EuroMemo Group

European Economists for an Alternative Economic Policy in Europe

EuroMemorandum 2026

Aspects and implications of EU militarising. Alternatives for a Progressive Agenda.

EuroMemorandum 2026 draws on discussions and papers presented at the 31st Workshop on Alternative Economic Policy in Europe, organised by the EuroMemo Group and jointly hosted with the Panteion University of Social and Political Sciences, from 22nd to 23rd of September 2025 in Athens/Greece.

Introduction

The year 2025 was marked by growing geopolitical and geoeconomic tensions, directly affecting the EU. The Russian aggressive war in Ukraine, already in its fourth year, continued unabated, while the conflict in the Middle East intensified under Israel's brutal attacks on Gaza. The US military attack on Venezuela and the abduction of President Maduro violates international law, state sovereignty and the principle of peaceful conflict resolution, while the international disorder is further accentuated by President Trump's threats to take over Greenland by any means, whether peaceful or aggressive, directly impinging on the sovereignty of Greenland and of Denmark, a NATO ally! Last but not least, the newly minted US protectionist policies have created upheaval, while President Trump's tariffs policies keep changing at whim, adding to global uncertainty[1]. Additional challenges include the fast developing AI sector, the normalization of crypto currencies, and the proliferation of climate-related disasters.

The above challenges and disruptions will continue to reshape the EU and the global economy in 2026. The response of the European leaders has been increased militarization, including rearmament, higher defence spending and related policy reorientation, on the one hand and further deregulation, or 'simplification', as it is now called, stated to be a way of boosting competitiveness.

Over the last years, the EuroMemoranda have highlighted the multiplicity of crises, interconnected and synthesized in the concept of *polycrisis*, that characterize the global economy and particularly the European case. The EU response to this polycrisis has only been temporary (right after the Covid-19 crisis with the beneficial effect of the NextGenEU programme, as recalled in chapter 1 of this EuroMemorandum). Today, it seems that the EU approach directly serves a neoliberal, rather than a socially-oriented, goal: using public spending to de-risk private investment in favour of capital accumulation. The European Green Deal has been deprioritised and sporadic reference to a socio-ecological transformation has been abandoned, as we report in chapter 2.

Indeed, as also shown in the 2025 EuroMemorandum when criticizing the Draghi Report, several trends were already underway. Among them, it is worth highlighting the ones we consider most worrisome for the peoples of Europe:

- A growing militarization of the economies;

[1] Indeed, Trump's threat to raise tariffs against eight European countries that deployed troops to Greenland revived talk of a trade war and the possibility of retaliation by the EU against the US. The use of an EU package of retaliatory trade measures against the US worth 93 billion euros, prepared in 2025 when the EU was negotiating a trade deal with the US, is on hold until August 2026.

- A resurgence of market deregulation under the heading of improving global competitiveness of EU-based companies, in a context of trade wars;
- A clear shift of the political axis to the right and extreme right.

These trends are interlinked and reinforce each other. The European institutions, which are key actors in these trends, also reflect the shift of the political axis to the right. Some examples illustrate this very clearly.

The **deregulation** offensive concerns restrictions imposed on firms by market regulation and primarily serves European companies' competitiveness. However, it also enables militarisation, as exemplified in the recent removal of the long-standing ban on using EU funds to finance Member States' investment in military capacity. Deregulation was a basic claim of European business represented in the Antwerp Declaration (Antwerp Declaration, 2024). It was also supported by actors of the defence industries (BDSV, 2022).

- **Militarisation** is linked to the recent debate on the strategic **autonomy** of the European Union. The debate is about reducing the EU's dependency on the US, Russia, and China, by increasing its control over energy sources, cutting-edge technologies, 'critical' raw materials, and capital flows, and by enhancing the capacity of a European-based defence industry. The EU's policy in these areas is shaped by the geopolitical interests and internal political dynamics of its Member States.
- The resurgence of deregulation is now promoted by the **right**. However, it was supported by centre-left governments in the 1990s and 2000s in the EU, the US, and other advanced economies, who endorsed the neoliberal agenda. Indeed, the deregulation agenda was already present in the Single European Act and the Maastricht Treaty, as part of the neoliberal project of European integration. Liberalisation/deregulation, commercialisation and privatisation were highly relevant to the development of the EU as a global player, favouring the most powerful fractions of capital, mainly based in its leading economies.

These trends are not an accident of history, but a reflection of the development of the political power balance at the national and EU levels. This balance has shifted over the past fifteen years towards the right and extreme right and against the left and progressive forces. The shift can be explained by both the adherence of most social democratic, labour and socialist parties to the implementation of policies enabling neoliberal globalisation, privatisations and labour market flexibility while in government, as well as the structural weaknesses of the radical left. The shift reached a peak after the 2024 European Parliament elections and found expression in the de-prioritisation of the European Green Deal and the transition to ReArm Europe.

Political power relations can be changed when the actors fighting for change become stronger. The EMG's (EuroMemo Group's) proposals are aimed at supporting those actors who want socially and ecologically sustainable development, a self-determined life in dignity, solidarity and a healthy natural environment. While there is a genuine need to implement policy alternatives, as suggested in chapters 1, 2, and 3 of this EuroMemorandum, it is also important to develop alternative economic models, driven by human needs and based on an alternative way of thinking, as shown in chapter 4.

The 2026 EuroMemorandum is aimed at giving content to these issues, by: examining the macroeconomic dynamics of the EU (**chapter 1**); showing the socio-ecological roll-back (**chapter 2**); analysing the strategic reorientation of the EU towards militarisation and presenting the associated changes in the EU budget (**chapter 3**); and discussing the prerequisites of an alternative project of socio-ecological transformation (**chapter 4**).

CHAPTER 1: EU MACROECONOMIC DYNAMICS - TRENDS, POLICIES AND PROPOSALS FOR ALTERNATIVES

In this chapter, we look into the state of the EU economy in terms of the main macroeconomic trends of the past year, the fiscal and monetary policies pursued and their implications. The chapter ends with alternative proposals in a radical, progressive direction.

1.1. Macroeconomic trends – Stagnation lingers on

Following two years of near stagnation, the EU economy **grew** by 1.4% (Eurozone, 1.3%) in 2025 (European Commission, 2025a). However, as shown in Table 1, three of the largest European economies –Germany, France and Italy– were still stagnating, while very low growth rates were recorded both among the Nordic countries (Finland) and among the CEEs (Estonia, Hungary, Romania)[2]. The exceptionally high growth rate of Ireland reflects a country-specific factor, namely its large multinational sector.

According to a Eurostat preliminary flash estimate for the fourth quarter (Q4) of 2025, the rate of growth of GDP was slightly higher, at 1.6% for the EU (Eurozone, 1.5%). The overall picture of lingering stagnation across the EU is not however altered (Eurostat, 2026).

[2] Although GDP is a poor indicator, much less measure, of economic activity, its widespread use renders it difficult to avoid it.

The **increase in GDP** was largely the result of the beneficial effect of the NextGenEU programme, put in place following the Covid-19 health crisis in 2020. This boosted both private and public consumption, which increased by 1.5% (EZ, 1.3%) and 1.8% (EZ, 1.8%) respectively.

Investment also received a boost from the NGEU programme. In particular, total investment rose by 2.0% (EZ, 2.2%) overcoming the decline of 2024, while public investment increased by 3.8% (EZ, 3.6%). As the NGEU programme is due to expire in 2026, not to be succeeded by a plan of a similar social and economic ambition, investment in the EU will likely return to its previous sluggish state. Increased rearmament and defence spending may increase the rate of investment, although it is unlikely to serve the wider needs of climate change and social cohesion.

Inflation, %), measured in terms of the Harmonised Index of Consumer Prices (HICP), remained stable at close to 2% both for the EU average of 2.5% (Eurozone, 2.1, and in most member states, with some exceptions in Central and Eastern Europe. Furthermore, excluding energy, food, alcohol and tobacco from the HICP makes very little difference to the overall index (EU, 2.6% - EZ, 2.4%)[3]. The downward trend of inflation appears to continue in early 2026, although the available data is incomplete and subject to revisions. On the other hand, the war between US-Israel and Iran that erupted in early March initially led to a steep increase in energy prices, which will feed into the rate of inflation. The longer this war lasts, the greater the effect on inflation and on the economy more generally.

House prices hand have been increasing steadily across the EU member states. This is not reflected in the HICP, which includes rentals but not house prices or mortgage payments, or indeed the implicit rent of owner-occupied housing. Thus, in the third quarter (Q3) of 2025, house prices, as measured by the House Price Index, increased by 5.5% in the EU (Eurozone, 5.1%) compared with the same quarter of the previous year. Such developments need to be taken into account in considering the living standards and costs of households in the EU.

Real compensation of employees per head was equal to 47.9% of GDP in the EU (EZ, 48.6%) in 2024 (Eurostat, 2025b). It consisted of wages and salaries (EU - EZ, 38.2%) and employers' social contributions (EU, 9.7% - EZ, 10.4%). It is worth noting that thirteen EU countries recorded a share of GDP that was below the EU average for compensation of employees, with the lowest proportions in Ireland (28.5%), Greece (35%) and Italy (39.5%). Gross operating surplus, on the other hand, was equal to 40.9% of GDP (EZ, 40.7), while it was highest in Ireland (64.8%), Malta (51.9%) and Greece (50.2%).

[3] The transitory nature of the inflation rate of the early 2020s has thus vindicated those who argued against the steep rise in interest rates by the ECB, including the EuroMemo Group.

Over the 20-year period 2004-2024, the share of employees' compensation increased mainly during the global financial crisis and the Covid-19 health crisis. Overall, the net gain for labour between 2004 and 2024 was a mere 1.3%, limiting the role of wages as a demand factor and underlining the unequal distribution of income between labour and capital.

Unemployment remained constant at 5.9% of the labour force (EZ, 6.3%), although there is considerable variation across the EU member states, with the highest rates recorded in Spain (10.4%) and in Greece (9.3%)[4]. Further, the unemployment rate for the under 25's was significantly higher than the average. This reached 14.8% in the EU (EZ, 14.4%), while the highest rates were recorded in Spain (25%), Sweden (24%) and Finland (21.5%).

In 2025, the **fiscal profile** of the EU economy included a relatively low public deficit in relation to GDP, at 3.3% (EZ, 3.2%) and a high public debt/GDP ratio, at 82.8% (EZ, 88.8) by comparison to the reference values of 3% and 60% respectively, set by the Stability and Growth Pact, which was reinstated in 2024. There was great variation across the member states in terms of both the public deficit and the public debt ratios. In fact, nine member states are under an ongoing Excessive Deficit Procedure (EDP), which may eventually result in fines should corrective measures not be taken by their governments. These are Austria, Belgium, France, Hungary, Italy, Malta, Poland, Romania and Slovakia, accounting for 47% of the total EU economy, in terms of GDP, at current prices (Eurostat, prc_ppp_ind). In addition, the Commission is considering proposing the opening of an EDP for Finland, bringing the share of the 'errant' countries to 48% of EU GDP. Thus, the fiscal straightjacket of the SGP is on again, after a 4-year break (2021-2024) during which it was suspended, choking the EU economy anew.

The combination of domestic and global trends is reflected in the **Current Account balance**[5]. The EU has traditionally had a surplus with the rest of the world. In 2025, this stood at 2.5% of GDP (EZ, 2.7%), lower than in 2024 (EU, 3.2% and EZ, 3.3%). Disaggregating the average figure by country reveals a significant variation across the EU. In particular, 12 member states – mostly CEEs - had a deficit. By contrast, Denmark had the highest current account surplus (12%), followed by the Netherlands (9.1%), Malta (5.1%), Sweden (4.4%) and Germany (4.8%). Ireland's high surplus (9.7%) is due to its multinational sector. Overall, the export-led growth model mostly applies to the Nordic countries and to certain Western European countries. In particular, two countries - Germany and the Netherlands - accounted for 67% of the EU's total current account surplus in 2025. In absolute figures, the surplus of Germany amounted to €214.1 billion and that

[4] The unemployment rate for women was close to the average for the labour force, at 6.1% (EZ, 6.5%).
[5] This is the sum of trade in goods and services, net income, and current transfers with other countries

of the Netherlands to €107.5 billion, while that of the EU was equal to €476.8 billion.

The **share of the EU in world trade** (goods and services) reached 15.8% in 2024, placing it above the USA (13.6%), China (13.6%) and the UK (4.2%) (European Council, 2025). Its top export partners include the USA (20.6%), UK (13.2%) and China (8.3%), while its main import partners are China (21.3%), USA (13.7%) and UK (6.7%). In view of the role of the EU in global trade, any shift in trading relations through new agreements and/or changing geopolitical conditions have wider repercussions.

In 2025, a new **trade agreement** was signed between the EU and the USA. Its main elements include the elimination of EU tariffs on all US industrial goods, preferential market access for a wide range of US seafood and agricultural goods, a maximum 15% US tariff for EU goods and a tariff rate quota for steel & aluminium. Further, the EU is to buy US energy products valued at $750 billion and to invest $600 billion in the US by 2028, as well as to 'substantially increase' its procurement of military and defence equipment from US and to address 'undue restrictions on transatlantic trade' and 'unjustified digital trade barriers'.

The Agreement needs to be approved by the European Parliament. However, following President Trump's threats to use tariffs by way of leverage over Greenland, the EP put the implementation of trade plans on hold 'until the US decides to re-engage on a path of cooperation rather than confrontation and before any further steps are taken', as Bernd Lange, chair of the EP's International Trade Committee put it (BBC, 2026).

Overall, the US-EU Trade Agreement is asymmetrical in favour of the former. As such it will adversely affect the EU economy and especially those countries that have traditionally relied on an export-led model of growth, such as Germany.

More generally, the use of tariffs and other restrictions by the Trump administration is effectively reshaping trade relations on a global scale. As its reliance on trade with the US is weakened, the EU is seeking new trade agreements, such as with India, Indonesia and Cuba, or finalising agreements that have been under discussion for a long time, such as Mercosur. Although such a reaction is to be expected, it runs the risk of creating domestic social and economic tensions, such as those by EU farmers in the case of the Mercosur agreement. Thus what borders on trade war by the US may well lead to internal upheaval within the EU.

1.2. Policies – The implications of militarisation

The 2024 revision of the EU's fiscal policy surveillance framework did not change its basic precept, namely that austerity is the way forward for the EU economy. As Paul de Grauwe has argued:

> *Fiscal policies in Eurozone countries have long been shaped by the Stability and Growth Pact (SGP). This framework was conceived as a means to enforce orthodox fiscal rules designed to steer member states towards balanced budgets. Although the SGP was temporarily suspended during the pandemic, it was reintroduced in 2024 with minor, largely superficial, revisions …. The core principles of the SGP therefore remain unchanged*. (De Grauwe, 2025)

As already mentioned above, the Excessive Deficit Procedure, which under the new SGP version also encompasses public debt, has been opened for nine member states and it is about to be opened for one more. The EDP compels governments to implement austerity measures in order to comply with the SGP rules. Furthermore, the 'war economy mode' the European Commission has introduced as part of its militarisation agenda, is in effect a fiscal trap for the EU member states, apart from its broader implications for the economy and society (Frangakis, 2025). This is especially the case in relation to member states with a high public debt and/or a low military expenditure.

More specifically, on 19/3/2025 the European Commission presented its White Paper for 'European Defence. Readiness 2030', which aims at mobilizing 800 billion euros ($870 billion) over four years, through the following means (European Commission, 2025b).

- Activating the national escape clause of the SGP, which allows increased spending by a member state in the event of "exceptional circumstances outside the control of the member state with a major impact on its public finances, provided that it does not endanger fiscal sustainability over the medium term" (Art. 25, Reg. (EU) 2024/1263).
- Exempting increased spending on defence by up to 1.5% of GDP from the annual spending limits for four years, starting in 2025. After that time, national budgets will need to be adjusted, so as to comply with the SGP deficit and debt rules. The Commission estimates that an amount of 650 billion Euro will be raised.
- Contracting new joint EU borrowing, amounting to 150 billion Euro, against the security of the EU budget, to provide loans to member states. It is worth noting that joint borrowing on a far larger scale was part of the EU's response to the pandemic crisis. The proceeds were passed on to member states by way of loans and transfers approximately in equal measure. The Readiness 2030 plan contains no transfers.

- Leveraging on the European Investment Bank, which has AAA rating on the market.
- Launching a fresh push to integrate the EU's capital markets. The so-called Savings and Investment Union (SIU) aims at tapping the savings accounts in banks.

In view of the significant divergences across the EU member states, the Readiness 2030 plan will undermine social cohesion to the extent that funds are diverted towards military purposes, away from other uses, although increased public spending may indeed add jobs to the EU economy, depending on how much of that spending goes to imports from outside the EU.

In particular, the new 'consensus' amongst governments, markets and military contractors, whereby military spending is supposed to contribute to sustainability, threatens to rewrite the rules of public spending and financial regulation. As pointed out by Vandeloise and Van Wynsberghe (2025) "trying to rebrand defence as 'sustainable' risks breaking the objectives the rules are meant to achieve and further undermining sustainable finance".

Furthermore, it will burden highly indebted countries as the leniency accorded to defence spending is temporary. In addition, the commitment of NATO members - 23 of which are also members of the EU - to raise their defence spending to 5% of GDP per year by 2035 will increase the fiscal burden.[6] Indeed, the IMF is already posing the question 'How can Europe pay for things that it can't afford?' concluding that austerity both in the short and in the long run is the answer:

> *Without stronger growth and fiscal consolidation, average European debt could reach 130 percent of GDP by 2040, requiring significant fiscal adjustment. Near-term policies should maintain price stability, start fiscal consolidation, and keep trade open* (IMF, 2025).

On the monetary front, the ECB started cutting its benchmark interest rate in June 2024, continuing throughout 2024 until June 2025. It has kept all key interest rates unchanged at its subsequent meetings in 2025 and in early 2026. Overall, the main refinancing operations rate declined from 4.5% in June 2024 to 2.15% in June 2025[7]. Thus, borrowing costs are at their lowest level since December 2022.

[6] The 23 countries that are members of both NATO and the EU (as of late 2025) are Estonia, Latvia, Lithuania, Finland, Sweden, Denmark, Belgium, France, Germany, Italy, Luxembourg, Netherlands, Portugal, Spain, Poland, Czechia, Hungary, Slovakia, Slovenia, Romania, Bulgaria, Croatia and Greece.
[7] The main refinancing operations rate is at the time of writing equal to 2.15%, the marginal lending facility to 2.40%, and the deposit facility rate to 2.00%.

The current monetary policy stance follows the decline of the inflation rate towards the Bank's target rate of 2%, even though the target is not theoretically or empirically founded, as argued by the Euromemo Group in previous reports.

The global uncertainty created by the Trump administration's tariff policies and threatened sanctions against those who retaliate has led to a significant depreciation of the US dollar. Under these conditions, the euro appreciated against the dollar by around 10-12% by late 2025, albeit not threatening the dollar's dominant position as a reserve currency. Although the ECB President, Christine Lagarde is in favour of strengthening the euro's international role, Germany retains its 'reluctant hegemon' role. Generally, the EU's institutional arrangements and macroeconomic policies do not support the Euro's capacity to become a globally dominant reserve currency.

1.3. Proposals for alternatives

In discussing alternatives, a useful starting point is the type of indicators used to measure the economy. Traditionally, this is GDP. This is a blunt instrument that measures activity in terms of output produced, but not that lost due to deteriorating climate conditions, unemployment, widening wealth and income inequality. These aspects are thus discussed in the following chapter dealing with the social and ecological rollback of the present conjuncture. The present chapter concludes with certain proposals about alternatives in relation to the EU macroeconomic policy framework.

In the case of **fiscal policy**, the EU fiscal surveillance framework needs urgent reform. The SGP reference values for the public deficit and the public debt are not theoretically or empirically grounded, as argued in past EuroMemoranda of the EuroMemo Group (EMG). They need to be linked to the fiscal sustainability pattern relevant to each member state depending on such factors as their rate of growth, their fiscal performance and the rate of interest (Frangakis, 2024). In particular, the cost of servicing the public debt is a better indicator of its sustainability over time.

The fiscal rules of the EU need to become friendlier to national investment in terms of spending for a social and environmental transformation. For example, the national escape clause, at present activated in relation to defence spending, may be made wider use of, in order to unlock off-budget loan instruments. Further, to the extent that investment has a high cost at the beginning while the benefits accrue over time, a 'golden rule' exempting investment, or parts of it, from the public debt would be fair to both the present and the future generations. Further, taxing wealth, capital and high incomes to increase fiscal space is preferable to raising public debt. Such taxes contribute to fiscal stability and have highly required positive effects on the distribution of income and wealth.

Also, the use of common borrowing, introduced under the NextGenEU programme and repeated on a smaller scale in relation to defence spending, may be expanded more ambitiously to fund more EU-level investment on the basis of transparency and accountability. However, for such a tool to serve the objectives of a transformational policy, it needs to be embedded in an overall policy of long-term social, economic and ecological transformation.

With regard to private investment, support should be tied to environmental, climate and social conditionalities. Such investment should enhance social cohesion and stakeholder inclusion. As mentioned above, military spending cannot be 'baptised' sustainable thus diverting resources from other uses. Such rebranding is not only misleading. It carries dangerous and long-term implications for environmental and social sustainability.

Monetary policy should support fiscal policy, so that both areas serve the goal of socio-ecological transformation. This is not just a long-run objective. The fiscal authorities need to take advantage of the room for manoeuvre created by the central bank to accelerate such a transformation. The current ECB benchmark rate is favourable for the fiscal authorities. Moreover, central bank policies should be used directly to support public investment that is highly needed e.g. for public housing or to support a just transition.

Further, the ECB should be a buyer of public debt of last resort. The Transmission Protection Instrument (TPI), put in place in 2022, catering for 'deteriorating financial conditions not warranted by country-specific fundamentals' has not been tested in practice, nor is it likely to avert a financial crisis should one happen, as discussed in previous EMG reports.

Overall, the macroeconomic policy framework of the EU is outdated, founded on neoliberal ideas that have been proven wrong many times in the past. Rather than reforming the institutional basis, the European leaders prefer to resort to temporary fixes. Such an approach leads to the accumulation of problems that may become explosive over time. Disappointment and a loss of trust is generated in increasing segments of society, thus opening the way for extreme right-wing notions and practices.

Alternative routes are possible. For these to materialise, good ideas and public debate are necessary, but also social mobilisations that demand a change of course in a radical, progressive direction.

TABLE 1 - BASIC ECONOMIC INDICATORS

Region	Country	Real GDP - % change on preceding year	HICP annual average % change on preceding year	Unemployment - Number of unemployed as % labour force	Real compensation of employees per head - %change over preceding year	Current Account as % of GDP	Net lending (+) or net borrowing (-), general government as % of GDP	Gross debt, general government as % GDP
	Euro area	1.3	2.1	6.3	1.5	2.7	(-) 3.2	88.8
	EU	1.4	2.5	5.9	1.7	2.5	(-) 3.3	82.8
Nordic	Finland	0.1	1.9	9.5	1.3	(-) 0.9	(-) 4.5	88.1
	Denmark	2.0	1.9	6.1	1.5	12.0	2.3	28.9
	Sweden	1.5	2.5	9.0	1.8	4.9	(-) 1.7	34.5
Western Europe	Austria	0.3	3.5	5.6	0.1	1.2	(-) 4.4	81.4
	Belgium	1.0	2.8	6.0	1.7	(-)0.6	(-) 5.3	107.1
	France	0.7	1.0	7.6	1.8	0.0	(-) 5.5	116.3
	Germany	0.2	2.3	3.6	1.7	4.8	(-) 3.1	63.5
	Ireland	10.7	1.9	4.6	0.8	9.7	1.5	33.1
	Luxembourg	0.9	2.3	6.6	1.7	(-)3.6	(-) 0.8	26.8
	Netherlands	1.7	3.0	3.9	2.0	9.1	(-) 1.9	45.2
Southern Europe	Cyprus	3.4	0.9	4.7	3.0	(-) 7.7	3.3	56.4
	Greece	2.1	2.8	9.3	(-) 0.1	(-) 6.2	1.1	147.6
	Italy	0.4	1.7	6.2	1.3	1.0	(-) 3.0	136.4
	Malta	4.0	2.4	3.0	3.4	5.1	(-) 3.2	47.0
	Portugal	1.9	2.2	6.3	2.9	1.1	0.0	91.3
	Spain	2.9	2.6	10.4	1.0	2.7	(-) 2.5	100.0
Eastern Europe	Czechia	2.4	2.3	2.7	2.9	2.2	(-) 1.8	43.4
	Estonia	0.6	4.8	7.6	1.9	(-) 1.5	(-) 1.3	23.4
	Latvia	1.0	3.6	6.8	4.5	(-) 4.1	(-) 3.1	48.3
	Lithuania	2.4	3.4	7.1	5.3	1.5	(-) 2.2	39.8
	Slovakia	0.8	4.2	5.4	1.5	(-) 5.1	(-) 5.0	61.9
	Slovenia	1.0	2.5	3.4	5.3	2.9	(-) 2.2	65.2
	Bulgaria	3.0	3.5	3.5	8.4	(-) 1.8	(-) 3.0	28.5
	Croatia	3.2	4.3	4.7	5.7	(-) 2.9	(-) 2.8	56.2
	Hungary	0.4	4.4	4.5	3.2	0.1	(-) 4.6	73.7
	Poland	3.2	3.4	3.1	5.0	(-) 0.1	(-) 6.8	59.5
	Romania	0.7	5.9	6.1	0.6	(-) 7.9	(-) 8.4	59.1

Source - European Commission, 2025, European Economic Forecast, Autumn 2025, Institutional Paper 327, Nov

CHAPTER 2: SOCIAL AND ENVIRONMENTAL ROLLBACKS

The 2017 European Pillar of Social Rights and the 2019 European Green Deal (EGD), in the context of loosening EU fiscal framework between March 2020 and April 2024, have stimulated a number of positive social and environmental developments – that have already been discussed and criticized in previous EuroMemoranda. These are now being squeezed between the search for global competitiveness, neoliberal pro-business regulations and militarization, in a renewed economic and political context.

The launch of the Omnibus process of deregulation, that weakens firms' responsibilities towards workers' rights and the environment and significantly reduces the scope of social and environmental legislation, represents an attack on democratically achieved social and ecological standards.

2.1. Social and environmental setbacks

Social and ecological goals squeezed between 'sustainable' competitiveness and militarization[8]

The shift towards 'sustainable competitiveness', referring to competitiveness achieved through increased productivity, badly hides social and environmental setbacks. The EU 'deregulation' and 'simplification' agenda in the framework of the Competitiveness Compass consists in dismantling protective labour, social, environmental and digital regulations. 'Competitiveness' became the argument against holding corporations accountable for green, social and human rights standards in their supply chains, from child labour and modern slavery to oil spills and climate-heating emissions. The weakening in December 2025 of the Corporate Sustainability Due Diligence (CSDD) Directive is the latest illustration of this 'simplification' agenda. This shift is expected to produce drastic negative social and economic effects, not just for the Global South but also for the European Union (Jäger et al., 2025)

The new agenda also sharpens the common division between social protection, considered unproductive, and social investment, considered productive, i.e. sustaining competitiveness. Whereas social expenditures are subjected to systematic cuts, social investment is still (more or less) preserved.[9] Further, the new agenda neglects existing tensions between competitiveness and social cohesion. Because member states have differential capacities for

[8] This section partly reflects arguments made by Maria Karamessini in her keynote speech at the 31st EuroMemo Conference in Athens 2025.

[9] Significantly enough, ESF+ funds were saved at the last moment from disappearance in the proposal for the new EU budget 2028-2034.

technological innovation, there is a need for specific measures to support left-behind countries or regions.

The militarization shift materialises in huge increases in military expenditures to reach the NATO target of 5% of the GDP by 2035 (with the possibility to temporarily activate a national escape clause). Militarization may of course enhance economic growth – although with low multiplier effects – and contributes to job creation, but in a way that is contrary to human well-being and the need for the social-environmental transition.

Especially in times of pervasive austerity, military expenditures clearly compete with social and environmental spending. First, not all member states will use the escape clause, especially those facing high borrowing costs. Second, fiscal consolidation policies imposed on countries in excessive deficit procedures (currently 9 countries, probably 10 soon) limit their ambitions. Finally, larger fiscal space would be necessary for investments that are urgently needed to meet major challenges other than war: climate change, possible pandemics, migrations and population displacement, ageing, unemployment, poverty. Finally, the issues are not just about financial spending, but about the development of power relations, economic and, even more, societal structures.

Defenders of human rights, social justice, and the environment under pressure

In the European Parliament, NGOs defending human rights, social justice, democracy and the environment are under pressure from the European People's Party and the far-right political groups. For instance, a Scrutiny Working Group on NGOs has been set within the Committee on Budgetary Control (CONT) to delegitimize their action and lead to their de-funding at EU level; this would be a huge blow to many key NGOs.[10] While EU institutions and leaders warn against authoritarian forces, they themselves act in an increasingly authoritarian manner, especially towards social, environmental, democracy and peace movements. NGOs that strive for transparency, want to include military emissions in the total emissions calculations, or campaign against lobbying and armament are particularly subjected to political and administrative pressure. (Joint Civil Society Letter, 2025)

These pressures align with the regressive ideology of the far right, which seeks to move 'forward into an idealized past'. This perspective not only involves denying environmental and health hazards (climate, loss of biodiversity, pollutants), but also rejecting social justice claims, curtailing women's rights (e.g. abortion) and fighting against ethnic and cultural diversity, which is perceived as a threat to their own privileges.

[10] For details see A. Neslen, 'Rightwing MEPs threaten huge funding freeze for environmental NGOs', Guardian 4/2/25.

2.2. The Omnibuses against democratic, social and environmental progress

After the European elections of May 2024, while the right and far-right had grown in the European Parliament, the European Commission prepared guidelines for the 'simplification' of existing regulations to be included in the Omnibus packages.[11] Ten Omnibuses have been put forward by the Commission, and more are to follow.

Watering down corporate social and environmental responsibilities

The first Omnibus package significantly undermined companies' social and environmental obligations. It notably watered down the objectives of the 2020 Taxonomy regulation and two (already inadequate) directives on corporate responsibility:

- the 2022 Directive on Corporate Sustainability Reporting Directive (CSRD) providing for obligations for large companies to publish regular reports the way their activities may affect people and the environment
- and the 2024 Directive on Corporate Sustainability Due Diligence (CSDDD), that aims at promoting sustainable and responsible corporate behaviour in companies across their global value chains.

While companies were already pushing in that direction, the Trump administration's tariff policy added a new pressure. The alliance of the European People's Party with far-right groups in the European Parliament allowed for this process (Box 1).

Box 1. The Omnibus to weaken corporate social and environmental obligations

On 16 December 2025, the European Parliament approved the Omnibus I deregulation package, a move resulting from the joint votes of conservatives and far-right parties This package amended the CSRD and CSDDD, notably delaying application dates to "simplify" sustainability rules. Sustainability reporting and due diligence requirements for companies were reduced as follows:

- social and environmental reporting will only apply to EU companies employing over 1,000 employees and with a net annual turnover of over €450 million. The net turnover threshold has also been increased for non-EU companies to €450 million generated in the EU,
- reporting requirements will become more quantitative, while sector-specific reporting would become voluntary
- new rules allow smaller companies below 1,000 employees to refuse reporting information beyond what is set out in the voluntary standards
- only large EU corporations with more than 5,000 employees and a net annual turnover of over €1.5 billion will need to carry out due diligence

[11] Von der Leyen had been elected Commission President with the support of far-right votes. Jordan Bardella, chairman of the European Parliament's far-right Patriots for Europe, called for abolishing the EGD as 'a constraint on economic growth' and a threat to French workers.

- businesses within the scope of the revised due diligence rules will no longer need to prepare a transition plan to make their business model compatible with the Paris Agreement. They will remain liable at national rather than EU level for non-compliance and could face fines of up to 3% of the company's net worldwide turnover, the guidance on which will be provided by the Commission and member states.

The European Commission also proposed in 2025 a '28th company law regime', an EU-level company law framework for 'innovative companies', an undefined concept referring to start-ups and scale-ups. Such a framework could allow EU companies to circumvent national law for a lighter European regime. This will negatively affect labour rights, as well as taxation, social security, and insolvency rules; produce loopholes and provide insufficient safeguards for workers' participation; and facilitates the creation of 'letterbox' companies and social dumping. (Meyer-Erdmann&Hoffmann, 2025)

Moreover, on 16 December 2025, the committees of the European Parliament adopted compromise amendments to the Defence Readiness Omnibus that substantially revise how exemptions from EU chemicals legislation would apply to defence-related activities. The next day, the Council formally adopted a Regulation incentivising defence-related investments under the ReArm Europe Plan by making 'legal adjustments aimed at supporting faster, more flexible and coordinated defence-related investments across the EU'.

Watering down emissions reduction and pollution targets

In November 2025, shortly before the start of the COP 30, the European Parliament voted for a 90% emissions reduction target by 2040, though permitting the use of the carbon credits mechanism to achieve this goal. The 2030 target can still be met by less ambitious measures and 2050 remains distant enough to avoid necessary action.

In December 2025, the EU amended again the 2023 Deforestation Regulation aiming to bring down greenhouse gas emissions and biodiversity loss, by postponing its implementation and reducing companies' obligations. In addition, the Commission backed the Council's proposal to postpone by another year the application of the 2023 ETS2 that aimed at extending the 2005 Emissions Trading System (ETS) to cover emissions from buildings, road transport and additional sectors by 2027.

The European Commission is officially sticking to the agreed emission reduction targets, but does far too little to meet them. EU institutions are taking steps back from their own initiatives as regards corporate responsibility, forest protection or the end of combustion engines. The argument is that the population must not be overburdened by ecological measures and, above all, that global competitiveness and military armament must not be negatively affected by ecological standards.

Meanwhile, public health is being sacrificed. The Commission is pushing for fewer controls for all pesticide active substances, making unlimited authorisations the rule, extending grace periods to up to three years for banned substances and removing the current requirement for authorities to consider the scientific and technical knowledge in their assessment. The 8th omnibus (Omnibus VIII) Commission proposal adopted on 10 December 2025 raises major concerns (Box 2).

Box 2. The Omnibus VIII proposal on environmental legislation

The Omnibus VIII (Commission proposal adopted on 10 December 2025) seeks to "simplify" the environmental legislation "in the area of industrial emissions, circular economy, environmental assessments and geospatial data". It consists in rollbacks on key laws, including the revised Industrial and Livestock Rearing Emissions Directive (IED 2.0) and the Regulation establishing the Industrial Emissions Portal, which were just adopted in 2024. It provides for:

- reduced requirement to assess safer substitutes for hazardous chemicals
- no obligation for energy-intensive industries to explain how they will transition to climate-neutral and circular production
- further delays to catch up with state-of-the-art pollution prevention standards
- exclusion of organic poultry farms from the scope of the IED, and exemption for large poultry and pig farms from reporting basic resource use
- revision of the Waste Framework Directive to reduce the duty to inform on chemicals manufactured in and imported to the EU
- softening the Batteries Regulation aimed at the sustainability and safety of batteries
- rules on environmental assessments to accelerate the permission for energy infrastructure, storage, grids, etc.
- problematic amendments for the Renewable Energy Directive, the Electricity Market Directive, and the Gas Market Directive.

All in all, Omnibus packages ignore the effects on people and the planet. The free-trade agreements completed in 2025 and in the beginning of 2026 (Chile, Indonesia, Mercosour, India) adds to the Omnibus process and increase globally social and ecological destructive effects: greenhouse gases, biodiversity losses, the exploitation of workers and the destruction of local economies.

2.3. Wages, employment and poverty

Minimum wages. In 2025, the Minimum Wage Directive 2022/2041 has been transposed in most EU member states and consolidated after being challenged. On 11 November 2025, the Court of Justice of the EU confirmed its validity against the Danish and Swedish 2023 action for annulment.[12] The Directive has prompted the revaluation of minimum wages and become an important driver of structural minimum wage growth.

[12] According to these countries (without a statutory minimum wage), the Directive exceeded the EU's competence. They argued wage-setting should remain under the competences of social partners.

Poverty and social exclusion. In 2024, 21% of the EU population were living in a household at risk of monetary poverty, material and social deprivation and/or with very low work intensity. Although the European Pillar of Social Rights (EPSR) recognises the 'right to adequate minimum income benefits ensuring a life in dignity at all stages of life', in no member state does the minimum income scheme lift recipients above the poverty line or guarantee a decent living.

Housing crisis. Real wages recovered in 2024 and 2025, but housing costs grew faster than the inflation and disproportionately affect minimum wage earners who devote a larger share of their income to housing. In Slovenia, France and Portugal (three countries that met or nearly met the adequate minimum wage criteria in 2024), the estimated cost of renting a one-bedroom apartment ranges from 86.1% (Slovenia) to 95.5% (France) and even 172.4% (Portugal) of the minimum wage (ETUC-ETUI, 2025). Due to excessive housing costs, minimum wages in these countries are thus inadequate.

Employment slowdown, job losses and layoffs. After years of sustained rise (2013-2018 and 2020-2022), employment growth has recently decelerated. In Q3 2025 the unemployment rate was 5.8%, but unmet employment needs represented 11% of the extended labour force (23.9 million persons) (Eurostat, 2025b). Youth unemployment was also particularly high (15.2%). Besides, as restructuring processes continued in 2025, additional lay-offs were announced, including in strategic sectors (ETUC-ETUI, 2025). Despite its crucial character for the green transition and competitiveness, employment in the circular economy slightly decreased, contradicting the environmental sustainability objectives (Akgüç et al.).

Job quality and working conditions. Quality employment is critical for competitiveness, but job precariousness and bad working conditions remain major issues.

2.4. Social inequality, pollution and climate change

Social inequality. Whereas EU-wide income inequality declined in the long run (2006-2021) due to significant income growth in central and eastern member states, there is considerable contrast in the national situations. Fiscal retrenchment contributed to the rise of income inequality in several member states (Vacas-Soriano, 2024). The share of people below the poverty line has risen in two-thirds of member states.

Wealth inequality is even more marked. In 2021, in the EU, *'The richest 5% of the population hold more than 40% of the total wealth in Estonia, Spain and Germany, between 30% and 40% in most countries, and at least 25% even in the most equal country, Slovakia. Meanwhile, the poorest 50% of the population hold only 4% of total wealth in Germany, around 10% in most countries and a maximum* *of 17% in Slovakia'* (Vacas-Soriano, 2025). Since housing disparities play a crucial role in explaining overall wealth inequality, housing policies could play a crucial role in reducing these inequalities, together with progressive income and wealth taxation (Darvas et al., 2025).

Social inequality is intricately involved in climate change and pollution that threatens the whole planet. At the global level, most Europeans belong to the richest 10% and the EU bears more than a quarter of the responsibility of climate change (Oxfam, 2025, p.73). At the EU level, '*the richest 10% produce as much carbon as the bottom 50% combined*" and "*someone from the richest 0.1% of Europeans emits 53 times more carbon than a person from the bottom 50%*' (Oxfam, 2025, Figure 1),

While the richest 0.1% increased their emissions (by +14%) between 1990 and 2022, the bottom 50% significantly reduced theirs (-27%) (Oxfam, 2025). Ordinary households thus bear most of the burden of carbon cuts. The super-rich are both overconsuming carbon and overinvesting in polluting activities, while also over-influencing climate negotiations – though lobbying or disinformation – and weakening their ambition. The poorest for their part are overexposed to the impact of climate change and pollution. To stay within the 1.5°C limit, everyone in the EU must cut their carbon emissions. The emissions of the super-rich 0.1% and the richest 10% should be a priority in the EU because they are the easiest (and the fairest) to cut. But since everyone in the EU must reduce their emissions '*small steps will not work, transformation is essenti*al' (Oxfam, 2025).

The UN Global Environment Outlook report released on 9 December 2025 confirmed that environmental degradation destroys millions of lives, costs trillions every year, and that failure to act will have ever more considerable impact and come at an increasingly high price. It points to annual gains of at least US$20 trillion that could be achieved by transforming five 'key systems: economy and finance, materials and waste, energy, food and the environment.' (UNEP, 2025).

2.5. Proposals

Considering Europe's historical responsibility in climate change, EU institutions should adopt an ambitious strategy instead of watering down their targets. Taxing the richest and excess profits (especially in fossil industries) should be a priority, together with regulating and prohibiting luxury emissions. It would enable both reducing social and carbon inequalities and investing in the transformation of the EU economy.

A crucial challenge is to protect the already achieved democratic, social and ecological standards. EU citizens in their majority (77%) support binding rules to hold companies accountable for their climate and human rights impacts (IPSOS, 2025). After the adoption of the Omnibus I package, member states have less than

3 years to incorporate the CSDDD into national law, and can still correct the damage they allowed in Brussels in December 2025. The remaining rules for corporate accountability[13] still represent a foundation that can be built upon (BHRC, 2025).

The disclosure of power structures and political practices can be part of a strategy of progressive social movements helping people to mobilise. For instance, the Dutch NGO SOMO uncovered how a secretive alliance of eleven multinational companies – including some of the most powerful fossil fuel companies in the world – influenced EU law-making, undermining democratic accountability and the EU's credibility as a leader on human rights and sustainability (de Leth, 2025). Similarly, the EU Ombudswoman and her predecessor highlighted that the Commission bypassed democratic processes, especially as regards the CAP and corporate sustainability through Omnibus I. Specifically, it used an unjustified 'emergency' procedure lacking transparency, inclusivity, and scientific basis (Puymartin et al., 2025).

Together with restrictive regulations, price and tax measures could contribute to the combat against climate-damaging emissions. Right-wing populists and extremists are mobilising against the ETS2 and climate protection[14]. EU member states should be able to choose between participating in the ETS2 and setting their own CO2 taxes and climate levies. However, EU institutions should set clear and binding reduction targets for climate-damaging emissions and impose tough sanctions if these targets are not met. There must be clear reduction paths and flexibility for EU member states (Hübener, 2026, p. 15).

Another challenge is to combine environmental policies with social justice. Ecological measures must go hand in hand with measures to ensure social justice and full protection for vulnerable groups. Housing needs must be met through active housing policies (construction, price and tax regulations) and low-income households must also be supported through the rise of minimum wages and minimum income guarantees, together with extended public services. Employment programmes should develop jobs in strategic sectors (construction, transportation, circular economy, etc.). A carbon tax must benefit the population in the form of climate investments in infrastructures to meet mobility and heating needs. In all EU countries, the wealthiest should pay a significant amount for their CO_2 emissions. The revenue from the ETS should be used specifically for climate investments.

[13] These rules include the duty for large companies to respect human rights and environment in their global value chains, to identify, prevent, stop and remediate harm to workers, communities, and the environment, and to ensure full compensation to victims of corporate abuse.

[14] Romania and Poland want to delay the introduction of ETS 2, already postponed to 2028, until 2031, while Slovakia is completely opposed to ETS 2.

CHAPTER 3: MILITARY SPENDING AND THE MISSING INDUSTRIALIZATION STRATEGY

The positive prospects for the world heralded by globalization have proven to be unfounded. Frictions between states have grown to unprecedented levels, and Europe's position in the global context is declining in terms of innovation, industrial power and growth. In this context the EU appears as a collection of nations without a shared strategy, or rather, as a collection of nations whose only shared strategy is rearmament (Pflüger, 2025). National governments are supported in this approach by the European Commission, which has relaxed fiscal constraints, introducing the possibility of accessing the national safeguard clause in the presence of 'necessary' military expenditures. Those countries respecting the government deficit threshold of the Stability and Growth Pact may access the national escape clause, which allows increased spending up to 1.5% of GDP in the event of exceptional circumstances outside the country's control with a major impact on its public finances, provided that it does not endanger fiscal sustainability over the medium term (Art. 25, Reg. (EU) 2024/1263). It follows that in subsequent years military expenditure will become an additional burden on the public budget, to be paid by European citizens either directly - through taxes - or indirectly - through cuts to social expenditure (Frangakis, 2025).

Europe is undergoing a substantial shift towards militarisation, with the EU reorienting its policy priorities and, as a result, its budgetary allocations. In recent years, military expenditure has not merely reached record levels but has also become deeply embedded in the Union's investment and industrial policy landscape.

The outcome is a complex array of programmes and agencies that, after years of fragmentation and inefficiency, are finding a new cohesive force: military security. The EU's mechanisms for defence investment - ranging from the European Defence Fund (EDF) to agencies such as the European Defence Agency (EDA) and initiatives like the European Defence Industrial Strategy (EDIS) and European Defence Industry Programme (EDIP) - are increasingly consolidated under the banner of security and military readiness.

3.1 The EU's pursuit of security and military preparedness

The new strategic direction is enshrined in the Omnibus Package for Defence Readiness (or 'Defence Readiness 2030', successor to RearmEU), which explicitly advocates rapid enhancement of military capabilities - even at the expense of transferring budgetary resources from social welfare, public health, and pension schemes. The Commission has assumed the central role in European rearmament, directly financing programmes and overseeing the European Peace Facility - a so-called 'off-budget' fund used primarily to supply arms to Ukraine.

In 2021, with the European Defence Fund, the multiannual budget for 2021–2027 for the first time included a 'Security and Defence' line, amounting to 1.2% of the EU budget. Between 2022 and 2023, funds allocated to military programmes rose sharply, reaching €8.2 billion. In March 2024, the European Defence Industrial Strategy (EDIS) was launched: a framework for the European military-industrial sector aiming to coordinate investments and anticipate the conversion of civilian production to military use in times of crisis. Its associated programme, the EDIP (European Defence Industry Programme), has a budget of €1.5 billion for 2025–2027.

Overall, defence spending by the 27 EU Member States reached €343 billion in 2024, marking a 19% year-on-year increase, while the total defence expenditure figure is projected to reach €381 billion in 2025, about 2.1% of EU GDP (EDA, 2025).[15] EU-level 'security and defence' instruments (e.g. European Defence Fund, European Peace Facility) total around €25–40 billion for 2021–2027 and are separate from national spending.

Yet resources remain insufficient. The option of joint EU debt, as seen with Next Generation EU, is under consideration, whilst the Commission has begun reallocating funds from other budget chapters or raising funds from common borrowing that ultimately will bear on the shoulders of national budgets[16]. The mid-term review of the 2021–2027 Multiannual Financial Framework introduced changes to structural funds, shifting the priorities of EU financial instruments:

- The Regional Development Fund (ERDF), Just Transition Fund (JTF), and Cohesion Funds have been adapted to finance 'dual use' projects - civilian and defence infrastructure - and military mobility;
- The European Social Fund (ESF+) may now finance defence-related training and skill development.

Separately, the European Council is urging modifications to five key programmes - Digital Europe, Horizon, EDF, Connecting Europe Facility, and STEP (Platform for Strategic Technologies for Europe) - to promote investments in the defence sector.

[15] More data on EU defence expenditures can be found in European Council (2026).
[16] For example the 90 billion loan to Ukraine raised through common borrowing is unlikely to be repaid.

3.2 Multiannual Financial Framework 2028-2034

Looking to the 2028–2034 budget, ambitions are even greater: defence and security are poised to become strategic foundations of a 'stronger and more autonomous' Europe. The defence industry is calling for €100 billion, and the Commission plans to merge 19 funds under a new overarching framework - the European Competitiveness Fund.

Militarisation has likewise reached the European Investment Bank (EIB). Previously prohibited from funding defence, the EIB launched the SESI (Strategic European Security Initiative) in 2022, now valued at about €8 billion. In 2024, the Defence Equity Facility (DEF) was introduced, with an initial investment of €175 million: within months, the restriction of financing only civilian projects was lifted. In summer 2024, the European Investment Fund (EIF) signed an agreement with NATO's Innovation Fund, pooling resources to support the European defence industry.

More recently, InvestEU - launched in 2021 to aid post-COVID recovery and the green and digital transition - has accelerated its pivot to defence investment. In September 2025, it offered a guarantee for the first time to a private credit fund, Sienna Hephaistos Private Investments, which supports arms manufacturers. The public guarantee attracted additional capital from institutional investors, including pension funds.

The decisive shift came with a delegated act from the Commission, altering guidelines that previously limited InvestEU's defence and security investments. InvestEU may now finance any product or technology predominantly for military use and, crucially, may support defence companies - and their suppliers - even in 'associated' countries, a vague definition that could include any nation with EU-cooperation agreements. If not tied to an associated country, a company may still access financing with a Member State's special guarantee, thus enabling non-EU companies to benefit from EU funds without transparency, via private intermediaries.

What emerges is a hybrid funding model – grounded in what Gabor (2021) framed as Wall Street Consensus– that uses public resources as collateral for financial markets: EU taxpayer money increasingly de-risks private investment in defence, creating a protected, profit-guaranteed market for global asset managers and pension funds. The Commission's latest White Paper (European Commission, 2025b) unapologetically signals an intention to attract global finance to defence spending, raising questions about ultimate beneficiaries and the risk of a defence-driven financial bubble. This is crystallising a new 'bubble' in military-industrial investment, reminiscent of pandemic-era risk-sharing benefitting pharmaceutical industries but now centred on arms production. Large asset managers, such as

BlackRock, are now identifying European militarisation as a lucrative opportunity. Unsurprisingly, the Stoxx Europe aerospace and defence index has more than tripled since Russia's invasion of Ukraine, with over half the increase occurring in 2025.

As part of the Defence Readiness Omnibus, the Commission also seeks to boost defence spending by relaxing various regulations, including the EU's framework for sustainable finance, which sets criteria and benchmarks for environmental and social investment. Recent proposals seek to weaken the exclusion criteria for controversial weapons from EU sustainability indexes, advancing a narrow definition of 'prohibited weapons' that omits highly controversial arms like nuclear, incendiary, depleted uranium, and lethal autonomous weapons. Consequently, companies manufacturing such weapons may become eligible for investments labelled as sustainable and aligned with the Paris Agreement's objectives.

Looking ahead to the 2028–2034 cycle, the Commission aims to further elevate defence as a pillar of EU power and autonomy, with industry leaders calling for a €100 billion minimum as well as consolidation under the Competitiveness Fund (Soler, 2025).

In November 2025, as part of the Defence Industry Transformation roadmap, the Commission proposed upskilling and reskilling 600,000 workers by 2030 to meet defence production needs. This involves converting and restructuring manufacturing branches, especially the automotive industry and its supply chain, for defence production.

3.3 Risks and alternatives

Europe's pivot towards militarisation is systemic and the pace and scale of budgetary, legislative, and industrial reforms is striking. Policymakers should critically assess the risks of opaque fund flows, off-budget guarantees, and the growing network of military-industrial linkages beyond the EU. Serious consideration is also needed regarding the resulting economic model - the lower employment multiplier of defence spending compared to social and green investments (Stamegna et al., 2024; Elveren et al., 2025; Krebs & Kaczymarczyk, 2025). The immense profits accruing to arms firms like Rheinmetall, Thales Group, and Leonardo, the role of global financiers, and the hard fact that, in this 'era of European defence', as defined by the EU High Representative for Foreign Affairs and Security Policy Kaja Kallas, weapons must be used or sold to keep production and the associated financial bubble alive. Notably, European aerospace and defence stocks drop sharply whenever geopolitical developments, such as US-led pushes for peace in Ukraine, threaten the war's continuation (EU Defence Spending/Eunews, 2025).

Participation in wars is supposed to build economic strength in the midst of global chaos (Canale & Cozza, 2025), but it promises catastrophic consequences, not only on human lives, but above all on the continent's ability to sustain growth on a socially sustainable basis (healthcare, education, etc.).

In the absence of an industrial policy strategy capable of supporting and driving businesses in the processes of innovation, digitalization, and ecological transformation, European countries, although supported in the short term by increased spending on weapons, will find themselves unprepared and marginalized in the long run with respect to the challenges of digital and ecological transformation. The only effective result will be the growth of short-term profits of the defence industry and of the financial institutions investing in the militarization of the economy.

A common response to the real threat of Europe's industrial decline would require a quantum leap in common political institutions, which currently doesn't seem to be on the horizon. But pressure from below can make the difference (Clua Losada, 2025).

The one thing we can all certainly agree on, today is that the economic system does not function solely according to market mechanisms but is the result of policy choices destined to shape Europe's future for years to come. And the future will depend on the shape current choices will give to Europe.

CHAPTER 4: REVEALING CAUSES AND EXPLORING ALTERNATIVES

The introduction of EM2026 highlights three symptoms emerging and forming within the current conjuncture: **militarisation**; **radical deregulation** aimed toward increased global competitiveness of companies in and from the EU, and a **sharp political shift to the extreme right**. These three symptoms are interlinked, reinforcing one another and acting as causal mechanisms that accelerate social-ecological regression. It might seem that the only alternatives are defensive struggles against these symptoms. However, in the following, we argue that this is not the case. By revealing the causal mechanisms generating these symptoms, we also reveal pathways to alternative progressive socio-ecological futures.

The symptoms are caused by, firstly, a dominant worldview which needs to be challenged by alternative progressive thinking; secondly, powerful societal forces which need to be confronted by alternative agencies, boosted by collective empowerment; and thirdly, the profit- and growth-driven dynamic of capital accumulation which must be overcome and transformed by an economy and societal development oriented at the needs of both human and more-than-human inhabitants of this shared planet. Below, we briefly introduce these causal mechanisms. We draw on recent EuroMemo conference papers that explore alternative pathways towards progressive, inclusive futures.

4.1 Alternative mode of thinking

In their contribution, Salles et al. (2025) help us understand how thinking constitutes a causal mechanism driving specific outcomes by characterising the information system of an organisation as performative, just like a language, 'in the sense that it defines what exists for the organisation' and, conversely, what does not exist.[17] This also applies to meaning-making in general, in the form of, for example, strategy (guidance) or hegemony (justification), which constitute causes of the three interacting symptoms. The EMG acts as an alternative meaning-making space by critically interrogating and unpacking threats, perceived as existential by the EU, that the symptoms react to, and the consequences of these reactions.

Regarding the first symptom, militarisation, some have questioned the EU's warnings about the true extent of Russia's military threat to the West. They argue that Russia's imperial rulers have overestimated their military strength and that the West does not need to rearm to defend itself against Russia. Yet, rearmament is now a central pillar of the EU defence and security agenda, risking wider provocation rather than securing peace. This shift towards militarisation entails a whole of economy response, 'from the mobilisation of finances, research and development, procurement of raw materials and energy sources, to the division of labour in the production of infrastructure and armaments, transport routes, financial transactions and the circulation of goods' (Dellheim, 2025). In so doing, it accelerates global problems and collective challenges rather than opening progressive pathways towards peace.

Regarding the second symptom, competitiveness, in his recent report on the EU economy, Mario Draghi described the threat as existential. He rightly highlighted productivity as the cause of lagging competitiveness, and that this, in turn, depends on low investment in productive capital. However, Draghi blamed bureaucracy and regulations for that, which explains why the current EU Commission has embarked on an offensive to deregulate.

However, Stigendal (2025) argues that an alternative explanation of why investments in productive capital have remained low is poor profitability, in contrast to investing in assets of various kind. Therefore, endeavouring to increase competitiveness by pursuing a neoliberal strategy of deregulation will most likely reproduce and even reinforce existing asymmetrical power relations between different types of capital. Deregulation will boost value-extracting capital but do little to address the problem of low productivity and weak investment in productive capital. It will undermine efforts to increase the supply of an educated workforce, or to advance and improve essential infrastructure etc. Instead, capital will continue to be accumulated through intensified extraction, exploitation and commodification. That will inevitably increase inequality, a key causal mechanism driving socio-ecological breakdown. However, as capitalism basically depends on productive resources to produce value and, in particular, surplus-value, the second symptom of deregulation will undermine the conditions of possibility for capitalism itself through the erosion of the basic functioning of ecological systems, which are essential life-support systems for any social and economic activity.

The third symptom is the rapid shift to the extreme right. Obviously, it depends on the surge of extremist parties across Europe, but also on traditional right-wing parties responding to this shift by leaning further rightwards as well as on ultra-right lobbies and campaigns, 'underpinned by business support from some rentier capitalists and by the benign tolerance of their propaganda by Big Tech platforms' (Jones, 2025). This has resulted in more authoritarian treatment of immigrants and the amplification of anti-genderist rhetoric into mainstream political discourse.

In our alternative explanation, however, we highlight how increasing inequality acts as a breeding ground for this shift to the extreme right (Stigendal, 2025). In combination with racial segregation, inequality has reinforced the breeding ground for gang crime in many cities across Europe. Inequality is fuelled by commodification, in particular of 'rights-guaranteed use-values' (Stigendal, 2025) and is associated with the dominance of value-extracting capital. The shift to the extreme right will make rent-seeking, one of the regressive features within Europe's contemporary regime of capital accumulation, even more reckless.

The repressive treatment of immigrants is likely to increase antagonism between different social groups on the losing side of inequality and increase demands for authoritarian solutions. It will also further erode productive resources and use-values in general. Thereby, Europe is in the process of becoming an example of how capitalism eventually undermines itself, if social forces associated with its use-values remain weak. For that reason, opposition social forces may grow bigger, perhaps even involving productive capitalists, possibly enabling broad alliances.

4.2 Alternative agencies

The three symptoms would not exist without social forces promoting, supporting and driving them, as explained above. For example, since 2022, the European Round Table of Industrialists, together with other corporate lobby groups, has been pushing hard to put competitiveness-through-deregulation at the heart of EU policy (Dellheim, 2025). The power of such social forces relies on property relations, ownership of the means of production and the uneven distribution of financial resources, favouring the owners of corporate wealth and creating new 'oligarchs' or 'tech-bros' in the tech-finance sectors. Jones (2025) explores the forms in which this wealth exists (Jones, 2025). He presents a ranking of the top seven tech oligarchs in terms of personal wealth and corporate status. Their power, he argues, depends not on paper money, nor physical assets such as gold, but on their rights over corporate wealth.

As mentioned above, this power underpins the dissemination of far-right opinion, propaganda and news, spread across various platforms and facilitated by limited state regulation. It has caused widespread alarm and resistance amongst civil society organisations. The Trade Union movement has also expressed concern at their employment practices, including poor working conditions and low pay. Online and offline forms of mobilisation have been developed by official and informal unions, promoting collective empowerment by the formation of coalitions with new actors and grassroots movements. Jones mentions the People vs Big Tech network and co-operatives like Uber alternatives as examples of many smaller existing campaigning alliances.

Jones (2025) also explores how secure the power of the oligarchs is and he reveals an important vulnerability. Their power depends on other large scale investors, although with stakes far from 50%. Yet, such investors may get opportunities to influence the executive. The so-called asset management funds (AMF) are particularly significant, not only due to their enormous funds but also because they do not own the funds but only manage them on behalf of various, often public bodies, to generate returns for pensions and insurance schemes. The AMF sector is immensely powerful, in particular the three biggest investors; BlackRock, State Street and Vanguard.

Jones (2025) proposes an alternative by highlighting the possibility of financial blocs, such as workers and union pension funds, to exert greater influence over AMFs. Indeed, 'there are several precedents of pension fund activism curbing corporate excess, labour exploitation and social irresponsibility.' Jones (2025) proposes strategies where EU politicians and policy makers work with unions, pension and insurance fund activists, pursue 'active investor' roles to challenge Big Tech practice or develop alternative media platforms to prevent uncontrolled far-right propaganda and intimidation. That would include taking back the management of large publicly based funds such as workers' pension schemes. Coordinating such investments internationally would make it even more effective, Jones (2025) goes on proposing, and that would be 'an obvious role for EU policy makers.'

4.3 Alternative economy

The three symptoms make development increasingly unsustainable, given the definition of sustainable development, which focuses on balancing and meeting the needs of current and future generations, in particular the needs of the world's poor (Stigendal, 2025). A major cause of that is ongoing uneven development operationalised through exploitation, dispossession, and expanding commodification of capital accumulation, turning ever more use-values into commodities, in particular, those that are rights-based, and exploiting their quality to make further profit. Consistent with previous EMG Memoranda, and further developed here, the obvious alternative to this profit- and growth driven development model is to make it more needs-driven and thereby socially and ecologically sustainable.

Papadimitropoulos and Perperidis (2025) argue that such inclusive and sustainable development can be fostered by unleashing the transformative potential of open-source technologies and digital commons. They claim that 'digital commons and cooperative economies are crucial pillars for a sustainable, resilient, and inclusive future'. Similarly, Anagnostopoulos (2025) explores the transformative capacity of energy communities as potential agents of energy justice and democracy.

A needs-driven development would require democratising companies. Salles et al. (2025) argue that this would entail change across five dimensions of organisational features. These include 'level of autonomy of individuals, work groups and the organisation as a whole' which means securing participation in decision-making on every relevant issue; 'transparency of the information system (IS) and digital IS, plurality of representations' which like any language is performative and therefore has to be as explicit as possible to allow for debates, in particular about its implicit conventions; 'explicitness of the management system, informed and responsible decision-making' which means to put the distribution of decision-making powers at the basis of organisational democracy; 'time and organisational learning' which emphasises organising for the time required to learn; and 'organisation and support for democratic life, citizenship in the organisation' which means organising democratic dialogue well beyond the employee representative bodies alone.

Salles et al. (2025) have developed a method called APIDOR to deal with the five dimensions and promote democratic dialogue in digital information systems of companies as well as in all areas of public administration and services. That would 'reinforce a democratic ideal that has been severely undermined in society.'

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