

What are the main challenges to long-term EU resilience and what are the strengths on which Europe can build it?

Resilience in societies is fundamentally about having the needed buffers to deal with crises as they emerge. In most of the recent crises such as the Financial crisis and Covid, it has always been the ability of the state to act that calmed markets or buffered the economy from too much adverse effects.

Yet, the state needs borrowing capacity to respond to emerging crises and for that it needs GDP growth.

The lack of GDP growth in the EU is undermining its resilience, whether that is in ability to fund defence, to ability to preserve our way of life or stabilizing markets.

If one considers that fundamentally GDP is the sum of all the countries annualized revenue streams, then it is easy to see that developing new revenue streams (startups) and rapidly scaling these revenue streams (growth capital) is a crucial factor.

The EU doesn't lack ambitious founders, what it lacks is ambitious investors. When ambitious investors exist they usually run out of ambition as capital is not returned on a risk/reward adjusted basis.

The reason for this is the complete absence of an EU wide capital market where insurance and pension funds invest in EU equities or where EU retail investors invest in EU public companies. Yet, there is no shortage of such capital.

Retail money is constrained because of inertia and loss aversion and when it is invested it is invested in US equities while insurance and pension funds are constrained by overly zealous regulators who push that those funds must prove they can meet guarantees in 20 years time at the end of every business day, making them avoid volatile investments that can fluctuate in value such as equities.

A lot of investment behaviour is driven by the eventual public market price-to-earnings. When public market investors are investing at market valuations reflecting 50x revenue, that creates a lot of incentive for founders and investors to create companies in that category.

Yet, public market price-to-earnings of EU companies trails the United States (26x in US) but it is also extremely fragmented with Italy at 8.89x and Germany at 16.6x

In effect, this means that for every euro of revenue an entrepreneur generates, it adds 26 euro of wealth to him and his investors in the United States while in Italy that same euro only adds 9 euro of value.

This is what fundamentally explains why there are a lot more investors in the United states and why European entrepreneurs relocate their companies there.

One extremely important challenge for European resilience is then to convert this capital market into military power.

If this problem applies to regular companies, imagine how hesitant investors are to invest in EU defensetech companies. If an investor invests, there is literally no large fund that can buy him out at a later stage because **they are not allowed to** because of their ESG mandates.

This effectively means that professional venture capitalists will not invest in defensetech because **they make money by selling their equity to other investors OR a buyer.**

Fundamentally, the biggest challenge for European resilience is the creation of a large, liquid and unconstrained equity capital market.

Imagine 2040: How would you characterise a resilient EU in 2040?

A resilient EU would have

- Adjusted regulatory constraints on insurance and pension funds to invest in EU equities.
- Create an opt-out retail investment scheme where part of people's salary is automatically diverted into investments but that does not lock up their capital.
- Made sure the "S" and "G" criteria of ESG does not exclude weapons
- Create an ECB reinsurance mechanism to allow existing investment schemes to unlock capital for investment into EU equities
- Make existing no-arms clauses in existing investment agreements null and void to unleash existing fund capital

This would unleash existing capital into the market, remove the constraints to invest in the defense sector and ensure a steady supply of new capital going into the European equity market to underpin sustained higher price-to-earnings.

This will

- Increase P/E ratios to be on-par with the United States
- Stop EU founders moving to the US
- Increase venture capital investments in defensetech
- The increased P/E would unleash a lot of private sector investments which will create innovative companies which will contribute to GDP.
- Higher GDP growth would enable nation states to rebuild their buffers for crises and invest more in hard power.
- This hard power can be used to police its surroundings, secure trade routes and secure access to critical resources.

Some EU founders believe that technological power comes first, but I don't believe that.

The US and EU were very much on the same level in technological power in the 1950's but then the US weaponized their equity markets with the invention of venture capital.

We copied the venture capital model but we didn't copy the large and unified equity capital market that the US had since its founding years.

How to ensure Europe's resilience:

Ensure a high monthly deployment into EU equities from retail investors, insurance and pension funds

- > High P/E ratios
- > High incentives to create new revenue streams
- > Investors and founders build lots of tech startups
- > GDP growth
- > High economic power
- > Sustainably high defense spending
- > Military power

How can we ensure a resilient society and fairness between generations?

By far, the most unfair intergenerational problem is pensions.

But pensions are only unaffordable because the government is a terrible investor, the value for the taxes paid to the income gained at old age is several orders of magnitude below the market.

In my opinion an **opt-out** investment system where a percentage of people's salary is diverted into an investment account and if they do not wire it to their personal accounts is invested automatically (but still liquid so they can take it out) would activate a very large amount of deployment into EU equities.

Once that is done, existing pension funds can be freed up to invest in EU equities through an ECB reinsurance product that allows them to meet their guarantees but still invest in equities. (e.g. 6 month volatility insurance).

This would push up valuations of the younger generation and also move a part of the old money into higher yield investment products.

The state pension can then be left unindexed as the private investment schemes take over proportionally the burden over time except for those individuals who actively decide to opt-out.

The phase-out of state pensions would sanitize state budgets while the resulting GDP growth from increased investment in technology companies would start to work over time.

Which critical policy actions should be initiated today to strengthen resilience in the EU by 2040?

If the above would be done today, then in 2040 the EU would be a military and economic superpower.

The second is that the EU should find methods to avoid internal division which is actively exploited by hostile foreign powers to divide us.

The EU should seize the enlargement as an opportunity to make the EU executive directly elected across the EU nations.

Synergies and tensions: What crucial synergies and tensions can be identified across various EU priorities which might, respectively, help or hamper EU's long-term resilience?

ESG mandates prohibiting defense investments

The Green deal and the ESG mandate for funds is a huge problem for investments in defensetech.

First, ESG has to be modified to make sure that investments in weapons is still possible because otherwise you kill off the capital market for single-use defensetech.

Second, even if today the ESG obligation would be cancelled then there are still many funds created over the past 4 years that have those mandates.

An explicit regulation has to be made that makes those no-arms clauses in investment funds **unenforceable** so that investment managers can invest in them. (that doesn't mean they will, but they would no longer be limited to it). In practice, they will ask the LP's if they still have to follow this because no investment manager wants to be on bad terms with his investors.

National fragmentation

Another factor that undermines resilience is the fragmentation of 27 different regulations and at the very least the European union should unify all the regulators OR at least have some method to keep the national regulators accountable (hire/fire national regulators).

I believe it's actually important to maintain the appearance of independent national regulators. For a simple reason, we all have our national pride and would not accept a foreigner to regulate the areas we are proud of.

E.g. No Belgian would accept a German to regulate Belgian beer, especially after they managed to destroy all their beer brands with the Reinheitsgebot.

Lack of democratic leadership

When it comes to military power, it's one thing to have money to invest in military equipment but it's another thing altogether to decide to actually go to war and mobilize troops.

While the EU is structured democratically, it's undeniable that it doesn't really feel that way as the EU leadership is selected by the EU council and parliament.

The reality is that people will never accept Ursula von der Leyen to send their kids to fight in a war.

Likewise, the fragmentation on decision power scares the Baltic states who do not have the comfort that states like Ireland and Belgium would just plainly veto going to war for them.

Military power can only be exercised by a democratically elected leader who is elected by the entire European electorate.

Liberum veto and hostile nation states can divide europe

It's already happening with Slovakia and Hungary under the influence of Russia and disabling the proper working of the EU.

No confederation has ever survived for long when its members are both elected regionally and they have veto rights.

In practice, this means that even if Europe has military power and economic power. Its indecision can be bought or coerced.

This is a huge problem and is again a very good reason to go towards a direct election for the presidency in all the member states.

However, we see that also the US seems vulnerable to foreign influence through misinformation. Two-party systems are very vulnerable to it when a large part of one party gravitates towards conspiracy theories.

The solution is to adopt an electoral system for the EU presidency that maximizes the democratic legitimacy of the winner such as instant-runoff voting.

With the US abandoning Europe there's a huge issue with maritime security

I already pointed this out in another submission so I will not go into details, but fundamentally the EU is extremely vulnerable to the closure of sea routes by a hostile power and it should ensure it builds the ability to defend its critical sea lanes in the future.

Luckily, the Ukrainians just upended the paradigm behind naval security and their naval drone fleet can be a crucial component in our sea lane security. Even when China or the US closes sea lanes in extortion.

Regulatory capture undermines internal competitive forces

Whether it's national champions in France preventing export licenses to their competitors or it's regulators blocking acquisitions of banks.

Fact is that there is no market if nationalist tendencies and big companies are able to lean on the government to prevent competition.

It's well known that innovation kills off old companies and replaces them with new companies, yet governments listen to their big companies much more often than they listen to what the startup community has to say.

The reality is that big companies do not innovate if they are shielded from competition and only big companies are wealthy enough to pay lobbyists or have associations say what they want.

Regulatory capture is the enemy of GDP growth and the government should empower entrepreneurs to call in the help from the judiciary to fight it everywhere it's present because it's clear that politicians cannot be trusted to not make rules that favour corporations.

How can we enhance these synergies and mitigate these tensions?

As a successful startup founder, I've never wanted to focus on politics but the reality is that Europe is so far behind the US that true innovation can not really happen here anymore.

It's ridiculous to even consider raising 5 million to build humanoid robots here but that's what many startups have done in the US.

It's ridiculous to raise 10 million to build new anti-air defenses, yet that's what's happening in the US.

It's not even sure that if you manage to build it, that an EU government would buy it if it's not developed in their country.

Enhancing strategic foresight: How could the European Commission further improve its approach to strategic foresight to increase its impact on designing EU policies for a desirable future?

Strategy is really about bottlenecks.

Knowing where the bottlenecks of your competitors are and knowing where your bottlenecks are and how to press down hard on your competitors' bottlenecks so they run into serious problems while trying to widen yours.

The EU, as a regionally centered institution, is incredibly easy to divide. If it were to adopt leadership that is elected across the entire EU then it would be very hard to divide because there is now one person who can speak for the entire EU.

EU's sea lanes are actually hard to cut off because there are many routes while Chinese sea lanes are easy to cut off.

America has built its economy on 340 million people, yet the EU can harness 450 million people and can expand to include more countries to raise the population count.

In reality, if we copy the mechanisms behind American resilience then we can overpower the US easily economically and militarily.

The American education system does not produce enough qualified people and Americans' only true religion is money. Both of these can work in Europe's favour if it becomes a land of more opportunity and European talent stays in Europe and potentially worldwide talent becomes more attracted to the EU because there's more opportunities to make it here.

Russia is very weak in fact, it's extremely reliant on its oil and gas industry which can be bombed. Same for Iran.

The EU should become a global superpower and the only thing that's really stopping us from resuming our destiny as the world's center of civilization is our internal divisions.