INTERNATIONAL POLICY ANALYSIS

Future Scenarios for the Eurozone

15 Perspectives on the Euro Crisis

SCENARIO TEAM EUROZONE 2020

March 2013

- The Eurozone is standing at a crossroads, facing the biggest challenges in its history: the systemic crisis and the political attempts to overcome it have far-reaching consequences for the future of the Economic and Monetary Union, European integration and Europe in the world.

- By identifying the main driving forces that influence the future development of the Economic and Monetary Union, a number of different scenarios were developed to show what the Eurozone will look like in the year 2020.

- Four major scenarios are imaginable:

  (A) Muddling through the Crisis. The Eurozone remains a house without a protecting roof.

  (B) Break-up of the Eurozone. The Euro house falls apart.

  (C) Core Europe: evolution of two-level integration with a smaller and stable, but exclusionary Euro house.

  (D) Completion of the Monetary Union by a fiscal and political union. The roof is repaired and construction completed.

- Experts in 15 cities all over Europe evaluated, discussed and developed these scenarios. A Pan-European perspective on the future of the Eurozone introduces an alternative way of looking at the Euro Crisis.

Content

1. Introduction

Crisis management to solve the euro-debt and economic crisis over the past few years has mainly involved chasing after rapidly changing developments without really being able to influence them decisively. The measures adopted at the many crisis summits soon proved to be inadequate and often merely exacerbated the symptoms of the crisis. In many countries, especially in Southern Europe, this made itself felt in a dramatic intensification of the social situation, high (youth) unemployment, economic recession and increasing frustration among broad segments of the population concerning Europe and the European institutions. Even the crisis management chiefly embodied by German Chancellor Angela Merkel fell into disrepute in these countries, in contrast to its reception in Germany.

In such a situation, a »creative pause« from daily crisis management and a more impartial look at alternative long-term solutions would be both useful and necessary. The scenario method offers the possibility of going beyond conventional ways of thinking and opening up new horizons. This is precisely what the Friedrich-Ebert-Stiftung is trying to do with its »Scenarios for the Eurozone 2020«, the idea behind which is not to seek a one-dimensional solution, possibly based merely on wishful thinking, but to sketch various pictures of the situation in the Eurozone in 2020.

Scenarios were originally developed for military strategic planning, but soon began to find application in business, politics and civil society. They do not represent predictions since nobody – not even with the help of computer-aided quantitative methods – can foresee the future. Scenarios rather offer various possible and realistic pictures of the future. Although they do not provide decision-makers with a set of instructions they do convey a clear message: if someone is aiming at a particular scenario they should take the development path laid out in it; if one wishes to avoid a certain scenario another path should be taken. The scenarios we shall describe here will make this clear, ranging from the collapse of the Eurozone, through continuing to »muddle through« or establishing a Core Europe, to completion of fiscal (and political) union in the European Economic and Monetary Union. These various scenarios emerge by differently weighting the diverse driving forces and allocating different degrees of importance to certain triggers. It is crucial that each scenario be plausible (is such a scenario conceivable?), self-consistent (does it offer a »rounded« picture?) and logical (does the development path described lead to the envisaged state of affairs in 2020?).

Scenarios are usually the »product« of an intensive and long-term process conducted by a scenario team based on various professional, political, institutional and other criteria. The Friedrich-Ebert-Stiftung has accumulated extensive experience with such processes in a series of countries, including South Africa, Israel and Bosnia-Herzegovina. A multinational project conducted by the Geneva office dealt with global economic governance in 2020. »Scenarios for the Eurozone 2020« is a multinational, Europe-wide project, also including EU Member States outside the Eurozone. In contrast to Geneva, where multinational participation was ensured »on the spot«, in this case a series of meetings were held in various European capitals in order to bring as many national points of view as possible into working out the scenarios. They were then fed into an ideal-typical pan-European perspective. This experiment can be described as successful since, despite all the differences of format and participants in the various events, the »rough scenarios« presented by the Friedrich-Ebert-Stiftung were broadly endorsed, in the sense of »affirmation« in accordance with the scenario method applied in this process. The scenarios presented here reflect this wide-ranging discussion process.

In the course of 2012 various workshops, conferences and panel discussions were held within the framework of the project in Berlin (17 January and 24 September), Brussels (8 March), Lisbon (5 May), Helsinki (22 May), Bratislava (14 June), Zagreb (13 July), Warsaw (11 September), Barcelona (19 September), Athens (2 November), London (6 November), Paris (7 November), Ljubljana (8 November), Madrid (14 November), Rome (15 and 16 November) and Tallinn (30 November). The results of these 16 events were fed into the constantly revised scenario drafts so that they could be presented to the European public in their final form at a public event in Brussels on 6 December.

The scenarios that emerged from this project – which ran for almost a year – were conceived and developed by Maria João Rodrigues, who presented the scenario drafts at all the events and »updated« them on the basis of the various discussion contributions. Winfried Veit was responsible for methodological guidance and development of the scenarios, also conducting several workshops in which the scenario method was used. Overall leadership of the project was in the hands of Björn Hacker and Uta Dirksen. In particular, they coordinated between the various country offices that were ultimately responsible for the organisation and implementation of the events, which are listed in the Annex. As a »final product«, the scenarios are not least the result of the contributions by the many participants from almost every Eurozone country (and beyond). The scenario team would like to take this opportunity to thank them, as well as Larissa Aldehoff, Max Fehrmann, Anthony Ferreira, Eike Hortsch, Marina Wulff and many others for helping to organise this project.

2. Perspectives and Peculiarities from the Scenario Events

The individual events and the course of the whole project made clear the extent to which European integration is established »in people's heads« despite the crisis, at least in the political-academic domain from which most of the participants come. The European Idea was scarcely called into question, but rather alternative scenarios were sketched out: in Finland, for example, the creation of a »Nordic monetary union« and closer cooperation with Russia were discussed, while in Portugal the possibility of a planned exit from the European Economic and Monetary Union (EMU) was addressed in the event that the Troika's programme led to the collapse of the economy (basically in both cases these were less proper scenarios than side-effects or consequences of the Core Europe scenario). Common to all countries was a consciousness – and, though unexpressed, a fear – of Germany's strength, a demand for pan-European solidarity and, in the smaller countries, the feeling that they were merely the pawns of crisis management. There was broad agreement that a break-up of the Eurozone needs to be avoided in any event and that we are currently in a state of »muddling through«, which in Poland – and similarly in Slovenia and Estonia – was regarded as the lesser evil in accordance with the motto »rather move forward in small steps than go into reverse« (also, going a bit further, called »ambitious muddling through«). In Germany, this scenario was regarded as a dead-end that sooner or later would inevitably end in the break-up of the Monetary Union or to further-reaching political union (here too a variant was discussed, »muddling through with a new navigation chart«, turning away from the hitherto predominant neoliberal mantra). The perception of a possible break-up was also dominant in Greece, Spain and Portugal, hard hit not only by the crisis, but also by a crisis management that merely reacts to events as they happen and thus fails constantly. Here, in the countries suffering from excessive austerity measures, leading to further economic decline, social crisis and political protest, muddling through is declared an unsustainable means of overcoming this crisis. However, in a Seminar in Paris criticism of the continuing muddling through the crisis was dampened by highlighting the learning effects of the crisis management: the ability of European people and politicians to learn from mistakes made would already produce a better use of instruments to tackle the crisis, for example, the new role of the ECB or the attempts to add economic growth incentives to the austerity agenda. The more a sudden break-up of the Eurozone becomes possible, the more the high cost of it is anticipated and factored into crisis management was a general conclusion of the French seminar.

Ever since its accession to the European Union, the United Kingdom has signalled reluctance, if not aversion with regard to deeper European integration and, consequently, refused to join the EMU. The outbreak of the Euro crisis only exacerbated this adverse stance, leading to the ascendance of calls for a referendum with the aim of leaving the EU. Even though the United Kingdom has no direct influence on the decision-making of the Eurogroup, its attitude is nevertheless of major importance for the future development of the Eurozone. A workshop in London revealed interesting views with regard to possible scenarios for the Eurozone's future. For example, general agreement prevailed that, even though the United Kingdom rejects further integration, it nevertheless supports deeper integration for the Eurozone. This results in the paradoxical fact that the scenario of a »full fiscal union« was regarded as the most probable, for two reasons: first, the contemporary »muddling through« situation cannot be upheld much longer and hence deeper integration is needed; second, the fear of a break-up of the EMU could have the same effect. While the collapse of the Eurozone as such was regarded as fairly unlikely, a division into a northern (centred around Germany) and a southern currency zone seemed possible. The question of which currency zone France would belong to remained open, however. Eventually, if the United Kingdom leaves the EU – which was regarded as a possibility – stronger orientation towards and cooperation with Turkey and Switzerland was anticipated.

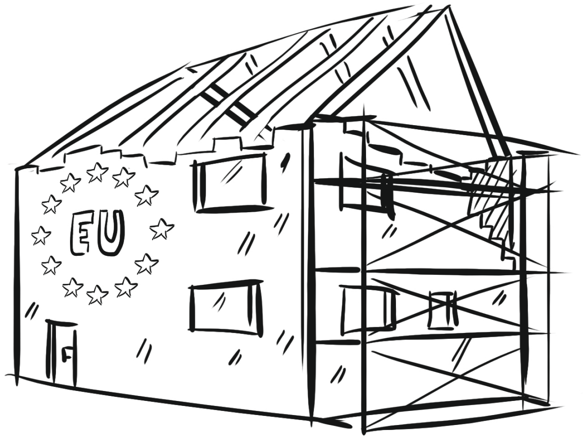
Notwithstanding the abovementioned support for a better outlined step-by-step crisis management, all over Europe the unrivalled best solution was considered to be completion of the Eurozone by a fiscal and political union. There was a broad consensus that a monetary union would be enabled to function best if integration goes far beyond what was established with the Maastricht Treaty: a common currency needs the support of strong coordination of fiscal policies or, better, the harmonisation of what are still national policies in order to achieve a higher degree of coherence. Whereas some participants advocated taking this big integration step immediately, the majority view judged the chances of such a big leap occurring as slim.

The unlikelihood of completion of the monetary union by a fiscal union in the near future led to a situation in which the Core Europe scenario was widely perceived as the, not exactly desirable, but probable second best outcome of the current crisis. An important difference was discussed between a Core Europe understood as a two-level model with a closed centre and a periphery lagging far behind, on one hand, and in modified form as a two-speed Europe, in which a vanguard of states proceeds towards fiscal and political union while leaving the door open for others to join, on the other hand. Positive and negative consequences of progress towards a core Europe scenario depend greatly on the situation of the Member States. Especially in southern and eastern European countries, a Core Europe scenario organised as a closed shop and smaller than today's Eurozone is seen as a potential danger, which might lead very quickly to a break-up. Still, as long as the positive projections of all kinds of fiscal and political union remain unreachable in the short run, many participants warmed to the idea of the whole Eurozone forming a vanguard to achieve a higher degree of integration. This, of course, would mean rethinking the existing institutional arrangements in order to guarantee the democratic legitimacy and efficient functioning of this two-speed Europe.

3. Four Scenarios on the Future of the Eurozone

3.1 Scenario A: Muddling-through the Crisis

A House without a Roof



In the year 2020, the Eurozone and, with it, the EU is stuck in the ongoing crisis, which started to unfold in 2010. Most of the Southern European countries still need rescue packages and the European Central Bank keeps on buying their public bonds, as the borrowing costs for them are too high. The resources of the European Stability Mechanism are still inadequate und thus there is always the possibility of sovereign default. The Economic and Monetary Union remains incomplete, unable to ensure growth and employment and, even less, a transition to a new growth model that is greener, smarter and more inclusive. Globally, Europe remains a weak player, whereas the United States and other big powers, such as China, have managed to overcome the crisis. As a result, the EU's dependence on financial support from external partners increases.

Following the many unsuccessful attempts at solving the crisis in the years after 2010, the crisis management of the Eurozone continued basically as a muddling-through policy. The German elections in autumn 2013 brought a change in government with the participation of the Social Democratic Party and this led to some changes, with a stronger emphasis on growth and a certain relaxation of the rigid austerity policy. But the basic principles of the crisis management implemented so far continued to prevail. The revised Stability and Growth Pact was still exerting pressure towards regular reduction of the public debt and the structural public deficit and left little room for supporting public and private investment. Fiscal consolidation remained difficult in many Member States because the growth rate was too low. The long-term sustainability of welfare systems was eroded. For this reason, the Euro Plus Pact and all other attempts committing the Member States to further convergence of corporate taxation and social contributions/benefits could not be implemented.

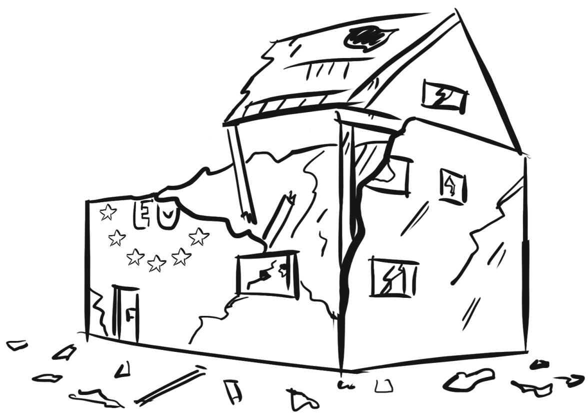
In 2014, the new President of the European Commission was elected by the European Parliament and four years later even through general elections, but he remained constrained by weak financial and policy instruments in any efforts to prevent or solve problems. His position was further weakened by protectionist reactions and national resistance to closer coordination of national budgets and programmes at European level. Together with a lack of involvement by Member States and citizens in decision-making this led to a weakening of popular support for European integration and to a strengthening of anti-European and populist parties. As the unemployment rate remained high, especially in the Southern European countries – and with a very high level of youth unemployment – social unrest spread in these countries without, however, leading to fundamental regime change.

In 2020, access to financial resources remains unstable. Regulation of the financial system to reduce volatility and undue pressure is still not complete. For instance, rating agencies are still free to intervene in the political arena. The European financial system's supervisory bodies remain weak and there are several bottlenecks in interbank lending across the Member States. Such lending is constrained by hesitant last-resort provision of liquidity on the part of the ECB. As a result, there is a chronic credit shortage.

There are neither significant changes in the European instruments for supporting investment nor macroeconomic coordination for growth. Nor is there a European industrial policy to complement European trade policy. The European strategy for growth remains limited to completing the Single Market and structural reforms. In this context, the opportunities of the Single Market and of external markets particularly benefit countries with public and private financial resources to invest. The new macroeconomic surveillance puts the focus on Member States with low competitiveness and high external deficits and unemployment rates. It makes individualised recommendations on how they might reduce their problems. But against the background described above it is difficult to reduce divergences between Member States regarding growth, investment and employment rates, despite efforts to optimise use of the structural funds. Some regions are trapped in recession/stagnation, triggering emigration flows, including a »brain drain«, exacerbating the situation.

3.2 Scenario B: Break-up of the Eurozone

The House Falls Apart and the Neighbourhood Is Affected



In the year 2020, the European Economic and Monetary Union is split up into different blocs and some countries have reintroduced their former currencies. The European Union still exists, but is reduced to a loose alliance in which even free trade is seriously hampered by protectionist measures in many Member States. In some of these countries, anti-European and nationalist-populist movements have come to power and pursue a beggar-thy-neighbour policy. In the weakened economies, many strategic assets are bought up by non-European countries, reducing Europe's control over its own production chains.

The crisis management within the EMU, which started in 2010, continued in more or less the same way in the following years, leading to a worsening of the situation. Access to financial resources remained subject to constant uncertainty. Regulation of the financial system to reduce volatility and undue pressure was confronted with substantial resistance and disagreements. The European financial supervisory bodies were weak and there were a number of bottlenecks in interbank lending across the

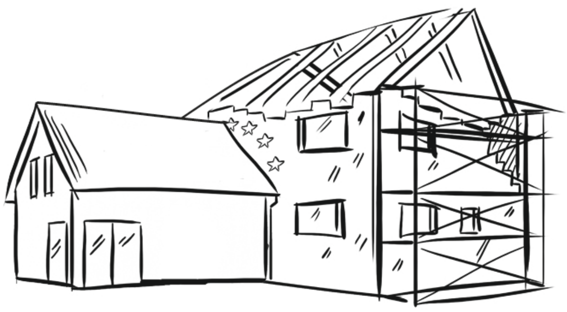
Member States, which could not be reduced by last-resort provisions of liquidity from the European Central Bank. As a result, there was a chronic credit crunch, deepening the recession in several countries. In the issuance of public debt, differences in borrowing costs across the Member States were too high and, since the resources of the European Stability Mechanism were too low, sovereign default or severe and disorderly debt restructuring became a reality in some countries, with contagion effects on sovereign debt and banks.

A revised Stability and Growth Pact put pressure on Member States to systematically reduce public debt and structural public deficits, leaving little room for promoting public and private investment. Fiscal consolidation became impossible in several countries because they remained mired in recession over a longer period. Welfare systems were undermined and, in some Member States, partially dismantled, leading to a major increase in poverty. In parallel, the Euro Plus Pact, involving commitments to further convergence of corporate taxation and social contributions/benefits, became impossible to implement. There were neither significant changes in the European instruments for promoting investment nor macroeconomic coordination for growth, nor a European industrial policy in connection with trade policy. The strategy for growth remained focused on completing the Single Market and structural reforms, priorities that experienced particular difficulties in countries in recession. In this context, the opportunities provided by the Single Market and external markets benefitted particularly the few countries with public and private financial resources to invest. With these constraints on European aggregate demand, the unemployment rate and social inequalities in some countries increased to unprecedented levels.

In 2020, the divergences between the European countries regarding growth, investment and employment rates have increased, even with the use of structural funds. Some regions are devastated by deep recession, with high unemployment triggering strong emigration flows, including a major brain drain, which only worsens the situation. Hostility between European regions – for example, South vs. North – and countries based on stereotypes increased, leading to a fragmentation of the European identity. The President of the European Commission might be elected by the European Parliament, but his powers remain limited by weak financial and political instruments for preventing or solving the problems. The Commission is basically »governing« a fragmented and partly hostile Union, whereas the EMU has been split up into a currency zone around Germany and a Northern Monetary Union around the United Kingdom, while the Southern European countries have mainly reintroduced their former currencies and are pursuing protectionist policies. The lack of participation by Member States and citizens in decision-making further increases popular hostility towards Europe and strengthens anti-European and populist parties. In some countries, those parties and movements are in power and openly challenge the Union, looking for alternative economic and political partnerships in the East (Russia), China and the Middle East. The disintegration of the European Union seems unavoidable, followed by a large shock, leading to a global recession.

3.3 Scenario C: Core Europe

Construction of a Smaller and Stable, But Exclusionary House



In the year 2020, the Economic and Monetary Union is completed by a smaller core group of Member States within the framework of a new full-fledged Treaty outside the EU treaties and excludes the non-Eurozone Members and even some Eurozone Members (a »two-level Europe«). The European Union still exists, but is mainly reduced to a huge free-trade zone which even can accept new members hostile to closer political integration (for example, Turkey). The core group has implemented fiscal union and is moving towards a real political union, while some EU members on the periphery fall far behind these developments.

As the crisis in Europe deepened despite the various attempts to solve it, an antagonistic movement within the Eurozone emerged. On one hand, in the Member States trapped in a recession/stagnation with high unemployment and strong emigration flows, anti-European and populist parties came to power pursuing protectionist policies and thus resisting closer coordination of national budgets and programmes at European level. This was also due to the fact that divergences across Member States regarding growth, investment and employment rates increased, even with the use of structural funds. On the other hand, in a group of Member States there was a growing conviction that the crisis could be solved only by stronger cooperation and the implementation of a fiscal union in a smaller group of states in order to save the common currency. This latter movement was led by the new German government following the 2013 elections, including France and some smaller Member States.

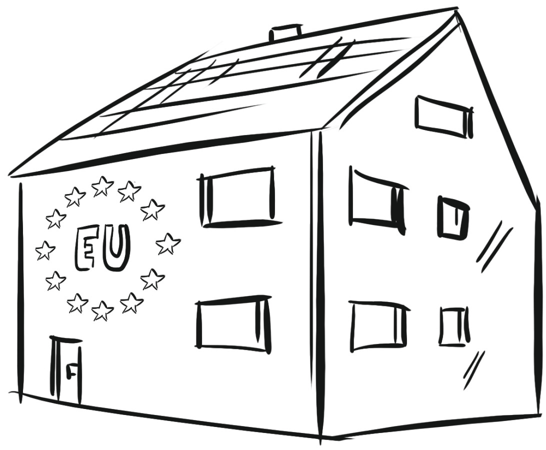
Within this group, a revised Stability and Growth Pact was applied towards the regular reduction of public debt and structural public deficits. Fiscal consolidation remained difficult in the countries outside the core group because their growth was too low. The long-term sustainability of welfare systems was strengthened in the core group but weakened outside it. In parallel, the Euro Plus Pact, with its commitments to further convergence of corporate taxation and social contributions/benefits, was implemented, but only in the core group. It had to protect itself from increasing fiscal and social dumping from the other countries. New financial resources for investment, combined with a European industrial policy, the Single Market and appropriate structural reforms, fostered the transition to a greener, smarter and more inclusive economy in the core group. More organised and competitive European production chains under the leadership of the core group were better able to reap the potential of the European Single Market and global markets. The downside of these effects is growing inequalities between core and periphery, to be seen in growth rate divergences and increasing current account imbalances.

In 2020, the Fiscal Union is completed within the core group with regulation of the financial system developed and providing more financial stability and focusing on the needs of the real economy. Stronger European supervisory bodies ensure sounder banking with more responsible lending and borrowing, but inter-bank lending between those inside and outside the core group remains difficult, because of diverging borrowing costs. Unconventional measures by the ECB are still necessary to provide better access to credit. A European debt agency limited to the core group ensures joint issuance of public bonds as a last resort, when issuance at national level becomes too difficult and borrowing costs become more reasonable in the core group. For nations in difficulty outside the core group, the European Stability Mechanism is equipped to provide financial assistance, albeit with strict conditionality. While some periphery countries manage to get closer to the standards of the core group, in some others this might lead to economic disaster.

In the core group, the budgetary process is developed so that there is almost complete coordination of national budgets and a better interface with the Community budget. Outside the core group, there are no fundamental changes in the budgetary process. The EU budget remains the same size and has inadequate resources. The European Commission remains limited by weak financial and policy instruments for preventing and solving problems. The Member States on the periphery are prone to protectionist measures, while the Core States face increasing pressure in terms of competitiveness due to their high social standards. This leads to increasing hostility and anti-European populism inside and outside the core. But the hope prevails that in the long run the core group might serve as a locomotive, pulling the crisis-ridden nations out of the mess.

3.4 Scenario D: Fiscal Union Completed

The Roof Is Repaired and Construction Completed



In the year 2020, Fiscal Union is completed in the European Monetary Union, albeit with saving clauses for those Member States particularly hit by the crisis. The Eurozone, building on a more consistent Economic and Monetary Union, is coordinating its external position and there is a single Eurozone representation in the Bretton Woods institutions. The Euro has become a reference currency attracting financial resources from all over the world. On the way to political union, a »two-speed Europe« emerged, in which the Eurozone as a vanguard of states explores closer integration. Non-members of the Eurozone are encouraged and assisted by the vanguard to meet the preconditions for integration, which encompass more than the Maastricht Criteria.

Year after year, the different attempts to solve the crisis proved to be insufficient. The situation constantly worsened, with massive social unrest and anti-European movements gaining ground. Even countries such as Germany and the Netherlands were now affected by the crisis and ensuing social discontent. Led by France and following the German elections of 2013, political leaders came to the conclusion that only a leap forward could solve the problems. Whereas a sudden and simultaneous development of all Member States towards political union seemed to be illusionary, a vanguard of countries – including all Eurozone members and an invitation to Poland to join – emerged as a possible intermediate step for fostering European integration. The direct election of the President of the European Commission, along with enlarged financial and policy means, dynamised the European institutions in order to prevent and respond to problems. Closer involvement of the Member States and European citizens in decision-making also strengthened popular support for European integration, weakening the influence of anti-European and populist parties.

A revised Stability and Growth Pact put pressure on Member States to constantly reduce their public debt and structural public deficits, but left room for promoting smart public and private investment. This smart culture of balanced budgets paved the way for more credible fiscal consolidation. Member States got rid of a certain level of indebtedness with implementation of a European redemption fund, sourcing out and liquidating too high debt levels with the help of joint debt management. The long-term sustainability of welfare systems was also strengthened. In parallel, the Euro Plus Pact, with its commitments to further convergence of corporate taxation and social contributions/benefits, became easier to implement. A European debt agency ensured joint issuance of public bonds as a last resort, when issuance at national level reached unreasonable levels. This favoured lower and more reasonable borrowing costs in general. If certain countries encountered unusual difficulties, the European Stability Mechanism was equipped to provide financial assistance with a clear but balanced conditionality, deploying more effective and rapid rebalancing and recovery programmes.

In 2020, investment, growth and job creation are supported by stronger European instruments, notably Community Programmes, mobilising Community budget resources, EIB loans, guarantees and bonds, private project bonds and other available financing sources, such as pension funds or taxation sources, including a financial transaction tax. These new resources for investment, combined with a European industrial policy, the Single Market and appropriate structural reforms, foster the transition to a greener, smarter and more inclusive economy. More organised and competitive European production chains are able to better reap the potential of the European Single Market and global markets. The macroeconomic surveillance process is also used to improve macroeconomic coordination in the European economy, taking positive advantage of spillover effects.

Macroeconomic surveillance is coupled with stronger resources for catching up: not only swifter implementation of the structural funds but also a European Fund for Economic Stabilisation to deal with asymmetric shocks. Social dialogue and bargaining are also encouraged at national and European level to better align wages and productivity. Under these framework conditions, differences with regard to investment, growth and employment rates decrease and regions lagging behind can more realistically catch up in terms of competitiveness and social and environmental standards, as well as reduce their external economic and financial deficits. Altogether, the European Union is well on the road towards real (also political) integration.

4. Japanese, Yugoslav or Mezzogiorno Syndrome – Variations and Sequences of the Four Scenarios

The four scenarios developed in the course of 15 events plus one preparatory seminar and one concluding conference in different European countries and described above represent an ideal-typical way of looking at the situation of the European Economic and Monetary Union in the year 2020. One might imagine other scenarios or pictures of the future, but these were the most commonly accepted ones from the broad spectrum of participants in the various workshops, seminars and panel discussions all over Europe.

However, even if we assume that one of these scenarios will reflect reality in 2020, this will only approximately be the case. There might be different events leading in different directions that can change the picture although it still fits into the frame. That means there might be variations or mixtures of scenarios and it is possible that one scenario is only the first step leading into another one. Such variations and sequences were discussed at most of the events organised in the course of the scenario process but for the sake of clarity we had to refrain from integrating them into the different scenarios because this would have watered down the central message. But at this point we would like to describe the most important of these possible variations, and the final presentation of the scenarios on 6 December 2012 in Brussels proved to be especially fruitful in this sense.

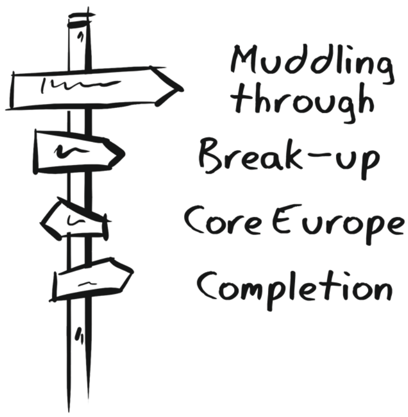
The first scenario – »muddling through the crisis« – was generally considered to be unsustainable, but there was one serious variation within the framework of which it could last, namely a kind of »Japanese scenario«. This would mean a long period of stagnation, deflation and high indebtedness. This scenario would be the result of the crisis management prevailing so far, characterised as »too little, too late«, combined with the dominance of the intergovernmental instead of the Community method. Looking at the Japanese experience of the past 20 years or so could therefore provide a healthy lesson for decision-makers because it represents a rare opportunity of seeing the (possible) future by looking at a present example. Almost all participants in the scenario exercise agreed that presently we are in the middle of the »muddling-through« scenario. But most of them considered it to be only a stage which could lead to any of the other scenarios. Here, the notion of a »trigger« comes into the picture. Massive social unrest, for example, could be a decisive trigger in two ways: first, it could lead to the break-up of the Eurozone because of the unwillingness of the Southern European countries to continue the path of fiscal austerity and economic slowdown; second, it might lead to a change in crisis management and give a push towards completing the fiscal union within the EMU (or within a core group). Here, too, decision-makers should prepare themselves for such a situation instead of waiting until demonstrations come along with violence.

The second scenario – »break-up of the Eurozone« – might be the result of the ongoing and fruitless muddling-through approach followed so far, as we have seen. This break-up could happen in two ways: first, the »Yugoslav syndrome«, involving violent separation and a decision-making vacuum, with events just taking their own course. This, of course, would be the worst of the worst-case scenarios and it is no surprise that it was raised by a participant from the former Yugoslavia. It should be taken seriously, because even if nobody wants it, it could just happen, as the example of the outbreak of the First World War shows (another example mentioned at the Brussels event). The second break-up picture would be a peaceful one, like the dissolution of the Soviet Union, where a »wise« leadership recognised that the costs of maintaining the Union would be much higher – and probably impossible – than letting fall it apart, while keeping at least a core intact (in the EMU case, the decision of such a »wise« leadership would logically lead to the Core Europe scenario). A variation of the break-up scenario is the »Mezzogiorno syndrome«, that is, ongoing regional – instead of national – differentiation. In this scenario, it would not, in the first place, be nation-states that break from the EMU, but wealthy regions within nation states that would join a core integration zone (for example, Catalonia and Northern Italy). In the Soviet and the Mezzogiorno cases, the break-up scenario would serve merely as an interim stage leading towards the Core Europe scenario.

This third scenario – »Core Europe« – could thus derive from the two others, as mentioned above. It was considered by many as the most probable scenario but affected by great risks, especially concerning its potentially non-democratic character. This would stem from the intergovernmental approach of crisis management implemented by the »Merkel administration« – as Udo Bullmann called it – and it would have tremendous effects on the EMU periphery countries. The lesson for those who strive for such a scenario would therefore be to follow the Community method and try to include the European Parliament as far as possible. Otherwise, Core Europe will be rejected, not because it is not a realistic option but because it would be a bureaucratic, undemocratic monster falling short of the possibilities and options of the Lisbon Treaty. Another concern about the Core Europe option is the danger of a disintegrating Eurozone leading to a two-level-Europe, which in the end might rather resemble the break-up scenario.

The fourth scenario – »Fiscal union completed« – was considered by the majority of participants as both the most desirable and the most difficult to achieve. The problem for decision-makers striving for this scenario is twofold: on one hand, they have to take into account the decreasing level of acceptance of further European integration among European citizens in general, while on the other hand, they should not be tempted to refrain from striving for it by this fact (or use it as an excuse for not acting in this direction, which in fact would mean continuing with the muddling-through approach). If a big integration leap with all Member States will not be possible, the integration of different speeds or a two-speed Europe could be a forward-looking alternative. Here, the French notion of »concentric circles« could be helpful, enabling a differentiated construction of Europe, with a vanguard group striving to complete fiscal and political union, leaving the door open for those in the second circle to join and for the third circle to join the second. In this concept, Core Europe would not be a fortress but rather a locomotive pulling the periphery towards the centre and in the end leading to the completion scenario (this, of course, would be possible only far beyond the 2020 time horizon). The completion scenario could either derive from the trigger of major social unrest (as mentioned above), leading to a big push towards further integration and putting pressure on decision-makers, or else by a long-term strategy, gathering political parties, trade unions, non-governmental organisations, media and others into a broad movement at a pan-European level and using the European elections in 2014 as a first test for pushing its goals further in this direction.

Notwithstanding which scenario will finally prevail in 2020, one thing seems to be clear: »there will be a different kind of Europe after the crisis« (Bullmann). It is up to European decision-makers and national leaders to shape this future. The scenarios presented above might serve as an orientation by showing them what kinds of Europe are possible and which ones could – and maybe should – be avoided. But the final decision lies with them.



Annex

Information on the Eurocrisis Scenario Events

A preparatory meeting with economic and political experts – including Klaus Busch, Ferdinand Fichtner, Daniela Schwarzer and Carsten Sieling – took place in Berlin on 17 January 2012. The first drafted ideas on the driving forces and scenario outlines were discussed intensively at a scenario workshop in Brussels on 8 March 2012. The main commentators were Udo Bullmann and Janis A. Emmanouilidis.

On the basis of this second workshop, Maria João Rodrigues finished a first scenario paper (available at http://library.fes.de/pdf-files/id/ipa/09194.pdf). This paper served as the basis for testing and enhancing the scenarios in the 15 workshops, seminars and conferences, hosted by the regional FES offices jointly with their partner organisations throughout the year (as shown in the figure). A final event in Brussels on 6 December 2012 brought together experts from different countries, who partizipated in the respective national workshops. As not all participants in the events can be mentioned here, only the commentators stated in the respective programmes are listed below. Furthermore, this annex summarises the opinions expressed in the various national workshops. These national perspectives on the Eurozone Crisis are presented in chronological order in accordance with the following sequence of questions:

1. How central is this theme in the national public debate?
2. What are the main concerns and attitudes with regard to the crisis?
3. How are the causes of the crisis perceived?
4. How are the solutions to the crisis perceived?
5. Is there agreement concerning the driving forces identified by this report?
6. Are the scenarios proposed by this report accepted, extended, reduced?
7. Are these scenarios consistent and plausible? Which one is the most likely? And which one the most desirable?

A final Table makes a synthetic comparison of the potential advantages and disadvantages of each scenario for each country.

Nevertheless, the reader should be conscious of the fact that the workshops do not provide precisely comparable outcomes because they differ in format, discussion method and composition of participants. Additionally, they took place over seven months, during which the general landscape of the Euro crisis and the reform agenda for the Eurozone changed considerably.

In conclusion, the report is not representative but it does offer a number of meaningful opinions on the Euro Crisis and the future of the Monetary Union.

FINAL EVENT: BRUSSELS, 6 DECEMBER 2012
ORGANISED BY: Friedrich-Ebert-Stiftung
SPEAKERS:
Udo Bullmann, Member of the Committee on Economic and Monetary Affairs in the European Parliament and Head of the German Delegation in the S&D Parliamentary Group
Andrea Conte, Knowledge for Growth Unit, European Commission, Seville
Andrä Gärber, Friedrich-Ebert-Stiftung EU Office Brussels
Björn Hacker, Project Manager, International Policy Analysis Unit, Friedrich-Ebert-Stiftung, Berlin
Seija Ilmakunnas, Director of the Labour Institute for Economic Research, Helsinki
Jože Mencinger, Professor, Faculty of Law, University of Ljubljana
Maria João Rodrigues, Professor at the Institute for European Studies, Université Libre de Bruxelles and Lisbon University Institute
Winfried Veit, Scenario Facilitator
Henri Weber, Member of the Committee on International Trade in the European Parliament, S&D Parliamentary Group

Figure 1: Tour d'Europe: FES Eurocrisis Scenario Events in 2012

1. Portugal

LISBON, 5 May 2012
ORGANISED BY: Friedrich-Ebert-Stiftung
SPEAKERS:
Mario Soares Manuel Aleixo, Interinstitutional Relations Unit of the EP executive committee
João Ferreira do Amaral, former economic advisor to the President
Reinhard Naumann, Director, Friedrich-Ebert-Stiftung, Portugal
Maria João Rodrigues, Professor at the Institute for European Studies, Université Libre de Bruxelles and Lisbon University Institute
Teresa de Sousa, Público Lisbon

How central is this theme in the public debate?

This theme is central in the daily public debate, not only its implications for domestic policies but also its connections with decisions taken by the EU and by other European countries. For the first time, many more people are discussing European issues. The visibility of the positions of Merkel, Draghi and Barroso is very high.

What are the main concerns and attitudes with regard to the crisis?

The main concern is the painful austerity programme, but also possible ways-out in the future, which are seen with anxiety and without hope. Many resist more austerity, while others are leaving the country to look for new opportunities or merely to survive.

How are the causes of the crisis perceived?

This depends on a person's political positions. But the general public opinion recognises a mixture of internal and external responsibilities:

- The efforts to increase competitiveness and to control private and public debt have not been effective enough in Portugal.
- In the EU, the political response to the crisis has been too slow, regulation of the financial markets ineffective and EMU has a very imbalanced architecture.

How are the solutions to the crisis perceived?

- Most recognise the need to reduce private and public debt and to increase productivity and exports.
- But many do not accept the current cuts in real wages, pensions and public social services, while the current government moves towards deeper reform of the welfare system.
- Better financing conditions are considered crucial: access to credit by SMEs and lower interest rates on loans to finance the public debt; co-financing of structural funds should be reduced; tax and credit incentives for SMEs should be allowed by European competition policy.
- The manufacturing capabilities of the country should not be lost and should be developed. More and better jobs should be created to reduce the current scale of emigration among skilled young people.
- There is a strategic choice for the country: strengthening competitiveness by innovation and skills or by cutting wages and social conditions.

Is there agreement on the driving forces?

Yes, but some of them are underlined:

- The capacity of the Portuguese people to bear this level of austerity for a longer period.
- The possibility of a European industrial policy.
- The possibility of a comprehensive solution to complete EMU.
- The political shift in Germany.

Are the scenarios accepted, extended, reduced?

A new scenario is under consideration by a minority: an organised exit from the Eurozone if the troika programme is not revised, because this one is destroying the country.

Are they consistent and plausible? What is the most likely? And the most desirable?

Yes, they are consistent and plausible. So far, the most likely is scenario A. Scenario B cannot be excluded, but it is difficult to discuss it because it seems too destructive. Scenario D »Completing the EMU« seems desirable, but is difficult to achieve given the level of divergence.

2. Finland

HELSINKI, 22 May 2012
ORGANISED BY: Friedrich-Ebert-Stiftung and Kalevi Sorsa Foundation
SPEAKERS:
Seija Ilmakunnas, Director of the Labour Institute for Economic Research
Christian Kellermann, Director, Friedrich-Ebert-Stiftung, Nordic Countries
Maria João Rodrigues, Professor at the Institute for European Studies, Université Libre de Bruxelles and Lisbon University Institute
Winfried Veit, Scenario Facilitator

How central is this theme in the national public debate?

It became more central because of the new risks involved in the financial guarantees to be provided by Finland.

What are the main concerns and attitudes with regard to this crisis?

- Ageing trends as well as stagnant growth and purchasing power make Finland's public finances more vulnerable.
- Increase of pro-cyclical developments in Finland. Risk of asymmetric shocks.
- Concerns over the financial risks related to the guarantees provided by Finland in the EFSF/ESM.
- Concerns about the ECB's activities: giving too much support will weaken pressure for reform.
- Concerns about Finland being sidelined in the EU decision-making process.

How are the causes of this crisis perceived?

- There is a particular focus on national politics and capacity to undertake reforms.
- Differences with regard to competitiveness, export capacity and growth rates.
- Respect for the rule of law: problems of evasion and misuse of structural funds behind public indebtedness.
- In the larger context, the role of financial markets is undermining financial stability.

How are the solutions to this crisis perceived?

Opinion is divided among the participants: some call for Greece to leave the Eurozone and point to the example of other Member States; others suggest that Germany leave the Eurozone; others underline that the Eurozone should be kept but without eurobonds; others say that a democratic federation of Europe is the only sustainable solution in the long term.

Is there agreement on the driving forces?

The shift of the global economy towards Asia is added.

Are the scenarios accepted, extended, reduced?

Building up a Nordic currency area is added as another scenario.

Are they consistent and plausible? What is the most likely? And the most desirable?

They are considered consistent and plausible. The most likely are A and B. Some participants admit D as possible, but only in the long term; others consider it less possible and not acceptable because this means establishing a »transfer union«.

3. Slovakia

BRATISLAVA, 14 June 2012
ORGANISED BY: Friedrich-Ebert-Stiftung, EurActive.sk, Slovak Foreign Policy Association, Information Office of the European Parliament and Representation of the European Commission in the Slovak Republic
SPEAKERS:
Vladimír Bilčík, Research Center of the Slovak Foreign Policy Association (RC SFPA)
Martin Filko, Director of the Institute for Financial Policies in the Ministry of Finance of the Slovak Republic
Zsolt Gál, Komensky University, Bratislava
Michael Petráš, Project Manager, Friedrich-Ebert-Stiftung, Slovak Republic
Maria João Rodrigues, Professor at the Institute for European Studies, Université Libre de Bruxelles and Lisbon University Institute

How central is this theme in the national public debate?

It does not seem central. Only the elite follows the Eurozone crisis and its possible implications for Slovakia's finances and economic prospects.

What are the main concerns and attitudes with regard to the crisis?

- Slovakia's dependency on German production chains puts the focus on the indirect impact of the Eurozone via the German economy.
- The main social concern so far is about very high youth unemployment rate.
- Slovakia seems open to a more systemic solution for the Eurozone crisis.

How are the causes of the crisis perceived?

- Casino capitalism.
- Excessive public and private indebtedness in some countries.
- EMU not prepared to deal with this kind of crisis. Measures taken so far are not working.

How are the solutions to the crisis perceived?

- There is a discussion and some concerns about the unconventional roles played by the European Central Bank.
- Some Member States need parametrical changes if they do not increase productivity quickly enough: either they implement internal devaluation or they need to change their exchange rate by leaving the Eurozone.

Is there agreement on the driving forces?

There is a general acceptance.

Are the scenarios accepted, extended, reduced?

The scenarios are accepted but with an interesting comment: some of them can overlap or come in sequence: A and B; C and B; C and D.

Are they consistent and plausible? What is the most likely? And the most desirable?

In the end, the only possible scenarios are B or D. Scenario D is the most desirable one, but difficult to achieve and can involve risks, notably a lost decade to manage public debt problems, as in Japan.

4. Croatia

ZAGREB, 13 July 2012
ORGANISED BY: Friedrich-Ebert-Stiftung
SPEAKERS:
Martina Dalić, Member of Parliament and former Finance Minister, Croatia
Dietmar Dirmoser, Director, Friedrich-Ebert-Stiftung, Croatia and Slovenia
Neven Mates, Croatian National Bank
Katarina Ott, Director of the Institute of Public Finance
Maria João Rodrigues, Professor at the Institute for European Studies, Université Libre de Bruxelles and Lisbon University Institute

How central is this theme in the national public debate?

- The debate seems to be confined to a small group in the elite, as part as the major concern of preparing Croatia for EU membership.
- Croatia is focused primarily on the last stage of the EU membership process. The decision on applying for Eurozone membership is one for the future. Nevertheless, the Eurozone crisis and its implications for the EMU rules are being followed not only to prepare Eurozone membership, but also to assess possible turbulence in the wake of EU membership.

What are the main concerns and attitudes with regard to the crisis?

- To increase competitiveness and growth potential.
- To attract capital to underpin privatisation processes.
- To reduce the risks of emigration and brain-drain.
- Fiscal crisis in Europe can lead to social unrest.

How are the causes of the crisis perceived?

The original sin of the EMU architecture, sacrificing growth to fiscal discipline.

How are the solutions to the crisis perceived?

- Instruments to be developed: industrial policy; upgrade of social standards; directing pension funds to support investment; eurobonds.
- References to catching-up processes in Asian tigers, South Korea and Taiwan.
- Need for a European deal: a single market in exchange for structural funds and lower interest rates.
- Tax coordination: some differences should be allowed.

Is there agreement on the driving forces?

General implicit acceptance.

Are the scenarios accepted, extended, reduced?

These scenarios were accepted to frame the discussion.

Are they consistent and plausible? What is the most likely? And the most desirable?

Scenario A was considered the most likely. Scenario D was considered interesting, but rather unlikely because of the lack of vision of European elites and the lack of democratic legitimacy to make such a move.

5. Poland

WARSAW, 11 September 2012
ORGANISED BY: Friedrich-Ebert-Stiftung and demosEUROPA – Centre for European Strategy
SPEAKERS:
Marek Belka, President of the National Bank of Poland
Krzysztof Blusz, Vice-President, demosEUROPA – Centre for European Strategy
Knut Dethlefsen, Director, Friedrich-Ebert-Stiftung, Poland
Janis A. Emmanouilidis, Senior Policy Analyst at European Policy Centre
Ryszard Petru, Economic Advisor to demosEUROPA – Centre for European Strategy
Maria João Rodrigues, Professor at the Institute for European Studies, Université Libre de Bruxelles and Lisbon University Institute
Piotr Serafin, Secretary of State for European Affairs, Ministry of Foreign Affairs
Paweł Świeboda, President of demosEUROPA – Centre for European Strategy

How central is this theme in the public debate?

The national elites are interested in this theme as they are becoming more interested in European affairs and they want to assess the best moment to apply for Eurozone membership. So far, they prefer to wait and see.

What are the main concerns and attitudes with regard to the crisis?

The Polish elite wants to influence the new rules of the game of the EMU in order to prepare Poland's membership, although they prefer to postpone it for a later date, when the crisis has been overcome.

How are the causes of the crisis perceived?

- Failure of large banks.
- Macroeconomic imbalances and different growth rates.
- High indebtedness in some countries.

How are the solutions to the crisis perceived?

- Support for banking union, although the role of Poland is under debate.
- Need to increase competitiveness in some Member States.
- Need for a stronger community budget to support investment.
- Macroeconomic monitoring.
- Eurobonds when more fiscal discipline and structural reforms have been achieved.
- Pay more attention to the social dimension.
- Need for more democratic legitimacy for more integration.

Is there agreement on the driving forces?

Implicit agreement, but need to take greater account of the relationship of non-Eurozone countries to the Eurozone. Other factors were added: growth rates, bankruptcy or exit of Member States, roles of the European Central Bank and the establishment of a Banking Union.

Are the scenarios accepted, extended, reduced?

They were accepted to frame the discussion, but there was a reference to an »ambitious muddling through scenario«, something between scenarios A and D.

Are they consistent and plausible? What is the most likely? And the most desirable?

- The »Muddling through« scenario was considered the most likely and most desirable by some speakers. Scenario B and D were considered less likely.
- The desirable sequence of scenarios would move from A to C and then to D. Poland should join as soon as possible. But the main problem for this transition is between Germany and France regarding transfers of sovereignty. There cannot be a move forward to accept more European control without real guarantees on European solidarity.

6. Spain

BARCELONA, 19 September 2012
ORGANISED BY: Friedrich-Ebert-Stiftung and EuropeG – Grupo de Opinión y Reflexión en Economía Política
SPEAKERS:
Antoni Castells, Professor at the University of Barcelona and Director of EuropeG
Joan Majó, Former Minister of Industry of the Government of Felipe González
Josep Oliver, Professor at the Autonomous University of Barcelona and Member of EuropeG
Maria João Rodrigues, Professor at the Institute for European Studies, Université Libre de Bruxelles and Lisbon University Institute
Lothar Witte, Director, Friedrich-Ebert-Stiftung, Spain

MADRID, 14 November 2012
ORGANISED BY: Friedrich-Ebert-Stiftung and EuropeG – Grupo de Opinión y Reflexión en Economía Política
SPEAKERS:
Klaus Busch, Professor emeritus of European Studies at the University of Osnabrück
Jose Manuel Campa Fernandez, Professor of Finance and Economics at IESE Business School, ex-Secretary of State for Economic Affairs, Spain
Fernando Fernández, economist and professor at IE Business School
Björn Hacker, Project Manager, International Policy Analysis Unit, Friedrich-Ebert-Stiftung, Berlin
Emilio Ontiveros, President of Analistas Financieros Internacionales
Maria Pallares, Project Manager, Friedrich-Ebert-Stiftung, Spain
Maria João Rodrigues, Professor at the Institute for European Studies, Université Libre de Bruxelles and Lisbon University Institute
Lothar Witte, Director, Friedrich-Ebert-Stiftung, Spain

How central is this theme in the national public debate?

This theme is central in the national public debate at all levels and in all areas, because Spain is suffering dramatically from the crisis.

What are the main concerns and attitudes with regard to the crisis?

- They are concerned about this vicious circle becoming a long-term trap with a huge impact on growth, unemployment and – in particular – young people.
- They are worried about the conditionality to be attached to a possible intervention by the ECB.
- They are worried about the implications of the crisis for the relations between central and regional powers in Spain.

How are the causes of the crisis perceived?

- Before the financial crisis, Spain did not have a problem with public finances but rather a private debt problem. Then a terrible sequence occurred: banking problems led to problems of liquidity and solvency, contaminated the public debt and resulted in recession and unemployment.

- A big mistake is being made: a pro-cyclical fiscal policy is deepening the recession.
- The extra costs of issuing public debt in Spain were recognised by the IMF.
- Now Spain is caught in a vicious circle of bank risks, public indebtedness and recession.

How are the solutions to the crisis perceived?

- There is consensus that banking union is urgently needed to overcome the fragmentation of the European banking system. A European deposit guarantee is needed to restore confidence.
- The overall level of public debt in the Eurozone is unsustainable and needs to be reduced, but an anti-cyclical fiscal policy is also needed.
- The ECB should be able to intervene to support the public debt management. But other instruments such as eurobonds may be needed.
- It is also important to have a Eurozone fiscal capacity to respond to asymmetric shocks. Structural reforms and fiscal discipline alone will not be enough. This fiscal capacity should quite substantial because the differences between Member States cannot be overcome by higher labour mobility, which cannot reach the American level.
- Spain is willing to give up more sovereignty to save the common currency.
- It is important to convince electorates that if there is no partial mutualisation of public and private debt, there is no future for the euro.
- There are still complicated ideas in the political area: a euro-group is needed inside the European Parliament but there are questions concerning how to organize the Council and the Commission.
- The direct election of the President of the European Council was also mentioned as a solution.

Is there agreement on the driving forces?

Yes, there is implicit agreement.

Are the scenarios accepted, extended, reduced?

- The implications of the Eurozone crisis for the autonomy of the Spanish regions need to be drawn. These regions are now confronted with the need to transfer more taxation power to the central level in order to ensure Spanish citizens their social rights.
- A scenario between C and D should be considered in which the Eurozone functions as a vanguard in the integration process towards a fiscal and political union.

Are they consistent and plausible? What is the most likely? And the most desirable?

- Scenario A is seen as the one we are in now, but is considered unsustainable because of its implications in terms of recession and unemployment.
- Scenario B needs to be avoided because it would roll back the positive achievements of European integration. There is no possibility of ordered exit from the Eurozone; that is why it is so dangerous.
- Pure Scenario C as a core group smaller than the Eurozone would not work because it would involve huge political tensions. The real choice is between D »Completing the EMU« or B »Break-up«.
- Scenario D would be the best solution, but difficult to achieve despite the proposal already presented by Van Rompuy to complete the EMU. The costs of this completion are perceived as too high as long as the economic and social differences between Member States remain so high, requiring difficult permanent transfers.

7. Germany

BERLIN, 24 September 2012
ORGANISED BY: Friedrich-Ebert-Stiftung
SPEAKERS:
Uta Dirksen, Project Manager Western Europe/North America Unit, Friedrich-Ebert-Stiftung, Berlin
Björn Hacker, Project Manager International Policy Analysis Unit, Friedrich-Ebert-Stiftung, Berlin
Gustav Horn, Director of the Macroeconomic Policy Institute
Alexander Kallweit, Head of Department, International Dialogue, Friedrich-Ebert-Stiftung, Berlin
Maria João Rodrigues, Professor at the Institute for European Studies, Université Libre de Bruxelles and Lisbon University Institute
Carsten Schneider, Spokesman on Budgetary Affairs of the SPD Parliamentary Group, Bundestag
Stephan Schulmeister, Austrian Institute of Economic Research
Winfried Veit, Scenario Facilitator

How central is this theme in the public debate?

As this crisis is not felt in Germany, there is a low awareness in the public debate about its implications for Europe and the risks for Germany. Nevertheless, the elites and specialised press are increasingly active about this theme because they are confronted with the decisions that have to be made.

What are the main concerns and attitudes with regard to the crisis?

- Need to protect German savings.
- Need to reduce the risks of financial guarantees provided by Germany.
- Need to open the single market for German exports.
- Need to have the European house in order so as to cope with global challenges.
- Concerns with some exports to the rest of Europe, which are declining.

How are the causes of the crisis perceived?

- Low competitiveness and high private debt in some countries (also public debt in Greece).
- Low wages and low internal consumption in Germany.
- Irresponsible behaviour by banks and financial markets.
- Fiscal and economic policy led by ordo-liberalism in Germany. Slow responses to the crisis and austerity-driven responses.

How are the solutions to the crisis perceived?

- Wage and consumption improvements in Germany.
- Increase of competitiveness and fiscal discipline in other countries.
- Regulating financial markets for more responsible lending and borrowing.
- Gradual and careful joint management of debt.
- Divided opinions about the ECB’s new roles.
- Moving to political union to give more democratic legitimacy to the completion of EMU.

Is there agreement on the driving forces?

In principle yes, but additional factors were added: the ECB's target 2 balances, questions about sovereignty, impact of China.

Are the scenarios accepted, extended, reduced?

The scenarios were more or less accepted. A variation of scenario A was elaborated: muddling through with a new navigation chart (policies free of neo-liberalism).

Are they consistent and plausible? What is the most likely? And the most desirable?

Break-up scenario should be avoided, scenario »Core Europe« is the most likely, the scenario »Completing the EMU« would be the most desirable, but the »muddling through»scenario is the one currently being followed (for how long?).

8. Greece

ATHENS, 2 November 2012
ORGANISED BY: Friedrich-Ebert-Stiftung, Athens University of Economics and Business and ELIAMEP – Hellenic Foundation for European and Foreign Policy
SPEAKERS:
Christos Katsioulis, Director, Friedrich-Ebert-Stiftung, Greece
Dimitris Kourkoulas, Deputy Minister of Foreign Affairs, Hellenic Ministry of Foreign Affairs
Nick Malkoutzis, Deputy Editor of the English-language edition of Kathimerini
George Pagoulatos, Athens University of Economics and Business
Maria João Rodrigues, Professor at the Institute for European Studies, Université Libre de Bruxelles and Lisbon University Institute
Loukas Tsoukalis, President of the Hellenic Foundation for European and Foreign Policy

How central is this theme in the national public debate?

This theme is absolutely central and perceived as vital, with implications for the country's future and all aspects of everyday life.

What are the main concerns and attitudes with regard to the crisis?

- The cost of capital is unbearable and makes competition in the single market unfair.
- Greeks' financial resources are being taken out of the country.
- Increasing taxes plus lower wages, pensions and social benefits are leading to a recession and deprivation, which is reaching a »state of war«.
- Resurgence of the extreme right calling for a closing of the borders.
- Greece is not unique, but it is the weakest link.
- The Eurozone has not done enough to persuade the markets that the periphery countries will remain part of it.

How are the causes of the crisis perceived?

A mixture of lack of national ownership of the necessary reforms and of key flaws in the architecture of the EMU. As these countries have lost control over all instruments of macroeconomic stabilisation (exchange rate, monetary and fiscal policies) these should be rebuilt at European level).

How are the solutions to the crisis perceived?

- Fiscal consolidation is unavoidable, but rapid fiscal consolidation in combination with recession at the same time in several countries is killing the economy.
- Improving tax collection and undertaking some reforms are necessary in Greece. But new solutions at European level are also necessary and those adopted recently are perceived as too weak:
  - EIB loans are difficult to get because the EIB is afraid to lose its rating when lending to Greece (but not afraid to lend to failed states in Africa).
  - The cuts in the next Community budget will reduce support in Greek regions with very high unemployment.
  - A Eurozone stabilisation budget would be an alternative.
  - EFSF/ESM are not bringing down interest rates to reasonable levels.
  - Spreads remain too high and the competition in the single market is not fair.

- The solution is not only to reduce public deficit and debt, but to foster growth and to accept a small increase in inflation. Some transfers will also be necessary. Better communication of the solutions by the political elite in the various countries is also crucial.
- About reducing the Greek debt: default is not a good solution because it would destroy the relationship with creditors. The solution would be to reduce interest rates, extend maturities and define fiscal consolidation targets in terms of structural deficits and not nominal deficits.

Is there agreement on the driving forces?

The kind of German leadership that will emerge after the German elections was underlined as a crucial driving force. Either Germany will focus mainly on global competition and seek merely to avoid too many political troubles at home, or it will also invest in creating a win–win game for its European partners. The stakes are high also for Germany because the potential cost of EU inaction could be great.

Are the scenarios accepted, extended, reduced?

A scenario E was mentioned by one participant as a possibility: to adapt the experience of Germany with the new Bundesländer by creating a special economic zone in Greece, meaning special taxation, lower wages, less bureaucracy but also less national sovereignty. But this kind of experience would change the nature of European integration.

Are they consistent and plausible? What is the most likely? And the most desirable?

The four scenarios were accepted as consistent, but with some further comments:

- Scenario C »Core Europe« would exacerbate the differences between Member States and lead to something close to scenario B (break-up).
- Scenario B would threaten the world economy.
- Scenario A »Muddling through« is the one currently being applied, but it is not really sustainable for long because internal tensions are increasing in Europe.
- Scenario D »Completing the EMU« is the best one. Nevertheless, it is difficult to implement because of German fears about transfers and inflation, French preference for intergovernmentalism and periphery resistance to some reforms. So far, the European Council remains far from accepting it: there is no European deposit guarantee, no eurobonds and the Eurozone Summit is not a Eurozone government.
- Another likely possibility is a combination of scenarios A and C: more ambitious muddling through building on the internal organisation (and hierarchy) of the Eurozone.

9. United Kingdom

LONDON, 6 November 2012
ORGANISED BY: Friedrich-Ebert-Stiftung
SPEAKERS:
Katinka Barysch, Deputy Director, Centre for European Reform
Nick Crook, International Officer, UNISON
Brendan Donnelly, Director, Federal Trust
David Gow, Consultant Editor, Nucleus
John Grahl, Professor of European Integration, Middlesex University
Neal Lawson, Chair, Compass
Henning Meyer, Editor of Social Europe Journal and Senior Visiting Fellow at the London School of Economics
John Palmer, former European editor, *The Guardian* newspaper
Stephen Reid, Campaigns Assistant, The New Economics Foundation
Maria João Rodrigues, Professor at the Institute for European Studies, Université Libre de Bruxelles and Lisbon University Institute
Ulrich Storck, Director, Friedrich-Ebert-Stiftung, Great Britain
Leila Simona Talani, Reader in International Political Economy, King's College London
Winfried Veit, Scenario Facilitator
John Weeks, Professor, Department of Development Studies, SOAS

How central is this theme in the national public debate?

This theme is not central for the general public debate, but is perceived as central for the national elite discussing the European and international positioning of the UK.

What are the main concerns and attitudes with regard to the crisis?

- The risk of loss of British influence in the EU and at international level.
- The rise of internal divergences in the UK (particularly with Scotland).
- Most of all, the risk of a »no« victory in case of a referendum about »yes or no to UK EU membership« which can be triggered by a EU Treaty change.

How are the causes of the crisis perceived?

The main causes of the crisis are more in the private sector than in the public sector: financial mismanagement, private indebtedness, income inequalities, lack of competitiveness, lack of new market opportunities.

How are the solutions to the crisis perceived?

Several new instruments were mentioned as needed:

- Stronger instruments to support investment and growth.
- Reducing macroeconomic imbalances in both deficit and surplus countries.
- ECB as last resort lender to stabilise the costs of public debt issuance.
- Need for a Eurozone budget for macroeconomic stabilisation, voted by the European Parliament.
- Fiscal surplus needed to sustain the pension system.
- In the Eurozone, citizens should vote where they live and not where they were born.
- Citizens should be given clear political choices about the future of the Eurozone.
- Solutions for the UK:

- To create a European Commonwealth with Nordic and Eastern EU Member States not joining the Eurozone, plus newcomers such as Switzerland and Turkey.
- One day, if the new EMU turns out to be a success, to join it.

Is there agreement on the driving forces?

Some driving forces were particularly underlined:

- The political outcome of the German election in September 2013. The ability of the new German government to accept bolder solutions.
- The growing tensions in Southern Europe. Calls to disobey the troika.
- The rise of unemployment and social inequalities.
- The rise of investor impatience with the Eurozone.
- Mounting euro scepticism in the UK.
- Possibility of new States being created, such as Catalonia.
- Increasing political tensions between countries. For instance, the Dutch parliament blocking funding for a hospital in Spain.
- The outcome of the US elections and the American position on the EU.
- Fear of break up as the major leverage for political decisions to save the Eurozone.

Are the scenarios accepted, extended, reduced?

They were accepted but developed with new emphases:

- The »Muddling through scenario« should not be called that because it reflects divergent preferences, increasing tensions and several stalemates.
- The »Break-up scenario«: continuing austerity and obsession with inflation over employment would wreck European economies, forcing several states to leave the Eurozone.
- The »Completing the EMU« scenario: if this were a success in the long term, the UK could consider joining.

New scenarios were also sketched:

- A firewall to shield Italy and Spain from contagion would plunge Germany into insolvency.
- The Eurozone divided into northern and southern currency zones, with two different central banks. France was assumed to be in the southern one because of increasing economic and fiscal policy problems.

Are they consistent and plausible? What is the most likely? And the most desirable?

- Scenario C of a smaller club close to the others would not work because the tensions with the other, excluded Member States would be unbearable. This scenario would lead either to B, »Break-up«, or to D, »Completing the EMU« with all those willing to participate.
- Therefore, scenarios A and D are the more likely and A is the one happening now; its duration will depend on the reaction of the financial markets to a big bazooka.
- The most desirable scenario would be D, »Completing the EMU«, but it is difficult to achieve.
- Nevertheless, scenario A »Muddling through« can also have the advantage of enabling the UK to better position itself in its ambiguity and therefore to delay the moment of »clarification« via referendum

10. France

PARIS, 7 November 2012
ORGANISED BY: Friedrich-Ebert-Stiftung and Fondation Jean-Jaurès
SPEAKERS:
Laurent Baumel, PS, representative of the Indre-et-Loire department and member of the National Assembly of France.
Anton Brender, Chief Economist at Dexia Asset Management, Member of Cercle des économistes
Peter Gey, Director, Friedrich-Ebert-Stiftung, France
Björn Hacker, Project Manager, International Policy Analysis Unit, Friedrich-Ebert-Stiftung, Berlin
Maxime Lefebvre, diplomate and head of international relations at ENA.
Pierre-Alain Muet, PS, representative of the Rhône department and member of the National Assembly of France.
Henri Nallet, Vice-President, Fondation Jean-Jaurès
Maria João Rodrigues, Professor at the Institute for European Studies, Université Libre de Bruxelles and Lisbon University Institute
Henri Weber, Member of the Committee on International Trade in the European Parliament, S&D Parliamentary Group

How central is this theme in the national public debate?

Rather limited, mainly confined to the elite following European affairs or concerned with France's external role.

What are the main concerns and attitudes with regard to the crisis?

Concerns about what is happening in Europe:

- A new Fiscal Treaty should pave the way for a more balanced solution, with other components, such as growth measures or enhancing the social dimension, but this is not happening yet.
- In the meantime in the EU, new experiments are being made with human beings.

How are the causes of the crisis perceived?

The crisis is very complex and economics is ill-equipped to deal with it. There are many explanatory factors and different viewpoints among economists. Examples of controversial issues:

- Is the punitive approach increasing the contagion and risks of sovereign default?
- Were the multipliers between fiscal austerity and economic recession underestimated?

How are the solutions to the crisis perceived?

- A mixture of solidarity and pressure to undertake reforms is needed. This is already taking place in several Member States.
- The idea of a macroeconomic stabilisation fund for the Eurozone should return to the negotiation table. This embryonic Eurozone budget should lead to European taxation and more democracy at European level.
- We need to move forward with the Member States willing to do so.
- Regarding France, there are divided opinions about the need to undertake »Schröder type« reforms.

Is there agreement on the driving forces?

The political dimension in general should be further developed. Some particular political actors were underlined:

- The role of the SPD in Germany and the next German Government.
- The role of the Franco-German couple in bringing about new solutions, which will be more effective if the SPD returns to power.
- Intellectuals able to think the unthinkable in order to make the desirable possible.
- The time factor should also be more detailed: for how long can we go on with the current muddling through scenario, given its inner tensions, obstacles and risks of turning into the break-up scenario?

Are the scenarios accepted, extended, reduced?

- These scenarios were generally accepted, but scenario A »Muddling through« was re-elaborated in order to reconsider the most recent developments: a growth and investment package; the new roles of the ECB; the no-bailout clause being replaced by the ESM. In a sense, there is some progress inside this scenario because policymakers are factoring-in the risks of break-up.
- A variant of scenario B was mentioned, confining exit to Greece.

Are they consistent and plausible? What is the most likely? And the most desirable?

- Going on with internal improvements in scenario A was considered the most likely path.
- The break-up scenario should be avoided because it would mean a roll-back of European integration, something that nobody wants to happen (a parallel with the outbreak of the First World War in 1914 was drawn). We are on a knife edge.
- There was some openness towards a Core Europe understood as a two-speed, not a two-level Europe. Excluding Eurozone members of this core group would make everything fall apart.
- The scenario D »Completing the EMU« is seen by most as fairly utopian. The real choice seems to be between scenarios A and B. Perhaps in the end, we are moving towards scenario D, but via a very thorny and slow path.

11. Slovenia

LJUBLJANA, 8 November 2012
ORGANISED BY: Friedrich-Ebert-Stiftung Slovenian Association for International Relations and, Euro-Atlantic Council of Slovenia
SPEAKERS:
Dietmar Dirmoser, Director, Friedrich-Ebert-Stiftung, Croatia and Slovenia
Mitja Gaspari, former Finance Minister and former Governor of the Bank of Slovenia
Damjan Kozamernik, Director, Research and Analyses Centre, Bank of Slovenia
Igor Masten, Professor, Faculty of Economics, University of Ljubljana
Jože Mencinger, Professor, Faculty of Law, University of Ljubljana
Maria João Rodrigues, Professor at the Institute for European Studies, Université Libre de Bruxelles and Lisbon University Institute

How central is this theme in the national public debate?

This theme is relevant in Slovenia because of the economic slowdown and unemployment and has recently become more central because there was some speculation Slovenia could also eventually need a rescue package.

What are the main concerns and attitudes with regard to the crisis?

Slovenia is concerned about its deeper involvement in the crisis and would be ready to accept further transfer of national competences to the European level, if this is required by a more comprehensive reform of the EMU.

How are the causes of the crisis perceived?

A combination of factors should be considered:

- The Eurozone is not an optimal currency area
- There was no demand policy to support growth during the implementation of the Lisbon Strategy.
- The implementation of this strategy was too weak and uneven.
- The EU has accepted the pressure of lower social standards coming from China.
- The fiscal stimulus of 2008 was used to avoid a deeper recession, but was not able to launch sustainable growth.
- The current EMU assumes an impossible trinity: no bail-out of states, the ECB cannot monetise public debt and bank debt cannot be used to reduce public debt.
- The EMU lacks the stabilisation tools to enable inter-bank lending.
- There is unfair competition because prudential standards are now very different between Slovenia, Hungary and Austria.
- For other participants, the problem is not with the EMU, but rather with some Member States' irresponsible behaviour.

How are the solutions to the crisis perceived?

- A more comprehensive approach to reform the EMU is necessary. The ECB needs to take a more active role and become a lender of last resort.
- The ESM should be able to buy public securities from national banks, which could use them as collateral to get credit from the ECB. This would not monetise public debt, but in this way interbank lending and sovereign debt issuance could be stabilised.

- As the experience of the Yugoslavian Federation shows, a fiscal union requires some kind of income redistribution. A Eurozone budget is necessary not only for redistribution but also for stabilisation. This will take more time.
- There is now a critical choice for many Member States: either jobless growth or no wage growth. But others are asking: what about innovative growth to reduce this dilemma?

Is there agreement on the driving forces?

There is implicit agreement.

Are they consistent and plausible? What is the most likely? And the most desirable?

All scenarios are realistic and a discussion of their relative advantages and disadvantages is necessary:

- Scenario C concerning a smaller core group is rejected. A two-speeds Europe would be an option, but not a two-level Europe.
- Scenario B »Break-up« should be avoided; it is too dangerous. The memory of the collapse of the Yugoslavian Federation is still strong.
- Scenario D »Completing the EMU« is preferred by some, even though it is difficult, while others would prefer the scenario »Muddling through«, although with more effective measures. This is considered the most likely for the coming period because creditor countries will not accept scenario D.

12. Italy

ROME, 15–16 November 2012
ORGANISED BY: Friedrich-Ebert-Stiftung
SPEAKERS:
Michael Braun, Director, Friedrich-Ebert-Stiftung, Italy
Giuseppe Ciccarone, Fondazione Giacomo Brodolini and University La Sapienza, Rome
Andrea Conte, Knowledge for Growth Unit, European Commission, Seville
Andrea Ginzburg, University of Modena and Reggio Emilia
Henning Meyer, Editor of Social Europe Journal and Senior Visiting Fellow at the London School of Economics
Yiannis Mouzakis, Thomson Reuters, Cyprus
Stefano Prezioso, SVIMEZ (Associate for Industrial Development in Southern Italy), Rome
Maria João Rodrigues, Professor at the Institute for European Studies, Université Libre de Bruxelles and Lisbon University Institute
Annamaria Simonazzi, Fondazione Giacomo Brodolini and University La Sapienza, Rome

How central is this theme in the national public debate?

This theme is now central in the political debate and in everyday life in Italy.

What are the main concerns and attitudes with regard to the crisis?

- Italy is stuck in a trap of more austerity, less growth and more debt.
- Uncertainty in the Italian political system.
- The slow pace of EMU reform.
- The conditionality that might be attached to an ECB intervention regarding Italy.

How are the causes of the crisis perceived?

- Italy, in contrast to other »crisis states«, did not use low interest rates to create a banking bubble. The crisis dynamics in Italy stem predominantly from the long-standing very high public debt, as well as from weak economic performance, with below-average GDP growth plus stagnation of productivity. Moreover, accession to EMU has aggravated these peculiarities insofar as Italy does not have the possibility to use monetary or fiscal policy to dampen these negative effects. Now, as these tools cannot be used, the only adjustment factors are in the labour market, with lower wages or fewer jobs.
- The current architecture of the EMU is biased and has aggravated the differences between North and South in Europe.
- There are two conflicting explanations for the competitiveness problem:
  - One builds on the central equation S–I = M–X to argue that if saving capacity is lower than investment needs, we need to reduce internal consumption until we can increase exports and this involves reducing public spending, inflation and wages in order to improve the real exchange rate. The possible role of industrial policy to reduce structural differences is ignored.
  - The other argues that the main problem is not one of balance of payments but rather insufficient growth and highlights additional factors that should be considered to increase competitiveness, such as innovation, research, education, and this means a certain kind of investment and industrial policy. Quality of products and services is crucial and indicators that are based only on price are misleading.

How are the solutions to the crisis perceived?

- The ECB should play an active role to stabilise the European financial system and to restore credit and public debt issuance conditions.
- European solidarity mechanisms are needed, but they should be more focused on capacity building than on income compensation.

Is there agreement on the driving forces?

Yes, there is implicit agreement.

Are the scenarios accepted, extended, reduced?

- Yes, they are accepted. A new one is mentioned, based on a variable geometry for European integration, with Member States clustering in different ways for different purposes.
- Furthermore, these scenarios should also be assessed according to the long-term growth rate and better income distribution they can provide. Paradoxically, in the »Break-up« scenario they might be higher, which means that the current architecture of the EMU is leading to collective failure.

Are they consistent and plausible? What is the most likely? And the most desirable?

- Scenario C »core Europe with a smaller group« seems unrealistic.
- Scenario A »Muddling through« will necessarily lead to the »Break-up« scenario due to the divergences it creates.
- The completion of the EMU was deemed the most desirable scenario.
- The most likely sequencing of the scenarios is scenario A leading to a fundamental choice between scenario B or D.

13. Estonia

TALLINN, 30 November 2012
ORGANISED BY: Friedrich-Ebert-Stiftung and Estonian Foreign Policy Institute
SPEAKERS:
Ognian Hishow, Senior associate, German Institute for International and Security Affairs, Berlin
Ülo Kaasik, Deputy Governor, Bank of Estonia
Andres Kasekamp, Estonian Foreign Policy Institute
Juhan Lepassaar, Director EU Affairs, Government Office Tallinn
Atho Lobjakas, Analyst, Estonian Foreign Policy Institute, Tallinn
Werner Rechmann, Director, Friedrich-Ebert-Stiftung, Baltic States
Maria João Rodrigues, Professor at the Institute for European Studies, Université Libre de Bruxelles and Lisbon University Institute
Taavi Rõivas, Member of Parliament, Chairman of the European Affairs Committee, Estonia
Christian Matthias Schlaga, Ambassador of Germany, Tallinn

How central is this theme in the national public debate?

As euro membership is recent and reform efforts important, this theme is quite central in the public debate.

What are the main concerns and attitudes with regard to the crisis?

- Comparisons between Estonia and Greece regarding wages and pensions. It is problematic to support richer countries that are financially profligate.
- There are some concerns over Estonia's dependence on the Swedish banking system and about a two-tier labour market.
- But there is also confidence that Estonia has already done a lot to protect itself from the crisis and its small size make any problem easier to absorb.

How are the causes of the crisis perceived?

- It should not be called a Eurozone crisis; this is a debt crisis.
- As point of departure, we have countries that save and others that don't. In general, most European States have welfare systems beyond their financial means. It will take years to reduce the imbalances.
- In some countries there is a fear of introducing reforms; too rigid labour markets and too high taxes included in labour costs; there are, for instance, tax incentives in catering that don't make sense because the restaurant bills of privileged minorities are being paid by all taxpayers.
- At European level, perhaps we need to go further, but avoiding moral hazard.

How are the solutions to the crisis perceived?

- The Estonian Parliament will agree to financial support for other Member States, but only with strong conditionality.
- Market pressure for reforms should be maintained because this is more effective than peer pressure. We should not introduce new instruments that reduce market pressure.
- The right sequence of changes in the EMU is important.
- Implementing the single market is the best way to make national economies converge.

- Banking union is important, but why do we need to rush?
- Eurobonds are not feasible. The no bail-out clause is still valid.
- A competitiveness instrument could be helpful perhaps, but only for Member States with problems.
- There is no need for a convergence instrument because this is partly already organised by the existing European Budget.
- Reforms should not be rewarded. The main incentive for reforms should be internal.

Is there agreement on the driving forces?

It seems so, but the fairness of the efforts to be made by all actors concerned was particularly underlined as a critical factor to legitimise EMU policy developments.

Are the scenarios accepted, extended, reduced?

Scenario C »Core Europe« was re-elaborated by some: the core group should be confined to those Member States who are able to reform. In this way, the others will also be strongly encouraged to reform.

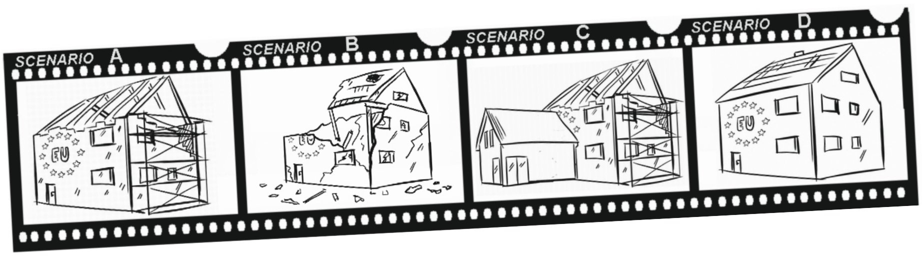
Are they consistent and plausible? What is the most likely? And the most desirable?

- Clear preference for scenario A »Muddling through«.
- A few voices argued in favour of considering scenario D »EMU completion«.

Table 1: Advantages/disadvantages of each scenario as perceived in each Member State

SCENARIOS MEMBER STATES	A Muddling Through	B Break-up	C Core Europe	D Completing EMU
CROATIA	Step by step approach to overcome the crisis/ but some risks for the Eurozone	Getting rid of the Eurozone's internal problems/but more external problems and risks of domino effects	Marginalisation of EMU governance	Overcoming the crisis with a more inclusive and consensual approach/but risks of strong obstacles and of failure in the transition process
ESTONIA	Step by step approach to overcome the crisis	Getting rid of the Eurozone's internal problems/but more external problems and risks of domino effects	Moving forward with a more consistent group/but risks of deeper tensions inside the EU	Risks of moral hazard
FINLAND	Controlling the risks of EMU reform and putting pressure on other Member States to reform/but risks of more expensive rescues, break up and domino effects	Getting rid of the Eurozone's internal problems/but more external problems and risks of domino effects	Moving forward with a more consistent group/but risks of deeper tensions inside the EU	Overcoming the crisis with a more inclusive and consensual approach/but risks of strong obstacles and of failure in the transition process
FRANCE	Possibility to introduce some improvements/risk of mounting tensions and break-up	Very damaging for the Eurozone and European integration as a whole	Acceptable if involving the Eurozone as a whole/risks of break-up if there is a smaller group	Overcoming the crisis with more inclusive approach/ illusionary because unfeasible
GERMANY	Controlling the risks of EMU reform and putting pressure on other Member States to reform/but risks of more expensive rescues, break up and domino effects	Getting rid of the Eurozone's internal problems/but more external problems and risks of domino effects	Moving forward with a more consistent group/but risks of deeper tensions inside the EU	Overcoming the crisis with a more inclusive and consensual approach/but risks of strong obstacles and of failure in the transition process
GREECE	Some support instruments/but painful austerity, weakening of the economy, loss of sovereignty	Rebuild national tools/ but shock of exiting the Eurozone	Some support with strong conditionality/but marginalisation of EMU governance	More balanced framework/but demanding requirements for competitiveness and fiscal discipline
ITALY	Some support instruments/but painful austerity and weakening of the economy	General costs of breaking up the Eurozone and the EU	Chance to make the Eurozone a vanguard/but risks of internal split in the Eurozone and EU	More balanced framework/but demanding requirements for competitiveness and fiscal discipline
POLAND	Delaying Eurozone membership/but risks of break up and domino effects	Getting rid of the Eurozone's internal problems/but more external problems and risks of domino effects	Joining later/but marginalisation of EMU governance	More balanced framework/but demanding requirements for competitiveness and fiscal discipline
PORTUGAL	Some support instruments/but painful austerity, weakening of the economy, loss of sovereignty	Rebuild national tools/ but shock of exiting the Eurozone	Some support with strong conditionality/but marginalisation of EMU governance	More balanced framework/but demanding requirements for competitiveness and fiscal discipline

SCENARIOS MEMBER STATES	**A Muddling Through**	**B Break-up**	**C Core Europe**	**D Completing EMU**
SLOVAKIA	Controlling the risks of EMU reform and putting pressure on other Member States to reform/but risks of more expensive rescues, break up and domino effects	Getting rid of the Eurozone's internal problems/but more external problems and risks of domino effects	Joining later/ marginalisation of EMU governance	More balanced framework/but demanding requirements for competitiveness and fiscal discipline
SLOVENIA	Step by step approach to overcome the crisis/ increasing risks for the country	General costs of breaking up the Eurozone and the EU	Marginalisation of EMU governance	More balanced framework/demanding requirements for competitiveness and fiscal discipline
SPAIN	Some support instruments/but painful austerity and weakening of the economy	General costs of breaking up the Eurozone and the EU	Chance to make the Eurozone a vanguard/but risks of internal split in the Eurozone and EU	More balanced framework/but demanding requirements for competitiveness and fiscal discipline
UK	Delaying the UK's choices regarding the EU/but building up new financial risks	Confirming the UK choice to exit from the EU/but major damage to the British economy	First attempt to respond the EMU problems/but unacceptable closed club, dividing the EU and the Eurozone	Better solution for the Eurozone long term/but pushing the UK to make a difficult choice, most likely renationalising policies or exiting the EU



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This publication keeps record of the FES project 2012 »**Scenarios for the Eurozone 2020**« with events in 15 cities all over Europe and the following findings free for download:

- Initial Study »Mapping future scenarios for the Eurozone« by Maria João Rodrigues, http://library.fes.de/pdf-files/id/ipa/09194.pdf
- Statistical Annex by Maria João Rodrigues and Anthony Ferreira, http://library.fes.de/pdf-files/id/ipa/09193.pdf
- Online Debate on Eurozone Scenarios at Social Europe Journal, http://www.social-europe.eu/category/debate-2/eurozone-scenarios/
- Animated Video on Youtube »What's next in the Euro Crisis? Four Scenarios«, http://youtu.be/RAQ4Lycbu2A

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