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# EU break-up? Mapping plausible pathways into alternative futures

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# EU break-up?

## Mapping plausible pathways into alternative futures

Niclas Meyer\*

### Abstract

*Following Brexit, the rise of populist Eurosceptics across the EU, Central Eastern Europe's flirtation with 'illiberal democracy' and the sovereign debt crisis, which essentially still remains unresolved ten years after it started, even some of the EU's most enthusiastic supporters are today wondering whether the EU could actually break apart. In the paper, I propose the scenario-planning method to address this question and to think about the future of the EU in a structured way. While the method is already well established in the study of socio-technical systems, the paper tests its transferability to the political economy of the EU. Along two drivers, the material struggle to tame globalization and the ideational struggle to fill the void that is resulting from the deconstruction of neoliberalism, the paper maps four plausible pathways into alternative futures. I conclude with a discussion of the potential of scenario-planning to improve the transfer of knowledge from academia into practice.*

**Keywords:** EU, future, neoliberalism, populism, inequality

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## **EU break-up?**

### **Mapping plausible pathways into alternative futures**

#### **1. Introduction**

In 2017, the EU just celebrated its 60<sup>th</sup> anniversary. Over the years, it weathered many crises and proved remarkably resilient. Following Brexit and following the 2017 general elections in Austria, The Netherlands, France, Germany, and the 2018 elections in the Czech Republic and Italy, which all saw populist Eurosceptics take leading roles, however, the EU today looks more vulnerable than ever before. The current perception of crisis is amplified by the EU's apparent failure to solve the economic crisis, which, ten years after its start, still holds a firm grip on the EU's Southern member states. At the same time, the EU seems unable to stop its Central East European member states' attacks on liberal democracy. Against this background, even some of the EU's most enthusiastic supporters are today wondering whether the EU could actually break-apart.

The recent history of the EU highlights two things. The first is that, as humans, we are inherently bad at predicting the future and our predictions of the future often tend to change rather quickly. Not long ago, the prevailing sentiment about the future of the EU was rather optimistic. This is reflected in book titles such as "The United States of Europe: The New Superpower and the End of American Supremacy" (Reid, 2005) or "Why Europe will run the 21st century" (Leonard, 2005). Secondly, Brexit along with the election of Trump both serve as a reminder that history is littered with important events that did occur despite all the odds. Further examples include the subprime mortgage crisis, Fukushima, 9/11 and the fall of the Iron Curtain. Apparently, we are in desperate need of better ways to plan for the future.

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Needless to say, predicting the future is impossible. The unfolding of the future tends to be influenced by a limitless number of uncontrollable variables. Therefore, any self-respecting researcher would stay away from questions concerning the future of the EU or the likelihood of its break-up. In the field of applied research, however, one sometimes finds oneself in the uncomfortable situation of having to answer such questions because (paying) clients want to know. And they deserve to know. Whether the EU could break apart is potentially one of the most important questions of our time.

Fortunately, there is a method that can be used to address such questions. This is the scenario-planning method. It goes back to Herman Kahn who, in the 1950s, introduced it in the context of military planning and strategic studies (Schoemaker, 2014). Nowadays, it is commonly used by businesses and governments across the world (Ringland, 1998). Especially in science, technology and innovation policy-making the method is today well established (Georghiou, 2008, pp. 4–5). Technology companies and science policy planners often need to anticipate future technological developments when deciding about the allocation of scarce public science budgets or private R&D budgets. In these circumstances, it has become standard practice across the world to use scenario-planning and other foresight methods.

In this paper, I examine the transferability of the scenario-planning method to the political economy of the EU. Moreover, I discuss the method's potential to improve the flow of knowledge between academia and policy-making. Section 2 provides a short description of the method. In Section 3, I survey the European studies literature for clues that might help us to make sense of the future of the EU. In Section 4, I propose four plausible pathways leading into four alternative *futures*. I conclude with policy recommendations and suggestions for further research.

## 2. Methodological approach

### 2.1. How to plan for an uncertain future?

Whereas social scientists have the luxury of being able to hide behind the *ceteris paribus* condition, policy-makers are often forced to take decisions without knowing whether and how the context conditions determining the impact of their decisions will change. They habitually make assumptions about the way that the future will unfold. Unfortunately, our perceptions of the future are known to be affected by a long list of biases (Gilbert, Gill, & Wilson, 2002). Therefore, policy-makers, too, often base their decisions on weak assumptions. In the early 1990s, for instance, EU policy-makers did not only assume that the economic models of the member states would start to converge because of monetary integration. They also assumed that political integration would deepen along with it. In hindsight, we know that both assumptions were wrong. This example also shows that because of path dependencies, past policy choices are often hard to reverse. For example, some of the Economic and Monetary Union's (EMU) members might wish that they had never joined. Leaving the EMU today, however, would be prohibitively costly.

The scenario-planning method is meant to assist decision-makers in planning for an uncertain future. As I demonstrate in this paper, the method is based on the analysis of a set of drivers, trends that are assumed to have an impact in the future (see Section 3). Based on these drivers, the scenario-planning method encourages its users to explore plausible and internally consistent pathways leading into multiple scenarios (see Section 4). Crucially, scenario-planning is *not* about determining the relative likelihood of a given outcome. Instead, it is meant to encourage decision-makers to keep an open mind and to consider future outcomes that are unlikely but possible.

Thereby, scenario-planning aims to reduce the risk of being surprised by events that were not anticipated. It can allow decision-makers to identify critical junctures and

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actions that, in the best case, might allow them to influence the course of events. While this is not always the case, the method does at least provide the opportunity to prepare for the future and thus to retain a degree of maneuverability in the face of path dependencies. Had the founders of the EMU applied this method, for instance, they would have been forced to vary their assumptions regarding economic convergence and political integration. As a result, they might have designed the EMU differently or they might have been able to prepare for the recent crisis.

In practice, scenario-planning exercises are usually based on a set of moderated workshops, in which decision-makers, stakeholders and external experts are invited to think about potential trajectories into the future along a set of predefined drivers. The goal is to include perspectives from different backgrounds, insiders and outsiders. This is critical to overcoming organizational biases, such as group thinking or wishful thinking.<sup>1</sup> Given the number and heterogeneity of decision-makers and stakeholders in the EU, a scenario-development exercise would require numerous workshops with hundreds of participants. In scenario-planning exercises, however, this would not be unusual. To fine-tune its science, technology and innovation policy, for instance, the comparatively small country of South Korea has conducted scenario exercises with up to 25,000 experts (Shin, Hong, & Grubb, 1999). Clearly, this would go beyond the scope of this paper.

What I do in the paper instead is that I test the waters for a potential scenario-planning exercise. I simulate a scenario development process by means of a literature review, gathering as many different perspectives from secondary sources and scientific disciplines as possible.<sup>2</sup> However, such a literature review cannot

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<sup>1</sup> Such biases appear to have shaped the scenarios proposed in Juncker's recent white paper (European Commission, 2017). While there is little transparency about the way these scenarios were developed, it is clear that undesirable scenarios like further EU exits or the break-up of the EU were ignored.

<sup>2</sup> As it addresses questions that are generally not directly addressed in peer reviewed publications, the analysis is also extended to the grey literature. Working papers, blog entries, newspaper articles and newspaper interviews with experts and decision-makers turned out to be invaluable sources.



replace an interactive scenario building process involving a wide set of decision-makers and stakeholders. The collected perspectives are filtered through the eyes of the author and the resulting scenarios are prone to be influenced by the author's selective interests and (pro-European) biases. Therefore, the term 'scenarios' shall be avoided. Instead, I will speak of 'pathways' leading into alternative futures. While it may not substitute an interactive scenario-planning exercise, the literature review will be used to examine (1.) how and to what extent the existing literature treats the long-term future and (2.) to analyze its transferability into practice.

## 2.2. The potential for knowledge transfer

Scenario-planning is not a research method per se. It would be a mistake, however, to assume that scenario-planning is only meant for decision-makers. For researchers, it offers an opportunity to increase their impact outside academia and to collect new impulses for further research. By bringing researchers and decision-makers together, the scenario-planning method can be understood as a framework for organizing the knowledge transfer process between researchers and practitioners.

The proposed method thus represents an opportunity to address the growing emphasis that research funders across OECD countries are nowadays placing on the societal impact and the policy impact of (social) science research. In the UK, the Research Excellence Framework (REF) now awards 20% of the overall scores in relation to research impact. Also EU level funding under the Horizon 2020 program is, at least in part, awarded on the basis of the impact potential of the proposed projects (Boswell & Smith, 2017, p. 2).

In principle, the new emphasis on knowledge transfer ought to be welcomed. Problematically, however, the new impact-oriented agenda is often based on a simplistic, linear model of knowledge transfer, according to which social scientists

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respond to immediate the scientists' policy problems and where policy-makers are only waiting to implement their recommendations. As summarized by Boswell and Smith (2017, p. 3), however, there is a rich body of literature that demonstrates how such simple models fail to capture the full complexity of the relationship between science and policy/politics. The problem often is not simply one of communication. The transfer of knowledge requires more than just the presentation of research findings in a format and language that practitioners can understand. Research results are rarely used in a direct and instrumental way. In most cases, it rather 'creeps' into policy-making through diverse and diffuse processes, contributing to broad and incremental ideational changes (Weiss, 1980).

While the linear model of technology transfer is by far the most common, the most convincing model is provided by the science and technology studies literature. It proposes a model of co-production, where research and policy mutually constitute one another (Jasanoff, 2004). Not only does politics constitute the science system (Rueschemeyer & Skocpol, 1996), as, for instance, through research funding. Science also contributes to the construction of political reality by providing the conceptual frames and the data that shape our understanding of policy problems and solutions (Boswell & Smith, 2017, p. 5). Instead of simply describing social reality, social science research is itself performative. It transforms the social world (MacKenzie, 2006). It is in this context of co-production, rather than the linear model of knowledge transfer, that the scenario planning method is to be understood. Therefore, the participation of decision-makers *and* researchers is critical.

### 3. Drivers

Scenario-planning exercises always begin with the identification of key drivers. The selection and prioritization of drivers provide a useful way to think about the future in a structured way without becoming overwhelmed by the sheer limitless number of factors that might have an impact on the future. Obvious candidates include

issues ranging from the migration crisis to the euro crisis. To be useful for the scenario-planning exercise, however, the drivers need to be both highly important and highly uncertain regarding their impact on the future of the EU.

**Table 1.**  
Potential drivers

<b>Driver (from low to high)</b>	<b>Uncertainty</b>	<b>Importance</b>
The evolution of the migration crisis	Low	Low
The EU's alleged democratic deficit	Low	Low
The rise of regional, separatist movements	Low	Low
Demographic change	Low	Low
The changing media landscape and the role of social media	Low	Low
Technological change (the big data revolution, industry 4.0)	High	Low
The changing geopolitical landscape	High	Low
Sovereign debt/euro crisis	Low	High
The deconstruction of neoliberalism and the rise of populism	<b>High</b>	<b>High</b>
The negative consequences of economic globalization	<b>High</b>	<b>High</b>

Table 1 ranks the potential drivers according to their assumed uncertainty and their assumed importance to the future of the EU. A thorough discussion of each driver is beyond the scope of this paper. However, two drivers stick out:

1. The battle of ideas: How, and, if so, by whom, will the ideological void that is left by the gradual deconstruction of the neoliberal consensus be filled?
2. The battle to tame economic globalization: How and to what extent will the EU succeed in addressing the negative consequences of economic globalization?

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Both drivers are marked by a high degree of uncertainty. Each 'battle' could go in one way or another. At the same time, they both can be expected to have an important impact on the future of the EU. While a full-scale scenario-planning exercise could include alternative or additional drivers, I argue that the two chosen drivers have the greatest explanatory power. Several of the alternative drivers on the list can be summarized under these two drivers. For instance, global warming, migration, geopolitics and global terrorism could potentially be summarized under the 'battle to manage globalization'. Moreover, many of the alternative drivers in Table 1 do not seem to have an equally big impact on the future of the EU. The migration crisis, for instance, is, without doubt, a humanitarian crisis of unprecedented scale but since the EU has effectively closed its borders, it has, in fact, externalized the crisis (Moravcsik, 2016b, 2017).

### 3.1. The battle of ideas

If in the long run we are the makers of our own fate, in the short run are  
the captives of the ideas we have created (Hayek, 1944/2001, p. 2)

As fish do not recognize the water they swim in, to borrow from the late David Foster Wallace, neoliberalism has become so pervasive that it is seldom recognized as an ideology. Neoliberalism is based on the idea that free-market competition, as opposed to Keynesian state interventionism, would improve allocative efficiency and thus economic welfare. To achieve free competition neoliberalism thus prescribes deregulation, the opening, integration and liberalization of markets and seeks to curb the role of the state through privatizations and narrow fiscal rules. Pioneered by Friedrich A. von Hayek during his time at the LSE, it has become the dominant policy paradigm across the political spectrum and across the world. "TINA"—there is no alternative—Margaret Thatcher (in)famously declared. Even the political left embraced its own version of neoliberalism, again with the help of an LSE thinker,

Anthony Giddens. It came to be almost universally accepted. After the collapse of the Soviet Union and after China and others had joined the WTO (World Trade Organization), free market capitalism seemed to have won the final battle.

Following the financial meltdown of 2007, growing inequality and slowing or negative growth appears to have started to ring in the decline of neoliberalism. Not only the publication of the Panama and Paradise Papers revealed how globalized capitalism has created unprecedented increases in inequality. In 2014, with his writing on the economics of inequality, Thomas Piketty suddenly landed an international best-seller (Piketty, 2014). Ten years earlier it would have been unfathomable that the issue of inequality could reach such a large audience, even though rising levels of inequality in the US and the UK should have been visible since the 1970s (Milanović, 2016). Nowadays, however, the mainstream media reports regularly on economic inequality, calling into question the unconditional belief in free markets (Elliott, 2017; Jackson, 2017; Monbiot, 2016; Pennekamp, 2017). Even trade negotiations on agreements like TPP, TTIP and CETA, which in the past might have been too banal and technical for anyone to care, are now gaining an audience, and an opposition along with it (Buti & Pichelmann, 2017).

The sudden shift of attention toward inequality could potentially be explained by the slowing of growth in advanced capitalist economies. Neoliberalism appears to have failed to keep its central promise, namely sustained growth. This is not to say that free markets suddenly do not work anymore. Economic globalization, especially in China and India, appears to have lifted more people out of poverty than any other economic model before it. This has even led global income inequality--not wealth inequality--across countries to decrease (Milanović, 2016). Within-country inequality of incomes, however, is increasing in most countries (Milanović, 2016) and the reduction in global income inequality appears to be dwarfed by a dramatic increase in global wealth inequality (Zucman & Piketty, 2015).

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For the EU, and almost everything that it stands for, the potential deconstruction of neoliberalism represents a particularly steep challenge. Some of the EU's biggest projects, such as the single market, enlargement and the monetary union, coincided with the heydays of neoliberalism. And the proponents of European integration have skillfully (ab)used the language of neoliberalism to justify deeper integration (Jabko, 2006). Therefore, the EU today seems inextricably linked with the neoliberal paradigm. It has always been perceived and justified as a neoliberal project. Today it is condemned as one.

The end of neoliberalism is creating an ideological void. To date, right-wing and left-wing populists appear to have filled the void that is left by neoliberalism most successfully. According to Skidelsky (2016) it cannot be a coincidence that populism succeeded so emphatically in the UK and the US, the two countries that embraced neoliberal economics most enthusiastically. Along the same line, it is perhaps also no coincidence either that populism has been so successful in Central Eastern Europe, where the leaders of Hungary and Poland are seeking to transform their countries into 'illiberal democracies' (Kisilowski, 2017; Sierakowski, 2016). The Central Eastern European countries fervently embraced neoliberalism and transitioned from socialism to neoliberal capitalism in less than a decade (Bohle, 2017). But also across the rest of Europe, support for populist parties is growing while mainstream parties, especially those on the left, are in decline (Eiermann, Mounk, & Gultchin, 2017; Vries & Hoffmann, 2016, p. 3). Inglehardt and Norris (2016) have shown that the share of votes for populist parties has more than doubled since the 1960s. Research by Eiermann et al. (2017) shows a rise from 8.5 percent in 2000 to 24.1 percent in 2017. Moreover, populists have succeeded to enter government coalitions in eleven EU countries (Lange, 2012). After the 2017 general elections in Austria, The Netherlands, France and Germany, and the 2018 elections in the Czech Republic and Italy, Eurosceptic populism in the EU appears to be stronger than ever before.

The defining characteristic and the most important commonality of all populists is their claim to speak in the name of who they consider being the 'real people', as opposed to the 'establishment' (Müller, 2016; Skidelsky, 2016). According to Müller, this claim to 'moral monopoly of representation' has dramatic implications for liberal, representative democracy. Populists demand that all intermediary powers that separate them from the real people, such as party systems, the media, technocrats are cut out. This is particularly damning for procedural, rules-based systems like the European Union. Instead of seeing rules and due process as a guarantee for fairness and protection against state despotism, populists portray them as an unnecessary layer between the will of the 'real people' and their ruler (Buti & Pichelmann, 2017), hence, Farage's promise to 'take back control' and Pegida's war cry 'we are the people'. While the various populist movements in Europe are far from homogenous, they are therefore united in their hostility toward the EU.

Instead of real policy solutions to real policy problems, populists offer dignity and belonging by means of defining common enemies, such as (powerful) elites and (not so powerful) ethnic, cultural and religious minorities. Instead of facts, they offer persuasive narratives that give their supporters the intoxicating sensation of understanding 'what's really going on' or 'who really is to blame.' In 'Origins of Totalitarianism', Hannah Arendt (1979) wrote that "what convinces masses are not facts, and not even invented facts, but only the consistency of the system of which they are presumably part."

Against this narrative strategy, the EU seems to be rather defenseless. It neither appears to have the charismatic leaders nor the counter-narratives to oppose it. The obvious counter-narrative, namely that the EU guarantees peace and prosperity in Europe, no longer seems to stick. Nowadays, such existential values are taken for granted (Inglehart, 2008). And when it comes to the routine activities of the EU, Moravcsik (2017) points out, the EU is inherently banal. Most issues that the EU

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deals with are too technical to excite but its staunchest supporters or its most radical critics.

At the moment, however, it is impossible to predict the outcome of the battle of ideas. On the one hand, the changes discussed above might represent the beginning of a paradigm shift. Since the 2007 economic crisis, the EU seems to be going through such a period of economic and political uncertainty that could open a window of opportunity that new norm entrepreneurs might exploit to be able to establish a new paradigm. On the other hand, one also should not write off neoliberalism too soon. Schmidt and Thatcher (2013) have shown that neoliberalism has been remarkably resilient over time.<sup>3</sup> Additionally, the various populist movements did, in fact, perform worse in the 2017 national elections than many might have feared, even though the historic trend may show a strengthening of populist movements (Eiermann et al., 2017; Inglehart & Norris, 2016). In sum, there still is great uncertainty about the evolution of the battle of ideas. At one end of the spectrum of what is conceivable, it could lead to the emergence of a new paradigm replacing the neo-liberal status quo. At the other end of the spectrum, it could lead to the success of populist movements. It is also just as plausible that the neo-liberal status quo is not replaced. This spectrum is represented by the horizontal axis in Figure 1. Therefore, the battle of ideas represents an excellent driver for the scenario-planning process. By varying the assumed development of this driver, it can be employed to develop multiple pathways into alternative futures.

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<sup>3</sup> Schmidt and Thatcher (2013) explain this by neoliberalism's flexibility and adaptability, its gap between rhetoric and practice, its commonsensical appeal, powerful coalitions of interests and its institutional embeddedness



### 3.2. The battle to tame economic globalization

Finding answers to the challenges created by economic globalization could be described as the taming of the very beast that the EU itself has created. The making of the single European market of (still) 28 countries and around a half billion consumers has arguably been the largest and most successful project of economic globalization in history. Fligstein and Merand (2002) therefore argued that to the largest extent economic globalization, when measured in volumes of trade, should in fact be attributed to European integration. Notwithstanding its positive economic impact overall (Baldwin, 1994), however, economic integration has not been Pareto optimal. It has created winners and losers.

Critically, however, the EU lacks the competences to redistribute the large gains from globalization to compensate the losers. The EU's competences are largely limited to the liberalization, integration, creation and regulation of markets. However, the EU does not only lack the competences that it would need to remedy some of the negative consequences of economic globalization. The EU's rules and institutions also often constrain the member states' ability to deal with the consequences of globalization. The EU's institutional bias toward negative integration, i.e. the removal of legal barriers to trade, rather than positive integration, i.e. the adoption of market-correcting measures, was first described by Scharpf (1999, pp. 43–83). Whereas positive integration is constrained by the requirement of unanimity or qualified-majorities in the Council, negative integration is unconstrained by such decision-making problems because it is driven by the Courts and EU law. This architectural asymmetry, Scharpf (2009) argues has undermined the socio-economic policies and welfare state institutions of social market economies.

Scharpf's negative integration bias, which he developed in the context of the regulation of the market for product and services, can also be applied to the case of capital markets and monetary policy. Here the member states agreed to allow for a

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degree of economic globalization, by completely liberalizing capital movements. And just like the member states struggled in the case of product markets to agree to the adoption of joint policy responses to the negative consequences of market integration, the member states also struggled in the case of the EMU to agree to the adoption of the fiscal policy instruments necessary to cope with some of the negative effects of monetary union at a national level. Many experts are now arguing for greater fiscal integration and even fiscal transfers across countries (de Grauwe, 2013; Galbraith, 2016; Rodrik, 2017; Stiglitz, 2016; Wyplosz, 2017). Politically, however, such positive integration proves to be difficult. However, the EMU is not only lacking the possibility of cross county fiscal transfers that many experts appear to be arguing for. Its current governance institutions also put strong constraints on the use of national fiscal policy.

From the beginning, it should have been clear that the Eurozone did not comply with Mundell's (1961) criteria for optimal currency areas. It was hoped, however, that monetary integration would lead the member states' heterogeneous growth models to converge. It was also hoped that monetary union would lead to greater political union. This represents another parallel to European integration in the context of product markets. Scharpf (2009, p. 27) points out that in the 1950s, too, after the failure of the European Defense Community, political integration was postponed. The European Economic Community began as a customs union instead. However, political integration never appears to have caught up to economic integration. Likewise, there has been neither any economic convergence nor a move toward greater political union after the introduction of the euro. Today, monetary union rather appears to divide the member states more than it unites them.

The evolution of the member states' different economic models is well documented in the comparative political economy literature, which does not only suggest that the various growth models have failed to converge. It also shows that the EU's

institutions and rules are strongly biased toward one economic model while penalizing all others (Johnston & Regan, 2017). The literature mainly distinguishes between the export-driven growth model of economies like Germany and the domestic-consumption oriented models of the Mediterranean economies. While the former is strongly favored by the current governance institutions and rules in a number of ways, the latter is considered to be strongly penalized by them (Hall, 2014; Johnston & Regan, 2017; Streeck & Elsässer, 2015).

Absent of the possibility of exchange rate appreciations and depreciations within the eurozone, the introduction of the euro has led to unsustainable macroeconomic imbalances (de Grauwe, 2013). Under the single currency, the export-driven economies like Germany were able to export without facing exchange rate appreciations that would have otherwise prevented them from running sustained current account surpluses. At the same time, the demand-driven economies were able to import without facing exchange rate depreciations that would have otherwise prevented them from running sustained deficits. In consequence, the current account surpluses of countries like Germany increased the supply of savings and, in addition to fueling the bubble in the American mortgage markets, put downward pressure on interest rates. It thus provided the domestic demand-driven economies with the cheap credit that allowed them to continue to consume.

With the financial meltdown of 2007, however, credit dried up and the debt levels of the demand-driven economies suddenly became unsustainable. Even euro members with sound pre-crisis budgets, such as Spain, were eventually forced into potentially unsustainable levels of debt. Without independent (national) monetary policy or coordinated (European) fiscal policy the deficit countries were forced into painful and self-defeating austerity (de Grauwe, 2013). Meanwhile, institutional investors rushed into German Bunds, pushing down the price of government borrowing in Germany to an all-time low. As a result, the EU is today split in two. Only the export-oriented economies around Germany appear to have a chance at

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achieving any growth (Grauwe & Ji, 2014). The Southern, debtor countries are forced into a low/no growth equilibrium unless they manage to converge to the German model.

However, not all member states will be able to converge toward the export-oriented growth model because the model simply would not work if there were no countries to import the others' export surpluses. Moreover, not all countries are able to imitate the German model. Many are lacking the institutions necessary to enforce the wage restraint that is necessary to achieve export competitiveness. To some extent, however, some of the Central and Eastern European countries appear to have moved in the direction of the German growth model. While they previously ran current account deficits, they are today all in surplus (Blyth, 2015). The remaining member states, however, have shown no signs of convergence.

However, history suggests that macroeconomic imbalances, such as those created by the EMU, are unsustainable. Fiscal crises in response to macroeconomic imbalances often lead to the collapse of the fixed-exchange-rate system that has created the imbalances. The Gold Standard, Bretton Woods, the European Monetary System, and most recently Argentina's dollar peg all ran into similar problems. All collapsed eventually. In each case, the economic pain that resulted from the imbalances created so much political pressure that drastic steps were eventually taken. Will the EMU member take similar steps, by either individually leaving the euro or by collectively dissolving the EMU altogether?

The problems surrounding the EMU are exemplary for the challenge to tame economic globalization. Monetary integration and the liberalization of capital markets illustrate how European integration has successfully advanced economic globalization, while at the same time the EU still struggles to develop the policy responses necessary to deal with some of the negative consequences thereof. The EU's future appears to depend on its ability to do so. The literature appears to be full of policy recipes that, if implemented, promise to mitigate the negative

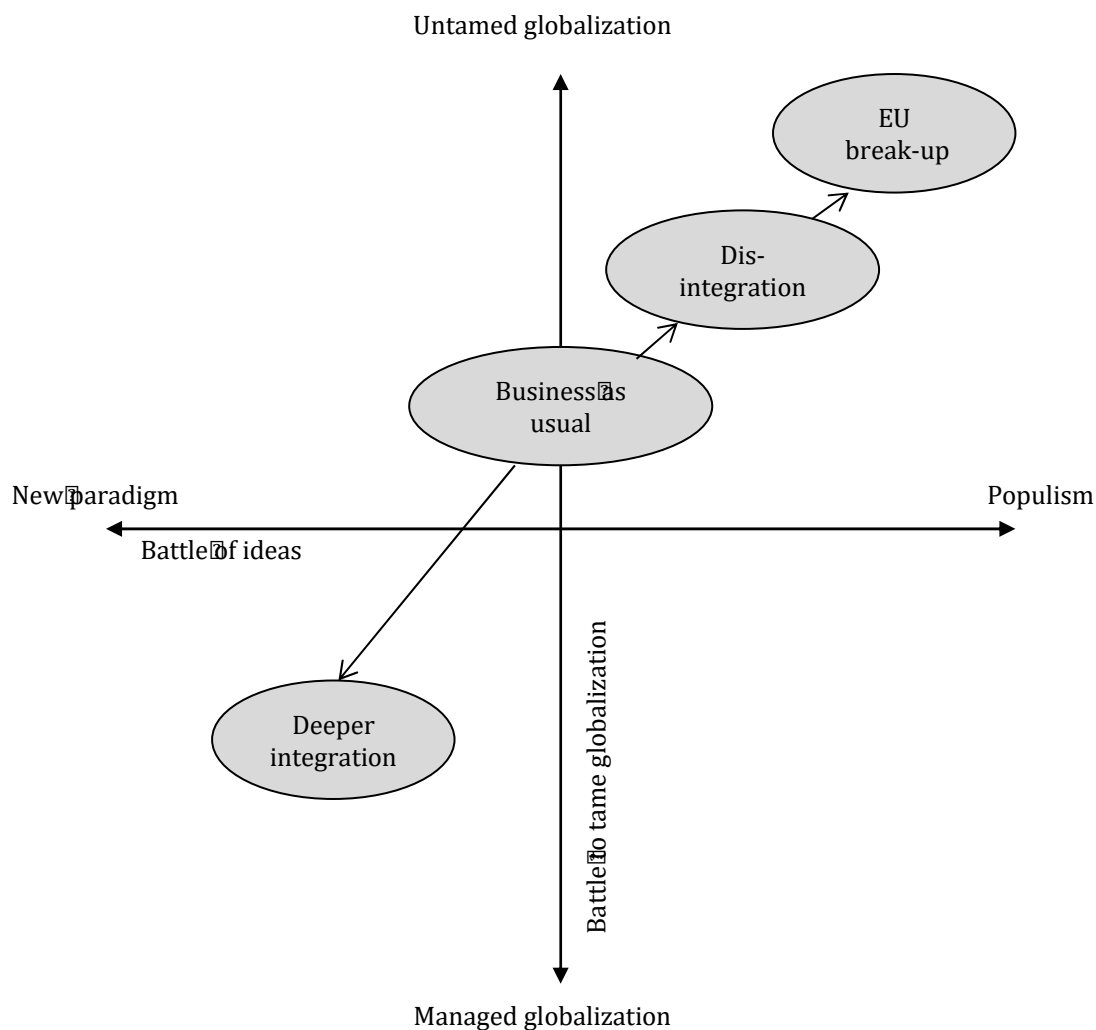
consequences of economic globalization. If the political climate prevents the implementation of these recipes, the negative consequences will continue to grow. Therefore, this driver, too, is highly uncertain. The battle to tame economic globalization could go in any direction. The future might bring a more managed form of economic globalization or an even more untamed form of globalization with large negative externalities and escalating levels of economic inequality. This spectrum is represented by the vertical axis of Figure 1.

#### 4. Four pathways into the future

This section explores plausible pathways leading into alternative futures. According to the scenario-planning literature, scenarios need to be (1.) plausible, meaning that they must be possible, no matter how unlikely this might seem; (2.) differentiated, in the sense that they exploit the entire space of possible futures, positive and negative; and (3.) internally consistent, with regards to the combination of logics applied within the given scenario (EFP, 2010).

Figure 1 maps the four pathways described in this section along the two drivers described in Section 2. The horizontal axis shows the spectrum of possible outcomes of the battle of ideas and the vertical driver represents the spectrum of possible outcomes of the battle to tame economic globalization. Based on different variations and combinations of these drivers, I develop four pathways into alternative futures in the following subsections.

**Figure 1.**  
Four alternative futures mapped along the two drivers



#### 4.1. Deeper integration

This pathway represents a continuation of the historical trajectory toward deeper integration, as theorized in the original European studies literature. Both its neo-functional strand (Haas, 1977) and its liberal intergovernmentalist strand (Moravcsik, 1998) explain how, in the past 60 years, the EU has gradually moved toward deeper integration. Both literatures have shown that crises have always been the catalyst for deeper integration, either through a series of grand bargains or through functional spillovers. The predictions for the future that may be deduced from the two literatures, however, appear to vary. The neo-functional literature

explains integration through positive spillovers, where integration in one policy area leads to more integration in another. According to this logic, for instance, neo-functionalism would predict that monetary union would eventually lead to fiscal union because everyone—experts and business elites—would agree on the functional necessity to do so. The liberal intergovernmentalist literature appears to be more pessimistic and shall be returned to further below.

Deeper integration in areas address some of the negative effects of economic globalization would require the emergence of a new policy paradigm, providing a new perspective on the ability and responsibility of public institutions, national or European, in addressing market failures. Economic constructivism suggests that periods of economic and political uncertainty, which might result from exogenous shocks like an economic crisis, can open a window of opportunity for norm entrepreneurs to articulate the ideas upon which the new policy equilibrium is based (Blyth, 2002, 2003; Finnemore & Sikkink, 1998; Hall, 1993).

Perhaps we are already seeing the beginning of a "paradigm shift" (Hall, 1993) or "great transformation" (Blyth, 2002). A first sign could be that the IMF's research department, under Olivier Blanchard, appears to be reconsidering the principles of neoliberalism. In official IMF publications, they are conceding that the neoliberal austerity policies are failing, questioning the need to curb the role of the state and unconstrained capital mobility, and blaming neoliberal policies for the rising levels of inequality (IMF, 2012, pp. 41–42; Ostry, Loungani, & Furceri, 2016, p. 39). Also, from within the European Commission similar voices can be heard:

Unfettered market opening policies have lost a lot of their appeal with a growing recognition that the rising tide has not lifted all boats; on the contrary, in some cases perhaps even only a few super-yachts. Losers in the globalization process have become clearly visible, while the middle classes have seen scant evidence of the gains once promised (Buti & Pichelmann, 2017).

Perhaps the political left will eventually combine these impulses into a new paradigm replacing the neoliberal status quo.

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The birth of a new, more interventionist paradigm could potentially trigger a virtuous circle. It could enable policy changes that counteract the rising levels of economic inequality. Deeper integration in the context of fiscal policy might also help resolve the euro crisis.<sup>4</sup> The improved ability to manage the negative consequences of economic globalization could take the wind out of the sails of the rising populist movements, decreasing opposition toward European integration and thus opening a new window of opportunity for even further integration.

The literature suggests that economic uncertainty and inequality are the main drivers of the rise of populism. According to a recent study by Vries and Hoffmann (2016, p. 4), for instance, people who fear globalization are considerably more skeptical of the EU. Colantone and Stanig find that stronger regional exposure to the import shocks from China, i.e. the shifting of production and jobs to China, leads to increased support for right-wing nationalist parties (Colantone & Stanig, 2017a, 2017b) and Brexit (Colantone & Stanig, 2016). Dippel et al. (2016) also demonstrated the effect of trade exposure on radical right support in Germany.<sup>5</sup> If, as the result of the emergence of a new policy paradigm replacing the neoliberal paradigm, the EU is put in a position to address the economic uncertainty that results from economic globalization, it could greatly decrease the influence of the populist movements.

The pathway toward deeper integration is placed all the way in the southwest of Figure 1, as it assumes a positive interaction between both drivers. Deeper integration requires new narratives that place greater emphasis on managing globalization, thus replacing the neoliberal emphasis on merely liberalizing and integrating markets. With the help of the new policy paradigm, the EU might improve its ability to address some of the negative consequences of economic

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<sup>4</sup> The literature discusses various policy recipes for fiscal integration that could be implemented if there was the political will to do so (Wyplosz, 2016).

<sup>5</sup> Similar studies have been conducted in the US, where the effects of trade exposure on polarization, turnout, and the anti-incumbent vote are well established (Bloom et al., 2015; Jensen et al., 2016; Autor et al., 2013).



globalization, which in turn would again strengthen the new paradigm and weaken the populist opposition against the EU.

## 4.2. Disintegration

Disintegration represents an alteration of the previous pathway. In the context of the euro crisis, most economists seem to agree that it would be better to end the EMU experiment if the necessary reforms are not implemented (Galbraith, 2016; Rodrik, 2017; Stiglitz, 2016; Streeck & Camiller, 2014). Höpner, Scharpf and Streeck extend this argument to the European Commission and the European Court of Justice. If the apparent mismatch between the two institutions' competences to advance market integration and to manage the negative consequences thereof cannot be closed, they argue, the Commission's and the Court's competences in the former should be taken away (Höpner, Scharpf, & Streeck, 2017).

From the main theories of European integration, however, it is not possible to make any deductions about the way the disintegration of the EU might come about. Neither the neo-functionalist nor the liberal intergovernmentalist literature foresees the possibility that European integration is reversed. There are several approaches that might exchange how a radical regime change might come about (Baumgartner & Jones, 1993; Finnemore & Sikkink, 1998). However, there are no theories that might help explain how an ordered disintegration might come about. The only conceivable pathway would be that populist Eurosceptic movements push for such disintegration. Eurosceptic populists may not be strong enough to force further countries to exit the EU but they may eventually be strong enough to push for the reversal of EU integration in specific policy fields, such as monetary policy.

In the context of the EMU, for instance, the populist AfD, which has a strong anti-euro stance, might have a critical role to play. Having just entered the Bundestag as the third strongest party, the AfD now has a much bigger forum to promote its

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worldview and to blame the EU and the euro, when the economy starts to decline. What is remarkable about the AfD's success is not only that it happened despite Germany's traumatic experience with right-wing extremism. It is also remarkable for the fact that the German economy is in full employment, enjoying moderate growth and a large budget surplus. If the AfD is already that strong in the current economic climate, the party can be expected to get even stronger once the economy starts to decline again.

The current success of the German economy and its inflated manufacturing base, which has provided stable employment throughout the crisis, is largely based on the aforementioned macroeconomic imbalances. The manufacturing sector, however, might soon come under threat. The propagated decarbonization and imminent digitalization of the economy present existential challenges to the German manufacturing base and could potentially lead to a massive loss of low-skilled jobs. In a recent survey among SMEs in the metropolitan area of Stuttgart, which can be seen as the heart of the German manufacturing base, one in six businesses stated that their main business model was existentially threatened (Lerch, Meyer, Schnabl, & Jäger, 2017). Providing the bulk of employment the failure of these SEMs could have disastrous economic and political consequences. As suggested by the aforementioned research on the positive relationship between economic uncertainty and populism (Colantone & Stanig, 2017b; Dippel et al., 2016; Vries & Hoffmann, 2016), this could be expected to give a strong boost to the AfD.

After the next elections, the AfD might be strong enough to change Germany's position on the euro. Even though Germany is arguably the largest benefactor of the EMU's imbalances, the AfD wants Germany out. And according to recent work by Jonathan White (2017), *ordo-liberalism*, the German variant of neoliberalism, does, in fact, provide space for radical and unconventional measures if the objective is to resurrect the rules-based order or to overcome a dysfunctional order. Therefore, the AfD would even be able to justify and rationalize their demands with the help of

the dominant economic policy paradigm in Germany. With the support of other member states, who are actually suffering under the current status quo, a majority in favor of dissolving the EMU might soon emerge in the Council. Economically, the break-up of the EMU would be very risky and could soon spiral out of control, as is argued in Section 3.4 below.

The disintegration pathway is placed toward the northeast from the middle of Figure 1 because it results both from a strengthening of populism and a further defeat in the battle to tame economic globalization in the form of rising economic uncertainty.

#### 4.3. Business as usual

It has been a decade since the beginning of the economic crisis and the EU has shown little signs towards either break-up or substantial reforms. Therefore, Moravcsik (2017), the founder of liberal intergovernmentalism, suggests that both deeper integration and disintegration are equally unrealistic and therefore predicts that the EU will just continue to 'muddle through'.<sup>6</sup> Liberal intergovernmentalism explains European integration as the result of 'grand bargains' between rational, self-interest governments who recognize that global governance problems can only be solved collaboratively. It is not in the member states' rational interest to let the EU break apart. Therefore, Moravcsik even still maintains that Brexit is not going to happen because it is not in the UK's interest (Moravcsik, 2016a). Along the same vein, it can be argued that European elites simply cannot afford to leave the EU or let it break apart, as global governance problems, such as global warming, international terrorism, international migration or an expansive Russia, are starting to manifest themselves ever more strongly. This does not mean, however, that

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<sup>6</sup> Blyth (2015) makes a similar argument.

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European elites would continue to agree to even deeper integration, especially not in the field of fiscal policy. There is no political majority for this in the EU.

Moravcsik (2017) and Blyth (2015) argue, however, that such muddling-through does not preclude, small step reforms, such as the creation of the European Stability Mechanism (ESM) in 2012. Another example of such small step reforms could be Germany's silent acceptance of the ECB' monetary easing policy, which allowed it to effectively take over Greece's debt. Also, small steps toward a banking union were made (Epstein & Rhodes, 2017), which are all consistent with the muddling-through-prediction. Critically, however, all of these small step reforms fall short of a fiscal union and they are unlikely to solve the underlying problems described elsewhere.

Another set of small step reforms could originate from the much-discussed option of a "multi-speed Europe" of "variable geometries". This is often portrayed as an opportunity to break the reform gridlock and to circumnavigate complicated treaty changes (European Commission, 2017). While closer cooperation amongst a subset of willing member states may seem like a promising option in many policy areas, multi-speed integration makes no sense where deeper integration is most needed, such as fiscal policy. There is no point in a fiscal union, in which only debtor or only creditor countries participate.

The muddling-through pathway could also potentially involve EMU exits. Several member states already seem to have contemplated the option of leaving the EMU.<sup>7</sup> At the same time, speculations continue about the long-term viability of individual countries' euro membership.<sup>8</sup> Given the aforementioned reforms in banking and

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<sup>7</sup> According to Galbraith (2016) the Greek government is supposed to have prepared to withdraw from the eurozone in 2011 and 2015. Also Berlusconi is supposed to have contemplated Italy's withdrawal in 2011, as did Spain.

<sup>8</sup> A recent ECB working paper, for instance, suggests that the price differences between Collateral Debt Swap (CDS) derivatives for government bonds denominated in Euros and CDS for the same bonds but denominated in US dollars might indicate an increasing redenomination risk in Italy, i.e. the risk that Italy might (be forced to) abandon the euro (Santis, 2017).

given the creation of the ESM, however, this may not lead to another major financial crisis. The remaining euro members might emerge strengthened. Having consolidated around a single economic growth model, the smaller eurozone is likely to be quite stable, as long as the rest of the world continues to absorb/import its current account surpluses.

Eurosceptic populism may also turn out not to be as critical as assumed in the other three pathways. The recent elections across Europe seem to have shown that the populist leaders are still some distance away from taking control. In most countries, they may not be strong enough to force countries into leaving the EU. Their only chance to shine appears to rest in EU referendums. In many European countries, however, referendums are either not permitted or require a highly qualified majority to authorize it. And even if referendums on EU membership are held, history shows that negative results of referendums on EU issues have always been ignored (Moravcsik, 2017).

Moreover, the link between populism and economic uncertainty might be less clear-cut than suggested by the literature cited in Section 3.1 above. In the political psychology literature, the rise of populism is rather explained as a cultural backlash against a progressive value change. According to this “right-wing authoritarianism” (RWA) proposition, people who feel threatened by the cultural change favor strong leaders that preserve the status quo and promise order in a world they no longer understand (Feldman, 2003). Empirical research by Inglehart and Norris (2016) suggests that RWA rather than economic uncertainty was and has been the main cause for the rise of populism across Europe since the 1970s. Research by Kaufmann (2016) suggests that RWA is the main explanation for the Brexit.<sup>9</sup>

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<sup>9</sup> The results of his study also show, for instance, that the support for the death penalty is one of the best predictors for individuals voting for 'leave'.

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Therefore, populists may not necessarily continue to gain strength, even if economic uncertainty and inequality levels continue to increase.

The business-as-usual case is placed in the middle of Figure 1. Representing the status quo, the case does not require any substantial changes in the battle of ideas. Since this outcome may sustain rising levels of economic uncertainty resulting from untamed globalization, it is placed slightly toward the north.

### 4.4. EU break-up

The EU (still) is a union of 28 member states who have chosen to work together in order to secure peace and prosperity in Europe, by tackling global governance problems collaboratively. In the event that the EU is split-up into multiple fractions of member states, who no longer seek to pursue these goals together, one could legitimately speak of the break-up of the EU. Following Brexit, many pro-Europeans feared that, because of the rise of populist Eurosceptics, further countries would exit the EU. Arguably, however, it would be far worse for the EU's long-term future, if the populists decide to stay inside the EU instead. If a significant number of member states were to join Orbán's and Kaczynski's block of 'illiberal democracies,' this could effectively break the EU apart. The populist block could paralyze decision-making and boycott EU rules. This could conceivably even prompt the remaining liberal member states to exit the EU.

The two drivers selected for this paper, the battle of ideas and the battle to tame globalization, could conceivably lead to such a break-up. Taken together, both drivers could plausibly form a vicious circle. Unfettered globalization and growing levels of economic uncertainty could provide the fuel that populist Eurosceptic movements would thrive on, which in turn would directly reduce the EU's ability to implement the policies necessary to manage the negative consequences of

globalization, further exacerbating the problems created by globalization, again strengthening the populists.

The emergence of such a vicious circle would not at all be entirely unlikely considering the EU's institutional design. The EU lacks redistributive competences, which would allow it to compensate the losers of economic globalization, and its rules, which also seem to limit the member states' ability to do so, as argued above. This has created a dilemma that also seems to have been recognized within the European Commission: "Current competences, mostly confined to organizing markets and lacking the ability to address distribution effects, make the EU appear as the agent of globalization within Europe, rather than a joint European response to globalization" (Buti & Pichelmann, 2017). As the growing inequality and redistributive effects of globalization are becoming increasingly apparent, the support for deeper integration decreases and populist Eurosceptic movements continue to gain strength. The more the EU is seen as an agent of neoliberalism and unfettered globalization, the less likely it is given the competences by the member states' governments and their constituents that are necessary to address the negative effects of globalization. In short, the dilemma is that the more successful the EU is at integrating and liberalizing markets, which is the mandate that it has been given, the less likely it is to be given the mandate it requires to deal with the negative consequences of market integration too.

It seems unlikely, however, that the EU will actually descend into the vicious circle that could eventually lead to its break-up unless a number of conditions are met. It would first require the large-scale electoral success of Eurosceptic populists across the member states.

Today, however, the Eurosceptic populist movements are still some distance away from large-scale electoral success. Therefore, the second condition for an EU break-up would be another economic crisis. A sufficiently severe crisis could potentially result from the failed attempt to disintegrate or dissolve the EMU in an orderly way,

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as described in Section 3.2 above. Amongst economists, only Stiglitz (2016) maintains that, given the recent reforms in the field of banking regulation and the creation of the European Stability Mechanism, a friendly separation is possible without causing another financial meltdown. However, this is highly uncertain. While the creation of the EMU was already a bold economic experiment, its dissolution would be even bolder.

It might even be argued that if European elites only hinted at the option of collectively replacing the euro with national legacy currencies, this would lead financial markets to put the periphery countries and their banks under enormous pressure, triggering another crisis. The safety mechanisms currently in place might be strong enough to dampen the fall of smaller EMU members. If bond markets force Italy, France and Spain (and their institutional lenders) into default at the same time, however, another economic crisis seems inevitable. Accounting for 20% of world GDP and 35% of global bank assets and liabilities (ECB, 2014; Santis, 2017), the EU would quickly pull the rest of the world into another global recession.

The resulting crisis might well push many of the member states who are still hurting from the previous crisis over the edge, potentially pulling the rest of the EU with them. The resulting economic pain could well provide the basis for a large-scale success of Eurosceptic populist movements across the EU, leading to the break-up situation described above. However unlikely this may seem, the break-up of the EU could plausibly be the end result of this vicious circle of escalating levels of economic uncertainty resulting from untamed globalization and the continued rise of populism. Therefore, it is placed all the way in the northeast of Figure 1.

## 5. Conclusions and recommendations

Based on the two selected drivers, the break-up of the EU has to be considered a conceivable possibility. However, it would require the perfect storm of both



untamed economic globalization with escalating levels of economic inequality as well as the large-scale success of populist Eurosceptics across the EU. It is extremely unlikely. However, Brexit and the election of Trump, both serve as a reminder that unlikely events do sometimes occur. I argue that we, therefore, need to study such unlikely outcomes more closely.

To deal with an uncertain future in a systematic way, I propose the scenario-planning method. In the best case, it can put decision-makers in a position where they can identify actions that may change the course of events. Where this is not possible, it would at least allow decision-makers to prepare for outcomes that cannot be changed. In any case, the method could greatly reduce the risk of being surprised by events that were not anticipated. While scenario-planning has long been tried and tested in the field of science, technology and innovation, the paper concludes that it also has great potential in the field of EU politics.

However, the paper only simulated a scenario-planning exercise by means of a literature review. This is not a substitute for an interactive workshop-based scenario-development process involving the diverse perspectives of experts, decision-makers and stakeholders. However, there a number of lessons can be drawn from this experiment. The first is that, even though the literature undoubtedly has a lot to contribute, there is surprisingly little research that actually deals with the EU's long-term future. There appear to be several explanations for this. The first is that the literature has traditionally been based on historical methods, rather than modeling or experimental methods. All of the grand theories of European integration are based on historical case studies. Secondly, there are great methodological challenges. Future outcomes tend to be determined by a vast number of variables that are difficult to control using conventional research methods. Making robust and publishable claims is therefore rather difficult. Thirdly, looking into the future usually requires a multidisciplinary and a transdisciplinary approach, which tends to be discouraged by citation-oriented

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reward systems. Dealing with the future, therefore, might be in conflict with the publication orientation and thus the career incentives of researchers. Only end-of-career researchers, who are no longer dependent on peer-reviewed publications, seem to be able to afford to address the long-term future.

Nonetheless, however, there is a vast number of meaningful implications regarding the future of the EU that can be deduced from the existing theories. The proposed pathways into the future of Section 4 are all based on such deductions. To have a meaningful impact, however, such deductions would have to be made interactively by including the diverse perspectives of researchers, decision-makers and stakeholders. This relates to the co-production model of knowledge transfer. It requires researchers, too, to abandon the linear model of knowledge transfer, which naively posits that the research produced in the (social) sciences, though sometimes requiring a degree of translation into a non-technical language, directly contributes to the enlightenment of policy-makers and the solution of societal problems. It needs to be recognized that this model, which could be mistaken for arrogance on the part of the researchers, might have played a large role in the recent villainization of experts.

As soon as knowledge transfer is understood and accepted as a co-production process between researchers and practitioners, the scenario-planning method can provide a platform to organize such a co-production process by bringing experts, decision-makers and stakeholders from various backgrounds together. Based on the co-production logic the interactions of the various participants of the scenario-planning exercise are also more important than the actual scenarios that result from the exercise. The resulting scenarios are also unlikely to lend themselves to peer-reviewed publications. The interactive scenario-development process simply does not meet academic standards such as replicability and falsification. It is not a conventional research method. This is exemplified, for instance, by the difficult choice of drivers. Therefore, researchers should instead see scenario-planning as an

opportunity to increase the impact of their work outside academia and to collect new impulses for further research. Scenario-planning is not a research method but a method for knowledge transfer.

Funding organizations are recommended to provide more space for social science research dealing with the long-term future. The fact that so little European studies research directly seems to deal with the long-term future, suggests that there is the need for a funding impulse. In the field of science, technology and innovation studies, such research is already commonly funded. In the social sciences dealing with the EU, this should be possible too.

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