

Policy briefing

EU break-up? Six plausible futures of the EU

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1 Introduction

The EU just celebrated the 60th anniversary of its foundation. It has been around longer than many democracies that exist today and has also proven remarkably resilient along the way. Ten years ago, however, after the 2004 accession of ten Central and East European countries to the EU and before the 2008 financial meltdown, the question whether the EU could break apart would have seemed utterly ridiculous. The collapse of Lehman Brothers, Brexit and the election of Trump have all demonstrated, however, that unlikely events do occasionally happen – despite all the odds. Considering the disastrous impact that such events can have, it is worth planning for them.

Just like the economics literature could not predict the subprime mortgage crisis, it won't be possible to predict the future of the EU either. It is possible, however, to try and imagine how the future might look like. The inner workings of asset bubbles, bank runs and economic contractions, for instance, were well established in the economics literature, even though it could not when and how the crisis would happen. Therefore, this paper surveys the academic literature for potential paths into the EU's future. For that purpose, it employs a method that is often used by corporations or military organizations that have to plan for an uncertain future and be prepared for multiple futures. This method considers a broad range of possible paths that could lead to multiple plausible futures. It is not meant to determine the relative likelihood of each outcome. It is meant to force decision-makers to keep an open mind and to also consider future outcomes that are unlikely but possible. This reduces the risk of being surprised by the occurrence of an event that was not anticipated.

This study defines multiple development paths leading to six plausible futures of the EU. Figure 1 maps the six plausible futures in a so-called funnel of possibility. The funnel begins today and opens into the future. The upper and the lower limits of the funnel signify the extreme cases, which are theoretically possible. Within the funnel multiple developments are possible. Initially multiple paths lead into the future and multiple outcomes are possible. The further we move along one path, however, the less bifurcations and possible futures remain. Some of the futures defined in this study are transitory and could eventually lead to others.

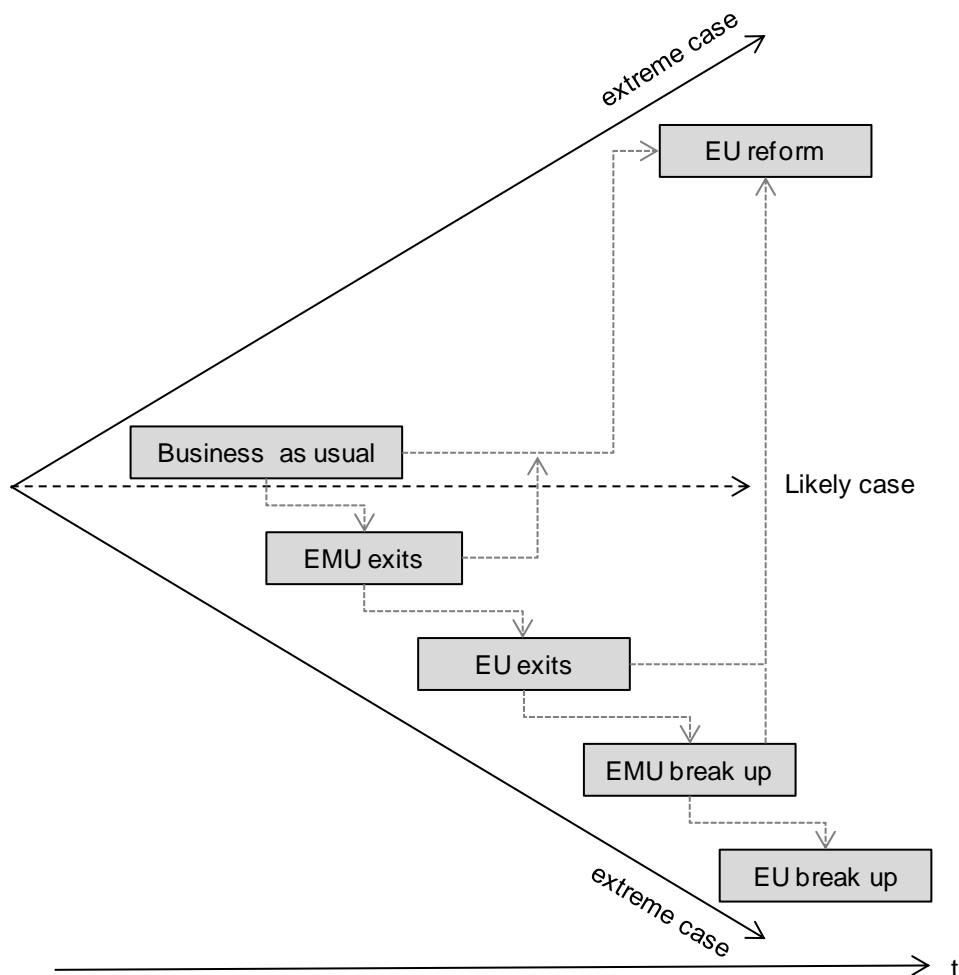
The study is based on a survey of the academic literature on EU integration and the established theories that have been developed to explain why, when and how EU integration does, or does not, take place. It includes sources from the fields of economics, political science, political philosophy, political psychology and sociology. Considering the fact that question of EU break-up is relatively novel still, the analysis also includes the great literature that has emerged outside peer reviewed journals. Working papers,

blog entries and newspaper interviews with and by the experts on EU integration turned out to be invaluable sources.

Relatively early in the analysis two questions emerged that appear to be critical to understand the future of the EU:

1. How will the EU manage to deal with the negative consequences of globalization?
2. How, and, if so, by whom, will the ideological void that is left by the gradual deconstruction of the neoliberal consensus be filled?

Figure 1: Funnel of possibility



Source: own compilation

The first can be circumscribed as the 'battle to tame globalization.' It is mainly about managing the negative effects of economic globalization, including the rise of inequality, macroeconomic imbalances, financial turbulence, and externalities like global warm-

ing, migration etc., while at the same time maintain the undisputed benefits of globalization. The second question can be categorized as the 'battle of ideas', which is mainly about filling the void that is opening up as a result of the deconstruction of neoliberalism. At the moment, populist leader seem to be exploiting the decline of neoliberalism most successfully. Will the established political parties find an answer to the rise of populism before it is too late? The unfolding of both battles can be expected to determine the future of the EU. Needless to say, there is a degree of arbitrariness in the selection of these two drivers. Somebody else's analysis could possibly lead to the selection of different drivers.

This policy briefing is structured in five parts. Following this introduction, Section 2 and 3 provide an analysis of the two drivers and their implications for the future of the EU. Section 4 presents the six plausible futures and Section 5 concludes the analysis with policy recommendations.

2 The battle of ideas

"The ideas of economists and political philosophers, both when they are right and when they are wrong are more powerful than is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually slaves of some defunct economist."

(Keynes 1997, pp. 383–384, reprint)

2.1 The end of neoliberalism

Like fish do not recognize water because it is all around them, neoliberalism has become so pervasive that it is seldom even recognized as an ideology (Monbiot 2016). Or to rephrase Keynes, for almost 40 years we've all been the "slaves of some defunct [neoliberal] economist." Neoliberalism is based on the idea that free market competition would improve allocative efficiency and thus lead to superior outcomes. To achieve free competition neoliberalism thus prescribes the opening, integration and liberalization of markets, including the privatization of previously state owned companies. First implemented by Reagan and Thatcher in the 1980s, it has become the dominant policy paradigm across the political spectrum. Even the left embraced its own version of neoliberalism.¹ It came to be almost universally accepted. "TINA, there is no alternative," Margret Thatcher (in)famously declared (Wikipedia 2017).

Since the financial meltdown of 2008, growing inequality and slowing or even negative growth is starting to ring in the decline of neoliberalism. Even in the European Commission it is recognized that "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 and Pichelmann 2017). Not only the Panama Papers revealed how globalized capitalism has created unprecedented increases in inequality (Süddeutsche Zeitung 2016). The crisis made it possible for everyone to see how the financial industry's losses were socialized and its profits privatized. According to Skidelsky (2016), neoliberalism "conjoined tolerance of financial criminality, obscenely lavish rewards for a few, high levels of unemployment and underemployment, and curtailment of the state's role in welfare provision [...] strips away the democratic veil that hides from the majority of citizens the true workings of power".

¹ Neoliberalism was adopted by Tony Blair with New Labour, Gerhard Schröder with the Agenda 2010, as well as Bill Clinton in the US and Lionel Jospin in France.

In 2014, a French economist, writing on the economics of inequality, suddenly landed an international best-seller (Piketty 2014). Ten years earlier it would have been unfathomable that the issue of inequality would create such a large audience. Increasing inequality, however, should have been visible long before. Already during the Thatcher years inequality in the UK had increased more steeply than in any capitalist economy in the world, except for New Zealand, which had pursued similar neoliberal policies (Giddins 2017).

Nowadays, however, the mainstream media reports regularly on inequality, calling the unconditional belief in free markets into question as a result (Elliott 2017; Jackson 2017; Monbiot 2016; Pennekamp 2017). Even trade negotiations on agreements like TTP, TTIP, CETA etc., which in the past might have been too banal and technical for anyone to care, are now gaining an audience, and an opposition (Buti and Pichelmann 2017).

What could explain the sudden shift of attention toward inequality is decline of growth in advanced capitalist economies. Neoliberalism appears to have failed to keep its main promise of high growth. This is not to say that free markets suddenly do not work anymore. The Economist (2013) pointed out that between 1990 and 2010, the share of the total population in developing countries living in extreme poverty was halved from 43% to 21%. In the EU and other advanced capitalist economies, however, it is becoming evident that there are decreasing returns to market integration and liberalization. While the first steps toward market integration and liberalization still created huge gains, the benefits from subsequent steps are becoming ever smaller.

2.2 The EU's dilemma

For the EU, the potential deconstruction of neoliberalism is a particularly big challenge. The main justifications for European integration and much of what the EU does has long been based on the neoliberal economic policy paradigm. Some of the EU's biggest projects, such as the Single Market and the single currency, coincided with heydays of neoliberalism. And the proponents of European integration have skillfully adopted the language of neoliberalism to justify deeper integration. Whether this was based on political tactics or a genuine belief is difficult to say. What is clear, however, is that it will be difficult for the EU to disentangle itself from the neoliberalist world view. Externally it has long been perceived, portrayed and now condemned as a neoliberal project.

The EU's dilemma is that its competences are limited to the liberalization, integration and creation of markets. It has successfully used these competences to create enor-

mous, unquantifiable gains in economic welfare. However, the EU does not have the competences necessary to manage globalization by, for instance, redistributing these gains. This is still a national prerogative. As the redistributive effects of liberalization and the growing inequality is becoming increasingly apparent, this is becoming the EU's biggest problem. This also appears to have been recognized within parts of the 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 and Pichelmann 2017). However, there is very little that the EU can do about it. The more it is seen as an agent of neoliberalism/globalization, the less likely it will be given the necessary competences by the member states. In short, the dilemma is that the more successful the EU is at integrating markets, the less likely it is to be given the tools it needs to deal with the negative consequences.

The end of neoliberalism is creating a void. How and by whom this void is filled will be critical for the future of the EU.

2.3 The rise of populism

To date, right wing and left wing populists appear to have filled the void that is left by neoliberalism most successful, as demonstrated by success of Trump, Orbán, Kaczyński, Duerte, Putin, Erdogan and Brexit. According to Skidelsky (2016) it cannot be a coincidence that populism succeeded in the UK and the US, "the two countries that most fervently embraced neoliberal economics." Along the same line it is perhaps also no coincident too that populism has been so successful in Central Eastern Europe. Guided by the stick of EU conditionality, Central Eastern Europe has transitioned from socialism to neoliberal capitalism in less than a decade. As a result, perhaps, populist leaders have risen to power in Hungary and Poland who are both seeking to create "illiberal democracies" (Kisilowski 2017; Sierakowski 2016).

Across the rest of Europe, too, the political landscape is changing quickly. Support for populist parties is growing while mainstream parties are in decline (Vries and Hoffmann 2016, p. 3). Inglehardt and Norris (2016) have shown that the share of votes for populist parties has doubled from 5.1% to 13.2% since the 1960s. During the same period their share of seats has tripled from 8.8% to 12.8%. Moreover, they have succeeded to enter government coalitions in eleven EU countries, including Austria, Italy and Switzerland (Lange 2012).

The defining characteristic and the most important communality of all populists is their claim to speak in the name of what they call the 'real people' or the 'silent majority,' as

opposed to the 'establishment' (Buti and Pichelmann 2017; Müller 2016a, 2016b; Skidelsky 2016). According to Müller, this claim to "moral monopoly of representation" has two dramatic implications for democracy. First, populists accuse all other political contenders of being illegitimate, crooked and corrupt (Müller 2016a). Therefore, they attack their opponents on a personal level rather than the level of policy questions, as Hillary Clinton had to find out. Secondly, they demand that "all intermediary powers" that separate them from the real people, such as party systems, the media, experts are cut out. This is particularly damning for procedural, rules-based systems like the European Union. Instead of seeing these rules as a guarantee for fairness and protection against state despotism, it is seen an unnecessary layer between the will of the 'real people' and their ruler (Buti and Pichelmann 2017). Hence, their promise to "take back control" (Farage 2016).

Instead of real policy solutions to real policy problems, populists offer dignity and belonging by defining common enemies, such as (powerful) elites and (not so powerful) ethnic, cultural and religious minorities. This strategy is very successful in a time that Bauman (2012) described as "liquid modernity." Faced with constant change in identities, places, jobs, spouses and values, the individual is considered to be left rootless and robbed of any frame of reference that may predict the future. This is successfully exploited by populists. Instead of facts they offer persuasive narratives that give people the intoxicating sensation of understanding "what's really going on" or "who is to blame" (i.e. aliens, the FBI, greedy bankers, evil politicians or the EU, the list is long).² In the *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." Along this line, Müller points out that Farage successfully created a narrative of English suppression under the EU dictatorship. Once his followers had internalized this narrative, "the Treasury-approved 'fact' that British families were going to be GBP 4,000 a year worse off outside the EU took on a different meaning: who wouldn't pay GBP 4,000 for freedom and democracy?" (Müller 2016a)

Against this narrative strategy the EU seems completely defenseless. It appears to have neither the leaders, nor the narratives to oppose it. The obvious counter-narrative, that the EU has provided and will guarantee peace and prosperity, does not seem to stick. This appears to be explained by the findings of Inglehart (2008) that already the 1970s there was a shift in affluent Western societies from survival values to a greater

² According to a poll by YouGov, 83% of Trump voters actually thought that Hillary Clinton is literally 'evil' (Jordan 2016). The fact that this question actually found its way into a poll shows how successfully Trump and his campaign have been at emphasizing personality rather than policy.

emphasis on post-materialist and self-expression values. Peace and prosperity, it seems, are both taken for granted. 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 deals with are too technical to excite but the staunchest supports of the EU or its most radical critics. The members of the European parliament are rarely allowed to decide on policy issues that are sexy enough to create substantial media attention.

At the same time, the EU does not appear to have the leaders that have what it takes to stand up to their populist rivals. The EU is lead by diplomats and technocrats, who are often very good at what they do, but they have not learned to shine in the spot-lights. It is also questionable whether the direct election of the Commission president will always produce the type of leaders that can go up against the populists. President Juncker greeting of Hungarian Prime Minister Orbán with "hello, dictator" will have only confirmed Orbán's followers in their suspicion that the EU was lead by a snobbish, condescending elite (Walker 2015).

With the EU unable to defend itself, it can only hope for national-level politicians. Much will depend on the ability of the established parties in the EU countries to find answers to the challenge of populism. The most obvious strategy would be to address the underlying causes for the rise of populism. As described in the following section, these causes are well known. Whether they will be able to address these causes, however, will be determined by political factors, discussed further below.

2.4 Causes of the rise of populism

The empirical literature has developed two competing explanations for the rise of populism. On the hand, it is argued that the rise is explained by the economic insecurity and the fear of globalization that are felt by a growing share of the population. On the other hand, the cause for the rise is seen in a cultural backlash against a progressive value change. Furthermore, there is the rise of social media with appears to have played an important role in Brexit and the election of Trump.

Right-wing authoritarian values

Political psychology argues the spread of progressive values has caused a cultural backlash among people who feel threatened by this development. "Less educated and older citizens, especially white men, who were once the privileged majority culture in Western societies, resent being told that traditional values are 'politically incorrect' if they have come to feel that they are being marginalized within their own countries" (Inglehardt and Norris 2016). This is called right-wing authoritarianism (RWA). The people who feel threatened by the cultural change favor strong leaders that preserve the sta-

tus quo and promise order in a world they no longer understand (Feldman 2003). Inglehardt's and Norris' (2016) empirical study shows that RWA rather than economic uncertainty was and is the main cause for the rise of populism across Europe since the 1970s. Research by Kaufmann (2016) shows that RWA is the main explanation for the Brexit. His study results show, for instance, that the support for the death penalty is one of the best predictors for individuals voting for 'leave.'

Economic uncertainty and fear of globalization

Vries and Hoffmann (2016), in a new study for the Bertelsmann Foundation, use survey data to show that economic uncertainty and fear of globalization rather than RWA values are the main determinant of the rise of populism. For those identifying with right wing challenger parties in Europe globalization fears are very pronounced. The following table shows the fear of globalization among voters of populist parties.

Table 1: Fear of globalization among populist parties' voters

Right-wing populists	Country	%
AfD	Germany	78
FN	France	76
FPÖ	Austria	69
Lega Nord	Italy	66
PVV	The Netherlands	57
PiS	Poland	58
Fidez	Hungary	61
Jobbik	Hungary	50
UKIP	UK	50
Left-wing populists	Country	%
Die Linke	Germany	54
Five star	Italy	48
MSZP	Hungary	45
SP	The Netherlands	45
Podemos	Spain	43

Source: Vries and Hoffmann (2016, p. 4)

They also find considerable country differences. In Austria and France a majority of respondents view globalization as a threat (55 %, 54 %). French and Italian respondents display the highest level of economic anxiety with 51 % and 45 % respectively. They also find that people who fear globalization are considerably more skeptical of the EU. Leaving the European Union is supported by 47 % of the people who fear globalization (Vries and Hoffmann 2016, p. 4).

Using data on legislative elections in 15 western European countries, Colantone and Stanig find that stronger regional exposure to the import shocks from China leads to increasing support for right-wing nationalist parties (Colantone and Stanig 2017a, 2017b). Colantone and Stanig (2016) also showed a positive effect of the Chinese import shocks on support for the 'Leave' in the Brexit referendum. Dippel et al. (2016) demonstrated the effect of trade exposure on radical right support in Germany. 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 (Autor et al. 2013; Bloom et al. 2015; Jensen et al. 2016).

Migration?

The economic uncertainty literature suggests that there is no direct link between populism and migration. It is shown in fact, that populism is more successful in rural regions with fewer migrants than urban regions with more migrants. The RWA literature is less clear on this. It is clear, however, that populists do not depend on migrants. Their list of potential scapegoats is long.

The role of social media

Trump and the Brexit campaign appear to have employed social media a lot more successfully than their opponents. Social media appears to help populists in four ways. First, it provides them with the opportunity to create a space of common identity, or "imagined communities". According to Benedict Anderson (2006) nations only become possible due to the invention of the printing press. It suddenly allowed people to feel as part of a group without actually meeting each other or knowing everyone in their community. Social media can be considered the equivalent to populist movements of what the printing press was for the birth of nations. It allows them to create social movements without the support of party structures, party-internal media or party rallies.

Secondly, social media has allowed populists to establish a direct link the individual citizen and the supposedly sole authentic representative of the people. According to Müller (2016a), "it is hard to see how this might have been possible before, at least as

a matter of daily experience: perhaps going to a party rally and feeling a direct connection with the leader while surrounded by others who feel exactly the same thing."

Thirdly, social media functioned as an echo chamber that has helped to reinforce the populist perspectives and opinions within these communities, however ludicrous these may be. The echo chamber effect is well established in the media studies literature (Colleoni et al. 2014, p. 317; Sunstein 2009). Social media and the Internet in general reinforces prior political views due to selective exposure to political content, as people tend to seek out those people and sources of information that confirms their views (Bimber and Davis 2003; Kushin and Kitchener 2009; Stroud 2010).

Finally, a London based firm has claimed to have determined the outcome of both elections by using Facebook data to identify and target adherents to RWA for the Trump and Brexit campaigns (Confessore and Hakim 2017). The company claims to be using a method developed by Kosinski et al. (2013), which combines big data and the so-called OCEAN model that maps peoples personality across five criteria: openness, conscientiousness, extraversion, agreeableness and neuroticism. While the company achieved a lot of publicity, its impact on both elections is strongly contested (Ber-shidsky 2016).

In sum, however, the role of social media should not be exaggerated. It is hard to see how this could be a sustained advantage for populists. The first two, community building and the creation of a direct link, only helped them to mitigate their disadvantage against established parties. The echo chamber effect is known to work across the political spectrum and there is no reason why the established parties should not employ similar media strategies as described in the last paragraph.

2.5 Containing populism

Without doubt the fight against populism is the single most important battle ground for the EU. Whereas defeat in the battle to tame globalization is going to make Europeans poorer and miserable, it would not necessarily lead to a break-up of the EU. A defeat against populism, however unlikely that may be, is almost certainly going to lead to the break-up of the EU. While the populist movements across Europe are far from homogenous, they are united in their hostility toward the EU.

The horror scenario for any pro-European is that, after Brexit, the upcoming French and German elections are won by FN and AfD respectively. Both would call for an EU referendum and chances are that both French and German voters will choose leave. In this case the EU would have lost its two strongest driving forces. Without them the EU

would seem pointless and would likely cease to exist. This extreme case, however, is rather unlikely. However, neither FN nor AfD are likely to win.

Based on the literature review on the underlying causes behind the rise of populism of Section 2.4, it is possible to deduce a number of predictions for the circumstances under which each of the six plausible futures could become reality. As shown above, the empirical literature is inconclusive as to the role of RWA or economic uncertainty as the main driver of populism. Both explanations, however, have completely different implications.

If the RWA hypothesis turns out to be correct, populism will be contained relatively easily. Without having to reinvent themselves, conservative and center right parties will simply need to open up to those voters who feel overwhelmed by the cultural change toward progressive values. In the Dutch election Mark Rutte and his VVD have already successfully employed this strategy against Geerd Wilders' PVV. The German CDU/CSU is also expected to employ the same strategy against the AfD.³ However, Vries and Hoffman (2016) point out that it is known that changes in rhetoric might foster changes in the political culture that may develop a life of their own. "Playing with fears and resentments may be a powerful political tool, but it is prone to backfire" (Vries and Hoffmann 2016, p. 26). In The Netherlands, for instance, Geer Wilders, even though he performed worse than expected, succeeded in transforming the political discourse. He refocused public attention on the issues of identity politics. Nonetheless, if the RWA hypothesis is correct business as usual appears to be the most likely future outcome.

If, by contrast, the economic uncertainty hypothesis is correct, populism will prove a lot more difficult to contain. Inequality is more difficult to overcome and likely to increase. With the imminent decarbonization of the economy and the digital transformation of manufacturing, which could well lead to a massive loss of mostly-low skilled jobs, inequality is likely to increase even further in the near future. Even though the policy implications of economic uncertainty literature are straightforward, the implementation of the necessary policies will be difficult if not impossible politically. To reduce economic uncertainty and the fear of globalization policy-makers will have to introduce massive redistributive policies within and across EU countries to compensate the losers of economic globalization (Colantone and Stanig 2017a; Dippel et al. 2016).

In principle the gains from economic globalization should be large enough to do so. According to Vries and Hoffmann (2016, p. 27), however, this is complicated by a "a

³ Also Theresa May is considered to have adopted this strategy, if so, too late. See Vries and Hoffmann (2016, p. 26).

toxic combination of high social budgets, low public income, and an unfavourable demographic trend". Moreover the political left will have to reinvent itself. If anyone will put inequality on the agenda, it would be the left. Arguably, however, the redistribution of wealth within countries will not suffice. To mitigate the negative effects of economic globalization in the peripheral regions of the EU there would have to be a massive transfer of wealth across countries.

This puts the EU in a dilemma. Taxation and redistributive policies have always remained a national policy prerogative. And in the current political climate the creation of a transfer union seems out of the question. Even if Germany and the other contributor countries were magically convinced to agree to such a policy, it would almost certainly guarantee electoral success for the AfD and others. If a transfer union is not implemented it is bound to boost populist movements in the Mediterranean member states. In this case EMU and EU exit of both smaller EU members and even bigger members like Italy, Spain and France will be very likely. In the former case, Germany and the other net contributors to the EU budget are bound to initiate the break-up of the EU.

An alternative to fiscal union could be to strengthen education and training. Both the economic inequality and the RWA literature agree that the higher the level of education the less likely people fall for populists claims (Vries and Hoffmann 2016, p. 27). However, such programs too are costly and are likely to require a transfer of wealth across EU countries.

2.6 If the populists win

If the populists rise to power their policy response to the economic uncertainty and the fear of globalization of their supports is clear. They will simply seek to reverse globalization through economic protectionism and beggar-thy-neighbor policies. Both are incompatible with the EU as we know it and will likely lead to its demise. Protectionism will also lead to a substantial decrease in economic welfare, causing even greater economic uncertainty. Paradoxically, however, this is likely to strengthen the support of populist leaders. The example of Orbán, Kaczyński, Duerte, Putin and Erdogan has shown that populist leaders have a tendency to stay in power. According to Müller (2016a), "it is naive to think that a protest movement is bound to fail in power since the protest cannot continue once the movement is in government. And it's not necessarily the case that all populists, on account of their unworkable policy ideas, will be seen as failures." They will simply blame their failures on their enemies who are trying to prevent them from implementing what the "real people" want and deserve. Moreover, Kisilowski (2017) points out that the supporters of populist leaders may consider the resulting economic stagnation as an "acceptable price to pay for what they want most:

a more familiar world where the state guarantees the dominant in-group's sense of belonging and dignity, at the expense of 'others.'"

The case of Trump also shows that populist leaders are also less bound by election promises. Even though Trump promised to sideline the elites, his supporters do not seem to bother that Trump himself is man of wealth and privilege and that his administration is practically a Washington subsidiary of Goldman Sachs (Granville 2017). It shows that Populists can get away with a lot. And maybe it also shows that business interests are quite adaptable.

Nonetheless, it is important to remember that across the EU populist movements still have not been able to claim more than 13% of the electorate (Inglehardt and Norris 2016). Moreover, Moravcsik (2017, p. 20) reminds us that "for 40 years public trust in the EU's political institutions has been continuously higher than trust in national ones and it remains so today even in Britain, where more people trust the EU Commission than the British Parliament". However, the current trend is clearly favoring populism.

3 The battle to tame globalization

The second battle for the EU's future has three main fronts, inequality, sovereign debt and banking crisis. Globalization, however, obviously is a much broader phenomenon, also including global warming, the migration, global terrorism and various foreign policy challenges. While equally, if not more important, their impact on the future of the EU appears to be less strong than the impact of economic globalization. For instance, migration is no longer an existential issue for the EU. It is without doubt a humanitarian crisis of unprecedented scale but since the EU has successfully closed its borders, it has practically externalized the crisis (Moravcsik 2016b, 2017). Moreover, the case of economic globalization can be seen as exemplary for the other forms of globalization in that it is about finding collaborative answers to global problems that cannot be solved by individual countries. Furthermore, the question of the EU's democratic deficit, too, while much discussed in the literature (Follesdaal and Hix 2006; Höpner et al. 2017; Moravcsik 2017), seems unlikely to have an equally direct impact on the future of the EU, even though some would argue that it should.

Finding answers to the challenges of economic globalization can be understood as the taming of the very beast that the EU has itself created. The formation of the single European market of 28 countries and around a half billion consumers has been one of the largest and, arguably, also one of the most successful projects of economic globalization in history. It has generated unquantifiable levels of economic wealth. Both economic theory and empirical research agree on this. Despite its positive impact overall, however, economic integration has not been *Pareto* optimal. It has created winners and losers, while lacking any mechanism to compensate the latter. As described above, this has created growing levels of economic uncertainty and fear, playing directly into the hands of populist movements. Many of the problems that the EU now faces, including the rising inequality, sovereign debt crises and banking crisis, appear to require the introduction of within-country and especially cross-country transfers of wealth. Such transfers could come in many forms. They should not be limited to lump sum transfers of wealth to the poor and underprivileged, after all it is dignity those forced out of their jobs or forced into 'low-quality' are looking for. There are many alternatives to such direct transfers, such as education and training programs, infrastructure investments, regional policy or policies that make people more mobile and allow them to move where the jobs are.⁴ Since none of these policies are without costs, some form of fiscal

⁴ In this context, however, no policy appears to have been successful as Ryanair and Skype have been for improving mobility.

transfer will always be required. And in any case, the current budget is likely too small to be effective and the EU does not have competences in fiscal policy.

In principle there appear to be two options, either the EU responds through deeper integration or it scales back on economic globalization within the EU. Both seem possible. And in both cases political and legal institutional changes are necessary. This section is subdivided into three parts. The following two subsections survey the theoretical literature for potential ways the EU could move toward deeper integration or disintegration. The third section, in the fashion of a case study, looks at the academic literature that has developed around the Euro crisis.

3.1 Drivers of integration

The political science literature on European integration can be categorized into three independent strands, neo-functionalism, liberal intergovernmentalism and the institutionalist public administration literature.

The neo-functionalist literature suggests that market integration creates positive spillovers and positive feedbacks prompting the member states to agree to deeper integration in other policy areas (Haas 1977). Neo-functionalists would argue, for instance, that monetary union would eventually lead to fiscal union, because everyone would agree on the functional necessity to do so. However, the political reality of today seems to be different. Even though further integration would be in the national interest of most member states, there certainly is no political appetite for this. The liberal intergovernmentalist literature, in turn, sees integration as the result of "grand bargains" between rational, self-interest governments (Moravcsik 1998). It sees European integration as an inter-state bargaining process in which governments' preferences are determined by the competition between various interest groups at the domestic level.

Both the neo-functionalist and the liberal intergovernmentalist literature suggest that the EU is gradually moving toward ever closer cooperation. They also agree that crises are often a catalyst for further integration. This goes back to Jean Monnet, one of the founders of the EU, who argued that "Europe will be forged in crises, and will be the sum of the solutions adopted in those crises" (Matthijs 2016). Moravcsik points out, however, that it has been nearly a decade since the beginning of the financial crisis and little progress has been achieved, that even though it would probably be in the member states interest to find common solutions (Moravcsik 2016b, 2017). Given the rise of eurosceptic parties in many of the member states, it seems highly unlikely that the member states will agree to further integration in policy areas such as fiscal policy, even though this may be necessary to tackle the challenge of inequality.

Multi-speed Europe is often portrayed as a potential alternative to break the reform gridlock. Instead of having to convince all 28 member states, smaller groups of like minded member states would engage in deeper integration. Even though this option seems promising in many policy areas, multi-speed integration makes no sense where deeper integration is most needed, namely fiscal policy. There is no point in a fiscal union, in which only debtor or only creditor countries participate.

The findings of the institutionalist public administration literature appear to suggest that the mismatch between market integration and political integration is likely to continue to increase. This has to do with the institutional structure of the EU and how decisions are taken. From the beginning, European integration has mainly focused on market integration. Early on the member states therefore delegated the necessary competences to manage the market integration project to the European Commission and the European Court of Justice (ECJ), which eventually established the supremacy of EU law over national law (Pollack 1997). The far reaching regulatory competences of the Commission and the ECJ meant that European integration moved swiftly in areas of market integration, creation and liberalization. In all other policy aspects intergovernmental bargaining between the member states prevailed. Reaching agreement between sovereign member states, however, is difficult and not always possible. They are stuck in a 'joint-decision trap,' where the unanimity rule means that each member state has effective veto power (Scharpf 2006). Only decisions at the lowest common denominator of all national interests are taken. This has created a bias toward market integration and liberalization at the expense of other policy areas, for instance, those that could deal with the negative consequences of market integration, for instance by compensating of losers through fiscal transfers (Scharpf 2002).

3.2 Drivers of disintegration

Therefore, some of the co-founders of the institutionalist literature, Scharpf and Streek, today argue that this mismatch ought to be overcome by limiting the competences of the European Commission and the ECJ and by strengthening the power of the member states (Höpner et al. 2017). They do not explain, however, through which political process this might be achieved. Neither the neo-functionalism nor the liberal intergovernmentalist literature foresees the possibility that European integration is reversed.

The only path toward de-integration known today is that countries exit from the EU. The aforementioned literature, however, struggles to predict Brexit. Moravcsik even maintains that Brexit is not going to happen because Great Britain simply cannot afford to leave (Moravcsik 2016a). The costs of exit are prohibitive, as even UKIP now appears to recognize (ITV 2017). The negotiation of new trade and investment agreements to

replace the EU would require 30,000 new government officials, which that Britain does not have. No rational government would want to put itself in this situation and follow the British lead (Moravcsik 2017).

The analysis of Section 2 has shown, however, that populist leaders are not constrained by what is deemed to be rational. In most countries, however, they are certainly too weak still to force their countries into EU exit. Their only chance to shine appears to rest in EU referendums. However, in many European countries referendums are either not permitted or require a high 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 and reversed (Moravcsik 2017).⁵ Though possible, EU exit seems rather unlikely.

In addition to the clues provided by the example of Brexit, however, there also is a well established (American) political science literature that explains how long periods of institutional stability can be punctured by rapid institutional change. In an impressive process-tracing analysis long-term case studies of civilian nuclear power, urban affairs, smoking, and auto safety, Baumgartner and Jones (1993) show how in pluralist political systems like the US (but also the EU) institutional stability is alternated with bursts of rapid and unpredictable change. They identified two drivers of institutional change, one is a change in the venues of decision making, and the other is the change in the dominant policy image.

"Any model [...] which seeks to explain both incrementalism on the one hand and rapid change on the other must appreciate the interaction between issue assignment and political rhetoric. Where the rhetoric begins to change, venue changes become more likely. Where venue changes occur, rhetorical changes are facilitated. Thus, a slight change in either can lead to rapid changes in policy outcomes. With each change in venue comes an increased attention to a new image, leading to further changes in venue, as more and more groups within the political system become aware of the question. So the interactions of image and venue may produce a self-reinforcing system characterized by positive feedback mechanisms. Such systems can produce both long periods of no change or dramatic reversals in outcomes in relatively short periods of time." (Baumgartner and Jones 1991, p. 1048)

To the stability of nation states or quasi-states like the EU, however, this theory has not yet been applied. However, there are some tentative lessons that may be drawn from this literature. The EU is facing both a venue change and change in the persisting policy image. Since the Treaty of Maastricht the EU has increasingly strengthened the competences of the European Parliament, which has made room for new actors and

⁵ EU referendum results have been reversed in France, Netherlands, Greece, Denmark, and twice in Ireland.

interests that previously may not have been represented in the Commission and the Council. Section 2 has shown that, with the decline of neoliberalism, the dominant policy images are changing too. The decline has given rise to populist leaders who are becoming increasingly successful at the establishment of new policy images. And as predicted by Baumgartner and Jones (1993, 1991) the shifting images have also led to venue shifts. As described above, leaders like Trump have circumventing conventional party organizations and have employed social media to establish a direct rapport between them and their supporters, the 'true people.' Leaders like Orbán and Nigel Farage have themselves called referendums or forced their governments to call a referendum on migration or EU membership. While Orbán's referendum was eventually overruled by the Hungarian constitutional court, the Brexit campaign used the referendum successfully, both to change the policy image of the EU and to actually win a majority. While these deduced predictions should not be overemphasized, the literature certainly underlines the importance of the battle of ideas, discussed in Section 2, as well as the role of referendums in the rise of populism.

3.3 Lessons from the Euro-crisis and implications for the future of the EU

As a continuation from the previous section this section takes a closer look at the Euro crisis. To most economists and political scientists, the Euro-crisis is by far the most serious challenge that the EU is currently facing. Just like the previous section, this section, too, will survey the literature for potential paths into the future.

At the root of the problem, it is commonly agreed, lies a fundamental flaw in the design of the European Monetary Union (EMU). The EMU lacks the adjustment mechanism that are necessary to enable the EMU and its members to respond to asymmetric economic shocks, i.e. (external) economic shocks that either only hit some but not all Euro members, or, as has been the case since the 2008 financial meltdown, shocks that affect some Euro members differently than others. In principle, there are three adjustment mechanisms, monetary policy, fiscal policy and labor migration. With monetary policy now targeted at the Euro zone as a whole and cross-country migration flows that are too low to make a difference, fiscal policy is the only adjustment mechanism that remains. The current regime, however, only provides rules to enforce fiscal discipline but lacks the possibility of fiscal transfers. Fiscal discipline, however, with a few exceptions perhaps, did not turn out to be the problem. What the system lacks, the overwhelming majority of economic experts agree, is a fiscal transfer mechanism.

The lack of adjustment mechanisms in the EMU is exacerbated by the fact that the EMU member countries pursue different economic growth models. There is the export driven growth model of countries like Germany and the domestic demand driven growth model of countries like Spain and France. Absent the possibility of exchange rate appreciations and depreciations, the introduction of the Euro has led to unsustainable macroeconomic imbalances (de Grauwe 2013). There are two sides to this development, exports and capital flows.

Under the common currency the export driven economies like Germany were able to export without facing exchange rate appreciations that, given the law demand and supply, would normally prevented them from running sustained export surpluses also known as current account surpluses. At the same time, the demand driven economies were able to import without facing exchange rate depreciations that would have normally prevented them from running sustained deficits.

On the flip side, the current account surpluses of countries like Germany meant that the difference between their imports and exports is income that did not go into domestic consumption or investments but savings. The increased supply of savings put downward pressure on interest rates and provided the domestic demand driven economies with cheap credit that allowed them to continue to consume German exports. The export surplus of the export driven economies is thus directly balanced by rising private and public debt of the domestic demand driven economies.

With the financial meltdown of 2008, however, credit dried up and the debt levels of the demand driven economies suddenly became unsustainable as a result. And even Euro members with sound pre-crisis budgets, such as Spain, were eventually forced into 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). Macroeconomic imbalances and fiscal crises in response to fixed exchange-rate systems are hardly unique to the EU. The Gold Standard, Bretton Woods, the European Monetary System, which preceded the Euro, and most recently Argentina with its dollar peg all ran into similar problems and all collapsed eventually (Moravcsik 2017). Against this background Evans-Pritchard is probably correct in pointing out that "today's EU is a deformed halfway house that nobody ever wanted" (Evans-Pritchard 2016). Therefore, only two options seem to remain, either reform or break-up (Galbraith 2016; Rodrik 2017; Stiglitz 2016).

Fiscal federalism

Economists unanimously agree that monetary union will ultimately have to be embedded in a fiscal union (de Grauwe 2013; Galbraith 2016; Rodrik 2017; Stiglitz 2016; Wy-

plosz 2017). The literature suggests various forms of fiscal federalism (Wyplosz 2016). Many would also like this to be backed up by greater political integration in the form of a United States of Europe (Varoufakis 2016), after the American role model, in order to lend democratic legitimacy to such a construct. The US is a good example. The US dollar is only viable due to fiscal transfer mechanisms at the federal level that prevent the emergence of fiscal imbalances and include direct transfers from richer to poorer regions.

In the current political climate, however, deeper integration seems utterly unrealistic (Moravcsik 2017; Reichlin 2017). The creditor countries like Germany would never agree to it. If they did their governments would inevitably be penalized by populist like the AfD or PVV. It would be political suicide. Moreover, Brunnermeier, James and Landau point out (2016) that deep philosophical differences between Germany and France but also the other member countries that will prevent them from coming to an agreement on the underlying problems and reaching the same policy conclusions.

Break-up

The other option is EMU break-up. Officially, however, all political leaders reject this course. While the leaving countries could potentially benefit from regaining control over monetary policy to adjust to the crisis, the short term costs would be prohibitive. Moreover, a break-up would have severe economic consequences, as the EU accounts for around 20% of world GDP and 35% of global bank assets and liabilities (ECB 2014; Santis 2017). If politicians only hinted at this option, this would lead financial markets to put the periphery countries and banks under pressure. While Stiglitz (2016) maintains that a friendly separation would be economically possible, this option, too, would be political suicide (Moravcsik 2016b).

Muddling through

Many political scientists agree that the most likely future is that the EU will continue to muddle through (Blyth 2015; Moravcsik 2017). This is likely to entail four aspects. First, as de Grauwe (2013) points out, it will split EMU in two, forcing the Southern, debtor countries into austerity resulting in a low/no growth equilibrium and the others into a good equilibrium. Therefore more and more countries will seek to adapt to the German export-led growth model. While Germany is the world's export champion with a large current account surplus, Sweden and Denmark – both de facto EMU members – are not far behind. The Central East European countries that previously ran deficits are

now all in surplus (Blyth 2015).⁶ Needless to say not all countries will be able to adopt this model. By definition, the exports of one country have to be the imports of another. Somewhere Germany's exports will have to be imported by someone.⁷

Secondly, European integration can be expected to move forward, albeit in small steps (Blyth 2015; Moravcsik 2017). In 2012, for instance, the European Stability Mechanism was created to bail out member states. At the same time even Germany has silently accepted that the ECB has engaged in monetary easing, effectively taking over Greece's debt. Also small steps toward banking union were made (Epstein and Rhodes 2017). While these reforms are unlikely to ease the pain of the debtor countries, they have certainly secured the Euro from potential defaults and exits of the debtor countries like Greece. They will certainly fall short of fiscal union.

Thirdly, the muddling through is likely to involve Grexit and potentially the EMU exit of more countries. The countries unable or unwilling to adapt the German export-led growth model will be stuck with austerity and continued economic contraction, with generations lost to long-term unemployment. The aforementioned examples of monetary systems that collapsed due to macroeconomic imbalances shows that eventually a point is reached where the economic pain becomes too big and the political pressure for a drastic step becomes too strong. According to Galbraith (2016) the Greek government was preparing to withdraw from the Euro zone in 2011 and 2015.⁸ Also Berlusconi is supposed to have contemplated withdrawal in 2011, as did Spain. Due to pressure from Germany they are supposed to have decided to stay (Moravcsik 2016b). The next time, however, they might decide differently.

Grexit, again, appears to have become a real possibility. The recent verbal attack by Dijsselbloem suggests that the rhetoric between Greece and its debtors is sharpening (The Telegraph 2017). And with Angela Merkel having to appear firm in the face of the upcoming German elections, the negotiations to restructure the Greek debt that is due this summer could very well fail. In this case, Greece could possibly decide to abandon

⁶ The Czech Republic went from a deficit of 5% in 2004 to a surplus today. Poland has gone from a deficit of 4% to a surplus. Slovenia went from a deficit of 2.2% to a surplus of 5.9% (Blyth 2015).

⁷ According to Blyth (2015), the export-led economies are effectively free riding on the consumer spending elsewhere, which "leaves its economic fate in the hands of others." The excess of savings over investments that is generated through export-led growth is likely to lead asset bubbles elsewhere. If these bubbles are to burst or if the remainder of the world stops consuming, then the system come under threat quickly (Blyth 2015).

⁸ President Hollande supposedly confirms that President Putin confided in him that Tsipras had asked to print the new Drachma in Russia (The European Post 2016).

the euro. Given the aforementioned reforms in banking and given the creation of the ESM, however, this seems unlikely to lead to another financial crisis. Portugal and maybe Italy and Spain might be put under increasing pressure from financial markets. Eventually these countries too could decide to abandon the euro. Countries could continue to leave the Euro until only the countries with export-led growth models are left.

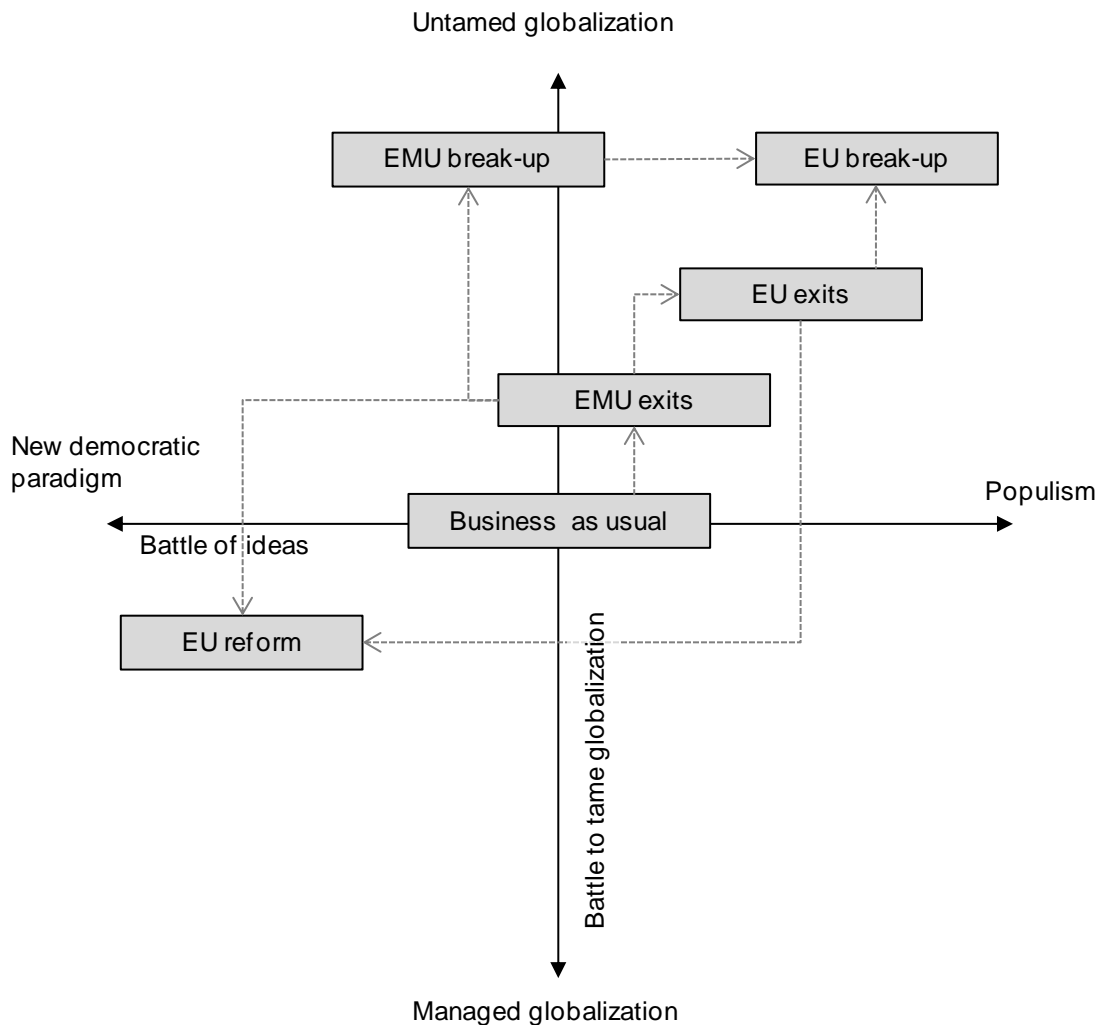
According to an ECB working paper, the redenomination risks of individual EMU economies, i.e. the introduction of legacy currencies following EMU exit, are best indicated by the price difference between Collateral Debt Swap derivatives denominated in Euro and denominated in US dollar (Santis 2015). While French and Italian bond spreads (difference between Germany's and France's/Italy's bond yields) are increasing, Santis (2017) uses this indicator to show that are not pricing the potential EMU exit of France. Instead they are pricing the possibility that the newly elected French government will not have the power to undertake necessary economic reforms. Market perception of redenomination risk in Italy, on the other hand, is rising slowly.

The remaining Euro zone can be expected to emerge strengthened. It might even be enlarged by countries like Czech Republic, Poland and Slovenia. Having consolidated around a single economic growth model, the smaller Euro zone will likely to be quite stable, as long as two conditions are met. The first is that the rest of the world will continue to absorb/import its export surpluses. The rising populism and the protectionism that populists like Trump support, however, could very well put an end to this. The second condition is that the excess savings that are a direct result from the EMU's export surpluses do not again lead to asset bubbles. The 2008 financial meltdown has shown that such bubbles have the tendency to burst. And once they do consumption contracts and nobody will import the EMU's export surpluses.

4 Six plausible futures for the EU

Figure 2 maps the six futures of the EU across the two driving forces, the battle of ideas and the battle to tame globalization.

Figure 2: Mapping the plausible futures along the two main drivers



Source: own compilation

The remainder of provides a summary of each future and explains its placement within Figure 2.

Future 1: EU reform

EU reform can possibly lead in two directions, either deeper integration or disintegration. Reform is necessary to address to central problems, the Euro crisis and the rising inequality. In both cases, a form of fiscal union is necessary. Even though many com-

mentators consider deeper integration in this direction to be desirable, most seem to agree that in the current political climate this is highly unlikely. The literature has shown, however, that crisis have always been the catalyst for deeper integration.

Multi-speed Europe is often portrayed as a potential alternative to break the reform gridlock. Instead of having to convince all 28 member states, smaller groups of like-minded member states would engage in deeper integration. Even though this option seems promising in many policy areas, multi-speed integration makes no sense where deeper integration is most needed, namely fiscal policy. There is no point in a fiscal union, in which only debtor or only creditor countries participate.

The longer the EU fails to address the rise of inequality and fails to reduce the hardship that the Euro crisis is imposing on Southern Europe, however, the stronger the euro-sceptic populist movements are likely to become, making deeper integration even more unlikely and EMU exits and EU exits ever more likely.

Disintegration is also unlikely, even though many claim that this would be necessary, if reforms fail. In all likelihood a fundamental limitation of the EU's competences would require a treaty change. However, no rational political leader would want to embark on such a long and unpredictable process. And all populist political leaders would not bother to do so either and choose exit instead. It also seems possible, however, that the more countries exit the EU, the easier it becomes for the remaining EU members to agree on the necessary reforms.

The reform case is placed all the way on the left of Figure 2. Both deeper integration and disintegration presuppose new narratives in the battle of ideas. It also requires some control over economic globalization. Therefore it is placed below the horizontal axis.

Indicators: Discussions on fiscal union is gaining traction across the EU; initiation of the (long) process to change the EU treaty; EU exits.

Future 2: Business as usual

For the time being, the most likely future is that the EU will continue to 'muddle through.' With fundamental reform unlikely, see above, the status quo will likely prevail, both in the EU and the EMU. This does not preclude small step reforms, EMU exits and, though less likely, further EU exits.

This case has two implications for the EU and the EMU. First, the institutional design of the EU and the wide ranging competences that it provides to the Commission, the European Court of justice and the European Central Bank, means that the EU will contin-

ue to advance the process of market integration, liberalization and regulation. In all other policy areas, policy-making is constrained by the fact that consensus or high qualified majorities among the member states are required, giving veto power to individual countries or small coalitions of countries. Therefore, the EU is only able to take decisions that are at the lowest common denominator of all. In consequence the gap between market integration and political integration will continue to widen. Economic globalization will continue to accelerate, without any mechanisms to deal with the negative consequences, i.e. to compensate the losers. Therefore, economic inequality will continue to rise, playing into the hands of populist leaders.

Secondly, for the EMU this development means that its members will have no choice but to try to converge toward the German export-led growth model. All countries that fail to do so will eventually choose to exit the EMU, though not necessarily the EU. Having consolidated around a single economic growth model, the smaller Euro zone will likely to be quite stable, as long as two conditions are met. The first is that the rest of the world will continue to absorb/import its export surpluses. The rising populism and the protectionism that populists like Trump support, however, could very well put an end to this. The second condition is that the excess savings that are a direct result from the EMU's export surpluses do not again lead to asset bubbles. The 2008 financial meltdown has shown that such bubbles have the tendency to burst. And once they do consumption contracts and nobody will import the EMU's export surpluses.

In this case the EU will remain vulnerable both to the rising populism and potential financial crises. Therefore, this could very well be a transitory, leading to one of the following futures.

The business-as-usual case is placed in the middle of Figure 2. Representing the status quo, the case does not require any substantial changes in the battle of ideas and the battle to tame globalization.

Indicators: Economic growth continues to improve; populist movements do not become stronger.

Future 3: EMU exits

With no economic adjustment mechanism but austerity and supported by the rise of populism, some of the indebted Southern EMU members might be tempted to leave, although short term costs are likely to be very high. If the rhetoric between Greece and its creditors continues to sharpen, it is likely that the negotiations to restructure the Greece's debt that is due in the summer will fail. The upcoming elections in Germany, with Angela Merkel seeking to appear firm, make Grexit ever more likely. While Greece

has long been shot out from financial markets and is at the mercy of its European creditors and the IMF, Italy, France, Spain and Portugal still have market access and are likely too big to fit under the ESM umbrella.

In Figure 2, the EMU-exit case is placed slightly further to the northeast from the business-as-usual case. Because it does not depend on any radical changes on both fronts, it would clearly be driven by financial markets/untamed globalization (northbound) and supported by populism (eastbound).

Indicators: Bond spreads between Germany and the exit candidates increase sharply; redenomination risks of individual EMU economies, i.e. the introduction of legacy currencies following EMU exit, are best indicated by the price difference between Collateral Debt Swap derivatives denominated in Euro and denominated in US dollar (Santis 2015, 2017).

Future 4: EMU break-up

Even though many economists consider this step to be necessary, if EMU reforms fail, only few consider a friendly separation to be possible (Stiglitz 2016). Given the size of the Euro zone's economy and the size of its banking sector a disorderly break-up would be prohibitively costly, political and economic suicide. No self-interested political leader would attempt to do so. Instead of trying to break-up the EMU countries would simply try to exit the EMU. With the reforms in the field of banking regulation and the creation of the European Stability Mechanism, the exit of individual members, however, seems unlikely to set off a domino effect that will push further countries out.

The EMU-break up case only seems possible if the EU is increasingly losing control over the forces – financial markets and macroeconomic imbalances – that pressure the system. Therefore it is placed toward the North of Figure 2. It is placed slightly toward the West because the actual step of deconstructing the EMU would not be possible politically without a new policy narrative.

Indicators: After the mass exit of EMU members, German bond rates increase and the Euro depreciates sharply.

Future 5: EU exits

Brexit has shown that, however unlikely this might previously have seemed, it is possible that countries decide to leave the EU. Across the EU, populism is on the rise. Where populist leaders succeed to gain power they can be expected to call referendums on EU membership. Due to the critical role of populism in this case, it is placed to

the East in Figure 2. The literature suggests that, at least in part, the rise of populism is driven by a fear of globalization and increasing economic inequality. Based on this literature it has to be concluded that the longer the EU fails to address the negative consequences of the economic globalization that it has created via the single market, the more likely EU exits become. It might even be argued that the longer the recession economies do not exit the EMU, the stronger populist movements become and the more likely EU exits become.

Referendums are widely considered to represent the only mechanism through which EU exits could come about. For radical decisions, like EU exit, most member states' constitutions require large qualified majorities in both houses of parliament. Anti-European populists are very unlikely to achieve such majorities. At the same time, however, many member states' also either do not allow for referendums or require high qualified majorities for referendums to be called. This decreases the chances of EU exits substantially.

The chances of EU exit are further lowered by the prohibitive costs that exit involves. Brexit is a case in point. No rational political leader would want to trade shoes with Theresa May. Therefore, some commentators are still convinced that (hard) Brexit is eventually going to be reversed, provided that populist leaders do not come to power. Populist leaders would be less constrained by the high costs. They could easily persuade their supporters that the process was sabotaged by liberal elites.

Indicators: Election victories of populist movements, declining approval ratings of the EU (Eurobarometer), EU referendums are organized.

Future 6: EU break-up

Though unlikely, a break-up of the EU is possible. It could potentially result from the mass exits of member states. Even in this case, however, a smaller EU is likely to remain.

The break-up of the EU would require the perfect storm on both the battle of ideas and the battle to tame globalization. Therefore it is placed all the way in the Northeastern corner of Figure 2.

Indicators: Mass exits from the EU, see above.

5 Conclusion and policy recommendations

The EU is remarkably resilient and can be expected to survive the many crises it faces today. Ten years on, however, it might not look like the EU that we know today anymore. The present paper has shown that multiple futures are possible, including further EU exits and EMU exits. And even though the break-up of the EU is unlikely, the analysis has shown that it is possible. In any case, the battle of ideas and the fight to tame the (negative) effects of economic globalization will be critical for the future of Europe and the world.

The first recommendation is that populism should be taken seriously, not only as a political movement but as a political philosophy or else it will fill the void that is left by the deconstruction of neoliberalism. Political leaders, both left and right to center, should start to question themselves and their party programs in this regards. Most importantly, however, they need to start talking about inequality.

Moreover, governments need to start laying down constitutional protections against short-termist and populist leaders. It needs to be made sure that complex and important issues, such as EU membership, are decided by large bicameral majorities – and potentially a referendum – but not by a referendum alone. Referendums are by far the strongest weapon of populist leaders. Governments should take it away from them, while they still can. In some countries this would require constitutional changes. This is also necessary as a safety mechanism against non-populist leaders willing to gamble the future of their country for their own political career, as Cameron did with his referendum.

About the author

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