

# GENERATION NEXT – EUROPE'S FUTURES CONFERENCE

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### MAIN ISSUES

Europe is facing a variety of challenges, both politically and economically. Recent developments have opened debates on the future shape and direction of the European Union.

### OVERARCHING CHALLENGES

A series of overarching themes emerge from the diagnostic of the current challenges of the EU. First and foremost, there is a persistent lack of convergence between European regions, and increasingly more, between different categories of the public. Connected with this point, the second overarching challenge is the design of the intergovernmentalism or multilevel governance in the European Union; given the various transnational or sectorial challenges that arise, the idea of a multi-speed Europe seems difficult to apply.

### Division lines

New division lines appear in the European Union, without having necessarily resolved the historical disparities of development between the member states and regions. Divisions within the different categories of the public across Europe and within member states are currently just as important as the traditional divides across member states.

**Regional** divisions are persistently present in the EU, and they no longer align to the classical old vs. new member states categories. Newer member states are facing challenges of convergence, or catching up, as many have been recently labeled by the European Commission as “lagging regions”. However, despite the fact that CEE is still struggling with low incomes in some of its regions, high economic growth rates have been recorded across the region, as opposed to older member states, in Southern Europe (i.e. Portugal, Spain, Italy and Greece) whose lagging regions are marked by low economic growth<sup>1</sup>. Many of the EU member states have seen a growing regional inequality<sup>2</sup>, as convergence has stalled during and after the economic crisis<sup>3</sup>.

**Social divisions** have become increasingly more apparent according to the various Eurobarometer data of the past decade. The values and beliefs of European citizens reflect new division lines on top of the persistent socio-economic ones, as the economic crisis in the Southern Europe and its strong negative

1 European Commission (2017) Economic Challenges of Lagging Regions, available at: [http://ec.europa.eu/regional\\_policy/sources/docgener/studies/pdf/challenges\\_lagging/econ\\_challenges\\_lagging\\_en.pdf](http://ec.europa.eu/regional_policy/sources/docgener/studies/pdf/challenges_lagging/econ_challenges_lagging_en.pdf)

2 See the Index of Regional Inequality in Pike, A., Rodríguez-Pose, A., & Tomaney, J. (2017). Shifting horizons in local and regional development. *Regional Studies*, 51(1), 46-57.

3 Farole, T., Goga, S., & Ionescu-Heroiu, M. (2018). Rethinking Lagging Regions: Using Cohesion Policy to Deliver on the Potential of Europe's Regions. World Bank Report on the European Union. Available here: <http://pubdocs.worldbank.org/en/739811525697535701/RLR-FULL-online-2018-05-01.pdf>

social impact, or the current migration crisis amplify social insecurity across Europe. Capital cities are increasingly behaving very differently from rural areas in elections (e.g. Poland, Hungary, Bulgaria, UK), according to different alignments of values: as capitals remain predominantly liberal and cosmopolitan, the rural areas are increasingly turning to traditional or even fundamentalist values. Elites are becoming increasingly more dissociated from the public, while liberal and traditional values bring the public ever more divided.

**Economic divisions** were meant to be tackled with from the very early existence of the cohesion policy and the integration process. Still economic grievances persist and amplify social and cultural insecurities. According to a recent assessment on CEE states, the European Union membership has made prosperity more achievable for countries in transition, but also made the consequences of failure more apparent<sup>4</sup>. EU-wide income inequality declined notably prior to 2008, driven by a strong process of income convergence between European countries – but the Great Recession broke this trend and pushed inequalities upwards both for the EU as a whole and across most countries<sup>5</sup>. Also, according to recent evaluations, both inter- and intra- generational mobility has stagnated or decreased in several member states<sup>6</sup>. Still, in a number of CEE countries citizens still believe they are better off economically than they ever were before<sup>7</sup>. Furthermore, several regions in CEE countries have changed their status from ‘less developed regions’ to ‘developed regions’ over the course of the current multiannual financial frameworks (MFF 2014–2020).

### **Facing common internal and external challenges**

The practical failure of any multi-speed Europe proposal in the face of transnational issues and communalities. With subnational growing divisions (see above) there very little chance of drawing a clear-cut separation between any given member states in the EU. Counterintuitively, the subnational growing disparities between regions, between cities and rural localities, between citizens, make the European project more interdependent, as only together member states can pull on their strengths to push common solutions to their current weaknesses and threats. The latter are reflected not only at the subnational level, but also at the whole European level (e.g. migration crisis, legitimacy crisis, competitiveness in the global markets).

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4 Sproule, James (2018) The Central and Eastern European Prosperity Report. Legatum Institute. available here: [https://www.erstegroup.com/content/dam/at/eh/www\\_erstegroup\\_com/de/Presse/Pressemeldungen/2018/09-sep/Legatum%20Institute%20CEE%20Prosperity%20Report%202018.pdf](https://www.erstegroup.com/content/dam/at/eh/www_erstegroup_com/de/Presse/Pressemeldungen/2018/09-sep/Legatum%20Institute%20CEE%20Prosperity%20Report%202018.pdf)

5 Eurofound (2017) Income inequalities and employment patterns in Europe before and after the Great Recession. Research Report, available here: [https://www.eurofound.europa.eu/sites/default/files/ef\\_publication/field\\_ef\\_document/ef1663en.pdf](https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef1663en.pdf)

6 especially for generations born after 1964, in Eurofound (2017) Social Mobility in the EU. Research Report, available here: [https://www.eurofound.europa.eu/sites/default/files/ef\\_publication/field\\_ef\\_document/ef1664en.pdf](https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef1664en.pdf).

7 Nastroje społeczne w sierpni. Research Report, available here: [https://www.cbos.pl/SPISKOM.POL/2018/K\\_109\\_18.PDF](https://www.cbos.pl/SPISKOM.POL/2018/K_109_18.PDF)

## POLITICAL, ECONOMIC, SOCIAL, AND TECHNOLOGICAL CHALLENGES

### Political dimension « It's the politics, stupid »

The political dimension seems to be the biggest current challenges to the future of Europe. As the EU was created top-down, the solutions for its current turmoil should also be top-down.

Rule of Law (RoL) is clearly one of the sources of political tension amongst member states. Despite the fact that the procedures of Art. 7 were launched for Hungary (in 2015) and for Poland (in 2017), there is increasing uncertainty as to how exactly will the EU strengthen in practice the Rule of Law amongst its member states. Some corrective measures to strengthen compliance might include the future multiannual financial framework (MFF 2021-2027) proposal of clear conditionalities on the EU funding with respect to RoL. This type of sanctions has however the downside of strengthening nationalistic and Eurosceptic rhetoric, thus constituting Pyrrhic victories for the EU. Still, there is little commitment to strengthen preventive measures in support of RoL (e.g. budgetary allocations for CSOs that promote democratic values in EU members states are only about 50 mil. euro).

Extremist parties are gaining ground across Europe. As there are increasingly more Eurosceptic ruling parties in Europe (i.e. Hungary, Poland, Italy), there is a looming failure of multilateralism in Europe. Reflecting these political trends at the national level, the Council of the European Union lacks unity of vision and will, and as such it is unable to provide convincing programmatic alternatives.

Across Europe, and especially in CEE there is a dual decrease in the quality of democracy (QoD)<sup>8</sup> and quality of governance (QoG)<sup>9</sup>. As multiculturalism is increasingly dismissed by extremist ruling parties, the quality of democracy is affected by the decreasing representativeness of all grievances, and popular preferences. At the EU level, this fuels into the issues of procedural legitimacy, as democratic accountability requires clear and transparent decision-making processes<sup>10</sup> both at the national, and European level. The challenges related to poor quality of Governance (QoG) especially in newer member states are directly linked to corruption and the Rule of Law (RoL), as well as to effective use of domestic and European resources. The general concern regarding the quality of governance is especially amplified by the weaker institutional capacity at subnational level, in the case of newer member states. In a context of depreciating quality of democracy and quality of governance, European citizens' share of the benefits of integration is diminished. As such, individual disenchantments fuel the rise of extremism, as mentioned in the previous paragraph.

EU subsidiarity is again under question, as to what is the optimal balance of powers and responsibilities between the EU and the member states, in the context of increasing interdependencies, and failures of coordination across specific policies (e.g. energy, migration, social). The political elites fail to provide coherent solutions to these current challenges.

8 for metrics on the quality of democracy (QoD) see Varieties of Democracy Index, available here: <https://www.v-dem.net/en/>

9 for metrics on the quality of government (QoG) at subnational level in the EU, see European Quality of Government Index (EQI) developed by the Quality of Government Institute of Gothenburg University with the support of DG Regio, available here: [http://ec.europa.eu/regional\\_policy/en/information/maps/quality\\_of\\_governance](http://ec.europa.eu/regional_policy/en/information/maps/quality_of_governance).

10 for an extensive coverage of input, throughput and output legitimacy in the EU, see Olsen, J. P. (2017). *Democratic Accountability, Political Order, and Change: Exploring Accountability Processes in an Era of European Transformation*. Oxford University Press.

## **Economic dimension**

The biggest challenge ahead for the European union (especially after Brexit) is to develop a truly functional capital market—one that is able to support both the entrepreneurial and innovation objectives of development. In the CEE region at the moment, companies are approximately 90% reliant on banks for financing, while at the level of certain member states, such as Romania approximately 75% of SMEs are self-funded. Especially for the high-tech sector, access to mature, well-developed capital markets is an essential ingredient for success.

In terms of economic challenges, it is also important to develop the strength and competitiveness of the single market, as more than the sum of its parts, and to build on regional specialization in order to achieve sustainable growth across the regions. The Regional Competitiveness Index (RCI) is a useful subnational metric assembled by the European Commission<sup>11</sup>. While certain regions and member states remain industrial leaders (e.g. Germany, France, Italy), there are new growth drivers across Europe, from entrepreneurship in the Baltic states, to agricultural production in countries like Romania or Bulgaria<sup>12</sup>. The competitiveness of the European single market is especially important in the context of what is generally referred to as Trade Wars (i.e. increase in protectionism, and contestation of multilateral liberalization).

Economic growth is key to the overall development of new member states. CEE region has for example recorded high growth rates over the past years, yet its economic development model is just as important as overall figures. Prosperity has to be home grown, depending on a range of competitive small and medium businesses, and these countries must also commit to innovation and integration of new technologies as core drivers of domestic economic development<sup>13</sup>.

## **Social dimension**

Protecting and preserving human dignity is one of the cornerstone ideas of the humanistic European project. Yet, in the face of various economic and security challenges, not the least the current migration crisis, EU seems prone to question its role in ensuring that its citizens achieve this threshold of the quality of life and dignity of existence—one that can often constitute a benchmark for countries across the globe. The current feeling in many of the EU member states is that the current order has failed to deliver on the promise of security, protection and the creation of conditions necessary for a decent, dignified existence<sup>14</sup>.

In the face of nationalist, populist rhetoric that are increasingly anti-liberal, and anti-European, the extent to which member states and their citizens respond to common values falls under question. A sense of civility seems to be lost, as deep social cleavages appear in the tectonic formation of new identity divisions of values, ethnicity, or religion.

The sense of self-worth of European citizens is increasingly challenged by both internal (e.g. economic crisis, political extremism) and external (e.g. trade wars, cyber threats, migrants). The sense of belonging to a common space is diluted in a general state of socio-economic insecurity, and as such, it is increasingly more responsive to nationalistic identity triggers.

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11 European Commission, Regional Competitiveness Index (RCI), available here: [http://ec.europa.eu/regional\\_policy/en/information/maps/regional\\_competitiveness/](http://ec.europa.eu/regional_policy/en/information/maps/regional_competitiveness/)

12 Sproule, James (2018) The Central and Eastern European Prosperity Report. Legatum Institute. p. 15.

13 Idem. 12.

14 Ivan Veijvoda (2018) Europe's Future, in IWMpost, no. 121, Rethinking Democracy.

## Technological dimension

While Industry 4.0, digitalization and artificial intelligence offer effective solutions for a number of actual challenges, they also raise concerns about their social impact, employment, education, and last but not least, about governance. Central and South East European countries are the most dynamic within the EU. Their fastest convergence is happening in digitalization. The region's digital infrastructure is relatively well developed, as Central and South East European member states are almost on par with the EU15 in terms of internet access and mobile broadband usage.

Attracting talent and skilled human resources is important for the global competitiveness of most economic sectors, but it seems to especially important for the IT&C one. As such, in order to attract the best and brightest from across the world, European IT companies should strive to be “good work places” and provide employees with “exciting things to works on”<sup>15</sup>.

Well-performing high-tech companies in CEE today are the ones that nurture collaborations with local university centres and startups. What is important to realise in the context of the StartUp Europe initiative is that the majority of the tech start-ups are born globals (i.e. companies rapidly become players on the global stage)<sup>16</sup>. Many European tech companies are moving up on the value chain, shifting from mobile apps to deep tech. As such, necessary but not sufficient conditions to perform are access to capital (i.e. larger markets such as USA, UK, or Japan), and access to skilled human resources (see previous paragraph)—computer engineers, and connected business specialties. As more than the sum of its parts, European tech start-ups need a prolific ecosystem to perform and be competitive on the global markets. In order to properly reflect the current dynamics and challenges of the tech sector in Europe today, it is important to involve business accelerators in the policy-making process currently shaping the entrepreneurial environment in the EU<sup>17</sup>.

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15 Petre Arvai on the example of the Hungarian company Prezi that he co-founded.

16 For a recent coverage on European SMEs as born globals see Moen, Ø., & Rialp-Criado, A. (2018). European SMEs and the Born Global concept. In *The Routledge Companion to European Business* (pp. 79-90). Routledge.

17 See for example Spherik Accelerator in Romania as a Startup Europe Ambassador.

## RECOMMENDATIONS

**To what extent can resolve the contemporary problems affecting the European Union?** If the EU is a sick patient, to what extent should the treatment target its institutions and policies, its political elites, or its citizens?

Participants to the Roundtable Discussion of the conference were asked to mention one specific solution they would provide to the current challenges in Europe. Answers covered areas such as:

- **the identity and legitimacy of the European project** (i.e. formulate common European values that can mobilize the citizens of the member states; explain at the national and local level the degree to which member states are currently interdependent upon each other, as they need to stick together to face the internal and external threats; empower the voice of the citizens, as people should feel they are taken seriously in the EU; supporting in a more committed manner CSOs that promote European values at national and local level).
- **the political supply-side** (i.e. develop a systematic strategic cooperation between political parties, CSOs and the private sector to develop together a strategic vision for Europe; enhance the role, strength and voice Europe has in the world to tackle the perception that EU is losing weight globally which fuels the rise of authoritarianism in mainstream European politics).
- **structure and procedural aspects of the European Union's multilevel or intergovernmental governance** (i.e. develop a clear Integration Agenda that moves beyond the multi-speed Europe and deploy a truly flexible approach to national and subnational integration that can effectively address transnational current challenges; deploy a big data assessment or diagnostic to further the evidence-based policy making in addressing the persistent divides of development between EU regions, smaller cities and localities, and rural areas; communities can and should press the EU institutions and national representatives for more information on the decision-making process, and policy impact<sup>18</sup>; invest in the capacity to exploit agricultural holdings; further develop the European capital market).

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<sup>18</sup> see also the argument in favour of the upsurge of accountability-demands across Europe, where political leaders are required to explain and justify what they are doing and not doing, in Olsen, J. P. (2017). Democratic Accountability, Political Order, and Change: Exploring Accountability Processes in an Era of European Transformation. Oxford University Press.



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