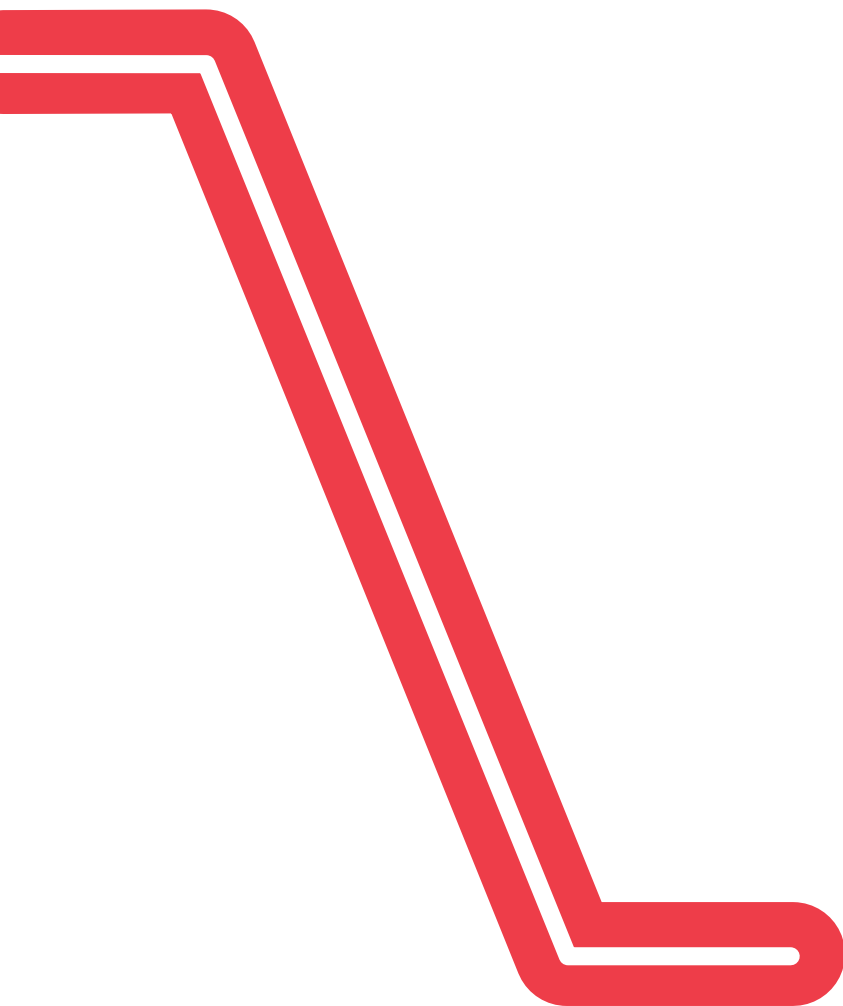


A STRATEGIC AGENDA FOR THE NEW EU LEADERSHIP

Memo to the presidents of the European Commission,
Council and Parliament



By Maria Demertzis, André Sapir and Guntram Wolff

* You inherit a relatively healthy European economy, but you face three formidable challenges in the next five years. First, you must define Europe's place in an increasingly bipolar world driven by a geostrategic rivalry between the United States and China. You should avoid protectionism and instead strengthen Europe's technological, financial and security capacities. You should continue to support multilateral institutions and stand ready to retaliate against trade aggression. Second, global warming is a reality and temperatures appear to be rising faster than forecast. You need to impose higher prices on greenhouse-gas emissions, guide a deep transformation of our economies, minimise the resulting social fallout, ensure border carbon adjustment and globalise the EU's decarbonisation. Third, you need to manage the economy and EU cohesion. The main worry is a deep recession or even a new crisis. Guide European policymakers on the use of pro-active fiscal policy, reform the governance of the euro area and address tax fraud and evasion.

- * GEOPOLITICAL CHALLENGES
- * LOW-CARBON TRANSFORMATION
- * CRISIS RISK

1. STATE OF AFFAIRS

Congratulations on your appointments! First, the good news: you face a much more benign macroeconomic situation than when your predecessors assumed office five years ago. Then, the European Union was just emerging from the worst economic and financial crisis in its history. Economic growth was still very weak, unemployment was close to 12 percent in the euro area (and just above 10 percent in the EU), and the public debt-to-GDP ratio was above 90 percent. Now, after five years of economic growth at an average of roughly 2 percent, unemployment is down to about 8 percent in the euro area (and less than 7 percent in the EU), and the debt-to-GDP ratio is approaching 80 percent.

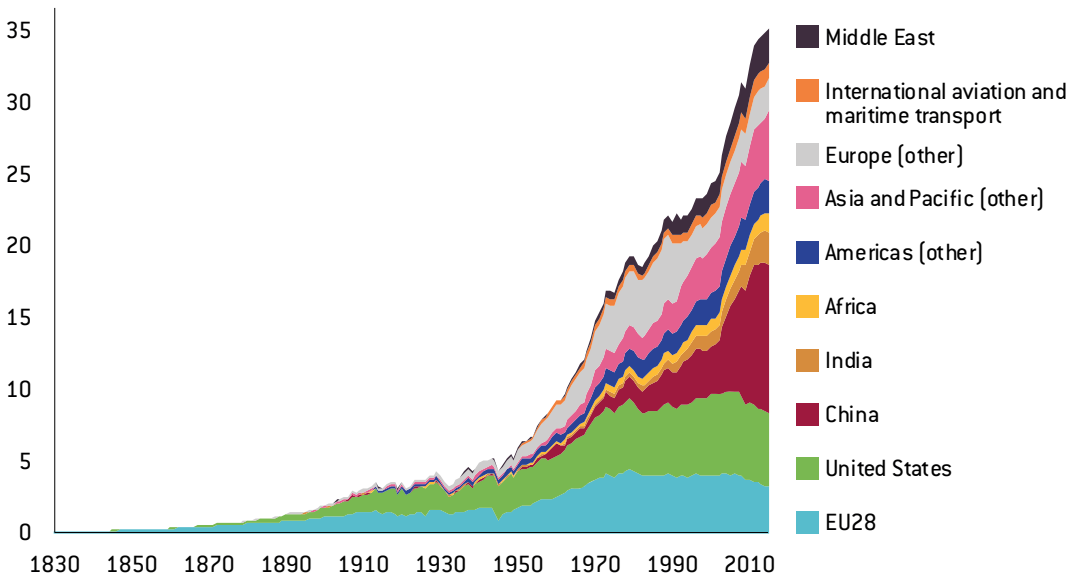
*GEOPOLITICAL
CHALLENGES

However, the global landscape has shifted dramatically in the last few years. A G2-like world, characterised by a broad geopolitical confrontation between the United States and China, has become a reality. Five years ago, the extent to which Sino-US relations have deteriorated was not yet obvious, and it was not clear that the EU would have to define clearly its own way forward. China's fast rise is a tremendous achievement. It has lifted millions out of poverty and China is increasingly becoming an engine of global innovation. But the Chinese economic and political model also poses a challenge to Europe and the West in general. In some quarters, China's illiberal political model is even viewed as an alternative to our sometimes slow-acting liberal democracies. China is an important market and economic partner but also poses an economic challenge. Meanwhile, the US has become a less reliable partner than it was five years ago and some even doubt how strongly it will defend liberal democracy.

*GLOBAL
WARMING

The last five years have also seen continued increases in global greenhouse gas emissions (Figure 1), despite the 2015 Paris Agreement. The frequency of extreme weather events has increased and the world has become warmer (IPCC, 2018). Increasingly, scientists point to positive feedback-loops where the increased temperature leads to further increases in global temperature¹. In that light, the Paris goals might even be insufficient². So far, the EU has not managed to reduce its greenhouse gas emissions convincingly despite the Paris Agreement being politically

Figure 1: Annual CO2 emissions by world region



Source: Carbon Dioxide Information Analysis Center. Note: Annual CO2 emissions measured in billion tonnes per year. Emissions data have been converted from units of carbon to CO2 using a conversion factor of 3.67. Regions denoted 'other' are given as regional totals minus emissions from the EU28, USA, China and India.

*UNEMPLOYMENT AND INEQUALITY

widely accepted. It has not strengthened its policy framework necessary for a profound and deep transformation of our economy, which is simply not happening fast enough. Biodiversity was not a priority for your predecessors and has been allowed to deteriorate in Europe³.

Though EU employment has increased substantially and income inequality remains less pronounced than anywhere else in the world, inequality and exclusion remain important concerns. Youth unemployment is still worryingly high in some EU countries, resulting in the social disenchantment of an entire generation. More broadly, one worrying tendency in many EU countries has been cuts to the top tax rates levied on companies, wealth, inheritance and high incomes⁴. Low progressivity and a high tax burden on the working middle class to fund Europe's social market economy nurture a sense of injustice in society. A key challenge is to reconcile equity and efficiency⁵.

Institutionally, perhaps the most significant change of the last five years has been the transformation of the Commission,

*TRUST IN
GOVERNMENT

traditionally viewed as the guardian of the treaties, into an explicitly political Commission, led by a strong president who claimed an electoral mandate to lead. This controversial change of orientation has allowed the Commission president to a greater extent than before to exercise leadership and impose priorities on the entire Commission. The centralisation of communication and political decision making has been seen by Commission staff as a major change compared to the previous Commission, allowing the Commission to set the EU's agenda (Kassim and Connolly, 2018). This institutional change is an important modification of the way the EU works.

The EU and national institutions are confronted with a lack of trust. The situation for the EU has improved in the last five years, with trust increasing and support for the EU higher among the young than the population overall, but the number of citizens distrusting the EU still exceeds those who trust the EU. This is particularly visible in some southern European countries⁶. Certainly one of the main reasons for this is the lack of convergence and the severe recessions that parts of the south of Europe experienced. Such lack of convergence and trust risks undermining the sustainability of the euro area and the EU. Furthermore, traditional political parties are losing ground, resulting in a more pluralist political system. Elections also confirm certain established cleavages of voter preferences across countries, which might make compromises more difficult in future.

The significantly higher turnout in the 2019 European elections is a sign of a renewed demand from citizens that Europe should deliver on the big topics of our times. Citizens want the EU to prioritise maintaining peace, creating jobs and tackling climate change⁷. More than three quarters of citizens consider the fight against terrorism, tackling unemployment and protection of the environment as the three key priorities for the EU, but the first two priorities have declined in importance (Eurobarometer, 2018). Moreover, citizens are broadly divided on whether the EU should wait until all countries are ready before proceeding with new initiatives, or whether some countries should move ahead. Citizens, however, are convinced that when it comes to the big international



If the trade conflicts initiated by President Trump had been only about trade, the EU would have been well placed to defend its interests

questions, such as dealing with China, Russia and the United States under President Trump, the EU should speak with one voice.

2. CHALLENGES

Three main challenges await you, coinciding with the areas that citizens increasingly believe the EU should deliver on: (1) the EU's capacity to establish itself as a stronger and more independent global player; (2) a climate and environmental strategy that delivers; (3) the EU's capacity to increase cohesion, boost employment and react to a deterioration in the economic situation.

Europe's place in the world

The first, and perhaps defining, challenge of your presidencies will be to ensure that Europe still has a place in a world which is rapidly shaping into a bipolar system dominated by China and the United States. Citizens clearly want the EU to act on issues of global importance and understand that the member states in which they live, even the biggest, cannot act alone. Reinforcing the EU's capacity to be a global force is therefore an opportunity to demonstrate the EU's significant added value.

By some key economic measures, in particular GDP and trade, the EU is on par with China and the United States, and far bigger than any other player. Its single voice on trade and standards commands respect in global bodies such as the World Trade Organisation (WTO), and bilaterally with partners, including China and the US.

If the trade conflicts initiated by President Trump had been



Europe's geopolitical weakness is partly the result of its lack of strength in some key technologies; leverage over networks matters

conflicts about trade only, the EU would have been relatively well placed to defend its commercial interests. But the reality is that these trade battles are part of a geopolitical rivalry between China and the United States, and when it comes to geopolitics, the EU is ill-equipped. The EU's weakness stems in part from its lack of a defence capability. Without the US participating in Europe's defence, European countries would be vulnerable to foreign aggression.

Europe's weakness in this area is also the result of its lack of strength in some key technologies, including digital hardware and software systems that are vital for security. A number of globally-important networks (such as financial or data networks) have developed in an asymmetric way, giving the states with physical and legal jurisdiction over them the ability to extract information and leverage power. These networks tend to have central nodes of influence in the US and increasingly in China - while the EU still has an institutional weakness in terms of exercising power over those networks it can influence (Farrell and Newman, 2019).

The EU has much to lose from the emergence of a bipolar world, and from the rivalry between China and the United States. The threat is to both the EU's economic interests and its political values. The EU is closely intertwined with the United States and China, which are its two main trade and investment partners. A Sino-US trade war is sure, therefore, to have significant negative consequences for the EU economy.

But the bigger consequences are political. The two rival powers will aim to lure the EU into their camps because of the EU's economic assets, and in particular its large market. The EU obviously wants to preserve its values of democracy and the rule of law,

*US-CHINA RIVALRY

social justice and multilateralism, and given its history and values, is clearly politically much closer to the US than to China. However, the rejection of multilateralism by the Trump administration has made the EU uncomfortable with the US position, and has opened the door to closer political relations with China, which has assumed the mantle of multilateralism.

It would be a nightmare scenario for the EU if it had to choose between liberal democracy and the United States on one hand, and multilateralism and China on the other. In both cases, the EU might have to compromise on social justice, which is practiced neither by China nor by the United States.

To avoid compromising on our political values, you need to succeed in escaping the bipolar scenario. You should be under no illusion. Unfortunately, the bipolar scenario is by far the most likely, but it is also the most dangerous for Europe, and probably for other parts of the world which share our values. You should aim not only to strengthen Europe but also to support all multilateral frameworks that can help offset a bipolar scenario

Important further elements of Europe's strategy in defining its place in the world are the relationship with our neighbouring continent, Africa, and the EU's strategy on migration. Both topics are clearly important priorities for EU citizens.

Climate and the environment

When it comes to climate change and the environment, your challenge will be to overcome vested interests, and manage the social and economic fallout of a truly transformative agenda. Citizens want you to address this pressing challenge. At the same time, they aren't likely to accept the consequences of strong climate action easily. The yellow-vests movement in France serves as a powerful reminder that addressing the social consequences of climate policies needs to be an integral part of a successful climate strategy.

Vested interests will want to prevent you from addressing climate change. But you should be clear: climate change is a dramatic reality for humanity. Industrial economies have been leading contributors in the past and have a moral obligation to address their emissions head-on. Moreover, by doing so, they produce a

*CAP AND LOST
BIODIVERSITY

template that others can follow and that in itself can also be a business opportunity. Failing to address the challenge head-on would be unacceptable to citizens, and could also mean that the EU loses out on key technological developments – such as electro-mobility – that will shape the future. Meanwhile, a powerful lobby will try to prevent you fundamentally changing the EU’s common agricultural policy – which you must do if you want to restore lost biodiversity in Europe (Pe’er *et al*, 2014) and free financial resources for more forward-looking expenses.

Growth and convergence

The EU’s long-term prosperity and sustainability depends on innovation, growth and convergence. Those countries with a serious productivity growth challenge typically have comparatively weak institutions and perform less well in education, innovation and research. But without more growth in those countries, debt dynamics will be unfavourable. Your challenge is to find ways to contribute to convergence and growth, while most of the levers to do so are at member-state level.

*CRISIS RISK

The challenge could be compounded by deterioration in the economic situation and even the re-emergence of crisis. A recession would increase unemployment, which even now after many years of recovery, remains a key concern for citizens. Beyond the macroeconomic ups and downs, you could face a sovereign debt crisis in a euro-area country that would require emergency summits and assistance. But you have relatively few instruments under your control to deal decisively with such a situation. There is no euro-area budget to use for countercyclical fiscal policy and the current negotiations are unlikely to lead to a budget of macroeconomic relevance. The main truly European institution that could respond, the European Central Bank, would have to find new tools because of low interest rates and the political limits to further bond purchases. Meanwhile, the main euro-area financial-assistance programmes are in the hands of an inter-governmental institution, the European Stability Mechanism, and the member states. You must aim to complete the euro area’s governance set-up to make it more robust. This is all the more important as a badly functioning euro area also has long-term social consequences.



To be able to act and respond on a more equal footing you need to reduce dependence on China and the US in key strategic domains

3. POLICY RECOMMENDATIONS

(1) Europe's place in the world

When it comes to strengthening Europe's position in the world, you will have to design and drive a transformative agenda for Europe. In trade policy, your task is relatively well-defined: you need to vigorously defend the multilateral trading system, including by fostering its reform, while being ready to retaliate against protectionist measures. But to be able to act and respond on a more equal footing you need to reduce dependence on China and the United States in some key strategic domains while strengthening the EU's own capabilities. This will require tackling three issues:

The EU's capacity to innovate and remain a technological leader: You should strengthen investment in R&D, education and improve conditions for innovation and conditions that encourage key players in networks to locate in the EU. For example, the platform economy is dominated by the American GAFA (Google, Apple, Facebook and Amazon), and increasingly by the Chinese BATX (Baidu, Alibaba, Tencent and Xiami). Technological capacity influences the structure of global networks, which in turn is important for the projection of power⁸. But if the EU cannot trust the US to not turn its network hegemony against it, it needs to revisit its strategy and aim to attract key network nodes and hubs and to create institutional capacity to deal with those hubs.

The EU does not lack large digital platform companies because of the EU's competition policy. It lacks such companies because of a fragmented market, including a fragmented market for risk

*TECHNOLOGICAL
LEADERSHIP

capital, and because of lack of public infrastructure, meaning that, all too often, innovative young companies go to the US to grow.

You should continue the work that your predecessors started to deepen and complete the single market, strengthening the digital single market in particular, exploiting data-privacy rights and developing a European approach to the digital age with the citizens at the centre.

The effectiveness of the EU's competition policy is globally recognised. Relaxing current policies to encourage the creation of large European champions might lead to higher domestic prices, greater inequality and rather limited benefits in terms of innovation and growth⁹. By contrast, tough competition typically spurs innovation. While we are not in favour of subsidising specific large firms, there might be a case for supporting them when they compete in third countries with subsidised firms from other jurisdictions. Ideally, however, this issue should be addressed through improvements to, and better implementation of, the WTO rules on subsidisation. There might also be a case for revising the definition of dynamic markets.

The EU should have an industrial policy that goes beyond the single market strategy. A deeper single market is critical for the EU's economic strength. But a clear view of which sectors will drive future innovation is also necessary given the targeted Chinese approach (European Commission, 2019). The EU needs to develop a methodology to identify key sectors of relevance and go beyond the current *ad-hoc* approach to supporting specific industries. In the US, three federal institutions (the Defense Advanced Research Projects Agency, National Institutes of Health and National Science Foundation) play crucial roles in pushing forward the frontier of knowledge, and enabling private-sector R&D in key areas. Similarly, the EU should use the EU budget more than today (roughly €10 billion in 2018) to boost digital hardware and software systems, including artificial intelligence, which are critical for autonomy and even security.

The second area where you need to act to boost the EU's role in the global economy is the euro's role as a global currency.

The euro is already a global currency but its role is below potential

on account of the incomplete economic architecture of Economic and Monetary Union. To change that, you will need to make concrete progress on EU governance. We will return to this in our third set of recommendations.

Third, you need to increase Europe's capacity to safeguard its own security. This is not a question of a 'European army'. Instead it is about being able to defend EU territory by collaborating in case of aggression and to intervene in cyberwar, intelligence operations and small rescue operations. Investments in the range of €100 billion to €300 billion could be needed if Europe wants to have sufficient defence capabilities without US involvement (ISIS, 2019). The EU should remain a peace project, capable of defending itself but without any ambition to project force in military adventures in third countries¹⁰.

This gives rise to important organisational questions that you need to answer. How would EU countries support each other in case of military aggression? Should the EU create a 'security council' which includes even some non-EU countries (potentially the UK) and is capable of taking military decisions outside of NATO? How can the various weapon systems of national armies be made compatible? Can the Permanent Structured Cooperation (PESCO) process be further advanced and procurement be unified? Can EU countries form joint capabilities to counter cyberattacks and what capacity does the EU have to deal with targeted fake-news campaigns that undermine our democracies? You will need to exercise leadership in these domains but not pursue unrealistic and even undesirable goals.

The question of defence is important because, unfortunately, the EU cannot fully chart its own course in trade, technology and investment policies without ensuring its own security. But, as you know, this view is not accepted equally by different EU countries and several countries will not be ready to question reliance on NATO as the main defence cooperation agreement. In our view, you will therefore have to accept a certain degree of multi-speed in this domain¹¹.

Finally, we consider it important that you strengthen the EU's



Citizens want you to address the climate challenge but will dislike the social consequences. The transformation also offers opportunities for business

Africa policy. Africa is connected to Europe in many ways. As our direct neighbour, its economic health and political stability are core EU interests. This topic cuts across trade, investment, development, climate, energy and migration policies. You will need to further develop your migration strategy, which is still a great concern for many citizens and goes beyond the relationships with African countries. This strategy cannot be narrowly focused only on illegal migration but needs to be comprehensive and cover also legal migration and its implications for the internal functioning of the single market.

(2) Climate and the environment

The EU is already politically committed to reducing greenhouse gas emissions in line with the Paris Agreement. But progress is limited and certain sectors lag behind in their efforts to reduce their impacts on the climate (in particular the transport sector; see Tagliapietra and Zachmann, 2018). Coal phase out is too slow in several countries.

Putting a price on greenhouse gas emissions in all sectors is indispensable to reduce emissions. You will need to ensure that the EU carbon price becomes high enough to lead to more rapid and significant changes in behaviour. Other sectors not currently participating in the EU emissions trading system will also need to be covered, possibly with a tax. Industrial policy can support decarbonisation and you should mobilise the EU's instruments in that regard. Regulation on sustainable finance is a further lever the EU has to manage climate risks.

*CARBON PRICE

Your climate strategy will need to address distributional concerns or risk failing politically (Zachmann *et al*, 2019). To this end, the carbon tax proceeds could be redistributed to reduce the burden on low-income households¹².

Don't underestimate how transformative serious climate action will be for the entire economic system. The rising carbon price and the carbon tax should be accompanied by public funding for innovation to accelerate the emergence of new technologies, which will create new activities and also cut the cost of clean energy. It is crucial to understand the importance of digitalisation for the green revolution and support it with public policy. Lowering the cost of clean energy is all the more important because key industries depend on access to affordable energy and you need them to support the transformation.

The EU's climate strategy also needs to have a global perspective. Global greenhouse gas emissions continue to rise quite dramatically, in particular driven by emerging economies. We consider three policies as central. First, the EU should continue and redouble its efforts to support emerging economies in basing their economic models on green growth. Financial and technological support for green infrastructure is good climate policy¹³ and it can also create economic opportunities for leading green EU companies. Second, the EU, like other industrialised economies, has managed to reduce emissions in production, but not as much in consumption of greenhouse gases. Some form of carbon border adjustment will be necessary to tackle this¹⁴.

Finally, given that global emissions continue to grow so rapidly, scientists increasingly talk of the Anthropocene – a geological period in which human activity is the dominant force shaping the Earth's ecosystem. Given that the earth's climate might be increasingly influenced by self-reinforcing feedback loops, we consider it essential to study how to manage the fallout from global warming and how to reduce emissions by other means¹⁵. You should exercise global leadership on this.

(3) Growth and convergence

You should support the improvement of the quality of institutions,

*BETTER
INSTITUTIONS

which varies significantly in different EU countries. Governance structures and institutional quality are known to go hand-in-hand with good and sustainable economic outcomes (Acemoglu and Robinson, 2012; Acemoglu *et al*, 2005)¹⁶. Even though improving institutional quality is, above all, a job for national politics, you could and should support such endeavours more than currently. You should use the EU budget as a tool to support institutional reform programmes and review the EU's approach to promoting good governance (Mungiu-Pippidi, 2019).

*EU BUDGET

One of the first challenges you will face when taking office is to complete the negotiations on the multiannual financial framework. In our view, you should aim to significantly reduce the share of spending that goes to the common agricultural policy, while boosting spending on innovation and research. The EU budget should finance projects with true European added value, such as the European space programme and European infrastructure and innovation policy. Structural funds are probably your main instrument to boost growth in the parts of Europe that have a productivity problem, but their effectiveness needs to be increased (Darvas *et al*, 2019). Meanwhile, the common agricultural policy should be changed so it focuses on increasing the sustainability of our food production¹⁷, increasing biodiversity¹⁸ and ensuring the best results in terms of farmers' incomes (Ciaian *et al*, 2015). In short, it should be a basic goal to use the budget better and create space for spending on new priorities such as migration policy and border protection.

You should devote significant political capital to combatting tax evasion and fraud and support a fairer distribution of the tax burden. Social and tax policies are national policies, but the single market makes it easier for large companies and rich individuals to reduce their effective taxation. An increasing tax burden on the working middle class is incompatible with the promises of Europe's social market economy. The EU growth strategy should also build on useful EU instruments such as the European Social Fund and the European Pillar of Social Rights.

You should also contribute to a better management of macro-economic policy. In case of an economic downturn, you should



Rigid application of the fiscal rules might lead to faulty recommendations, but politically partisan interpretations would undermine your institution as a broker of compromises

support the relevant authorities in responding rapidly. With interest rates at the zero lower-bound, monetary policy will have little to contribute to stem the next downturn. Your role as Commission President, together with your responsible Commissioners, will be to raise awareness about the importance of national fiscal policies to stabilise the EU economy. You will have to identify risks to the macroeconomy early on and organise a coordinated fiscal response.

On the fiscal rules, we believe that rigid application might lead to faulty recommendations. But at the same time, a politically partisan interpretation of rules would undermine your institution as an independent and neutral broker of compromises. In our view, you should therefore not only propose changes to the fiscal rules to increase their usefulness for fiscal macro-management. You should also clearly explain what you think should be the right fiscal policy in any given circumstance – thereby increasing political buy-in. A reform of the European Semester with more convincing communication than currently is much needed.

In this respect sovereign spreads, while useful in enforcing fiscal discipline, can also hamper the ability of some countries to use fiscal policy when they need it most and hamper the transmission of monetary policy. Your role will be to communicate wisely and broker compromises among key players. You should support the European Central Bank's outright monetary transactions programme and the European Stability Mechanism as a crucial institution for the stability of the euro area.

*MACROECONOMIC
POLICY

Last it is clear that you should continue to strengthen the architecture of the euro area in order to improve its capacity to deliver better performance in terms of growth and cohesion. Failing to do so risks leaving the system more fragile than it should be. To this end, aim to complete banking union. Reducing the exposure of banks to national sovereign debt is necessary for your attempt to Europeanise the banking system and introduce a European deposit insurance scheme (EDIS; see Wolff, 2016). The problem you face is that the EU has debated this strategy for the last five years without much action. Resistance comes from a fear that EDIS would be a transfer to weaker countries while resistance to sovereign bond limits remains high because of a fear that funding might become more difficult or even impossible for the fiscally weaker countries. The result is that the unstable status quo has prevailed. You will have to look for innovative ideas to break that deadlock¹⁹. It is difficult if not impossible to implement banking union without at least some additional instruments to support governments' fiscal policies. You should also look for innovative ways to create deep and integrated capital markets, as current legislative proposals have not been enough²⁰. How can you best secure the support of ministers in promoting this project further? Finally, do not abandon the idea of creating a safe asset; instead weigh carefully how to do it in a way that does not distribute risk unfairly and counterproductively and prepare a template that could be used in the next crisis.

4. INSTITUTIONAL ISSUES

In order to deliver an ambitious strategy, you will need to tackle three important institutional issues:

- The governance of the EU and Europe more generally;
- The role of the Commission and its relationship with the European Council and the European Parliament;
- The internal organisation of the Commission.

As far as EU governance is concerned, the first issue to consider is what to make of the motto "*unity in diversity*". The EU is a unique construction based on a diverse set of countries with a relatively low degree of centralisation of decision making. This diversity and

decentralisation sets us apart from the United States and China. The coming years will be decisive on whether the EU can preserve and succeed with this unique model.

At the 9 May 2019 summit in Sibiu, European leaders reaffirmed their *“belief that united, we are stronger in this increasingly unsettled and challenging world”*²¹. The method of sustaining unity has been effective in maintaining sanctions against Russia and also keeping a united front in the Brexit negotiations.

The challenge is to reconcile the pledge of unity with the reality of diversity. The differences between the 27 (or 28, should the UK decide to remain in the EU) member states make it sometimes difficult, or even impossible to make progress in some areas. Unity can come at the expense of speed and depth. Unanimity can also lead to a lack of experimentation and flexibility.

There are two ways to deal with this issue:

- First, one can move to majority decision making at the level of 27 or 28. This should be possible if the union increasingly thinks that in the long-term, the pros outweigh the cons. However, the option of moving to qualified majority voting on foreign-policy decisions has already been rejected several times.
- Second, one could advance in smaller groups on specific issues. The EU treaties allow for smaller groups of countries to advance more speedily with specific projects. We consider it important not to exclude some type of differentiation. Any move to advance in certain groupings should be based on the core European institutional structure: the Commission and the European Parliament. It should always be clear that groups of EU countries are open to others that wish to join. Within groups, it is again possible to see unanimous decision making or majority decision making.

While we prefer greater use of majority voting at EU level, we believe you should not exclude advancing in smaller groups on some key issues where no unanimity is possible. In taxation for example, by moving forward in a smaller group, you would also increase the pressure for all to advance. Differentiation might be the only politically feasible way to deepen integration on some of these contentious topics.

*THE 'POLITICAL'
COMMISSION

The question of multispeed advancement also concerns non-EU countries. The UK and the EU's neighbourhood are of paramount importance for the EU's position in the world. Without a stable neighbourhood, the EU's influence in the world will decline. And the UK is and should remain an important ally in global forums such as the G7 or the United Nations. Your predecessors have been busy managing Brexit, but to date, no Brexit deal has been ratified. One of your main challenges will be to define the relationship with the UK and the EU neighbours more broadly, including with Turkey and the Western Balkans. This indicates a need to reflect on how to arrange multiple levels of integration and cooperation in a way that does not create unnecessary political tensions. You should not shy away from exploring new models of cooperation or limit yourself only to existing models.

The second issue is the relationship between your three institutions. Given the increased participation rate in the 2019 European elections, we believe that the European Parliament's role in deciding on key strategic issues will and should increase²². At the same time, the European Council also sets out the main strategic guidelines for the EU's future. All three of you will have to work together to advance this strategic agenda.

One of the priority issues in the relationship between the three institutions will be the interpretation of the political nature of the European Commission. One of the most important institutional changes of the last Commission was the explicit political interpretation of the mandate of Commission president. This approach has yielded results. For example, Jean-Claude Juncker prioritised ending austerity and interpreted the fiscal rules flexibly, which we consider to be one reason for the improving economic situation of the last few years. The Commission President has also exercised political leadership in the context of the Greek crisis and has been a strong political voice in the EU-US relationship. Jean-Claude Juncker also exercised leadership and rejected some possible nominations from member states for the Commission College. But this approach has also led to accusations that the interpretation of fiscal rules was not only done 'flexibly' but also in a partisan way - reducing trust in the Commission among some countries as a neutral arbiter.

*RULE OF LAW

What does a ‘political’ Commission mean? The Commission is obviously a political body, since many of the thousands of decisions it takes, as guardian of the treaties or initiator of legislation, are based on political value judgements. In our view, the Commission should strive to interpret its role of guardian of the treaties, ie when it has to interpret the treaty and the rules, in an even-handed and non-partisan way. The EU should not interpret the rules more strictly for countries that are run by a government from a different political party, nor should countries be treated differently for reasons unrelated to the issue at hand. Otherwise, the Commission would no longer be credible as a neutral institution at the service of the union.

Conversely, this also means that the Commission should devote sufficient resources and tools to monitoring and enforcement of the application of the treaty and rules by member states. The EU needs to strongly uphold the core principles of the union: the rule of law and the defence of core EU values.

Finally, as the nominated Commission President, you should fully use your powers to reject the nomination of candidate commissioners who do not support key European values. Those candidates would also be rejected by the European Parliament and the Commission President has a duty to anticipate that and to ensure a strong college.

When it comes to proposing or updating legislation, we consider a party-political interpretation of the role of the Commission as legitimate.

*COLLEGE ORGANISATION

Once the Commission takes office, one of your first tasks as Commission President, will be to organise the College. Here, much will depend on your managerial approach. You might prefer a more hierarchical structure with vice presidents or a more network-like structure. We consider it fundamental that you ensure the strong collaboration of commissioners responsible for a number of related areas – which could be done in clusters or hierarchies. The key areas where we see the need for close collaboration are:

- European economic sovereignty
- Sustainability
- Growth, industrial policy, innovation and the relationship with

competition policy

- Migration, asylum, border protection, Schengen, internal security

An important prerogative of the Commission President is to define the mandate of the commissioners. The outgoing Commission president gave more detailed work programmes to his commissioners than any of his predecessors. We think this is a useful way of leading the Commission and is also a good way to construct a coherent programme in line with the priorities of the various parties that support you in the European Parliament.

Europe faces major challenges, it needs an ambitious agenda and the three of you need to work together and with leaders in Europe and the world to deliver on this ambitious agenda.

ENDNOTES

- 1 For example, by releasing methane currently stored in permafrost. Methane is a more powerful greenhouse gas than carbon dioxide. Scientists debate how strong the release of methane currently is; see for example Saunio *et al* (2016). Knoblauch *et al* (2018) points to the relevance of thawing permafrost for methane release.
- 2 See Voosen (2019) for a recent summary pointing out the more significant increase in global temperature.
- 3 For detailed reports, see United Nations (2019) and Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (2018).
- 4 And despite a rising share of national income going to capital income, the tax revenue from taxing capital income seems to be a rather stable percentage of overall revenue.
- 5 See Brys *et al* (2016) for proposals.
- 6 Citizens in southern European countries, however, tend to trust the EU more than their national authorities. In northern Europe, national authorities tend to be trusted more than the EU. See Eurobarometer data as reported in Demertzis *et al* (2019).
- 7 Survey conducted for Friends of Europe think tank (2019). Stopping climate change, ensuring citizen rights, managing migration, securing peace, fighting terrorism and taming globalisation are mentioned among the top issues that citizens want the EU to deliver on; see De Vries and Hoffmann (2019). Compared to the early 1990s, when Europeans were split 50-50 on the issue of defence, the share of people who think defence should become an area of joint decision-making was more than 70 percent in 2018 (Eurobarometer).
- 8 The EU has relied on the US lead when it comes to, for example, intelligence gathering.
- 9 There is a separate discussion about the screening of foreign direct investment to protect strategic sectors and key public infrastructure. While these measures reduce competition and the free flow of capital, they are warranted if there are clear geostrategic concerns.
- 10 We consider it unlikely and undesirable that the EU will form a political union that could legitimise and decide on such actions. Here we disagree with, for example, Bildt (2019).
- 11 For example, we could imagine France, Germany and the Benelux increasing collaboration or perhaps even creating a European intelligence agency. That would be an important step towards reducing dependence on US intelligence.
- 12 Simple models for such a scheme have been designed, see for example the carbon dividend plan from the Climate Leadership Council (2017).
- 13 See https://ec.europa.eu/clima/policies/international/finance_en for a summary of the EU's international climate finance commitments. Many emerging economies have made their support for the Paris Agreement conditional on financial support. See also Wolff and Zachmann (2015)
- 14 See Horn and Sapir (2013) for an early discussion on some key ideas how to do so.
- 15 Research is needed on how to increase carbon sequestration through natural means, other carbon capture technologies and on what geoengineering would imply.
- 16 Demertzis and Gonzalves Raposo (2018) provided a summary of six World Bank governance indicators for all EU countries since 1996 and argued that the EU needs to increase its monitoring of institutional quality.
- 17 Different initiatives exist that propose better ways forward. See for example International Panel of Experts on Sustainable Food Systems (2019).
- 18 See, for example, Food and Agriculture Organisation of the United Nations (2019).

- 19 You might want to consider introducing a European-level deposit insurance scheme with lower coverage as a base, to be supplemented by the current national schemes. The lower European level would still cover the vast majority of deposits and would send a strong signal to EU consumers, without being seen as a scheme for redistribution.
- 20 In Demertzis *et al* (2019), we proposed looking into a 28th regime post-Brexit for segments of the capital markets, and the use of digital technologies to integrate capital markets.
- 21 To this effect, they made a number of commitments, including that “We will defend one Europe - from East to West, from North to South...There is no place for divisions that work against our collective interest” (European Council, 2019).
- 22 Currently, much of the legislative impetus comes from the European Council, which asks the Commission to make proposals to the two co-legislators, the Council and the Parliament. Several Spitzenkandidaten have proposed that the European Parliament should also be able to ask the Commission to make legislative proposals. We support this idea, but with two caveats. First, all legislative proposals made by the European Commission, regardless of their origin (the Commission itself, the European Council, or the Parliament), should be in line with an overall work programme of the Commission. Second, requests by the European Parliament should be in areas in which the parliament is a co-legislator, and should have the support of a majority of its members.

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