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EU FORWARD

**SHAPING EUROPEAN POLITICS & POLICY IN THE
SECOND HALF OF THE 2020S**

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HALF OF THE 2020S

SOCIAL EUROPE

FRIEDRICH-EBERT-STIFTUNG

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INTRODUCTION

At the dawn of the second von der Leyen Commission, the European Union (EU) faces a pivotal moment in its history. Rapid shifts in global power dynamics, profound social and economic disruptions, and the intensifying urgency of existential challenges such as climate change and technological transformation demand decisive action. In this volatile and uncertain landscape, the EU must redefine its strategies and priorities to ensure its relevance, strengthen its resilience, and assert its leadership on the global stage in the 21st century.

This book emerges from the EU Forward project, organised by Social Europe in collaboration with the Friedrich-Ebert-Stiftung. The project convened leading scholars and thinkers to reflect on the complex challenges confronting Europe and to chart a path forward. The result is a comprehensive exploration of contemporary politics and key policy domains, each examined through a lens of strategic urgency and opportunity.

The opening chapter, written by Brigid Laffan, sets the stage by addressing the geopolitical and geoeconomic realities facing the EU. In a world shifting from unipolarity to multipolarity, the EU finds itself navigating an environment increasingly hostile to the rules-based multilateralism it champions. From managing relations with major powers like the United States and China to responding to disruptors like Russia, the chapter examines how the EU must adapt its tools and resources to remain a player in global affairs, not merely a bystander.

In Chapter 2, Catherine De Vries delves into the domestic political pressures that threaten the EU's cohesion and functionality. The rise of radical right parties across Europe poses significant obstacles to meaningful reform and integration. By shifting from calls for EU exit to "reform Euroscepticism," these parties have injected a new layer of complexity into the European project. De Vries explores the strategies needed to counteract these forces while preserving the EU's capacity for collective action.

Mark Blyth and Henning Meyer, in Chapter 3, discuss the impact of the return of Donald Trump to the U.S. presidency and its implications for the EU. From potential trade wars to geopolitical unpredictability, the authors highlight how the EU must navigate a more transactional and confrontational transatlantic relationship. They argue for strategic resilience through internal unity, economic diversification, and the strengthening of key partnerships beyond Europe.

Chapter 4, authored by Karl Aiginger, turns the focus to industrial policy as a linchpin for Europe's future. As the EU strives to balance economic growth with climate objectives, Aiginger argues for a comprehensive industrial strategy centered on the European Green Deal. The chapter examines how this policy can serve as both a roadmap for sustainable development and a counterbalance to the protectionist tendencies of global competitors like the U.S. and China.

Luc Soete takes a deep dive into Europe's innovation challenges in Chapter 5. Despite its strong R&D foundations, the EU has struggled to translate research into productivity gains and technological leadership. Soete explores the "innovation gap" that separates Europe from its global peers, particularly in emerging technologies like AI and digitalization. The chapter offers actionable recommendations for overcoming structural barriers and fostering a culture of risk-taking and entrepreneurship.

In Chapter 6, Jo Ritzen and Job Zomerplag examine the state of education and skills development in Europe. They highlight the pressing need for a cohesive EU-wide strategy to address declining educational outcomes, brain drain, and regional disparities. The authors argue that a robust and inclusive education agenda is critical to equipping Europeans with the skills needed to thrive in a changing world and to sustaining the EU's competitiveness on the global stage.

Paul De Grauwe tackles Europe's fiscal rules in Chapter 7, critiquing how the Stability and Growth Pact has stifled public investment and growth. He argues

that the EU's current fiscal framework is ill-suited to the demands of a rapidly evolving global economy and calls for a reimagined approach that prioritizes strategic investment over austerity. His analysis underscores the need for fiscal policies that align with the EU's long-term goals of sustainability and resilience.

Chapter 8, by Dominic Afsharian, explores the concept of "Social Europe" and its precarious position in today's policy agenda. Afsharian critiques the subordination of social policy to economic imperatives and offers a vision for reviving the EU's commitment to social justice. From minimum income guarantees to an enhanced European Pillar of Social Rights, the chapter outlines the steps needed to rebuild trust and solidarity among European citizens.

Anton Hemerijck, Azizjon Bagadirov, and Robin Wilson, in Chapter 9, challenge conventional wisdom about the welfare state. They argue for a paradigm shift toward a "social investment" perspective that emphasizes equipping individuals with the tools to navigate life transitions and thrive in an era of precarious work and digital disruption. Their analysis demonstrates how a renewed focus on welfare can enhance both social cohesion and economic dynamism.

The concluding chapter, a conversation between Almut Möller and Henning Meyer, tackles the critical issue of strategic autonomy. As the EU grapples with growing security threats and economic vulnerabilities, the authors argue that autonomy is not merely a policy goal but a necessity for survival. They explore how the EU can strengthen its defence capabilities, secure its supply chains, and position itself as a credible actor in a volatile global order.

Each chapter in this book reflects the core ambition of the EU Forward project: to provide actionable insights and innovative solutions to the challenges shaping Europe's future. As the EU stands at this crossroads, the path it chooses will have profound implications not only for its citizens but for the world at large. This book is both a diagnosis of the current moment and a call to action—a reminder that Europe's ability to adapt and lead is contingent on its willingness to confront hard truths and embrace transformative change.

CHAPTER 1

EUROPE'S CHALLENGE IN A NEW ERA OF SHIFT AND SHOCK

BRIGID LAFFAN

As the EU's new political cycle, following the June 2024 European Parliament elections, kicks off with the launch of the second Von der Leyen Commission Presidency, the arrival of Antonio Costa as President of the European Council, and the Polish Government under Donald Tusk taking over the Presidency of the Council of Ministers, the EU faces both immediate and long-term challenges and dilemmas. The leadership team that emerged at the end of 2024 is a strong one, and the EU will need this team to work in a collaborative and cooperative manner to leverage influence. Together, they represent the collective EU.

The emerging 21st-century global order/disorder is not one that suits the EU's DNA, its history or preferences. The EU is the world's most robust multilateral institution, and its members have a pronounced preference for a rules-based international order in which trade is regulated and its security underpinned by the Transatlantic Alliance. The structural challenges facing the EU are both geo-political and geo-economic. Global power balances and authority structures are shifting in multiple unpredictable ways that do not favour the EU. The EU's predominant power sources, both normative and regulatory, are insufficient and incomplete for the world in which Europe finds itself. The beginning of a second Trump presidency accentuates the EU's challenges and dilemmas, as he will bring unpredictability, disruption, and an anti-EU bias to bear on transatlantic relations. Yet the EU is not destined to be a plaything and has the agency to be a player in this evolving global system. To do so, it must learn to navigate the

emerging multipolar world and mobilise resources for collective action in key areas.

PLAYING INTO A MULTIPOLAR WORLD

The bipolar world of the Cold War era gave way to a brief period of unipolarity when US power and projection surpassed that of any other state or group of states in the world. Today's world is multipolar, as neither of the two large powers—the US or China—commands the power and influence to dictate the rules of the game in international politics. However, contemporary multipolarity is unbalanced, as these two states serve as strong poles of attraction, but there is also space for other powers to exert influence and project power. Middle powers, notably Russia, Iran, Turkey, India, Brazil, South Africa, and Japan, are on the rise. At this juncture, should the EU conclude that it is a middle power, or should it aspire to be a pole of attraction—not as powerful as either China or the US, but powerful nonetheless? If the EU aspires to be a global player, it should act as a pole of attraction in its neighbourhood and a hedge for other states faced with the two great powers.

The evolution of US-Sino relations under Trump will significantly influence how Europe navigates a multipolar world. The balance between competition and cooperation is critical for Europe. So too is the level of security or economic vulnerability to either power. The EU has long debated the question of strategic autonomy but must now decide on the actions it needs to take to move towards the future in a proactive strategic manner. There is a premium on agility and adaptability in a world of jockeying powers and unpredictable politics. The EU needs to be resolute with both major powers and be prepared to defend itself. The political agreement with Mercosur, concluded on December 6, 2024, is an exemplary instance of hedging US-Sino relations and strengthening multilateralism in the global system. The objections from European environmentalists and farmers may well derail the agreement, but this would be a major signal of European weakness.

Europe must learn to manage the increasing troubles caused by disruptor states, especially Russia, a power determined to undermine European security and its democracies. Europe is engaged in a hybrid war with Russia, and the

eastern half of the continent is immersed in a struggle to assert its sovereignty and independence as Putin seeks to regain control over former Soviet republics. Ukraine is the country that pays the highest price for Putin's imperialist venture, but all of the former Soviet states are torn between those who lean towards Russia and those who lean towards the EU. The key lesson for the EU from the last decade is the imperative to support the pro-EU forces in all of these states. The record is mixed. Belarus is firmly in the Russian camp, and Moldova struggles with energy access following the closure of the Ukrainian transit route. Protests have rocked Georgia following the government's decision to freeze talks with the EU. The outcome of the war in Ukraine, along with the political battles in other post-Soviet states, will shape the EU's security and political landscape for decades to come. The EU has yet to grasp the full impact of Putin's plans. To do so will require the EU to mobilise and generate the capacities for effective action.

MOBILISING CAPACITY

The analysis has been conducted. Both the Letta and Draghi Reports set out in stark terms Europe's need for strategic investment in technology, climate mitigation, defence, and security. The EU is now entering a period of significant choices and trade-offs. The power base of the past—values and markets—is insufficient. The Union needs to leverage public finance and collective borrowing to meet its geo-economic and strategic needs. In the short term, it must enhance its capacity to support and protect Ukraine. It must do so either through the collective efforts of the entire EU or by coalitions of the willing if unity is not forthcoming. The pro-Russian stances of Orban and Fico militate against an all-EU effort. The default assumption in the EU is that the US elite consensus in favour of a transatlantic defence is over. The Union must take seriously the need to find its strategic purpose and military capacity. It cannot achieve this without the involvement of non-EU European states, notably the UK, Turkey, and Norway.

The next decade is likely to be the most consequential for the EU and wider Europe since the end of the Second World War. There are no easy options, only tough choices and trade-offs. A failure to make decisions will further weaken Europe and undermine its agency and capacity to play an important, albeit not dominant, role in the world. The challenges are immense, yet Europe has recov-

ered in the past from two world wars in the 20th century, enjoying 50 years of relative peace and prosperity. However, political instability in Germany and France, along with the rise of the radical right in many countries, complicates these choices and makes trade-offs more difficult and hazardous. The EU is about to discover whether it has the capacity to forge its future in these times or whether it will yield to forces beyond its borders. Peace, prosperity, and democracy are all at stake.

CHAPTER 2

CAN EUROPE OVERCOME THE RADICAL RIGHT TO FORGE A NEW PATH?

CATHERINE DE VRIES

In the months ahead, European Union leaders face critical decisions about how to address Europe's profound economic, fiscal, industrial, and security challenges. A popular saying in Brussels, attributed to Jean Monnet, one of the Union's founding fathers, is that "Europe is forged in crisis." However, the rise of radical right parties at both the European and member state levels over recent years could significantly complicate the EU's ability to implement necessary reforms.

Pressure for EU reform is mounting. With war raging in Ukraine and Gaza, the relationship between China and the US cooling, and a potential trade war on the horizon, the EU needs to tackle its lack of competitiveness. Securing economic growth might not be sustainable without closer fiscal integration and a stronger single market, and deeper defence cooperation is needed to meet the growing geopolitical challenges. What is more, in order to future-proof itself, the EU needs to harness new technologies to generate prosperity for the next generation, while at the same time fostering a green transition to deal with the increasing fallout of climate change. Many of these challenges require cross-border cooperation, but exactly at this time, political parties critical of further integrative steps are topping the polls in Europe.

Radical right parties such as the National Rally in France, Fidesz in Hungary, the Party for Freedom in the Netherlands, and the Alternative for Germany have emerged as some of the most Eurosceptic political forces in Europe. These parties have shifted from advocating for exiting the EU—a stance known as exit

Euroscepticism—to promoting reform Euroscepticism, which aims to transform the EU into a looser alliance of sovereign states. At first glance, this shift might seem to signal a willingness to engage in EU politics, but a closer examination reveals it could make meaningful reform even harder to achieve.

For much of the postwar period, European integration advanced with minimal concern for public opinion or domestic politics. The European public was largely indifferent to the EU, while political elites across the spectrum broadly supported deeper integration. This dynamic began to change in 2005, when proposed constitutional treaties were rejected in referendums in France and the Netherlands. A majority of French and Dutch voters said ‘Non’ and ‘Nee,’ signalling a growing popular demand for Euroscepticism. Since then, Europe has witnessed the rise of parties critiquing the EU and an increasing politicization of European issues in both national and European elections.

The most vocal dissent has come from radical right parties, which initially championed exit Euroscepticism by advocating for their countries to leave the EU. Their fierce opposition to the European project also influenced mainstream parties, making compromises during crises like the Eurozone and refugee crises often insufficient and delayed. The Brexit vote in 2016 proved to be a turning point. For Eurosceptic parties across Europe, Brexit served as a test case. Britain’s decision to leave the EU became a benchmark for evaluating the feasibility and consequences of exiting. However, the political turmoil surrounding Brexit, including the collapse of Boris Johnson’s government, led to increased support for EU membership among citizens in the remaining 27 member states. This shift encouraged radical right parties to abandon calls for exit and instead focus on reforming the EU from within.

Another pivotal moment came in 2017, a year of major elections in Germany, France, and the Netherlands. Radical right parties performed worse than expected, particularly Marine Le Pen in France, who was decisively defeated in the second round of the presidential election. During a televised debate, Emmanuel Macron dismantled Le Pen’s plans for a Euro exit, leaving her unable to convincingly defend her position. Macron’s victory underscored the challenges of advocating for exit Euroscepticism.

In response to Brexit and electoral setbacks, radical right politicians who had previously supported Frexit, Nexit, or Italexit shifted their focus to reform scepti-

cism. While this change might seem like a silver lining for the EU, it warrants caution. Adopting a position of reforming the EU from within could prove even more challenging for the Union's functionality. Radical right parties have gained significant institutional power in the EU, including representation in the European Parliament, where the current assembly is the most right-leaning in its history. Some hold influential roles, such as vice presidencies in the European Commission, and many now sit in the Council as part of government coalitions at the national level. The question remains: how will these parties wield their influence?

Thus far, two approaches to reforming Euroscepticism have emerged: conflict and cooperation. Hungarian Prime Minister Viktor Orbán exemplifies the conflict approach, supporting EU initiatives only when they serve his financial interests and framing the EU as a scapegoat for domestic political gain. Conversely, Italian Prime Minister Giorgia Meloni represents the cooperation approach, leveraging her role in brokering EU solutions to bolster her image as a power broker and underscore Italy's significance on the European stage.

The return of Donald Trump to the US Presidency could influence which of these approaches prevails. According to conventional Monnet thinking, Trump's transactional approach might pressure European countries to cooperate and reform, as the economic and security consequences of inaction could alienate voters. However, Trump's "America First" doctrine could also shift the calculus for radical right parties. Their move from exit to reform Euroscepticism was largely strategic, and Trump's rhetoric might rekindle a nationalist, "country-first" ideology. Many radical right supporters admired Trump's first term, and adopting a similarly transactional stance could resonate with their domestic base, even if cooperation might yield better results.

If radical right parties in government are drawn toward transactional "my country first" policies, the scope for achieving common European positions will narrow further. Historically, EU negotiations have been fraught with commitment problems and lowest-common-denominator solutions. With the rise of the radical right, the path to reform that the European continent so desperately needs, appears increasingly constrained.

CHAPTER 3

POPULISTS ARE TAKING OVER— HERE'S WHY DEMOCRACY IS FAILING

MARK BLYTH AND HENNING MEYER

Henning Meyer: Mark Blyth, thank you very much for joining me today. We're here to discuss the global ramifications of the second Trump presidency, particularly for the European Union, in the political and economic context we find ourselves in—or will find ourselves in shortly. Let's begin with Trump's "America First" agenda. How do you see this playing out in terms of trade policy, and what disruptions might this create for the EU? More importantly, how should the EU respond to mitigate these risks?

Mark Blyth: Thanks, Henning. Well, the EU has had four years to prepare for something like this—or at least to devise contingency plans. But here's the thing: many seemed to assume that the election of Trump in 2016 was an aberration. That assumption was a mistake. Trumpism isn't a fluke; it's the new normal.

You see this reflected in Europe too. In the UK, Reform, led by Brexit's architect, is gaining momentum. In France, Marine Le Pen's National Rally could very well emerge as the leading party. Austria's politics are shifting, and even Germany's AfD, while geographically limited, highlights broader trends. Yet, there's a persistent denialism in Europe—a belief that populism is a passing phase. That complacency has left the EU ill-prepared for what might come next.

The challenge is compounded by the sheer unpredictability of Trump's presidency. His administration is filled with individuals who, frankly, seem intent on antagonising Europe. And then there's Trump himself—a wildcard. It's not

beyond imagination that he could declare a national emergency on dubious grounds or take drastic steps we can't yet anticipate.

Henning Meyer: That unpredictability is unsettling. It seems like even within the US, there's little clarity on what Trump's priorities will be on day one.

Mark Blyth: Exactly. No one knows. The first few days could bring a blizzard of executive orders, creating chaos that takes weeks or months to untangle. In the worst-case scenario, we could see him undermining institutions like NATO or taking unilateral steps to end the Ukraine war. How that would play out—especially without NATO—is anyone's guess.

Trade is another area to watch. Previously, Trump's ire was directed at German car exports. But with Europe's automotive sector now under pressure from Chinese competition and the shift to electric vehicles, that's less of a concern. Tariffs, however? Those could target anyone for any reason. We're in uncharted waters here.

Henning Meyer: And what about Trump's domestic coalition? It seems fragile, especially given tensions between the MAGA movement and tech billionaires—two factions that helped propel him back into office. Could those divisions derail his agenda?

Mark Blyth: That's an interesting dynamic. Does Trump really need a stable coalition? He's proven adept at dodging accountability and playing to his base. As far as he's concerned, his re-election is a mandate, and he's been transparent about his goals: mass deportations and tariffs.

If we try to make sense of these policies, there's a theoretical framework that fits. Take the argument from Michael Pettis and Matthew Klein in their book *Trade Wars Are Class Wars*. They argue that globalisation disproportionately benefits large corporations while eroding workers' livelihoods. For Trump's team, the US as a structural importer—relying on goods from East Asia, Germany, and Europe—represents a strategic weakness. Rebalancing the economy by reducing imports, encouraging domestic production, and tightening labour markets through immigration restrictions could, in theory, create a more self-reliant US.

But here's the problem: while these ideas have been floated, there's no coherent strategy behind them. It's all improvisation, which makes it even harder to predict outcomes.

Henning Meyer: Turning to the EU, what should its leaders be doing to

prepare? Ursula von der Leyen's second Commission has just started its term, and the stakes couldn't be higher.

Mark Blyth: The EU needs to think strategically. It can't isolate itself from the US, but it must prepare for a more confrontational transatlantic relationship. That means investing in resilience—whether in defence, energy, or trade. Strengthening ties with other global partners, particularly in Asia, could also help diversify Europe's economic dependencies.

Above all, the EU must overcome its internal divisions. Trump's unpredictability will test Europe's unity. If member states can't present a cohesive front, they'll be vulnerable to divide-and-conquer tactics. The EU should be thinking not just about mitigating risks but also about asserting itself as a geopolitical actor in its own right.

Henning Meyer: And in terms of timing, when do you think we'll have a clearer picture of what this presidency will mean for the EU and the world?

Mark Blyth: I expect the first week of the new administration to bring a deluge of executive orders. By the end of January, we'll have a better sense of Trump's priorities and how far he's willing to go. But the real test will come in the months that follow, as the EU assesses whether it can adapt and respond effectively—or whether it'll be left scrambling, as it was in 2016.

Henning Meyer: What do you think the EU should do to prepare strategically and protect its interests?

Mark Blyth: The first thing would be to double the EU's budget—though, of course, that would be very unpopular. However, the EU needs fiscal room to manoeuvre, to incentivise certain behaviours, and to ensure unity. For example, Italy and Hungary must be prevented from making side deals. There has to be a united position on issues like sanctions. If sanctions are in place, it is essential to evaluate their purpose and what they aim to achieve. If they are jeopardising Europe's car industry, for instance, reciprocal measures against the U.S. might be considered—though finding effective targets is tricky.

The EU is now heavily reliant on American LNG imports due to the Ukraine crisis, giving the U.S. leverage. The focus should be on identifying strategic sectors that are critical for Europe's long-term interests. Can Europe survive potential tariffs? Would relocating more car production to the US actually be

harmful, or could it create opportunities? Perhaps this is an opportunity for Europe to rebalance its own economy and reduce overreliance on exports.

Henning Meyer: You mentioned the EU's internal divisions earlier. With leaders like Orbán in Hungary and Meloni in Italy, it is hard to see how the EU can unify. How does this affect the broader push for security and defence integration?

Mark Blyth: A stronger focus on security and defence is both necessary and overdue. However, the challenge lies in defining what Europe is fortifying against. Is it solely Russian revanchism? Fair enough. But much of this also ties into concerns regarding China. Concurrently, Europe does not want to be coerced by the US into adopting an overly hawkish stance toward China. This leaves the EU in a precarious position, building internal strength while navigating increasingly fractious external relations. Europe finds itself negotiating between a rock and a hard place.

Henning Meyer: Many people mistakenly believed that 2016 was an aberration. But this is constitutionally Trump's second and final term. What happens to MAGA beyond Trump?

Mark Blyth: MAGA isn't just about Trump; it is part of a broader collapse of trust in centre parties and traditional institutions. Decades of economic mismanagement, from the financial crisis to austerity policies, have eroded faith in the system. Immigration, for example, has been a massive concern for European populations. For years, policy elites dismissed these concerns, labelling anyone who raised them as racist. That arrogance only fuelled the backlash from the right.

This discontent isn't limited to the US either; it's global. I recently visited my hometown of Dundee, Scotland. In the 1980s, it was struggling, but there was still a sense of prosperity on main street. Today, a third of the stores downtown are boarded up. People in places like this feel abandoned. Political leaders show up every four years with promises, but their realities remain unchanged. This plight—what in the NHS calls “shit life syndrome”—drives support for populist figures like Nigel Farage, who acknowledge these frustrations, even if their solutions are flawed.

Henning Meyer: Amid all these challenges, is there any reason to be hopeful?

Mark Blyth: It's hard to find optimism right now. But here's the long-term

view: America is about to make a big mistake by doubling down on carbon. Climate change is a problem of physics, not politics. Europe, despite some setbacks, is moving toward a green transition. Countries like Denmark and Norway are showing that you can build green economies even while relying on carbon in the short term. China, too, is serious about dominating green technology.

America's current path may bring short-term gains, but in the long term, the rest of the world will move in a different direction. Europe has an opportunity here. If it can embrace rebalancing—consuming more, investing in infrastructure, and becoming less dependent on exports—it could create a more sustainable economic model. The next decade will be rough, but if we want to survive as a species, this is the direction we must take.

Henning Meyer: Mark, thank you again for joining me to discuss these critical issues. This conversation certainly calls for a follow-up in the near future.

CHAPTER 4

INDUSTRIAL POLICY: KEY TO

EUROPE'S ROLE IN A SHIFTING

WORLD ORDER

KARL AIGINGER

In the aftermath of the collapse of the Soviet Union, with Putin's Russia attempting to reassert influence through its aggressive war in Ukraine, the old bipolar world has disintegrated. The United States, once hailed as the sole remaining superpower, now finds its economic strength constrained by internal challenges, including Donald Trump's second presidency. China aims to become the preeminent global power but often acts with narrow self-interest, prioritising investments that secure raw materials or political influence. This leaves the European Union to take on a leading role with its Green Industrial Deal. However, the EU faces hesitation among member states, with populism supplanting Sustainable Development Goals (SDGs) as a unifying framework in some nations, and national policies often overlooking the need for cooperation within and beyond Europe.

The European Union, which was awarded the Nobel Peace Prize in 2012, has underinvested in ensuring the security of its members and neighbours in a world where new conflicts can easily escalate into wars. It has also fallen short in supporting clean growth and social stability.

A new industrial policy, as outlined in two publications the author wrote together with Dani Rodrik and Christian Ketels, should provide three things:

(i) a comprehensive approach that encompasses not only manufacturing but also broader inputs and related service industries;

(ii) goals that are not measured solely by GDP but by their contribution to economic welfare;

(iii) the European Green Deal as the cornerstone of industrial policy.

A forward-looking industrial policy is a challenging task, especially if political factions and member states fail to collaborate. Traditional mainstream parties have struggled to appeal to voters in the new world order, facing competition from both right-wing and left-wing extremists. Green parties seldom remain in government for extended periods, and similarly, progressive new liberal parties often play a role only in coalition governments. These liberal parties tend to lose influence when public deficits or debt levels rise, while green parties frequently lose relevance once initial environmental progress is achieved, particularly when new challenges emerge. Consequently, guidelines from the European Commission and independent experts are increasingly important, and there is a growing need for direct democratic measures.

ONWARD TO A NEW GREEN DEAL?

The European Green Deal is an ambitious framework with the aim of reducing the EU's net greenhouse gas emissions by 50 percent by 2050. It encompasses a green recovery strategy, a just transition fund, RepowerEU, and a Green Deal Industrial Plan. Member states must help shape the specific details of these initiatives. The transition fund is intended to empower and support countries with lower economic capacities, while RepowerEU serves as Europe's response to the challenges posed by the global energy market and the disruptions caused by Russia's invasion of Ukraine. Russian fossil fuel imports should be phased out, energy conservation should be enforced, and efficiency increased, while clean energy must become the norm. A green industrial plan should mitigate the opposition of countries with large manufacturing sectors that are still reliant on fossil fuels.

EUROPE VS. CHINA AND THE US

A comparison of Europe's efforts with those of China and the United States reveals the distinctiveness of the European approach, which blends top-down

and bottom-up measures while striving to balance social and ecological goals. However, it also highlights that the EU lags behind the US in productivity. The objectives of the European Green Deal are challenging to implement, and each country has its own approach. The policy in the US appears more successful in the short term, due to extensive use of fossil energy and the introduction of new customs duties and restrictive trade policies.

However, short-term success based on outdated technologies is unlikely to serve as a sustainable long-term strategy, even if, for now, the US continues to see higher growth in GDP and productivity, as well as stronger support for start-ups and consistently low unemployment. Migrants are welcomed to bolster growth in the US, despite anti-immigration movements and calls for remigration from political conservatives, including the president Donald Trump.

China continues to record relatively high growth, with a rising share of manufacturing. It produces green products and technologies alongside traditional “brown” products, such as small electric vehicles, while remaining dependent on coal and new nuclear reactors. At the same time, inequality is rising, and China remains an autocratic regime. Property prices are escalating, new debt is obscured, and international investments are driven more by Chinese policy goals than by profit.

THE EUROPEAN APPROACH COULD PROVE TO BE AMBITIOUS YET SUCCESSFUL

Europe maintains open markets and does not neglect poorer regions or countries; instead, it supports them and does not abandon international agreements even when they seem less advantageous. The EU encourages trade and investment with the Global South, although not aggressively enough. Europe could adopt a more strategic industrial policy, enhance support for emerging climate-friendly technologies, and secure the sustainable use and upgrading of rare materials. The development of green industrial policy must be accelerated, while any regression must be prevented. This would also help curb the rise of dangerous populism and bolster centrist political movements, rather than reverting to old, conservative, and narrow objectives. A new industrial policy must have multiple aims, and these must be pursued and effectively managed.

The EU's industrial policy aims to enhance the competitiveness of European industry, enabling it to continue driving sustainable growth and employment in Europe. The digital transition and the shift towards a carbon-neutral economy have prompted the adoption of strategies designed to improve framework conditions for EU industries. The impact of the COVID-19 pandemic and the war in Ukraine have also sparked fresh reflection on economic recovery, reconstruction, and resilience. Many of these new goals could be achieved through partnerships with the Global South, particularly with neighbouring African countries. Such collaboration could support a fair transition, promote technology exchange, and develop a fair migration strategy that helps reduce overpopulation in Africa while addressing the ageing populations of affluent European countries.

Europe's relationship with its southern neighbours, particularly Africa, presents both a burden and an opportunity. Africa is geographically closer to Europe than China or the United States, but faces overpopulation and a desire among many to migrate to Europe. The international capital markets unfairly penalise Africa, often suspecting corruption and dictatorial interference. This dynamic presents a unique opportunity for Europe to engage through a policy of guidance and support.

All these elements, when combined, could boost welfare and establish Europe and its neighbours as a significant power in the new world order. Europe should remember that, together with its neighbours, it constitutes a formidable force, with a positive balance of payments. However, the continent is also vulnerable to populism and often progresses two steps forward only to take one step back. Technological openness is beneficial, but it should not be an excuse for investing in outdated technologies. Europe suffers from the influence of a legacy automotive sector reliant on internal combustion engines, with job losses and production declines felt not only in Germany.

The new European Commission faces a formidable challenge, but also an opportunity to reshape Europe's role in the new world order. Ursula von der Leyen and her team could help the EU assume a significant leadership role. The mission letter for Wopke Hoekstra, the new Commissioner for Climate, Net Zero, and Clean Growth, outlines the complexity of this task, emphasising the need to balance security, prosperity, and democracy within the "green and digital transition" while sustaining Europe's unique quality of life

REFORMS PRESENT OPPORTUNITIES FOR EUROPE AND ITS NEIGHBOURS

We are living in a new world order that brings new challenges for businesses and individuals, requiring decarbonisation and the resolution of political conflicts before they escalate into wars. This new context also demands understanding cultural differences and recognising that, while poverty is decreasing, progress is uneven and not universal. To avoid populist backlash and new forms of autocracy, policies must be carefully crafted and effectively communicated.

Europe has a distinct role and opportunity in this environment: it lacks military power, but was founded on the principles of resolving conflicts peacefully and promoting an economic model where peace, climate change mitigation, and reducing income inequality are high priorities. In theory, Europe follows a 'Beyond GDP' approach within the framework of the SDGs. In practice, this requires shifting policy towards greater cooperation, putting historical conflicts behind, and embracing new partnerships. Supporting peace in Ukraine will necessitate pressure on Russia, but also on Ukraine—total victory is impossible, and concepts like neutrality and guarantees are needed, as seen in the past. A similar approach applies to the conflict between Israel and its neighbours: while there is no justification for an attack on Israel, forced settlement in other territories must also be addressed.

Migration policy also needs careful consideration. Leaving one's country is never an easy choice. In times of war and tragedy, migration is often the only option, as is the case for many fleeing Afghanistan, Sudan, and other African nations. European countries are often the preferred destination, and there are humanitarian calls to accommodate these migrants.

However, cultural differences can lead to populist backlash, and populist parties gain ground as a result. This is happening despite Europe's dependence on immigration: hospitals, care centres, and the construction and manufacturing sectors all rely on migrant labour. Without immigration, Europe's population would shrink—a situation Japan has faced with its "lost decades" of declining prosperity. Investing more in Africa, particularly in education, would help reduce overpopulation and lead to more qualified migrants, less dependent on social welfare and better equipped to contribute to both Europe and their home coun-

tries. Embracing cultural differences would also foster innovation and generate new solutions.

CHAPTER 5

HOW TO BREAK EUROPE'S INNOVATION STASIS

LUC SOETE

Research and Innovation (R&I) have traditionally been considered pivotal to Europe's future growth strategy. Since the Lisbon summit in 2000, the European Commission (EC) has promoted growth policies intended to be smart—yielding high value-added and productivity; sustainable—such as the European Green Deal aimed at achieving the Paris climate targets; and inclusive—enhancing not only the income conditions of European citizens but also their individual welfare and well-being. It is, therefore, unsurprising that recent policy reports commissioned by the EC on the future of the single market—the Letta report—and on the future of competitiveness—the Draghi report—have once again underscored the critical importance of R&I for Europe's future prosperity.

What is surprising, however, is that despite the growth and “consolidation” of the European R&I system over recent decades, supported by stronger legal foundations in various treaties, its impact on European productivity and competitiveness has, as Draghi observes, become “stuck.” Over the past two decades, Europe appears to have been caught in an “innovation gap” or “mid-tech trap,” with productivity growth lagging behind the United States and China. Draghi highlights that “on a per capita basis, real disposable income has grown almost twice as much in the US as in the EU since 2000.” In both the US and China, corporate investment in R&I significantly exceeds that of Europe, resulting in markedly higher productivity growth, start-up rates, and new business activity. While EU

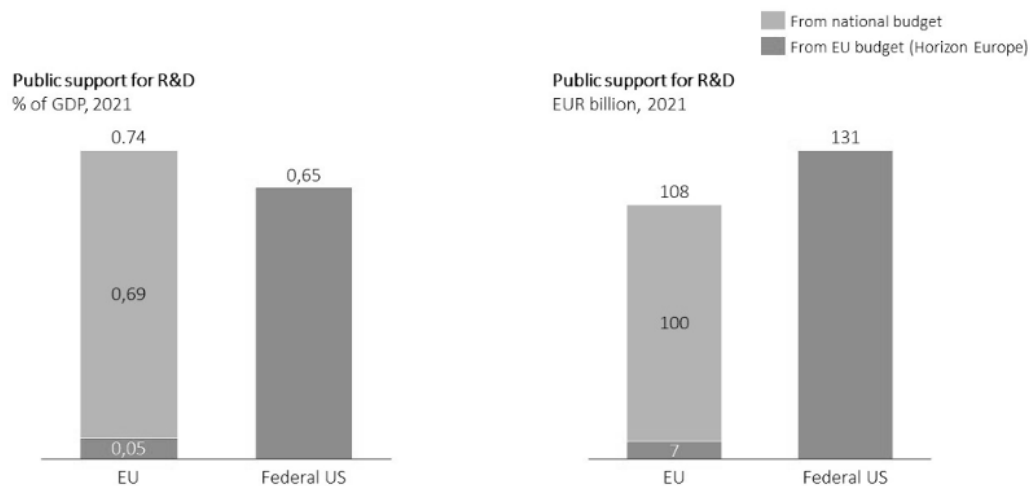
labour productivity caught up with the US between 1950 and 1995, it lost momentum between 1995 and 2010 and has since grown only on par with US productivity but at a lower overall level. Commentators on the Draghi report have pointed out that Europe's relative decline in competitiveness has been obscured by what might be described as European "economic somnolence." How so?

Firstly, previous competitive growth engines, such as the automotive industry, have lost steam. Europe's automotive sector had established itself as a producer of high-quality, technologically sophisticated premium goods with secure export markets. However, new opportunities in green and digital transformation have primarily benefitted foreign competitors due to regulatory frameworks offering single market advantages to these external players. Secondly, Europe's reliance on cheap Russian oil and gas sustained the competitiveness of its large, energy-intensive industries, such as chemicals. This access enabled incremental CO₂ reductions within the framework of the EU's Emissions Trading System, which was laden with exemptions and free allowances, delaying systemic transformation. Finally, the "peace dividend" allowed many European countries to redirect funds into social welfare systems, as European treaties prohibited EU funding for military purposes. This restriction not only stymied the development of a competitive European defence industry but also limited technological breakthroughs due to a lack of opportunities for scaling and procurement. Unsurprisingly, the Draghi report identifies these three areas as priorities for bold reforms in EU policymaking.

The first aspect Draghi addressed is the "innovation gap" in the emerging growth areas of the 21st century, particularly digitalisation and Artificial Intelligence (AI). The second is the "competitiveness gap," exacerbated by higher energy prices that undermine industrial decarbonisation efforts. The third is the "security gap," reflecting the vulnerabilities of Europe's open trade and investment model. To address these challenges, the Draghi report advocates for a "new industrial strategy" centred on closing the innovation gap, formulating a joint plan for decarbonisation and competitiveness, and enhancing security while reducing dependencies. The implications for European Research and Innovation (R&I) policy deriving from Draghi's analysis warrant closer examination. Three critical aspects stand out.

First, as highlighted in the Draghi report, the multi-level governance structure of R&I divided between Member States and the EC inherently results in the fragmentation of research activities across Europe. Figure 6 from the Draghi report illustrates this point clearly.

FIGURE 6
State versus federal source of R&D funding in the EU and US



Source: European Commission, 2024. Based on Eurostat and OECD.

According to Draghi, “Public R&D spending in the EU is highly fragmented across Member States, not consistently directed towards EU-wide priorities, and often difficult to access. In the US, the vast majority of public R&D spending comes from the federal budget. In the EU, it largely comes from the budgets of the 27 Member States, complemented by a smaller amount of EU-level resources. R&D spending at the EU level mostly comes from Horizon Europe, the EU’s Framework Programme for R&I. Other EU-level resources come from the structural and cohesion funds and the European Defence Fund. All the EU-level funding of public R&D accounts for around one-tenth of the overall public spending on R&D in the Union.”

This fragmentation has led to calls for increased European R&I funding, with Draghi recommending an allocation of 200 billion euros over seven years. Similarly, the more recent Heitor report on the next Framework Programme advocates for “increased, better focused and ring-fenced funding across the full spectrum of R&D&I,” proposing a budget of 220 billion euros. However, even if these funding

increases were realised, they would not address the core issue of fragmentation. Translating these proposals into Figure 6's context, EU public funding for R&D would rise to approximately 30 billion euros annually—a total comparable to US federal funding. Yet this would do little to solve the underlying governance challenges identified by both Draghi and Heitor.

A more radical proposal is required. Revisiting ideas proposed at the Lisbon Summit in 2000 offers a pathway forward. Simplifying the multi-level governance of R&I could begin with making fundamental research the primary responsibility of the European Commission. This could involve integrating Member States' funding for national research councils into the European Research Council (ERC) and expanding this to include all national plans and investments in public R&D. These national plans, given their long-term impact, could be excluded from the semester assessments of Member States' fiscal deficits, effectively exempting them from the three percent deficit criterion under the Maastricht fiscal rules.

Additionally, budget proposals by Member States that foresee reductions in public R&D should not count toward fulfilling fiscal deficit criteria. This approach, originally proposed by Commissioner Busquin at the Lisbon Summit, was dismissed at the time due to concerns about the Euro's stability. However, in today's context of multi-crisis budgetary pressures and the need for increased public investment in sustainability and security, a renewed attempt to exempt research funding is both timely and necessary.

Second, the Draghi report underscores the rapid widening of the innovation gap between the US and Europe over the past decade. Experts attribute this to structural issues within the European innovation system, particularly regarding risk-taking, entrepreneurship, and the availability of venture capital. As Jacques Pelkmans observes, "It's about (...) greater risk-taking in the EU rather than risk-avoidance. It's about ways to become more innovative, to help innovators become true investors that will spur EU economic growth and generate real benefits for the entire EU market. It's about the benefits of having EU countries working more closely together, in designing financing methods and new funds that make a new and more daring form of entrepreneurship in Europe possible that removes the allure of the financiers across the Atlantic."

The Draghi report also highlights Europe's missed opportunities in digitalisation, particularly the dominance of US platform firms that have optimally

exploited the harmonisation of the European single market. This raises the question of whether earlier European industrial policies, particularly in microelectronics and ICT, focused on the wrong priorities. The liberalisation of national telecom markets, for example, occurred at the expense of creating a common European telecom market. While the EU initially led in emerging mobile telephony markets, it subsequently failed to capitalise on digitalisation. However, the EU's current lag in digital services provision does not preclude it from taking the lead in the next wave of digitalisation, particularly in areas such as AI.

AI development could be anchored in local technological expertise and driven by demand for GovTech within the EU's multi-governance framework. Regulatory frameworks, often seen as barriers to growth, could instead create opportunities for innovation. For instance, Europe's multilingual environment could stimulate AI solutions in media, education, and communication, while cross-border regulatory differences in healthcare, education, energy, and taxation could become opportunities for efficiency and innovation with the help of AI. The next phase of digitalisation offers a unique opportunity for the EU to overcome inefficiencies and transform competitiveness in traditionally non-tradable sectors, boosting regional and national economic performance.

Third, both the Letta and Draghi reports introduce security as a new dimension of European challenges in light of rising geopolitical tensions. As Rainer Kattel and I argue, the EU must develop a coherent approach to security investments that aligns with its green and digital agendas. Addressing this requires fundamental shifts in the EU's main funding programmes: the Framework Programmes for R&I and the cohesion funds.

In R&I policy, the current shared parallel competence structure allows Member States to conduct national research policies independently of the EU. This governance framework could be expanded to explicitly include defence-focused research, creating a European Defence Research and Innovation Area (EDRIA). Meanwhile, cohesion policy, described by Rainer Kattel and myself as Europe's "secret weapon," could integrate security considerations into regional development strategies. Given the geographical overlap between military facilities and cohesion regions, such an approach could express European solidarity while addressing regional imbalances. As we note, these shifts would enable market expansion and integration in defence-related expenditures, advance

green and digital growth agendas, and incorporate territorial development goals into defence programmes.

In summary, while the EU has lagged behind the US and China in reaping the benefits of R&I, the challenges for the new European Commission are clear: fundamentally reform R&I funding, dismantle barriers to innovation, and prioritise security investments as a cornerstone of European citizens' well-being.

CHAPTER 6

EUROPE'S EDUCATION GAMBLE: CAN THE EU COMPETE IN A CHANGING WORLD?

JO RITZEN AND JOB ZOMERPLAG

On 1 December 2024, Ursula von der Leyen began her second mandate with a new team of Commissioners, presenting an ambitious vision for a Europe that is free, democratic, strong, secure, prosperous, and competitive. However, this vision confronts a world in turmoil: war rages in Ukraine, genocide and unrest scar the Middle East, China asserts its geopolitical influence, and transatlantic relations are strained by whispers of new trade restrictions. Amid these global challenges, can Europe's education and skills agenda rise to contribute to the vision of a competitive Europe?

A MIXED REPORT CARD

The state of education and skills in the EU reflects stark contrasts. The 2022 PISA results show declining educational performance and growing inequality. While European students perform on par with American peers in reading, science, and mathematics, underachievement has risen sharply since 2018. Nearly 30 percent of EU students fail to meet minimum proficiency in mathematics, and 25 percent in reading and science. Among disadvantaged students, underachievement in mathematics is nearly 50 percent. The decline in top-performing students is particularly concerning, while East Asian states like Macao, Taiwan, Hong Kong, and Singapore consistently score at the top.

Higher education provides a more balanced narrative. Funded with €5 billion

by the prior Commission, the Erasmus+ programme has led to significant investments in education quality and student mobility. But cracks show in the system. Regional disparities and brain drain weaken Europe's higher education landscape, while the top universities in the US continue to attract the brightest minds. Meanwhile, China's surge in higher education, backed by massive state investment, poses a growing challenge.

The tale of innovation is bleaker. The US is the undisputed leader in fields like artificial intelligence, supported by extensive public-private partnerships, a thriving venture capital ecosystem and world-class research institutions. China has emerged as a leader in electric vehicles, green technologies, and semiconductors, accounting for over 70 percent of global EV sales. Europe's fragmented strategies, limited venture capital, and weak tax incentives hinder competitiveness.

A recent IMF report highlights the disparity: over the last decade, the EU's annual venture capital investment averaged 0.2 percent of GDP, compared to 0.7 percent in the US. From 2013 to 2023, EU VC funds raised \$130 billion, a stark contrast to the \$924 billion raised in the US. This funding gap deepens Europe's struggle to attract entrepreneurial talent and keep promising start-ups, widening its divide with global competitors.

EDUCATION AND SKILLS IN THE NEW COMMISSION'S POLITICAL GUIDELINES

As we find ourselves at the outset of the new Commission, its education and skills agenda is still under development. The new Political Guidelines, as presented last summer, already show great ambition. The guidelines announce the creation of a "Union of Skills," prioritising lifelong learning, teacher training, and cross-border recognition of qualifications to improve labour mobility. The proposed STEM Education Strategic Plan seeks to reverse declining performance in mathematics and science while encouraging women and girls to pursue careers in technology and engineering. Vocational education and training will be expanded to align skill-building programs with labour market needs.

Initiatives like the Skills Portability Initiative and the European Degree framework aim to harmonise qualifications across member states. Additionally, Youth Policy Dialogues and a Youth Advisory Board are designed to increase civic

engagement among young Europeans. The guidelines also announce EU-wide inquiries and action plans on societal challenges like social media's mental health impact, their addictive nature and cyberbullying.

However, these initiatives as outlined in the Guidelines, while important, risk being marginal without addressing deeper structural issues. The lack of cohesive investment strategies and the uneven distribution of resources across member states continue to undermine the EU's capacity to achieve its ambitious goals. The success of the EU education and skills agenda lies in its ability to move beyond symbolic measures and deliver tangible outcomes that resonate with citizens and political leaders across EU member states.

BEYOND SYMBOLISM

In his recent report on the future of European competitiveness, Mario Draghi outlines some promising proposals to move beyond symbolism. A key priority, he argues, is equipping Europeans with the skills needed to benefit from emerging technologies. This includes lifelong learning opportunities and job transitions facilitated by continuous education and retraining programmes. Crucially, Draghi stresses regional inclusivity in innovation and skills. Investments in education, transport, housing, and digital connectivity must extend beyond metropolitan areas to underserved regions, leaving no area behind. He also insists that the EU must guarantee a right to education and retraining for all workers, a crucial step in enabling them to adapt to technological advancements and transition into new industries.

While initiatives such as Horizon Europe have made strides, persistent gaps in venture capital and innovation scaling reveal significant room for improvement. Public investment in research and higher education quality must increase to address these challenges. The Erasmus programme, though successful, has not fully tackled the issue of brain drain. To counter this, cohesion policies could focus on making higher education in regions experiencing student emigration more attractive to talent from across the EU. Without addressing these disparities, Europe risks slipping further behind in global competitiveness.

THE EU'S DEFINING TEST

While the ambition of the von der Leyen Commission offers a hopeful vision, the stagnating educational outcomes, widening innovation gaps, and persistent regional disparities, highlight the scale of the task ahead. To compete globally, Europe must go beyond symbolic gestures or incremental reforms. Success hinges not on isolated initiatives but on a collective effort to invest and reform. The Draghi report and similar calls for deeper investment in education and innovation provide a roadmap for action, but their success depends on political will and public buy-in.

Ultimately, Europe's gamble on education and skills is not just about competing in a changing world: it is about defining its role in it. Proposals such as the Union of Skills and investments into STEM have the potential to equip Europeans with the tools to thrive, innovate and lead. The stakes could not be higher, for the EU's future competitiveness and cohesion depend on it.

CHAPTER 7

HOW EUROPE'S FISCAL RULES ARE STRANGLING GROWTH

PAUL DE GRAUWE

Fiscal policies in Eurozone countries have long been shaped by the Stability and Growth Pact (SGP). This framework was conceived as a means to enforce orthodox fiscal rules designed to steer member states towards balanced budgets. Although the SGP was temporarily suspended during the pandemic, it was reintroduced in 2024 with minor, largely superficial, revisions. The recent reforms for instance introduced individualised debt reduction paths with high-debt countries facing debt-to-GDP reductions of at least one percentage point annually on average during the adjustment period.

The core principles of the SGP therefore remain unchanged. The European Commission retains the authority to initiate so-called “excessive deficit procedures” against countries with budget deficits exceeding three percent of GDP. These procedures compel governments to implement austerity measures aimed at gradually reducing deficits, with the ultimate objective of achieving balanced budgets and debt-to-GDP ratios approaching 60 percent.

The effects are harmful. It is increasingly evident that this approach to fiscal policymaking is a significant factor in Europe's low-growth environment and the widening productivity gap with the United States. The reasons for this are manifold.

First, the SGP is inherently biased against public investment. While the revised SGP permits some public investments to be excluded from regular budget calculations, the bulk of these expenditures must still adhere to the rule that

additional public investment should be funded through higher taxes or cuts to other spending. In effect, most public spending cannot be financed through public debt issuance.

This rule contradicts basic economic logic. In the private sector, when a company invests in a productive asset that is expected to generate future revenue, it can finance the investment by issuing debt, provided the anticipated returns exceed the cost of borrowing (including any risk premium). Similarly, when a government invests in public assets—such as infrastructure—that will yield future benefits, it is economically sensible to fund such investments through the issuance of government bonds, as long as the expected returns exceed the borrowing costs.

With government bond yields for most Eurozone countries currently between two and three percent, there is ample scope for public investments to generate returns far exceeding these rates. This is especially critical in today's context, where the need to build collective energy infrastructure and other public goods essential for a green transition has become urgent.

The prohibition on financing productive investments through public debt introduces an additional bias against public spending. Public investments typically benefit future generations, but under the SGP's framework, current taxpayers must shoulder the entire cost. This creates a political disincentive for such investments. Politicians are unlikely to advocate for projects whose costs fall on today's voters while the benefits accrue primarily to future ones. This disincentive is also evident in the data: during the 1980s and 1990s, public investment accounted for more than eight percent of total government spending in the EU. By the 2000s, this share had fallen to less than six percent.

Second, the persistent application of the SGP has entrenched a climate of austerity, which has stifled growth and productivity. Although member states were temporarily freed from fiscal constraints during the pandemic, enabling them to increase deficits and debt levels and avert a deflationary spiral, austerity measures were reinstated soon after.

This return to fiscal rigidity has had deleterious effects on both public and private investment. Since the global financial crisis, total investment in the EU has declined by roughly two percentage points of GDP, from 23 percent in 2007 to 21 percent today. This decline not only hampers current economic activity but

also diminishes the economy's long-term growth potential, as new capital investments often embody advanced technologies that drive productivity improvements. The Draghi Report has vividly illustrated how Europe's productivity growth has lagged behind other industrialised nations, particularly the United States.

The implications are clear: austerity policies have long-term consequences for the supply side of the economy. By reducing investment, they constrain potential output and curtail productivity growth. Much of Europe's fiscal strategy has been dominated by the belief—or ideology—that growth can only be achieved through structural reforms aimed at making the supply side of the economy more flexible and efficient. Yet, there is scant evidence to support the notion that such policies significantly enhance long-term growth. At the same time, the crucial role of demand-side policies in fostering sustained growth has been largely disregarded.

In conclusion, Europe's relative economic decline is, in part, a direct result of austerity-driven policies. Reorienting fiscal strategies towards more active demand-side measures that prioritise public and private investment could play a pivotal role in reversing this decline and revitalising Europe's growth potential. The new European Commission needs to tackle this challenge head-on. The economic and political stakes are high.

CHAPTER 8

THE VANISHING ACT OF SOCIAL EUROPE: WILL IT RISE AGAIN?

DOMINIC AFSHARIAN

European social policy over the past decade has felt like a magic trick: from a social “triple A” to “a strong social Europe for just transitions,” audiences were captivated by grand promises. Then, suddenly, social Europe vanished. When Ursula von der Leyen first announced her Commissioners-designate in 2024, policy areas like “social” or “employment” were conspicuously absent. Instead, both Roxana Mînzatu and Hadja Lahbib were tasked with “preparedness.” While von der Leyen has since backtracked on this decision, uncertainty persists: what does the next Commission have in store for social policy?

THE COMMISSION’S PRIORITIES

Based on von der Leyen’s political guidelines and her mission letters, two main trends can be expected: (a) the subordination of the “social” to the “economic” and (b) the management of the status quo. These trends are evident in two social policy flagship projects: the “Union of Skills” and the further implementation of the European Pillar of Social Rights.

The “Union of Skills” aims to strengthen “human capital,” serving economic goals. According to Mînzatu’s mission letter, “ensuring that no one is left behind” supports “prosperity and productivity, as well as the success of the twin green and digital transitions.” This entails further work on the European education area, support for European degree programmes and university alliances, a strategy for

vocational education, and an action plan on basic skills and STEM education. Workers are to be re- and upskilled. Mobility is also key: the Commission aims to attract qualified migrants, improve the recognition of qualifications across borders, and encourage cross-border school cooperation.

In implementing the European Pillar of Social Rights, economically driven investment in skills continues to dominate; the Commission frames labour gaps and skill shortages as strains on productivity and competitiveness. By 2025, a new action plan on implementing the Pillar should be presented, with a focus on improving occupational health and safety and preparing workplaces for digitalisation. Commissioner Mînzatu is also tasked with developing a “Quality Jobs Roadmap,” a “new Pact for European Social Dialogue,” and a coherent framework for “addressing long-term care workforce challenges.” Perhaps most notably, the Commission aims to create a European anti-poverty strategy alongside a plan for affordable housing. Many other plans reiterate existing policies and frameworks, such as European funds and the Child Guarantee.

SOME ACHIEVEMENTS, MAJOR BLIND SPOTS

The new Commission agenda acknowledges important issues, most notably (a) the economic benefits of social policy emphasised by the social investment approach and (b) the need to do more to implement existing commitments. However, this rather unambitious agenda is, at best, a missed opportunity and, at worst, a step back for social Europe. On a positive reading, the Commission’s emphasis on investment may justify social policies in an era of looming austerity. Yet, this neglects the crucial role the Commission itself plays in actively shaping the “social Europe” debate. By holding back on more ambitious plans and largely deprioritising social protection, the Commission fosters an environment conducive to stagnation. Moreover, the current Commission’s interpretation of social investment is incomplete. Effective social investment is not only about the economic benefits of high-skilled “human capital” but also about socially supporting individuals. This distinction is vital, as the promise of a social Europe serves not only economic but also political and, foremost, social functions. Sidelining these elements risks misappropriating the idea of social investment as an excuse for social neglect.

THREE AREAS OF IMPROVEMENT

Simplifying the issue at hand, the Commission should focus on three key areas to complement von der Leyen's announcements: protecting the individual, the social contract, and the political system.

First, to protect the individual, the Commission should aim to ensure minimum living standards for all. While initiatives like the anti-poverty strategy are well-intentioned, there is a risk that ultimate responsibility will too easily be pushed to Member States. The Commission must find ways to act more decisively in areas where individuals primarily identify as Europeans and lack protection from any individual Member State. This particularly concerns intra-EU migrants and could be achieved, for instance, through a European minimum income scheme for jobseekers and enhanced exportability of benefits.

Second, protecting the social contract is essential for social investment to succeed. If investment in skills is to lead to individual and societal prosperity through work, this requires equal opportunities and a guarantee that effort yields adequate rewards. A social contract that demands citizens work hard must also ensure they can reap the fruits of their labour. Crucially, this must not be misconstrued as a call for deregulation. Instead, the Commission must ensure market-correcting mechanisms, such as the Directives on minimum wages and pay transparency, are diligently implemented and supported by additional legislation, for instance, against the exploitation of workers in migratory and subcontracting contexts. To enforce these measures, the European Labour Authority needs to be significantly strengthened in terms of resources and formal competences.

Third, protecting the system should be a priority for the Commission. One of the most promising policies here is the idea of a European unemployment (re-)insurance scheme. Discussed and refined over nearly half a century and partially tested during the COVID-19 pandemic via SURE, this policy would provide a critical automatic stabiliser against fiscal and social shocks. Concrete proposals for such a scheme are well-known within the Brussels bubble and beyond. Von der Leyen herself promised a European unemployment re-insurance during the last legislature – arguably one of social Europe's clearest cases of untapped potential.

All three priorities require *de facto* grand coalitions at EU level and strong Member State support. Given the rise of the radical right and the recent erosion

of trust between major EU parties, external pressure on national and European decision-makers must intensify if European social policy is to advance meaningfully over the next five years. The EU's social future hinges, perhaps more than ever, on whether pro-Europeans can unite as genuine pan-European actors. This includes pro-European parties and movements, welfare associations, social partners, civil society organisations, and interest groups.

While the current outlook may seem bleak, it would not be the first time that "social Europe" has been declared dead, only to rise from the ashes years later. Perhaps European social policy is merely experiencing a temporary ebb on the political agenda. Crucially, however, social policy does not adhere to predetermined laws of nature. It is not inevitable but achieved through struggle. Von der Leyen aptly titled her political guidelines "Europe's choice." After all, deprioritising the "social" is precisely that: a choice.

CHAPTER 9

THE CAPACITY TO ‘COMPETE’— RETHINKING THE WELFARE STATE

ANTON HEMERIJCK, AZIZJON BAGADIROV
AND ROBIN WILSON

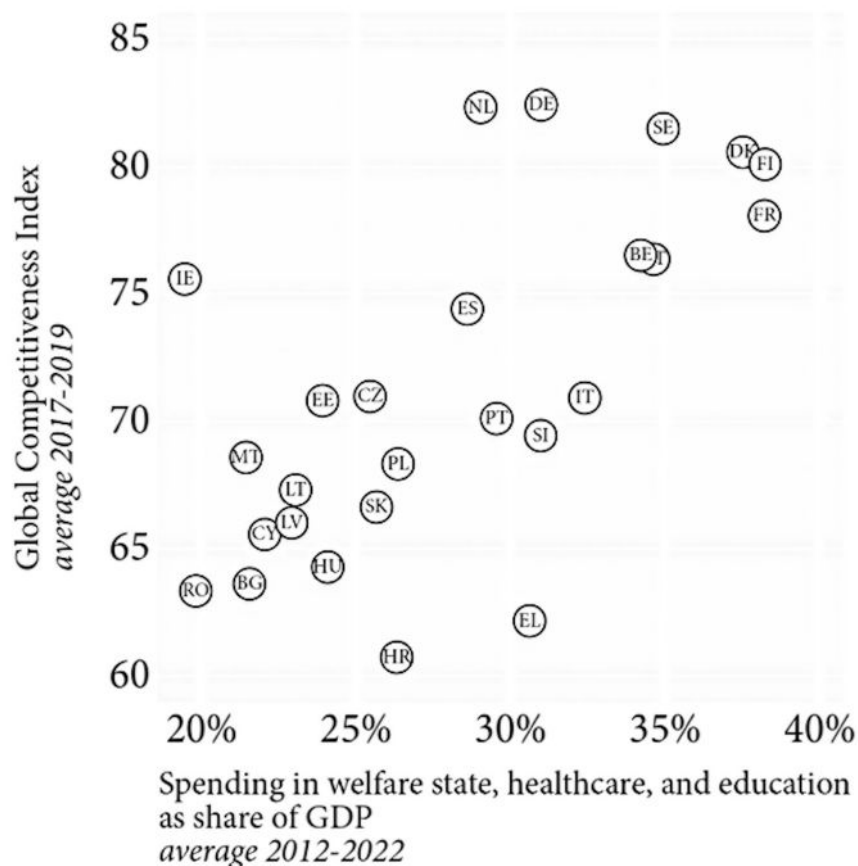
As the world changes, norms, values and political preferences change. As social risks evolve, so do policy ideas and reforms. The mid-20th century objective of male-breadwinner full employment has, since the momentous entry of women into the labour market from the 1980s, given way to norms of gender equality and equal pay, and policy ideas about improving family services for dual-earner families. Education and care for children cannot be left singularly to dual-earning parents engaged in remunerated employment, just as public healthcare and old-age pensions are today self-evidently accepted. Social insurance, the breakthrough innovation of the modern welfare state, buffers boom-and-bust macro-economic cycles while mitigating the household poverty which otherwise constrains economic engagement and impedes social mobility. Where individuals can rely on adequate income protection, they are less anxious and freer to make autonomous choices. When, in addition, there is paid parental leave and child-care, working families are also far better off in navigating important transitions in their lives. When adequate social protection and capacity-building public services are both in place, they reinforce prosperity and stable democratic politics.

POSITIVE CORRELATION

Europe has since the second world war led the world in engendering such conditions for universal wellbeing through extensive welfare. Yet many now represent—think of the leader of the German Christian Democratic Union, Friedrich Merz—this achievement not as something to celebrate but as an intolerable burden on the taxpayer, particularly in ageing societies with more elderly dependants. There is much talk in Europe of an economic imperative of ‘competitiveness’, *vis-à-vis* the United States and especially China—though only companies, not countries or regions, compete in markets—with the implication that social expenditures (and indeed ecological regulations amid onrushing climate catastrophe) must be subjected to hard-nosed paring.

In fact, however, far from being a drag on economic performance, for welfare states the opposite is the case: there is a positive correlation between welfare expenditure and *per capita* gross domestic product, with the universal Nordic welfare states and the developed social-insurance models of mainland northern Europe in the van in both cases (see figure). What makes the difference is that high social investment in each citizen—from quality childcare through to comprehensive public education to post-school education or training for all and lifelong learning—allows people to develop their capacities and effectively use them throughout their lives.

SOCIAL SPENDING AND COMPETITIVENESS



This shows that there is no inherent tension between equity and efficiency. On the contrary: without gender equality and supportive family services, for example, there will be less (female) employment and poorer schooling, which in turn will hamper long-term prosperity. Productivity only becomes meaningful when attached to the freedom to navigate life-course transitions.

REAPING REWARDS

Rethinking welfare in these social-investment terms shows that clawing back expenditure today will be costly tomorrow. Even more, it demonstrates that a generous commitment to welfare expenditure can reap social as well as economic rewards. It directs policy-makers to privilege programmes which are ‘upstream’ (such as preventative public-health schemes like free vaccination for all) over those which are ‘downstream’, focused on compensation ex-post. And it high-

lights where synergies may be achieved: for instance, a 'housing first' approach to homelessness can be followed up by individualised support with associated disadvantages, such as addictions. Vicious circles of accumulating disadvantage can thus be broken at the root of what causes intergenerational cycle of poverty, allowing previously marginalised individuals to finally exercise their agency.

Indeed the reorientation towards investment in individuals' capacities is particularly attuned to various social risks emerging with an era of digitalisation and precarisation, especially in the 'gig' economy. By focusing not only on compensation for income loss—however important as a bedrock this remains—the social-investment perspective adduces important policy interventions, such as in universal access of young workers to training for professional sovereignty.

The European Union should articulate, steer and consolidate this changing social outlook. The European Commission and the European Parliament have adopted the language of social investment over the last decade. This has however largely been in technocratic-instrumental terms—as a policy strategy to achieve and sustain high levels of employment, needed to finance the fiscal ageing burden. It's high time to reinforce this argument in more normative terms, to bring it closer to real lives in European societies.

STRENGTHENING AGENCY

As our societies change so do welfare states, but also normative thinking on what constitutes social justice. Many philosophers, including Amartya Sen and Martha Nussbaum, have made important contributions to a shifting understanding of justice from a narrow focus on redistribution to a more contextualised and gender-sensitive approach that focuses on real opportunities people have—beyond income—to achieve wellbeing and increased agency.

In policy terms, the social risk structure of post-industrial societies requires both direct protection through social insurance and equipping with the right capabilities through ex-ante prevention, to allow citizens to overcome accumulating disadvantages and lead good and self-determined lives. The combination of protection and capacitation aims to strengthen an individual's agency in this process and enable them to translate opportunities into secure conditions of wellbeing.

Safety nets protect people from material deprivation, but they also foster active agency since a sense of security allows people to navigate and plan their lives against the backdrop of rapid social change, volatile labour markets and fluid family structures. Capacitation, complementing social protection in core areas of health, education, and family, aims to enable and promote one's capabilities and hence to securely sustain core areas of wellbeing—for example, through childcare, work-family reconciliation and lifelong learning.

The European Pillar of Social Rights can only be taken off the page and its targets on poverty reduction and training participation realised if the associated social policies are put into effect. The second action plan for the pillar, due to appear in the second half of next year, can provide a focus for enhanced commitment to social-investment welfarism.

CHAPTER 10

A CHANGING EUROPE: STRATEGIC AUTONOMY AND SECURITY IN 2025 AND BEYOND

ALMUT MÖLLER AND HENNING MEYER

Henning Meyer: Almut, thank you very much for joining me to discuss the critical issues of European foreign and security policy at a time of profound change as we move into 2025. To get us started, the concept of strategic autonomy has been prominently discussed within the European Union. How do you assess its relevance in today's environment, and what does achieving it actually entail?

Almut Möller: Thank you, Henning. It's great to join you in this conversation and dive into these crucial topics. Strategic autonomy is a concept that can sometimes feel abstract—almost like something developed in a laboratory. However, it's deeply rooted in real-world challenges. Over the years, the hope that the global setup naturally reflected the interests of the EU and its member states has been contested for quite some time.

The world today, in 2025, poses serious and existential threats to Europe. Russia's war of aggression against Ukraine is the most pressing example, exposing Europe's vulnerabilities and the necessity for greater strategic autonomy. On top of this, the unpredictability of the United States under President Trump's second administration raises the stakes. While there is consensus that Europeans need to take more responsibility for their own security, the situation is complicated by Trump's erratic leadership, which forces Europe to contend with an ally who will, at times, be openly malign, unpredictable, and fast moving.

For the first time since the early 1990s, the EU must grapple with the urgent

task of creating strategic autonomy amid unprecedented challenges. This isn't just about military matters; it spans economic security, technological resilience, and the ability to act decisively in an unstable world. Achieving this will be difficult, as the EU faces a global environment that is ever less favorable to its founding principles and goals.

Henning Meyer: You've outlined the increasing stakes for Europe. Historically, the EU has risen to external challenges by deepening integration. But given the divisions among member states today, can we rely on that approach?

Almut Möller: That's a critical question. The sense of collective unity—the “we” within the EU—is under significant strain. Internally, the Union is more divided than it has been in decades. Some member states are gravitating toward illiberal policies, while others are experiencing rising nationalism. This fragmentation makes consensus-building a major challenge.

Nonetheless, security must be the EU's top priority. Without a security foundation, there is no sustainable future for Europe. NATO has traditionally been the framework for European security, and it remains so. However, the EU must step up its role. Ursula von der Leyen's Commission has laid important groundwork in this area, and the new European Commissioner for defence Andrius Kubilius is expected to deliver a white paper on defence soon. This document will among other areas outline how the EU can leverage its single market to bolster member states' commitments within NATO. It will be key for Europe to get the interplay between NATO, the EU, and EU member states right in the coming years.

We must also prioritise economic security. Trade wars and geopolitical tensions, particularly with the US and China, are reshaping the global economic order. The EU needs to protect its Single Market, ensure supply chain resilience, and maintain competitiveness in key sectors. Economic security and strategic autonomy are deeply interconnected.

Henning Meyer: You've highlighted the importance of unity, but divisions among member states seem to be a growing challenge. How can the EU navigate these internal differences while addressing external threats?

Almut Möller: Unity is indeed both the challenge and the solution. Geographically, some member states, like those in Eastern Europe, feel the

urgency of threats like Russia's aggression much more acutely than others. In countries like Poland, Lithuania, and Latvia, and Finland, the risks are immediate and existential. Meanwhile, in other parts of Europe, the sense of urgency is less pronounced.

To overcome this, the EU must adopt pragmatic strategies. Differentiated forms of enhanced cooperation—mechanisms allowing groups of member states to advance specific initiatives without requiring full consensus—is becoming increasingly important. This approach enables progress while leaving the door open for broader participation later. It's a way of addressing critical needs without being held back by divisions. Politically, the risk of a fragmented EU is less high than an EU that is unable to act at this point in time.

Henning Meyer: In addition to security, economic resilience is another pillar of strategic autonomy. How does the EU balance internal challenges with external pressures like trade wars and shifting global alliances?

Almut Möller: Economic security is an essential component of strategic autonomy. The EU's Single Market is one of its greatest achievements, and the EU over the past years has developed robust tools to safeguard it. However, the interconnected nature of today's global economy means that even the strongest systems are vulnerable to external shocks, especially those that operate with the degree of openness that is part of the EU's DNA.

The EU must focus on strengthening supply chains and fostering resilience in critical industries, such as technology and energy. Evolving relations, most likely conflictual, with the US and China will play a significant role here. While the EU wants to avoid trade wars, it must also prepare for scenarios of war, and where multilateralism breaks down further. President Trump's disdain for institutions like the WTO, and indeed the EU itself, underscores the need for Europe to lead efforts to reform these global frameworks while seeking new partnerships.

Henning Meyer: You've spoken about the pressures on the EU both internally and externally. What other challenges do you see shaping Europe's strategic autonomy in the near future?

Almut Möller: The challenges are immense and multifaceted. Beyond the immediate threats posed by Russia and the shifting dynamics of US-EU relations, the Union must also address the instability in its southern neighborhood,

including the Middle East and North Africa. These regions pose complex security, migration, and economic challenges.

Internally, the rise of far-right and nationalist movements threatens the very fabric of the EU. These movements undermine liberal democratic values, creating a challenging environment for policymaking. To maintain its cohesion and legitimacy, the EU must demonstrate its ability to deliver tangible benefits for its citizens—be it through security, economic stability, or social progress.

At the same time, Europe needs to reform its institutions to better respond to crises. Decision-making structures that rely on unanimity among 27 member states are increasingly unsustainable. Adapting to a faster, more flexible mode of operation will be crucial in the years ahead.

Henning Meyer: Let's focus for a moment on the internal unity versus the external challenges facing the EU. We now have a new vector of attack in the form of private actors like Elon Musk. He's an external figure with a domestic agenda, and we've seen his influence manifest in Europe. For example, his dealings with the Italian government and his recent support for the AfD in Germany's election campaign. The AfD, of course, advocates for Germany's withdrawal from the European Union.

Beyond that, we've seen Musk use his media platform to stir political turbulence, such as his attacks on Keir Starmer in the UK and reports that he's consulting on strategies to potentially overthrow Starmer's government before the next election. This type of threat feels unprecedented. If Musk were to target the European Union directly rather than indirectly through right-wing populist parties in the Member States, how do you assess the EU's ability to withstand such an attack? Could he whip up enough discontent to destabilise the EU, much like what happened during the Brexit process?

Almut Möller: This is a very real and concerning threat. The EU has tools at its disposal, particularly its regulatory frameworks for tech, and it has shown in the past that it can confront challenges in this area. However, taking on someone with Musk's resources and influence is no small feat. It's not exactly a David versus Goliath scenario, but it does require significant power to counter such a multifaceted actor, especially with other companies already joining in.

That said, the deeper issue here is not just about regulation. It's about the liberal foundations of the European Union itself. The EU is no longer just an

economic bloc built around the Single Market. It has evolved into a political and supranational organisation rooted in liberal values. These are precisely the values under attack—not just by Musk but also by many political parties within the EU who have stopped supporting this vision of a liberal Europe.

The most dangerous aspect of this is the risk of an internal takeover. These forces often choose to work through the system, weakening it from within. If we want to preserve the European Union, this requires a robust political fight. And yet, the political debates within member states have become so polarised that even pro-EU parties struggle to articulate a compelling case for the Union. It's become increasingly difficult to maintain public support for the EU as it exists today.

This is why the EU needs to prove its value in very tangible ways—security, prosperity, and stability. If it fails to do so, the Union itself could fail. And frankly, I see this as a growing risk.

Henning Meyer: If you look back to the 1990s, the economic case for European integration, particularly around the Single Market, was compelling. But as you point out, today's threats are different. The most pressing case for European unity is now in the realm of security and foreign policy. The idea of confronting an aggressive Russia is something most European citizens can understand intuitively—that this is better done together than alone.

The economic dimension is still important, of course, but we've made great strides there. The tools are in place. However, in security and foreign policy, the challenges are unprecedented, and the European approach hasn't fully adapted. Could this be an opportunity to rejuvenate the European project by building a compelling case for unity around security?

Almut Möller: Absolutely. The original promise of the EU—to prevent war on the European continent—was profoundly compelling. Today, that promise feels distant, but the reality of war has returned to Europe. This provides an opportunity to revisit and reinvigorate the European idea.

The challenge, however, is delivering results. Citizens need to see that the EU is capable of addressing these existential threats. The current European Commission, led by Ursula von der Leyen, and key figures like Kaja Kallas, seem to recognise the urgency. The next steps will require clear and decisive action, particularly in the realm of defence and security.

Delivering results is critical. If the EU fails to prove its relevance in the daily lives of its citizens, the populist critique will only grow louder. Security is the most obvious area where the Union must deliver, but it's also one of the most difficult.

As I indicated, groups of member states working in flexible ways of cooperation is probably necessary to move forward. And Donald Tusk's leadership, with Poland holding the EU Council Presidency now, brings hope. He's experienced, deeply committed to European security, and understands coalition-building. His ability to align willing member states could be a turning point.

Henning Meyer: You've mentioned the White Paper on defence that is in the works. If you were drafting it, what would you prioritise?

Almut Möller: The White Paper must tackle both immediate and long-term challenges. First, Europe needs a sustainable mechanism for financing defence. The Next Generation EU fund was transformative during the COVID pandemic, and we need a similar approach for security and defence. Joint borrowing could provide the necessary resources, though it remains politically sensitive.

Collaboration with non-EU partners like the UK and Norway is also essential. The UK, in particular, brings significant weight to European defence, and finding ways to integrate it into EUropean frameworks will be crucial, but since Brexit has become politically difficult The White Paper should show a path towards re-energized cooperation.

Finally, the White Paper should address the political mechanisms required to act decisively. Europe's decision-making processes need to adapt to the pace of modern crises. Coalitions of the willing can help, but it's no substitute for a more agile *and* unified approach.

Henning Meyer: You mentioned political ownership and the challenge of conflict as the new normal. How well-prepared is the EU for this reality?

Almut Möller: The EU has been operating within a framework designed for less conflictual times. As a result, its structures are not well-suited to the rapid pace and high-stakes decision-making required today. Reaching consensus among 27 member states takes time—a luxury we no longer have.

Recent developments, including high-level meetings on security and defence such as in Helsinki this week, and the recent reports by Mario Draghi, Enrico

Letta, and Sauli Niinistö show that the urgency is understood. However, the pace of EU decision-making must change fundamentally.

The traditional consensus-driven machinery has reached its limits. While the ideal remains achieving consensus among all member states, the environment demands a different mode of operation.

Henning Meyer: Partnerships with external allies, particularly the United Kingdom, are pivotal. How do you envision deepening these ties?

Almut Möller: It's absolutely vital for the EU to engage the UK meaningfully in security and defence. Prime Minister Starmer has more breathing space on this issue than he would have on broader EU matters. In Britain, European security is viewed as a shared concern with „the Continent“. This presents an opportunity to build closer ties without reigniting the sensitivities of Brexit.

The challenge lies in navigating the political dynamics on both sides. Crafting partnerships that involve defence cooperation, joint procurement, and shared resources—without appearing to undermine Brexit's outcomes—is delicate but essential. If the EU and NATO can present a compelling case for these collaborations, aligning corporate and public strategic interests, I'm optimistic about the possibilities.

Henning Meyer: You mentioned corporate interests. Political incentives for corporate cooperation are powerful. After the signing of the recent German-British Treaty, for instance, we saw Rheinmetall announce new investments in the UK. This is a clear example of how bilateral agreements can spur industrial collaboration.

Scaling this approach to the European level could involve programs that design incentives for joint ventures, particularly in the defence industry. Such initiatives would not only strengthen security capabilities but also deepen economic ties across the continent and with the UK.

A final question: You've painted a picture of both challenges and opportunities. As we finish our conversation, what's your vision for the EU in 2025 and beyond?

Almut Möller: My vision is one of an EU that has risen to the challenge, proving its capacity to adapt and lead. The old European security order is gone, and Europe must claim its place at the table in shaping what comes next. This

means earning the attention and respect of partners abroad by demonstrating resolve and effectiveness at home.

I remain optimistic. Europe still has the political and material resources to succeed, and 2025 presents a critical window of opportunity. As think tanks, policymakers, and citizens, we must focus on identifying options and pushing for the politically possible. It's a time for action, not defeatism.

Henning Meyer: Thank you very much, Almut, for your insights and thoughtful analysis. It's been a pleasure discussing these crucial topics with you.

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