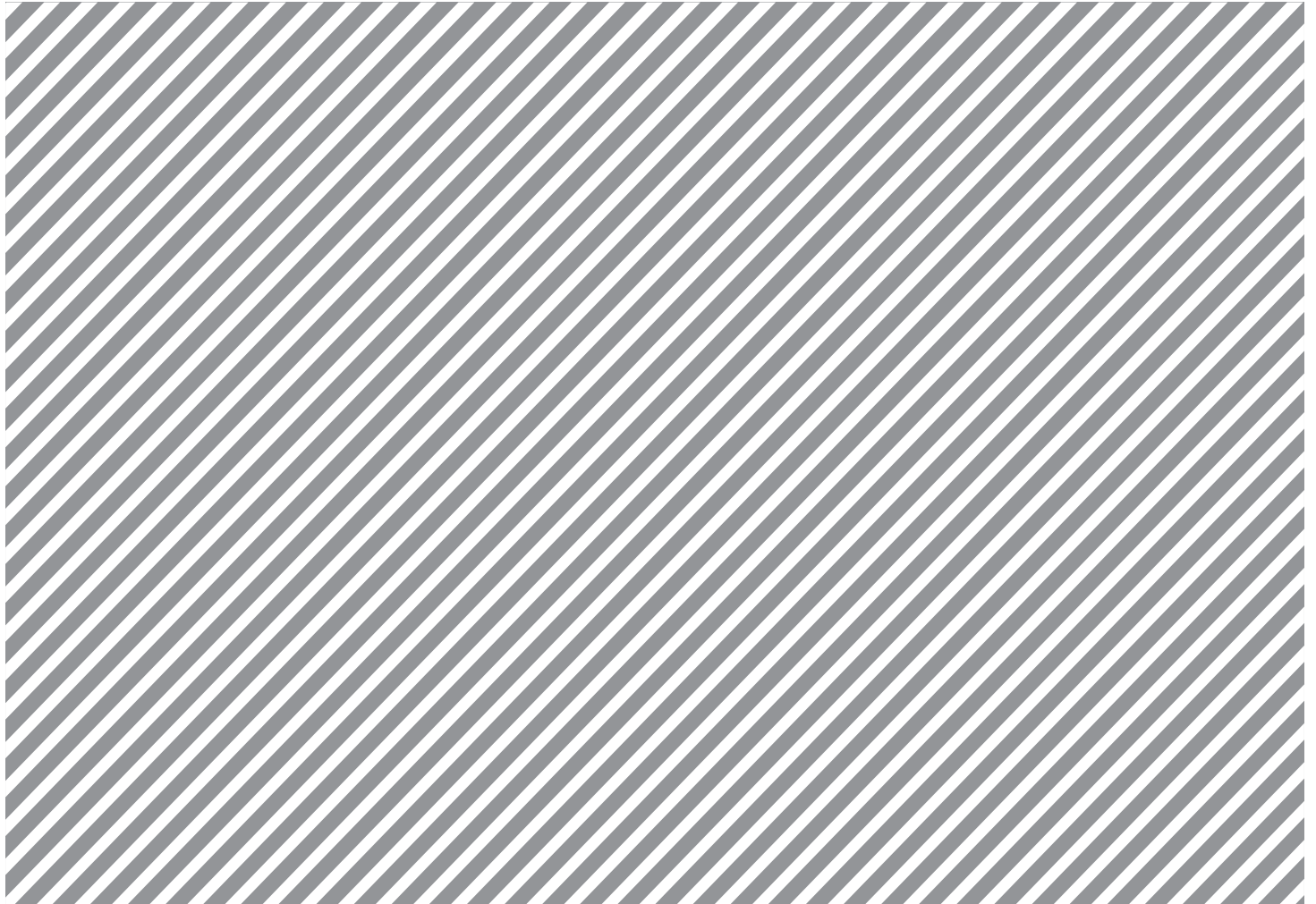


White Paper

Reflections on the Future of Europe

Global Future Council on Europe

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World Economic Forum
91-93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland
Tel.: +41 (0)22 869 1212
Fax: +41 (0)22 786 2744
Email: contact@weforum.org
www.weforum.org

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Introduction

Europe carries a special responsibility to embody and advocate a rules-based, values-driven, democratic and collaborative world order. However, the region faces many short-term and long-term challenges. With the European parliamentary elections in 2019 and the imminent exit of the United Kingdom from the European Union, the concept of European integration and the very idea of Europe itself are facing increasing scrutiny from countries that have only recently joined the Union as well as from some of its more long-standing proponents. Migration, terrorism, culture wars, rapid technological developments brought on by the Fourth Industrial Revolution, climate change and the fact that in Europe, as elsewhere, globalization and regional integration have created winners and losers, have given rise to discontent and diverging views on Europe's future. The question of Europe's future identity and underlying values is creating divisions across society in the region. Recent national elections have revealed the degree to which a sizeable percentage of the region's citizens are retreating into nationalism and protectionism, more appealing than the liberal internationalism and democracy that have characterized Europe over the past 60 years. Yet, even in countries where isolationism seems to have the greatest sway, the desire to remain economically interconnected is strong, as is the willingness to coordinate responses to common challenges, such as security and defence.

In addition to the region's internal challenges, Europe finds itself in a world order that is increasingly defined as not only multipolar but also multi-conceptual, with new value systems on the rise and shifting economic and political alliances. How will Europe define its leadership role in this new global context? What values should drive the region forward? How can Europe avoid falling behind in the tech race of the Fourth Industrial Revolution? The World Economic Forum Global Future Council on Europe comprises leading thinkers, experts, government leaders, business leaders, heads of international organizations and members of civil society interested in contributing to the debate on the future of Europe. The Council members, in collaboration with the World Economic Forum, have contributed thoughts and ideas towards formulating a dynamic vision for the region's future path to assuming a redefined leadership role and achieving a more entrepreneurial Europe.

In this *Reflections on the Future of Europe*, select members of the Council offer their perspectives on a possible vision and call to action along the following themes: Europe's role in geopolitics, societies in transition and the rise of populism, the Fourth Industrial Revolution, and the region's economic competitiveness. The World Economic Forum will present the recommendations and policy proposals outlined in the final document to the new European Commission as input for developing the top priorities for Europe in the years ahead.

We are very grateful to Jeroen Dijsselbloem, President (2013-2018) of the Eurogroup; Miguel Milano of Salesforce; Robin Niblett of Chatham House; author and journalist Peter Seidel; Timo Soini, Minister of Foreign Affairs of Finland; and Beatrice Weder di Mauro of the Centre for Economic Policy Research for their valuable contributions to this paper.

1. Europe's leadership in the future global architecture

Peter Seidel, Author, Germany

Europe is experiencing profound uncertainty. Uncertainty as to whether it can continue as before or whether there is a need for new ideas. Some say that Europe stands at a crossroads. Others say that Europe needs to be reformed. Certain is only that the causes of this uncertainty lie both within and outside Europe. What they have in common is the return of international competition and the challenge to European idealism. The “new world order” is increasingly proving to be the “new world disorder” and this change is clearly revolutionary in nature. We are witnessing the beginning of a new era in world history.

The end of the Cold War and the seemingly quiet decades following 1990 now appear to have been a mere interlude in a great drama that began long ago. It was triggered by globalization, which not only significantly increased prosperity, but also redistributed economic success, wealth and, therefore, power, around the globe. This created new winners and losers, both nationally and internationally. The losers include supporters of a rules-based, multilateral world order and a values-based system. The winners include representatives of a new unilateralism, and of power politics or Realpolitik. In concrete terms, this means that the balance is falling away from Europe, weighted in favour of strong states such as China, the USA and Russia. Even major states – and not just those in Europe – that reject the new model, such as France, Germany and Canada, are losing international influence. At the same time, the so-called international community is increasingly proving to be more of a loose alliance than a powerful institution, as most recently illustrated by the war in Syria.

Is this just the tip of the iceberg? Much cannot be foreseen as it is far beyond the horizon of human perception. However, one thing is certain: geopolitics is making a comeback. The effects of its tectonic movements are usually unpredictable. This makes forward-thinking politics more difficult, especially because currently two diverging political models are competing at the global level and, in the ideological elements of different values systems, are adding another layer of complexity to different ideas and nation states. The question is not always one of better or worse, but rather of right or wrong. Even within Europe, this is creating new fractures.

The powers set free by globalization influence technology, the economy, finances, jobs and social security. They also influence the traditional spheres of domestic and international politics; at the same time, the interdependence between these two spheres of politics is increasing. This is evident not only in the differing degrees of economic development within the European Union and in the lack of unity that is developing between the members of the European Monetary Union, which was once considered the cornerstone in the bridge to an “ever

closer union”, but also in the election of populist Donald Trump as US president. The growth of populism in the West and the rise of revisionism throughout the world seem to go hand in hand. Currently, discussions on these issues are dividing western societies and opinions are increasingly polarized. This also applies to the European Union.

For Europe, this means saying goodbye to many cherished models and attitudes that have evolved over decades. It needs to bring together the old idea of Europe and the revived, new role of the Member States in a new structure, while not lurching from one extreme to another and throwing out the baby with the bathwater. It means a general rejection of both nationalism and European centralism. What is required is a modified concept of integration regarding the effective implementation of a functioning federal Europe, in which the relevant levels of authority retain or obtain essential freedoms and responsibilities. That is not easy, and will not even be enough, because global developments are already too strong and too powerful.

Without the voluntary and committed cooperation of the Member States, acting in their own self-interest, no further significant progress will be possible for Europe in the future. Yet significant progress is necessary, if Europeans are to see European autonomy as an issue for the future. Such a voluntary commitment requires insight and will, as well as new, common benefits. These benefits now have a name: strategic culture. The European Commission is already using it, and so are national leaders, who are calling for a “European strategic culture”. And rightly so, because “proceeding with caution” no longer offers the requisite benefits.

To create such a strategic culture for Europeans, the various Member States must be picked up where they are currently. This means that, for a long time to come, the main priority in Europe will be uniting the existing national cultures rather than creating something completely new. The centuries-old cultures of Europe, which have evolved and been refined, are themselves the product of the toughest, centuries-long system of competition that has ever existed. They offer a completely autonomous basis on which Europe can reposition itself for present-day worldwide competition. Only time will tell if, and when, a uniform European strategic culture might evolve from this.

For the future, the most important element of a European strategic culture will be to secure the prosperity of Europeans and international security against threats. This is important in view of the increasing global competition in all areas between nations. It applies to technology, finances, the economy, social affairs and culture. In this respect, the further development of the euro into a world

currency is of particular importance. It should be the face and instrument of a new European strategic culture. To that end, the global role of the euro must be strengthened, particularly on the energy and commodity markets. The relevance of this to the current situation has been demonstrated recently in European-Iranian relations.

Geopolitical competition is, by its very nature, primarily protection against military threat and extortion, whether of the conventional or nuclear type. Tomorrow's world will not be a military-free zone, nor a nuclear-free world. The nuclear issue cannot be viewed any differently to how it has always been regarded. The vision of a world without nuclear weapons has been shattered, and the non-proliferation treaty itself has faltered. Today, a new Cold War on a global scale is more likely. In terms of security policy, if Europe wants to stand more firmly on its own two feet in the future, it must take action to unify its forces and spread the responsibility for risks. For example, a European multilateral force, like the one planned for NATO in the 1960s by US President John F. Kennedy, could become a crucial element of European security and a European strategic culture, and offer medium-term independence from the now uncertain nuclear guarantees of the USA.

Above all, however, Europe needs to unite its decision-making powers. This requires a European Security Council, with greater decision-making powers than that of the UN, which will give Europe greater capabilities to act. This must be driven primarily by the three major European powers – France, Germany and Great Britain – in their capacity as permanent members. Together with other countries, the larger countries must take on increased responsibility in line with their greater capabilities and their varying international experience and traditions.

The goal should be the gradual development of an autonomous European strategic culture, which can take its position between the geopolitical extremes, and which also has sufficient power and will to mediate between them, if necessary – because the struggle between a rules-based multilateral world and a new, anarchic world order has only just begun. Therefore, if Europe wants to contribute more to a better world than simply making declarations and employing chequebook diplomacy, soft power and civility, it cannot avoid a revival of the European concept, in line with the new competition between states, through the pooling of resources and European division of labour. A moralistic, internationalist world view is no longer enough. The alternative to this new, realistic kind of self-determination is heteronomy. However, where the desire for self-determination is lacking, good intentions will only go so far and will be jeopardized along with prosperity, security and the social system. Adaptation or the descent to geopolitical revolution is the alternative: it is Europe's choice.

2. A European identity within societies in transition

Robin Niblett, Director, Chatham House, United Kingdom

European societies are under stress, due to structural changes in economic circumstance, deepening societal fault lines and the pressures of immigration, exacerbated by social media and an increasingly turbulent international context. What does this mean for the notion of European identity, and how might European societies and governments respond?

Is there a European identity?

The idea of being “European” took particular shape after World War II. It involved rejecting the overt nationalism that lay behind this and previous wars. Its ultimate manifestation was the establishment of the European Economic Community in 1957 and the European Union in 1991, when Europeans chose to subsume aspects of their states’ sovereignty within this increasingly supranational institution.

Being European meant attenuating the historic imagined community of the nation state with the reality of being a member state. This rational decision reflected the fact that the biggest European states are, at most, mid-sized in global terms, while the majority are not only small, but becoming relatively smaller. Europeans needed to band together in a world where growing trade, investment and flows of technology meant that GDP began to correlate more closely to size of population. Being European also meant being in the vanguard of those arguing that multilateralism is the best way to manage globalization,

A further key component of European identity has been a commitment to democratic governance, the rule of law, respect for human rights and the protection of minorities, values enshrined in the European Convention on Human Rights and the EU’s Copenhagen Criteria. This includes an aspiration towards social inclusion and support for religious and ethnic diversity. In fact, “unity in diversity” has been a popular strapline for the European Union.

Being European has also been connected since the 1950s with the idea of sustaining social markets with strong welfare states. Political parties sought to regain legitimacy by committing the resources of the state to protect citizens from the extremes of economic and social hardship that free markets can create.

How is European identity being challenged today?

Needless to say, these pillars of European identity are now under serious and deeply-rooted challenge. To start with, the social market has been eroded over the past 25 years. Median wages across the EU have stagnated under the pressures of globalization. The financial crisis has cast those with precarious sources of income into poverty. Those in the seemingly more secure wage-earning class are now the “squeezed middle” or are just about managing. They are on the frontline of rising taxes and cutbacks on social spending, as governments seek to bring debt down

to more sustainable levels and prepare for the costs implicit in a continental wave of societal ageing. The young are frequently offered only temporary contract work with few of the inbuilt social benefits that their parents enjoyed.

For most Europeans, the concept of Europe as a social market now sounds more like rhetoric than reality. The growing sense of economic insecurity has fuelled the *Gilets Jaunes* protests across France and the decay of established political parties not only there, but across much of Europe, from Italy and Spain to Germany and Sweden.

In this environment, the idea of buttressing the EU’s various national social markets with new financial institutions and initiatives at the EU level is foundering on the rocks of growing political self-interest. Recent Eurobarometer and other polls reflect a widespread divergence between those who support deeper political and social integration, and those who either want to stick with the status quo or believe Europeans should be reasserting the primacy of their constituent national identities. Support for the latter view is visible in the rise of nationalist parties across Europe, while rejection by many governing parties in central Europe of new EU initiatives reflects their view that membership was a means to reclaim their independence, not to subsume their national identity into a new form of supranationalism.

No issue has caused a bigger fault line regarding the dominant conception of European identity than immigration. Overall, net levels of immigration into European countries remain relatively low. But the Syrian refugee crisis of 2015 brutally exposed the contradiction between the EU’s lack of collective external border controls and the open internal borders of those countries in the Schengen agreement.

The widespread popular desire to reassert control over immigration has intensified for two principal reasons. First, immigration is only likely to increase as young, digitally-connected populations grow exponentially across the African continent and are forced to seek opportunities to earn a livelihood in proximate Europe.

Second, the fact that Muslims make up a large portion of recent immigrants into Europe has awakened atavistic fears about a dilution of Europe’s Judeo-Christian heritage and a clash with Europe’s historic belief and values systems. Unlike the United States, European identity, although tolerant and welcoming of diversity, has not been defined by its capacity to integrate immigrants. To the contrary, its patchwork of languages and education systems and protective labour markets make integration difficult. The result has been a growing split between those who believe Europe should adapt to its new reality and those who want to protect their idea of Europe’s traditional identity.

The fear of immigration and deeper integration has led, in turn, to popular support for political leaders who not only challenge legal protections for minorities but are comfortable using the tools of authoritarian governments to take and keep power.

There are several additional challenges to this identity. The spread of social media has enabled these competing narratives, some of which are consciously exploited to subvert the dominant narrative, about European identity to take root within pan-European virtual communities. In addition, the notion of the “West” with shared enlightenment values is being questioned by the US administration. The latter also rejects multilateralism as a positive component of constructive international relations, undermining the established idea of Europe being part of a larger transatlantic community.

What can Europeans do?

Will this turbulent domestic and international environment splinter Europeans’ nascent sense of shared identity and drive them back into their own national imagined communities? Or will it serve as one of the drivers for a new sense of collective European identity?

There is clear value to Europe’s geographically contiguous, deeply interconnected countries having a shared sense of identity. This will help them organize to protect and promote their interests in a competitive and dangerous world. But how can a shared identity be sustained at a time when Europeans cannot rely on the idea of a dominant “West” to serve as a driver of internal cohesion; when technological advances bring new challenges to their social market model; when Europe’s ageing societies would benefit from immigration, but the scale of this immigration could drive further political fragmentation?

These realities, combined with Europe’s intrinsic diversity and the new democratization of political discourse wrought by social media, mean that efforts to impose a sense of European identity top-down will not only fail, but will engender a counter-reaction. Governments instead need to regain the trust of their electorates by modernizing the European social market to cope with the disruptive effects of technology on the nature of work and public finances. They also need to attract immigrants in ways that do not stoke prejudice, offering processes for migrants and asylum seekers to enter Europe legally, while implementing effective controls on illegal migration.

But, if European society is going to be more diverse in the 21st century than it was in the 20th, then its citizens and civil society, as much as its politicians, need to come to broad agreement on the values that could create a new sense of shared identity. In this context, the values that helped rebuild Europe after 1945 – democratic governance, the rule of law and the protection of human rights and minorities – remain the source of its adaptive resilience. But the enlightened belief that a shared identity is not defined by race or ethnicity but by people who share common values is now a matter of urgent European self-interest and not idealism.

3. Responding to populism and the polarization of societies

Timo Soini, Minister of Foreign Affairs of Finland

It is often said that young people are not interested in politics. Indeed, young people seem passive with regard to traditional or conventional means of political participation, like voting, party membership or presenting candidacy in elections. Even new forms of political participation, such as campaigns in the digital or social media environment, seem to attract mostly those who are already active. At the same time, several youth barometers show that young people's interest in politics has increased since the beginning of the millennium. However, this growing interest does not materialize in increased political participation.

Given the above-mentioned dilemma, one could pose the following questions: Is there something wrong with party politics? Or could it be that politics is not interested in the young people? Could politicians address youths in a different, more relevant and meaningful way? For example, should the youth be given more responsibility over setting the agenda of politics to get them committed? Is it the substance or the forms of communication that fail to reach them?

What is certain is that young people need all the information available about different ways of participating in politics. Civic education is one tool, but are we starting too late in children's curriculum? When thinking about the future of our democracies, should there be more space and opportunities for civic education with preschoolers, adapted to their level of knowledge? Several provisions in the Convention on the Rights of the Child reflect children's right to participation. What it means to be part of a democracy is a learning process. If the kids and later teenagers do not systematically learn about democracy, voting and citizenship, they will not suddenly change behaviour when they turn 18 years old. This is the theoretical part. The practical part is that children and youth should be able to apply these civic skills in practice in the school environment. Maybe this is not happening to the fullest, at least in my country.

At the same time, not everything can be delegated to schools and teachers. The real drive for political engagement – or the lack of it – derives from homes. The more politics is discussed at home, the more likely youngsters are to engage. Participation is both a tool and a goal in fighting social inequality. The biggest challenge is to get those who do not gain any empowering examples from home involved.

Where municipal-level youth councils exist, it is important also to reach those who would not be the most usual suspects – an inclusive approach is key. In addition, positive narratives are needed that communicate success stories on how young people can influence politics on matters that affect their everyday lives, such as schooling and curricula, public transport, libraries, sports facilities, etc.

Experiences from Finnish schools and from mediation show the need for a more intergenerational approach. I have visited many Finnish high schools from Lapland to Southern Finland. The main themes of discussions there have been peace mediation and radicalization. I have received valuable contributions and learned a lot. My ministry also consulted university students through an essay competition when preparing Finland's *Futures Review of the Ministry for Foreign Affairs*. This is not very common in the field of foreign policy, where experience is highly valued. However, something is missed if no young people are involved when their future is being decided.

Also in mediation situations around the globe, we work to involve both the elders and the youth in dialogue. It is not simply a question of balancing experience and youthful innovations. It is more about a collective reality check and mutual learning. In a world of too many dividing lines, combatting the generational gap may even sound trivial. Still, I urge that more intergenerational policy-making might help to make the world better. This is what political participation is all about.

Explaining the European context

The distance from the school and municipal levels to the European level is long. While we can do little about the geographical distance, we should be able to do something about the possible mental distance. Today's youths in the European Union enjoy various privileges my generation could not even have dreamed of: the Erasmus Mundus Programme, Schengen without border controls and the Eurozone without tiresome currency exchanges. It is important to tie different levels of political participation and decision-making together into a meaningful package in young people's minds. Europe matters. Issues that are decided upon in Brussels do affect young people's lives and are an integral part of their future. Europe-wide networking and personal contacts by young people can make a huge difference.

The populist challenge seen through research

It might be worth pointing out that the predecessor of my party, the True Finns, was one of the parties that was studied in a research paper commissioned by my ministry, titled "Europe's Troublemakers: Populist Challenge to Foreign Policy". By taking this up, I wish to stress the importance and independence of science and research.

While this study concentrates on the challenges of governments to meet the needs and expectations of citizens, it underlines that populist parties do often ask the right questions, and sometimes even have some correct answers. What matters is to feel the pulse of the electorate. And that is possible only by using comprehensible, non-technocratic language. Language is not only about communication but also a vehicle for ideas. Content matters.

Policy solutions need to be explained and their practical application needs to be communicated, using fact-based arguments linked to a broader vision that provides a sense of direction. This sounds simple but may prove difficult in real life.

The very same study recommends that political parties revise their assumptions about traditional political engagement. It strongly encourages being prepared to open the ranks to new generations and greater diversity, in order to better represent changing populations.

Finally, the study also – to my relief – stresses that responsibility over the present state of democracy does not only lie with politicians – whether populists or mainstream. It is a virtue that each citizen should demand of him- or herself first, before expecting it from others. There is thus also a role for citizens to become more engaged and socially responsible. Here I refer again to the role of education and setting an example.

4. Europe's leadership in the Fourth Industrial Revolution

Miguel Milano, President, Sales, Europe, Middle East and Africa, Asia-Pacific, and Latin America and the Caribbean, Salesforce, United Kingdom

A Fourth Industrial Revolution sparked by a vast array of new technologies is disrupting established value chains and companies. New economic growth engines are being created, transforming societies and redefining the world order.

But Europe, a beacon of freedom and champion of culture, ethics and morality, is not the dominant force of this revolution. Both the United States and China have created the economic conditions for their tech sectors to thrive; the United States empowering its business base to innovate and invest, and China leveraging a massive internal market to “incubate” its titans.

Europe, with its internally competing countries, has not yet been able to grasp the opportunity of this revolution. To regain this lost ground, it needs European solutions to the three main challenges raised by the Fourth Industrial Revolution.

A widening inequality gap

Across Europe, there are many manifestations of social discord resulting from a perception that the benefits of globalization and economic progress have not been widely shared. The fear that the “gig economy”, artificial intelligence (AI) and further technological advancement will rob people of their jobs – or push them into precarious working conditions – will lead to deeper anxiety.

Maintaining privacy and trust

The public now demands personalization and real-time information to manage their digital lives. But there is a trade-off. The proliferation of data has created opportunities for cybercrime, unintended business abuses and concern about citizens' privacy. The public expects the custodians of their information to keep it safe, transparent and secure.

The ethical use of technology

With the proliferation of personal data and the widening use of AI, the ethical use of technology must become a new cornerstone in the Fourth Industrial Revolution. The ways that AI-powered systems “behave” will be “predetermined” by a set of rules/algorithms that a few “creators” will design and train with data sets chosen by the same few creators.

How Europe addresses the challenges

These challenges demand a multistakeholder solution. Government, businesses, investors, not-for-profits and every element in our economic and political system need to contribute to an action plan. Europe is well positioned to accelerate and, in some cases, lead in activating these key levers of transformation.

1. Creating the right innovation and entrepreneurial ecosystem

The generation of pioneering ideas is a significant European strength. But it must be better at nurturing entrepreneurship. Collaboration between academia, industry and start-ups must be enhanced, creating European-wide networks in specialist fields. Academics should be actively encouraged – and coached – to work alongside start-ups and established businesses.

AI start-ups in particular need to access corporate partners so they can test their AI models and validate their value proposition. This is particularly true in the enterprise space where most data sit within a company's four walls.

Record sums are being invested in European technology – \$23 billion in 2018, up from just \$5 billion in 2013. This strategy, backing entrepreneurs in Europe, is proving effective and should continue. In 2018, Europe contributed to three of the top 10 largest tech initial public offerings globally. But Europe must significantly step up the pace of investment with a European Tech Venture Fund run by investment professionals but with financial contributions from across the region. Finally, taxation and business policy must support start-ups and entrepreneurs.

As for the US and Chinese digital titans, their platforms can be leveraged by European innovators – playing to our strengths in, for example, automotive and retail. Given access to European facilities, universities and, most important, talent, they should create a powerful European ecosystem around these titans, ensuring that Europe as a whole benefits from their presence.

2. Educating and (re)skilling the talent of the future

With our strong education system, Europe has a unique ability to drive innovation. An exceptional Europe-wide curriculum would run from the elementary to tertiary levels. Computing would be a primary subject alongside maths and languages. At the tertiary level, Europe has world-leading STEM research centres, including five of the top 10 computing universities. These must be strengthened with tailored support to create pan-European centres of innovation excellence.

Future work patterns will require almost continual reskilling of the workforce. Free-to-use open learning platforms – such as Trailhead from Salesforce and Digital Garage from Google – would supplement massive open online courses (MOOCs) offered by recognized educational institutions, enabling the rapid reskilling of the workforce. Technology apprenticeship programmes, driven by the private sector with tax incentives, will enrich tech skills in every field and ability level.

3. Continuing to lead and reinvent privacy requirements

With the General Data Protection Regulation, Europe has shown that it can lead the way in progressive regulation, especially in privacy and trust. Over time, consumers will demand more control over their data. Only trusted platforms will survive and the notion of trust as an essential value in corporate culture will dominate. So important is the issue of trust that privacy professionals, dedicated to building confidence in corporate culture and educating the public on the importance of robust privacy rules, will be needed. By encouraging an open exchange between businesses and their customers, Europe can lead the way to a new privacy paradigm of the 21st century.

- Instigate a *grand projet* – e.g. leverage AI technologies across the national healthcare systems to improve life outcomes for Europe’s citizens or create the first driverless cities in the world; a coordinated investment on any one of these projects could create a network of European champions, while positioning technology as a force for good
- Create Ministries for Transformation across the continent, focused on coordinating policy-making across governments

This revolution needs a strong European voice. The region is behind other economies but, if it can act together in a spirit of urgent cooperation, it has the power to succeed.

4. Defining ethical principles in the use of technology

Europe celebrates diversity, welcomes minorities and is tolerant of different perspectives. How Europe builds technology must be subject to the same diverse thinking. Humankind is now at a point in history where we will teach technology about ethical choices as we code. That means it is immensely important that coders are from diverse backgrounds, reflecting the values and ethics of society as a whole.

Harnessing this idea of “cognitive diversity”, Europe offers a distinct advantage in problem-solving for the Fourth Industrial Revolution. It can help eliminate bias in our AI algorithms and data sets. With a focus on “explainable outcomes”, AI originating from Europe may over time be seen to be more ethical – and more reliable; AI from outside of Europe may be considered dubious or even malignant. Business and governments must develop a code for the ethical use of technology.

A call to action

Europe can emerge as a leader and a dominant power in the Fourth Industrial Revolution. But to achieve this it must:

- Set up a pan-European Venture Fund to select, invest and control Europe’s most promising start-ups; the idea of the Forum’s Digital Europe project to create a European Sovereign Wealth Fund to invest in breakthrough technology and innovation is one worth exploring
- Nurture future talent through a superior cradle-to-grave technology curriculum, creating the right innovation ecosystem in Europe and leveraging global digital platforms
- Press businesses and government to collaborate in putting trust at the heart of tech policy development
- Curb bias in AI algorithms and data sets by guaranteeing a cognitively diverse workforce

5. Raising Europe's competitiveness

Beatrice Weder di Mauro, President, Centre for Economic Policy Research (CEPR), United Kingdom

Jeroen Dijsselbloem, President (2013-2018), Eurogroup, Brussels

The multilateral order is under threat and it is not clear whether a multipolar and multi-conceptual world will deliver a new world order or simply institutionalize disorder and struggle between the main players. Many set their hopes on Europe. Europe is called to step up to safeguard the world order for several reasons. Europe is still the largest market economy, it invented democracy and discovered the power of the rule of law. The Europe of post-World War II has specialized in institution building, constructing the architecture for economic integration, for level playing fields, for power-sharing and for peace. Europe's experience in institution building would be very useful in the wider world. Europe, as an economic power, could lead in areas of international trade, data protection and privacy, new standards for competition and fair taxation.

So, Europe is being called – but unfortunately Europe is busy. Busy with itself. Rather than projecting the image of the level-headed mediator, many European countries are tied up in hardening domestic conflicts. From Brexit to Catalonia, Yellow Vests and Pegida, the headlines and title pages are full of angry people, and these issues are absorbing all energy and political capital. Nationalism and populism are on the rise in many countries and trust across countries in the euro area is at a low. More and more governments do not have a sufficient mandate to move forward on urgent issues.

Why Europe is absent

The sources of discontent are now increasingly well studied and understood. Leading explanations are stagnating or declining incomes, structural changes that have left entire regions behind and increasing economic insecurity. The underlying reasons are a combination of technological change and stronger competition from successful emerging markets, exacerbated by the extreme shock of the financial and the euro area crisis. In addition, as discussed in the first chapter on society in transition, higher migration flows have rekindled deep-seated fears and anxieties related to issues of identity and security, also in countries where unemployment has been declining to historically low rates. Demands for protection on all levels are rising.

The sovereign debt crisis in the euro area was particularly traumatic. The experience of a fall in income and soaring unemployment rates among the young, the experience of a lost decade and of fiscal and financial retrenchment have led to deep resentment in southern euro area countries. At the same time, in northern countries, the view that they are providing large-scale transfers to the south has become widespread. So both sides feel they have somehow been cheated.

What Europe needs

If Europe wants to play its role in the world, it needs to heal these two internal rifts. The first rift is the one that has opened since the euro crisis between euro area countries, and the second is between disenfranchised citizens who feel they were forgotten and partly blame Europe.

Technically, it should be easy to agree on a sensible reform of the euro area. The elements needed for such reforms have been identified. The presidents of the main European institutions have put forward a reform agenda and economists from many countries have made concrete proposals. One of the latest, the so-called 7+7 (CEPR Policy Insight No 91) continues to lead the debate (see VoxEU <https://voxeu.org/debates/euro-area-reform>).

Healing the euro area and making sure that it becomes robust to medium and large shocks require a combination of measures that increase risk-sharing while preserving incentives for fiscal and financial discipline:

- Effective instruments should be deployed to deal with liquidity crises, to disentangle the deadly embrace of sovereigns and banks, to prevent the spread of crises across borders and to prevent financial fragmentation and debt runs.
- Market discipline should be harnessed to discourage over-borrowing, while making sure that there are protections against markets overreacting.
- Legacy debt problems should be managed to avoid instability and vulnerability in the transition to the new set of rules.
- A reform of the fiscal framework should comprise a less procyclical and less politically divisive set of rules.

There are trade-offs in any particular design, but the bottom line is that it is possible to devise smart combinations of instruments that achieve the goals while preventing permanent transfers and discouraging moral hazard. Moreover, many of the proposed instruments have strong complementarities, which means that they should be installed simultaneously.

Re-engineering the engine of the euro area is eminently feasible. It would contribute to protecting ordinary citizens from one of the biggest risks to their well-being by reducing the probability of deep financial crisis. However, the technical details of fixing the euro area, though very important, are very complicated and remote from citizens' present problems and fears. It is hard to imagine anybody, with the exception of economists, getting really excited about the design of a safe asset, and it is extremely unlikely that anybody would take to the streets to demonstrate in favour of effective governance of a European Monetary Fund.

Some stabilization instruments under discussion may be a much more appealing or convincing proposition to those who feel they were forgotten. A European-level unemployment (re)insurance falls into this category. Properly designed, it can help stabilize country specifics without negative shocks and without creating moral hazard.

Similarly, other European-level instruments that protect individuals against existential shocks may be advisable to restore a sense of economic security.

The point is that healing the rifts and building trust will require a package of economic, financial and social measures in a well-designed and well-balanced composition. More importantly, they will require strong political backing and a clear signal from European leaders. This requires a grand bargain of a technically sound package of measures combined with a political “whatever it takes” demonstration.

To achieve such a grand bargain and to make sure that it is indeed technically sound, Europe needs a European Bretton Woods. The Bretton Woods conference of 1944 delivered the foundations of a peaceful world order. It was achieved through a long and hard process, which hooked up the main stakeholders and their best minds in a distant location, with few distractions, little sleep and no way out until there was agreement. With the current sense of urgency, we call for a European Bretton Woods.

Conclusion

The year 2019 is expected to be consequential for the institutional structure of the European Union and the future of the region at large. Competing narratives on such questions as what defines being European, and the depth and construct of regional integration and collaboration, including the impact of Brexit as well as Europe's geopolitical and geo-economical role, are shaping today's debate and will have implications for many decades to come. In this *Reflections on the Future of Europe*, members of the Global Future Council on Europe outlined their visions for the future of this region, the largest market economy in the world, and the challenges it needs to address to construct a path forward. Their contributions aim to trigger further debate and to formulate concrete actions to improve Europe's future. The recommendations are briefly summarized below but do no justice to the thinking detailed in the respective chapters:

Europe's leadership in the future global architecture

- In a world that is increasingly defined by competing narratives and interests, Europe needs to bring together the old idea of Europe and the revived, new role of the Member States in a new structure. It also needs to define its role and a "European strategic culture" along the world's palette of values and norms. But values will only go so far and the region needs to strengthen and unite its collective decision-making power, particularly in the space of security, and wield the tools to deploy this collective power. Europe needs to adapt in a new era of global disorder.

Society in transition and the rise of populism

- European governments need to regain the trust of their constituencies by modernizing the European social market that addresses the disruptive effects of the Fourth Industrial Revolution and by creating an effective migration policy that controls illegal immigration while ensuring smooth and fair processes for legal migrants and asylum seekers that are tailored to the needs of Europe.
- To ensure meaningful and engaged political participation, education and communication are instrumental. Exposure to civic education and understanding democratic values and processes at an early age are key for active political participation later. However, truly understanding the sentiments of the electorate requires more than education. Political leaders need to communicate in a fact-based, comprehensible and non-technocratic manner so people truly understand practical applications and their implications for daily life.

Europe's leadership in the Fourth Industrial Revolution

To emerge as a leader and dominant power, Europe must:

- Set up a pan-European Venture or Sovereign Wealth Fund to invest substantially into disruptive technologies and innovation
- Nurture future talent through a superior cradle-to-grave technology curriculum, creating the right innovation ecosystem and leveraging global digital platforms
- Urge businesses and government to collaborate to make trust core to tech policy development
- Curb bias in AI algorithms and data sets by guaranteeing a cognitively diverse workforce
- Instigate a *grand projet*, such as creating the first driverless cities in the world; a coordinated investment on any such project could create a network of European champions, while positioning technology as a force for good
- Create Ministries for Transformation across the continent that coordinate policy-making across governments

Raising Europe's competitiveness

- Lead the world on international trade, data protection and privacy, new standards for competition and fair taxation.
- Convene a European Bretton Woods, with the aim of healing the rift between member countries, agreeing on a Grand Bargain and laying the foundation of the new economic and social order.
- Strengthen Europe's competitiveness through a combination of reforms in the euro area that increase risk-sharing while preserving incentives for fiscal and financial discipline; deploy effective instruments to deal with liquidity crises, to disentangle the deadly embrace of sovereigns and banks, to prevent the spread of crisis across borders, and to prevent financial fragmentation and debt runs.
- Harness market discipline to discourage over-borrowing, while making sure that there are protections against markets overreacting; manage legacy debt problems to avoid instability and vulnerability in the transition to the new set of rules.
- Reform the fiscal framework to make it less procyclical and less politically divisive.
- Protect individuals against existential shocks and help restore a sense of economic security through a European unemployment (re)insurance.

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World Economic Forum
91–93 route de la Capite
CH-1223 Cologny/Geneva
Switzerland

Tel.: +41 (0) 22 869 1212
Fax: +41 (0) 22 786 2744

contact@weforum.org
www.weforum.org