industrial policy is certainly welcome (even though Galileo taught Europe the difficulties of managing big industrial projects) it must be extended to services: today it is not a matter of selling manufactured goods alone, but products that come with user services (returning to the Galileo example, it is not just a question of having the satellite infrastructure but of developing the applications to go with it). Europe must therefore develop its potential in the services sector, complete its internal market in services (the challenge of implementing the Services Directive) and succeed in taking forward international trade negotiations on services.

2. See Véron, N. (2008), «The Demographics of Global Corporate Champions», **Bruegel Working Paper**, 2008/03.

1.2.2. The changing role of Europe in the world: a participant in history or a bystander ?

Recent history has shown the power that European unity represents in time of crisis, as demonstrated, for example, during the Georgian crisis, or when Europe sought a coordinated global approach to the economic and financial crisis at a time when the United States, Russia and China were unable to think collectively. Without Euro-

pean leadership in the autumn of 2008, the economic and financial crisis would very probably have hit even harder. Totally unexpectedly, Europe displayed an impressive capacity for crisis management, as well as an ability to think in the world's interest. There will be other crises and the Union will have to increase its capability for intervention in time of crisis, but it must also learn to turn the initiatives it proposes to better account, on both the climate change and the economic and financial fronts (G20). While Europeans can act as one in given instances, they have the greatest difficulty in remaining united over the long-term, and hence in taking full advantage of the initiatives or action they have launched. The relative failure of the Copenhagen Climate Summit was a powerful illustration of this difficulty.

Europe can be a tremendous vector of world stability in both the economic and financial and the political spheres, but it must also continue to play its role of lookout on the alert for threats on the democratic, social, environmental and climate fronts. It must be able to help achieve workable settlements of conflicts and tensions, particularly in its own neighbourhood. But that presupposes a «can-do» attitude on the part of Europe's States and citizens, based on sustainable unity, determination and a capacity to create an effective negotiation setting as well as a favourable balance of power. Europe must be a leader in globalisation, not a bit player forever condemned to adapting to «global» processes beyond its control.

That also means being able to analyse the world objectively. China is out to take centre stage in the 21st century. The United States does not see enough Europe as a relevant strategic partner, or at least will not do so as long as Europeans fail to

affirm their leadership and independence. It makes no secret that it pursues the difficult aim of having China as a strategic partner and establishing a shared leadership in the 21st century, and it is busy rewriting its political narrative to that end.

To be heard and to promote the multilateral approach in which it believes, while maintaining its close relationship with the United States, Europe must demonstrate the sense of its convictions, which means finding partners which share values or strong common interests with it.

Accordingly, it should no doubt establish a much more partnership-oriented foreign policy with, for different reasons, the following in particular:

- **le Mercosur** which is looking at the European model of integration and would be only too happy to have the benefit of Europe's attention and expertise in completing its own integration, at a time when preparations are in hand for the first elections to the Mercosur Parliament by universal suffrage and the United States' interest in the Southern Cone is flagging. Mercosur is probably one of the parts of the world closest to European values and most inclined to multilateralism, as well as being prepared to combat global warming. It would be in our interest to implement a real political and strategic partnership with Mercosur, starting by systematically involving a Mercosur delegation in its preparations for international summits ;

- **Turkey** , which is the partner of choice in stabilising the Middle East. As it gradually distances itself from Washington, Turkey has managed the feat of maintaining its relations with all forces present for whom it is a credible political player. Because of their division, as well as their aid based strategy, Europeans are perceived as a fall-back, while the United States, although indispensable, is not perceived as the honest broker it claims to be. If there is to be a special partnership between Europe and Turkey, that is the ground on which it must take shape and be institutionalised ;

- **India**, which is looking for a partner to counterbalance the US-China alliance and which, like Europe, embraces the principle of unity in diversity.

Europe must also give itself the wherewithal to train the future Russian and African elites on a massive scale, with the long-term aim of democratisation. In the short term, it must step up dialogue and mount a visible cultural, economic and diplomatic presence in Russia and on the continent of Africa.

In any event, the new European diplomatic service must be innovative and make a clean break with 19th-century diplomatic practices, still too prevalent in national diplomatic services. That means making every possible use of new technologies,

soft power, NGOs in situ, think tanks and universities. It must act at the service of European economic interests, not merely out of good intentions and a display of altruistic values, although these are of course, and must remain, one of the aspects that mark out the European approach. Efficiency and defence of practical European interests (States, undertakings, citizens) on the ground must take priority. Full advantage must be taken of national diplomatic services, particularly those of the big countries with long diplomatic traditions and great expertise in specific sectors or geographical locations. Lastly, taking concerted action with civil society representatives on the ground and developing channels for communicating information on Europe's action and points of view both inside and outside the Union are important conditions to be fulfilled if Europe is to be effective and legitimate and have - or at least be perceived to have - influence in the world.

Europe must therefore realise the extent to which the economic and political dimensions converge. Economic considerations now fully coincide with political considerations, with big States conducting foreign policies that reflect their economic and strategic interests (energy policy, sovereign funds, etc.) and competing for natural resources. These very large States can act rapidly and mobilise their resources, and can also, at short notice, flex their muscles in support of their interests in a way that Europe cannot, which is precisely the point of Europeanising the common foreign and defence policy with the creation of a common foreign service and the development of a common diplomatic culture. The requirement is for Europeans to invent the twenty-first century's diplomacy and thus to break with diplomatic tradition inherited from the nineteenth century.

1.3. Rallying Europeans and Member States around a common project

1.3.1. The importance of European cohesion and a European identity

The years spent on the constitution project and, especially, the discussions that surrounded it showed **how difficult Europe finds it to increase its internal cohesion and define a common identity**. The reason lies firstly in the question of borders¹: how can we define an «us» when the geographical contours of that «us» are perpetually shifting? One of the major tasks of the Union is therefore to write a common narrative², and not one telling solely of peace, reunification of the continent or creation and completion of a large market. Europeans must be able to unite around what they have in common, not just what enables them simply to live together.

So we must learn to listen to what the citizens of Europe want. And that today largely relates to protection of the individual: protection against insecurity and terrorism, protection against the vagaries of life (job loss, accident, etc.), reduction of local risks (health-related and industrial in particular) and international risks (environmental and energy-related, for example). Fulfilling those wishes means abolishing the kinds of discrimination (on grounds of sex, age or nationality) that put some people at greater risk than others, and excesses of all kinds, particularly those that led to the recent economic and financial crisis and those that interfere with the climate. That is why there is a preference in Europe for the norm: Europeans want norms that protect and want Europe to define common standards that the Union can extend worldwide by means of international negotiations. At the same time, these norms or standards must not stand in the way of risk-taking (especially in business), creativity or individual responsibility. It is a question of creating real freedom, European freedom. In this respect, Europe still has much to do and much to invent: for example, as regards what may be considered the inadequacy of cover of certain social phenomena such as unequal access to medical care, lack of job security (symbolised by poorly-paid workers, who accounted for 8% of the European workforce in 2007) long-term unemployment, housing difficulties, disability, dependency and childcare.

More generally, Europe is imbued with the conviction that the principles of political liberalism - based on the idea that the role of public action is to enable individuals to live free and full lives by providing insurance cover against certain risks and ensuring equality of opportunity for all - must prevail in the economic sphere.

1. See Michel Foucher, «L'Union politique européenne : un territoire, des frontières et des horizons», *Esprit*, November 2006.

2. See Thierry Chopin, «Après Lisbonne, quel projet politique pour l'Europe ?», *European Issues — Policy papers of the Robert Schuman Foundation*, No 147, 19 October 2009.

European history is littered with examples of the imperfections of the market and the imperfections of government intervention. The time for ideological belief in the absolute virtues of either concept (i.e. the assumption that they coincide with the general interest) is therefore past, which is not to say that economic voluntarism is dead. But, as in the political sphere, government intervention in the economy must remain measured, justified by external factors, asymmetry of information, the necessary definition of ground rules for financial markets, exchange rates and competition, which require continuity. Market institutions must be subject to rules, but so also must State intervention, to avoid populist tendencies and preserve the regulatory nature of the market. In this non-Paretian world where we are constantly looking for «second best» we proceed by trial and error, and that is normal. But we must do so with care, in the framework of rules which protect us from the dangerous simplifications of ideology. That is a principle which can unite Europeans, the history of the Member States offerings many, sometimes tragic, examples to confirm it.

But Europe will not be able to build this common narrative around the idea of a specifically European political liberalism unless it can acquire the means to create European political citizenship. That also necessarily ties in with the question of politicising and mediatising European issues. It is a question of constantly maintaining the legitimacy of the European project: citizens must know that they are being represented and listened to. That is what will create real European cohesion, more than financial transfers and social guarantees, however useful they may be.

1.3.2. The future of the Economic and Monetary Union

The Member States in the euro zone have introduced a common currency which today is acknowledged as one of the major achievements of the construction of Europe. The crisis has shown the protection that it offers (particularly for interest rates in the most vulnerable countries). In the

same way, the credibility of European monetary policy has been enhanced by the consistency of the political line taken by the European Central Bank and by the independence it enjoys, despite the fact that it is sometimes rather late in reacting to any turnaround in the economic cycle (because priority is given to recorded inflation at the expense of pre-emptive action, given the monetary policy time lag).

Nevertheless, the crisis also revealed the limits of Economic and Monetary Union: coordination of budgetary policies via the Stability Pact did not succeed in maintaining (or restoring) room for budgetary manoeuvre in a number of Member States

whose official debt was too high even before the crisis. The protection offered by the euro to the Member States' economies reduces paradoxically the incentives to fiscal discipline and private debt limitation. (as well emphasized by the situation of Greece today) Now the EU is having difficulty in defining a coherent strategy for rebalancing public finances, and, although they played a decisive role in the current economic crisis, it does not cover supervision of private indebtedness or external imbalances. The crisis also underlined the difficulty of coordinating budgets in time of crisis. The small size of the Community budget meant that it could play only a relatively marginal role, while the scale and manner of fiscal stimulus varied considerably from one Member State to another. And it is worth pointing out that Member States disagreed until late in the day on the right budget policy to adopt in the face of risks of recession. Finally, over the past few years the budgetary policy of the Member States has been shown to be insufficiently coordinated with monetary policy: the European policy mix has several times been less than perfect, with an over-accommodating budget policy matched by an over-rigorous monetary policy (whereas economic analysis shows that the reverse is more effective).³

On top of all that, there are the differences in economic strategy between the economies of some Member States, despite the fact that they are strongly interconnected in terms of trade. This applies in particular to France and Germany: for a decade the two main EU economies have had different engines for growth (foreign trade for Germany, consumption for France) a strategy that has not really made for growth (mainly because of the low level of investment in both cases). The result is divergence of economic structures. Whereas the share of exports in GDP has remained relatively stable in France (25,7% in 1997, 26,1% in 2008), it has exploded in Germany, from 27,5% in 1997 to 47,2% in 2008. This change in structure creates different economic interests, which is not helpful in trying to ensure consistency between the economic policies of the Member States in the euro zone. That, however, is important in the post-crisis period if Europe wants a return to a coherent economic strategy compatible with a unified monetary policy. The challenge of diversity also arises for States that hope to join the euro zone. The admission process for candidate countries will have to involve fresh discussion of the convergence criteria applicable post-crisis, to ensure both that they are consistent with the requirements of a unified monetary zone and that they respond to the macroeconomic upsets caused by the crisis.

The challenge lies therefore in getting the euro zone Member States to come together on these various matters in the Euro Group.

3. See Cohen, E., Ashion, P. and Pisani-Ferry J. (2006), **Politique économique et croissance en Europe**, Report by the French Economic Analysis Council, La Documentation française.

2. Defining motivational objectives

To meet the challenges facing it, Europe must define its «new borders» and identify the aims in support of which it wants to rally its citizens, firms and decision-makers.

In other words, it must be more political in its internal life and in its outside relations. That means defining priority strategies: Europe must mobilise its human capital, devise a better coordinated and more innovative macroeconomic policy, affirm itself as a leader in adapting to changes in technology, society and the environment, and finally establish its identity and political power in tomorrow's world.

2.1. Making the most of Europe's human capital

2.1.1. « Better training »

To acquire the qualified workforce that is so crucial to competitiveness and employability (as well as reduction of inequalities) in Europe, education and training must be improved. That requires action on various levels.

Europe must first make its higher education capable of competing with the world leader in the field, the United States, as well as with the emerging countries, where the numbers successfully completing higher education are constantly rising. That means an increase in annual per capita expenditure on students in higher education (in 2005 the United States spent EUR 21 000 on each student, compared with EUR 8 300 in the EU). There must also be a better return on this investment: governance of universities must be improved, as must the infrastructures for students and teachers. Curricula must be tailored more closely to the training requirements of the labour market. Lastly, interdisciplinarity deserves to be promoted, particularly in first degrees, so that all students acquire common skills that will later enable them to be more mobile in their careers. It must be recognised that to make students employable education must fulfil two objectives: for some students it is a case of being taught their trade (particularly in the case of technical occupations); others need to be taught to learn quickly and to achieve the required qualities to be successful in the world of work and particularly in firms (these students will in the main learn the technical side of their work on the job, but must already have learnt to interact with others and to express themselves, and have acquired a sound cultural background). These must be the principles that attach to a first degree, to ensure that students are employable immediately on completing it. Masters degrees and doctorates must allow greater specialisation, and it should be possible to study for them even after starting working life. In general, it should be made clear what kind of jobs each type of course can lead to.

As regards initial education, increasing the level of qualifications also means combating failure at school, and this must be a European priority. In 2007, 15% of 18 to 24-year-olds left school having reached no higher than lower secondary level. It is a huge waste. The problem is a difficult one, but its costs are so high that it is worthwhile concentrating efforts on resolving it. The solutions include fostering a social mix in schools (to avoid local concentration of difficulties), better guidance for pupils to help them develop their aptitudes and learn where they can best be used, early identification of pupils in difficulty and systems of scholarships to help pupils from backgrounds that are not learning-friendly.

The third aspect of better training and education concerns lifelong learning, a decisive factor in improving the skills stocks: the impact of improvements in initial education is felt only in the medium term, whereas more effective lifelong education can have an immediate impact on the level of qualification of the entire active population. Here, too, several things need to be done:

- training needs to be open to the unemployed, to help them return to work and to

make the long term unemployed employable again;

- the types of training to be made available should be in tune with the requirements of the labour market and the different levels from which trainees start;
- governance of existing vocational training systems should be improved to create proper incentives and ensure that funds are used transparently and efficiently;
- teaching establishments should have more input in vocational training;
- it should be easier to go back and retrain later in life.

2.1.2. « Working better »

Making work better is essential to meeting the challenge of ageing and improving Europeans' well-being. Working conditions must be adjusted to limit the problems of anxiety and stress, and accidents at work.

They must also be such as to enable older people to work. Older people can play a role by passing on their skills in particular, but in most cases can continue doing their jobs if certain adjustments are made (suitable workstations, part-time work, compensatory rest, teleworking) and if they have sufficient motivation (which brings us back to the need to for less stressful working conditions). There is a new model to be invented here, and it will call for the implementation of new standards in collaboration with the social partners.

Working better also means involving employees in the innovation process and giving them more credit for the contribution they make to the success of the organisations to which they belong. It also means being more inventive as regards career prospects. The social usefulness of individuals, i.e. their own perception of the contribution they and their colleagues make, is vital to productivity.

Developing new forms of activity for old people should also be envisaged. Voluntary work is one possibility that could help to increase solidarity and enable retired people to live full lives and play a part in society. Encouraging such initiatives in a society is a way of making good use of the free time available to old people and helping to create a «contribution economy» based on relations that are not just

commercial and wage-related.

In parallel, activities at the service of old people should be promoted. There are many service jobs to be created here. It would also limit the dependence of the old, and enable them to stay longer in their own homes and enjoy services and products adapted to their specific needs. Europe can become a leader in this sector, which concerns not just services and innovation but industry as well. It also offers a promising market, for Europe is not alone in ageing: it is a problem that China and Russia, for example, will shortly have to confront.

2.1.3. Turning the health of Europeans to competitive advantage

The ageing of the population, together with the increase in cases of depression in Europe and the major causes of death (cancer, cardiovascular disease, Alzheimer's disease, diabetes) make it necessary to invest heavily in health. In addition to earlier remarks on the need to improve

working conditions, there is a need for improvement of the environment and everyday habits (insalubrious living conditions, unbalanced diet, abuse, isolation, high-risk lifestyles, etc.). A new culture needs to be created and health care scaled up. It is a question of education (sport, diet, how to take care of oneself, etc.), but also an industrial priority.

Europe must therefore address the issue of health and of well-being in the wide sense. Furthering the development of European firms working in the medicaments, medical supplies and paramedical sectors, and in the foodstuffs and, more generally still, «lifestyle» sectors can generate a twin dividend: an economic dividend (job creation and profit opportunities) and a social dividend (greater well-being and a reduction - or at least a smaller increase - in health spending by the State and social entities). Europe is strongly placed in these various areas, but its potential for innovation seems in decline. That potential must be revived by a dynamic R&D policy (again, industrial, but also service-oriented), sophisticated public procurement and the creation of a competitive regulatory environment that makes for emulation and collaboration between firms and between firms and research centres. Promotion of interdisciplinarity and transferability, i.e. the capacity to adapt the innovations and methods of one sector for use in other organisations or sectors, could yield a considerable «creative dividend».

2.2. A better coordinated and more innovative macroeconomic policy, with a more audacious exchange-rate strategy

The euro zone needs to find a better policy mix as it emerges from crisis. It could be based on the following:

- a commitment by Member States to return to budgetary balance. To make that a credible commitment, they could adopt a constitutional rule comparable to that recently adopted by Germany, whereby the government deficit is capped at 0,35% of GDP (unless conjunctural factors apply) from 2016 for the Federal Government and from 2020 for the Länder. Member States should also discuss how best to return to balance, for it is clear that a combination of lower spending and higher taxation will be necessary. Coordination of the timing of the necessary fiscal measures would be particularly welcome;

- strengthening of the Euro Group with the aim of closer alignment of Member States' economic policy guidelines and political communication, particularly as regards the linkage between budgetary and monetary policies, or exchange-rate policy. The aim would be to avoid divergent macroeconomic strategies and the creation of imbalances in Europe similar to those seen worldwide. The ultimate aim of the alignment should be the creation of a common external economic representation in the IMF, the World Bank, and even the G20. Subsequently, its extension to the whole of the euro zone could be proposed. Harmonisation of the budget procedures and timetables of the Member States concerned would greatly facilitate such alignment by allowing national Parliaments to be more closely involved with the Euro Group by means of an annual budgetary conference. The creation of an analysis and forward study group to quantify the impact of microeconomic coordination more accurately would be a valuable aid to better-informed collective decision-making;

- adoption of a common Euro Group strategy on global economic imbalances, in order to be able to influence the value of the euro. Europe cannot simply ask China to let its currency float or even revalue it significantly. If it is to have any hope of reaching an agreement with China, it must take China's interests into account. Firstly, China will not agree to any revaluation of its currency against the dollar and the euro if that entails revaluation against the currencies of its neighbours (and competitors) in Asia. Any proposal must therefore concern all the Asian countries. Secondly, while there is little likelihood of the Asian countries agreeing to revalue their currencies significantly, given their strategy of growth (based on exports), Europe can at least attempt to stabilise its currency against the Asian currencies, to help its investments in and exports to Asia. The euro is extremely volatile against

various Asian currencies because of a combination of the great volatility of the euro/dollar rate and the pegging of the Asian currencies to the dollar. **To stabilise the euro against the Asian currencies, the euro zone should join forces with Japan and propose that, instead of the dollar, China and the other Asian countries tie their currencies to a basket of currencies including the euro and the yen, the respective percentages of which could gradually be increased against that of the dollar.** That would offer the Asian countries a way out of their dependence on the dollar and the US economy, while Europe would be spared a China-US G2 that would automatically rule out the definition of global economic balances. That solution would also have the advantage of redirecting a proportion of Asian savings to Europe, to the benefit of investment and the financing of public debt in the euro zone Member States. It would not prevent Europe (but would, on the contrary, strengthen its position in the negotiations) from asking the Asian countries to make the necessary internal adjustments, notably support for domestic demand (by improving social protection and increasing access to credit for firms and households). In this way Europe would also stimulate the United States to make the adjustments that it needs to make (increasing the level of private savings and slashing public deficits when the crisis ends) to contribute to the necessary reduction of global imbalances, for it would no longer be able to count on the unlimited funds hitherto supplied by Asian savings. The United States would nevertheless stand to gain from that new system since the ensuing depreciation of the dollar against the yuan would enable it to reduce its trade deficit;

- a more general reform of euro zone governance, which could be based on the following: supervision of private indebtedness; incorporation of the budget rule in Member States' domestic legislation (possibly by means of adoption of a binding directive on deficits at the tops of cycles and principles of good governance as applied to the drawing up of budgets); adoption of common positions on international economic imbalances, which would then constitute joint stances at international level and be discussed with the ECB to determine any consequent impact on monetary policy.

- drafting of a common programme of structural reforms. An initial objective, which could be pursued via the recovery plans, would be to increase the share of investment in public spending, in particular to help finance higher education, research (R&D spending has stagnated in the EU despite the Lisbon Strategy), infrastructure programmes and industrial projects supported by the State. A second objective should be to ensure that the active population is employable, as discussed above (better training and better working). The third objective should be reform of social protection systems in order to safeguard the financial viability of the health and pensions systems. This means either agreeing to increase the proportion of public spending devoted to social protection (but that would have to be offset by spending cuts elsewhere) or by reforming social protection management (to raise contributions or reduce benefits). Either way, this reform, necessitated by an ageing population, would be very sensitive politically. The last objective is to

improve the regulatory and competitive environment for firms to make them more competitive. That presupposes a variety of initiatives ranging from better financing of firms to making the investments required to guarantee them access to energy and infrastructures (e.g. digital) at reasonable cost over the long term.

The quality of Community spending also needs to be improved, not by reducing the Community budget, now *de facto* limited to 1% of Union GDP, but by adopting a budgetary procedure based not on past spending but on an assessment of true needs in terms of investment and collective action, in a reversal of the current budgetary approach.

2.3. Adapting Europe to technological, social and environmental change

2.3.1 Imagining tomorrow's society: investing in entrepreneurship and creativity

The future of Europe and its competitiveness will depend on its capacity to exercise its creative and entrepreneurial talents. That means creating a «can-do» European policy to encourage project creation and implementation by businesses. To do so, Europe must pursue several aims. It must:

- facilitate enterprise in particular by introducing paid leave along the lines of unemployment benefit for employees with a recognised sound business plan;

- promote financing of SMEs: Europe is trailing behind the United States in the financing of SMEs, with particular reference to risk capital and R&D support. The European Small Business Act is a good initiative, but needs to be given resources comparable to those of its forerunner in the United States, to be tailored to national circumstances and to be dovetailed with existing rules on State aid;

- encourage ecosystems that favour innovation: innovative commercial successes most often come about when technicians (engineers, researchers, experts in a particular field, etc.) marketing people, content producers (for example designers) and finance providers come together. This kind of pooling of skills must be promoted, be it on university campuses or as between existing players. To that end, the Union should give thought to its economic geography, so that investment is not spread too thinly and the cluster effect can be exploited. Specifically, the European Union could systematically map its activity clusters and ensure that they adopt coherent long-term local strategies to exploit and develop existing ecosystems while adapting them to the present and future needs of the market (as regards training and research, for example). The European Union and the Member States would then be in a better position to assess how they can best help these clusters to develop. The creation of a European cluster network would also be conducive to exchanges of experience and sharing of best practice.

- foster the development of SMEs: the point is not simply to promote ideas, but to provide back up to ensure that they prosper. The EIB (and more particularly the EIF) can play an important role, alongside private funds, in stepping in when firms are seeking to scale up their activities on the basis of an innovative product that has already had some success.

The European Union must also aim to invest better by setting proper investment criteria. The criteria for the award of European aid need to be reviewed, in particular. They must guarantee the following requirements:

- the investment must reach a critical scale justifying Community participation;
- conversely, the Union's contribution must be sufficient to warrant Community participation and monitoring of the use made of the funds;
- the investment must have been impossible without Community intervention or be justified by reasons explicitly relating to redistribution between European regions;
- the impact on the local economic fabric must first have been assessed and the economic or social grounds for committing the funds have been rigorously substantiated;
- the project must clearly be end-user-oriented and consistent with the Union's competition priorities;
- the project management must be coherent, with a head of project exercising discretionary power and clear leadership;
- the project funding must be guaranteed by a binding commitment on the part of the providers of funds;
- the States and the EU must have given their political commitment to the project and for high-risk projects there must be an exit clause, to limit losses in the event of failure.

Finally, the European Union should better integrate and optimize the strong impact of defence industries on innovation and the development of innovative companies, large and small. The industrial strategy of Defence in the United States is the result of close cooperation of the private sector with the Federal government through the strategic, legislative (for instance rules limiting foreign interests in "strategic" sectors) and financial support it provides: this cooperation has contributed significantly to non military innovation in many areas (miniaturization, digitization, meta-systems, networks, personal protection, biotechnologies, nanotechnologies, global security, stealthiness, new energies, non pollution and cleaning-up of polluted areas, new detection systems, which are now key for innovative sectors such as aeronautics, the space industry, the car industry, pharmaceuticals and the health sector, digital technologies, the environment and sustainable development industries, etc.). It also has a powerful impact on the strengthening of a network of innovative SMEs and on the geography (i.e. the agglomeration effects) of high value added industries and services in the United States. Likewise, the innovation dynamics in the civilian sector helps to strengthen the technological leadership of American military industries. A virtuous circle exists, which is linked to the need

for economies of scale and for an institutionalized and systematized cooperation strategy between the civilian and the military sectors.

2.3.2. Making Europe the world leader for green growth and renewable energies

Europe, rightly, wants to be a leader in environmental matters, both to take its share of responsibility in combating climate change and to benefit from the spillover effects that green innovation has on growth. To that end it has set up a binding framework. Nonetheless, to assume real leadership, Europe must go further and:

- display its political commitment at the highest level. The Commission should emulate the governments of certain Member States and give sustainable development a high profile by making the Commissioner responsible for it a Vice-President;
- harmonise the environmental regulations that apply in the various Member States. In particular this means aligning green taxes in the Member States. Europe already has carbon pricing under the ETS, but could usefully introduce a common carbon tax to limit distortions between Member States and cover carbon sources that fall through the ETS net (households, transport and agriculture);
- facilitate environmental structural adjustment. To date, projects in pursuit of Community environmental objectives have been few and, above all, isolated. Given the cost of moving to a «green economy», which affect or will affect workers and firms in many sectors (agriculture, fisheries, industry), Europe must have instruments to provide financial backup;
- support «green» R&D with public funding. The rate of innovation will be decisive in determining the capacity for adjustment in Europe and the world at large. Since environmental technologies are still in their infancy and markets still uncertain, public investment is required now, with businesses taking over responsibility for it when the technologies and markets have had time to mature¹. It also needs to be ensured that there is automatically a sufficiently large market for green business in Europe by very thorough and swift harmonisation of standards in the environmental and sustainable development spheres;

¹ See Ashion, P., Hemous D., Veugelers, R. (2009), «No Green Growth Without Innovation». **Bruegel Policy Brief**, 23 November 2009 ; and Ashion, P., Serre C., Veugelers, R. (2009), «Cold Start for the Green Innovation Machine», **Bruegel Policy Contribution**, 23 November 2009.

- play an active part in global environmental governance² ;
- invest massively in «green» alternative energies. That is crucial both to ensure that Europe does not fall behind in the new industrial revolution that is looming (as it did in the digital revolution, for example) and as a response to the impasse reached in the international climate negotiations, making unilateral effort a necessity (as regards both investing in green technology and saving energy).

2.4. Making Europe a political power in tomorrow's world

2.4.1. Creating inclusive and active European citizenship

European citizenship has yet to be made a reality. To do so, a great deal needs to be done to increase the «social capital» of Europeans, which recent research³ has shown to be important for well-being and growth. In Europe that means promoting instruments of collective action: accordingly it is important to find ways of reversing the slump in trade–union membership and, in another register, of promoting (notably through education) a sense of citizenship in Europe. The European Union also needs to establish a *modus vivendi* between the freedoms associated with the internal market (particularly freedom of establishment) and the fundamental rights recognised by the law of the Member States (e.g. the right to strike). In ruling on the numerous cases brought before it, the CJEC has developed a case law that ought to be incorporated, and clarified, in European legislation.

Creating European citizenship also means developing Europe's political dimension, which in turn means fostering active, specifically European democratic participation in Community affairs. Encouragement must be given to political structures and civil society (Europe-wide NGOs, associations, foundations, think tanks) if a true European public space is to be developed in which, for example, genuinely European campaigns can be developed and the partisan debate continue at Commu-

2. See Tirole, J. (2009). **Politique climatique: une nouvelle architecture internationale**, Report by the French Economic Analysis Council, La Documentation Française.

3. See Algan, Y. and Cahuc P. (2007). **La Société de défiance**, published by Editions rue d'Ulm.

nity level. Lastly, the rise of the European Parliament should ultimately lead to its gaining a real power of political initiative in Europe.

Finally, European citizenship must adapt to the requirements and realities of immigration. The status of long-term residents from third countries (of whom there are some 13 million in the EU) is still in many respects discriminatory, despite the progress made since 2003. Long-term residents are affected by Community policies and by the laws and regulations passed by the European Union, and they have obligations similar to those of European nationals. They work legally and pay their taxes in their Member State of residence, but are excluded from the political decision-making process, contrary to the principle of no taxation without representation, a founding principle of modern democracy.

The situation of long-term residents from third countries implicitly poses the question whether European political citizenship should be tied to nationality of a Member State. It would indeed make sense to make citizenship of Europe dependent on legal residence in Community territory, unconnected with nationality of a Member State⁴

Recognising citizenship of the Union on the basis of residence would enable the European Union to become a true political community, leaving nationality issues entirely to individual States, and as a result European citizenship would confer a greater sense of identity..

⁴ This solution was propounded by the European Parliament in its report of 15 December 2005 «on the Commission's Fourth Report on Citizenship of the Union» in which it stresses that creating a political area and a form of citizenship which reflect current trends within Europe's democracies also involves granting political rights to anyone residing legally and on a long-term basis in the European Union, irrespective of his or her original nationality.

2.4.2. Building responsible and democratic leadership

Europe needs strong leadership, and must therefore have institutions capable of sustaining it and men and women who can create a European vision and put the Union's actions and decisions in perspective for both

the citizens of Europe and the rest of the world. An important medium-term objective for Europe is therefore to make its voice heard.

To do that it must:

- create a new European narrative that can rally European citizens around a common identity and a common project. As stated above, that rallying point could be the specific values of European political liberalism. But that also means writing a history of Europe and teaching it, and therefore presupposes the publication of European history textbooks, for which there is a precedent in the Franco–German history textbook. Lastly, it necessitates an explicit action programme, to avoid creating the impression that Europe promises much but does little. Accordingly, we put forward below a number of practical proposals which could form a basis for a programme. Support must also be given to initiatives and programmes that foster the emergence of new generations of truly European opinion leaders;

- make European citizens links in the chain of European action: the European institutions and the Member States must involve citizens more in decisions, make them better aware of the collective challenges to be met and the joint achievements already made and avoid giving the impression that Europe is just technical and not at all political. For that, a different «civil society and media strategy» must be put forward, one that sends a more political message and makes use of new channels of opinion such as the Internet and social networking sites;

- reinforce awareness of a common identity among Europeans and of the wealth of opportunities offered by European diversity by, in particular, promoting mobility of young people in Europe, i.e. by implementing the Council's political agreement of November 2008 on the aim of enabling 50 % of young people to enjoy mobility in Europe by 2020;

- give Europe a voice in the world: foreign countries must no longer have to wonder what «Europe's phone number» is. That means clarifying the respective roles of the President of the Commission, the President of the Council and the EU High Representative for Foreign Affairs, and also being consistent, determining the line to be taken by the European diplomatic service and getting Europe's message across through a variety of different media, e.g. EuroNews or leadership programmes modelled on the US State Department's International Visitor Leadership Program. Europe's voice will also be heard through its diplomats, who should receive the appropriate training in the framework of a true European diplomatic academy.

- step up the constant assessment of European policies and make it more transparent, to show that the Community is aware of the responsibility it owes its citizens. Experimental practice could also be used for the purpose of assessment, in this case to glean evidence before deciding whether policies should be put into general application.

2.4.3. Better protection of citizens and more secure access to resources

As new technologies develop, ensuring the safety of citizens takes on new meaning. It is no longer simply the physical integrity of individuals that has to be protected, but also their moral and cultural integrity. In the era of the Internet, respecting the private life of individuals and preserving their heritage, cultural or

otherwise, are new challenges which cannot be met by nations on their own. New standards are required and, as is already the case in the social or environmental sphere, Europe alone is capable of starting a trend towards the definition of protective standards worldwide.

The world of 2030 will be much more politicised than it is now, still reflecting as it does multilateralism and the spirit of the international institutions set up after the Second World War. For example, China and India - to escape the rising trend in raw materials and energy prices, but also to secure their industrial growth - have started buying up scarce resources, particularly in Africa, putting themselves in a position to exert strong, direct pressure on forward rates. Russia, on the other hand, is exploiting its rich gas and oil resources in a show of strength with the Europeans, sometimes managing to divide them, and imposing its own projects, including its oil and gas pipelines. In both these cases, Europe must respond with much more effective and coordinated action, i.e.:

- as regards energy, Europeans will no doubt have to create a real external energy policy, which could be initiated in the framework of enhanced cooperation, to allow better analysis of needs, a medium/long-term procurement and negotiation strategy, support for European energy groups, the creation of a «European golden share» for European energy undertakings, and pooling of European and national public resources;

- as regards minerals, a global partnership with Africa is no doubt necessary. Such a partnership would have to abide by certain principles: when a third party acquires

African resources the value must be fairly shared, in the form of sustainable and visible benefits to the populations; and the acquisition must not result in rapid exhaustion of the resources in question or contribute to the creation of market imbalances. The aim of such a partnership is to set a precedent that will apply also to the other powers seeking to acquire these strategic resources.

In 2020–2030, the management of two further resources will have become strategic:

- food, with the issues of climate change and its impact on the organisation of global agriculture, production capacities in the different sectors, the quality and quantity produced, the risk of less food diversity and the growth of the world population. In such a framework, a common agricultural policy is an immense asset. Europe should not just keep it and adapt it to the new realities, but should make it into a more powerful instrument of foreign policy;

- the other key resource will be people themselves, as Europe, Russia, China and the United States simultaneously age, with the first two being in a much more critical situation than the others because of more rapid ageing and, in the case of Russia, a more vulnerable population, particularly in health indicator terms. In that context, it is safe to say that competition to attract «added value» immigrants will be fierce. Europe is no longer perceived as welcoming to immigrants because its people have a strong bias against immigration, based on a perception that integration is very difficult, with the immediate consequence that the best-qualified immigrants prefer to go to countries other than Europe. Europeans must work to change perceptions in the individual countries, but must also reinvent the whole European integration model. If Europe is to attract the best it must change and become a continent of opportunity not just for Europeans but for immigrants too. Universities must be put in a position to be able to train many more foreigners, and Europe must aim to be the continent which trains the world's elites and gives them the chance to settle in Europe while still being able to return and work legally in their countries of origin for long periods without losing the right of residence in Europe. In that connection, the creation of a lasting residence permit allowing regular returns would distinguish Europe from the other powers and create a relationship of trust with its immigrants.

3. A detailed roadmap for the European Union

As important as it is to have a strategic vision and clearly-defined objectives, that is not enough to enable Europe to meet the huge challenges that face it.

If its ambition is not to remain unmet, it vitally needs to draw up a specific operational roadmap setting out who is to do what and what are the key measures to be taken.

3.1. Determining which prerogatives can best be exercised by the European Union and which by the Member States

If Europe is to meet its challenges its governance must be effective, legitimate and clear. That means deciding how prerogatives can best be shared between the various levels of government and answering the question «who does what?». For decades, decentralisation and Community construction have gone together. Nevertheless, the discussions that have accompanied these developments show the need for a scale of distribution, in other words criteria for sharing out prerogatives. The criterion set by the Treaties is the principle of subsidiarity: the EU's action must be confined to those areas in which it can act more effectively than lower levels of government. The principle seems consistent with the economic theory that centralisation is preferable where its advantages (factoring in of externalities, economies of scale, possibilities of redistribution, etc.) outweigh its inconveniences (local

preferences disappointed, identical policies for different situations). That has led many observers to conclude that some policies are too centralised (e.g. the common agricultural policy) and others not centralised enough (defence, foreign policy, environmental protection, immigration policy, combating of organised crime). It has also led in practice to a drive to differentiation (the euro, Schengen and the opt-outs granted certain Member States under the Treaties are examples) which reflects the difficulty of allowing for different preferences and situations without blocking Community integration.

However, the principle of subsidiarity runs the risk of being reduced to static analysis, while preferences and situations evolve, be it through democratic debate or as the result of deliberate convergence policies (the Maastricht convergence criteria are a good example). Competence should therefore lie at European level whenever the following conditions are met:

- there are important externalities or economies of scale;
- there is little difference between the Member States' situations, or it is possible to reduce differences between situations beforehand, within a reasonable time and at reasonable cost (economic convergence, for example);
- there is little difference between the Europeans' preferences, or it is possible to take a majority decision reached after a democratic debate accepted by States and citizens, and to do so within a reasonable time (political convergence);
- it is possible to take account of the diversity of situations and preferences at European level, where the cost of the operation is limited and it is possible to avoid making European policies incomprehensible to citizens or creating exclusive clubs (differentiation).

The Union's legislative initiatives and the implementation of its strategy should be examined systematically against that benchmark. In particular it is important that convergence or differentiation strategies be made more explicit and explained more clearly to citizens (and to national Parliaments). That effort must be made in order to ensure the political legitimacy of Community construction. These criteria are good instruments for assessing existing policies, and the Commission could usefully apply them so that verification of compliance with the principle of subsidiarity is not just a formal exercise but, on the contrary, a central instrument in determining the Union's political strategies.

1. See Alesina, A., Angeloni, I. and Schuknecht, L. (2005), «What Does the European Union Do?», **Public Choice**, Vol. 123, No. 3, pp. 275–319.

3.2. What Europe can do jointly: 60 practical proposals to build a European power

To make our recommendations as operational as possible, it is useful to translate the «motivational objectives» (presented in section 2) into practical proposals that could be supported and promoted by the President of the Council and the President of the Commission. Without going into detail on each one, here are a few examples of what Europe can do jointly to meet its long-term challenges (in each instance an indication is given of how soon the proposal could be implemented):

- «Contributing to the emergence of a more balanced monetary system on the basis of a Euro–Japanese partnership»

I. Propose, along with Japan, that China and the other Asian countries tie their currencies not to the dollar but instead to a basket of currencies including the euro and the yen, the respective percentages of which would gradually rise against that of the dollar. That would enable more equitable exchange rates and reduce global economic imbalances through the depreciation of the dollar (allowing a reduction of the American deficit), the gradual revaluing of the yuan (against both the euro and the dollar but not against its Asian competitors), the reduced volatility of the euro against the yuan and the investment of a higher proportion of China's reserves in Europe; Europe should mobilise all of its resources to that end, for success would give Europe time to catch its breath and create a favourable climate for implementation of the other proposals (medium-term).

• « Imagining tomorrow's society: investing in entrepreneurship and creativity »

2. Introduce a real Community patent, valid throughout the EU, with a single specialist court for the settlement of disputes (*feasible in the short term*);

3. Step up European investment in existing joint technology initiatives (JTIs) and develop new JTIs to get Europe moving in industry and in innovative services (e.g. satellite radio navigation applications or metrology applied to nanotechnologies) (*feasible in the short term*);

4. Formalise national budgetary commitments to projects carried out in cooperation between the European Union and the Member States (i.e. financed jointly from the Community budget and Member States' budgets). It would thus be possible to increase the number of joint technology initiatives while securing the necessary funding, by increasing the contribution from national budgets. This would be particularly relevant for financing programmes on R&D, innovation and higher education (*feasible in the medium term*);

5. Give the European Investment Bank and the European Investment Fund more resources with which to support European initiatives in the field of R&D, development of SMEs and mobility of young people (*feasible in the short term*);

6. Create a «European entrepreneurial leave» enabling employees in the private sector and civil servants to take sabbatical leave to set up businesses while receiving the national unemployment benefit to which they are entitled;

7. Set up arrangements for mobility of European entrepreneurs (*feasible in the short term*);

8. Create a «digital» module in all secondary and higher education syllabuses, to ensure the best possible use of information technology and enable students to develop a critical sense vis-à-vis research methods and quality of information (*medium-term*);

9. Systematise clustering of European universities (networks of partner universities) by taking advantage of complementarities between disciplines (*medium-term*);

10. Monitor extra-Community investment in sensitive and sunrise sectors in the same way as the Americans and the Chinese (*medium-term*);

I1. Strengthen the synergies between Defence industries and innovative civilian industries and services, for instance through joint technology initiatives associating large companies and innovative SMEs (*feasible in the short term*).

• « Making Europe the world leader for green growth and renewable energies »

I2. Create a position of first Vice-President of the European Commission in charge of sustainable development, to demonstrate that it is a political priority (*feasible in the short term*);

I3. In all education syllabuses in the Member States, create a «sustainable development» teaching module to develop understanding of the issues and responsible behaviour (the module could be incorporated in various existing courses: history, philosophy, natural sciences, citizenship, etc., or be taught as a separate subject at all levels in schools) (*feasible in the medium term*);

I4. Create a European environmental adaptation fund to finance local projects to help workers and firms in difficulty as a result of environmental policies¹ (*feasible in the short term*);

I5. Introducing European environmental taxation (for example, a carbon tax in sectors not covered by the emissions trading scheme), which would provide the EU budget with an own resource which would be flagged for financing of European «public goods» (as opposed to policies for internal redistribution within the EU and operating expenditure) (*feasible in the medium term*);

I6. Continue introducing standards and labelling for «green» products and services so that consumers are not bewildered by commercial marketing policies (*feasible in the short term*);

I7. Develop a strategy of massive investment in renewable energies (*feasible in the medium term*).

1. See Colson M. and Jamet, J-F. (2009). «Pour un Fonds européen d'adaptation à l'environnement». **European Issues – Policy papers of the Robert Schuman Foundation**, No. 142, 13 July 2009.

