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## **THE TURNING POINTS IN THE EUROPEAN UNION'S INTEGRATION PROCESS IN THE COMING YEARS. WHAT ARE THE INCENTIVES FOR CREATIVE AND SUSTAINABLE ECONOMY?**

### **Abstract**

*EU Member States are currently experiencing a certain lack of trust in the economic, political and social relationships which could seriously weaken the willingness to take collective responsibility for the future development of the EU. This state of affairs has affected the financial and economic crisis in the EU countries, and – to varying degrees – has affected the Member States. Some countries have been forced to make radical changes in their economy, while other countries experienced the effects of the crisis as less painful. In this article the author presents that the key challenges to be faced by the European Union in the coming years are connected with economic, social and political problems.*

**Keywords: European Union Challenges, single market, economical relationships, social relationships, political relationships**

Nowadays, more than ever, the EU Member States are asked to show mutual trust in their relationships within the European Union. However, at this moment they do not have a clear unified vision of the European Union. This fact can seriously weaken their willingness to undertake a joint responsibility for the EU's future development. The financial and economic crisis has influenced the Member States differently – some countries have suffered badly from its impact while in other countries these effects were less painful. Reforms undertaken by national governments respond to situations specific to particular countries, but they still need to be set in the framework of agreed policies. A strict cooperation between the national and the EU institutions

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is indispensable. This is the only right way to overcome the consequences of the crisis. The EU Member States should not forget that solidarity is the fundamental rule in the European integration process. This rule should be reflected in debates on topics related to appropriate economic policy under new challenges. Despite the effects of the crisis, EU policies determine a new phase of the EU growth to elevate the EU position on the global scene through indicating the incentives to start new industries and fostering innovation processes, to strengthen research and development, and to strive for progress in social cohesion under the trends towards more stratified and diverse societies. To enhance the EU's capabilities to follow the path of smart, sustainable and inclusive growth, better use of human and natural resources (resource effective economy), promotion of energy policies and diminishing social and regional disparities by combating poverty and improving regional cohesion of the EU are crucial and need to be highlighted.

Tensions and opportunities emerging from the EU integration processes may create more differentiation. Societies at different levels have built upon their own social, cultural, linguistic, historical and institutional arrangements. This social infrastructure may be highly effective in tackling challenges and in increasing a society's resilience, but it may also be an obstacle, for instance, when this infrastructure loses its dynamism and its adaptability, or when it is governed by special interests. Coping with financial and economic crisis of the last years has shown it very clearly.

The key challenges faced by the European Union in the coming years are connected with economic, social and political problems.

Within the economic challenges, the following turning points belong to the most important for the future of the EU economy:

- the full Single Market which may become an important innovation asset of the EU, provided that a more balanced, unified and homogeneous innovation market emerges and the digitalization process of the Single Market is continued;
- the progress in innovation and productivity – taking into account the aging of the population, the shrinking of the European labour force and the increasing migration on the one hand, and increasing pressures for social policy reforms and stabilization of public finances on the other, the European Union needs to mobilize all resources, in particular its intellectual capital, to keep its competitiveness in the world;
- a full liberalization of the EU energy markets, which still has a long way to go. Many years after the process started, the energy sector in Europe is still highly concentrated, cross-border trade in energy is limited and prices differ substantially from one country to another. In order to make an internal energy market a reality, the following core areas need particular attention:
  - a European grid with common rules and standards for cross-border trade;

- a priority interconnection plan to stimulate investment in infrastructure, linking various national grids, most of which are still not adequately interconnected;
- solidarity between member countries for monitoring energy demand and security of supply (more than 500 million consumers have to talk the same voice);
- adequate energy reserves in the EU to cope with potential supply disruptions.
- speeding up the progress in production and consuming renewable energy. The EU Member States expect to reach 20% of gross final renewable energy consumption by 2020. If we convince the whole world to participate in the process of reducing emissions, we could go up to 30%. According to the International Energy Agency, 33 trillion US dollars will need to be invested in energy supply infrastructure between now and 2035 in the whole world – a half of that amount in power generation and around 42% in transmission and distribution of energy. Non-OECD countries account for 64% of total investment needs, with China alone representing 16% of investment needed;
- higher effectiveness of financial regulatory systems and banking systems and their governance. The Union has to continue the adjustment needed at the level of Eurozone and Member States and reform its economic governance to reduce the risk of future crises;
- the regional dimension of the integration process should also be looked into as another important area, intended as a leading development and investment policy for closing the Member States' competitiveness gap. The cohesion policy faces new challenges. Firstly, it is crucial to change the mindset of regional authorities: they should look for smart specialization based on real entrepreneurial potential of their regions. It is not only the IT or biotechnology that may create comparative advantage. To find the niche in a region, however, it is necessary to think about the resources that lay at the heart of it. New global settings open possibilities, but there must be a regional strategy that sets out the priorities. Secondly, the new cohesion policy should create added value. The money invested in regional policy must create the snowball effect. The current financial perspective brings new settlements. The policy, aimed to reduce regional disparities, needs re-thinking. The regional policy must be in line with the Europe 2020 Strategy. The priorities of Europe 2020, i.e. smart, sustainable and inclusive growth, should be incorporated into the new cohesion policy. To make it happen it is crucial to set the priorities in line with the Europe 2020 strategy. Deeper integration will make the efforts more cohesive. The new cohesion policy must focus on: industrial restructuring, innovation, quality of labour, institutions (government). Finally, to make the current financial perspective effective, building the critical mass through the projects is needed. The European funding is not the only part of regional policy; national co-funding must be safeguarded, too. The new financial perspective

should be focused around growth in the innovative sense (smart specialization). New goals should be consistent with the Europe 2020 Strategy, because this strategy sets out long-term goals, the achievement of which will get the EU back on the path of growth;

- more effective and fruitful regional policy of the EU could be achieved if the 'Smart specialisation' of the EU regions is given the proper attention – smart specialisation constitutes the solution which is available not only for the most developed regions, it does not have to be combined with biotechnology nor with advanced, high technologies, but it has to be tightly connected with the region's economy. Digitalisation, which creates extremely large development possibilities, constitutes another challenge for many regions.

From the political point of view, most important for the EU are the following activities:

- supporting strong partnership with other actors of transnational transformations in the 21<sup>st</sup> century, like international organizations and informal groups (G8/G20);
- closer partnership with third countries – the EU can do more to reach out to the world. We need to open new markets within Europe and between Europe and the rest of the world:
  - deepening the social, cultural and economic cooperation between the EU and the Eastern Partnership countries, because this cooperation will contribute to the democratization process in those countries, developing markets for EU companies (e.g. banks) and increasing different aspects of security in Europe. For example, the issues that could in this context be considered by academics and researchers refer to sharing best practices in research, development and innovation management, as well as developing innovation strategies and reforms of research and innovation systems;
  - other countries which are very important in the EU external policy are: the USA, the Mediterranean countries and China.

The most urgent social challenges for the coming years are the following turning points:

- ensuring sustainable development of the quality of life of the European society – for enhancing its capabilities to follow the path of smart, sustainable, and inclusive growth, the EU should focus on resource-effective economy, promotion of energy policies, diminishing social and regional disparities by combating poverty and improving regional cohesion of the EU. The key issue that must not be neglected refers to a better use of human and natural resources;
- encouraging activity of young people in the job market by building creative competencies of young people through modified education systems. The high speed

- of change of technologies exposes educational institutions to big challenges to adapt and deliver the competences required by the economy and society;
- deepening intergenerational solidarity together with fostering the development of civil society. These issues can be addressed largely through social innovation. It is also a very good time to deepen the research on this topic;
  - fighting the crucial issues of social insecurity:
    - job insecurity – not only among young people, but also other groups in the society. The issue of an ageing society is one of the most important challenges of the present society – another important issue in this area is the insecurity in the relations between employee and employer;
    - the insecurity regarding the relationship of man vs. advanced technology in the workplace – learning to interpret the consequences of the omnipresence of technology and formation of networks of a new kind as a result of that omnipresence, should be made our priority;
    - gender insecurity and the perceptions of women's role in different areas of life.
  - solving the question of population change in Europe – profiting from long-term increases in life expectancy, the Europeans live longer and longer, and more people survive until old age. The ageing of the population resulting from continuous mortality decline is easily predicted. These changes have far-reaching consequences for many domains of economy and society, which should be adjusted to the new demographic regime in Europe. Clearly, the demographic change cannot be ignored when discussing the future growth prospects of the EU;
  - the global challenge of migration – if the EU wants to manage the immigration flows inside, it needs to strengthen its cooperation with other countries, including the countries of origin and transit. Another important question is the intra-EU mobility from the economic and social perspective.

All challenges indicated above promote a strategic and integrated approach to innovation, which optimizes the synergies between and within different EU and national/regional policies, and ensures greater involvement of different research groups and networking in the innovation process and support the full use of Europe's intellectual capital. With regard to the profound changes that are taking place in the workplace, the output should be the understanding of the processes going on in postmodern organization and the recognition of the sources of the changes which are going to affect it. Since these processes are of global nature and scope, they would make both the local research, as well as its hypothetical results, inconclusive. The sustainable and inclusive growth means reconciling economic, social and environmental goals and diminishing socio-economic inequalities. In addition, these activities have to be performed smartly to increase the EU's competitiveness in a more complex and

demanding business environment, subjected to financial economic shocks. These ambitious goals seem even more demanding when one accounts for the population change in Europe.

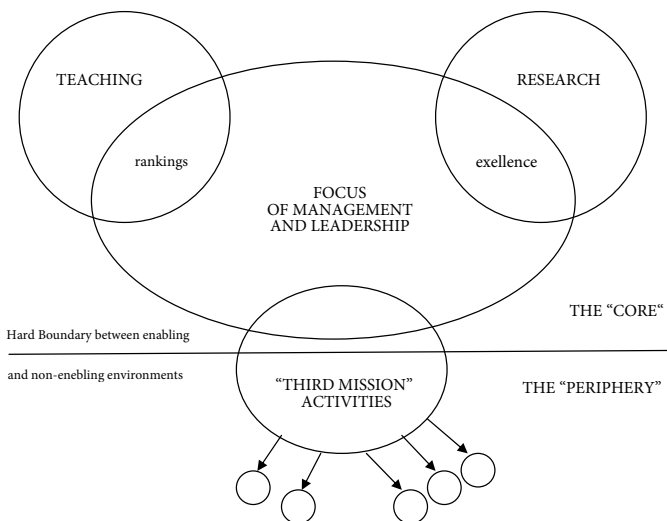
The European Union's future competitiveness, as well as its well-being and unity, under sustainable development objectives are therefore connected with solving four types of contentions: political, social, environmental and economic contentions – solving them requires socially conscious and responsible science, i.e. socially-relevant science and technology – linking to “Excellent Science” and “Industrial leadership” is needed. Most important for the researchers of the European integration process in the coming years it is therefore to analyse and develop policy recommendations for an ideal European Social/Financial and Economic/Political/Cultural Models, and to find answers to the questions: (i) how can the European Social Model be adapted and preserved, (ii) how can Europe's political institutions be renewed (European Political Model), (iii) how can Europe's financial and economic structure be strengthened (European Economic and Financial Model) and (iv) how can Europe's unique cultural structure be made more of an asset than today (European Cultural Model).

Our research should therefore be responsible and innovative. Responsible Research and Innovation (RRI) – a new paradigm being discussed among the EU Member States and the European Commission – covers many aspects and requirements via the research process under new challenges faced by the EU. RRI is the on-going process of aligning research and innovation with the values, needs and expectations of the society. Decisions in research and innovation must consider the principles on which the European Union is founded, i.e. the respect for human dignity, freedom, democracy, equality, the rule of law and the respect for human rights, including the rights of people belonging to minorities. RRI requires that all stakeholders, including the civil society, are accountable to each other and take shared responsibility for the processes and outcomes of research and innovation. This means working together on: science education, the definition of research agendas, the conduct of research, the access to research results and the application of new knowledge in society – in full respect of gender equality, gender dimension in research and ethical considerations.

Under new circumstances, the main areas of universities' activities have to change – being one of the main subjects of society conducting research, they should consider RRI as the background of their long-term policy for research and education, because the way innovation takes place is changing. Taking into account the fact that the ongoing economic crisis is putting European governments under enormous pressure to respond to the challenges of public and private debt at the same time as global competition intensifies and consequences of such situation for local communities and taxpayers who face difficult economic situations are questioning the “value” of

universities, especially where the benefits may appear less obvious, e.g. in regions with high unemployment – public funding for higher education is under scrutiny, compelling universities to demonstrate their value and direct contribution and benefit to society and the economy. In response, universities are rethinking their role and responsibilities, and engage in teaching beyond campus walls that directly benefits the public. All of this requires institutional transformation within universities. “Public support for universities is based on the effort to educate citizens in general, to share knowledge, to distribute it as widely as possible in accordance with publically articulated purposes... Universities have flourished in the modern era as central public institutions and bases for critical thought. They are currently challenged by a variety of social forces and undergoing a deep transformation in both their internal structure and their relationship to the rest of society. Critical theorists need to assess this both in order to grasp adequately the social conditions of their own work and because the transformation of universities is central to a more general intensification of social inequality, privatization of public institutions, and reorganization of the relation of access to knowledge. This is also a pivotal instance for asking basic questions about the senses in which the university is or may be ‘public’: (1) where does its money come from? (2) who governs? (3) who benefits? and (4) how is knowledge produced and circulated?” (Calhoun 2006).

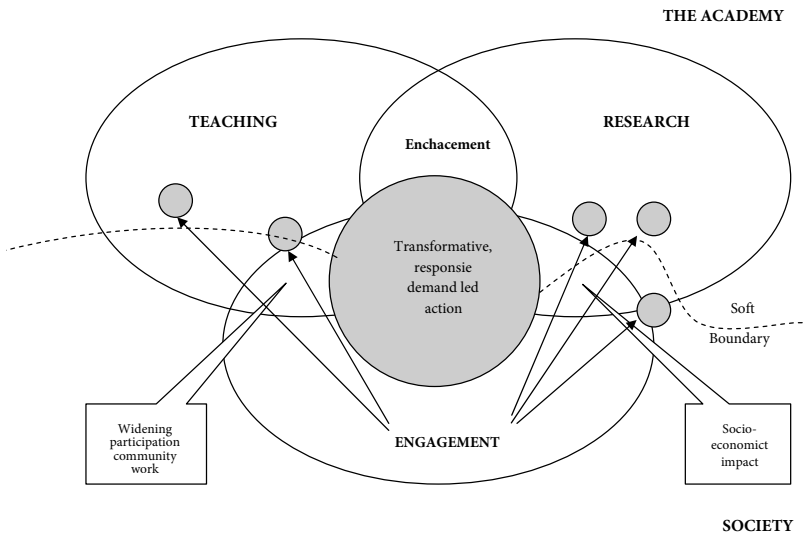
**Figure 1. The Traditional University**



Source: Goddard (2014).

As indicated by John Goddard (2014), currently there are two business models of the university – the entrepreneurial university model with a strengthened steering core and the triple helix model of universities, business and government with semi-autonomous centres. None of them consider the necessity to involve the civil society as a partner in their actions and undertaken activities. This requires a new model of a university, but unfortunately policies and practices discourage their engagement. And at the regional level, the lack of vision of the role of the public sector, as well as motivation by narrow self interest and short-term goals from the side of the private sector make such changes even more difficult.

**Figure 2. The Civic University**



Source: Goddard (2014).

Nevertheless, knowledge creation and mobilization of resources require shifting universities towards being open and relevant to the civil society's expectations and require education, research and innovation centres based on coproduction with consumers, customers and citizens. "The shift towards social innovation also implies that the dynamics of ICT-innovation has changed. Innovation has shifted downstream and is becoming increasingly distributed; new stakeholder groups are joining the party, and combinatorial innovation is becoming an important source for rapid growth and commercial success. Continuous learning, exploration, co-creation, experimentation, collaborative demand articulation, and user contexts are becoming critical sources of knowledge for all actors in R&D & Innovation" (Goddard after ISTAG 2010).



The initiation of ideas and the requirements of the innovation process should come from citizens. Public authorities, firms and universities therefore are expected to support citizens' innovative activities under a mutually beneficial engagement. All of them have their own , aims, tools and areas of activities. Public authorities should provide tools making it easier for firms to offer products and services relevant to citizens and for universities to undertake research and education activities utilizing the civil innovations.

Some important actions structuring the political background for these processes have already been taken by the European Union and its Member States. One of the most important ones was the decision to establish the European Research Area.

Article 179 of the Treaty on the European Union (Treaty of Lisbon) states that the ERA can help the EU to strengthen its scientific and technological bases. It describes the ERA as a 'single market' for research and researchers which should make it possible to share data, compare results, carry out multi-disciplinary studies, transfer and protect new scientific knowledge and gain access to centres of excellence and state-of-the-art equipment.

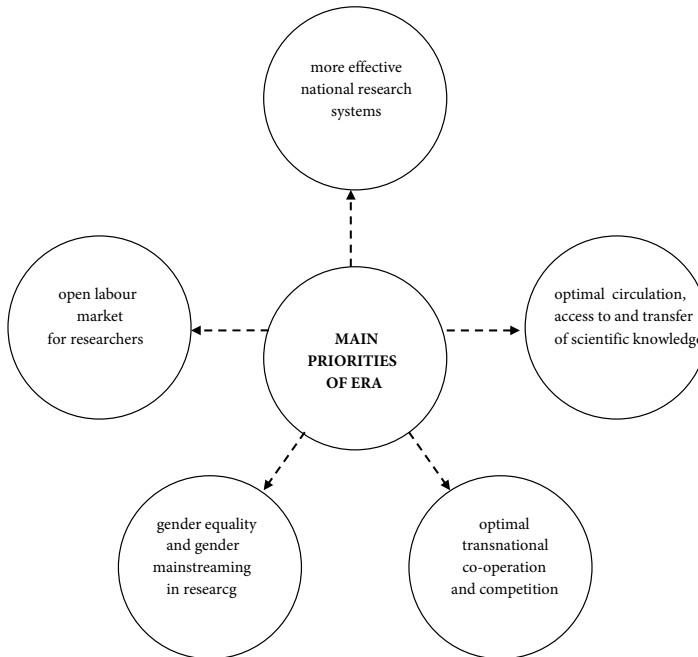
The most important principles of the ERA are:

- **Open Access.** Free movement of knowledge is a central principle of the ERA. The results of research funded under Horizon 2020 will be freely available to all. This means that scientists, businesses and even the public will be able to read the latest science and apply its findings. The EU research funding programmes have an important role to play in making this new way of sharing science the norm. Progress is also being made on encouraging the publication of research data – the information on which research findings are based.
- **Mobility of Researchers.** Free movement of scientists is a prerequisite for creating a single market for research. EURAXESS ([www.euraxess.org](http://www.euraxess.org)) is a pan-European initiative which provides information and support services to researchers to help them take up jobs outside their home countries. The EURAXESS job portal lists thousands of vacancies and fellowships from more than 40 European countries and other parts of the world including China, India and the US. More than 200 EURAXESS Service Centres operate in 40 European countries to help researchers and their families with things like work regulations, taxation and social security.

Other obstacles to mobility exist, which need to be tackled by policymakers – for example, making sure that researchers can move from one EU country to another without losing out on social insurance or pension entitlements. The Commission supports the setting up of a single European pension arrangement (RE-SAVER) to help researchers keep their supplementary pension benefits when moving between different countries.

- **Coordination of National Research.** Closer coordination of national research priorities in different countries can bring benefits because, by pooling resources, funding can be used to tackle major problems which might otherwise be too large for one Member State to address on its own. It also reduces unnecessary duplication, helping to ensure that scarce resources are spent efficiently. Examples include the ERA-NET scheme, which provided targeted support for the coordination of national and regional research programmes, and Joint Programming Initiatives (JPIs), which allow countries to come together to tackle major challenges such as climate change and healthy ageing.

**Figure 3. Main Priorities of the European Research Area**



Source: European Commission (2015): 5.

However, the core element of the Europe 2020 Strategy is Innovation Europe, ensuring Europe's competitiveness and growth for the coming decade. World-beating science is essential to Innovation Europe. Productivity improvements are necessary to become more innovative and to explore our lead in high-growth markets. To make it possible for Europe to remain a place where great inventions are made and find their way to the market we need to act, and to act fast. Moreover, according to the latest Innovation Union score, the EU's level of performance is significantly below that of the

US and Japan. Despite recent efforts, there has been no major progress in reducing this gap since the 1980s. Over the last 15 years the EU share of world R&D expenditure has decreased by a fifth. This gap is widening. At the same time, emerging economies like India and China are catching up. Therefore, we have to create an environment that is more open to innovation and thus better positioned in terms of global competition to attract investors, entrepreneurs and top talents to research and innovation. Innovation Union is a comprehensive package of actions aimed at achieving an innovation-friendly environment within the EU. It strives to boost research and innovation in the EU through a series of measures to the benefit of public authorities, entrepreneurs, citizens, as well as researchers and engineers. Priority is given to challenges of common interest, with the objective of improving framework conditions, and to the access to finance for research and innovation activities, and in turn paving the way for a single innovation market. To achieve this objective, Innovation Union builds on 34 commitments and funding from the Horizon 2020 programme, among other instruments. At the moment 100% of the actions set out in the context of Innovation Union are on course, with different levels of implementation. In particular, five European Innovation Partnerships dealing with: active and healthy ageing, agricultural sustainability and productivity, smart cities and communities, water, raw materials, have been established in order to foster cooperation of the EU, national and subnational stakeholders. Measures reinforcing the use of public procurement for innovation, introducing the passport for cross-country venture capital investment or creating unitary patent protection go in the direction of improving the innovation-friendliness of the business environment. Steps have also been made towards the achievement of the European Research Area, which aims at increasing the efficiency and effectiveness of public research systems to generate higher productivity, competitiveness and growth in the EU. And monitoring tools have also been set up. A comprehensive Innovation Scoreboard provides an assessment of the innovation performance of the EU Member States and the respective strengths and weaknesses of their research and innovation systems. In addition, a new indicator of innovation output has been designed – however, work is still ongoing to address some of its limitations – with a view of monitoring the EU's and its Member States' innovation outcomes against their main trading partners. It relies on four main dimensions, namely technological innovation, employment in knowledge – intensive activities, competitiveness of knowledge-intensive goods and services and employment in fast-growing firms of innovation sectors. The measures set out in the framework of Innovation Union for sure go in the right direction, however, the materialisation of the associated benefits crucially depends on proper implementation. No matter what, we have to admit that Innovation Union has not prevented the increasing risk of innovation divide inside the EU. Since 2008, the EU has managed to close almost half

of its innovation performance gaps with the United States and Japan. Yet, within the EU the dynamics of convergence between the innovation performance of the Member States has come to a halt and disparities between countries are growing.

Summing up, to make the EU progressing along the Europe 2020 Strategy path we should explore and examine how the unlimited arsenal of intellectual capital the EU should be used within the context of growing competition, increasing economic and social inequalities along with regional disparities, demographic change, and energy and environment pressures.

Europe 2020 sets out a vision of the continent as a knowledge-based economy, with a target of 3% research and development intensity to be achieved by the EU by 2020. Program Horizon 2020 with its EUR 80 billion budget for the period 2014–2020 becomes the Union's main contribution to reach this ambitious goal. Horizon 2020 is aimed at using money in more effective way for multiplying its effects all over the Member States and to strengthen the EU's position in science, empowering industrial leadership in innovation and tackling the societal challenges the EU is facing. Europe can become a better place to live and work, though: an open access to scientific publications, a clear and ambitious budget for research and innovation in renewable energy sources and energy efficiency, a substantial budget for SMEs, gender equality, better control of public-private partnership, a proper role of social sciences and humanities, genuine dialogue between science and society about contributing to the integration of scientific and technological endeavour into the EU society and strengthening researchers' competences and skills. 30% of the Horizon 2020 budget will be devoted to societal challenges – reflecting the problems which are major concerns to citizens of the EU and improving people's live through improving the Union's competitiveness, boosting growth and job creation. If we want science to be a priority for public investment, we need the EU citizens to share scientific values and recognize how science contributes to progress.

The impact of the crisis will be experienced for many years. Today, the unequal distribution of income and wealth in Europe, together with ratings published by rating agencies, generate large interest rate differences between the indebted and the "wealthy" countries. In the debtor countries the results are negative capital account balances. The compulsion to generate a current account surplus is used to justify austerity measures, i.e. cuts in wages and social spending. People affected by these policies do not accept such an explanation and protest loudly, with street riots. As long as the current account generates only small or no surpluses, this can only be resolved through inflows of new capital. But pumping money into the economy leads nowhere. The only way out is to work out a sound recovery program which will identify country-specific conditions and their strengths, with intellectual capital properly taken into account.

Another important issue is the social agenda. The most visible human cost of the crisis is the high level of unemployment (particularly among the youth), as well as inequalities. Also, the issue of social reforms under demographic change should be considered just as important.

Next, a focus should be on the outcomes, not income. This is not only related to competitiveness, but to the economic policy in general. A good example are structural funds and the EU cohesion policy. It is clear that financial support, with particular emphasis upon the Structural Funds, is a pre-condition for growth and development. But this is not an end in itself. Results should be measured against improvements in the standard of living. In this context it is crucial to remember that a smart growth is the key to successful competition. Better addressing the priorities which will go along with the Europe 2020 Strategy will result in more effective usage of financing.

It is also important to review growth strategies vis-à-vis their impact on the environment. The concern for environment and growth can and indeed must go well together. There are many economic opportunities that promote green growth. We should tap into them and create a conducive policy framework that will allow for structural transformation of our economies based on the energy security policy.

Finally, we need to better define the targets we pursue. Rather than being limited just to put up growth rates, they should also include real improvements in people's lives. This is not only an ambitious goal but something truly worth to be considered while advancing competitiveness issues and proposals.

## Conclusions

Europe is currently experiencing a number of serious problems. There is a number of grand challenges that have to be dealt with. Innovation and optimizing the intellectual capital of the EU with special attention to research and innovation are key factors in overcoming the current socio-economic difficulties, to keep working places in Europe, and to address the other economic and societal challenges that are forthcoming.

The Europe 2020 Strategy, the Innovation Union, the Horizon 2020 Programme, Joint Programming, the EU-wide patent, the Structural Funds and all other policy initiatives and instruments have their own roles to play, but they should be managed in a cohesive way. The structure of the programs through concentration of resources shall create the effect of synergy. But we have to remember that the process of building the modern European economy must be based on commitment of all the Member States, which could be achieved only if their current socio-economic

conditions and development aspirations are taken into account. Each Member State has specific resources and unique experiences – its own intellectual capital which may become a source of future economic growth, wellbeing of European societies and sustainable development of Europe. But taking full advantage of intellectual capital also requires active participation of the EU institutions and other players, including research communities. With their capacity for developing, adapting and transferring ideas, knowledge and technology the universities and other research centres and innovation players are essential for the process of shaping and strengthening the European Research Area and putting Europe back on the path to economic progress and innovation leadership. Research agendas require solid long-term road-maps in order to ensure real impact on the challenges themselves. As the success in addressing the challenges can benefit greatly from unexpected technological breakthrough, it is important to leave room for disruptive research and to establish the conditions for transversal application of new knowledge and innovation practice across societal challenges. But we have to remember that effectiveness of the research depends on the capability to transfer the knowledge generated in that research to the users (market, public policy makers, citizens...) and this requires more interaction and collaboration between researchers and users.

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