

New Pact *for* Europe

STRATEGIC OPTIONS FOR EUROPE'S FUTURE

EXECUTIVE SUMMARY



The New Pact for Europe project is supported by a large transnational consortium including the King Baudouin Foundation, Bertelsmann Stiftung, Allianz Kulturstiftung, Calouste Gulbenkian Foundation, European Cultural Foundation, European Policy Centre, "la Caixa" Foundation, Network of European Foundations, Open Estonia Foundation, Open Society Initiative for Europe, Stiftung Mercator and Svenska Kultur Fonden

Promoting
the European
Debate

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EXECUTIVE SUMMARY

The euro-zone crisis has prompted the most intense debate about the European Union's future in its history. Deep cracks have appeared in the European project, posing the most serious test it has ever confronted, complicated by the fact that Europe faces not one but a number of highly complex, multi-rooted and interlinked crises. Although fears of a 'euro-implosion' have receded since the summer of 2012, the overall situation remains volatile and the reality of daily life is still very tough for many people in many Member States.

Even though numerous measures that seemed impossible some years earlier have been adopted since 2010, it is still questionable whether Europe will emerge stronger from this crisis, as it has from past watershed moments. But one thing seems certain: if Europeans want to overcome the current malaise and also prepare themselves for the manifold internal and external challenges that lie ahead, they will soon have to make strategic choices about the EU's long-term future.

In this situation what is urgently needed is a discussion in and between EU countries about how to respond to the financial, economic, political and social challenges facing our troubled continent. This process could eventually lead to a new 'pact' for Europe – between its Member States, and between the policy-makers and the public – to heal the wounds left by the crisis, deliver effective policy responses, and strengthen the EU as a global player.

It is this which has prompted a consortium of European foundations, led by the King Baudouin Foundation and the Bertelsmann Stiftung, to promote a pan-European public debate on the EU's future which seeks to generate ideas to make the Union more effective in responding to key challenges and strengthen its position on the international stage. It aims to do this through an analysis of the 'state of the Union' and the elaboration of potential strategic options for the future, followed by a series of national debates involving the public, politicians, policy-makers, business leaders, trade unionists and other civil society representatives, and to feed the ideas generated by this process into the work of the new EU leadership which takes office after the 2014 European elections.

This report, which reflects the work and discussions of a Reflection Group including EU experts from different Member States, marks the end of the first stage of the process: it analyses the 'state of the Union' and the multifaceted challenges ahead, and assesses possible strategic options for the future.

THE KEY CHALLENGES FACING EUROPE

The report identifies a series of interlinked challenges confronting Europe, in four 'dimensions' – socio-economic, political-institutional, societal and external-global – and several key challenges within each dimension.

Socio-economic dimension: threats to social peace resulting from indignation and despair caused by the crisis, very high levels of unemployment and mounting pressures on the welfare state; a widening economic gap between EU countries; and the structural deficits of a fragmented euro area that still lacks adequate fiscal, financial and economic integration.

Political-institutional dimension: a lack of public support for the EU; leadership crises at national and European level; and growing challenges to traditional concepts of political representation.

Societal dimension: the lack of a common understanding (narrative) and vision ('leitmotiv') of European integration; increasing divisions between Member States; a lack of knowledge about the EU; and simplistic perceptions of national sovereignty in a globalised world.

External-global dimension: the risk of gradual marginalisation, a loss of regional and global attractiveness and credibility; and mounting pressure to adapt the multilateral system of global governance to the realities of modern international relations, weakening the EU's role.

THE FIVE STRATEGIC OPTIONS

So, which of the paths open to the EU should it take to put Europe in the best possible position to confront these challenges, and exploit and make the best use of its potential? This report identifies five potential avenues for the EU to go down:

- (1) going back to the basics (undoing the mistakes of the past);
- (2) consolidating past achievements (If it ain't broke, don't fix it);
- (3) moving ahead ambitiously (doing more and doing it better);
- (4) leaping forward (economic and political union is the only answer); and
- (5) changing the 'more/less Europe' logic (a fundamental rethink is needed).

To provide a basis for a thorough debate about which path Europe should follow in the years to come, this report examines the underlying rationale behind each option, outlines what type of policy measures might be introduced under each of them, and assesses how effective they would be in responding to the challenges outlined above by analysing the main advantages and disadvantages of each one.

STRATEGIC OPTION 1: **GOING BACK TO THE BASICS**

(undoing the 'mistakes' of the past)

The basic rationale

Supporters of this option insist that the events of recent years have shown that European integration has gone too far; that the euro has become part of the problem rather than part of the solution, poisoning national debates and public attitudes towards the EU; and that the EU should abandon moves towards "ever closer union". Performing a U-turn and undoing past mistakes is the most promising way forward to rescue the most worthwhile result of integration, which is not the euro but the EU's Single Market of more than 500 million consumers. Dismantling the euro in its current form would not lead to the collapse of the Union, but rather herald the start of a more pragmatic, effective approach to European integration.

Key potential measures under this option

- > Undo the 'euro mistake' in an orderly and consensual way by either abolishing it, creating two separate currency areas, or allowing some 'weaker' countries to leave.
- > Carry out an objective review of the EU's powers to identify where cooperation at European level provides real added value and where it does not, leading to a focus on certain key policy areas and the re-nationalisation of others.
- > Limit the role of the European Parliament and European Commission, and enhance the role of national governments and national parliaments in European policy-making.
- > Complete the Single Market by filling in the gaps and updating it for a digital world.

Main advantages and disadvantages

Meeting the socio-economic challenges:

- + Champions of this approach argue it would be the most effective way to deal with threats to social peace and the widening economic gap within the EU by giving Member States a freer hand to tackle the crisis in the way that best suits their circumstances; this would also help to ease tensions between weaker and stronger countries.
- Opponents say abolishing or scaling back the euro would not solve but rather increase Europe's economic and social problems, the costs of 'undoing' it would far outweigh the benefits both at European and national level, and it could have strong negative impact on other policy areas, including the Single Market.

Meeting the political-institutional challenges:

- + Advocates of this option argue that most people are not ready for more integration, and public acceptance of the EU would increase if it concentrated on its 'core business' – i.e. on the Single Market, whose benefits are widely acknowledged.

- Opponents say ‘less Europe’ would undermine the EU’s legitimacy and intensify the crisis of political leadership. Most citizens still support the euro and failing to rescue it would undermine trust in political elites and their ability to master the complex challenges of today’s world.

Meeting the societal challenges:

- + Supporters of this option argue that undoing past mistakes, including the euro, would remove some of the biggest bones of contention between Member States; abandoning the quest for “ever closer union” would end fruitless discussions about the EU’s final destination; and focusing on ‘core business’ would make it easier for people to understand what the EU is and how it works.
- Opponents say it is highly questionable whether dismantling the euro would help tackle the societal challenges facing Europe because it would have major financial and economic implications and serious negative political spill-over effects, increasing friction within and between Member States. Also, ‘renationalising’ powers would weaken countries’ ability to respond effectively to today’s and future complex challenges at a time of increasing regional and global interdependence.

Meeting the external-global challenges:

- + Supporters argue that this option would repair the damage to the EU’s international standing caused by the crisis, and that focusing on the Single Market is the best way to revive the economy and thus increase Europe’s international ‘clout’. Instead of concentrating energies on vain attempts to rescue the euro and deepen integration, the EU could focus more attention on strengthening its capabilities to make it a more attractive partner for other countries and regions.
- Opponents insist that failing to ‘save’ the euro would undermine Europe’s economic clout and international credibility, reduce Member States’ willingness to cooperate in a wide range of areas, and foster a political ‘blame game’ that could fuel unconstructive competition between governments on key foreign policy issues.

STRATEGIC OPTION 2: **CONSOLIDATING PAST ACHIEVEMENTS**

(if it ain't broke, don't fix it)

The basic rationale

Supporters of this option argue that the EU has introduced most of the reforms needed to overcome the euro crisis and these should be given time to work, with attention focusing now on putting the remaining pieces of the jigsaw puzzle in place. There is a need to be realistic and accept that Member States are not willing or able to go further and pool sovereignty in key areas such as taxation, the budget or social and labour policy, and the EU should, at this difficult moment, steer clear of overambitious attempts to deepen integration which could backfire given negative political and public attitudes in many countries towards the EU and euro. Ultimately, a revival of public support for the EU and euro will depend above all on whether they will be able to deliver, especially in terms of measures to boost growth and employment.

Key potential measures under this option

• To tackle outstanding issues relating to Economic and Monetary Union

- > More innovative and flexible use of EU structural, cohesion and regional funds and a comprehensive strategy for growth and jobs.
- > A limited extension of economic coordination through 'reform contracts' between Member States and the European Commission, coupled with a limited financial solidarity fund to support targeted national reforms.
- > Full implementation of the new fiscal rules that have been agreed, but no additional rules or enforcement mechanisms.
- > A minimal banking union, including European Central Bank supervision of all major banks and a banking resolution mechanism relying heavily on existing national regulators.
- > Intensified tax cooperation focused on fighting tax evasion and fraud.

• To strengthen the EU's institutional setting and its democratic legitimacy

- > A bigger role for the European Parliament in the governance of the euro zone.
- > Greater involvement of national parliaments in EU policy-making.
- > A stronger role for euro countries in framing and deciding policy by strengthening the Eurogroup of finance ministers, holding Euro Summits, etc.
- > Gradual improvements in the functioning of the European External Action Service.

Main advantages and disadvantages

Meeting the socio-economic challenges:

- + Supporters of this option argue that while the EU may not be completely out of the crisis woods yet, efforts at European and national level are bearing fruit, and will help to counter threats to social peace and the widening economic gap within the EU. Ultimate success in overcoming the crisis now depends mostly on individual Member States' ability and willingness to continue putting their own houses in order.

- Opponents argue that a reactive and minimalist approach will be insufficient to address Europe's economic and social problems because the situation on the ground remains very volatile and difficult, more needs to be done to address the root causes of the crisis, a reluctance to overcome EMU's remaining structural deficits could undermine confidence once again, and continuing hardship could boost anti-EU/euro sentiment.

Meeting the political-institutional challenges:

- + Advocates of this option say public support for the EU will increase as the threat of a euro melt-down subsides and as the economy recovers, and focusing on effective policies to deliver concrete results will do more to boost the EU's legitimacy than attempting overambitious and risky institutional reforms.
- Opponents argue that without more radical reforms to enhance democratic legitimacy and accountability, the public may not accept more financial, fiscal and economic coordination at EU level. The growing perception that citizens cannot influence the Union's complex decision-making machinery also needs to be addressed, as do the limits on the EU's capacity to deliver effective responses to key challenges.

Meeting the societal challenges:

- + Supporters of this option argue that once Europe emerges from the crisis, there is a good chance Member States will overcome their divisions and citizens will recognise how interdependent their countries are and how powerless individual countries are to tackle most issues alone in a globalised world. Thus, recent events could prove to be a unifying moment in EU history and a source of collective identity, strengthening the perception that there is no viable alternative to European integration.
- Opponents question this assumption, especially if the crisis drags on for years as might happen if Member States take a cautious, reactive approach. The crisis has already widened old cracks and opened new wounds which will take time to heal, and the seeds of division sowed since 2010 risk eroding the very foundations of EU integration. Thus, there is a need now for a thorough and honest transnational public debate about the crisis and the future of the EU.

Meeting the external-global challenges:

- + Advocates of this option say the EU should concentrate all its political energy on restoring confidence in the euro, and thus in the Union, as the best way to avoid gradual marginalisation on the international stage. The positive experience of mastering the crisis through more centralisation could eventually have a knock-on effect in areas such as foreign and defence policy.
- Opponents say continued 'navel-gazing', focusing solely on tackling the crisis, would be a mistake: there are other challenges that merit equal attention if the EU wants to avoid further marginalisation, such as the need to enhance foreign and security policy cooperation.

STRATEGIC OPTION 3: MOVING AHEAD AMBITIOUSLY

(doing more and doing it better)

The basic rationale

Supporters of this option argue that simply consolidating past achievements will not be enough: the crisis is not over, much more needs to be done to tackle its root causes, and the EU must be more ambitious. Further integration (with more powers for the EU to deliver effective policy responses to address key challenges), measures to boost the Union's democratic legitimacy in the public's eyes, and an honest transnational public debate about the EU's future are vital not only to overcome the crisis but also to prepare for future challenges. This will require significant changes to the EU Treaties, but will have to be done cautiously, step by step, to avoid creating new dividing lines between EU countries. An increasingly multi-speed approach seems likely, but a permanent 'multi-tier Europe' must be avoided.

Key potential measures under this option

• To strengthen financial and economic cooperation:

- > Intensifying macroeconomic coordination and introducing economic guidelines setting the Union's multiannual priorities prepared by the Commission and adopted by the Council and the Parliament.
- > Increasing the EU budget and allowing the Union to raise at least some of its own revenue, although spending priorities/ceilings would still need to be agreed by all Member States.
- > Creating a 'Budget Tsar'/'Super Commissioner' with the power to reject/veto national budgets if they do not comply with European rules.
- > Completing a limited banking union based on a Single Supervisory Mechanism and a common European resolution mechanism with a financial backstop able to use resources from the European Stability Mechanism.
- > Introducing short-term European public debt issued jointly by euro countries (Eurobills) and/or some mutualisation of debt in the euro zone, with strict conditions attached (Redemption Fund).
- > Establishing a fund to provide counter-cyclical financial aid to help countries withstand national economic shocks that could undermine the stability of the entire euro area.
- > Incorporating the ESM and the fiscal compact treaty into the EU treaty framework.

• To strengthen the EU's political-institutional setting and its democratic legitimacy:

- > Electing a limited number of (extra) MEPs in a single constituency on the basis of a transnational EU-wide list of candidates, which could also generate candidates for 'top' EU jobs.
- > Establishing a clearer, more direct link between European election results and (s)electing the Commission president; reducing the number of Commissioners, and giving the president more leverage in choosing them.
- > Extending MEPs' powers, especially in areas where the EU now has more authority, and creating a 'euro committee' within the European Parliament for MEPs from euro-zone countries with special decision-making powers.
- > Involving national parliaments more closely in EU policy-making at both national and European level.

- > Changing the rules for amending EU treaties to allow them to enter into force even if some Member States have not ratified them.
- > Holding a European Convention to debate the EU's future, involving government and Commission representatives, plus national parliamentarians and MEPs.
- > Introducing a more coherent representation of the EU in international financial institutions such as the IMF, World Bank and G20.

Main advantages and disadvantages

+ Meeting the socio-economic challenges:

Advocates of this option argue that a reactive crisis recipe will not be enough to address the socio-economic challenges facing Europe: more ambitious measures, including automatic stabilisers, some form of joint financial liability and a relatively strong banking union, are needed to stabilise and gradually improve the economic situation, thereby stimulating growth, reducing the threats to social peace and narrowing the economic gap within the EU.

- There are three main lines of opposition to this approach, with some arguing it would not go far enough to help those suffering now because of the crisis or to restore the EU's credibility; others insisting it would lead the EU in the wrong direction and reduce governments' willingness to introduce much-needed national structural reforms; and others warning that attempts to agree the required changes to the EU Treaties could not only lead to yet another reform deadlock, but also provoke an even more severe crisis than the one Europe has just been through.

Meeting the political-institutional challenge:

- + Advocates say this option would enhance the Union's legitimacy in the public's eyes and increase interest in European elections and policy-making, boosting support for the EU and countering challenges to traditional concepts of political representation. 'Personalising' and 'politicising' the EU would strengthen European democracy.

- Opponents insist EU history shows this does not work in practice (with more power for the European Parliament matched by falling turnout at European elections) and could backfire if the EU lacks the tools to deliver concrete results, fuelling public disillusionment – and it is very unlikely to get such powers in the current climate.

Meeting the societal challenges:

- + Supporters of this option say a public debate about the EU's future is vital to counter resurgent national stereotypes, chauvinism etc. This must take place in public via a European Convention with a comprehensive mandate to develop a new treaty. This would raise awareness of the EU's (potential) added value and give people a clearer picture not only of its strategic goals, but also the limits of the integration process.

- Opponents question whether such a public debate would in fact help to develop a new 'narrative' for European integration and bridge divisions. They warn that it could backfire by exposing

significant differences in Member States' positions, undermining integration successes of the past or hampering cooperation in other areas.

Meeting the external-global challenges:

- + Advocates of this option argue that a readiness to reform the EU's institutional architecture would provide an opportunity not only to tackle the crisis more effectively, but also to enhance foreign and security policy cooperation at EU level.
- Opponents argue that Europe's role as a regional and global actor would be further undermined if the EU gets bogged down once again in 'navel-gazing' through a cumbersome and time-consuming reform exercise.

STRATEGIC OPTION 4: **LEAPING FORWARD**

(economic and political union is the only answer)

The basic rationale

Supporters of this option say recent experience has provided ample proof that the EU is insufficiently equipped to face current and future challenges, and that it needs to take a major qualitative leap towards a fully-fledged economic, fiscal, financial, social and political union, with a strong European executive ('European government') and legislature (parliament) able to take autonomous decisions reflecting genuine European interests. European integration must overcome the basic contradiction between having a common 'post-national' currency and Member States defending 'national interests'. Potential opposition from some countries should not prevent the 'willing and able' from making a major leap forward, even if this leads to a 'core Europe' including only those countries ready to deepen integration significantly.

Key potential measures under this option

• To foster and deepen economic and monetary union

- > Having a much larger EU budget funded by taxes levied at the European level, which would be able to decide autonomously what to spend the money on.
- > Establishing a European treasury to manage this budget, equipped with unlimited/substantial borrowing capacity and the power to issue European public debt.
- > Transferring economic sovereignty to the European level, with a substantial pooling of powers in areas such as taxation, energy, labour, industrial and social policy.
- > Giving Europe the power to veto national budgets that do not meet fiscal commitments.
- > Establishing a European Monetary Fund (EMF) with more powers than the existing bail-out mechanism and largely independent of national governments.
- > Creating a full, genuine European banking union with an independent supervisory system, a single banking resolution authority fully independent from national regulators and a single deposit guarantee scheme

• To strengthen the EU's political-institutional setting, resulting in much deeper integration:

- > Electing a politically partisan European executive (government) headed by an elected president/prime minister.
- > Maximising the European parliament's powers, giving it an equal say in all EU policy areas, the right to propose EU legislation and elect the head of the European executive.
- > Electing MEPs via a Europe-wide list of candidates chosen by European political parties.
- > Introducing a new procedure for changing Europe's 'constitution'/'fundamental law', with reforms adopted by a 'super-qualified' majority and significant changes put to a Europe-wide referendum.
- > Moving to a single European seat in international organisations such as the International Monetary Fund, World Bank, G20 and United Nations Security Council.
- > Deepening integration in foreign, security and defence policy, including the introduction of a European foreign minister and moves towards the creation of a 'European army'.

Main advantages and disadvantages

Meeting the socio-economic challenges:

- + Supporters of this option say it is essential to overcome the crisis, fully restore confidence in the euro and avoid history repeating itself. Europe can only address the impact and root causes of the crisis if those who are ready and able to do so move towards full economic and political union. This would create actors at European level strong and independent enough to strike compromises in line with common European interests.
- Opponents argue that it would move Europe in the wrong direction: ‘economic federalism’ would damage the competitiveness of Europe’s economy, a ‘transfer union’ in which stronger countries subsidise weaker ones would do more harm than good, and the creation of a ‘core’ or ‘two-tier’ Europe could strike at the heart of the Single Market. Overambitious attempts to create some kind of ‘federal entity’ could fail and fundamentally undermine confidence in the euro and the EU in general.

Meeting the political-institutional challenges:

- + Advocates of this option say far-reaching political-institutional reforms of the type outlined above would close the democratic deficit and strengthen Europe’s problem-solving capacity, thus helping to restore confidence in the ability of decision-makers to provide adequate policy responses to pressing problems and boosting public support for the EU. More personalised, parliamentarised and politicised policy-making would also stir public interest in European elections and policy-making.
- Opponents maintain that attempting to apply national models of democracy at EU level would not work and would be counterproductive, given strong opposition from most national political elites and citizens to giving Europe more powers and the trend towards considering the re-nationalisation of policy-making in some areas. National democracies are not perfect and having a more technocratic institution like the EU, which is not predominantly guided by electoral pressures, could also be regarded as an asset.

Meeting the societal challenges:

- + Supporters argue that this option would give Europe a new sense of direction and clearly demonstrate its added value, thus helping to create a common vision of European integration and overcome divisions between Member States. It would also reduce the complexity of the EU’s governance system, making it easier for Europeans to understand how ‘Europe’ works.
- Opponents say it is highly doubtful that Member States would be able to overcome their differences and agree on the main features and details of an economic and political union, and that this could in fact create new divisions and lead to even greater tensions between Member States.

Meeting the external-global challenges:

- + Advocates say this option is the only way to counter the risk of gradual marginalisation internationally, because the EU will only be able to speak with ‘one voice’ and play a key

international role to match its potential if governments are ready to pool sovereignty at Union level and allow a 'European government', represented by a European foreign minister, to conduct a truly common foreign and security policy.

- Opponents say this is unrealistic: Member States will never give up their sovereignty over issues of 'life and death'; i.e. foreign policy and especially security and defence. Some also argue that a single European seat in international institutions would not strengthen, but rather reduce, Europe's weight and manoeuvring power.

STRATEGIC OPTION 5: **CHANGING THE 'MORE/LESS EUROPE' LOGIC**

(a fundamental rethink is needed)

The basic rationale

Supporters of this option believe the traditional debate about European integration along the lines of more or less Europe has been exhausted. The experience of the last six decades has shown that a further transfer of national political and democratic concepts to the European level would not work in the absence of truly European transnational political debates and is not really desirable taking into account the already visible deficits of national democratic systems. They say the state of the Union and complexity of current and future challenges require a more fundamental rethink of European cooperation and a longer-term approach aimed at strengthening the EU's ability to respond to the challenges that lie ahead, making it more accountable to the public for its actions, finding new ways to involve the public in policy-making, and boosting the EU's capacity to safeguard the fundamental rights of its citizens and guarantee their basic social rights by strengthening the Union's caring dimension.

Key potential measures under this option

- > Better monitoring, auditing and control of EU spending, including creating a 'European Public Prosecutor' to investigate, prosecute and bring to justice those who commit criminal offences affecting the Union's financial interests.
- > Increased citizens' participation in EU policy-making via new instruments encouraging active involvement in decision-making (for example, through 'regional referenda' on how EU funds should be spent at the regional/local level).
- > Strengthening the EU's capacity to ensure respect for civil rights and fundamental freedoms when they are encroached upon at national level.
- > A greater focus on long-term policies of direct benefit to citizens, from safeguarding minimum social rights to guaranteed access to education and health services and delivering sustainable economic growth beyond a simple GDP orientation.
- > Establishing a "Charter of European Citizenship", setting out people's individual and collective rights, to strengthen their sense of what it means to be an EU citizen.
- > Setting up new consultation groups including NGOs, regional and local bodies, and experts in particular areas to consider long-term policy options and inform decision-making at EU level on issues such as migration, mobility and the economy.

Main advantages and disadvantages

Meeting the socio-economic challenges

- + Champions of this option say it would give the public a greater sense of ownership of EU policy-making, help to ease social tensions by safeguarding basic rights, and enable the EU to do more to support recovery in countries hit hardest by the crisis.
- Opponents say the suggested measures are either not sufficiently bold or the wrong recipe to address the root causes of the crisis and current and future socio-economic challenges.

They would be too costly, too difficult to implement and divert attention away from the need to create a Genuine Economic and Monetary Union.

Meeting the political-institutional challenges

- + Advocates of this option argue that EU fortunes will improve when citizens feel fully engaged, with more direct involvement in – and influence over – European policy-making and a greater sense that the Union is working for their best interests.
- Opponents say current EU structures already include consultation with citizen groups and other democratic checks and balances, and the focus now should be on strengthening national governments and parliaments as key sources of EU legitimacy, not on bolstering EU bodies and institutions.

The societal dimension

- + Supporters of this option say it would improve public understanding of European integration and the value of EU membership, and help to create a stronger understanding of what Europe is ‘for’ and thus a greater sense of ‘belonging’.
- Opponents question whether this option would really give people a new sense of where the EU is headed, or enhance their understanding of what the Union does. A political system modelled more on national democracy is needed to make it easier for citizens to understand how ‘Europe’ functions.

Meeting the external-global challenges

- + Champions of this option say that moving away from a “more or less Europe” approach would boost the EU’s global credibility, with a longer-term strategy that goes beyond a narrow focus on GDP growth underscoring Europe’s position as a role model and a key world player.
- Opponents say this option does not deal with the reasons why Europe is facing the risk of gradual marginalisation in international affairs, because it fails to emphasise the need for much closer cooperation on foreign, security and defence policy and could further contribute to the tendency of policy-makers getting lost in navel-gazing and introspection.

The eurozone crisis has provided a strong new impetus for European integration, but that now risks being undermined amid increasing tension over how best to meet the many complex financial, economic, political, social and global challenges we face. Efforts to overcome the current malaise are being hampered by profound disagreements over the future course of reforms; mounting socio-economic problems and political instability in many EU countries; different interpretations of the causes and consequences of the crisis; growing Euroscepticism and an increasing reluctance among both citizens and elites to further pool sovereignty at European level. And while the EU is preoccupied with itself, Europe keeps losing ground as the global shift continues.

The New Pact for Europe project was initiated by the King Baudouin Foundation (Belgium) and the Bertelsmann Stiftung (Germany) and is supported by a large transnational consortium of foundations, think tanks and civil society organisations. The first project report analyses the 'state of the Union', describes the key challenges Europe faces and presents a set of five potential strategic options for the future of European integration. Until 2014, the project will promote a Europe-wide debate and develop proposals on how to reform the European Union in light of the manifold internal and external challenges Europe is currently facing.

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