

EMU Lab 2026 Florence Report Executive Summary

The global order is at a point of rupture, creating a fundamentally different strategic environment from the one which long underpinned European integration. For decades, the European Union (EU) developed within what the EMU Lab 2026 Florence Report describes as a ‘reduced responsibility model’ – external security guarantees, open global markets, and a relatively stable multilateral order allowed EU Member States to support the development of the Single Market, create the monetary union, and press on with enlargement, without requiring the Union to fully internalize the institutional, political, or legal responsibility for key public goods such as defence, macroeconomic stabilization, or strategic investment.

This model is no longer sustainable. The external geopolitical challenge has exposed the resultant structural weaknesses in Europe’s institutional, economic, and governance architecture. External disruption now interacts with internal fragmentation in ways that constrain Europe’s collective policy capacity precisely when coordinated action has become most necessary.

The Florence Report Part A establishes this analytical framework, detailing the concept of the reduced responsibility model and its unravelling. By analysing the long term global economic shifts led by the United States’ turn from hegemony to primacy and China’s rise as an economic superpower, the contribution demonstrates that the current predicament is not simply a temporary disruption, but rather a structural transformation. The analysis concludes that overcoming the defunct reduced responsibility model and replacing it with a structure capable of advancing Europe’s resilience, prosperity, and strategic relevance will depend on re-establishing political and institutional capacity for collective action. This, in turn, should be aimed at establishing a renewed European Social Contract, anchored in ‘insurance based solidarity;’ because no member state can reliably predict its future exposure to shocks, all have an interest in arrangements that allow risks and costs to be shared over time.

Importantly, a new model of European independence and security demands a shift in perspective: the Union is not a limitation on national policy space, but an instrument for enlarging it. By acting collectively in areas such as defence, climate transition, and strategic infrastructure, member states can secure capabilities and strategic leverage that no country could credibly achieve alone. In this regard, Part A prioritises a three-pronged policy agenda: strengthening multilateral values-based global alliances, completing the Savings

and Investment Union to boost competitiveness and innovation, and reorienting the EU budget towards the provision of European public goods.

The analysis rests on four core propositions. First, growth and competitiveness are not ends in themselves, but necessary foundations for sustaining Europe's social model in the face of demographic change and climate-related pressures. Second, the European social model is not a drag on economic performance; properly understood, it supports social stability, labour market adaptability, and the conditions for innovation. Third, the notion of a powerless Europe is overstated: as a Union of countries committed to democracy, the primacy of law, a market based economy, and regulation, the EU can offer predictability, legal certainty, institutional reliability, and long-term investment security for the global economy and shape the evolution of the rules-based international order. Finally, even within existing political limits, the EU retains significant scope for acting collectively where doing so delivers clear practical advantages. If such efforts produce visible results, they may help build the trust and political support needed to make further cooperation more feasible.

Part B of the Report develops this diagnosis with thirty contributions from academics, policymakers, and practitioners across five interconnected policy domains: the political economy of the European project, policy space within EU institutional governance frameworks, trade and competitiveness between geoeconomics and structural trends, the financing of European collective action, and the financing growth through savings, investment, and capital markets. Across these five thematic sections, the Report argues that sustaining competitiveness, strengthening resilience, securing strategic autonomy, financing common priorities, and mobilizing Europe's own resources are not discrete policy debates, but interdependent dimensions of the broader political challenge to replace the increasingly defunct reduced responsibility model with an institutional framework fit for purpose in the new global environment, with a European Union capable of providing independence and security for its member states.

The analysis is built on a common understanding for Europe's current condition – geopolitical fragmentation is exposing the limits of Europe's political and institutional architecture just as domestic constraints are weakening its capacity to respond collectively; therefore Europe's current challenges are mutually reinforcing and cannot be addressed in isolation – they are systemic rather than sectoral, mutually reinforcing rather than discrete.

Section I begins by situating Europe within a transformed geopolitical order in which strategic rivalry, weakened multilateralism, and the growing weaponization of economic interdependence have fundamentally altered the external conditions under which the Union operates and complicated its internal political context. The various contributions discuss transatlantic security dependence, the Union's capacity to shape the international order, and the domestic political obstacles to collective action, with the tension between strategic necessity and political feasibility at the heart of EU policymaking.

In **Section II** the analysis turns inward, examining whether Europe's own economic, monetary, social, and financial frameworks remain fit for purpose in this environment, with particular attention to the constraints imposed by institutional fragmentation and incomplete integration – remnants of the bygone era of reduced responsibility. Chapters delve into the future of the European social model, the structural asymmetries of EMU governance, the strategic implications of digital currencies, and the broader question of whether

Europe's existing monetary and financial frameworks can provide sufficient policy space in a more hostile external environment.

The contributions in **Section III** then consider how structural changes in the global economy are reshaping both Europe's external economic positioning and the internal restructuring of its economic model. Contributions address the strategic implications of the erosion of the multilateral trading system, intensifying geoeconomic rivalry, the rise of artificial intelligence, and the disruptive economic and political consequences of climate change and decarbonisation.

The **fourth section** of the Florence Report Part B examines how Europe can build collective capacity in areas where national provision is no longer sufficient, focusing on the financing and governance of European Public Goods in a context where security, strategic autonomy, and economic resilience have become increasingly intertwined. Chapters detail the evolution and limits of the EU Multiannual Financial Framework as a financing vehicle for common action, make the case for more autonomous EU fiscal capacity based on own resources rather than ad hoc borrowing and national contributions, and lay out the governance and financing options for a coherent approach to building credible common defence capabilities.

Finally, **Section V** turns to the mobilization of Europe's own financial resources, advocating for deeper capital market integration and more effective investment intermediation as essential to securing the economic growth of the Union. Contributions focus on the practical architecture of investment mobilization, addressing capital market fragmentation, innovation financing, retail savings participation, pension reform, post-trade inefficiencies, securitization, and the broader case for the Savings and Investment Union as a mechanism to redirect European savings toward productive domestic investment.

These analyses carry major policy implications. Simply put, policies previously seen as optional or politically difficult lofty federalist ambitions — common borrowing capacity, European Public Goods, deeper fiscal coordination, defence integration, a safe asset, and the Savings and Investment Union — have become functional necessities not just for the Union's endurance, but for the resilience and prosperity of its member states.

The core issue raised by the EMU Lab 2026 Florence Report is therefore not a trade-off between national sovereignty and European integration, but whether sovereignty can still be exercised meaningfully without common European instruments. In this regard, Europe's challenge is fundamentally political as much as economic – whether Europe can generate the institutional coherence, political trust, and strategic ambition necessary to act before internal fragmentation becomes entrenched under external pressures. The 2026 Florence Report argues that the collective scale provided by the European Union in areas previously untouched by shared decision-making has become indispensable for preserving the capacity of member states to secure their own independence and economic, social, and strategic security in the fractured global order.
