

EU@30: Contrasting Visions of the European Union to Come

November 1, 2023, will mark the 30th anniversary of the Maastricht Treaty and the establishment of the European Union. EU@30 offers four potential scenarios for how the European project will continue to unfold.



Executive Summary

On November 1, 1993, the Maastricht Treaty came into force, formally establishing the European Union and laying the foundation for the single European currency. In EU@30, A.T. Kearney's Global Business Policy Council (GBPC) has developed four contrasting visions for Europe's future in 2023, as the region celebrates the 30th anniversary of this landmark event:

- In the most desirable scenario, **“Renaissance,”** the pace of integration within the European Union (EU) accelerates. A strong sense of restored dynamism sweeps the entire region. Reforms to boost competitiveness, namely more liberalization and deregulation, inject new vitality into the economy, and the commercial sphere buzzes with innovation. Young Europeans, inspired by the EU's core values of freedom, democracy, equality, the rule of law, and respect for human rights, become active citizens in the economy and society. In 2023, economic growth reaches 3.2 percent, averaging 2.6 percent over the eight-year scenario. The overall EU economy is valued at €14.9 trillion.
- In the least desirable scenario, **“Middle Ages,”** Europe comes apart at the seams. The region experiences a disorderly Greek default followed by a British exit from the EU. These back-to-back developments add fuel to the fire by generating unmanageable economic and social disorder, as youth become increasingly disaffected because of persistent high levels of unemployment and inequality. Faced with record-breaking refugee inflows, anti-immigrant and nationalist parties thrive as the EU and its institutions fray. In 2023, economic growth struggles to reach 0.9 percent, averaging 0.7 percent growth over the course of the eight-year scenario. The overall EU economy is valued at €12.5 trillion.
- In the scenario we call **“Reformation,”** the European Commission (EC) implements a series of policies aimed at longer-range structural reform. The actions slow economic expansion in the short term, with output growth falling to around 1 percent between 2016 and 2020. The implications for the region's young and struggling workforce, already experiencing high levels of unemployment and alienation, are profound. The workforce votes with its feet. By 2023 the EU has lost much of its young talent. The younger people who have remained are disconnected from traditional institutions and practices. In 2023, economic growth reaches 2.6 percent, but averages just 1.6 percent over the eight years covered by the scenario. The overall value of the EU economy stands at €13.6 trillion.
- In **“Enlightenment,”** an influx of investment following a breakthrough in clean energy technology causes European countries to compete more aggressively with one another through deregulation and business incentives. Integration efforts fade as young Europeans generally support the EU's leadership on climate issues, but have little time for broader initiatives, such as a banking union or the Transatlantic Trade and Investment Partnership (T-TIP). In 2023, economic growth reaches 2.9 percent, averaging 2.5 percent growth over the course of the eight-year scenario. The overall EU economy is valued at €14.7 trillion.

Looking across these scenarios, we have identified four key policy areas that offer the greatest potential to unlock European growth:

Service sector productivity. Labor regulations, licensing requirements, and a lack of cross-border recognition of professional and educational qualifications, coupled with price regulations in some sectors, have stunted return on investment for many services. Allowing the service sector more space for competition and innovation would open opportunities for European

growth. The policy think tank Open Europe estimates that fully liberalizing the EU services markets would give the EU a gross domestic product (GDP) boost of almost €300 billion.

Labor market reform. Europe's businesses are constrained by a lack of labor market flexibility. Rigidities prevent companies from laying off the least productive workers and maintaining workforce efficiency. Instead, firms must increasingly hire temporary workers to avoid separation costs. If Europe fails to reform its labor market, it risks losing the advantage of its highly educated labor force. International Monetary Fund (IMF) research indicates that improvements to the eurozone's labor market could boost GDP by almost 1.5 percent on average after five years—nearly €200 billion per year.

Fiscal union. A fiscal union has the potential to be truly transformative for the region, moving the EU toward a political union and giving it the ability to manage the whole of the European economy. Implemented correctly, it would reassure markets, draw investment, and boost growth, bolstering Europe's position globally and creating a fairer and more prosperous eurozone.

Digital single market. The creation of a digital single market could generate more than €400 billion in additional revenues, boost access for consumers and businesses to digital goods and services across Europe, and strengthen the environment for digital networks and services to grow rapidly, according to the EC. While many challenges remain, including unequal development of technology infrastructure across the EU, the potential benefits make the effort to overcome these obstacles worthwhile.

Businesses must monitor these key policy areas, providing leadership and cooperating with policy makers whenever possible. Europe faces a wide array of pressing economic and political challenges, including immigration, security, competitiveness, unemployment, and the rise of antiestablishment and other parties outside the traditional mainstream. Striking the proper balance between the EU's core principles and contending with certain economic and political realities will remain central to the ongoing story of the European project. The one certainty over the next eight years is that change will come to Europe. It is incumbent on business leaders and policy makers to work together and take bold steps to make the EU@30 as dynamic and strong as possible.

Introduction

Wednesday, November 1, 2023, will mark the 30th anniversary of the Maastricht Treaty coming into force and the formal establishment of the European Union—what we call “EU@30.”

No doubt Europeans will use the occasion to take stock of the historic experiment that is the EU. Some will emphasize the stability and prosperity that the Union has generated over the years. Others will point to the shortcomings of the endeavor—including the effects of the cascading crises in Europe in the years after the Great Recession. Some will highlight the benefits associated with economic and financial integration, while others will throw the spotlight on the significant social dislocations that have affected their societies. Some will celebrate the “advancement of peace and reconciliation, democracy, and human rights in Europe,” as the EU was hailed when it received the Nobel Peace Prize in 2012, while others will suggest that the EU is no longer tenable in the context of regional and global change.

To varying degrees, both sides will be correct. The evidence of success, to be sure, is compelling. Over the past three decades the EU has evolved into the world’s largest economy—now accounting for 22 percent of global output. Consistently, the EU and its member states have been leaders in key indicators of human and social development. EU innovation and knowledge economies are the envy of the world. At the same time, the signs of dislocation are profound. Much of the region is still reeling from the 2008 Global Financial Crisis and the European sovereign debt crisis. While EU GDP growth has recovered from its nadir of –4.5 percent in 2009, it appears to be stuck in a low-growth zone of around 1.0 percent that has translated into increasing political and social instability. Critical questions rooted in this economic slowdown persist about the long-term viability of the EU and how well it can maintain levels of popular support.

The continuing debate on the future of Europe was at the core of the decision by A.T. Kearney in 2010 to launch an exclusive retreat at which leaders from business, government, nongovernmental organizations (NGOs), and academia could compare notes on the state of Europe and the EU. We chose to name the annual event—the Bad Ragaz Group—after the spectacular Swiss venue of Bad Ragaz in which we met (and continue to meet) thanks to the kind hospitality of the event’s cosponsor, Mr. Thomas Schmidheiny. Since then, each year we have addressed a key aspect of the outlook for the region. In 2010, in the context of an earlier financial crisis in Greece, we discussed “What’s Next for Europe?” In 2011, we asked about the elements associated with “Advancing the European Agenda.” In 2012, in a meeting devoted to “Mapping a Vision for Europe’s Future,” we continued to explore potential directions for the region (see sidebar: GBPC EU Scenarios, Then and Now on page 5). In 2013, we dared to look beyond the immediate volatility in a session on “The State of Europe: Assessing the Next Five Years and Beyond.” Last year, we zoomed in on “The Future of European Competitiveness.” And this year, in 2015, the topic of discussion will be “Reigniting European Growth.” Our approach is to ask if and how the EU can reignite its economy to reach the growth levels of 2 to 3 percent that it experienced in the early-to-mid 2000s.

In each of these discussions, there have been a number of common overarching questions. With the Greek debt crisis lingering, what will happen to the euro between now and 2023? Do Europeans see the EU as a beacon for Western values of “human dignity, freedom, democracy, equality, the rule of law, and respect for human rights,” as defined in the Treaty of Lisbon? Or has the EU become a transfer union, with wealth steadily flowing from the core to the periphery? Can the EU and its institutions cope with rapid and growing technological and demographic change? How well can the region handle migration shocks such as the current ones from Syria

and elsewhere in the Middle East? What is Europe's place in the world as the global economy shifts to Asia, as strains emerge in the transatlantic relationship, and as security challenges confront the continent from the South and East? How will the region's economic performance shape the perceptions and power of EU institutions? How will differences in generational perceptions of the European project affect this outcome? Will Europeans continue to build upon the *acquis communautaire*, or will years of economic crises erode popular support and lead the region down alternative and unpredictable pathways? Will Europeans accept the challenge, as expressed by Jean Monnet decades earlier, to "continue, continue, [as] there is no future for the people of Europe other than in union," in spite of their changing circumstances?

With so many divergent forces at work in Europe, it would be impossible to be confident in a single forecast about the region's future. In an effort to explore these pressing questions, A.T. Kearney's international think tank, the GBPC, has developed scenarios to consider a wider range of possible outcomes for the EU@30. Our analysis employs a combination of inductive scenario planning and economic modeling, incorporating the assessment of multiple economic, social, and political drivers, to explore four contrasting futures. These scenarios are not predictions, but rather compelling and plausible accounts of what might materialize.

The purpose of these scenarios is to provoke creative and strategic conversations and to provide unique insights. In each scenario, we outline a framework for quickly identifying opportunities and risks in the EU to allow business leaders and decision makers to develop contingencies and address uncertainties in the near to medium term. This exercise, we believe, is important to all firms with an interest in the region, but it is especially important to EU-domiciled companies and foreign companies with operations in the region, as well as companies for which the EU represents a large share of their consumer market.

We are acutely aware that there is no lack of scenarios or commentary—both positive and negative—on the future of Europe. Our sincere hope is that with these scenarios, and through the broader discussions of the Bad Ragaz Group, we contribute to the continuing discussion.

The GBPC is engaged with scenarios and forecasts in other areas of the world as well. In parallel to EU@30, we have embarked on an analysis of America@250, examining the state of the United States when it reaches its 250th anniversary in the year 2026. As is the case with our assessments of the state of Europe, we hope to encourage expert and insightful discussion on how the future will unfold in that country.

EU@30 Scenarios: Rationale and Methodology

Why develop scenarios? It is paradoxical that in the midst of massive generation, organization, and movement of data, information, and knowledge—our remarkable age of big data and predictive analytics—our capacity to foresee large-scale developments continues to be very limited. In fact, the record of empirical prediction of key shifts in recent years—political, social, and economic—is unimpressive. Petabytes of information and advanced methodologies to sift through and assess data did not help leaders predict the onset of the Global Financial Crisis and its economic aftermath of recession and slow recovery. Sophisticated analytical techniques did not presage the current instability in developing-country economies and its impact on growth and development. And, most importantly, cutting-edge quantitative approaches have been of limited use in understanding and responding to the cascading and highly complex economic and financial crises in the EU.

Scenarios and scenario-based strategic planning are by no means new, but after decades of use and refinement they are still valuable to help leaders anticipate and prepare for the future. By sketching plausible and contrasting “what if” futures, they enable leaders to challenge assumptions and preconceived notions, imagine a broader range of drivers and outcomes, and identify and address blind spots in their approaches and strategies. Simply put, scenarios are an enduring and time-tested method for leaders to try to understand the repercussions of sweeping change around them. “Better to get things imprecisely right than precisely wrong,” the saying goes.

The methodology underlying these scenarios is straightforward. We began by employing the deductive model of scenario building—identifying key macro drivers shaping the outlook for the EU, mapping those drivers on the basis of both uncertainty and importance, choosing the two most significant drivers that were non-related (that is, independent of one another), and subsequently plotting them on a two-by-two framework. We then developed detailed scenario narratives for each of the four categories, utilizing aspects of inductive scenario-planning methodology to ensure that our analysis extended beyond just the two most significant drivers by incorporating additional dynamic variables. Finally, we used econometric analysis to develop divergent economic projections for the discrete scenarios.

GBPC EU Scenarios, Then and Now

The GBPC has more than 20 years of experience in producing comprehensive scenarios on a number of topics, including the EU. In 2012, the Council developed three scenarios that examined the potential future of the EU out to 2020. In *Derailed*, the EU splinters into a successful northern core and a series of nation states on the periphery. While European soft power is initially damaged, the strength of the core ultimately becomes a beacon for a stronger and more influential Europe. In *Pyrrhic Victory*, the EU forces

through comprehensive reforms for greater integration. While these moves stabilize the European economy, they compound bureaucratic challenges and create a highly regulated and unfavorable business environment that hurts European competitiveness. The EU is at a crossroads, having achieved its vision, but not yet its spirit. Finally, in *The Center Holds*, a banking crisis in France spurs Europe to action, and it pushes through significant economic reforms, including a banking

union and stronger fiscal integration. This sparks a wave of newfound optimism regarding the project, resulting in growing investor confidence, prolonged growth, and rising competitiveness. Our 2015 scenarios refresh and build upon those from 2012, providing an updated and diversified set that reflects not only trends that have evolved over the past three years, but also new econometric modeling to complement each narrative.

Narrowing the macro drivers was a serious challenge. Mindful of the eight-year horizon for the scenarios, we examined a wide range of factors that could influence the longer-range outlook of the region, including potential changes in the levels of European innovation and competitiveness, the nature and scope of the EU's international engagement, possible effects of migration trends, developments in domestic politics, and many others. Of these, we concluded that two in particular—the level of EU integration and the level of popular support for the EU, particularly among young people—would be most useful for our assessment:

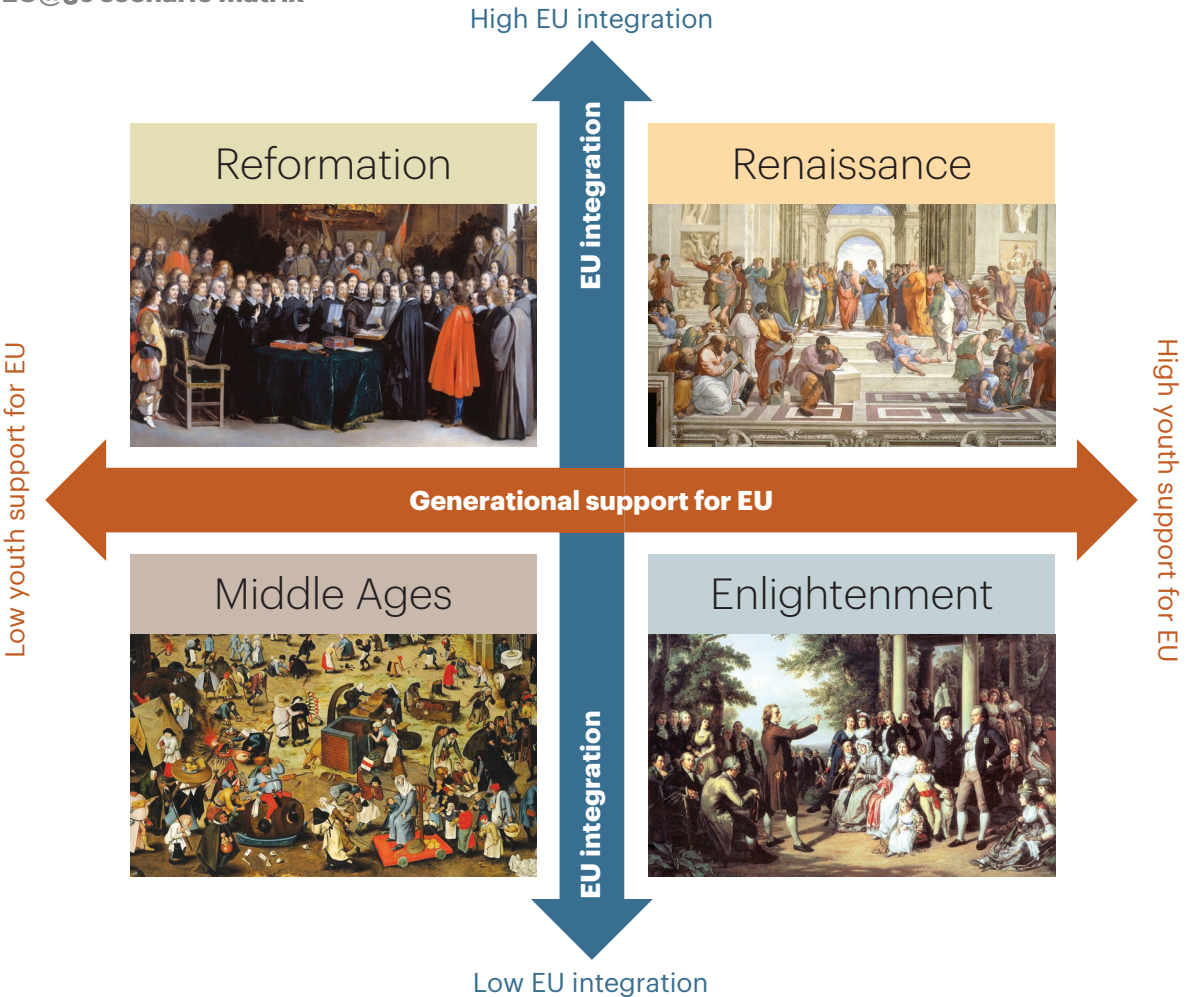
- Under the rubric of EU integration, we examined major economic contingencies such as the creation of a fiscal union and the cohesion between member states in coordinating EC policies. The extent of EU integration in the coming years is likely to determine the fate of the broader European project. Opting for “more Europe” could dramatically reshape governance and the economies of EU members, whereas “less Europe,” with the reemergence of an emphasis on national sovereignty, could fragment the EU and amplify the prospects for a multispeed Europe, with a strong core and a weaker periphery. Regardless, as the last several years of various crises faced by the EU—from the debt crisis to security crises in the Middle East, North Africa, and Ukraine, to the current inflows of refugees—have shown, the status quo is unlikely to persist. Europeans will push for either more or less Europe over the coming eight years. We therefore bounded the “EU integration” axis with “high” integration and “low” integration.
- The other core driver we selected, the level of popular support for the EU, is equally important and uncertain. We focused on the perceptions of the so-called “millennials,” those Europeans born between 1981 and 1997, because they represent a growing portion of the EU's population and workforce and will become increasingly influential over the next eight years. This cross section of the population has been disproportionately affected by Europe's debt crisis, with youth unemployment roughly double that of overall unemployment rates across the region. Polling in 2014 by the Pew Research Center found that, unlike their U.S. counterparts, European millennials are increasingly pessimistic that they can control their success through hard work and having a good education. A majority of millennials in six of the seven EU nations surveyed believed that “success in life is determined by forces outside our control.” As a point of contrast, where 58 percent of American millennials surveyed believed that a good education is necessary to “get ahead in life,” this view was shared by just one in five French millennials and one in four of their Greek counterparts. This is a generation of Europeans, therefore, who may associate the EU more with low growth and limited opportunity than with peace and democratic values, in stark contrast to previous generations, who experienced the prosperity that followed the Second World War and the deeply polarized politics of the Cold War. We bounded this axis, “Youth support for the EU,” with “high” and “low.”

With both these primary drivers identified, bounded, and plotted, we developed the scenario space depicted in figure 1 on page 7. Subsequently, and through several iterations, we developed the narratives for the four resulting scenarios. For the titles of the scenarios, we drew inspiration from key periods in European history that evoke the essence of each scenario “story.”

- The first scenario, **Renaissance**, is an all-in proposition. It posits a future marked by increased EU integration coupled with high levels of youth support for the EU. These elements are the by-product of an orderly Greek exit from the eurozone and the end of the crisis mentality generated by successive waves of instability. The EU and its institutions are thereby “freed” to refocus on new growth opportunities and the longer-term competitiveness of the region. Europe regains dynamism through reforms that prioritize liberalization and deregulation.

Figure 1
Four potential futures for the EU in 2023

EU@30 scenario matrix



Sources: Reformation: Gerard ter Borch (II), *The Ratification of the Treaty of Münster* (1648), Rijksmuseum, Amsterdam; Renaissance: Raphael, *School of Athens* (1511), Vatican Museums; Middle Ages: Pieter Bruegel the Elder, *Battle between Carnival and Lent* (1559), Kunsthistorisches Museum, Vienna; Enlightenment: Theobald von Oer, *The Weimar Courtyard of the Muses* (1860); A.T. Kearney analysis. Images courtesy of Wikipedia and Wikimedia.

European youth, seeing their prospects improve, rally around the core values of freedom, democracy, equality, rule of law, and respect for human rights.

- The second and least enviable scenario, **Middle Ages**, envisions a Europe dogged by low levels of EU integration and youth support. A disorderly Greek default followed by a British exit from the EU results in growing economic and social disorder, skyrocketing political alienation, and a lackluster economic base. The impact on youth attitudes is all too predictable. The levels of disaffection, alienation, and extremism all rise as a result of persistently high unemployment and inequality. Facing record-breaking levels of refugees from the Middle East and Africa, anti-immigrant and nationalist parties thrive as the EU and its institutions begin to fray.
- The third scenario, **Reformation**, assumes the combustible mix of declining youth support for the EU on the one hand, and increased EU integration on the other. In this scenario, the

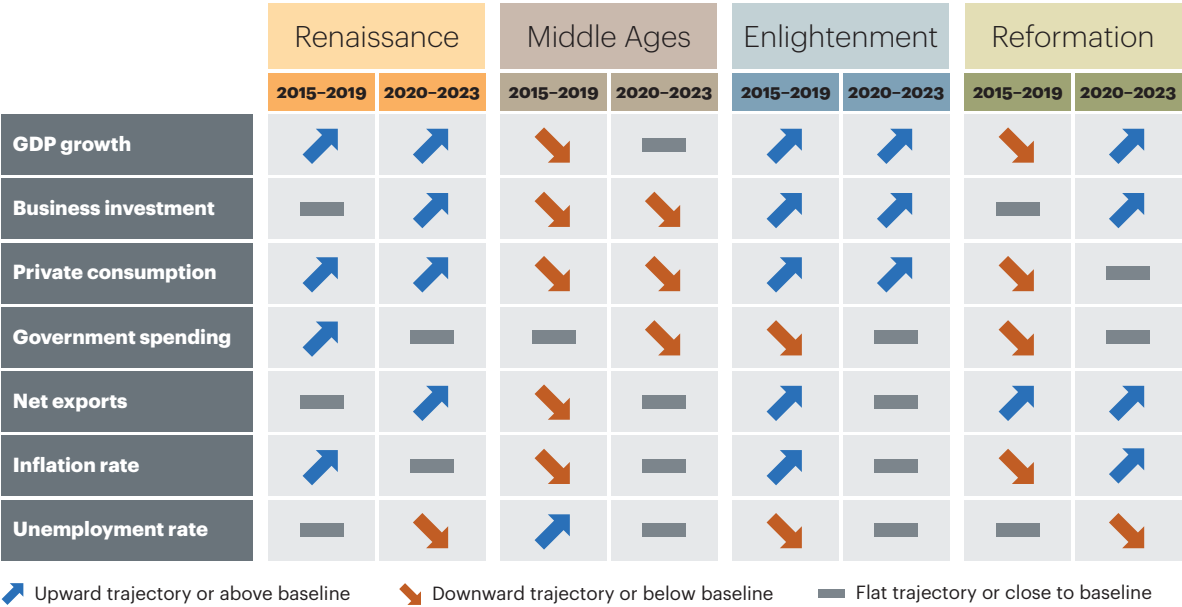
EC and EU regulatory agencies consolidate control following the passage of a banking union, leading to a controversial package of sweeping economic reforms that impact the eurozone and beyond. However, the promised benefits of these reforms are highly uneven and take years to materialize. Economic growth remains low, and European youth become impatient with limited employment prospects. Many emigrate in search of opportunities abroad, while others are left to agitate at home in the hope they can engineer reform in the tradition of the 1968 movement.

- The fourth scenario, **Enlightenment**, is a Europe characterized by high youth support of the EU at a time when, ironically, the level of integration within the EU falls rapidly. This fast-changing Europe is sparked by a breakthrough in clean renewable technology that causes business investment to spike. European youth take pride in the region’s leadership on climate science, but prospects for a banking union and further financial EU integration fade as European countries compete with one another in deregulation and incentives to attract foreign direct investment (FDI).

As you would expect, each of these scenarios yields different economic outcomes (see figure 2). The result of our economic forecasting is four very different potential trajectories for the EU’s economic growth through 2023 (see figure 3 on page 9). The Middle Ages scenario has by far the worst economic growth performance over the next eight years, while the other three all end the forecast period with annual growth between 2 and 3 percent. Their trajectories over the scenario period differ dramatically, though. Renaissance enjoys a slow and steady rise in annual growth rates over the next eight years, which stands in contrast to Reformation, in which growth stagnates in the near term, only to rise in the early 2020s. Enlightenment falls between these two, with faster growth in the near term, followed by more tempered growth after 2019. The

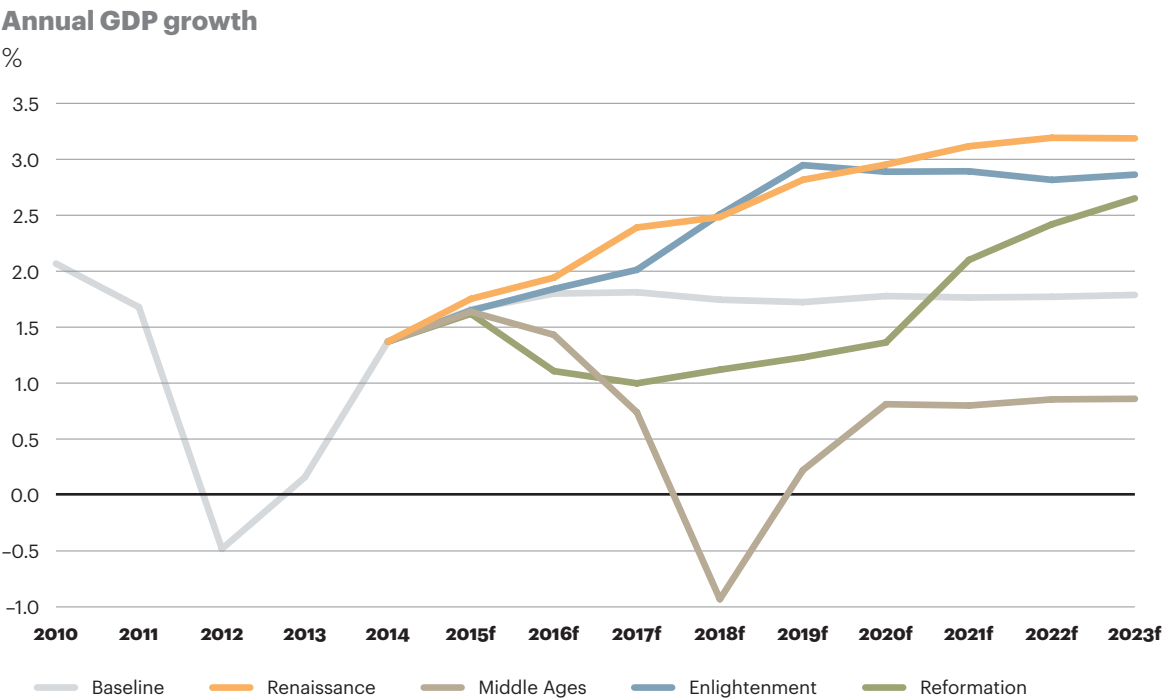
Figure 2
Economic dynamics in the EU@30 scenarios

Economic trends over time



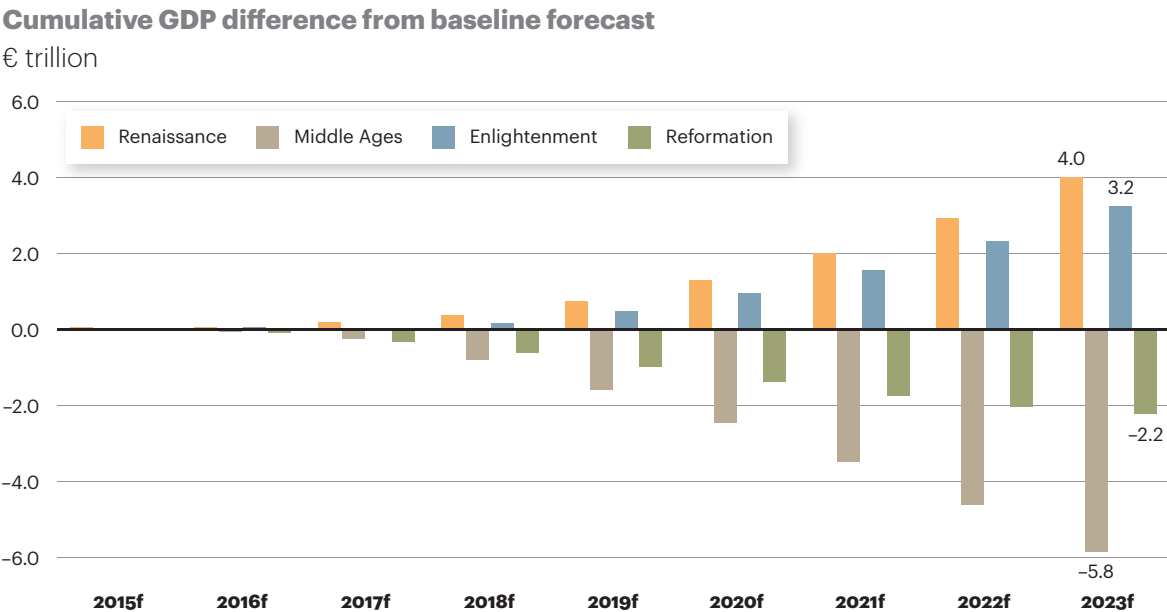
Sources: Economist Intelligence Unit; A.T. Kearney analysis

Figure 3
Economic growth varies across the four scenarios



Sources: Economist Intelligence Unit; A.T. Kearney analysis

Figure 4
Diverging growth rates add up to dramatic differences in the size of the EU economy



Sources: Economist Intelligence Unit; A.T. Kearney analysis

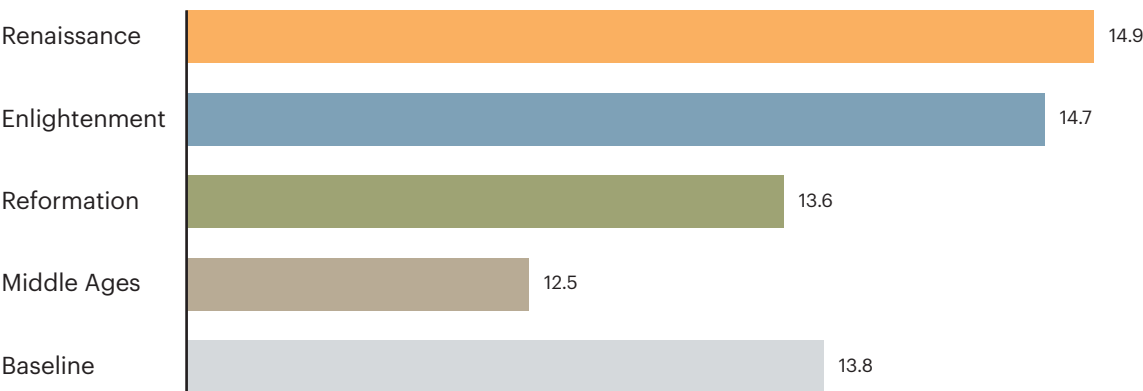
cumulative differences in the size of the EU economy grow over the forecast period, ranging from Renaissance (about €4 trillion larger than the baseline forecast in 2023) to Middle Ages—almost €6 trillion smaller than the baseline (see figure 4 on page 9). These divergent economic trajectories also result in differences in the size of the overall economy when the EU turns 30 in 2023 (see figure 5).

The scenario narratives now follow. We reiterate that these contrasting visions of the future of the EU are not meant to be predictions. Instead, they are designed to foster discussion, debate, and discourse on a region that now stands at a historical inflection point.

Figure 5
The path of GDP growth over the next eight years can dramatically shape the total size of the EU economy

EU GDP in 2023

€ trillion

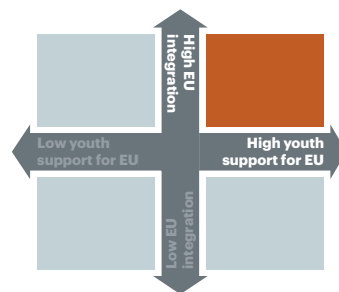


Sources: Economist Intelligence Unit; A.T. Kearney analysis

Scenario 1: Renaissance

Key dynamics

- The smoother-than-expected exit of Greece from the EU in 2016 allows the EU to refocus on new growth opportunities, namely liberalization and deregulation policies, the creation of a fiscal union, and building a digital single market. Additional reforms create greater democratic accountability in the EU's institutions, giving all EU member states a greater stake in additional integration measures and the EC greater legitimacy.
- Across the region, there is a shared sense of social and economic progress. European youth adopt a spirit of optimism and embrace long-standing European values, particularly regarding the rule of law and human rights. Many rally to embrace and integrate new waves of immigrants into the service-oriented European workforce.
- The European economy rebounds, and youth unemployment declines. Economic output rises steadily, averaging 2.6 percent throughout the eight-year scenario, before reaching 3.2 percent growth in 2023.
- The business environment improves thanks to steady growth, greater coordination, and simplification of rules and regulations. The resolution of the Greek debt crisis and the promise of a talented young labor force also contribute to this favorable environment. As a result, European businesses become more globally competitive, and foreign investment increases, driving EU growth.



Narrative

The European Renaissance lasted from the 14th to the 17th century and was characterized by humanism and a rediscovery of ancient Greek philosopher Protagoras's notion that "man is the measure of all things." It was marked by advances in a range of disciplines, from the arts to political diplomacy. The first EU@30 scenario explores the notion that the foundations of a second European Renaissance—or rebirth—could be laid over the next eight years.

Following years of intense debate, economic hardship, and growing resentment toward its creditors, the Greek government led by Syriza and Alexis Tsipras finally pulls the trigger on Grexit. Greece formally terminates its membership in the eurozone in 2016, and European and global markets brace for impact. However, after an initial flurry of market volatility, fears of economic contagion to elsewhere in the eurozone and beyond never materialize. EU measures to ring-fence the troubled Greek economy hold fast. In fact, after Athens dramatically restructures its debt repayment terms and devalues the newly re-created drachma, the country surprises many of its critics and returns to growth by mid-2017.

The Greek exit liberates the EU and its institutions. For the first time in nearly a decade, the EU is able to move beyond its crisis footing and instead focus on new growth opportunities. The top priority is clear: the creation of a fiscal union across the eurozone. This initiative is coupled with concerted economic reform efforts across Europe to increase liberalization and improve labor market flexibility. Brussels, Berlin, and Paris work to reduce barriers to entry for different professional tracks domestically, and other European governments follow suit. Business stability and confidence soar as progress on the fiscal union is made by a smaller, more focused EU.

Continued tensions with Russia over the Ukraine persist, but this only serves as motivation for leaders to strengthen the EU project. Following the passage of the fiscal union in early 2018, European leaders aggressively focus on overcoming the challenges posed by decreased Russian oil and gas imports. EU leaders in Brussels work tirelessly with national heads of state and government throughout Europe to advance the cause of a single European energy market. In response to continued security concerns over Russia, the Middle East, and Northern Africa, EU member states also work to further integrate foreign, security, and defense policy. The importance of the European External Action Service rises globally. The high representative for foreign affairs and security policy is increasingly perceived as the voice for the EU on key matters related to foreign policy and defense.

The EU also fully enters the 21st century as its leaders work to build a unified cross-border digital single market (see sidebar: E-Commerce and Digital Single Market). The efforts spur e-commerce as well as growth in technology and innovation in the region. Countries with strong technology infrastructures, such as Denmark, share best practices with less advanced members of the European digital economy, including Greece and Bulgaria, raising standards across the 27 remaining EU member states. As digital innovation clusters take hold and grow in cities such as Warsaw, Berlin, Naples, and Madrid, firms from Silicon Valley rapidly lose market share in Europe.

E-Commerce and Digital Single Market

The Digital Agenda is one of the seven pillars of the Europe 2020 Strategy for EU growth. The primary objective of the plan is to develop a digital single market for “smart, sustainable, and inclusive growth in Europe” by exploiting the potential of information and communication technologies. As it currently stands, business-to-consumer e-commerce represents a growing share of the European economic landscape, with €423.8 billion in sales across the continent in 2014 and €477 billion forecast in 2015.

The EC has projected that a digital single market can create up to €415 billion in additional growth, hundreds of thousands of new jobs, and a vibrant knowledge-based society, capitalizing on the 315 million Europeans who use the Internet every day. At present, small online businesses wishing to trade in another EU country face around €9,000 in extra costs to adapt to national laws, as well as a value-added tax (VAT) compliance cost of at least

€5,000 annually for each member state it wishes to supply. The EC argues that the digital single market would boost access for consumers and businesses to digital goods and services across Europe. Furthermore, a digital single market would help strengthen the environment for digital networks and services to grow rapidly, through improving and unifying data protection rules and boosting access to fast broadband across the EU.

The EU, however, has a long way to go before its goal of a true digital single market can become a reality. The EC argues that improving the digital skills of EU citizens will be essential to the success of the society in the future, citing that an estimated 47 percent of the EU population does not yet have the requisite level of digital skills. Furthermore, today’s digital market in the EU is dominated by national online services selling to in-country consumers (42 percent) or by U.S.-owned companies (54

percent). Just 4 percent of the European digital market is comprised of EU cross-border online services.

A great deal of disparity also remains between the digital performances of EU member states. The Digital Economy and Society Index (DESI) tracks the digital competitiveness of EU member states by monitoring levels of connectivity, human capital, Internet use, digital technology integration, and digital public services (see figure 6 on page 13). The EU must continue to work to help low performers, such as Italy and Greece, improve their standards, and learn from the high performers, such as Denmark and the Netherlands, who are leaders not only in the EU but also globally. Leveling the digital playing field among EU member countries will be a critical step toward successful implementation of a European digital single market.

Long-standing tensions between these U.S. firms and European regulators intensify, with U.S. tech moguls increasingly outspoken about “shortcomings” in Europe’s business environment. The U.S. firms’ rhetoric, conduct, and attempts to influence and intimidate in European markets leave European consumers eager to find local alternatives.

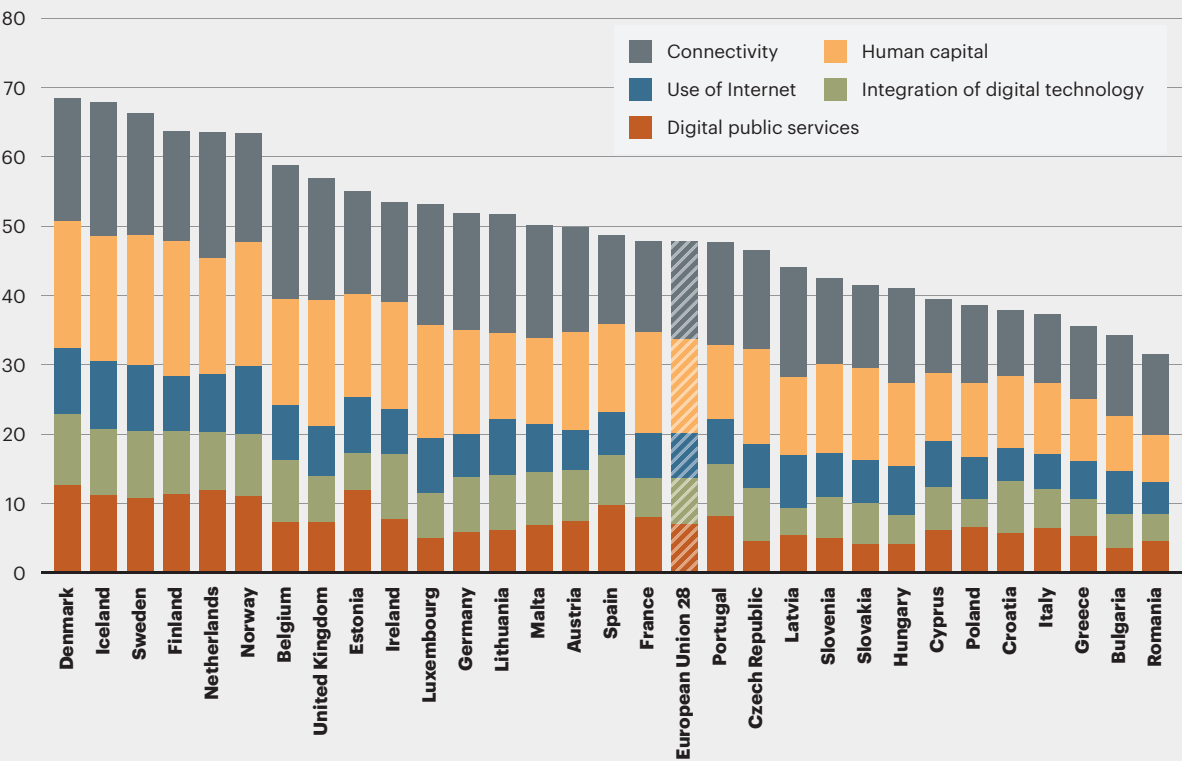
European politics are shaken up by these economic and policy developments. After years of creeping support for anti-EU, populist, and nationalist parties, a dramatic turning point is reached in early 2017. Leaders of anti-immigrant parties from Hungary, France, and the Netherlands make a highly publicized joint announcement in front of the European Parliament arguing that Europeans must drive out immigrants “by any means necessary.” Some extremist supporters interpret the speech as a call to arms, and a series of arson attacks on immigrant housing developments and street beatings of immigrants (and those who happen to look like immigrants) ensue in the aftermath of the speech.

The firebombing of an apartment housing refugees in northern Bavaria in February 2017 takes the life of a six-year-old Syrian girl named Yana. An image of Yana smiling with unabashed joy in front of her German school goes viral on social media, and the tragedy marks a turning point in the European immigration debate. The backlash against extremism is immediate and dramatic.

Figure 6
Digital divergence across the EU

Digital Economy and Society Index 2015

Weighted score (scale of 0 to 100, with higher scores representing better performance)



Sources: European Commission; A.T. Kearney analysis

European leaders, led by German Chancellor Angela Merkel, condemn the attack and vow to crack down on criminal activity. Young European millennials across the continent unite in taking action to improve understanding and integration with immigrant communities (see sidebar: European Millennials). A musical number dedicated to Yana's memory wins the Eurovision song contest later that year and serves as an anthem for this social movement, promoting social work and educational opportunities in immigrant communities. The leaders of anti-immigrant parties in France and the Netherlands are tried and convicted under hate crime statutes, their parties are banned, and their supporters disappear into the shadows once more.

Building on the momentum of this bottom-up grassroots social action, the EU pumps investment into domestic programs promoting social engagement and integration from the top down—an initiative that succeeds in both easing social tensions and increasing employment for young teachers and social workers throughout Europe. The EU also takes a greater leadership role in providing international development aid to conflict zones in the Middle East and North Africa, a move that receives international praise and recognition. New immigration policies promote burden sharing across European nations while emphasizing educational and employment opportunities for incoming immigrants. The new waves of immigrants are increasingly integrated into the European labor pool, filling important gaps in the aging workforce and generating tax revenues to fuel social security programs. By 2022, after completing language

European Millennials

According to Eurostat's most recent demographic data, European millennials—those between 18 and 33 years of age—account for 24 percent of the adult population in the 28 member states. Unlike in the United States, European millennials do not comprise the largest segment of the labor force. Germany is currently home to the largest population of millennials in Europe, with 15 million, whereas Greece has the smallest contingent of roughly 2 million.

Many European millennials have suffered through the economic crisis, and their views of the EU have been shaped by this experience. A 2014 Eurobarometer survey of young Europeans across the 28 member states found that 57 percent of them feel marginalized and excluded from economic and social life as a result of the economic crisis. However, these results vary depending on where the millennials live. Young people in Greece, Spain, and Italy

felt the most excluded, while those in Germany and Denmark felt the least excluded (see figure 7 on page 15). In addition, many young Europeans from struggling economies feel compelled to move to more successful neighboring countries with higher rates of employment. Perhaps unsurprisingly given this economic uncertainty, many European millennials are lukewarm about entrepreneurship, or risk more generally, with 52 percent having no wish to start their own business.

In aggregate, European millennials remain proud of EU membership. When asked about the future of the EU, 70 percent of young Europeans consider their country's membership to be a strength, compared to just 23 percent who deem it a weakness. Furthermore, when asked what three values the European Parliament should defend as a matter of priority, the top three

most common responses are human rights (51 percent), freedom of speech (41 percent), and gender equality (40 percent). Despite recent news of low political turnout among youth, 44 percent responding to a recent survey reported that voting in the European elections is the most effective way to participate in public life.

Although the economic recovery has been lackluster, European millennials still have high life satisfaction rates. When asked to place themselves on a ladder where ten represents the best possible life and zero represents the worst possible life, 56 percent say they currently stand somewhere between the seventh and tenth step. Interestingly, another recent global survey asked millennials to rank the element—government, private sector, or individual citizens—with the strongest ability to influence society. While Western European millennials consider the private

and training apprenticeships, many immigrants ultimately take jobs in the service sector, including in positions to care for the elderly. As new employees move into this emerging sector, European economic growth accelerates.

In this environment of growing European unity, the EU moves forward with plans for a formal constitution that emphasizes the rule of law and human rights, building on the values invoked in the Treaty of Lisbon. The constitution also introduces greater democratic accountability in the EU's institutions, giving all EU member states a larger stake in additional integration measures. Although there is a healthy debate about the constitutional referendum in several states, the constitution passes with relative ease in late 2018. This proves a boost to EU pride and pan-European identity, as ratification of the new constitution proves that Europeans support further integration. With the fiscal union strengthened, the EU builds on its economic momentum, further stabilizes its banks, and drives forward additional reforms. These include a series of labor market reform recommendations, set in Brussels and implemented by EU member states. Starting in 2019, these reforms take hold, raising the retirement age, improving flexibility in hiring and firing practices, and assisting young people in transitioning from temporary to full-time positions. Consumer spending picks up as economic growth improves, and Europeans increasingly feel comfortable spending more and saving less as the economy rebounds. Young Europeans make up for lost time as consumers by buying their first cars and first homes.

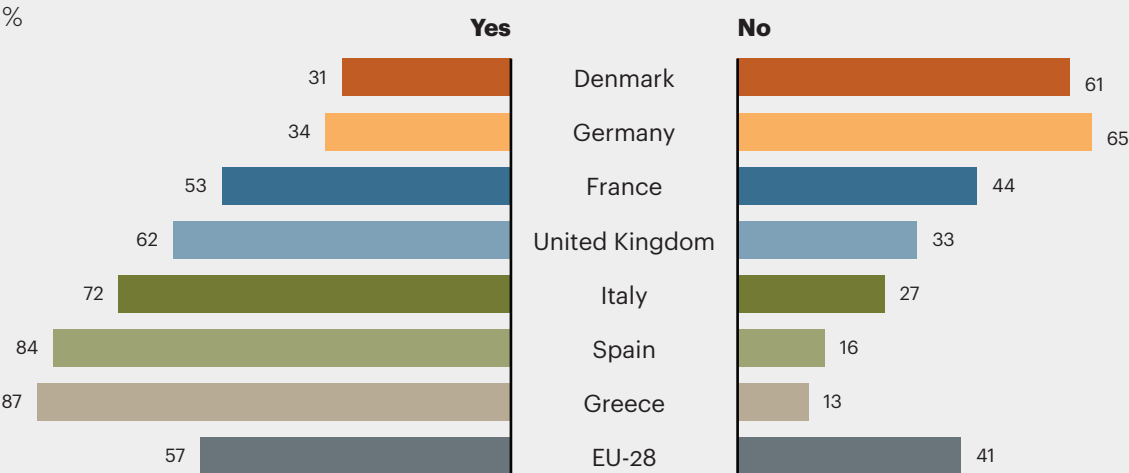
sector as the most influential, Central and Eastern European millennials selected individual citizens as the most influential.

These results may speak to a general resilience and positive outlook for many young people, particularly with respect to their

ability to influence democratic change and in spite of the short-term challenges posed by the crisis.

Figure 7
Perceptions of youth marginalization vary by country

Have young people in <home country> been marginalized, economically and socially, by the economic crisis?



Sources: Eurobarometer 2014; A.T. Kearney analysis

The European economy receives an additional boost with the passage of the T-TIP trade deal with the United States in 2018. After years of intense negotiations, compromises are reached in key sectors—including the automotive and food product industries—on health and safety standards. The agreement not only boosts growth, but also creates a stronger and more clearly defined transatlantic regulatory environment. Foreign investment in the EU grows as its business environment improves, bolstered by greater coordination and simplification of rules and regulations, the removal of uncertainty caused by the Greek economy, and the promise of a talented and robust young labor force. Small and medium-sized enterprises across the continent, including the German Mittelstand, see their costs decrease as a result of these standards. The agreement also bolsters the geostrategic relationship between Europe and the United States and sets the global standard for trading rules.

For many Europeans, **belief grows in the potential and promise of a better integrated and stronger European Union.**

With the European economy rebounding and youth unemployment decreasing, the EU experiences a renaissance as it marks its 30th anniversary. It is a Europe renewed, with strong soft power, bolstered by the popularity of its films, arts, and culture scene among youth around the world. For many Europeans, belief grows in the potential and promise of a better integrated and stronger EU. Young Europeans are rightly proud of EU leadership on a range of social and political issues, from immigration to environmental policies. Economic output rises steadily, averaging 2.6 percent throughout the eight-year scenario, before reaching 3.2 percent growth in 2023.

Most importantly, at long last the region experiences restored momentum. Citizens, young and old, center and periphery, regain a strong sense of purpose and identity. Confidence and expectations rise accordingly. Likewise, the EU institutions themselves are more democratic and reinvigorated by the progress they have helped bring to fruition. After years of crisis, an authentic renaissance has finally arrived.

Scenario 2: Middle Ages

Key dynamics

- Greece and the United Kingdom leave the EU in rapid succession, sending economic and political shock waves across the continent and into world markets.
- Social and economic strains stemming from record-breaking immigration to Europe fuel support for anti-immigrant and anti-EU parties.
- High unemployment persists, and many young Europeans hold the EU and its policies responsible for their suffering. Politically engaged youth are increasingly drawn to anti-Brussels and nationalist parties, and many look to alternative narratives for guidance, including those advanced by Moscow and violent extremist groups such as the organization that calls itself the Islamic State (ISIS).
- In an environment of persistent uncertainty and instability, competitiveness and growth stagnate. GDP growth remains low, averaging 0.7 percent over eight years and reaching 0.9 percent in 2023.
- The business environment is challenging, with continued burdensome regulatory requirements and higher corporate tax rates in many EU member states.



Narrative

The 1,000 years of the Middle Ages, between the end of the Roman Empire and the beginning of the Renaissance, effectively amounted to a hiatus in social advancement and progress for Europe. Under this scenario, the EU experiences a similar interruption in the European project, although for a substantially shorter period of time.

Tensions between Greece and members of the EU's "core" reach a breaking point in early 2017. Citing repeated missed loan repayments and "flaunting" of reform requirements set by the troika of the IMF, the European Central Bank, and the EC, the EU expels Greece from the single-currency zone. The impact of a member state leaving the eurozone sends economic and political shock waves throughout the continent and uncertainty in world markets spikes.

Freed from the shackles of the troika rules, Greece immediately defaults on its loans and holds snap elections. Antagonism and resentment toward the EU are reflected in the new leadership in Athens, which places the blame for the country's problems squarely at the feet of its "arrogant, unreasonable, and rigid" creditors. The new communist prime minister vows to nationalize "every industry he can" to "retake Greece for the Greek people." Businesses and consumers lose what little remaining confidence they had in the Greek economy, and the country plunges again into a deep recession.

As European economies struggle in the wake of Grexit, the EU receives a second blow in late 2017. British Conservatives, in collaboration with a loose alliance of anti-EU and nationalist parties, vote to leave the EU. Leadership in London echoes some complaints made by the Greeks, citing a "lack of flexibility" from EU leadership in Brussels to account for the "unique" needs of the United Kingdom. Europe's banking and financial system is hit hard as ties to London are reduced or even severed. The cost of capital rises, and Europeans find it more difficult to obtain financing without a financial center within the bloc that can immediately

replace London as a clearinghouse for international transactions. Brexit also closes off Britain's labor market to hundreds of thousands of young workers from Poland, the Baltic states, Portugal, and Spain, compounding EU unemployment challenges. The EU's foreign and security policies also suffer as a result of losing Britain's expertise and assets in both areas.

Grexit followed by Brexit is a one-two punch that undermines the legitimacy of EU politicians.

Grexit followed by Brexit is a one-two punch that undermines the legitimacy of EU politicians. As a result, support for anti-EU parties soars. Outspoken anti-EU leaders and demagogues lead large rallies, declaring that "two dominoes have already fallen" and arguing that their countries should be next to reclaim their sovereignty (see sidebar: Rise in Anti-EU Parties). French politicians wax nostalgic for the franc, while Spaniards recall a time when choices in their supermarkets were simpler and the food tasted fresher. Scotland's pro-independence movement is rejuvenated, and the country appears increasingly likely to break from the United Kingdom.

Rise in Anti-EU Parties

Since the outbreak of the European sovereign debt crisis in 2009, tensions have been rising for many Europeans as a result of high unemployment, slow growth, the politics of austerity, and the influx of refugees from Africa and the Middle East. These challenges have manifested themselves politically in an increase in support for populist, nationalist, and extremist parties. While the permutations and specific characteristics of these political parties can vary dramatically from country to country, common threads include antipathy toward Brussels, the EU, and its institutions and, in some cases, outright xenophobia, Islamophobia, anti-Semitism, and racism.

These political shifts were evident in the results of the May 2014 European Parliament elections, which saw mainstream and centrist parties lose ground to the far left and far right. In some cases, the swings were extra-

ordinary. For example, France's National Front, a ferociously anti-EU and anti-immigrant party, won nearly 25 percent of the vote, placing first in the country and winning 24 seats (compared to just three in the 2009 elections). A number of parties that had not existed or garnered zero seats in the 2009 elections also saw notable gains. Spain's far-left anti-austerity party Podemos won 8 percent of the vote (five seats), Greece's neo-fascist and violent anti-immigrant party Golden Dawn took 9.5 percent of the vote (three seats), and Italy's anti-EU Five Star Movement won 21 percent of the vote (17 seats). While some of these parties, such as Golden Dawn, have subsequently faced challenges and lost support following these elections, others, such as the National Front, seem poised to continue their momentum and could see dramatic gains in upcoming national elections.

In Britain, the success of the UK Independence Party (UKIP), including its first-place win in the European Parliament elections with 28 percent of the vote (24 seats), was indicative of wider debate in the country as to whether it should remain in the EU. As a result of pressure from his own Conservative Party, and growing support for parties such as UKIP, Prime Minister David Cameron promised to hold an "in-out" referendum on Britain's membership in the EU. The vote is to take place by the end of 2017, following efforts to renegotiate the terms of UK membership (focused on migration and banking regulations). Support for leaving the EU has fluctuated in Britain and, as of May 2015, 45 percent would opt to remain in, compared with just 33 percent preferring to leave (see figure 8 on page 19). However, as the September 2015 election of Jeremy Corbyn to the leadership of the opposition Labour Party

The rise in nationalist parties often has its roots in anti-immigrant sentiment. As conflicts continue to rage in the Middle East and North Africa, waves of refugees become scapegoats for struggling European economies and social ills (see sidebar: Refugee Crisis on page 20). These challenges are compounded by additional inflows of refugees from the Sahel, as they flee the desertification of their home countries. Growing political instability in oil-rich Algeria further contributes to fresh waves of refugees. Against this backdrop, resentment between EU nations rises, with leaders increasingly sniping about other countries not taking their “fair share of the burden.” Some Visegrad Group and Balkan countries are accused of covertly rounding up refugee communities and sending them on overnight trains to neighboring countries.

ISIS claims responsibility for a series of small-scale attacks on public transit systems and the central business districts in Paris, London, Berlin, and Budapest that leave more than two dozen dead in a matter of days. Anti-immigration sentiment reaches a fever pitch. Security concerns result in the indefinite suspension of the Schengen Agreement allowing for free cross-border movement of people. Popular pressure urges governments to aggressively clamp down on immigration and ramp up deportation measures. These dynamics have economic repercussions, as the attacks cause Europe’s sovereign risk to rise, increasing insurance costs and denting FDI. Europe’s tourism industry, once an indicator of the continent’s considerable soft-power pull, also begins to evaporate after the U.S. State Department and Russia and China’s foreign ministries warn their citizens to avoid all nonessential travel to the EU.

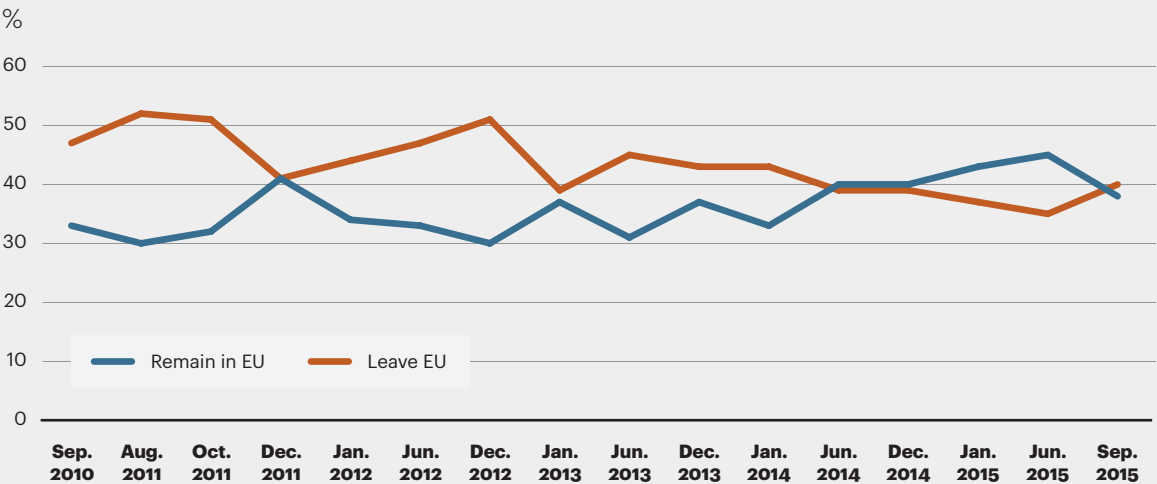
has shown, British politics can shift rapidly and unexpectedly. The repercussions of a potential

Brexit are uncertain, but they are likely to profoundly affect the UK economy—specifically trade,

investment, regulation, migration, the financial sector—and the EU budget.

Figure 8
Support for Brexit has been volatile

Level of support in United Kingdom for Brexit



Sources: YouGov UK Polling; A.T. Kearney analysis

The business environment suffers as European competitiveness and growth stagnate. As many Europeans struggle to pay their taxes and public finances deteriorate, governments in France, Italy, and Spain attempt to compensate by raising corporate taxes to fund social safety nets for their aging populations. This move backfires, forcing some multinationals to shutter factories rather than pay the increased taxation costs. As Europeans grow fearful of an uncertain future, consumer spending drops and an already underperforming service sector crumbles.

The flight of businesses from Europe is exacerbated by persistently high levels of unemployment throughout the EU, particularly among its youth. Generational inequality has grown. These trends are generally blamed on the EU and its “misguided growth-killing policies,” including labor market policies that have created a two-tiered workforce. While older Europeans enjoy a wide array of benefits and comparatively high job stability, the work available to young people tends to be short-term and contract-based, providing little security and few benefits. There are simply not enough jobs to go around. Young Europeans increasingly complain about how unassimilated and unproductive immigrants have mortally wounded the fragile European economy.

The lack of economic opportunities leads to general apathy and frustration among Europe’s young adult population. Youth that do engage politically are increasingly drawn to anti-Brussels

Refugee Crisis

Europe currently faces its most severe immigration crisis since the end of the Second World War. Protracted conflicts in Syria, Iraq, Afghanistan, Libya, and Eritrea have fueled growing waves of immigration to EU member states. In the first half of 2014, 38 European countries recorded 264,000 asylum seekers, an increase of 24 percent compared to the same period in 2013. More than 80 percent of those asylum seekers were going to one of the 28 EU member states, with Germany, France, Sweden, Italy, and the United Kingdom as the top destinations (see figure 9 on page 21). In 2014, European countries accepted nearly 150,000 immigrants from Syria alone. However, more recently these numbers have skyrocketed. In July 2015, almost 83,000 refugees and migrants arrived in Germany—and the numbers have been growing further in the intervening period. On the weekend of September 12–13, 14,000 refugees arrived in Munich, causing Germany to temporarily close its border

with Austria because it simply could not cope with the huge influx of migrants. Germany is projecting that it will receive 800,000 immigrants by the end of 2015—a stunning increase from the 200,000 who entered the country in 2014.

Many of these immigrants undertook perilous journeys to arrive in Europe. Some have ended in tragedy. Through August 2015, nearly 2,400 have been killed attempting to cross the Mediterranean Sea, setting a pace to exceed numbers from 2014. Stories of those killed in transit, including 71 who were asphyxiated in a truck in Austria and 51 found in the hull of a large fishing boat on back-to-back days in August 2015, shocked the conscience of many Europeans. The unforgettable image of three-year-old Aylan, a Syrian refugee who drowned off the coast of Turkey in early September 2015, further cemented the need for urgent action for many Europeans. In response to these tragedies

and the scale of the crisis, political leaders in Berlin, Paris, London, and elsewhere have moved to increase immigration quotas. Many European citizens have shown compassion and have been moved to action to support the crisis. In Germany, for example, local residents have brought supplies to train stations receiving refugees and volunteered to provide housing for them, and two German dailies recently published pullout guides for refugees in Arabic under the title “Welcome to Berlin.”

However, there remains a lack of EU-wide consensus on how to handle the challenge, with countries such as Hungary—a critical country of first entry into the Schengen zone for many refugees—advocating greater border control measures. Furthermore, a number of Central and Eastern European countries are resentful of Germany pressuring them to take on more refugees. It remains an open question, given the scale of the challenge, how long countries

and nationalist parties, and many look to alternative narratives for guidance, including those advanced by Moscow-backed youth groups and violent extremist groups including ISIS. Multinational businesses lose confidence in the next generation of the European workforce and increasingly move investments elsewhere, including to an emerging India and to rapidly growing Pacific Rim countries.

With crumbling support from Europeans of all ages, the EU and its institutions begin to fray. Coordinated EU-wide policy moves, including efforts to form a fiscal union, create a digital single market, and pass the T-TIP, are considered dead on arrival. EU members cling to their sovereignty. The European Parliament is widely ignored and, paradoxically, filled with members who themselves would like to abolish it. The EU-U.S. relationship is also strained, as an increasingly isolationist United States draws down security investments on the continent. U.S. business investments are increasingly rare.

In this environment of persistent uncertainty and instability, the luster of the EU has faded. As the EU marks its 30th anniversary, it is an open question as to how much longer the European experiment will endure.

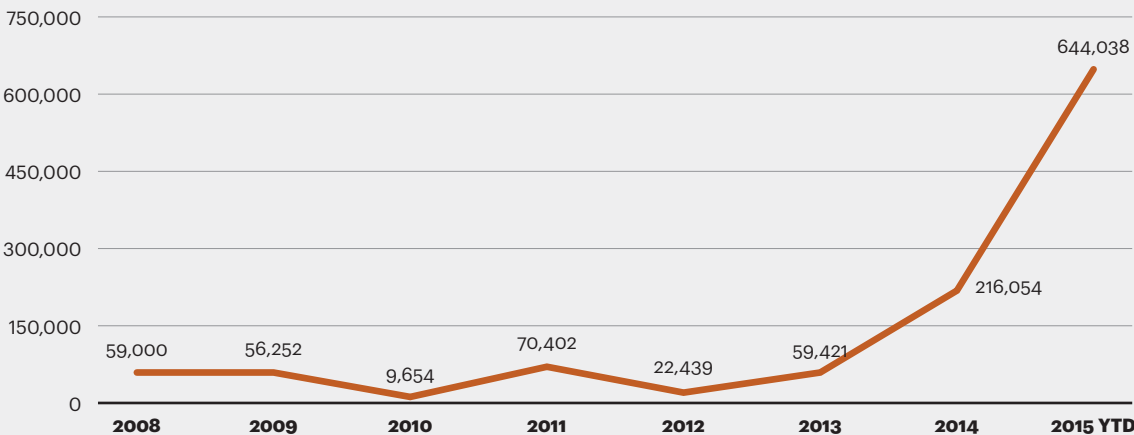
will be able to cope with the influx of refugees and how well they will be able to integrate them into their respective societies. Many European nations are facing demographic challenges and

aging populations, which could benefit from an injection of new young workers. However, concerns regarding the costs of integrating and paying for such a high number of new immigrants—

as well as instances of xenophobia and fears of terrorism—paint an uncertain future for the immigration policies of the EU moving forward.

Figure 9
The conflicts of the Middle East and North Africa have resulted in a dramatic influx of immigrants to Europe in recent years

Mediterranean Sea arrivals in Europe

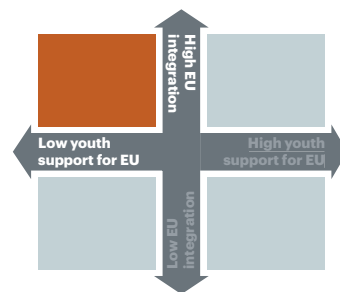


Note: YTD is year to date. Data was consulted on 21 October 2015.
Sources: United Nations High Commissioner for Refugees; A.T. Kearney analysis

Scenario 3: Reformation

Key dynamics

- EU leaders press forward with a fiscal union for Europe, coupled with other wide-ranging structural reforms geared to longer-term effect. Although these actions initially do little to lift the EU out of its economic doldrums, growth begins to take off in the early 2020s as the full effect of these reforms takes hold.
- High levels of youth unemployment persist, and few younger people even care about the broader European political debate. Some leave the region in search of work abroad, while others increasingly engage in a growing and radicalized counterculture that intensely distrusts the EU and its institutions.
- GDP growth rebounds to 2.6 percent by 2023, but averages just 1.6 percent over the course of the eight-year period. Difficult questions persist regarding the long-term dynamism of a Europe coping with an aging society and weakening infrastructure. The business environment is mixed.
- Greater harmonization of national regulatory policies, under EU guidance, makes it easier to do business. However, the flight of top-level talent during the years of low growth give some multinationals pause about investing heavily in an aging and weakening labor force.



Narrative

The Reformation was sparked in 1517 with an act of protest that ultimately led to the Thirty Years War and ended with the famous Peace of Westphalia in 1648. While the EU@30 scenario of the same name suggests nothing as catastrophic as a repeat of such a conflict, it does posit a narrative arc of a German-initiated call for reforms followed by protracted hardship before a resolution—of sorts—after just eight years.

Bolstered by a persistently weak euro and surging U.S. demand, Germany's export-led economy experiences a resurgence beginning in 2017. While its partners throughout the eurozone continue to struggle, Berlin has reluctantly emerged as the de facto leader of the continent. At this critical juncture, Chancellor Angela Merkel takes action. Working closely with the newly elected French president, Berlin helps bring Europe out of its economic malaise by advancing a series of reform efforts, including the creation of a fiscal union, to "reboot the European economy." While the initiatives are generally supported by governing elites in Brussels and other European capitals, many European citizens remain skeptical. They are wary of the implications of such policy shifts for their immediate future.

Tighter fiscal policies proliferate from Brussels, resulting in significant economic reforms that require member states to meet common standards. Corporate and personal tax bases are broadened, pension systems are reinforced, and public spending is scaled back. In addition, reforms are imposed on the banking sector that go above and beyond Basel III. Periphery countries are the hardest hit by these new requirements, as they have the furthest to go. When faced with ejection from the eurozone for noncompliance, however, they opt to stay in. Fears of the economic instability resulting from an exit outweigh the pain of austerity and reform in the short and medium term (see sidebar: Austerity Case Studies: Ireland and Greece on page 24).

In Europe and beyond, the business community greets these reforms with some skepticism as to how forcefully they will be implemented. Companies decide to wait and see whether the reforms will take hold or the approach will backfire. Economic growth slows, particularly in countries such as Greece and Italy, which struggle to adapt. There are some short-term benefits, however. European exporters experience gains as the value of the euro remains low. In addition, the ease of doing business for the financial service sector improves as greater standardization measures are enacted across the developing banking union.

However, country-level reforms to boost service sector productivity and, particularly, to make the labor market more flexible fail to take hold. Organized labor rallies in the streets of Paris against these measures, arguing that the new policies cannot break long-standing traditions and hard-fought workers' rights. In this mixed environment, EU economic growth continues to hover around 1 percent for several more years.

European youth grow impatient with the lack of opportunities, losing faith in what they perceive as an old, undemocratic, and out-of-touch European Commission.

While economists in Brussels insist that these reform measures are necessary and will ultimately make the European economy stronger, their arguments fall on deaf ears. European youth grow impatient with the lack of opportunities, losing faith in what they perceive as an old, undemocratic, and out-of-touch EC. Young adults increasingly abandon hope that they will ever have the opportunities afforded to their parents. Youth unemployment remains extremely high across most of the region, and many young people feel stuck in exploitative short-term work contracts. Following a trend that began in the aftermath of the Global Financial Crisis, more young adults decide to leave for new opportunities in former European colonies in Africa and Latin America, as well as in China.

Resentment grows among those who remain. Many youth—particularly those in smaller towns and cities throughout Europe—disengage altogether from politics, withdrawing into their digital lives. They become increasingly immersed in their social media existence and in video games, which feel safer and more dynamic than their daily reality. Unlike the majority of their peers in the United States, European millennials increasingly believe that their professional success is out of their hands; hard work and having a good education, they conclude, simply do not matter. At the same time, youth in the larger cities engage in a growing counterculture that distrusts and repudiates many of the values of the previous generation, namely a post-World War II (and post-Cold War) emphasis on democracy and multiculturalism.

In a historical echo of the demonstrations of 1968, many young people take to the streets in protest against the reform policies. This movement reaches its crescendo in May 2018, on the 50th anniversary of the massive demonstrations in Paris—when rioters again take to the streets in Paris, as well as in Rome, Madrid, Sofia, Athens, and other large cities throughout the EU. Their message? “Nothing has changed except the venue of power.” The leaders maintain that they still confront the military and bureaucratic elites against which their parents agitated—except that

they are now hidden in Brussels. In spite of this popular upheaval, the EU insists on staying the course with reform measures. They urge continued patience in the face of sustained low growth, which fuels perceptions that the EU is tone-deaf and out of touch with ordinary citizens.

Europeans' distrust of government institutions extends beyond the EU. As their parents did in the 1960s, a growing number of young Europeans view the United States with disdain. They cite that country's continued use of drone strikes, involvement in wars in the Middle East, and National Security Agency (NSA) spying on European governments as evidence that the United States is an over-militarized and untrustworthy ally. They are skeptical of the value of the transatlantic alliance, and decry perceived wasteful spending on the North Atlantic Treaty Organization (NATO) in the face of deteriorating circumstances at home. Anti-U.S. sentiment grows following the passage of the T-TIP in 2018, which is implemented in Brussels in spite of low levels of support from most Europeans. As economic growth in both the United States and EU sputters, the agreement yields few of its promised economic benefits. Furthermore, young Europeans are put off by the agreement's negative effects on local products, specifically the decline of European cinema and a perceived erosion of regulatory standards, particularly related to food products.

Austerity Case Studies: Ireland and Greece

Ireland is often highlighted as a success story for the eurozone's austerity measures. In 2010, European Central Bank President Jean-Claude Trichet stated that "Greece has a role model, and that model is Ireland." Ireland, Spain, Greece, Portugal, and Cyprus have all been subjected to international bailout programs by the so-called "troika" of the EC, International Monetary Fund, and European Central Bank. While the specific terms and conditions of each bailout have varied by country, they have generally required the introduction of austerity measures, including deep cuts to civil service salaries and social benefits, tax hikes, and increases in citizens' out-of-pocket share of healthcare costs. The logic behind austerity holds that spending must be brought under control for countries to rebalance their budgets and regain command of their economies. Ireland ultimately experienced recovery in the years following the implementation of austerity measures and now is

projecting economic growth to exceed 4 percent in 2015. Greece's performance has been far less encouraging (see figure 10 on page 25).

Given the apparent success of austerity in Ireland, why has Greece failed to achieve similar results? The answer is complicated, given that both countries have undergone difficult transitions. As the Irish government moves to end its seven-year austerity program, it estimates that the measures have cost the economy more than €30 billion (more than 15 percent of GDP). According to the IMF, strong job creation has brought down unemployment rates in Ireland from a high of 15 percent in 2011 to a projected 10.5 percent in 2015. However, at the height of austerity in 2012, Ireland experienced the highest emigration rate in Europe, with 35,000 more people leaving the country than arriving. Within six years, Ireland had switched from having the highest net immigration levels to

the highest net emigration levels in Europe. This is a key indicator of the profound social costs of the austerity program on the Irish people.

The fact is, fundamental differences between the Greek and Irish economies make comparisons difficult. According to Eurostat, Ireland's government debt peaked at 123.2 percent of GDP in 2013, while Greece's public debt continues to rise, reaching an alarming 177.1 percent in 2014. Furthermore, Greece entered its crisis with significantly higher public debt (148.3 percent in 2010) than Ireland (91.2 percent in 2010), and also faced more stringent austerity terms from the troika at the onset of the crisis. Research by the *Financial Times* on the impact of austerity measures on Greek families found that planned tax increases and spending cuts for 2011 were equivalent to about 14 percent of the average Greek take-home income. This was twice the amount experienced

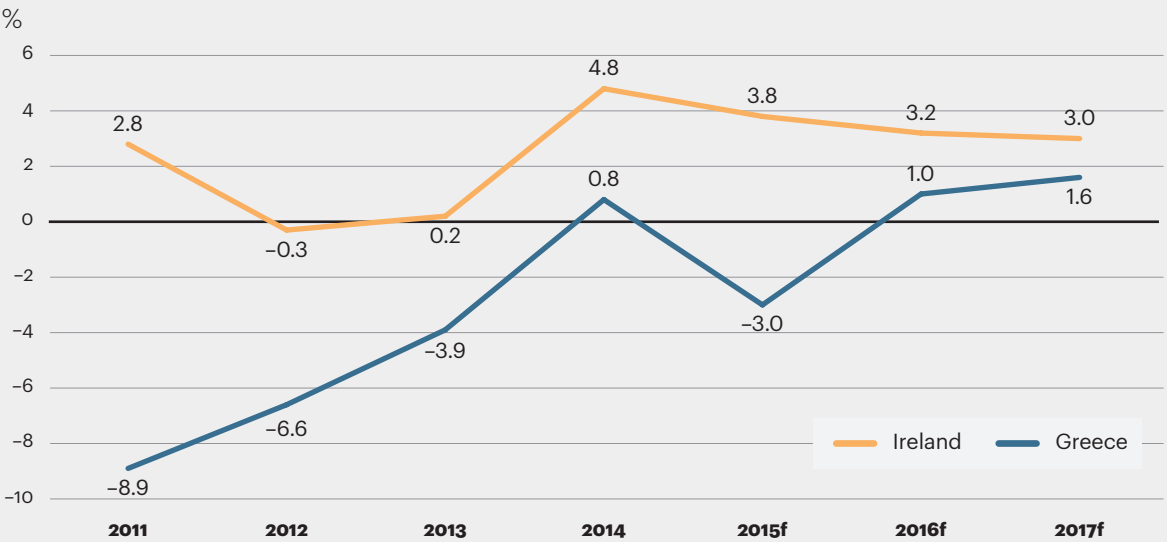
Instead, many young Europeans are drawn in by growing outreach from Beijing, which is steadily increasing its diplomatic and business footprint across Europe (see sidebar: Europeans' Perceptions of the United States and China on page 26). The region pivots toward China. The attraction has less to do with politics in Beijing and more with a general sense of excitement surrounding a rising superpower to counter the United States. The fact that the Chinese economy offers impressive growth potential and dynamic career opportunities broadens its appeal—particularly after the country was able to bounce back from its economic downturn and market instability in 2015. For many of Europe's best and brightest young people, China represents the future while the United States symbolizes the past.

In 2022, more than five years after the sweeping reforms were passed and after more than a decade of persistent low growth, a new dawn emerges. With the fiscal union and other reforms now fully implemented, growth slowly gathers momentum throughout the region. Furthermore, long-standing efforts to create a digital single market finally bear fruit. Cross-border e-commerce increases, and Europe begins to see an appreciable increase in technology sector investments. While unemployment remains a challenge, especially as machines continue to replace blue- and white-collar workers, overall levels of growth nevertheless improve.

by families in Portugal and Ireland, and almost three times higher than what families experienced in Spain. There are also fundamental questions regarding the structural weaknesses of the Greek economy, including high levels of tax evasion and graft, all of which are challenging the country's economic turnaround.

Figure 10
Two tales of austerity

GDP growth in Greece and Ireland



Sources: Economist Intelligence Unit; A.T. Kearney analysis

Europe’s economic momentum is simultaneously fueled by rapidly improving automation and continued low energy prices, which prove to be a boon for manufacturing. The high costs of initial investments in automation equipment, a trend first initiated by the German auto industry but later adopted by manufacturers elsewhere on the continent, ultimately result in improved profits and greater levels of productivity in many European countries.

More than 12 years after the initial bailout of Greece, Europe is finally able to put its sovereign debt crisis behind it. After expanding on average by 1.6 percent annually between 2015 and 2023, GDP finally grows by 2.6 percent in 2023—a threshold regarded by the EU as a hard-fought win. However, after more than a decade of low consumer demand and weak investment in infrastructure, some Europeans wonder whether the cracks in their roads and bridges are

Europeans’ Perception of the United States and China

According to Pew Research Center’s 2015 Global Attitudes survey, Europeans hold a more favorable view of the United States than of China, with a median of 68 percent holding a favorable view of the United States versus just 41 percent holding a favorable view of China. However, many Euro-

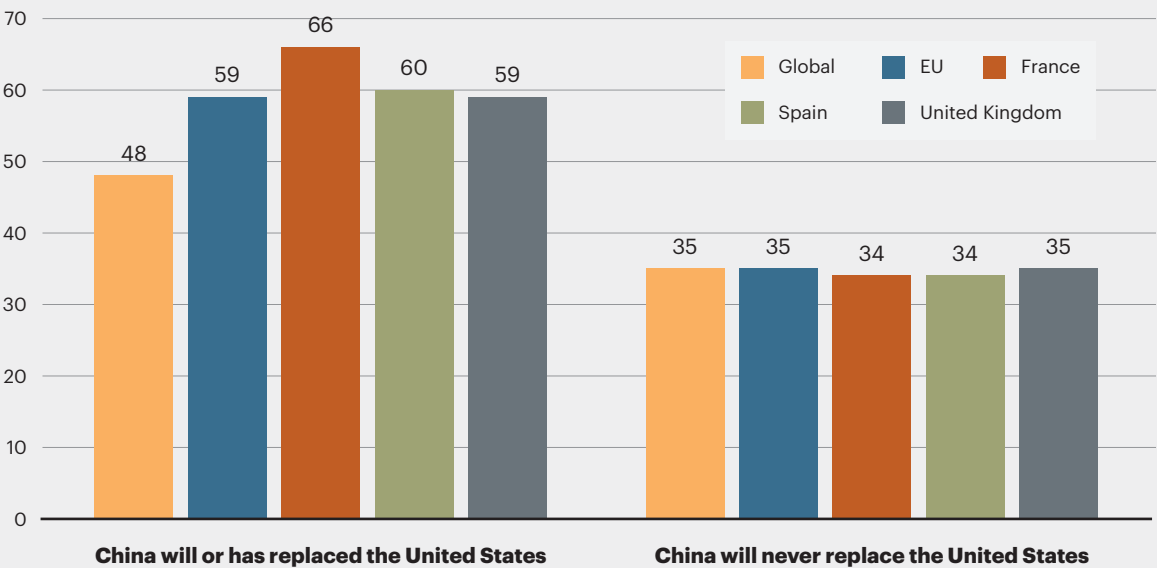
peans believe that the days of the United States as the lone “top power” may be numbered. European citizens believe to a greater extent than citizens anywhere else in the world that China will replace the United States as the world’s superpower. Compared to the global average of 48 percent, 59 percent in the

EU, led by respondents in France, Spain, and the United Kingdom, believe that China has already replaced or will replace the United States as the world’s dominant power (see figure 11). In addition, Europeans are divided on the economic power of the United States and China. Across

Figure 11
Europeans see China as current and future superpower

European opinions about China as a superpower

% of affirmative responses



Sources: Pew Research Center, 2015 Spring Global Attitudes Survey; A.T. Kearney analysis

symbolic of a region that can no longer support protracted growth. The emigration of top-level talent during the years of low growth and a generation of Europeans with strong antiestablishment sentiment give some multinationals pause about investing heavily in a market with an aging and weakening labor force.

Europeans increasingly see the values advanced by the Treaty of Lisbon of “human dignity, freedom, democracy, equality, the rule of law, and respect for human rights” as window dressing on a graying and highly technocratic governing structure that has alienated the next generation of Europeans. The vision of a fully integrated EU has been achieved, but as the EU turns 30, questions remain as to whether the social and political costs to achieve this vision were worthwhile.

five EU countries—Britain, France, Germany, Poland, and Spain—41 percent believe China is the world’s leading economic power, whereas 39 percent believe it is the United States. (Just 9 percent cited the EU as the world’s leading economic power.) Recent economic data and headlines suggest that these perceptions may be in flux. The United States is currently experiencing an economic resurgence, spurred by a host of factors, ranging from rising consumer demand, the shale oil and gas boom, improving financial-sector stability, and private-sector growth, to a rebounding labor market. At the same time, China has recently faced increasing economic tremors as concerns mount regarding runaway credit, the stability of its stock markets, and low levels of consumption.

However, Europeans have also become increasingly critical of the U.S. government, especially on issues involving the protection of personal freedoms. The Pew survey found that in 2015, only 43 percent of Germans believe that the United States government respects the personal freedom of its people, compared to 70 percent in 2008. The large

swing in opinion on this issue is partly attributable to widespread public awareness of the National Security Agency’s surveillance programs revealed by Edward Snowden. It is also the result of lasting reputational damage sustained by the United States due to tactics and policies such as the use of the Guantánamo Bay detention camp, the rendition of European citizens, the 2003 invasion of Iraq, and prisoner abuse at Abu Ghraib. This trend was also supported in the German Marshall Fund’s “Transatlantic Trends 2014” report, which found that favorability of the United States in Germany dropped from 68 percent in 2013 to 58 percent in 2014. European infatuation with Barack Obama also gradually gave way to relative disappointment with a U.S. foreign policy that has appeared to promote an increasingly destabilized European periphery from Ukraine to Libya. This perspective was more pronounced in Germany, where approval for Obama’s handling of international policy dropped from 76 percent in 2013 to 56 percent in 2014, whereas the overall European approval rate dropped from 69 to 64 percent. When asked whether the partnership between the United States and Europe should

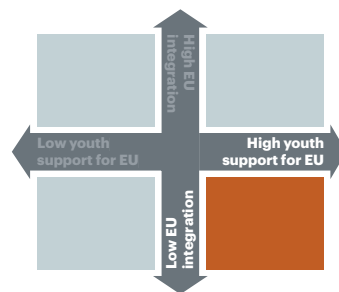
become closer, 50 percent of Europeans and 57 percent of Germans said they would like to see their country take “a more independent approach,” respective increases of eight and 17 points since 2013.

However, Europeans are no more positive on China. An overwhelming majority (86 percent) believe that the Chinese government does not respect the personal freedoms of its people. Throughout the region, 65 percent of Europeans described Chinese leadership as undesirable. Young people tend to view both China and the United States more favorably than older generations, suggesting that neither country necessarily has a definitive edge with regard to support from the next generation of Europeans.

Scenario 4: Enlightenment

Key dynamics

- Europe benefits from a spike in FDI in its energy and technology sectors following a breakthrough in renewable energy storage technology in 2017.
- The youth of Europe generally take pride in the EU and its principles, particularly its leadership on environmental issues. However, they tend not to engage personally with the EU or its institutions, preferring to focus on their careers and personal lives rather than on broader societal issues.
- By the time the EU celebrates its 30th anniversary, member state economies are generally doing well, but at the expense of the whole. The dynamics of a multispeed Europe persist, with some countries growing rapidly and others left further behind.
- The business environment is mostly positive, particularly for those companies working in the technology and renewables sectors. EU countries compete with one another for investment by enacting business-friendly regulations and providing investment sweeteners.



Narrative

Nearly four centuries have passed since the onset of the Age of Enlightenment in Europe. That seminal movement emphasized reason, analysis, and individualism over tradition and authority. Some historians argue that the period began in the 1620s with the start of the Scientific Revolution. In this scenario, under altogether different circumstances, traditional and fundamental notions of institutions and roles are also challenged, while a scientific breakthrough sparks an energy revolution. Although the EU remains in place, the roles of individual citizens and their respective countries are given priority as they seek to capitalize on the new technology-driven dynamic growth environment.

When news first breaks in 2017 that a group of scientists working for a French energy company have developed a new battery technology, the response is initially muted. Most are not certain what to make of what seems to be just an incremental development. However, it soon emerges that the batteries are capable of storing and dispersing solar power at efficiencies that are magnitudes beyond anything previously available and at a fraction of the cost. Excitement about the technology's potential to revolutionize the energy industry spreads quickly. The dream of clean and renewable energy self-sufficiency for Europe suddenly seems achievable, putting Europe ahead of targets agreed to at the Paris 2015 United Nations Climate Change Conference of Parties, COP21. Europe's "clean energy revolution" captivates the continent—and the world—as interest in Europe's scientific and technological potential is piqued (see sidebar: Clean Energy on the Rise in Europe on page 29).

Both European and foreign investment in the energy sector spike as companies from around the world rush to get in on what may be an unprecedented next-generation "game changer." This boost in FDI benefits not only France, but also Germany, Spain, and Italy, where rival energy companies rush to adapt and improve upon the new battery technology. Advances that allow for the capture and storage of energy generated by wind and hydropower soon follow. In this environment, European manufacturers benefit from the lower energy costs as well as the lower level of uncertainty about their energy supply. They are no longer reliant on Russian gas. Manufacturers

Clean Energy on the Rise in Europe

The EU has an overall target of cutting greenhouse gas emissions by 20 percent by 2020, and by 40 percent by 2030, relative to 1990 levels. According to the EC's 2015 renewable energy progress report, the combined EU share of renewable energy had already been cut by 15 percent in 2013, which is above the targeted trajectory. Some member states, such as Denmark, Germany, Italy, and Sweden, may exceed their 2020 renewable energy targets, whereas Hungary and Poland may fall short of these goals.

New technologies have played a critical role in the shift toward renewable energy in Europe. There has been significant growth in environment-related patent applications since the 1990s, especially those targeting emissions and energy generation

from renewable sources (see figure 12). Specifically, applications for renewable energy generation patents increased more than sixfold from the early 2000s to 2010.

Estimates by Bloomberg New Energy Finance suggest that Europe's renewables capacity will increase from 41 percent of total generation in 2012 to 60 percent in 2030. About three-quarters of the roughly €1.2 trillion (\$1.3 trillion) in global investments in power generation from 2013 to 2030 will be in renewables, largely driven by wind and solar photovoltaic (PV) cells. While initially driven by favorable policies, wind and solar PV will eventually outcompete coal and gas on costs. Among all member states, Germany and the United Kingdom are projected to produce the most renewables over

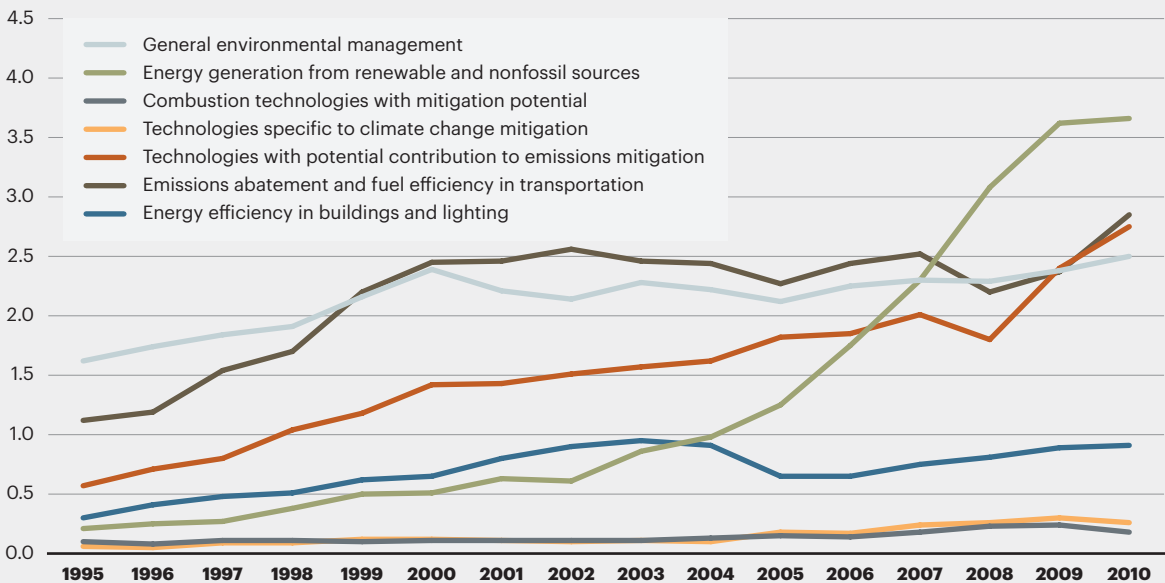
the coming years, contributing to roughly one-third of total additions in Europe. However, France and Spain are anticipated to lead in rooftop solar capacity.

Nevertheless, clean energy policies continue to face challenges. Critics have pointed to dramatic measures, such as Germany's decision to replace all nuclear energy with renewables, as premature and costly. In the short term, Germany has had to import coal, which releases among the highest levels of CO₂, to offset the energy loss from closing emissions-free nuclear plants. The road to clean energy in Europe will not be straightforward, but in aggregate, popular support and belief in the cause of clean energy remain strong across the majority of member states.

Figure 12
Rapid increases in renewable energy innovation

Patent applications to the European Patent Office

Million



Sources: European Environment Agency; A.T. Kearney analysis

across a variety of sectors are better able to compete with firms located in the hydrocarbon-rich United States.

In the euphoria of this rapidly changing European growth environment, a spirit of intra-EU cross-border competitiveness also takes hold. Countries compete aggressively with one another to capture capital flows into scientific and innovation clusters, creating incentives and tax breaks for large investors. Several EU countries enact labor reforms to gain a competitive edge. While critics argue that many of these reforms—including a repeal of the minimum wage, an uptick in temporary hires, and reduced benefits—are effectively a “race to the bottom,” those countries that enact the reforms tend to see increased levels of foreign investment and resulting economic growth. For instance, they are able to better attract the growing number of start-ups, as well as the new R&D facilities that many large companies have launched in recent years to build upon the success of the European energy revolution. However, dynamics of a multispeed Europe appear to be emerging on a grander scale, and countries that fail to compete are left further behind.

EU Trade with China and the United States

Trade is critical to the EU economy and, in contrast to the corresponding global levels, has been rising steadily since the 2009 economic crisis. The EU’s top trading partner is the United States, with total trade exceeding €515 billion in 2014 (see figure 13 on page 31). Total U.S. investment in the EU is three times higher than its investment in all of Asia, and EU investment in the United States is roughly eight times the amount of EU investment in India and China combined. In an effort to boost these ties even further, both partners are pursuing the T-TIP, an extensive regional trade agreement that the EC estimates would result in an additional €220 billion worth of total global exports of EU goods and services.

While there is great potential in the agreement, its scale and ambition have created political challenges on both sides of the Atlantic. For the EU, top of mind have been fears of weakening regulatory standards, particularly food safety standards and small business protections, as well as concerns that the deal could result in a “race to the bottom” with regard to environmental

standards. Europeans have also expressed concerns that the deal would be detrimental to its cinema and arts industries, as they would be overwhelmed by Hollywood’s blockbusters. The deal has faced criticism in the United States as well, particularly from organized labor, and some have complained about a lack of transparency in negotiations and a lack of democratic oversight to the process. While officials in both the EU and the United States have actively attempted to dispel these concerns, work remains to be done in countering such narratives. As with many trade agreements, the negative consequences are often concentrated and easily demonstrated (a closing of a local factory, for example). However, the benefits tend to be broadly distributed over populations, sectors, and time. The success or failure of the agreement remains an open question, and implementation seems unlikely before the first quarter of 2017.

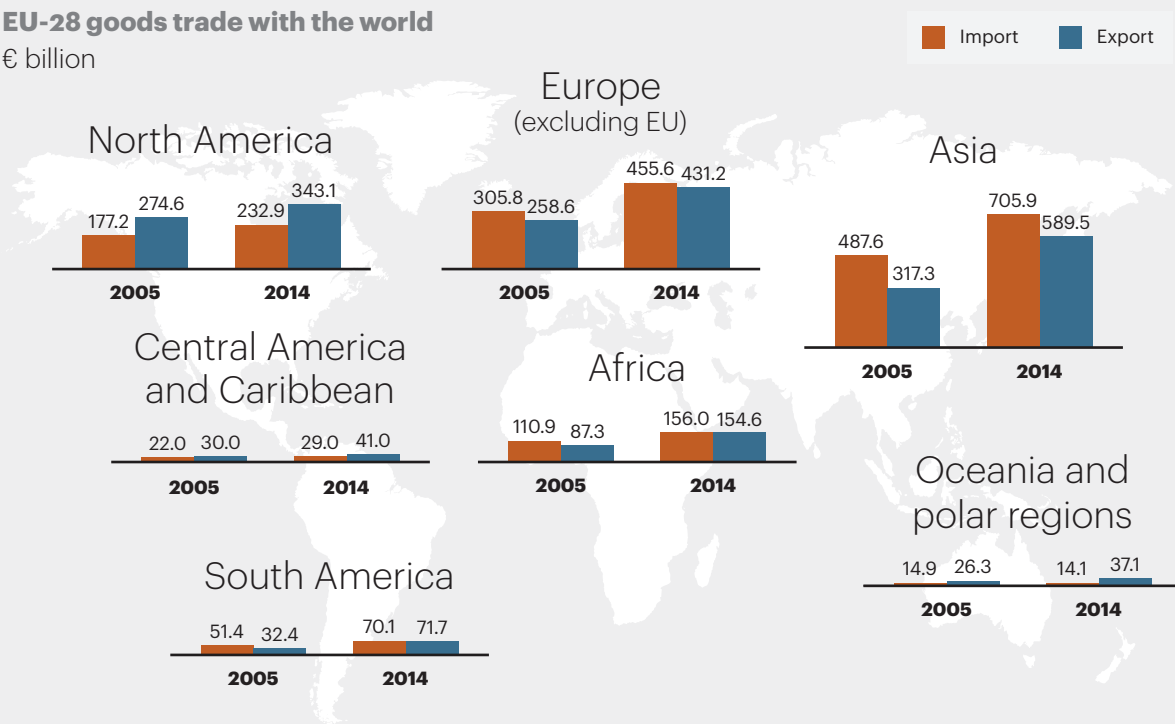
The EU’s second-largest trading partner is China. In 2014, total trade between the EU and China reached €467 billion, continuing

a generally positive recovery since trade dipped to €297 billion in 2009 following the European sovereign debt crisis. In fact, China and Europe now trade over €1 billion per day, and both sides believe that flows could be increased. For these reasons, plans for a bilateral investment treaty (BIT), the EU-China BIT, were announced in November 2013. The agreement would streamline the existing BITs between China and 27 of the 28 EU member states (all except Ireland) and seek to overcome current barriers to entry for EU countries investing in China. The agreement would also boost FDI for China and help the country consolidate the opening of its domestic markets to greater competition. Negotiations for the agreement are ongoing, and not without challenges. For example, 64 percent of all counterfeit goods seized at European borders in 2012 came from China, making intellectual property rights infringement a persistent concern for European businesses operating in China. Nevertheless, both sides are hoping to complete negotiations no later than June 2017.

The improved economic environment helps to create jobs for highly educated young Europeans. Although these jobs may be less permanent and come with fewer benefits than their parents enjoyed, they are a vast improvement compared with the prolonged unemployment that many young Europeans suffered in the aftermath of the Global Financial Crisis. As employment levels rise, consumer demand also begins to pick up, further bolstered by a reduction in household energy costs. Unemployment across Europe reaches record lows, leading in some cases to inflation—something unseen in Europe for a decade.

Importantly, this energy revolution has been driven by the private sector. Europeans believe that it is not “more Europe” that unlocked the region’s energy potential and finally kick-started EU growth again, but rather business innovation and national government policies. Protection of domestic industry and jobs is a much greater priority than coordination of pan-European regulations.

Figure 13
The EU-28 trades mostly with North America, Asia, and Europe



Sources: European Commission Directorate General for Trade; A.T. Kearney analysis

As a result, interest in expensive, large-scale, multilateral energy projects, such as the European Organization for Nuclear Research (CERN) accelerator complex and the International Thermonuclear Experimental Reactor (ITER) fusion power project, declines rapidly. Other EU-wide projects, such as the Galileo satellite navigation system, are scaled back or abandoned. In addition, proposals for further EU integration, including the creation of a digital single market, fail to gain traction as national governments focus increasingly on their domestic economic agendas.

Coordinated foreign policy efforts, such as sanctions against Russia over the conflict in Ukraine, are relaxed as an emphasis on boosting economic ties—regardless of the actor—trumps political and security considerations. Infighting among EU member states also prevents agreement on European trade rules. These dynamics sink the bloc's potential trade deal with the United States, the T-TIP. Although the United States remains the EU's largest trading partner even without the T-TIP, China increasingly sets the rules on global trade as it moves closer to replacing the United States as the world's most powerful economy. Highly transactional dealings between the EU and China rise, with London and Berlin leading the way in aggressively competing for Chinese investment (see sidebar: EU Trade with China and the United States on page 30). Moscow and Beijing independently work to play EU member states against one another to secure trade and investment deals on the most favorable terms possible.

Protection of domestic industry and jobs is a much greater priority than coordination of pan-European regulations.

The EU is not completely irrelevant, however. European youth largely take pride in the EU and its principles, particularly its leadership on environmental issues through technology and innovation. More generally, they regard the EU and its institutions as worthwhile. They also appreciate the ability to study, work, and travel freely throughout the region, and are widely considered the most international generation of Europeans yet. That said, they tend not to engage personally with the EU, and there is record-low voter turnout among Europeans in their 20s and 30s in the 2019 elections for the European Parliament. Increasingly, young adults pay little attention to public policy issues and debates.

As it turns 30, the EU is undergoing a creeping identity crisis. The economies of its member countries are generally doing well. Between 2015 and 2023, growth has averaged 2.5 percent, and reaches 2.9 percent in 2023. Most Europeans are supportive of the EU in principle. However, EU integration has effectively stagnated and seems unlikely to resume in the short or medium term. Large-scale EU-wide efforts, including T-TIP and the creation of a banking union, are cast aside as countries focus on competing national interests rather than complicated and politically charged EU projects. For the most part, the EU and its institutions are considered more as symbols than as levers of any meaningful power.

Conclusion and Business Implications

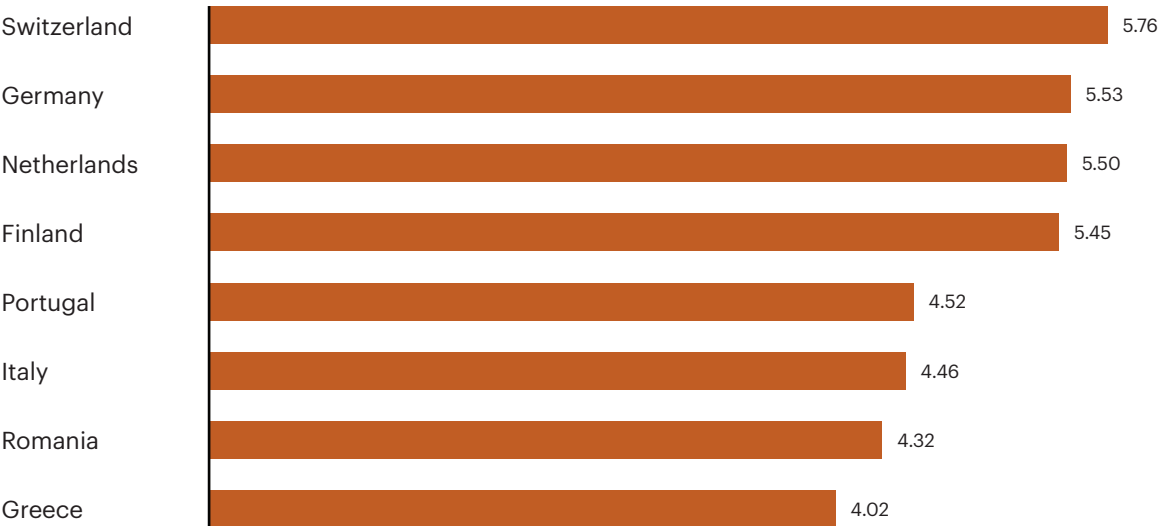
Without question, Europe faces innumerable sources of uncertainty over the next eight years. While it is improbable that any one of the four EU@30 scenarios will unfold as written in these short narratives, it is likely that aspects in each of these scenarios may materialize. They are not mutually exclusive. Among these developments, the following six areas are critical for business leaders and decision makers operating in Europe to monitor, as they can serve as early warning indicators of the future the EU is moving toward:

- **Immigration.** The EU's success or failure at integrating the dramatic influx of immigrants to the region will have major implications for the future of the European project. The number of people fleeing the Middle East and Northern Africa has skyrocketed, from just 22,439 in 2012 to 216,054 in 2014, and well over 400,000 through August 2015. These developments will test the abilities of EU member countries to cooperate and resolve a central cross-border challenge that strikes at the core values of the European project. Successful integration could ultimately empower Europe by providing countries confronting aging populations with a new, young workforce. However, failure to integrate presents an array of challenges, ranging from additional strains on social welfare systems to potentially serious social and political outcomes. The way that Europe manages this current crisis will say a great deal about the state of the EU@30.
- **Trade.** The EU has the potential to serve as an economic conduit to both the West and the East. Economic relations with both the United States and China remain strong and have the potential to deepen. The future of and details surrounding both T-TIP and the EU-China BIT remain unclear, but the final form of each agreement will likely play a critical role in Europe's economic future on the global stage.
- **Geopolitics.** Europe continues to face persistent security challenges from both the South and the East. The extent to which EU-Russian relations recover (or worsen) over the next several years will have profound implications and deep economic impact. According to the A.T. Kearney 2015 Foreign Direct Investment Confidence Index®, a majority of global business executives are poised to rapidly reinvest in Russia should the political situation improve. With regard to the Middle East, the refugee crisis is just one indicator of how the conflicts in that region are impacting Europe. Europe must also brace for potential future displacement of peoples of the Sahel who are fleeing human deprivation as climate change results in increased desertification. The potential for further violent attacks on European soil or the spread of regional volatility to neighboring countries could influence Europe's approach to dealing with security challenges in its neighborhood. While increased military spending seems unlikely for many EU countries at present, Europe may direct additional spending to aid and development efforts in order to shore up problem areas at their source.
- **Competitiveness.** As Europe works to emerge from its sovereign debt crisis, the region confronts an array of banking, fiscal, debt, and unemployment challenges. Central to all of these challenges is a crisis in competitiveness. The eurozone is a paradox in that its 19 constituent economies span the spectrum of economic competitiveness. The World Economic Forum's Global Competitiveness Index 2015–2016 clearly showcases this divide (see figure 14 on page 34). The northern eurozone economies are strongly represented in the top 10, with Germany, the Netherlands, and Finland ranking fourth, fifth, and eighth respectively. Other economies of Northern Europe also place highly among the top 10, with Switzerland, Sweden, and the United Kingdom placing first, ninth, and 10th overall. However, it is a very different

Figure 14
A multispeed Europe

Global Competitiveness Index 2015–2016

Scale from 1 (low) to 7 (high)



Sources: World Economic Forum; A.T. Kearney analysis

story for the periphery, where Portugal, Italy, and Greece rank 38th, 43rd, and 81st respectively. Greece’s ranking places it just ahead of Moldova and Armenia, and Italy fares especially poorly with regard to its productivity (139th) and labor market efficiency (126th). It is also noteworthy that France, a key leader of the European project, continues to struggle because of a lack of flexibility in its labor market. While the country ranks 22nd overall and labor market efficiency has shown some improvements in recent years, overall performance of the labor market remains poor and is ranked 96th.

- **Unemployment.** Unemployment—and specifically youth unemployment—remains a persistent problem in much of the European periphery. While the unemployment rate in Germany and Austria was around 4.6 percent and 5.8 percent respectively as of July 2015, Greece and Spain experienced levels of 25 percent and 22 percent respectively. The story for youth, those Europeans aged 15 to 24, has been even direr, with youth unemployment rates in excess of 51 percent in Greece and Spain and at 42 percent in Italy through 2014. These high levels of youth unemployment have persisted for years, leading to concerns about a potential “lost generation” of young Europeans with negative perceptions of the EU as an emblem of austerity and foregone career opportunities.
- **Political radicalization.** The success of anti-EU parties is not just measured at the ballot box. While many of these parties have seen gains in recent elections, they have also succeeded in shaping national debates and influencing narratives on major issues ranging from immigration and cross-border travel to the role of the EU itself. The level of support and attention paid to these parties in the years to come will also serve as a key indicator of the shape of the EU@30.

In addition to these six indicators, there are four policy activities that can be undertaken both in Brussels and by member states that could unlock greater European growth:

1. Service sector productivity. Europe's service sector is an area of untapped potential for boosting the region's productivity. Labor and product market regulations, coupled with price regulations in some sectors, have stunted return on investment for many services. Giving the service sector more space for competition and innovation would provide great opportunities for growth. Through the lens of our scenarios, service sector reforms drive GDP growth in our Renaissance scenario, fueled by a new and dedicated immigrant workforce. In contrast, failed implementation of such reforms creates a drag on the economy in Reformation and is indicative of broader challenges in Middle Ages.

2. Labor market reform. Europe has a highly educated young workforce, a factor that is central to competitiveness. However, the region is struggling to harness this advantage as a result of low labor market flexibility. Rigidities, specifically difficulties in firing or furloughing employees or closing plants, mean that rather than laying off the least productive workers, companies are increasingly hiring temporary workers to avoid separation costs. Europe is home to a talented and highly skilled workforce, but failure to reform the labor market could mean a loss in its labor advantage as workers relocate elsewhere. Once again, labor market reforms are addressed in our scenarios. In Renaissance and Enlightenment, these reforms are enacted to boost competitiveness and growth—to an extreme degree in the latter case. Conversely, efforts to enact these reforms are greeted with protest in Reformation and prove fruitless in Middle Ages.

Striking the proper balance between core principles and contending with economic and political realities will remain central to the ongoing European project.

3. Fiscal union. The merits and challenges posed by a fiscal union—and its requisite institutions—remain a subject of intense debate. Nevertheless, as U.S. Treasury Secretary Alexander Hamilton stated in 1790 in the context of creating a U.S. fiscal union, such a move would “contribute in an eminent degree to an orderly, stable, and satisfactory arrangement of the union’s finances.” A fiscal union has great potential upside, moving the EU toward a true political union and giving it the ability to manage the whole of the European economy. Done correctly, it would reassure markets, lure investment, and boost growth. In our EU@30 scenarios, the fiscal union is created with broad popular support in Renaissance, driving high levels of growth. While such a union is also created in our Reformation scenario, the process of implementation proves more challenging and the benefits take many years to materialize. Conversely, in Enlightenment, growth is generated primarily through outside investments without a fiscal union. In Middle Ages, the EU has neither the popular support nor the capacity to create such an enterprise.

4. Digital single market. As discussed above, a digital single market has the potential to create up to €415 billion in additional growth, hundreds of thousands of new jobs, and a vibrant knowledge-based society for Europe. It would boost access for consumers and businesses to digital goods and services across Europe and strengthen the environment for digital networks

and services to grow rapidly. While many challenges remain, including the inequality of technology infrastructure across the EU, the potential benefits make the effort to overcome these obstacles worthwhile. A digital single market is created in our Renaissance and Reformation scenarios and provides a boost to economic growth in both scenarios. The Enlightenment scenario is one where, particularly given the emphasis on the technology sector, the creation of a digital single market could likely have yielded additional growth, but a lack of cross-border collaboration prevents it from taking hold. As is the case with the other growth opportunities, the digital single market is unattainable in the Middle Ages scenario as countries increasingly turn inward.

Regardless of the shape of the EU@30, Europe will remain a critical region for the world—economically, socially, and politically. Over the next eight years and beyond, the region will be shaped not just by the challenges it confronts, but also by the way in which it addresses each of these challenges. Striking the proper balance between core principles and contending with economic and political realities will remain central to the ongoing story of the European project. The one certainty is that change will come to Europe. It is incumbent on business leaders and decision makers to provide leadership and collaborate, when possible, to make the EU@30 as dynamic and strong as it can be.

Authors



Paul Laudicina,
chairman emeritus of A.T. Kearney and
chairman of the Global Business Policy
Council, Washington, D.C.
paul.laudicina@atkearney.com



Erik Peterson,
partner and managing director of
the Global Business Policy Council,
Washington, D.C.
erik.peterson@atkearney.com

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