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#EUROPE MATTERS

EUROPE 2030
TOWARDS A RENEWED EUROPEAN SOCIAL CONTRACT

friends
of europe

Remembering the foundations of the European social contract

Since the Maastricht Treaty of the European Union, signed in 1992, the EU's social contract has been underpinned with the following principles (extracts from the Treaty):

PEACE, VALUES AND WELLBEING

The Union's aim is to promote peace, its values and the wellbeing of its peoples.

SECURITY AND JUSTICE

The Union shall offer its citizens an area of freedom, security and justice without internal frontiers, in which the free movement of persons is ensured in conjunction with appropriate measures with respect to external border controls, asylum, immigration and the prevention and combating of crime.

PROSPEROUS INTERNAL MARKET

The Union shall establish an internal market. (…) It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance.

It shall combat social exclusion and discrimination, and shall promote social justice and protection, equality between women and men, solidarity between generations and protection of the rights of the child.

It shall promote economic, social and territorial cohesion, and solidarity among Member States.

It shall respect its rich cultural and linguistic diversity and shall ensure that Europe's cultural heritage is safeguarded and enhanced.

ECONOMIC UNION

The Union shall establish an economic and monetary union whose currency is the euro.

PEACE AND HUMAN RIGHTS IN THE WORLD

In its relations with the wider world, the Union shall uphold and promote its values and interests and contribute to the protection of its citizens. It shall contribute to peace, security, the sustainable development of the Earth, solidarity and mutual respect among peoples, free and fair trade, eradication of poverty and the protection of human rights, in particular the rights of the child, as well as to the strict observance and the development of international law, including respect for the principles of the United Nations Charter.

RESPECT OF THE TREATIES

The Union shall pursue its objectives by appropriate means commensurate with the competences which are conferred upon it in the Treaties.

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THE STATE OF EUROPE 2018

The fall of the Berlin Wall inaugurated the belief in liberal democracy and subsequently helped it rise to an all-time high. There was a sense of hope that destructing the symbol of a divided continent would help Europe come together. It was in Maastricht that European leaders convened to establish the framework for the future of an integrated Europe based on a common social contract. The philosophy underpinning the European project was that economic integration would lead to political integration in Europe – neither of these fully materialised. Looking back, Europe has developed differently from the way many had hoped. The imagined peace, freedom, openness and democratic vibrancy of the political union have not taken place as planned, despite the improved quality of life for Europeans.

More recently – similarly to 9/11 putting an end to state security as we knew it – the global financial crisis became the landmark for the end of economic security. In the decade since, multiple other foreign and domestic crises followed, such as the spread of terrorist attacks in Europe, hundreds of thousands of refugees streaming to Europe, Russia's annexation of Crimea and the ongoing civil wars in Syria, Libya and Iraq.

Despite this, the EU has become the fourth largest trading bloc and it is recognised as a region with a strong and attractive social contract for citizens, even in comparison to other regions with similar preconditions. The EU has been more successful than others in converting average economic growth into social progress and inclusive growth. Moreover, it has made the political and business case for acting on climate change and has made a virtue of its funding to accelerate skills development, innovation in science and technologies, rights and equality. It has been an engine for peace based on the principles of cooperation and diplomacy. Remarkably, the EU made it out of recession with over 2% growth.

Meanwhile, massive external shocks, such as the sovereign debt crisis, the Euromaidan, the exposure of corruption and poor governance, and most significantly the migration crisis, together with the subsequent perception of citizens, have driven a wedge between EU member states and societies.

Traumatised by events, Europeans' faith in the EU project has become a casualty. For the first time since the end of the Cold War, the younger generation faces the prospect of a life that is less secure and prosperous than that of their parents. The broken European Dream has led to a creeping erosion of trust and confidence in institutions, political classes, and elites at large.

"The post-1989 dream painted an image of economic integration leading to political integration in Europe – neither of these fully materialised"

Today's globalised and polycentric world with its rising insecurities, conflicts, uncertainties and the lack of clear-cut solutions have enforced a 'hide in your shell'-reflex. Social coherence has long been challenged by change and transformation – be it the rise of non-state (violent) actors, soaring social media, the change of labour due to digitalisation and automation, or the degradation of our habitat because of climate change.

As a result, nationalism and populism have become political mainstream in many European countries. Once again, Europe is being put on the defensive by external shocks, including Brexit and a growing transatlantic divide. Ahead of the European elections in 2019, we are at the crossroads of making Europe's future matter to its citizens.

The lesson learned from a decade of crises and disruptive events, within and outside Europe, is that basing our responses to our future can no longer be determined by the past alone. Whilst learning is key, the current vortex of events has shown us that we are ill equipped to deal with the pace and unpredictability of simultaneous change.

Before we enter into an intense debate about Europe's future, we need to better understand the forces, factors, actors and developments that will shape our future. It is not only about substance ("what") but also about institutions and processes ("how"). If we do not want to leave politics to populists and radicals in the streets, public policies and procedures need to change. The EU needs to find a formula to balance conflicting interests and come

to grips with countless dilemmas and ambiguities. To list a few: competitiveness in a global economy vs. social equality at home; the free flow of capital, goods, and ideas vs. the preservation of intellectual property and entrepreneurial spirit; security (also in cyberspace) vs. individual rights, liberties and self-determination; the free movement of people, migration, and political asylum vs. the preservation of traditions, cultural identity and the ability to integrate – a list that could be extended at will.

We need to understand that the future does not simply happen or is imposed upon us. Rather, the future is the outcome of the decisions we take today. Government on autopilot will not be sufficient, nor will muddling through or constant crisis management. Or, as Yogi Berra once said: "If you don't know where you are going, you'll end up someplace else."

This paper sets out a set of scenarios on the possible futures of Europe in 2030, in order to stimulate discussion and debate on the implications of today's policy choices for Europe's future. #EuropeMatters is our initiative to build policy choices and recommendations for the incoming European leadership in 2019 to make informed decisions framed by an evaluation of these scenarios and the choices that lay ahead of us.

"Government on autopilot will not be sufficient, nor muddling through or constant crisis management"

The upcoming elections of the European Parliament and the subsequent inauguration of a new European Commission will trigger a new political cycle. Brussels and the EU member states should seize the opportunity to create an atmosphere of departure and engage in a debate about Europe's future until 2030. Thinking about plausible alternative futures would be a creative way to reach out to policymakers, entrepreneurs and civil society representatives alike. All this could culminate in a renewed European Social Contract between European citizens and their institutions to provide for prosperity, security and a sustainable livelihood for generations to come.

Pascal Lamy
Trustee of Friends of Europe

Brussels, 27 September 2018

Introduction

We are moving into a future that is increasingly unpredictable: lessons from the past are simply no longer cutting it to predict what is to come. The policy choices made in the next 24 months will affect our near-term future, and this is why in this pre-election year of a new European Parliament and a new college of Commissioners, we want to galvanise a big conversation across sectors and among communities about how to make Europe matter.

This paper is part of a wider process aimed at sparking debate and provoking thought on the future Europe that we want. As we look into the future, we feel that the importance of values, beliefs, identities and culture will be greater due to the effects of rapid developments in technological advancement, climate change, economics and geopolitics in all our lives and societies. The combination of these forces, their simultaneous acceleration and impact will increasingly call upon and accentuate the relationship between citizens and those that govern them in terms of trust and confidence. This calls for more resilient, agile institutions and policy coherence.

In order to think ahead and plan for the future we want, we initiated #EuropeMatters to reinvigorate the relationship between citizens and the European project. To this end we have involved citizens, key cross-sector stakeholders and foresight experts to create a matrix of the options, choices and consequences for Europe.

Our intention is not to open up arguments for treaty change or structural reform of the EU, but to reflect on what the EU institutions do and how they do it. This paper asserts that a renewed social contract focused on security, prosperity, and sustainability offers greater hope to reconnect the idea of Europe with its citizens. We argue that this can provide the impetus for EU member states and citizens to regain a sense of common purpose and public good.

The EU has an opportunity to be a pathfinder in reinvigorating participatory democracy and invert the paradigm on how to govern by placing citizens in the driving seat of policy making. Perhaps the EU's strength in these volatile times will be to take a lead on issues that cannot be easily executed or resolved at member state level. The Union can also play a role in testing alternatives to governance and dealing with problems related to people's sense of security, prosperity and saving the planet. How we get there is the subject of this paper.

In advance of considering the policy choices for Europe 2030, this paper discusses the notion of a renewed social contract, sets out the trends, drivers and unknowns that are likely to effect it, and using strategic foresight, outlines four possible scenarios for a future Europe in 2030. This paper helps to think through and deliberate the kind of Europe we want in the future, along with the policy choices that need to be made as a result. The four scenarios and how these might interplay are intended facilitate this process. Ultimately, there is likely to be elements of each scenario but the overriding aim of this exercise is to agree on the future purpose and role of the EU, what its focus should be to add value to member states and, critically, the quality and nature of its connection to citizens.

We want to engage you as a stakeholder in this project and to build on the issues set out in this paper with your own insights on what will matter for Europe's future.

This paper will be discussed at the State of Europe Roundtable on 11 October 2018. Following the discussions, we will produce a final report setting out recommendations for Europe 2030 underpinned by a renewed social contract.

The Quest for a Renewed European Social Contract

Europe's place in the world has changed fundamentally. Unlike the generation of Mitterrand, Kohl and Delors who strove to end intra-European strife, the challenge for today's generation is to maintain Europe's "quality of life" and cultural identity in the face of globalisation. The European Union is founded on a strong social contract defined in the Maastricht Treaty with reference to social progress, sustainable development, balanced economic growth and the wellbeing of its peoples. It devoted itself to combat social exclusion and discrimination, promoting social justice and protection, ensuring equality between women and men, and solidarity between generations amongst others.[1]

Within the dimension of prosperity, a 21st century European social contract has to look beyond average economic prosperity. Citizens are likely to expect their work to generate income that is fairly distributed; that their basic human rights are protected, that the foundation for their wellbeing and equal opportunities is guaranteed. Quite reasonably, citizens expect their contributions, through taxes, to be commensurate to public service quality and social protection. Governments are expected to be capable and willing to deliver, whilst being able to meet debt obligations and ensuring opportunities for future generations.

"A 21st century European social contract has to look beyond average economic prosperity"

The social contract for the 21st century is therefore based on ensuring economic prosperity, equality and social progress through citizens' contributions in a fiscally and environmentally sustainable way. We know that citizens have less trust in the EU, whilst trust in national governments has been increasing. Additionally, voter participation rates in the European parliament elections have been trending downwards since its inception.[2] More citizens believe that the next generation will be worse off than the current one.[3] If citizens' expectations are not met and there is absence of clarity between expectations of roles, responsibilities and capabilities, trust between the EU institutions and citizens will be damaged further.

With current developments putting additional pressure on the social contract, the existing EU policy mix could only partially mitigate the

1   Maastricht Treaty, 1992
2   International Institute for Democracy and Electoral Assistance
3   Friends of Europe Survey on the State of Europe (August 2018), this survey reflects the perceptions of 482 policy experts from across Europe on the state of the EU. These experts belong to the wide and tightly knit Friends of Europe network, hence these statistics are not representative; Special Eurobarometer 467, Report, 2017: https://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/Survey

headwinds from macro trends. Trust levels can be negatively affected by the increased spending and lower growth trajectories caused by the ageing population. Should emerging markets become more competitive, it is likely that we will see an increase in unemployment in Europe, which will further diminish confidence in governments and EU institutions. Although investing in artificial intelligence (AI) could help sustain Europe's growth significantly, inequalities and citizens' contribution would still be an issue to solve. The social progress index data, whilst the EU earns on average a highscore, points to variation in social prosperity across Europe.

"The EU is still among the most equal regions in the world"

Perhaps unsurprisingly, northern European countries achieve the highest scores on the social progress index in the world, compared to lower levels in other parts of Europe.[4]

Questions on Europe's future leadership belong to the "black swans". Leadership impacts direction.

"Increased female and diversity leadership may lead to a focus on different policy issues"

Current pushes for gender inclusiveness may give more women leadership roles in the near future. An increase in female leaders and leaders with diverse backgrounds may lead to a shift in thinking and focus on different policy issues. Female leaders already pinpoint

different drivers of change for Europe's future. Should more women be elected in office, this may have a disruptive effect on current trends.[5]

Analysing socio-economic factors shows high levels of inequality in the EU, with the top 20% earning around 5.2 times as much as the bottom 20% of the population. Economically speaking, the EU demonstrated solid performance compared with the United States until the 2008 double dip recession.[6] Levels of economic inequality vary significantly within Europe. Southern Europe as well as Central and Eastern Europe are significantly more unequal than the rest of the EU. In Southern Europe, the share of the bottom 40% is clearly declining since 2008. Even the founding EU member states' economies have started diverging.[7] Looking at the trajectory of the last decade, only Southern Europe has undergone significant decline in citizens' income levels and has a trend of increasing inequality. Yet trust in the EU has fallen everywhere and support for populist parties has risen, even in countries with excellent economic performance.[8]

The EU is however still one of the most equal regions in the world, and 10 EU member states find themselves among the 20 happiest countries in the world.[9] US income inequality levels reaches a score of 8.2, despite higher government spending than the EU average. EU citizens work less hours, have a longer life expectancy and higher levels of trust in government, while emitting less CO_2, than the average US citizen.[10]

Most macro trends would impact equality levels in Europe negatively. Public expenditures are also projected to increase. In overall growth, the trends might balance each other largely out, resulting in an average growth in line with historic growth rates in the EU. Nevertheless, given pressure on equality, the level of trust may not easily increase without taking explicit action.

The old European social contract based on the Treaties of Rome and Maastricht needs to be renewed to tackle future challenges. Despite economic performance and growth, the narrative of the EU founders does not resonate with European citizens the way it used to. Even when the most obvious threats to the EU come from the outside, it is the creeping erosion of intra-European solidarity that appears to be bringing this postmodern experiment to a limit.

"European Union wants to have a place in the future, it needs to renew, reinvigorate and readjust itself"

Since Maastricht, the world has changed considerably. Other global players are increasingly shaping the game. Hence, if the EU wants to have a place in the future, it needs to renew, reinvigorate and readjust itself. Adjusting old narratives to new environments will not be enough.

4   Social Progress Index 2017
5   Politico, 2018 – If women ruled
6   The Conference Board; Eurostat; McKinsey Global Institute analysis
7   The Conference Board; OECD; McKinsey Global Institute analysis
8   Parliaments and Governments Database; Press searches
9   World Happiness Report, 2018
10   World Bank, OECD, SPI, Gallup, Eurobarometer, McKinsey Global Institute analysis

Global Trends, Key Drivers of Change and unknown Unknowns

If the European Union and its member states want to renew the European Social Contract and make it robust for a 2030 global environment, we need to better understand which drivers are at play and how Europe will be affected.

The following highly dynamic key drivers of change will play a prominent role for the future path of societies at large and Europe's future trajectories in particular. They will therefore be the main focus of our analysis:

1 Ageing population and migration

2 Disruptive technologies, digitisation and artificial intelligence (AI)

3 Rise of emerging markets in the global competition

4 Resource depletion and climate change

5 Polycentric World

Today, Europe stands at the crossroads on managing these and the pressure they place on the European Social Contract.

1. Demographic Change: Ageing Societies and Migration

In 1950, Europe's population accounted for one fifth of the world population. In 2060, its share will shrink to 5%. Whilst Europe's population is decreasing, the world population will hit 8.6 billion by 2030 and 10 billion in 2050, compared to the 2.5 billion just hundred years earlier. By 2050, Africa will double its population, whilst Russia will lose about one fifth of hers. Meanwhile, the populations in Asia and North America will grow by some 30% and that of Latin America by around 37%.

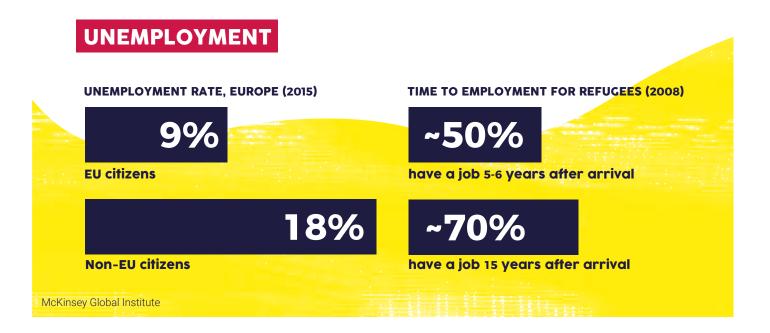## Implications of Europe's ageing society

Increased senior dependency ratios from 29% to 39% could put pressure on social spending (e.g. pensions and health care) whilst reducing the active labour force. This would reduce growth per capita, mostly from a lower workforce growth, but also from lower productivity per capita. Taxation potential would fall, increasing contributions per active citizen. Postponing retirement reduce the drag on per capita growth.

Thirty years from now, the EU's average age will be at 47.3, compared to 42.6 years today. Life expectancy will rise from 76 today to 82 in 2050. Without transformative migration and integration policies, low European birth rate will have a devastating impact on economy. Already today, skilled workers are lacking in many sectors – a trend which will be skyrocketing as Europe grows older. Today, European healthcare systems are at a tipping point, driven by the increasing burden of providing worldclass care for ageing populations at a time when the long-term effects of austerity measures are putting pressure on healthcare spending and medical technology innovation expenditure in particular. Europe is not fully appreciating the impact of disruptive technology in improving healthcare system sustainability for the benefit of patients either. At current levels of investment in healthcare innovation, intergenerational solidarity is restricted to the classical formula of the working age population supporting our ageing societies.

The potential of migration as a source for increased growth in Europe is stemmed by current levels of integration. As most migrants will be poorer than the current European population, inequalities will increase. Today, migration is considered to be the trend

UNEMPLOYMENT

UNEMPLOYMENT RATE, EUROPE (2015)

9%
EU citizens

18%
Non-EU citizens

TIME TO EMPLOYMENT FOR REFUGEES (2008)

~50%
have a job 5-6 years after arrival

~70%
have a job 15 years after arrival
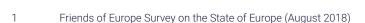
McKinsey Global Institute

that poses the biggest threats to the EU's social cohesion.[1] This notion subsists despite migrants having contributed (€1.98 trillion) or 14% of regional GDP in Western Europe in 2015.[2]

Europe – due to its geographic proximity, high standard of living and endurable climate – will remain the main destination of migration from Sub-Saharan Africa, the Sahel, the MENA and Greater Middle East regions. Despite the fact that European job markets need an influx of workers from abroad to counter the loss of economic competitiveness due to shrinking public resources, European job markets are not yet open for the arriving migrants. Across Europe, new migrants could help improve the rising old age dependency rate and make pensions more sustainable.[3] The lack of a common European solution in dealing with immigration risks the disintegration of European economies and may lead to socio-political instability. Dealing with the refugee crisis is also putting significant pressure on public budgets in countries with high refugee influx, especially in the Nordics, Germany and Austria. Still, in many European countries, the public believes increased refugee populations will increase the risk of terrorism.[4]

78% of migrants are economically active and could alleviate pressure of ageing population. Without improving integration, migration might, however, increase inequality. Economic migrants have 30% lower wages and 10% higher unemployment than native population after 5-6 years. Refugees show up to 50% unemployment after 5-6 years and 30% after 15 years.

But if we want to preserve our societies from d(r)ing out, it is all too obvious that we need to develop policies for structured immigration, brain gain and systematic integration. Ageing societies will not only fall behind in productivity and economic output – they will also shrink in terms of share of global GDP resources urgently needed for the replacement of outdated infrastructure, rising social security and public health care costs. Also, ageing societies tend to be more conservative, hesitant and risk-averse. Instead of striving for (disruptive) change and innovation, they rather try to preserve current standards of living.

1   Friends of Europe Survey on the State of Europe (August 2018)
2   UNDESA 2015; IMF 2015; McKinsey Global Institute analysis
3   UNDESA 2015; Eurostat 2015; UK ONS 2015; Pew Research Center: Birth rate and fertility; UK Office for National Statistics: Births, deaths, and marriages
4   Spring 2016 Global Attitudes Survey, PEW Research Center

2. Technological Innovation and European Hesitation

In the 19th and the first half of the 20th century, Europe was the centre of global innovation. Today, Europe is still one of the most innovative regions in the world, but disruptive technological breakthroughs now almost exclusively come from outside Europe. Globally, investment in innovation is growing at a rate of around 30% a year but not in Europe. Europe is also losing out on competitiveness in comparison to China, whilst the US is still well ahead.

The European Union would greatly benefit from investing in artificial intelligence (AI).[1] Not jumping on the bandwagon of other early AI-adapters may also result in a steeper race, with late adapters falling significantly further behind already in the 2020s. As the nature of work will be impacted by this digital revolution, education must follow.

New technologies could increase growth by more than 1 percentage point per year between 2017 and 2030. These gains are partially dependent on increasing spending in reskilling and ensuring the additional income circulates in the economy. This growth could be distributed unequally, with pressure on wages for low skilled and a premium particularly for those with advanced technological skills.

How fast emerging technologies are integrated into production cycles and our daily lives will decide not only Europe's economic competitiveness but also the viability of our socio-economic model – a model that was developed 150 years ago and is still based on national economies, industry-based production, centralised welfare states and lifelong work followed by second-life retirement.

"Technological transfer across regions and countries could counter the current trend of innovation polarisation in Europe"

Investing in the necessary digital skills already at an early stage could respond to these changes and cushion the damage. Globally, up to 375 million workers may need to switch occupational categories by 2030, due to future automation and digitisation. In Europe's five biggest economies, almost half the workplace activities could be automated by technologies that are already available.[2]

"In Europe's five biggest economies, almost half the workplace activities could be automated by technologies that are already available"

The impact of AI on inequality might be negative across the EU, and Southern European countries would benefit the least whilst suffering high inequality. In the EU, Austria, Denmark, Belgium, France, Finland and Sweden will see the highest increase in Gross National Income (GNI) per capita from AI. [3]

Whilst investments into research are considerable across the EU, not all innovation is research-based. For example, Lithuania has only 12% innovation coming from research while Denmark reaches 94%. This illustrates the difference within the EU in innovation culture and the potential effectiveness of the EU's research investment programme to meet the diversity of need across member states. Technological transfer across regions and countries could counter the current trend of innovation polarisation in Europe.

Also, differences in European and non-European innovation cultures can be observed not only in the realm of digitisation and AI but also in life sciences such as biotech, nanotech, and genetic engineering. A litmus test might be the introduction of policies promoting geoengineering and negative emission technologies.

The consequences of not entering the digital race may also result in serious strategic vulnerability in security and defence. Cyber, automated and nanotech warfare could have the same disruptive effects on our societies and strategic thinking as gunpowder had in the 13th century, air warfare in the first half of the 20th century and the atomic bomb thereafter.

1   McKinsey & Company, 2018
2   Oxford Economic Forecasts, Emsi database, US Bureau of Labor Statistics, McKinsey Global Institute analysis
3   McKinsey & Company, 2018

3. Emerging Markets

Emerging markets offer new opportunities for European economies but they are also fierce competitors. By 2025, European Union countries are predicted to represent only 86 companies in the Fortune Global 500, down from 168 in 1980.[1] We are amidst a global race for leadership in many areas, be it in the digital economy, life sciences, mobility, or many other economic sectors. At the same time, private sector revenue growth is shifting from Western Europe to the fast-developing countries.[2] Keeping an edge will not only depend on innovation rates but also on labour costs and the quality of social security systems which currently leave European products less competitive on the world market.

In 'winner-takes-all' digital technologies in particular, the EU could be disadvantaged compared to China and the U.S.

Take China as an example: Already today, China is the largest economy by GDP. It sends more students abroad than the Americas, Europe and Africa combined; it has a military budget that is only surpassed by the US; it holds more currency reserves than any other country in the world; and it positions itself as a leader in automation, digitalisation and AI. Even though its share of fossil fuels in the country's energy mix still amounts to

roughly 60%, China has become the forerunner in green energy installation.

"The EU-Africa relationship will shift from humanitarian aid to increased private investments for good, fundamentally developing the continent"

Yet emerging markets also serve as trade partners. With the European Commission serving as gatekeeper for EU markets, emerging economies are keen to negotiate free trade agreements and benefit from mutual profits.

By 2030, Africa is also forecasted to have enormous growth rates. Already today, private and public investment is transforming the continent. With its increasing strategic importance, the EU-Africa relationship will shift from humanitarian aid to increased private investments for good, including health, environment and biodiversity. These have the potential to fundamentally develop the continent and Africa's potential as a big market place, which is evident in the investment strategies of China and Japan: a reminder of Europe lagging in seeing this opportunity to turn its relationship with Africa in helping to develop markets and enterprise infrastructure. However, the African continent also faces tough challenges, population growth

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1   Fortune Global 500, MGICompanyScope; McKinsey Global Institute analysis
2   World Input-Output database; World Bank; IHS; McKinsey Global Institute analysis

accompanied with massive urbanisation and increased impact of climate change being at the fore.

India is likely to leapfrog many countries in terms of economic growth, with an increased military budget and tech hubs that are competing more and more with Silicon Valley. India's source of skilled and educated workforce and significant growth in its middle class will increasingly skew traditional trade and investments approaches both across Europe and beyond. The country's strategic importance globally will grow considerably in the next 10 years and have a similar impact, if not more significant, on the world stage as has been with China's growth trajectory – a player to watch and take into account in Europe's future trade and inward investment strategy.

4. Endangered Habitat and Dwindling Natural Resources

We have been living beyond our planet's means for decades. To be exact, on global average, today's mankind is using 1.7 Earths because it consumes more natural resources and eco-services, such as arable land, natural capital/biodiversity, water, decomposition of wastes and production of oxygen through photosynthesis, than nature can regenerate. In addition, we emit more greenhouse gases than the Earth's atmosphere is able to absorb.

Climate change and pollution negatively impact growth and the quality of life in the long term. Investments in shifting to a circular economy could add 7% to GDP by 2030 or 11% to disposable household income.

All EU countries reach the so called 'Earth Overshoot Day' – the day we have consumed this year's ratio of natural capital, well before the calendar year has passed. Only the poorest, developing societies stay within our planetary boundaries. Population growth, the rise of a global middle class with changing consumption patterns, urbanisation and massive infrastructure build-up, the increased need for energy and electricity for heating, cooling and mobility – all this leads to an often-irreversible degradation of our natural capital. As a result, climate change will accelerate, leading to domino effects and extreme pressure on our habitat and ecosystem.

Combatting climate change leaves an impact on government spending. Efforts on decarbonisation could affect prices of goods and disproportionally affect those with lesser means. Citizen contributions in the form of taxes to governments would also need to increase to close the investment gap to manage higher costs of the weather related events that are a result of climate change. Despite higher costs, European citizens are generally supportive of a European energy and sustainability transition, and willing to pay for it at current levels.[1] Moreover, meeting sustainability goals could also drive European growth. The circular economy in particular can help raise overall GDP and household income across Europe.[2]

Europe has already committed to ambitious emission-reduction targets and already transitioned to a relatively clean power mix.[3] While fossil energy has seen a resurgence in the US, Europe has shifted its power mix to renewable technologies.[4] However, in Europe we still use many resources inefficiently, across all sectors.[5] There are large inconsistencies in energy strategies across Europe, and countries have not made the same progress in the transition to a more sustainable economy.[6]

1   Gallup, Europe Risk Perception Survey, 2013
2   McKinsey Centerfor Business and Environment and the Ellen Macarthur Foundation, Growth Within: A circular economy vision for
         Europe, "June 2015
3   European Energy Agency, 2016, SOURCE: Energy Transitions Commission, Pathways from Paris: Assessing the INDCOpportunity,
         April 2016
4   Ener data
5   McKinsey Centerfor Business and Environment and the Ellen Macarthur Foundation, Growth Within:
         A circular economy vision for Europe, "June 2015
6   InstitutMontaigne, "The circular economy: reconciling economic growth with the environment,"
         November 2016; OECD 2014; EEA.

BUILDING SECTOR

CONSTRUCTION
10-15%
of building material wasted during construction

UTILISATION
60%
of European offices are not used even in working hours

50%
of residential dwellers report living in too much space

USAGE
20-40%
of energy in existing building can be profitably conserved

—

Passive building standards at or near profitability for most new-build segments, but still only constitute a minority of buildings

END OF LIFE
54%
of demolition materials landfilled, while some countries only landfill 6%

—

Most materials unsuitable for reuse as they contain toxic elements

FOOD SYSTEM

FERTILISER UTILISATION
95% of fertisisers do not provide nutrients to the human body

31% OF FOOD PRODUCED IS LOST OR WASTED

69% OF FOOD IS CONSUMED

Not absorbed by human body

Fertiliser used to feed people

Used by inedible part of crop

Lost or wasted vegetables

Not taken up by Crops (up to 70%)

Releasing GHG emissions and causing eutrophication and drinking water pollution

CONSUMER WASTE
11%

VALUE CHAIN WASTE
20%

69% CONSUMED

5. A Polycentric World

We are already seeing more competition over values, governing principles, human rights and identity politics in the public sphere. This competition between value systems will also be experienced within societies, through the degree of human rights and personal freedoms, the role of the media and civil society groups. The world has become polycentric – with strong regional players across all continents that fence off their spheres of influence and challenge other players' interests in these regions.

At the same time, we are witnessing a growing renunciation of international institutions: the liberal international order is being tested and the powers representing the UN order find themselves in competition with alternative systems of governance. China has started to establish a parallel global order mimicking the Western model. Given China's rise in the global economy, its military build-up and its strategic infrastructure projects around the globe, the Chinese alternative to global governance may be well established by 2030.

But the polycentric order also opens up new opportunities for transnational networks and civil society organisations, such as human rights activists, environment protection networks, advocacy and opposition groups, even dissidents. Organised crime as well as non-state violent groups also benefit from the changing global landscape.

"The EU's close neighbourhood, a former 'ring of friends' today is described as a 'ring of fire'"

In the EU's close neighbourhood, the former 'ring of friends' is now being described as a 'ring of fire'. For years to come, Europe will have to cope with a geographic environment that will remain chaotic, fragile, sometimes bellicose. Between 2014 and 2017, defence spending in most major Western European countries increased, but many will still fall short of the 2% NATO target.[1]

The MENA region and the Greater Middle East in flames; Russia an opponent again, threatening the independence and sovereignty of states in the so called post-Soviet space; the US and the UK turning their backs on Europe; Turkey leaning towards authoritarianism; and EU member states being deeply divided over more issues than ever before – all these invite new security risks for the Union.

In addition, the geopolitical scene could require NATO members to reach their commitments of spending 2% of GDP in defence. The cost of dealing with cyberattacks already stood at around 0.4 percent of EU GDP in 2014, and is expected to quadruple by 2019, according to the European Political Strategy Center.

The EU has responded to the new threat landscape by a deepened security cooperation through the Permanent Structured Cooperation (PESCO). Moving to a pooling of EU defence could provide an estimated savings potential of up to 30% on investment volume.[2] The EU Global Strategy from 2016 reiterates the need to strengthen European military capabilities.

1   NATO, Defence Expenditure of NATO Countries 2010-2017, June 2017
2   McKinsey analysis -Based on EDA Defence Data (2014), McKinsey weapon system fragmentation analysis as in Munich Security Report 2017, and calculation scheme as published in McKinsey, "The Future of European Defence: Tackling the Productivity Challenge," 2013.

The Future We Face

"Only if we can think the unthinkable, will we be able to prevent it"

Today, the sobering mainstream EU story is being told like this: With the United Kingdom finally leaving, France will assume a leadership role within the European Union whilst Germany is gridlocked due to a weakened chancellor and a grand coalition running on the lowest common denominator. Meanwhile, Italy becomes increasingly Brussels-sceptic, chiming in with Poland and Hungary – two European countries that turn more and more pseudo democratic. In this "Dance of the Elephants", smaller member states fear to be pounded and demand a stronger say.

If Europe sticks to its current course of trying to preserve unity at any price and avoid marginalisation among global powers, it will end up always doing too little, too late, with too much hesitation – a triad that soon might become the formula of an EU running on autopilot.

"If Europe sticks to its current course of trying to preserve unity at any price and avoid marginalisation among global powers, it will end up always doing too little, too late, with too much hesitation"

But this is only one plausible trajectory for the EU; one that extrapolates current trends and phenomena into the future. But as we have seen in the last 20 years, the future is rarely a linear projection of the past. Modern history can hardly be described as a smooth and incremental process towards peace, stability and prosperity. It is rather being characterised by disruption – both positive and negative – turmoil, crises, new coalitions and alliances, power shifts and, eventually, renewal.

Already today, influencers across the EU prepare societies and constituencies for alternative narratives of a future European Union. Some are in favour of a multi-track EU, a scheme to save the Union from being sucked into a vicious circle.

Others want to forge a core-Europe that will move towards deeper integration. And at the same time, others do not want to go beyond the European Single Market. According to this thinking, the EU by 2030 could be an organisation of different layers of cooperation, intensities of integration and, therefore, more flexible in its approach vis-à-vis societies in its immediate neighbourhoods.

Others vehemently oppose such concepts. They fear that a multi-speed or multi-track EU would soon lead to political entropy, dual-standards and the erosion of European values, whilst paving the way for illiberalism and nationalism. The dilemma is that we cannot test alternative models in vivo.

Hence, if we want to prepare ourselves for an uncertain future, the EU, its member states as well as societies at large need to improve their capacity to anticipate change before it occurs – through foresight analysis and scenario thinking – in vitro. Only if we can think the unthinkable, we will be able to prevent it. And only if we have a notion about the shape and timing of chances and opportunities, will we recognise them early enough to benefit from them. It is high time to move back into the driver seat.

Strategic Foresight – Four Alternative Futures for Europe in 2030

Scenarios are used extensively by government and business to explore what could be the future. Without knowledge of the different directions the future could take, policies cannot be designed to steer it in a positive direction or to prevent the downsides from occurring. Scenarios are therefore not predictive; they are rather instructive for future decision making.

All scenarios presented here envision a European Union from a 2030-perspective. They take into account the internal and global trends, key drivers of change plus possible low probability/high impact events ("Black Swans") that have been detailed in an earlier section. Each represent radically dissimilar futures due to the approaches the EU and its member states take with the different trends and the challenges they present.

In this exercise, we have examined the interplay between a weak or strong EU and a strong domestic or global focus.[1] In reality, the pressures on any future European Union will come both domestically and externally, but one will be relatively stronger or weaker. This does not exclude the fact that any external or domestic pressures have implications impinging on the other. These are detailed in the scenario narrative.
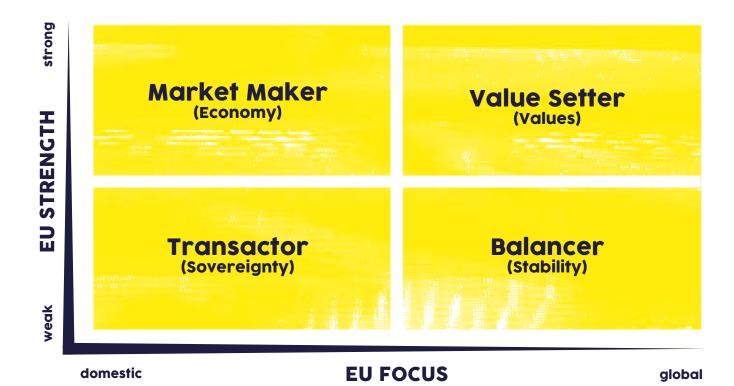
In constructing the matrices and writing the scenario narratives, we were particularly interested in analysing the implications of each scenario on European security, prosperity and sustainability – they are listed in a synopsis attached to each scenario since these policy fields constitute the three essentials of any social contract.

We have given names to each scenario, signifying the overall thrust.

For "Market Maker," the domestic forces are as strong as in "Transactional Europe," but the EU is much stronger to deal with them. "Market Maker" can concentrate on fortifying the economy while "Transactional Europe" must contend with the growing sense of sovereignty in the member states.

The same logic applies to the "Value Setter" and the "Balancer" scenarios: A strong EU with a global ambition will be able to play a leading role in the world. A weak EU with global ambitions would – at best – be able to play a balancing role in an emerging G2 world, dominated by the US and China, with other regional actors trying to play more independent roles.

1　There are different ways to construct scenarios. The 2x2 matrix in which the x and y axis each constitute an independent and key variable helps to ensure all possibilities are explored, not just the more desirable ones.

	strong		
	Market Maker (Economy)	Value Setter (Values)
EU STRENGTH		
	Transactor (Sovereignty)	Balancer (Stability)
weak		
	domestic	**EU FOCUS**	**global**

Scenario A: Market Maker
A Strong EU with a Domestic Focus

In the 2020s, raging global trade wars resulted in the EU suffering a painful and long-lasting recession. For its economic survival, the EU decided to create its own sphere of economic influence. Expanding the EU market area to immediate geographic neighbours and more far-flung like-minded states would help compensate for the drop in the EU's trade and investment due to international protectionism.

The EU began by upgrading the Deep and Comprehensive Free Trade Agreements with neighbouring countries to the East and the South. It further developed trade agreements with both Asian and African countries, starting with India, which surpassed China in population numbers but also developed a steadily growing, consumer-happy middle-class. The EU also reached out to the West African Union ECOWAS with Ghana and Nigeria being frontrunners in (digital) platform economies. In addition, the Union built on recent trade deals with Canada, Australia and Japan, who also feared negative consequences by increasing isolationist policies.

To further ease economic hardships, the European Commission began negotiations with Moscow to eliminate remaining sanctions and investment barriers, in return for Moscow easing tensions in Ukraine and dialling back on cyber hacking in Europe. The EU also decided to seek closer political and economic cooperation with Beijing, as the Belt and Road Initiative is progressing.

With the breakup of global economy into self-contained blocs, the EU has no compunction about using sanctions and non-tariff barriers to protect European workers and companies. The EU instituted unified rules and regulations on artificial intelligence and robotics to protect workers' rights. Whilst the EU is focused on its internal stability and development, the new trade agreements contribute to sustainable global trade and the slow-but-steady spread of EU regulations on social standards and environmental protection.

Whilst widening its economic sphere of influence, EU member states concentrated on internal structural reforms – first, to become globally

more competitive in the long haul, and second, to ease the immediate impact of the economic recession.

First, the EU ramped up its promotion of the digital economy with most member states making massive investments into research and development (R&D), followed by investments in education and skills training. This surfaced given the bloc's need for the best-trained workers and world-class technological innovation if it was going to fuel continued economic growth. The EU also encourages greater use of new technologies over the medium-to-long run in order to boost the efficiency of government and business operations.

Second, maintaining social welfare programmes was vital if the EU's governing institutions were to receive continued public support and if inequality was to be fought. However, a broad reform of welfare programmes was accelerated. To boost workforce participation and trim costs, retirement age went up, enabling the quality of services to remain stable. The development of EU data hubs also increased the efficiency of the healthcare sector and other social services across the EU. European cities became frontrunners in the use of digital technologies to deal with traffic congestion, policing, delivery of healthcare and other services with the aim of exporting Europe's know-how to emerging urban centres in Africa, the Middle East, Central Asia and other regions.

Third, to ease its dependency on imports, sustainable consumption and circular economy as well as biodiversity management climbed high on Europe's agenda. Due to the systematic

use of appliances enabled by Big Data and artificial intelligence, water and energy consumption in cities and in rural areas dropped considerably. Energy markets were integrated while common energy and climate standards were legislated across the EU. All of these initiatives have substantial start-up costs, which are paid for with financial transactions and carbon and digital economy taxes.

In a major reform, EU member states also agreed to set up a Coordination Office on Migration and Asylum. It is mandated to make recommendations directly to the European Commission and the European Council. The Coordination Office established an investment fund and an expert pool to support members states and regions in their effort to integrate highly skilled immigrants.

Whilst concentrating on internal reforms, the EU did not turn a blind eye on Africa and the MENA region. The EU is heavily engaged in the reconstruction of Syria and the stabilisation of Iraq and Lebanon. Simultaneously, the EU redoubled its efforts to promote economic development in Africa. Increased private investment has helped to fundamentally change parts of the continent – especially in North Africa, Horn of Africa and within the ECOWAS zone of influence. But the modus operandi has changed: African states and societies have become more self-confident, and due to the geo-economic and geopolitical importance of the African continent, Africans can increasingly pick and choose their partners. As a result, competition on the African continent is high – but so are the chances for cooperation, including the establishment of trilateral contacts with China,

especially in the field of food security and the refinement of mineral resources for the Green Economy Transformation. A positive side effect is that fewer African migrants seek economic opportunities in Europe. At the same time, European universities and other education institutions took in an increasing number of African students with the idea of helping them acquire skills that are vital for economic development at home, most of them offering virtual Master Programmes online.

Finally, after years of weakening transatlantic ties and challenges posed by a multitude of new security threats, Europe has finally understood that "diplomacy without arms is like music without instruments". Hence, Europe adopted a comprehensive security strategy worth its name, set up integrated armed forces, decided upon shared R&D and procurement and built a civil-military-industrial complex capable of developing the latest weapons systems.

This big leap forward in policy coherence and capabilities not only prepared the EU to respond to emerging threats in an increasingly polycentric (and highly competitive) environment but it also prepared its member states to cope with unknown geo-strategic territory: due to climate change, the Arctic is now ice-free most of the year.

Despite these news challenges, Europe can look into the future with confidence: even if the outside world is backtracking to the realist world of the 19th century, the EU seems to be on the cusp of realising the original aim of its founding fathers: "Together we stand, divided we fall."

Scenario A: Market Maker – A Strong EU with a Domestic Focus

Drivers	Triggers	Social Contract: Security	Social Contract: Prosperity	Social Contract: Sustainability
>Ongoing trade wars; protectionism and increased regionalisation of international affairs >Long-lasting recession in Europe >Disintegration of the liberal world order (free trade, collective security, protection of the commons) >Economic anxieties combined with external threats create stronger unity among Europeans who fear being left behind	>European leaders see no other choice but to create its own economic sphere of influence (economic "cordon sanitaire") >Willingness of like-minded states to cooperate (Canada, Japan etc.); reachout to new strategic partners in Africa and Asia with a new mode of cooperation (trade not aid) >The EU seeks closer political and economic cooperation with Beijing, as the Belt and Road Initiative is progressing	>EU engages in the reconstruction of Syria, Iraq and the stabilisation of Lebanon >Massive private investments in Africa which became a geopolitical and geo-economic hub curbs migration >Europe drops sanctions and trade barriers against Russia >EU negotiates selective trade deals with like-minded partners (Canada, Australia), widens its Deep and Comprehensive Free Trade Agreement (DCFTA) with neighbouring countries (Algeria, Tunisia, Egypt) and invests in emerging markets >EU develops trade agreements with other growing economies in Asia (India et al.) and Africa (ECOWAS), spreading environmentally sustainable regulatory standards >The EU is developing an integrated military force, R&D and procurement, reinforced by France's nuclear capability; decreasing reliance on NATO	>Increased use of sanctions and non-tariff trade barriers to protect European workers and companies >Broad reform of welfare programmes and retirement systems to boost workforce participation rates, including measures to reach gender parity, and increase labour market accessibility to immigrants and the older generation >Commitment to finance minimum welfare programmes across the EU paid for by financial transaction, carbon and digital economy taxes >High social, environmental and data protection standards inside the EU, non-tariff barriers and taxes on imports; Industry 4.0 boost and build-up of European digital economy >EU Finance Minister coordinates economic and fiscal policies and promotes structural reforms >Common immigration and asylum policies tailored to the need of the EU labour market; establishment of a Coordination Office on Migration and Asylum	>The EU ramps up its promotion of the digital economy >Massive investments into R&D, education and skills training to ensure more equal opportunities across the EU and a Europe rich in knowledge, talent, art, creativity and innovation >Big Data and AI appliances for efficient use of resources (esp. water and energy) >Unified rules and regulations on AI, robotics, social, civil rights, environmental and food standards. Efforts to ensure biodiversity >Strong integration of energy markets, common energy and climate standards inside the EU, carbon tax on imports >Build-up of applied R&D networks to fight the impact of climate change, Carbon Capture and Storage, Geo Engineering; development of synthetic fuels; introduction of EU-wide circular and shared digital economy concepts >Increased trilateral cooperation with China in Africa (food security, mineral resources for green economies)

Scenario B: Value Setter
A Strong EU with a Global Focus

Authoritarian states pose a growing challenge to the liberal world order and compete both in terms of militaries and economies with the West. An increasing number of states around the world – even in Europe – are mimicking models of "managed pseudo-democracy", turning inwards and becoming more confrontational.

With international cooperation and trust at low levels, Europe in the early 2020s found itself in a very unpleasant environment: Following the collapse of the Joint Comprehensive Plan of Action (JCPOA), Iran has resumed its nuclear programme, triggering Saudi Arabia and others to start their own nuclear weapon programmes. Russia continued to interfere in elections on behalf of right-wing parties across Europe, tried to further destabilise Ukraine and undermined European policies in the Western Balkans and the Middle East. Meanwhile, the US and China are at loggerheads over trade and security issues, further deteriorating the state of international affairs. To restrain authoritarian regimes' appetite for conflict and to bolster European interests globally, a European Defence Union has

been set up (including parts of the British Armed Forces and coordinated with a declining NATO). Cooperation in foreign policy has also been vastly improved among EU member states.

Confronted with a steadily deteriorating international order and with a grim future outlook, the old transatlantic partners searched for a new common ground in the mid-2020s. While populism in Europe peaked already during the 2019 elections to the European Parliament, pro-European politicians have become more confident about calling for reforms of the Union. After years of protectionist leanings, the US ended its withdrawal from international engagement, and China that suffered most from economic stagnation signalled its will to cooperate in regions that were previously highly contested: Central Asia, Africa and the Pacific.

Meanwhile, the EU has shown that it can successfully manage migration without closing its doors to the world. While a common Border and Coast Guard controls the Schengen borders, the European Asylum

Office enforces common asylum standards and distributes refugees evenly across the Union. Simultaneously, an ambitious reform of the "Blue Card" system eased migration for the highly qualified to live and work in the EU.

Immigration policies are being flanked by an expanded "European Reconstruction and Stabilisation Plan" for Africa and the Middle East. This has not only spurred economic development (mainly driven by digital platforms) but also led to vibrant civil society networks working on social and environmental issues. All this contributed to a reduction in illicit immigration flows.

At home, European leadership has become more diverse, launching an impressive reform agenda to foster growth, reduce inequality and increase the political, social and fiscal integration. With European leadership becoming more diverse, involving more women and minority groups in leadership roles, governments have become more socially minded. More member states have adopted the euro and agreed on common social standards and welfare programmes to bolster solidarity and enhance the EU's

competitiveness. A European Finance Minister oversees the coordination of fiscal policies in the eurozone, manages a shared investment budget to encourage the implementation of economic reforms, and invests in countries hit by asymmetric shocks. The minister also chairs a newly established European Monetary Fund that serves as lender of last resort.

To remain at the forefront of technological innovation, the EU has massively increased the resources going to research and innovation, and has created a common Agency for Breakthrough Innovation. Major EU cities have moved ahead on their own on using smart technologies to improve the delivery of public services, increase citizen involvement in public policy, boost "urban quality of life" and tackle climate change. Riding on a wave of optimism, newly built trust and citizen engagement, European leaders also gradually reform public pension plans, extending the retirement age and cutting benefits for future retirees to guarantee long-term financial sustainability.

Taking note of all these improvements, like-minded nations in Africa (such as Ghana, Nigeria, and Ethiopia), in Asia (notably Japan, unified Korea, and India) and the Americas (including the US, Canada, Mexico, and Chile) join the EU in its effort to revitalise international cooperation and commit themselves in rebuilding a more equitable and inclusive international order based on liberal values and freedoms.

Their common agenda includes the promotion of free trade, the development of new regional security architectures, the fight against climate change and its impacts, and the transformation of infrastructure into the digital age – an ambitious agenda that calls for new forms of participatory governance, the protection of social and environmental rights and standards, and the reinvention of governance institutions – with a strong emphasis on regional organisations.

The new alliance of liberal states also works closely together in setting standards for future technologies, such as the use of artificial intelligence and robotics and other new technologies such as biotech, nanotech and geoengineering. They promote rules, regulations and regimes for the governance of cyber space, space (including the exploitation of other planets) and the high seas (including the Arctic and Antarctica), and they join forces to pressure others to bolster cooperation across the different areas of the commons (climate, water, soil, biodiversity, ecosystem services). By 2030, climate change has already demanded a high toll.

By the late 2020s, the EU has a lead role as a regulator of globalisation, whilst upholding universal human rights, and also as a champion of solidarity and equality. Europe perceives itself as a guardian of the global commons and has strengthened its sovereignty in the international arena. But even more importantly, EU institutions and courageous leaders from all walks of life have reinvigorated civic engagement and a new sense for democratic values across the EU member states – mainly achieved by staying on course during times of turmoil, bolstering solidarity among and beyond EU member states in times of crisis, and encouraging substantial investments in dire times.

Scenario B: Value Setter – A Strong EU with a Global Focus

Drivers	Triggers	Social Contract: Security	Social Contract: Prosperity	Social Contract: Sustainability
> Autocratic and pseudo democratic regimes increasingly challenge the liberal world order and their neighbours > Russia continues to destabilise Ukraine and the Western Balkans and aggressively interferes in European elections > Escalation of conflicts in the Greater Middle East triggering a nuclear arms race	> Eurosceptic populism is on the decline, pro-European forces gain ground as the continent experiences solid growth rates and declining unemployment > The US ends its withdrawal from international engagement and recommits itself to the protection of a rules-based world order > Europe together with like-minded partners in Africa, Asia and the Americas pursue a common agenda of trade liberalisation, democracy promotion, human rights, and the protection of global governance institutions > China opens up for cooperation in formerly contested regions (Central Asia, Africa, the Pacific) to ease pressure on multiple fronts and to reduce transfer costs to improve overall security	> EU member states strengthen cohesion within the Union trough deeper political, social and fiscal integration to defend themselves against external threats > The European Border and Coast Guard effectively protects the Schengen borders on its own authority > The European Asylum Office enforces common asylum standards and procedures, distributes refugees across the Union > The EU launches an expanded "Reconstruction and Stabilisation Plan" for Africa and the Middle East to spur economic development > Based on PESCO and firmly integrated into NATO, a European Defence Union underpinned by common budgets, deployable forces and weapon systems, is created > The EU speaks with one voice on foreign policy issues and finally enlarges into the Western Balkans > Brussels protects civil liberties inside its own borders; structural and development assistance is made contingent on adherence to the rule of law	> Member states agree on minimum welfare standards across the EU to improve economic equality, financed by unionwide taxes on financial transactions, carbon emissions and the digital economy > The euro is adopted by more and more EU member states; a common Finance Minister manages an investment budget to increase convergence and the European Monetary Fund assesses the debts sustainability of member states > To remain competitive, EU member states increase their spending on infrastructure and R&D and launch a common Agency for Breakthrough Innovation > The EU expands its ambitious trade agenda and exports its social, environmental, data protection, and food quality standards	> Retirement ages are gradually extended, and pension schemes are reduced to guarantee longterm financial sustainability > The EU opens up its labour market to immigrants to address the demographic challenges many member states face > Europe ambitiously reforms its Blue Card system to better attract highly qualified immigrants from third countries > Europe works together with like-minded states in developing the notion of a "commons"; European cities become key players to fight climate change and promote sustainable lifestyles through smart infrastructure > The EU sets standards for the use of AI, robotics and other new technologies to protect human and civil rights, including privacy and labour standards

Scenario C: Balancer
A Weak EU with a Global Focus

The EU is increasingly fractured and paralysed at home. Immigration remains a hot political issue. In an attempt to discourage their entry, asylum seekers are held in detention camps outside the EU for increasingly long periods before a decision on their entry is made. In exchange for their cooperation, governments in North Africa and the Middle East are rewarded with large amounts of development aid.

The Union's internal divisions are also worsened by the ongoing economic malaise due to continuing trade wars. Rising global protectionism slows global growth rates, and unemployment and poverty increase especially in Spain, Italy, Greece, and Portugal. Fuelled by these trends, Eurosceptic groups gain further ground across several member states.

Outside forces seek to widen the European chasms. Russia expands its cooperation with far-right groups across the continent and actively supports them. As the growing economic divergence between the north and the south threatens to tear the eurozone apart, Germany and other northern countries agree to grant southern member states greater fiscal flexibility and increase structural and investment funds. Northern and Baltic states work on investments in renewables and diversify their energy sources to gain greater energy independence. With climate change devastating regions across the Earth's sun belt, the EU launches a Union-wide Environmental Fund, to protect fragile ecosystems along its borders, such as the Sahel and MENA regions, in an attempt to stop one of the root causes for migration.

Few member states manage to adequately reform their retirement and welfare systems, creating severe fiscal challenges and rising national deficits, therefore fuelling populist parties. In an attempt to balance inequalities between member states some welfare programmes are reestablished at EU level. The funds for these investments are raised by Union-wide taxes on the digital economy and financial transactions. To balance the diverse interests among member states, the EU introduces fiscal transfers to assuage inequalities and promote stability within the economic bloc.

Although the EU stays intact, it fails to address many challenges due to internal disagreements. Brussels remains incapable to prevent the democratic backsliding in several Eastern European states. Member states are also unable to agree on substantial investments and research programmes. Europe increasingly falls behind in the global innovation race and becomes dependent on technological imports.

While the EU balances its fractured domestic politics, it maintains unity in its external policies – border control, security and maintenance of its share of global trade being its main concerns. With the US drifting further away from Europe and undermining NATO, storms are gathering in the Middle East and East Asia. Meanwhile, Israel and Saudi-Arabia launch attacks on Iran's military infrastructure, leading to a permanent destabilisation of the Greater Middle East.

Despite Europe's internal fragmentation, Europeans stand united in their reactions to the escalating global context. Strong responses come from the French and German governments: Berlin and Paris see their role as trying to salvage as much of the rules-based world order as possible. Led by a revitalised Franco-German alliance, a majority of EU member states consolidate their foreign policy, increase defence spending and create a combined military force that is able to secure Europe's southern borders, but can do little more. A minority of EU member states continue to look to NATO for security, but do not want to be sucked into the looming global conflicts.

Development cooperation with Sub-Saharan and Central Africa as well as the MENA region is increased to ease the influx of illegal migrants and also to reduce the risk of terrorism in Europe. But the EU is unable to agree on decisive policies that would either ease the pressure on neighbouring societies suffering from the impacts of climate change (such as the salination of the Nile Delta) or those caused by massive population growth (leading to chaotic urbanisation).

To pursue as many of its global economic and security interests and to ease the severest hardships in its immediate neighbourhood, the Union intensifies its cooperation with like-minded partners such as Canada, Japan, Nigeria and India, and explores opportunities for investment and trade agreements with the wider African continent. The EU strategically engages the US wherever it can, and tries to find a modus operandi with Russia and China in diplomatic overtures to ease global tensions.

While the big powers move forward in digitalisation, automation and artificial intelligence and engage in a race for AI warfare supremacy, the Old Continent tries to forge alliances aiming at setting standards for new technologies to protect their

citizens from outside interference and the downsides of rapid and ungoverned technological breakthroughs.

The protection of the habitat and efforts to slow climate change have become a casualty in this kind of international environment. Even though most governments and societies have understood that the fight against climate change is key for human security, economic prosperity and longterm social equality, the global momentum is geared towards competition and the survival of the fittest. Europe, nevertheless, sticks to its environmental policies trying to transform its energy and transport infrastructures from fossil fuels to renewables, slowly but surely. Smart City concepts as well as smart grids help to raise energy efficiency up to 30% by 2030 and shared economy platforms reduce traffic considerably in inner cities across Europe.

But prospects are bleak for a European Union that suffers from external pressure and is weakened by internal disagreement. Cooperation rests on the sobering notion that European nation states would suffer even more from international competition and conflict than if it stays united. The member states

try to develop more than just lowest common denominator agreements wherever and whenever they can.

Finding a formula to regain political initiative would be key but this demands trust in leadership, confidence in Europe's inner strength, its social and cultural capital, its values as well as its entrepreneurial strength and visionary power.

Scenario C: Balancer – A Weak EU with a Global Focus

Drivers	Triggers	Social Contract: Security	Social Contract: Prosperity	Social Contract: Sustainability
> Immigration remains a hot political issue > Trade wars and protectionism linger on > The US grows protectionist and further withdraws from Europe > The EU suffers from ongoing economic and political splits between North-South, and East-West > Populist, Nationalist and Eurosceptic movements are expanding their influence in Brussels and several member states > Climate change is devastating large parts of the Sahel and MENA regions	> Russia intensifies its cooperation with far-right groups in Europe > Iran expands its involvement in Syria, sparking a military confrontation with Saudi-Arabia and Israel > In reaction to escalating hostilities between global powers, EU member states coordinate their foreign policies and launch diplomatic initiatives	> Driven by anti-immigration sentiments, the EU closes its borders, turning back refugees on the Mediterranean and resettling them outside of Europe > Development cooperation with Sub-Saharan and Central Africa, as well as the MENA region is increased to ease influx of illegal migrants and also to reduce the risk of terrorism in Europe > Several EU member states, led by Germany and France, launch joint military force, increase defence spending aimed to protect EU borders and interests > NATO becomes irrelevant as EU member states refuse to be sucked into looming conflicts > EU launches initiative to standardise new technologies to protect citizens from outside interference and the downsides of rapid and ungoverned technological breakthroughs	> Unable to agree on large investments and research programmes, Europe increasingly falls behind in the global innovation race and becomes dependent on technological imports > To mitigate the welfare gap between South and North, the EU increases its structural funds and grants member states more fiscal flexibility > Unionwide taxes are raised on the digital economy and financial transactions to mitigate intra-European inequalities	> Social welfare costs are rising across Europe and threaten its financial sustainability as populist movements prevent substantial reforms > West European member states increase investments in renewables and diversifies its energy sources to gain greater energy independence > Despite the erosion of the international climate protection regime, the EU sticks to its ambitious aims to combat climate change (efficiency gains through digitalisation and Smart City concepts) > Several member states pool their resources and launch an Environmental Fund to protect fragile ecosystems in its immediate periphery and to mitigate root causes of migration (such as climate change, chaotic urbanisation etc.)

Scenario D: Transactional Europe
A Weak EU with a Domestic Focus

Europe is overwhelmed by internal divisions. With German nationalism on the increase, the traditional Franco-German motor has slowed down to the point that there is no possibility of agreement on any EU reforms.

At the same time, domestic woes have increased, with the poorest member states experiencing the hardest hit.

The EU appears increasingly irrelevant to most European citizens. Not only is it unable to improve the daily lives of Europeans but Brussels also seems to be unable to secure European interests in the broader global context. The EU has failed to rebuild trust in its project among citizens. As the EU becomes more dysfunctional, its member states are reclaiming power from Brussels and renationalising the continent. Europe is increasingly split between north and south, west and east. Slow global growth, due to global protectionism and trade wars, also acts as a curb on intra-European cooperation.

A recurring problem undermining voter confidence in governmental organisations at EU and member state level is the failure to find a structured way in which to address the migration crisis and the growing numbers of migrants from Africa and the Middle East. Despite the slowdown in many EU member states, economic opportunities remain better in Europe than in the migrants' homelands.

Within European states, the political and social fabric is being torn apart by arguments between liberals asking for more humanitarian treatment of incoming migrants and those on the nationalist right-wing, calling for expelling migrants and putting up a fortress Europe. Liberal arguments are increasingly losing out to nationalist ones in public opinion surveys and an increasing number of governments are moving away from liberal democracy as the model for coexistence.

Under growing public pressure posed by the far right, individual member state governments, including those inside the Schengen zone, start closing their borders. At first, these border closures are temporary in response to surging number of migrants, but after a while, the closures remain permanent. With Schengen now just a shell, the single market for goods and services stays mostly intact, but free movement of people is no longer on the table.

Inequality between member states increases rapidly. Germany and the Nordic countries, for example, remain competitive in the global marketplace, but others are falling behind. Populism rages throughout the EU, even in the wealthier states but there is no common front.

Nationalists, for example, in the better-off northern tier states oppose social transfers to the east and south, further fuelling anti-northern sentiment in more impoverished regions. Pro-European movements have eventually become defeated by the low trust of citizens in government and institutions.

Over time, Europe's divisions become even more visible. Because they do not want to endure the austerity which the EU imposed on Greece and other countries after the euro crisis, Italy and Greece elect to leave the eurozone, raising questions about the durability of the euro in international markets. Populist parties in Central European and Mediterranean countries call for their citizens to exit the EU altogether despite the fact the United Kingdom suffered economic losses after its separation.

The European Commission cannot reach a consensus on any trade initiative because of the deepening splits between member states. Various blocs inside the Union (Northerners, Visegrád, Mediterranean) are forming to deal with their specific problems. Northern European and Baltic states are increasingly co-operating on issues such as AI, energy and robotics, without consulting other members. Germany, Austria and Italy openly defy Brussels, drop all remaining sanctions against Russia and sign cooperation agreements with Moscow.

The EU fails to introduce common environmental standards and cannot agree on any strategic energy policies. Northerners invest in more renewables while southern, central and eastern European member states abandon goals to fight climate change. Most Europeans still do not want to disband the EU, but there is too much distrust and too many divisions between member states for cooperation to be rebuilt. EU common and security policy is increasingly absent, with member states working bilaterally with each other as well as with third parties in defiance of EU law to set their own course.

Scenario D: Transactional Europe – A Weak EU with a Domestic Focus

Drivers	Triggers	Social Contract: Security	Social Contract: Prosperity	Social Contract: Sustainability
> No agreement between France and Germany on substantial EU reforms > Enduring influx of immigrants, absence of meaningful burden sharing > Return of economic recession due to global trade disputes > The competitiveness of the EU decreases markedly overall, while Germany, the Nordics and others have improved their economic clout in the global marketplace > Rising poverty and inequality in Southern and Eastern Europe fuel populist and nationalist sentiments > Failure to build trust in the EU project and solidarity between EU citizens	> Italy and Greece fall out of eurozone. Common EU currency about to fail. Other countries see little growth and fall increasingly behind leaders > Nationalists opposing social transfers to the south are elected in Northern Europe > Several EU member states/populist movements within EU member states indicate their willingness to follow the British example and leave the Union	> Inside the Schengen Zone, individual member states close their borders > Member states are increasingly pursuing their own interests in foreign affairs. Several states such as Germany, Austria and Italy are dropping out of the Russia sanctions regime > Various blocs inside the Union are forming to solve their specific problems (Northerners, Visegrád, Mediterranean) > EU common and security policy is largely non-existent, with member states working bilaterally with others to set their own course.	> The single market for goods and services remains mostly intact, but free movement gets increasingly restricted > Without reforms of the eurozone, divergence increases and several member states are falling back into major recessions > Trade initiatives are coming to a halt as diverging interests are delaying negotiations > Northern European and the Baltic states are increasingly cooperating on an ad-hoc base on issues like AI, energy and robotics	> Member states nationalise their strategic energy policies. France doubles down on nuclear energy and Poland on coal > The EU fails to introduce common environmental standards. While technologically advanced states increasingly invest in renewables, Southern and Eastern Europe will partly abandon climate goals

CONCLUSION

The Case for a Renewed European Social Contract

Without rebuilding confidence in the European project, we are not likely able to mitigate the effects of macro trends, populist sentiment and a changing global context. However, it is not enough to call for more Europe if the solutions to citizens' everyday problems are not going to be solved.

As we have witnessed, the current challenges and citizens' expectations are not the same as they were 70 years ago when the EU was founded. The existing European social contract is based on a society where the population was expected to live shorter lives, disruptive effects of technology with today's magnitudes belonged in Sci-Fi novels, (western) states ruled the world, European industry was a giant in all sectors and climate change seemed to only occur in the shape of hairspray. Today we face a very different reality.

"With the failure to meet expectations, we may even end up with the demise of democracy as we know it"

Without renewing itself, politics cannot find its way back to citizens. Instead, the lack of trust among citizens turns into a vicious cycle, where citizens are less involved in politics, and policymaking becomes less inclusive. Citizen participation and women's leadership will be vital for solving the big challenges and rebuilding public trust in EU institutions. Additional efforts are needed to ensure the inclusion of youth in decision-making. Whilst millennials represent 24% of the adult population in the EU, in comparison to older EU generations the millennial voice, vote, consumption habits and power varies considerably. Globally, 58% of their millennial peers live in Asia. This generation will undoubtedly shape much of what's to come. Just as important is the inclusion and participation of cities, regional and local actors. Many cities are already investigating how to provide better services through digital means.

Kicking structural problems continuously down the road is not a sustainable option. The EU may need more powers or be better resourced in some areas, but the political will to solve these challenges is the biggest problem.

At the far end of the spectrum, the failure to meet expectations we have may lead to the demise of democracy as we know it. Thus, it is our duty to uphold the belief in the European project. In this regard, our proposal lies in tying rights and responsibilities of citizens, businesses and policymakers to each other in a renewed social contract for Europe, based on prosperity, sustainability and security.

Prosperity

In this context, prosperity refers to both economic and social. From the business perspective, the European market needs to stay competitive in the light of emerging markets and technological innovation, while encouraging trade. Citizens expect their work to generate income and their contributions to society show positive results in the quality of public service and social protection. Thinking of new ways of taxation may become necessary to mitigate macro trends affecting education, health and social security systems.

Sustainability

We need to work on ensuring a sustainable future for Europe and the world and on investing in a sustainable digitalisation. Moving taxation away from the positives, such as labour, to taxing negatives, such as pollution, is one idea. Issues of inclusion need to be addressed by incorporating gender and diversity perspectives. Existing and increasing inequalities within the EU can be fought with fiscal and technological transfers between the member states. Can we fight nationalistic rhetoric by building pan-European solidarity? The EU will only be as strong as its weakest region.

Security

With geopolitics on the rise and global powers shifting, the EU must seize this opportunity to offer a plausible sense of security to its citizens, ranging from a destabilising neighbourhood to asymmetric threats and cyberattacks. Investing in credible EU defence and fully exploring the potential of PESCO could give the EU a credible deterrent. Around the world globalisation needs to also be regulated. The EU should resurge as a champion for solidarity, protecting global human rights and European values. Regulating globalisation also entails fighting tax havens that increase inequalities and hollow out trust.

The fact that EU integration ensured peace in Europe for much of the past seven decades is no longer enough for younger generations who did not grow up in the shadows of World War II and the Cold War. Maintaining Europe's quality of life, wealth, and cultural identities will be difficult enough in the face of globalisation.

In a world of eroding social cleavages, emerging transnational networks and alliances, and all pervading social media, societal institutions need to become more transparent, and political processes have to become more participatory, bottom-up-driven and decentralised. The European Union needs to become more citizen and less state driven. Preserving Europe's place in the world will be shaped by how it fundamentally tackles the big challenges ahead and rebalances the relationship between citizens, member states and the 'Brussels Bubble'.

Ultimately, a social contract is a collection of behaviours and a mindset that believes that there is a set of relationships between state, citizens as well as private and civil society sectors which can work to deliver positive outcomes for all and generate social progress. It is about the type of role a state/governing body adopts in relation to its mandate; the type and quality of relationship between a state/governing body with the people it serves; and its relationship with the private and civil society sectors. It serves as an agreement about how these relationships should operate; and what are the shared values and mutual expectations underpinning these relationships.

A social contract for Europe is also about adopting structures of governance, policies and actions that are based on more power sharing and finding ways of working that are focused on challenges society will face in the future. The purpose is to learn from the past and deliver better, with respect for accountability and transparency and by engendering greater trust within society. The social contract is based on a view on what makes a society good, so that it fulfils the requirements and needs for economic growth, peace, security and sustainability, in terms of measurable actions on decarbonisation, support to preserve the planet and making better use of its resources. It is a belief that a society can become better by operating in this way and on these terms.

As part of this publication, we propose that a renewed social contract can be the glue to bind citizens, members states as well as private and civil sectors together in the belief that Europe can work, deliver and matter to them.

About Friends of Europe

Friends of Europe is a leading think tank that connects people, stimulates debate and triggers change to create a more inclusive, sustainable and forward-looking Europe.

CONNECT

Friends of Europe is an independent think tank with a difference – we believe innovation is a mindset, behaviour and action. We aim to be catalysts for change and believe that real solutions come from transforming mindsets through the confrontation of ideas and the breaking down of silos between politicians, businesses and civil society.

Believing that change is achieved through inclusive policies and action, we reach out to and work with a wide network of policymakers, international organisations, civil society representatives, business leaders, academics, the media and citizens across Europe and beyond.

We have no national or party political bias and ensure that all viewpoints are represented in our activities and publications.

DEBATE

We foster open, insightful and provocative debates to stimulate fresh ideas and creative thinking.

Our portfolio of events and reports means that Friends of Europe contributes ideas and leads the debate on a wide range of EU-related issues, including:

Climate and Energy | Health | Asia, Africa and Emerging Economies | Digital, Skills and Inequalities | Peace, Security and Defence | Migration and Integration | Citizens' Europe.

Our European Young Leaders (EYL40) programme connects Europe's most promising talents, and our Board of Trustees brings together the knowledge and experience of European leaders who include Presidents, Prime Ministers, European Commissioners and Presidents of the European Parliament.

The Development Policy Forum (DPF), the Asia programme and the Europe-China Forum build bridges to foster global partnerships.

Europe's World, our policy journal, is the only pan-European publication which offers a unique insight into the views of leading policymakers and opinion-makers on European and global challenges.

Our online platform Debating Europe encourages citizen-led debates with policymakers. In less than five years, it has built up a 3.9m-strong community of citizens across Europe and over 280,000 social media followers who put their questions to high-profile decision makers.

CHANGE

We offer Europe's citizens an opportunity to take an active transformational role in shaping their environment. We use ground-breaking online brainstorms to bring different stakeholder groups together from all over the world and constantly innovate in how we convene and shape discussions. Through our debates, conferences, working groups, reports and recommendations we provide bold and ambitious but practical solutions for a more inclusive, sustainable and forward-looking Europe.

Friends of Europe in figures

· **5000+** senior participants and speakers
· **65+** events
· **100** publications and **200** op-eds
· **320,000+** strong social media community
· **1.120m** unique visitors to its websites