NEW STRATEGIC CONCEPT

POST-EU ECONOMY: LONG-TERM FORECAST OF EUROPEAN ECONOMIC DEVELOPMENT RESULTING FROM IMPLEMENTATION OF OBSERVABLE TRENDS

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CONTENTS

In the vibrant landscape of Italian politics and business, a notable clash has emerged in the last few weeks between Giorgia Meloni, the leader of the right-wing political party Brothers of Italy (FdI), and John Elkann, scion of the well-known car produc-tion family Agnelli (Fiat, Alfa-Romeo, Lancia, Ferrari, Maserati, Iveco). John Elkann decided to move the companies out of Italy and production out of Europe, even though he took advantage of subsidies. The clash between Giorgia Meloni and John Elkann is about deindustrialization and Eurosabotage. It represents a microcosm of the broader tensions and challenges confronting the European Union (EU) in the 21st century.

As political and business leaders grapple with competing visions and priorities, the clash outcome will reverberate far beyond the confines of partisan politics and cor-porate boardrooms, shaping the destiny of the EU at a critical juncture in its history. In recent years, Germany, France, and Italy, once the industrial powerhouses of Eu-rope, have witnessed notable shifts in their economic landscapes marked by the phenomenon of deindustrialization. This trend, characterized by a decline in the rel-ative contribution of manufacturing to the national GDP and employment, poses significant challenges for these nations.

In this context, it is important to present a comprehensive analysis of the globalist capitalist model's challenges, particularly within the European Union (EU), and out-line potential scenarios for its transformation. Key points include:

1. **Systemic Challenges:** The EU faces crises stemming from geopolitical risks, in-cluding tension with China and internal economic and political instability. These factors contribute to the potential collapse of the globalist capitalist model.
2. **Militarization and Economic Shifts:** Militarization, driven by NATO interests, exacerbates intra-elite confrontations and favors US corporations over Euro-pean counterparts, draining the EU's budget and compromising social ex-penditures and public investments.
3. **Economic and Political Divisions:** Rising borrowing costs, declining economic growth, and unresolved crises contribute to Euroscepticism and political divi-sions within the EU, affecting key member states like Germany, France, and Italy.
4. **Potential Scenarios for EU Transformation:** The text outlines three probable scenarios for the EU's future: centralization leading to a federation, a "Two-Speed Europe" with different regulatory frameworks, or EU degradation characterized by Eurosabotage tendencies and geopolitical influence.
5. **German Recession and Global Economic Shifts:** Germany's recession, fueled by deindustrialization and protectionist measures against China, underscores broader global economic shifts and potential repercussions for the EU.

6. **Proposed Paradigm Shifts:** Preparations are underway to dismantle the neo-Keynesian free market model in the US and EU, with a focus on a people-first, conservation economy paradigm. This shift entails redefining the metrics of economic success and control mechanisms.
7. **Zero-Sum Society Dynamics:** The proposed models prioritize social criteria and fair redistribution, leading to a zero-sum society where improvements for one group may come at the expense of another, which emphasizes control mechanisms by non-profit entities and IMF-affiliated NGOs.

The analysis portrays a complex landscape of economic, political, and social chal-lenges within the EU and suggests potential transformative pathways for addressing systemic issues and shifting paradigms.

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Summary

The capitalist model is nearing collapse. The European economy is facing a flood of successive crises caused by exogenous factors that have led to a systemic deregulation in the economic and political stability of the bloc.

Geopolitical risks, mainly caused by the dismantling of the globalist model, regionalization, and growing tensions in international economic relations with China, impede the EU's long-term technological development. The profound connection between the US and EU market mechanisms poses a major risk of collapse in the European financial system amid the domestic political crisis and the unprecedented level of the US government debt. The growing cost of its service stirs up fears of imminent default in the expert community. Admission of new countries, particularly war-torn Ukraine, will cost too much in current condition expenditure and will lead to a faster disintegration in Central and Eastern Europe.

Militarization of the economy is taking place in the interests of NATO, while fueling intra-elite confrontation. US giants are winning the battle for contracts against European companies draining the EU's deficit-ridden budget. Pan-European military initiatives suggest that defense spending will be increased and that social expenditures and public investments are at stake as the defense lobby seeks justification of new contracts with Russian military threats. A confrontational situation observed in relations with China, having a unique CRM necessary for production of advanced weaponry and high technology, plays into hands of US suppliers with a more diversified supply structure. Thus, militarization and rapid rearmament imposed by global arms manufacturers, together with integration processes, stamp out national interests of the EU member states. In the longer term, this will lead to a complete inability to conduct any sort of independent foreign policy despite the declare line of strategic autonomy. NATO's involvement as part of the Strategic Compass, the adoption of which was backed by the French establishment going hand-in-hand with growing US influence, brings about a long-term technological advantage for US corporations – those which are directly and indirectly part of sensitive research and development and also integrated into the EU production processes.

With rising borrowing costs and declining economic growth, problems with public debt repayment may run rampant and become more systemic. The armed conflict in Ukraine could escalate, leading to more price spikes in food and energy, thus, triggering further inflation and the tightening of monetary policy.

The European debt and budget crisis is fracturing international political alliances and causing a rise in eurosceptic sentiments. France, Italy, the Netherlands, and many Central European countries increasingly favor eurosceptics whose narrative is becoming radicalized across the board.

At the EU level: The division into eurosceptics, hard- and soft-liners, reflects an abundance of sources of discontent, including economic and social factors, demographics, and other problems.

The imminent crisis in the EU economy, such as the incoherence of the budgetary policy, the status of the Ukrainian conflict and massive support for Palestine in the Middle East, does not just reinforce the political trend of support for right-wing politicians but also is becoming a mainstream phenomenon. Crises, contained yet unresolved, will only foster disintegration processes if negative trends intensify [1].

Growing instability and the disintegration of public opinion over union enlargement both throw roadblocks at a firm stance in support of new countries joining the EU.

At the level of the EU member states: AfD's popularity in Germany and difficult political decisions in the Federal Constitutional Court further entrench divisions in the country's political landscape. The scandal over budgetary decisions affects the ratings of the country's leaders and fuels criticism from the opposition.

Increased public spending in response to yellow vest demands in France threatens to increase the budget shortfall, which is raising concerns across Europe. Dissatisfaction with government policies may contribute to increased Euroscepticism. This affects the authority of key economic leaders in the EU, including France, which plays a prominent part in the EU economy.

In France and Germany, pro-Brussels socialists are dealing with fierce opposition from right-wing eurosceptics. This only feeds a commotion where left-wing EU supporters confront right-wing eurosceptics having certain discussions about the future of the union, adds fuel to the flame and could undermine their confidence in the EU policies of other key EU economic leaders, including Italy and the Netherlands.

There is a political crisis brewing in the EU. The likelihood of countries officially leaving the EU and the eurozone is slim. The UK's case served as a bad example and helped drive down the public popularity of the idea. But the premises are still there and have been expressed in the form of "Eurosabotage" in Eastern European countries. It is viewed as a compromise and the most viable way for national governments to demonstrate Euroscepticism in running nations, which strengthens the trends for the EU breakdown from within. Another example is Italy, where right-wing eurosceptics came to power and the government decided to ditch the anti-Brussels stance they promoted during the elections. Such a fire sale of national interests is not a solution, as it undermines voter confidence in the system contributing to crisis divisions.

The crisis described above is a systemic phenomenon overcoming which will transform the European Union. In the medium term, there are three probable scenarios:

Centralization is a scenario which would largely require renunciation of national sovereignty, the creation of an EU army along with other security agencies. This means that the union would basically transform into a federation.

“Two-Speed Europe” is being implemented by creating different regulatory frameworks for the countries that would be the economic “core,” including major EU economies, and the “periphery,” which includes countries of Eastern Europe and the Balkans.

EU Degradation is a scenario described by growing “Eurosabotage” tendencies amid national governments where no one leaves the EU de jure. Rather, they try to pursue independent policies de facto and come under the influence of geopolitical entities and states outside the EU gradually turning the EU into a fictitious polity.

Germany, an industrial hub and a major provider of the EU’s economic stability, has plunged into recession caused by deindustrialization and protectionist measures against China complicating supply chains, damaged as they are. Now boxed in, the German economy hit a debt ceiling that limits support for businesses losing competitiveness. On the top of all that, industry and business have to deal with the fact that there will be no more subsidies reducing the costs of high energy prices. The inevitable outcome could be a flight of capital and industry to the US and the entire bloc sliding into a deep recession.

In the case of further political centralization of the EU, combined with economic stagnation, shrinking energy supply, geopolitical conflicts and cuts in spending (social spending in the first place), there is a high chance that governments would adopt a radical Eco-socialism model promoted by the consensus of banking elites deemed part of the Club of Rome. This initially being focused on acting in the best interests of the transnational industrial and commercial capital of aristocracies with the Rockefeller family playing a strategic role. More recently, media, academics and the European Parliament have reignited positive discussions of the Degrowth concept as a framework for the new EU economic system.

In the US and the EU, preparations are being made for the mainstream neo-Keynesian free market model (which failed to maintain globalism due to the debt crisis) to be dismantled. This will be followed by a capitalism “reboot” on a people-first basis. In the proposed paradigm, society and business are built around the idea of environmental catastrophism embodied in the conservation economy. The key to transformation must be a large-scale crisis ravaging all stable society and economy constructs.

The central narrative adopted by these models is the targeted absence of economic growth or its decline in the closed-loop economy and economic dictatorship whose metrics of success determine the capitalist model scaling. Businesses are divided into "bad" and "good" based on social criteria of their impact on "welfare," "happiness" and "public good" susceptible to manipulation, thus enabling the consensus core of IMF-affiliated NGOs to secure tight control over the market. Control is turned over to non-profit entities derived from global corporations which are meant to carry out "fair redistribution" and tight control of the society's needs within specified artificial limits. The zero-sum society becomes a theater of conflict. Thus, there is a situation where a group or a country can improve their standing at the expense of another group or country when following the logic of redistribution rather than production.

1. Trends Driving European Economies

Trend for Growing Geopolitical Risks

A series of successive crises brings considerable uncertainty, volatility and fragility to geopolitical balances. The war in the Middle East, Russia's invasion of Ukraine, and US-China tensions have ramped up geopolitical fragmentation into geopolitical blocs. Emerging and frontier markets will gain more autonomy, while isolationist policies will lead to trade volatility and economic stagnation. Growing multipolarity accelerates trends of economic diversification and the importance of supply chain sustainability. As a result, this will give rise to a high risk of a significant widespread decline in production volumes and foreign direct investments.

These trends will be largely driven by increased competition between geopolitical blocs or networks of alliances. Meanwhile, multipolarity is likely to continue to cause more trouble to coordination of global policies, increasing the uncertainty and severity of any transnational crises that may emerge or expand. Cross-border supply chains will become more costly and difficult to manage.

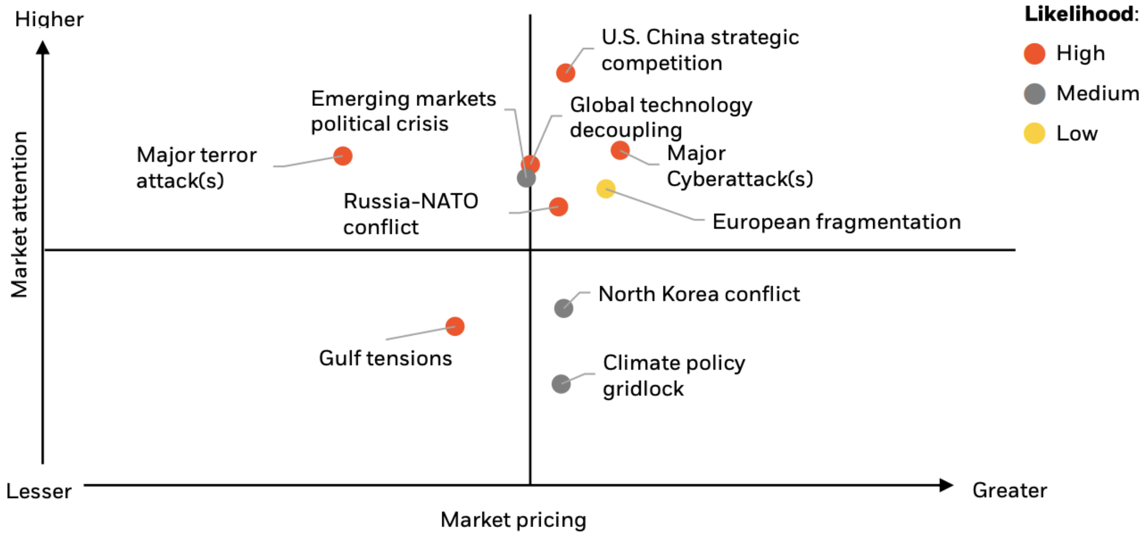
Competition for control of, and access to, the World Ocean will become tougher with implications for supply chains, data flows, food supply and energy security. The risk of geopolitical disturbances crippling the reliability of maritime transportation could significantly affect the EU's energy costs. Due to critical dependence on LNG, potential fluctuations could drain the limited budgetary subsidies and further reduce the margin of safety of European companies and their competitiveness [2].

The war between Israel and HAMAS has so far had limited side effects for the global economy and markets as the war has been largely confined to the Gaza Strip and Israel. The risk of the conflict escalating and expanding is high. Wholesale gas prices in the EU are nearly twice as high as before the Russian invasion and significantly higher than in the US [3]. The dependence of oil and gas prices on the security of a large share of LNG logistics routes, coming to the EU, shifts the impact of the crisis onto the global economy and markets and makes industrial competitiveness vulnerable to price fluctuations [4]. Starting 15 December, four of the world's five largest container shipping companies, CMA CGM, Hapag-Lloyd, Maersk, and MSC, have suspended their services in the Red Sea, a route intended for shipping operations from the Suez Canal, due to increased attacks on the global shipping lines [5].

The power of these risks is maintained by the fact that total domestic production in the 6 largest EU gas producing countries (Germany, Italy, Hungary, the Netherlands, Poland, and Romania) plunged 41% in the first ten months of 2023. This is compared to the five-year average in 2017-2021, after the development of Europe's largest natural gas field in Groningen was halted following a series of earthquakes which forced the government to shut down production [6].

The war in the Middle East will increase the region's terrorist threats, both in the US and Europe. Al-Qaeda and ISIS are also expanding their global reach with new terrorist hotspots popping up across the world. With that said, BlackRock rated terrorist risks as high in its market impact rankings.

BlackRock Risk map: Geopolitical market attention, market movement and likelihood [7]



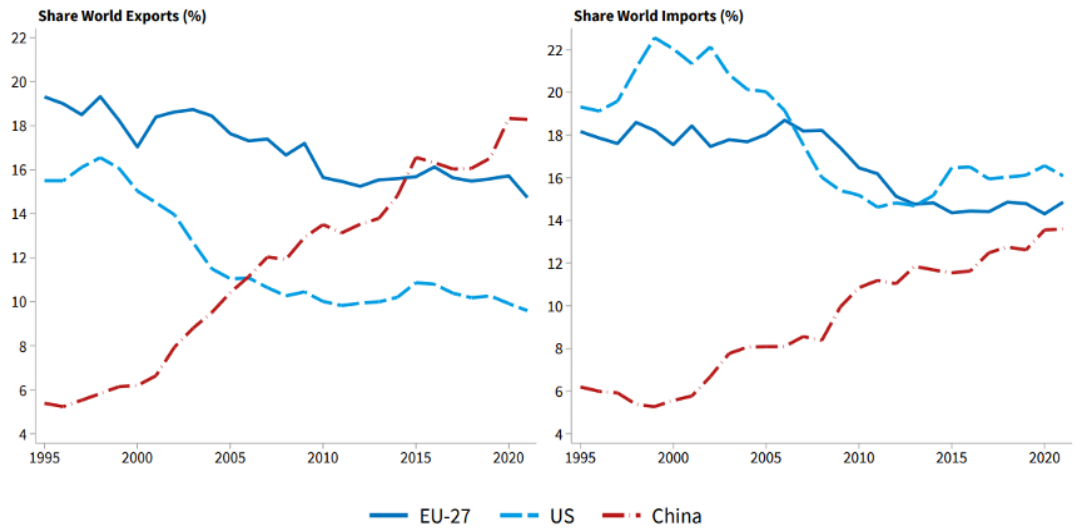
The risks of local conflicts escalating, the consequences of which cannot but spread to entire macro-regions, can cause disruptions posing a danger to the entire global economy. Fueled by advanced globalization, this disrupts investment relations and production infrastructure [8].

The way US-China relations will develop will have a greater impact on the overall global geopolitical dynamics and economic prospects for the EU. The ongoing US-China tensions carry high risks for investors.

The trade war and the growing US-China conflict convince Brussels that Chinese interests are generally hostile. Since US influence is significant and the EU's independent stance carries a threat of antagonism with the US, this reinforces the mainstream of American political elites and expert groups in Europe claiming that the existing interaction with China is dangerous and stands in the way of broader cooperation with Beijing. It must be said that the strengthening of this political track runs counter to economic interests — the dynamics show a general decline in the importance of the European Union as an international trading partner, all the while global trade dependence has increased for the EU budget itself. This is further confirmed by the analysis of value-added-based trade figures which carry significant long-term risks amid growing budgetary constraints. In 2022, international trade in goods and services totaled 25% of the EU's GDP (clearly a rise from 17.5% in 2021) and exceeded that of the US and even China although the size of their economies is roughly the same [9].

In the longer term, the geopolitical landscape is likely to be divided into two groups of alliances that define ideological competition, centers gathering allied pools of dependent states, with the US and the EU in the one camp and China in the other. These conglomerates will be separated by mutual trade barriers with a small (shrinking) group of emerging mediation countries trading with the competing parties on a neutral basis.

Share in Global Trade over Time: EU, US, China



Notes: Intra-EU trade is excluded when calculating the EU's share in world exports over time.
Source: BACI (Gaulier and Zignago, 2010), own calculations.

The EU's overall role in global trade has been declining over the last 30 years ceding its export leadership to China. With Europe deemed an important market and the significance of imported raw materials in GVA growing, the role of critical raw materials for electronics, precision industry, green energy will further increase the share of dependence on external supplies [10].

The priority of the EU-US mutual cooperation as a response to China's technological development is set out in the Joint Declaration Towards a Renewed Transatlantic Partnership. The EU-US Trade and Technology Council (TTC) was established to share the same strategic vector. Explaining the policy towards China, the parties made it clear that the European Union and the United States intend to consult and cooperate closely across the entire range of matters regarding China which includes elements of cooperation, competition, and systemic rivalry. The European Union has taken the path of reducing its critical dependencies and vulnerabilities, including in its supply chains, especially in CRM and risk mitigation in this sphere. Given the lack of alternative supply from China of the rarest and critical elements in the technological process, such rhetoric is declarative in nature.

For most Western economies, being cut off from Asian imports leads to a significant loss of competitiveness, as companies will have to substitute Asian resources with more expensive ones [11]. In this context, dependence on China for some CRM items leads to a decrease in the competitiveness of high-tech companies and, as a result, will cause degradation in the innovative potential of export-dependent industries of electrical equipment, basic metals, machinery, optics, and computers or import-dependent automotive industry and handling equipment, defense, and renewable energy [12].

In this scenario suggesting that polarization would only escalate, Germany (whose exports of goods and services to China account for more than 3% of its GDP) would suffer the most. German firms have a strong presence in China, where their annual revenues account for a staggering 6% of the German GDP, roughly double the average of Europe’s six largest economies. China’s stance on the Russia-Ukraine conflict strengthens trends of negative partnership prospects.

Europe’s dependence on China is particularly critical for goods necessary for the energy transition with respect to CRM, a shortage that cannot be fully made up for in the next ten years. Furthermore, the EU imports more than four-fifths of its lithium-ion batteries from China. Many pro-American politicians and US lobbyists in Brussels are meanwhile building more trade barriers in an attempt to reduce the €400 billion foreign trade deficit with China by means of protectionist measures, including with regard to EV production [13].

Supply chain restructuring has led to a widespread slowdown in trade growth. Trade volumes in the bloc of countries aligned politically has roughly halved from the pre-war three percent. Trade between politically independent blocs slowed more significantly to about 0% from the pre-war four percent.

The projected weakening of Germany, Europe’s industrial hub, goes with a significant overall gap in all high-tech spheres — platform economy, artificial intelligence, semiconductors, green technology, biotechnology, etc. This is due to the lack of a European industrial policy.

The systemic crisis plaguing Germany, the heart of the European Union, will resonate with great pain in all corners of Europe. Berlin is now being forced to spearhead sanction wars with both Russia and China. But it is threatening to cause a major upheaval in the economy and disintegration of the European project as we know it.

The European economy, with the German industry in particular, is heavily dependent on the Chinese market, especially in high-tech industries and raw material supplies. The German automotive industry has extensive economic ties with China, but the position of the ruling Social Democrat coalition is based on political considerations, as voters favor toughness towards China.

Germany has made a dramatically unfriendly move against close industrial interaction with China. The Social Democrats developed a “defensive-mercantilist” paper, titled the National Industrial Strategy 2030, driving a huge wedge into trade relations with China. Qualitative and quantitative data suggests that this act of the heavy-handed state intervention made conflicts within Germany's export industry worse. Small and large firms differ in their response to the growing leadership of the US capital in the digital economy, while its major sectors demonstrated mixed perception of China's incursion into the high-tech industry [14].

The domestic risk factors of both countries require the EU to find a complex balance in international relations. Given Europe's small presence in the Pacific, many Europeans believe that the union does not necessarily share the same interests with the US and that China does not pose an immediate threat, despite tensions and competition in some areas. Unlike the EU, China's dependence on external demand decreased significantly despite a surge in China's gross exports. However, China's significance as a major source of resources for production and as an ultimate outlet for Europe-made products continues to grow, including in the manufacturing sector [15].

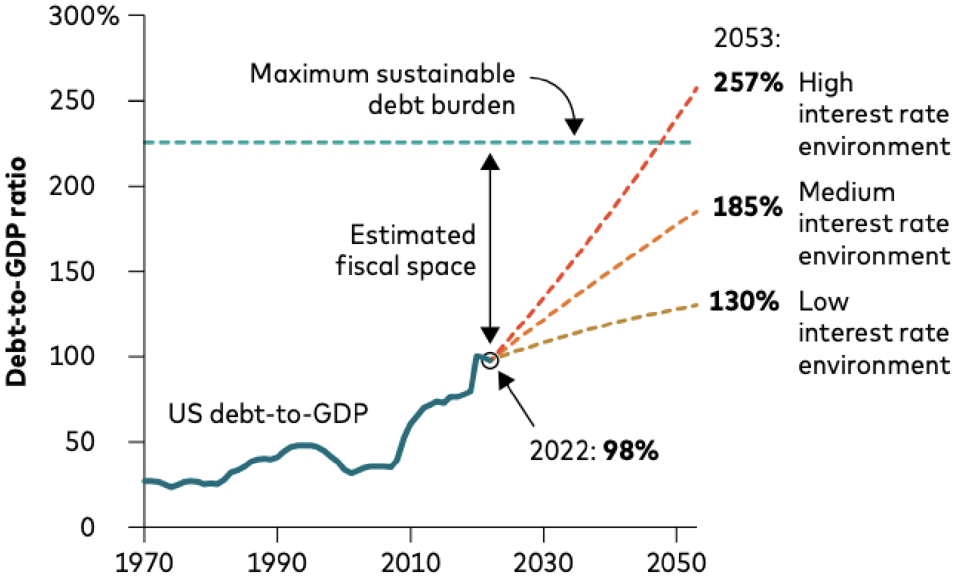
The key problem with the inseparability of Europe and the US in critical areas, ranging from deep economic integration to energy and defense, is the risks posed to the sustainability of the US economy — massive domestic problems of the US government debt amplified by societal polarization and widening partisan divisions based on budgetary differences and foreign policy. This challenges the basic functions of political control in the country, including debt management and budget adoption, which led to a sovereign debt rating in 2023. The 2024 elections will only heighten social tensions. The Federal Reserve is raising interest rates to ease wage and price pressures. Avoiding a recession would be difficult even if everything else stays on track [16].

Explosive monetary growth has already caused the US to experience the strongest wave of real inflation in its entire history and the international bond market is beginning to collapse as we approach mounting unrealized losses. The international bond market is about $128 trillion with total unrealized paper losses of around 60% or $77 trillion.

The shy grower of the US economy is raising red flags of an imminent financial collapse. The debt crisis soars to new heights of danger with each iteration of the debt ceiling increase. The budget deficit has already exceeded 10% of the US GDP and stands at $1.7 trillion. The US government debt has reached a record high of $33.9 trillion. From January to October 2023, the cost of its service grew at an alarming pace hitting $5.16 trillion against $3.73 trillion in 2019 [17]. Further growth of the government debt and cost of its service, at this rate, will lead to disastrous ramifications not only for the US, but also for the entire global economy, whose margin of safety is running thin.

Investment giant Vanguard expects rates over the next decade to average higher than they have been over the past decade. Current official deficit projections exceed 3% of the GDP and are highly likely to put debt on an unstable trajectory in the coming decades [18].

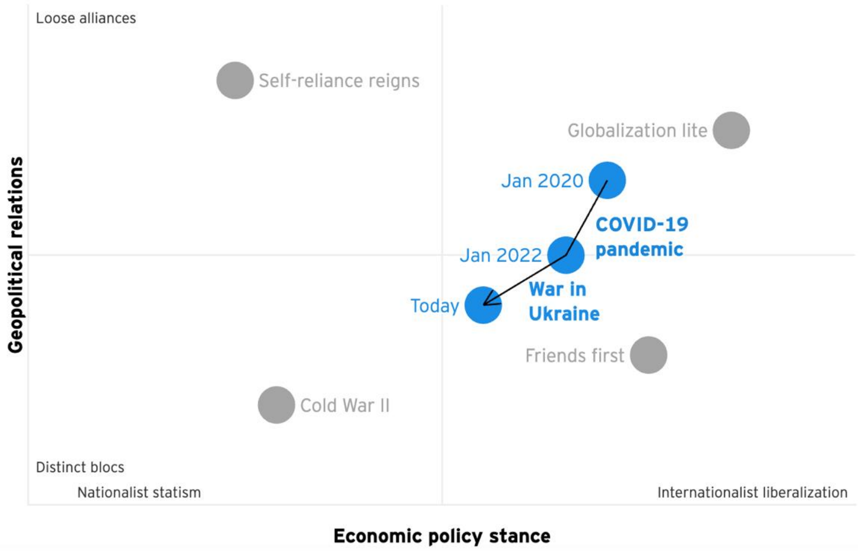
Vanguard's US debt-to-GDP projections



Even now, 20-year treasuries have lost around 53% of their value in the last three years and continue to erode investor confidence fueling pessimism about the long-term prospects of the US economy [19]. The credit spread of US triple C issuers has been the highest since 2009 [20].

The war in Ukraine also remains one of the most important macroeconomic risks affecting both the EU and the US. According to some experts, Russia might secure a victory in Ukraine, which casts doubt on the future of the European Union as a geopolitical entity, reducing the association to nothing more than a trade zone due to unjustified massive investments [21]. However, Europe's perception of the conflict as an existential threat is decreasing [22].

The trend of a globalization shift towards a Second Cold War scenario



An assessment of global scenarios reveals significant risks of systemic shocks by 2027, the dynamics of the world shifting from a more open globalization to a second Cold War scenario. Recent pandemics and energy crisis are conducive to shift to a more nationalist, state-centered politics in Europe. Territorial alliances are getting consolidated. The war in Ukraine led to a dramatic shift towards blocs with clearer dividing lines in the geopolitical system and nationally-oriented economic policies. According to the EY model, Russia's victory in the war could deliver a major blow to the US reputation and spark the disintegration of alliances triggering global instability [23].

Changes in supply chains resulting from such processes cause the global foreign direct investment (FDI), including EU's FDI, to segment along geopolitical lines in the same way as the currency system. The changing structure of trade and foreign direct investment is due not only to the determination of firms to increase stability, but also to a significant increase in cross-border restrictions [24].

Additional risks would come with the political decision to approve Ukraine's accession to the EU. Next year, we will see a convergence of risk-related timelines and events that will determine the likely path that the EU will take in the coming decade. The EU is about to admit a country that is in the midst of a major war and cannot boast any NATO protection. **The likelihood of a major disintegration of the European Union is extremely high due to the probable enlargement of the union to include Ukraine in near-economic ruin and the Balkan group of countries.** There is a growing feeling in Brussels that Ukraine's membership will change the balance of power in the EU, and not for the better. Ukraine's membership would undermine the European budget due to the gigantic cost of reconstruction (more than $400 billion) and entitlement to billions of dollars in agricultural subsidies which would ignite a major conflict with Poland. Absorbing Ukraine and other EU member states would require the EU to reform its key institutions, including the parliament. This would revive the Old Europe v. New Europe paradigm stepping up disintegration. According to some estimates, Ukraine's membership would turn many net recipients of the EU funding into net payers [25].

The current global architecture is being dismantled and we are past the point of no return in regionalization and fragmentation processes. The capitalist system based on the Washington Consensus which claims that prosperity depends on unimpeded trade, deregulation and the primacy of private investment is in fact no longer the axis of the global economy. Dealing with debt crises has also become much more complicated. Countries have to prioritize interest payments over investments in healthcare, new technologies, education, etc.

With the US and the EU linked through interest rates, trade, exchange rates, credit spreads and cost of borrowings, if the US spirals downward, it will push Europe into a deep crisis.

Trend of Economy Militarization

External threats put the EU's strategic autonomy at point-blank. A third of European respondents who took part in a recent in-depth public opinion poll on behalf of the European Council on Foreign Relations believe that the EU will, at its current pace, fall apart within 20 years. In turn, political fragmentation is a threat to coordinated European security decisions. **The strongest internal factors for the potential EU disintegration are its failure to effectively strengthen both internal coherence and defense. Europe's vulnerability to external threats boosts the prioritization of national security over economic efficiency and plays into hands of the defense industry in Brussels.**

Josep Borrell's "Strategic Compass" is intended to build EU's own infrastructure and increase cooperation between European countries and to share defense spending to provide a technological and production base. This paper urges EU member states to "spend more and better in defense" "if we are to meet the challenges of a more dangerous world and be more resilient" and helps to strengthen NATO [26]. In December 2022, President of the European Commission Ursula von der Leyen presented the concept of an EU Sovereignty Fund for European manufacturers. Europe's commitment to expand its production bolsters confrontation between lobbyists, as Europeans are trying to keep money in the Union. Meanwhile, the US lobby seeks to get its share by forcing procurements.

There is a problem balancing out the urgent need to strengthen European potential with the long-term need to invest in innovative research and development [27]. Defense companies are therefore approaching investors, offering private capital access to which has been hampered for some time by environmental regulations. Despite the rigid framework, the fossil fuel industry continues to rake huge profits. The struggle for financial resources and attention paid to green energy technology is not factored into expansion of arms production lines. European governments have announced a commitment to increase defense spending while the EU economy is far from recovering and needs funds for long-term development programs.

ESG criteria have rekindled lobbying pressure as they cause significant difficulties in attracting private funding. In this context, major industry players, including Airbus, Dassault, Fincantieri, and Leonardo, all members of the ASD lobby, turned against the social taxonomy [28, 29]. With the war between Russia and Ukraine, however, banks are more willing to contribute to defense funding and began to review their financial policies towards defense-related companies. In April 2022, Sweden-based SEB Bank announced the acceptance of the arms industry into its ESG funds, owned by the famous Swedish empire of the Wallenberg family, in an effort of what they described as supporting "democracy, freedom, stability, and human rights" [30].

Scraping the bottom of European arms stocks gave new momentum to the EU's ambitious rearmament plans. The overall view that aid to Ukraine from the US budget must be cut also plays into hands of the arms lobby to increase European military budgets. Governments heavily influenced by defense contractors plan to persuade the population to allocate even more funds for defense, even at the expense of social benefits, in order to achieve security against Russian threat.

However, Europe's defense function has been almost entirely transferred to NATO and will not gain any sufficient autonomy in the coming years due to limited production capacity which contributes to the perception of the EU as an anachronism. The need for European NATO members to spend at least 2% of their GDPs on defense, after years of declining European military spending, creates some serious tensions in the alliance. This, in turn, galvanizes the influence of the arms lobby on changes in European priorities from sustainable development goals to defense sovereignty, including by means of thinly veiled greenwashing [32].

Among the main obstacles in financing European arsenals is the growing debt burden of EU member states and the struggle for financial resources against the green lobby. In turn, the absence of its own army shapes the dependence of Europe's political decisions and passive acceptance of the US hegemony to decide on a wide range of international relations, including matters in regions contested by EU and US high-tech corporations in the competitive struggle for the supply of critical raw materials (CRM) in the coming decades. Growing tensions with China, in particular, whose strategic interests and trade with which are important for Europe's economy in the long term, are chiefly orchestrated by the influence of American elites through their lobby in Brussels. The EU is more than 90% dependent on Chinese CRM supplies which, in case of conflict, may lead to a loss of capabilities to develop and produce its own technologies for a new economic round, including in the defense sector. In turn, this is a favorable scenario for US arms suppliers. In view of the prospective shortage of CRMs and the high risks of supply chain disruptions, the conflict of interest with the US will only increase. Given the declarative nature of the European CRMs, the EU's dependence on the US in the defense sector will get stronger.

Russia's war against Ukraine has completely reshaped security attitudes in countries, such as Germany and Denmark, as well as Finland and Sweden which have moved from years of neutrality to NATO membership. Spiking tensions in the Indo-Pacific and Russia's invasion of Ukraine have led to a "collective understanding of the need to strengthen European defense," fueling demand in the global arms market for the years to come. The sale of old arms stocks in the war in Ukraine is intended to encourage the signing of new contracts to ensure defensive capabilities of leading member states. Many arms were transferred at no cost making room for new weapons systems to be purchased. However, if the war ends any time soon, governments will face public pressure to redirect the funds. Without a long-term commitment triggered by war, it is very unlikely that industry will decide to make massive investments in its own defense capabilities.

The European Union has launched numerous defense initiatives, all of which have been accelerated by the 2014 Donbas conflict, Brexit, changes in the strategic focus of the US, and the search for the European "strategic autonomy." In Europe, France's Thales and UK-based BAE Systems benefited from the war in Ukraine the most.

The importance of the defense lobby is characterized by the way the European Defense Fund (EDF) was designed without a shadow of neutrality by the "High-Level Group of Personalities on Defense Research" which included leaders of major European defense contractors: Airbus, MBDA, BAE Systems, Saab, TNO, Leonardo, Indra, and Frauenhofer, which, along with US suppliers, significantly gained in value on stock exchanges over the past year [31].

The role of arms manufacturers in the EU governance system is beyond the standards of public and private interaction. A partnership between defense companies and the European Parliament, granting them a status of decision-making subjects, allows their representatives to have a seat at the political decision-making table [32].

The fragmented nature of the EU's governance structure points to the unquestionable US leadership in military affairs and the EU's existing ineptitude to pursue an independent policy. The overall beneficiary of the growing demand for armaments are US companies whose influence with Brussels has soared during the Russian-Ukrainian war. The EU defense policy is not fundamentally independent. NATO is the central organizational structure of military response, making the US a unique subject in political decision-making. No wonder the United States is openly skeptic about European defense protectionism having major leverage in the German policy [33].

The formation of a long-term strategy for Europe's rearmament is at the core of the conflict between French and German national interests. France adheres to a pro-European line that favors local manufacturers, such as its giant Thales. Germany is pro-American. Paris condemns Berlin's decision to spend additional defense money which it promised to allocate under its "Zeitenwende" slogan on the purchase of US-made equipment [34].

Even if Paris and Berlin agree on the future course of the EU defense, the rest of Europe will most likely refuse to follow. International military buying, even with higher defense budget commitments, fluctuations towards higher inflation could increase the cost of equipment and thus reduce the purchasing power of the said budgets [35]. Steps to promote integration in the EU defense sector might precipitate significant disintegration, as the capabilities of European manufacturers are limited and the EU preference of US supplies acts against integration and becomes a fertile ground for conflicts.

Debt and Budget Crisis

Available data suggests that financial markets are still skeptical about the level of commitment to European integration due to the relationship between monetary policy and geopolitical problems [36]. Aggregate social bonds issued under the EU SURE (Support to Mitigate Unemployment Risks in an Emergency) and NGEU (NextGenerationEU) instruments have increased the EU debt from around €50 billion to around €400 billion in only two years. Large-scale borrowing will continue through 2026 to finance NextGenerationEU and preferential loans to aid Ukraine. In the short run, ECB will keep interest rates stable amid fears of recession in the eurozone, making costs for loan services consistently high. The EU is expected to have borrowed a total of €421.1 billion in current prices for "non-repayable aid" (i.e. for RRF grants and additional funding for the EU programs) by the end of 2026. The interest costs associated with such borrowing will be covered by the EU budget [37].

Investors' assessment of Europe's development prospects compared to those of the US is less optimistic and is manifested by the yield of the riskiest corporate bonds — the yield of CCC and lower rated sovereign debt issuers is far above 19.66%, while similar US securities have an average yield of 13.5%. The higher the rate, the greater the fear of recession. This month, the gap between risky credit spreads of the two regions has reached the highest level since the global financial crisis in 2009 [38].

US and European triple C spreads diverge — Option-adjusted spreads (% points)

Ice BofA indices: CCC & Lower Euro High Yield Index versus CCC & Lower US High Yield Index (option-adjusted spreads)
Source: Ice Data Services

The European bond market survived the pandemic, energy crisis and growing inflation. It is beginning a cautious recovery as inflation declines more than projected. The yield of ten-year government bonds plummets, as it is inversely related to prices and dropped across most member states following ECB's announcement of an unlikely interest rate increase [39].

Despite the decline in inflation, the risks of future spikes are subject to the growth of wages and general imbalances in the economic system in the form of declining international demand (primarily from China), and energy prices further increasing due to the escalation of conflicts in the Middle East [40].

Expenditures corresponding to the needs of prospective development programs require changes in the revenue structure, as borrowings become less available due to growing risks of increased debt service. The EU is approaching an era of budgetary austerity. Previously, when new priorities emerged, the EU agreed upon new expenditures and sought the necessary means, usually by adjusting resources based on GNI.

The EU is gripped by a multi-dimensional budget crisis. Eurostat has revealed the EU's aggregate debt which is €16 trillion or 91% of the union's GDP as of October 2023 (with the eurozone debt of about €13 trillion or 90.9% of its GDP). About €375 billion has been raised through several new EU bond issues between 2020 and 2023 which is comparable to €78 billion worth of new securities issued between 2009 and 2019.

Speaking of the EU debt, it has to be said that the main recipients of the RRF funds, whose financing requirements currently amount to €630 billion, are Italy (€85.4 billion), Spain (€37 billion), France (€12.5 billion), and Greece (€11.1 billion).

The need for budget cuts is a premise of the negotiations for the next multi-year financial framework beyond 2027. Despite the strict scope of new borrowings and debt reductions of European countries necessary to avert a financial collapse, the most powerful lobby groups representing green energy and defense in Europe do not plan to give up their positions in their struggle for budgetary contracts and subsidies.

Some EU countries are reluctant to accept an overall increase in financial resources for the long-term budget. Following discussions, priority was given to long-term aid for Ukraine, while other items in need of increased funding remained pending.

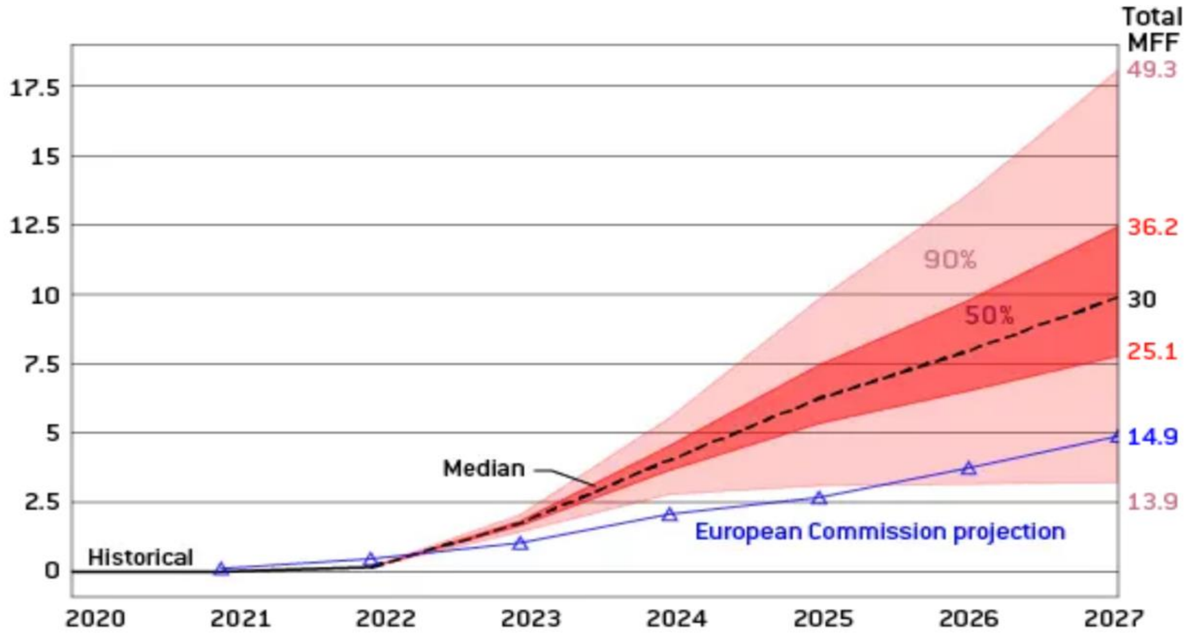
Shrinking consumption, more complicated bank lending conditions due to higher interest rates, slowdown in China's economic growth and the resulting decline in exports are to blame for lowering the growth forecast for the EU economy in the short term and emerging industrial and government debt problems. Inflation in the eurozone is projected to remain above ECB's medium-term target of 5.6% this year with an expected decrease to 2.9% in 2024 [41].

According to estimates based on the changes in interest rates in the coming years, rates will remain at relatively high levels over the next few years due to high external uncertainty and the EU's dependence on external markets. The cyclical pattern of interest rate fluctuations is becoming a new norm.

According to the Bruegel study, the EU budget has already been cut with no provisions. Higher interest rates have increased pressure on Europe's long-term budget. Calculations show that the growth of interest costs on the EU debt, affected among other things by negative geopolitical factors, could be several times higher than the projected MFF values in 2021 (up to €5 billion in 2027 with total debt costs of about €15 billion) and could amount to €9.9 billion in 2027 with the total debt service costs of €30 billion. As a result, interest costs will make up a lion's share of the EU budget which is about 5.3% of the annual budget for 2027 [42].

Debates are taking place to put into law the priority of supranational interests by moving to a majority vote on the EU budget and stripping certain member states of their veto rights regarding the adoption of the MMF. Thus, there is a trend of reducing the leverage used to protect national interests of member states. In the longer term, unanimous voting will most likely be abolished in the now enlarged European Union of 35 or 36 member states and law-making decisions will be made by a majority vote [43]

Projected annual and total interest costs borne by the EU (in € billions)



The Stability and Growth Pact requires member states to maintain a 3% limit on the annual budget deficit and a 60% limit on the total public debt as a percentage of the national GDP. A new agreement on fiscal rules governing budgets of member states puts the sustainability of the European monetary union at stake. The Excessive Deficit Procedure (EDP) requires states with a budget deficit over 3% of their GDP to reduce their deficits by at least 0.5% of GDP per year. This rule should affect about half of the member states with the budget deficit [44].

These fiscal rules were eased in 2020 due to the COVID-19 pandemic. However, the amnesty expires at the end of this year. Therefore, EU member states with the largest debts are in for a rude awakening. The government debt to GDP ratio is currently over 100% in Belgium, Portugal, Spain, and France — and over 140% in Italy. If the old rules are reinstated, any excess over 60% will have to be reduced by 1/20 each year.

The requirements adopted are difficult for all EU member states to meet given the need for long-term investments in technological development, achievement of net zero emissions and defense spending.

France advocates flexibility of fiscal rules, but Germany, despite the objective need for similar easing measures, prefers tougher fiscal discipline. Concessions for German budget adjustments threaten to break up the ruling coalition, as the right-wing AfD party takes lead in opinion polls.

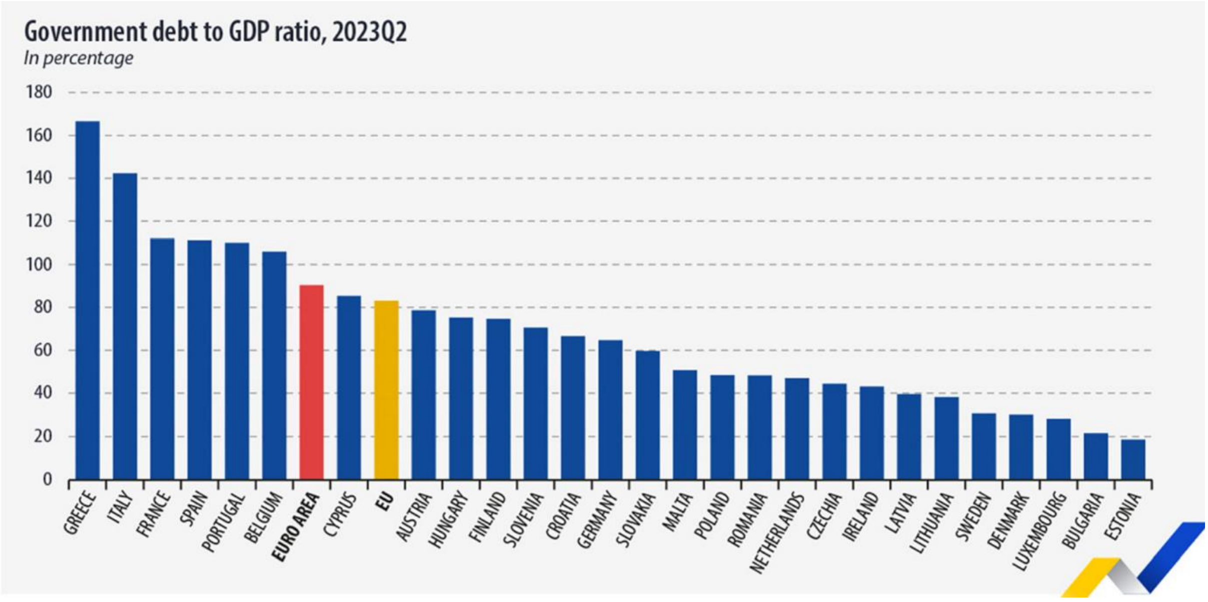
Germany leads a coalition of countries, mainly in Northern and Eastern Europe, encouraging the European Commission to fund new priorities by saving money elsewhere in its current budget, which was agreed upon in 2021. In June, governments rejected the request of the European Commission for an additional €66 billion to cover contingent expenses and called on the EU executive branch to cut the overall figure by at least 20% or about €13 billion. The subject of disagreement among member states is the mechanisms for developing guarantees and criteria for quantitative rules for minimum debt and/or deficit reductions.

The EU's fundamental problem — the lack of fiscal unity — puts its integrity in jeopardy. National budgets continue to play a decisive role in efforts to stabilize the eurozone economies, each of which responds differently to normal business cycles and to abnormal shocks. What makes the situation worse is that Ukraine's likely defeat could undermine the EU's credibility and jeopardize its security amid significant internal threats faced by Europe.

Common sense suggests that EU budgetary rules should ensure debt sustainability but not curb additional investment. A group of countries led by France argued to exclude both interest payments and costs of green investment from the minimum adjustment factor of 0.5%, otherwise the lack of public investment in climate change would be a barrier to achieving net-zero targets [45].

In four years, we might expect drastic cuts in EU funding to support the transition to green economy and defense. EU budget reductions could be as great as 15 billion euros per year if new sources of direct revenues are not provided to maintain the budget [46]. Germany's budget scandal is having the biggest impact on the downward trend of the decarbonization project, as its government will have to decide how to make up for the €60 billion deficit in its special climate and transformation fund.

Government debt in EU member states in the second quarter of 2023 (% of GDP).

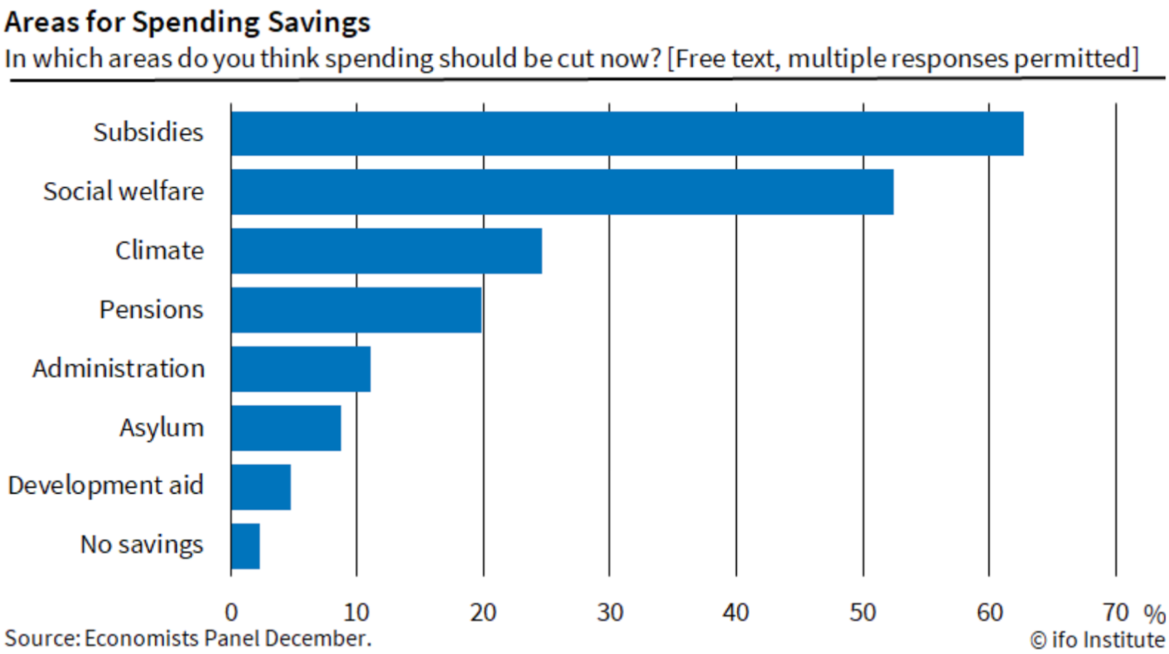


Estimates of total public investment needed in decarbonization, digitalization, education, transportation and infrastructure currently range from 1.3% to 2.1% of the gross domestic product (GDP) per year over the next decade.

The resulting budget stalemate stems from Germany's failure to comply with its own strict "debt-brake" rules. In November, the German Constitutional Court ruled that accounting under the national debt-brake system was unconstitutional which led to a budget gap of €17 billion, triggering a financial crisis and nearly bringing down the government. While governments and finance ministers talk big about backing the debt brake, they create shadow budgets circumventing its restrictions when it suits their political needs. As a result, the regular budget and parts of special funds for 2023 and 2024 will have to be substantially restructured. Meanwhile, they have decided on tax increases and a temporary waiver of climate change commitments [47]. As a result, the budget law was amended to allocate €37 billion from the federal budget for mechanisms designed to freeze energy prices and several other goals totaling €45 billion.

The budget crisis is damaging the country's reputation as a reliable industrial partner and as a pillar of the European economic model. Germany, previously the main creditor of the European Union and a leadership-minded actor in the European integration processes, was responsible for half of government subsidies to private companies [48]. Subsidy cuts adopted to help businesses or households survive the energy crisis will feed stagnation and take away the ability to maintain industrial competitiveness. This will eventually affect unemployment and could trigger a new wave of bankruptcies. The energy crisis and systemic imbalances in the global economy affected Germany more than any other developed nations and the expected decline in private investment may further hamper environmental and digital transformation [49].

Germany is on the path of budget austerity. According to the IFO survey of 187 economists, most respondents would like the budget deficit in Germany to be reduced through austerity. First of all, the respondents suggest cutting social spending and subsidies which would have a major impact on living standards. According to them, any attempts to bridge the gap through taxes or debt would damage the economy in the long run, but a decision to raise taxes could have long-term adverse effects either way. However, most professors of economics still consider the increase of new debt as the main solution in 2024. Nevertheless, they advocate different approaches: about 15% of them call for reform or removal of the debt brake to open the door for investment and another 18% would want special climate and infrastructure funds to be set out in the framework law, as this would ensure secured planning while money would become targeted funds [50].



At the EU level, the situation in Germany is hampering an increase in the current MMF volumes, which triggers the ongoing reform of debt rules, the common industrial policy and the union’s climate goals. The European Council failed to negotiate the revision of the EU’s long-term budget and the current Multiannual Financial Framework (MFF) left without any provisions to implement EU priorities in some spheres.

The European Commission demands that member states should provide an additional €100 billion for the current MMF to respond to Russia’s war in Ukraine, inflation and migration-related problems. Back in October, however, Germany mentioned that it would only back payment of €50 billion as the EU aid to Ukraine over the next four years, while the rest of the funds should be raised by budget reallocations and EU- and member state level savings. There will also be less room for maneuver in adopting the next financial framework, as the new German government will most likely be much more reluctant to transfer more money to Brussels. It is unknown whether €50 billion in aid to Ukraine will be allocated due to Hungary's tough stand, but migration policy has already been prioritized over external challenges, including climate goals [51].

If German industrial projects, which should have been funded through a special climate and transformation fund failure (due to lack of subsidies), it will also put at risk investments in neighboring countries. This decision could also stall climate action in the bloc, as the fund was established specifically to "promote steps that serve climate goals."

Thus, there is a trend in fiscal policy to reduce spending the growth of which was caused by a series of budget crises.

If you run back over similar events from the fall of 2012, the overall retrenchment seemed to be the key factor for recession, especially on the European periphery. Fears over the financial situation in Europe led to a widening of spreads and a credit crunch. The Grexit scenario was on the table at the time. The Grexit counterfactual macroeconomic model shows that the model predicted a minimum GDP decline of about 5% (y-o-y), or twice the decline observed in 2012 [52].

Hence, it may be deduced that **the rise of Euroscepticism and the withdrawal of any of the countries from the European Union under the circumstances might lead to a cascading recession for the European economy and the potential dissolution of the alliance.**

Growing Euroscepticism

The popularity of Euroscepticism across the EU can be attributed to dissatisfaction with high unemployment rates and replacement migration, emerging identity problems, lack of economic dynamism, lack of acceptance of social and environmental values, green transition and digital technologies at the expense of welfare. This is mostly affecting countries caught in the development trap. As one of the strongest economies in the EU, Germany is losing its industrial potential due to regulatory problems, energy industry constraints and increasing pressure on the steel and manufacturing industries [53]. In economic terms, the confrontation is about a clash between the interests of transnational capitals and funds and the national interests proper, industrial coalitions and capitals of the EU member states [54].

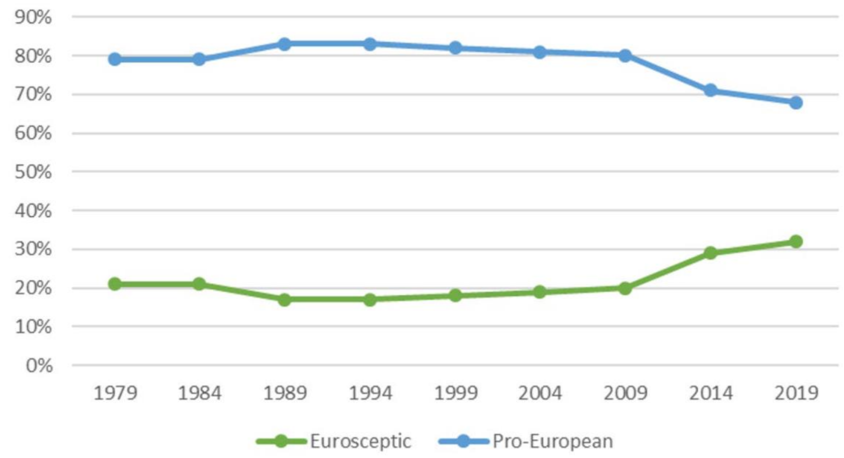
According to Eurobarometer surveys, Europe is experiencing a decline in democracy, as 41% of respondents believe that democracy in the EU is not working, 5% find it hard to give an answer and more than half of the European population is not satisfied with such important aspects of democracy as:

- combating misinformation in the media: 52% are not satisfied (a 12% increase over the last years), 7% are undecided;
- available political parties do not take into account the interests of 52% of respondents, 5% find it hard to answer;
- 60% of respondents (a 12% increase over the last years) consider the war on corruption in the EU unsatisfactory, 5% are undecided.
- On key EU policy issues:
- 43% of respondents are dissatisfied with the Green Deal and 10% are undecided;
- 50% are dissatisfied with the migration policy, 7% are undecided;
- 65% of respondents are unhappy with growing prices [55].

Eurosceptic parties, as termed by Paul Taggart and Aleks Szczerbiak, can be divided into hard and soft eurosceptics [56]. Hard Eurosceptic parties include the Alternative for Germany (Alternative für Deutschland, AfD) in Germany, Brothers of Italy (Fratelli d'Italia, FdI) in Italy and the Freedom Party (Partij van de Vrijheid, PvdV) in the Netherlands. Among soft Eurosceptic parties are the Hungarian Civic Alliance (Fidesz) in Hungary, Law and Justice (Prawo i Sprawiedliwość, PiS) in Poland and Voice (Vox) in Spain.

The EU skeptics tend to have their positions converged sending out waves of polarization and contributing to instability. The radical rhetoric of eurosceptics is becoming stronger due to the debt-brake situation. Germany's decision on the financing method prompted a search for a way out of the difficult situation which may increase support for eurosceptics in other EU member states [57]. In the existing conditions of unstable energy supplies and the cost-of-living crisis, providing the necessary minimum for Europeans is no longer considered to be under control [58].

Dynamics of representation of pro-European politicians and eurosceptics in the Parliament



In 2022, eurosceptics raised more support in the EU national elections which soared to 27% from around 7%. European politicians in the European Parliament are adapting to fears of eurosceptics, although they support EU enlargement initiatives. The growing hostility of public opinion towards enlargement and the difficulties which candidate countries must face in meeting the accession criteria do not allow the pro-European faction to express their adamant stance in favor of the further accession of new states [59].

The UK remains the only country to have exited the EU, a precedent which some countries might likely follow. Anti-European sentiment has grown in recent years for many of the reasons that led to Brexit: economic crises, loss of legislative control and immigration, high bureaucratic overregulation, and allegations of massive corruption among policy makers in Brussels.

As an EU dominant country, Germany has always upheld a disproportionate share of the cost of maintaining the European system in crisis situations. Sagging foreign investments, problems with the competitiveness of the automotive industry and limitations of manufacturing subsidies imposed by Brussels, as well as environmental standards could strengthen the case against the EU membership.

With the new agreement, the leaders of the center-left coalition composed of the Social Democrats, the Greens, and the fiscally conservative Free Democrats hope to douse the flames of the crisis [60].

Geopolitical rivalries and technological divisions encourage Germany to support "technological sovereignty" and "European champions." It is causing a considerable controversy in Germany due to disagreements between capital and internationalization models affecting the constitutional architecture of the EU [61].

German eurosceptics oppose parties with a climate agenda whose actions reveal an inconsistency in support for defense spending, in the policies of the Olaf Scholz-led coalition, and especially in the policies of the Alliance 90/The Greens led by A. Berbock and R. Habeck [62]. The number of AfD party members in Germany has shown growth since its formation [63].

AfD's popularity is growing, as it has gathered support among 18% of respondents in the polls and tied for the second place with SPD. Leaders of the ruling coalition are also speaking out about the negative consequences of the AfD's popularity growth, accusing them of creating tensions and causing deterioration in Germany's social climate [64].

Recent budget- and debt-brake-related decisions of the Federal Constitutional Court had a direct impact on the political situation in Germany and Olaf Scholz's ratings. These decisions have posed significant challenges for the government and have drawn fire from opposition parties, including from CDU/CSU and AfD. In his speech, Olaf Scholz failed to present any firm plans to manage the budget crisis and set time frames for the approval of the next year's budget. This sparked a public outcry in the opposition.

Alarmed over AfD's growing influence, left-wing and liberal parties and some conservatives, accused the party of xenophobia, anti-Semitism, and far-right tendencies.
Various political figures have made public accusations against AfD leaders, such as Alice Weidel, over allegedly extremist and bigoted views.

In addition to their rhetoric, left-wing opponents seek to limit AfD's financial support, including from public sources, under the pretext of the party's alleged extremist positions.
AfD has been charged with xenophobia, racism, and violations of tolerance laws. The AfD leadership interprets these efforts as an attempt to counter their growth and to limit the influence and activity of the AfD party on the German political stage [65].

France: The National Assembly (Assemblée nationale), a party led by Marine Le Pen, and its Eurosceptic views were instrumental in the adoption of the immigration bill. Their support in the commission was key in helping the bill to pass. Left-wing political actors, such as France Unbowed (La France Insoumise, LFI), led by Jean-Luc Mélenchon, actively opposed the bill. They believe that the proposals included in the bill violate the rights and status of migrants which, in turn, contradicts their principles of humanity and solidarity.

The conflict between different political forces in the French parliament sparked a political crisis. The split over migrant rights and status became a key point of dispute widening the divisions between political factions [66].

The period from 2015 to 2017 is characterized by the breakup of the bipolar system and formation of a tripolar structure after Macron's victory. The rise of extremist parties radicalized left- and right-wing factions, having weakened traditional political forces. The president's lack of a parliamentary majority underscores the crisis of representation and parliament's decision-making capacity. The adoption of a law on migration clampdown stirs up a crisis and Euroscepticism within the political system [67].

The pension reform in France was another factor used by eurosceptics to demonstrate the EU's influence over domestic political processes. Some politicians, including Marine Le Pen and Nicolas Dupont-Aignan, claimed that the reform had been "imposed" by the EU. This has become one of the arguments used to stress how external factors, such as the EU, affect domestic decisions.

While the European Union can only recommend reforms, it does not formally have any power to influence the pension system in France. But the fact that reforms being discussed in the European Parliament (albeit without a formal reference to specific changes) in the context of the political crisis in France and the growing influence of eurosceptics, and such statements about the "EU influence" serve to strengthen the position of opponents of any reforms. This emphasizes external factors as a hypothetic cause of change. The changes, meanwhile, can be provoked by internal considerations and the need for economic recovery [68].

After President Macron made announcements to respond to France's dissatisfaction with its economic situation, taking shape in form of the yellow vests movement, its members initiated an ardent group capable of participating in European elections. Expected participation in European elections can significantly change the political dynamics [69].

Italy: OddsChecker branded Italy "The Next Country to Leave the EU" with Rome's chances of leaving the EU estimated at 3 to 1, or 33% [70]. Prime Minister Meloni has previously condemned Brussels for its hostility and called its actions "an affront to the British people who freely chose Brexit." In Italy, Eurosceptic parties cast off the yoke of their fringe-dwelling status to take center stage in the country's political life. The League (Lega) led by Matteo Salvini and the Five Star Movement (Movimento 5 Stelle, M5S) led by Luigi Di Maio won parliamentary elections in 2018 and formed a coalition government after the government crisis in September 2019.

Among the advantages of Italy exiting from the eurozone is the ability to devalue the national currency to gain competitiveness against other countries. However, there is much confusion, especially in journalist and TV debates, about the benefits and costs that a return to the flexible exchange will bring to competitiveness in the short and long term. Estimates range from those who believe it will provide some air to an economy struggling to crawl out of recession to those who argue that it will put the country back on a sustainable growth path from which we would have departed after adoption of the euro [71].

Attitudes towards the European Union were reimagined when Italy did not receive any expected aid from other union members despite its requests at the beginning of the pandemic. Eurosceptic parties have taken a prominent position on the Italian political stage after formation of the government.

The study shows that Euroscepticism has been growing in Italy. Most Italians (42%) are ill-disposed towards EU membership and only more than a third (35%) support it. 23% of respondents are non-aligned.

Polls conducted in 2020 showed that only a minority of respondents (47%) would like Italy to remain in both the eurozone and the European Union. This is the lowest figure among all polls conducted by the Italian Center for Innovation and Economic Development (CISE) which have always showed a majority in favor of the country's full EU membership. More than half of respondents (53%) would like to change the status quo: 18% would be willing to leave the eurozone and 35% would leave the EU entirely.

The survey also showed that 85% of Italians believe that no other EU member states are offering Italy any adequate assistance during the current crisis and that attitudes towards the European Union differ depending on political preferences and professional status. For example, supporters of the Democratic Party (Partito Democratico, PD) show more Europeanization, while M5S (Five Star Movement) — a more skeptical stance on the EU [72].

The Lega and Fratelli d'Italia parties successfully used their positions during the elections to attract voters with the promise to defend national interests and by criticizing EU policies, especially during the sovereign debt crisis. Their rhetoric portrayed the EU as an external player, limiting Italy's sovereignty, which resonated with voters and allowed Meloni to take over the cabinet. However, after elections the ruling cabinet scaled back its rhetoric and abandoned the anti-European stance [73].

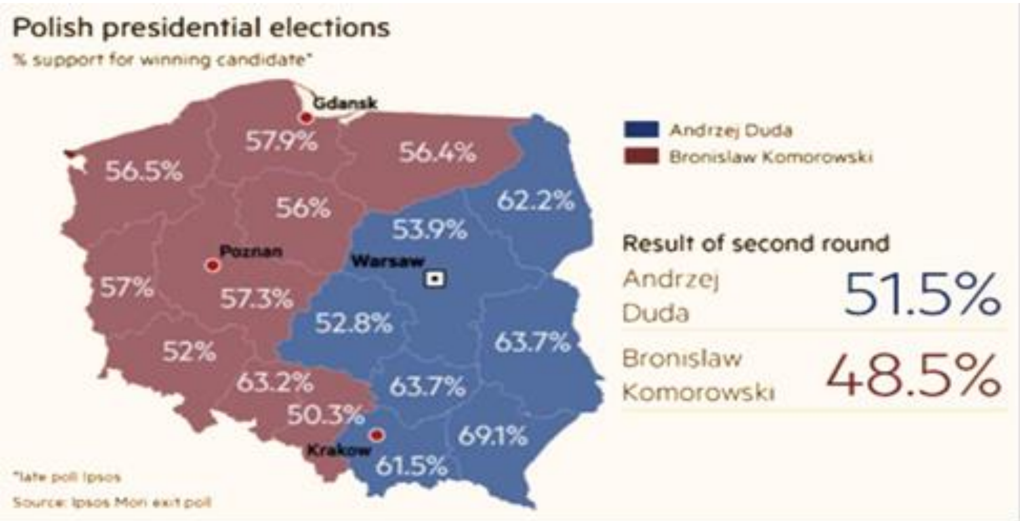
Netherlands: The far-right Party for Freedom (Partij voor de Vrijheid, PvdV) led by Geert Wilders won the Dutch elections meaning that a Eurosceptic could become prime minister. The party is skeptical of the EU with Wilders advocating a referendum on leaving the EU. This raised concerns in Brussels [74]. The number of respondents who would want the Netherlands to leave the EU peaked in 2016 with 48% in favor of leaving the EU which is 3% more than opponents [75].

After Brexit, their support more than halved, but the pandemic crisis led to a 7% increase compared to the pre-pandemic figures [76].

There have been no polls since 2020, but the rise to power of "right-wing populists" shows further dynamic growth.

Greece: The sovereign debt crisis following the Great Recession sparked rumors of a possible Grexit back in 2012. Greece was named the second most likely exit candidate with odds of 6 to 1, or 16.7%. For now, the crisis is over.

Poland: Staunch supporters of further EU integration have recently defeated moderate Eurosceptics with the country represented in the Euroscepticism rating with a 7/1 ratio, or 14.3%. A newly found position of a regional influential player has made Polish authorities even more pushing in their relations with the EU. A coalition of centrists, left-wingers and agrarians won the majority. Although diverse, this model has already showed its resilience in other European member states, but such alliances are vulnerable to erosion and will not last long. Geographical division of support for the conservatives and the governing coalition during numerous elections, as described in a Big Think piece back in 2010, continues to run along the historic imperial German-Russian border: the western (industrial) part of the country tilts towards the European integration, while the eastern (agrarian) part of the country supports eurosceptics. Potentially, such a stable division could become a political fault line.



According to the Statista survey, the country whose citizens believe that they would be better off outside the union is Slovakia (35%) followed by the Czech Republic (40%), Croatia (46%), Romania (46%). All of them have recently joined the EU, since 2004. Pro-European sentiment is the strongest in Denmark — 81% [77].

Over the past four years, the numbers of skeptics regarding Austria's EU membership have steadily been increasing. The long-term trend of 68 nationwide polls conducted by the Austrian Society for European Politics (Österreichischen Gesellschaft für Europapolitik [ÖGfE]) since June 1995 shows that EU membership supporters have always been majority (around 70%), while the number of opponents stands at around 22%. Since December 2019, however, the percentage of those who would want the country to leave the union has increased dramatically. Previously, there were about 8% of respondents explicitly in favor of leaving the EU, today the figure is 27% [78].

Middle-Class Squeeze

In a modern democratic state, the middle class is a key factor influencing economic development and the reform of public policies and institutions. The study based on the GMM evaluation of panel data on countries and time series suggests that the increase in the size of the middle class, measured as the share of people with an income above $10 per day, contributes to the activation of social policies in healthcare and education. The governance of democratic institutions is also being improved [79]. The middle class has an important role to play in sustaining economic growth. The middle-class squeeze can have a negative impact on economic development. A strong middle class is a key factor in ensuring sustainable growth in the following areas:

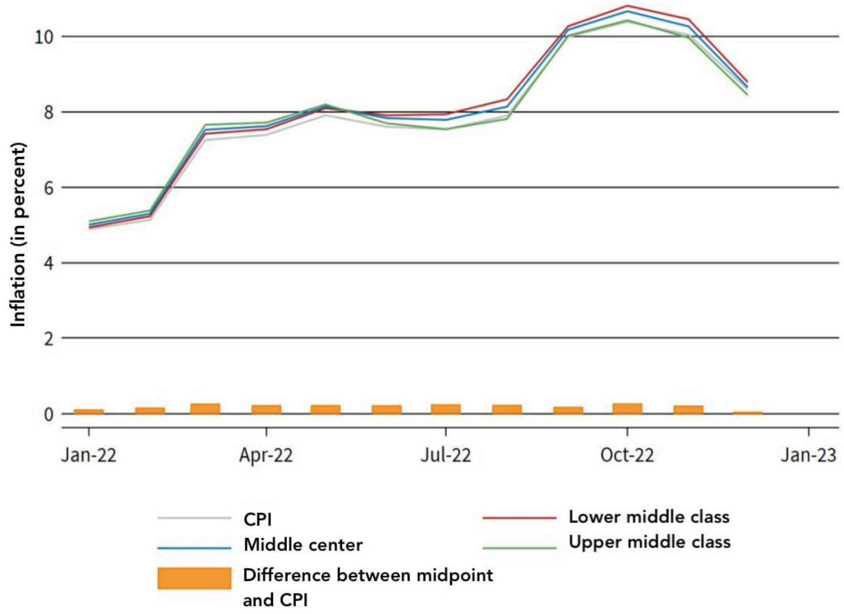
- Creating steady demand for goods and services which encourages investment and production growth.
- Building trust within the society which reduces transaction costs, promotes innovation and improves the economic environment.
- Bolstering governance and government efficiency, reducing corruption and improving public services.
- Cultivating values of labor, education and entrepreneurship, contributing to economic growth and innovation.
- Thus, the middle-class squeeze can weaken these factors which, in turn, adds to the factors of declining economic growth [80].

The middle class is a structure. In recent years, the middle class has been substantially squeezed in Germany. More than 80% of the population consider themselves part of the middle class, while only 63% of households can actually be classified as the middle class based on their income as defined by OECD. The middle class has become highly taxed, as their effective tax rate is around 50% of gross income. The German middle class is being squeezed due to high taxes and statutory payments. The net assets of the middle class occupy the top quarter compared to other European countries, slightly behind Finland, Austria and Sweden, and slightly ahead of the Netherlands and Belgium [81].

High inflation rates and decline in real wages show that the limit of financial burden for many middle-class households has already been reached. The impact of the crisis is being felt, especially among those who have not yet or have already emptied their family coffers.

The tax and transfer system creates an additional low-income trap. For public welfare recipients with low income, additional earnings are marginally profitable due to the high rate of conversion of part of their income into government transfers.

Savings capacity deteriorating, especially for the middle class, due to high inflation rates and additional burden, 2022.



In France, the number of middle-class citizens has dropped 9% over the last decade amid changes to the internal structure and the poorer portion of the middle class rising by the same 9%. 70% of the French say they are the lower middle and poor or lower middle class which constitutes a 13% spike since 2010.

In the past five years, the household income has increased for 29% of the French, remained the same for 33% and decreased for 38%. This perception of changes in household income is connected to their place in the social stratification — the lower the social status of a person, the more he or she feels his or her financial situation deteriorates; the converse is also true, with evidence showing growing financial struggles for the middle class which faces rising scale of spending and dwindling access to basic goods and services, such as healthcare and food.

An increase in the share of the middle class refusing medical treatment because of costs, to 30% in 2023 from 23% in 2010 shows the financial pressure on the middle class. A 17% decline in food spending among the middle class between January 2022 and July 2023 is one of the most substantial cuts in decades. Around 42% of the middle class have reduced portions or frequency of meals and 24% have had to give up certain types of foods.

The middle class faces a strong drop in the living standards. Constraints and financial hardships have become commonplace which has affected the quality of life of these social strata. A 7.3% decrease in sales of national brands and a 4.2% increase in sales of private labels are a sign that the middle class seeks to save money on everyday expenses, including food.

Insufficient government support adds to the negative perception that the middle class has of their financial situation and prospects. There is a growing pessimism among the middle class, as more than half of the French from this social stratum believe that the future of their children will be worse than their own at this point in time [82].

Inequality. According to an extensive inequality study in France released in 2023, the share of white-collar children among school students is less than a quarter. In prestigious universities and colleges, they make up 63%. The unemployment rate among elementary occupations is 17%, while that of white-collar occupations is 4%. Inequalities between social classes in France remain significant.

Educational inequality escalates the long-term economic instability. In poor areas, only 42% of elementary school students have a satisfactory level of oral vocabulary compared to three-quarters in the rest of the country. Primary learning to read makes these inequalities more profound which become critical during the study.

In the public spotlight, there is certain resistance to the use of analysis in terms of social positions despite sharp social differences which linger in society and remain hidden in the media discourse. For example, ignoring social positions can hide factors related to economic, educational, or structural barriers which create inequalities. Addressing one aspect only, such as racial or gender inequalities, can steal the scene from others, equally important reasons for a widening gap between social groups.

In France, more than six million people experience problems with affordable heating which represents about 30% of the poorest households spending more than 8% of their family budgets on energy, particularly on heating and lighting. According to estimates of the National Institute of Statistics and Economic Studies (INSEE), there are 2.2 million unemployed in France, representing 7% of the active population. However, this figure does not fully reflect the reality of the labor market.

In addition to the unemployed, there are about eight million people who are in "male employment," including workers in precarious employment, people who want to work but are not considered unemployed, and mothers from lone-parent families without the money to care for their children. Such data does not include four million non-standard workers and another two million people disappointed with employment conditions who are no longer actively looking for a job but would like to find one. Their removal from the unemployed category creates "the image of unemployment."

Summing up all the unemployed, precarious workers and inactive people who would like to work, the total figure comes to about eight million, or a quarter of the total active population. However, this picture does little justice to the scale of the problem. Many people no longer tell INSEE that they would like to work because of marginalization or discouragement. Also not included in the category are part-time workers and people working without a standing contract which fuels significant instability and low revenues.

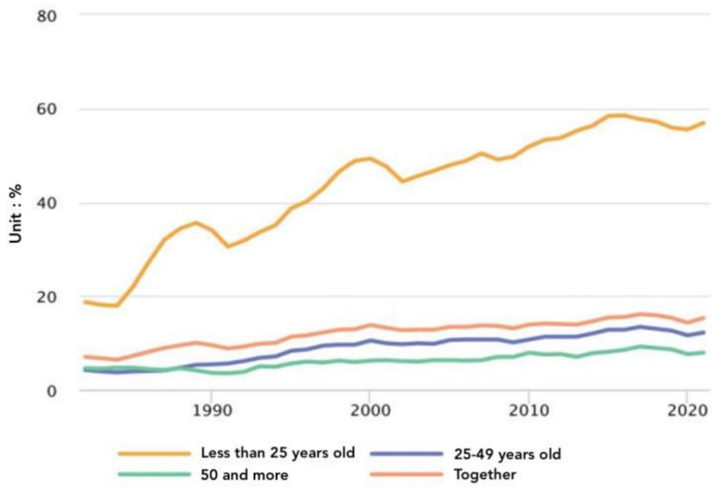
Unemployment in France

The state of underemployment in France		
	In thousands	In%
Wrong-employment	**8 174**	**25,5**
- Of which precarious employees (fixed -term contract, interim, work-study)	4 081	12,7
- Of which unemployed	2 234	7,0
- Of which inactive wishing to work	1 859	5,8
All people who work or want to work	**32 434**	**100**

Currently, 15.3% of French workers have precarious jobs, which is twice as high as in the 1980s. The figures show that between 1985 and the end of the 1990s, the percentage of precarious jobs among contracted workers rose to 13.8% from 7%. In 2021, the figure hit 15.3%.

Job instability contributes to the middle-class squeeze transforming its representatives into precariat. This trend is most noticeable among young workers, as the share of precarious jobs among young people under 25 soared from 18.7% in 1982 to 49.3% in 2000, emphasizing major changes in the occupational structure [83].

Evolution of paid employment instability by age. In 2021, 56.9% of employees under 25 will have an unstable contract.



Precariat. There is no consensus on the boundaries of the middle class due to the diversity of definitions. Different studies offer different thresholds for household income ranging from 60% to 225% of the national average income. The lack of unity in the choice of thresholds creates considerable discrepancies in the definitions of the middle class in literature [84].

Consequently, official statistics estimating the middle-class squeeze scale does not give a full picture. For a more complete assessment of trends, it is important to pay attention to changes in the middle-class structure and to such phenomenon as underemployment, as people in this category formally, at a certain point in time, may fall into the category of the middle class based on the level of income, but are actually no longer part of the middle class and move to the precariat category due to permanent uncertainty of their status. The Netherlands has the highest number of precarious jobs which is 23.2% of the total figure, almost double the EU average values. The country is followed by Spain (18.1%), Portugal (14.3%), France and Finland (14% each). The lowest job instability is reported in the Baltic States and some Eastern European countries. Lithuania (1.6%), Romania (1.8%) and Latvia (2.4%) lead in terms of the minimum number of provisional contracts [85].

There are speculations in the European intellectual milieu that society will never come back to the previous level of consumption where the state ensures the growth of public services and provides protection. The middle-class welfare as we know it is a thing of the past if seen in a historical context. Many argue that there is a need to redefine the middle class within a new political program. Consumption as a consequence of income can no longer serve as the basis for defining the middle class in a political sense either. It is maintained that the middle class has a significant impact on the environmental catastrophe. The environment is not a goal in and of itself; it is a condition for a better quality of life for people. As soon as a certain level of consumption is reached, society becomes iatrogenic, as it loses the meaning of happiness and satisfaction. Hence it appears that the new model offers society a promise of happiness by limiting consumption. Such an approach will bring about a social structure inevitably polarized into a small upper class and a precariat trapped in rigid environmental metrics of “prosperity” [86].

Based on the above, we would have to assume the following. The quantitative squeeze blends with the structural degradation of the middle class. Statistical indicators of the middle-class squeeze, despite their formality, become of higher relevance when taking into account the uncertainty of its boundaries and rising polarization in this social stratum. The growing numbers of precarious workers are also fueled by the non-systemic nature of such growth, emphasizing the need for attention to these processes. A large part of the middle class is transformed into the precariat, leading to a large-scale crisis in social and economic dimensions.

Changing the demographic structure, including differences in fertility between native Europeans and migrants, may accelerate the middle-class squeeze from generation to generation. The increase in inequality will eventually create a major difference which could lead to a polarization-based division. In such a scenario, the middle class would lose its role as a stabilizer in the European society and political system.

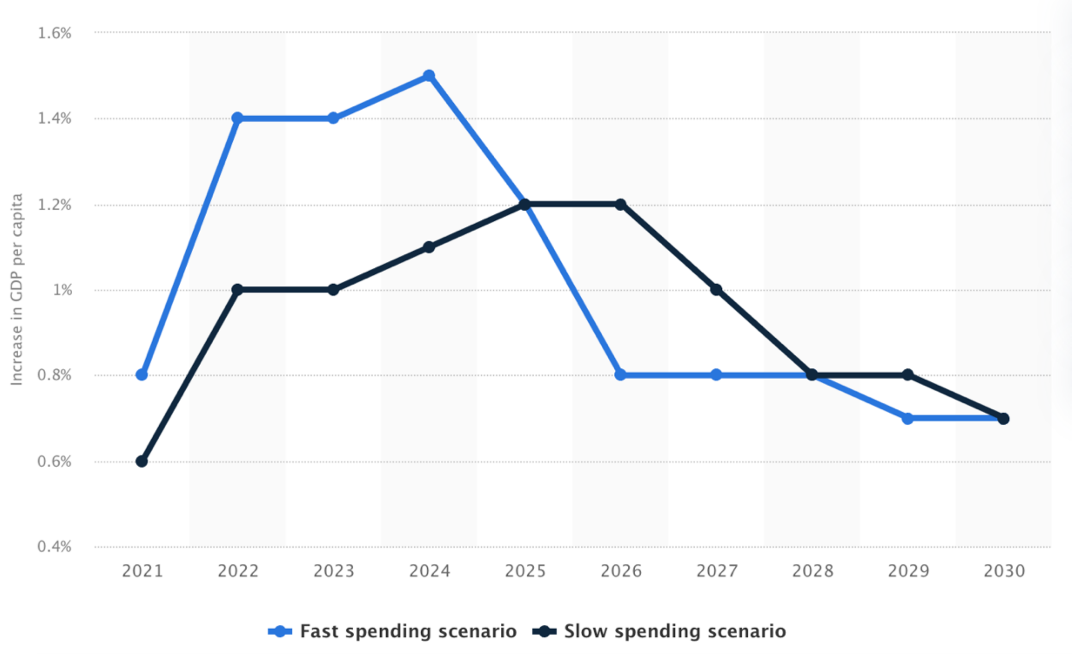
Declining Economic Growth

There are projections for a similarly restrained growth to continue, most certainly in the first half of the next year. We do predict an increase of only up to 0.2% in both the eurozone and the UK by 2024. The economic growth is hovering around zero and there is little that could contribute to a noticeable recovery. This waning growth potential suggests that the eurozone will have a hard time expanding by more than 1% even with a strong recovery. Major structural problems mean that Europe will inevitably fail to keep pace with most other major economies for many years to come. Any noticeable recovery depends on the improvement dynamics in Germany which is the largest economy in the union.

A detailed data breakdown shows the absence of growth drivers, as household spending reveals only a modest rise. With fixed investment remaining flat and exports and imports in decline, this leads to a lack of contribution from the external sector.

All of Europe’s major challenges, such as climate change, population aging, economic stagnation, numerous uncertainties, high defense spending and exorbitant debt, require high economic growth rates. The dynamics of EU businesses compared to the US show a lag in the technological production versatility and patent generation. The growth rate gap from 2014 to 2019 between European and US firms made up 40% in favor of the latter [87].

Forecasted increase in annual Gross Domestic Product growth in the European Union due to the NextGenerationEU economic stimulus from 2021 to 2030 [88]



Comparing the EU and the US at the firm level (rather than the economy as a whole) with the overall downward trend in the global economy, there is a considerable performance gap. This gap is true for such input factors as enterprise-level R&D spending and for such output factors as corporate profitability. The IRA, combined with significantly lower energy prices and favorable tax preferences amid tax hikes in the EU due to budgetary constraints, prompts European manufacturers to relocate their production facilities. As a result, Europe has fewer prerequisites to maintain a high level of technological development and resources to retain its leadership rather than be sent away to the periphery.

According to a poll conducted by the German Chamber of Commerce and Industry (DIHK) in August 2023, 32% of industrial companies said that they would prefer to invest abroad rather than expand domestically. This figure is twice as high as in last year's poll amid fears about the future without cheap Russian gas.

The IMF's long-term forecast estimated the risks to development prospects as "strongly shifting towards degradation" with a higher likelihood of an abrupt slowdown in economic growth. Tensions in the financial sector could spur a chain reaction weakening the real economy due to rapid deterioration of financial conditions and cause central banks to toughen their policies. Europe's economic prospects have deteriorated in recent years due to a decline in the manufacturing industry, trade disruptions in relations with China, dwindling government support and declining consumer spending due to high inflation and rising borrowing costs.

The impact of economic growth on the living standards cannot be underestimated. An economy which gains 3% will double in 24 years, while an economy which gains 2% will take extra 12 years to double. Many political leaders often fail to consider such elementary indicators. Many may think that the difference between 2% and 3% is one percent, but the difference is actually 50% [89]. Years later, with developing economies showing rising growth rates, EU performance will be lower and consumption constraints increasingly tight.

The slowdown in performance gain in the eurozone does not appear to have been caused by major structural shifts in the economy. The main factor behind the decline is endogenous in nature. The TFP growth, which has been declining in the European economy, is critical to sustained economic growth. It is partly due to higher rates of research, technology, and innovation, more generally, due to the contribution to economic growth made by individuals, firms, and markets adopting new technology and business practices in a competitive and dynamic environment. This is especially true for the manufacturing sector where performance has also declined in all firms of different sizes and across the entire performance distribution.

The US outperforms Europe in all classes of transversal or advanced technology, that is, technology is blazing a new trail for the economy. The US not only generates more patents than Europe in computing and artificial intelligence technology but also in materials science and clean technology, in technology where Europe has usually enjoyed high competitiveness and outperformed the US in the past.

Deindustrialization trends caused by external factors, such as the COVID-19 pandemic and energy crisis, revealed the vulnerability of supply chains amid rising environmental regulatory burdens and dealt a massive blow to the competitiveness of the European industry. There is a visible trend to relocate energy-intensive production facilities causing a set of cascading consequences embodied in a crisis in the living standards, widespread bankruptcies, and the outflow of skilled personnel. In the long run, the domestic fiscal policy will become more expansive due to higher spending needs amid growing budget deficit.

Germany's financial and political domination will fade away due to total diminishment of its economic power caused by systemic deindustrialization processes in the country. According to Statistisches Bundesamt, Germany's energy-intensive manufacturing sector has contracted by about 20% since the beginning of 2022 and is not yet showing any signs of recovery. **As Germany is an EU industrial growth driver, its prospects in many respects define the future technological development and economic growth. The German industrial production has been in decline for a full year now, while the Italian output has also been reduced.**

The production decline in Germany is largely due to the machinery and equipment sector. In energy-intensive sectors, the output reported in October dropped 7.1% y-o-y. The German economy has been contracting by 0.4% throughout the year [90].

The diversification of energy sources in Europe and energy demand management, use of extra-budgetary funds and provisions have mainly diminished the impact on the economy to a few key sectors. Germany's energy-intensive heavy industry suffered the most which will affect the EU economy in the long run. While larger economic damage has so far been confined, the risk of further disruptions to energy and food markets and supply chains remains [91].

Efforts to respond to man-made climate change, growing geopolitical uncertainty and continued demographic change have a determining impact on the industrial slowdown. Globalization impulses ran out of steam even before the COVID-19 crisis. Private and public investment in recent years has fallen far short of what makes a modern and advanced economy be considered promising [92]. Factors of industrial recession and investment squeeze caused by political uncertainty and all-European debates on the merits of austerity compared to growth policies, the eurozone sovereign debt crisis is once again posing a risk to the global economic recovery (NYT).

According to Lazard Asset Management, one of the oldest and most influential European foundations, the EU economy has an outlook fraught with problems and will continue to slow down in 2024 as deferred effects of growing interest rates become increasingly visible and pandemic-era savings, which maintained consumer spending, are running low. The visibility of short-term revenues is now impossible for many firms which took part in the poll, a thing characterizing a downward phase in a typical economic cycle [93].

ECB's policy causes inflationary pressure to decline along with economic activity. The IMF predicts that real interest rates are likely to remain high even after nominal rates begin to fall, although short-term inflation expectations decline. Furthermore, monetary policy changes are becoming less synchronized. The economic environment will continue to be uncertain and interest rate volatility will remain high [94].

The peg of eurozone inflation to energy prices creates an unstable system. The drop in oil prices has been largely responsible for the slowdown in inflation this year. The high dependence of energy prices on external factors, geopolitical instability in the Middle East in particular, dampens the long-term inflation outlook. Energy prices may continue to rise, which will put additional pressure on inflation and economic growth amid fiscal austerity and subsidy cuts.

Challenges in Achieving Decarbonization Goals

Making Europe the first climate-neutral continent by 2050 requires massive installments of public funds. According to estimates of the European Commission, decarbonization of the economy will require about €700 billion annually. Public investment is being reduced due to the tough fiscal policy amid calls for greater consolidation.

According to a new report, the EU is expected to fail meeting most of its 2030 green development targets. The European Environmental Agency said in a statement that it is "very likely" to exceed its primary energy consumption targets, sets its renewable energy targets too low and will fail to double the use of recycled materials [95].

A study by The Transnational Institute (TNI), titled "Energy Transition Mythbusters — Unpacking the 6 Policy Myths That Threaten Decarbonization," provides the most detail about the problems of the net-zero transition. It examines the problems of private speculation in the energy market that go along with energy transition [96].

A fair transition to a green economy will require massive spending on additional training. The EU economy digitalization, a thing deemed vital for its future competitiveness, will be another major financial burden. And all these priorities must be addressed amid economic slowdown and cost of living crisis contributing to the rise of nationalist far-right parties.

The European Parliament has a large representation of New Green Deal proponents setting ambitious targets for the net-zero transition.

Budgetary subsidies are at risk. Even with required adjustments, these will not provide the necessary incentives to achieve targets, as the efficiency of private funding on which everyone pinned high hopes is not living up to expectations.

Continued decline in energy demand reflects adversely on the EU's industrial potential. The transition of the entire energy infrastructure to renewable energy sources cannot offer investors any decent ROI. This in turn will raise the profile of public planning, public finance, and public property.

The lack of funds to finance decarbonization, due to the debt crisis and stagnation of the EU economy, clouds the prospects for scaling up the renewable energy sector. The situation becomes more complicated, as the growing number of renewable sources requires massive infrastructure investments which are usually not included in cost estimates.

In 2022, global investment in renewable energy sources hit a new record high of $0.5 trillion. However, this figure is less than a third of the average annual investment needed between 2023 and 2030 to meet the globally agreed 1.5°C climate change threshold.

According to the predominant narrative, it is private investors who drive change when public support ends, although private investment is unstable. A 2022 study by the International Renewable Energy Agency (IRENA) showed that state participation in the power sector of the Global South has been growing. Public funding for the energy transition has often been directed to generate substantial profits for large energy companies, high net worth individuals and businesses who produce and sell renewable energy. Restructuring efforts and subsidy cuts have halved the number of new renewable energy installations in Germany and China.

The free renewable energy market is growing rather slowly and will hardly be viable. The renewable energy sector is fueled by government subsidies which coexist with liberalization policies. The existing system has consolidated power in the hands of a few oligopolistic firms. **The budget crisis clouds the prospects for scaling up sufficient support for the renewable energy sector.**

A slump in renewable energy prices might distract investors. These firms now face a "death spiral," as their costs rise and revenues plummet. The profit-based energy transition model is in the grip of contradictions and goes down on its own. While the unit cost of renewable energy is in decline indeed, the renewable energy price data tends to hide costs of infrastructure upgrades and changes needed to integrate renewable energy sources into the power grid. These hidden costs will add an estimated 10-15% to the unit price of energy once renewable energy sources account for 25% of the total energy production and will only increase, as decarbonization continues.

Instead of increased competition and **a wider choice, liberalized markets consolidate power in the hands of corporate behemoths.** In Europe, five firms have retained oligopolistic control over the energy system.

Liberalization has led to a surge in energy poverty and energy costs: energy poverty doubled over a 10-year period across Europe during the period of energy liberalization. Uncommon is the abuse of energy companies through increased price volatility combined with gas price liberalization which resulted in a situation where the EU member states had to pay about $30 billion more for natural gas in 2021 than they would have paid if they had maintained oil price indexation.

The relationship between lower energy prices and renewable energy transition is instrumental to decarbonization. Available data suggests that other factors and more specifically, profit maximization, may affect price. The emphasis on costs tends to ignore workplace abuse which is commonplace in the extraction of critical raw materials (CRM) and renewable energy production. According to a study calculating the total system costs on maintaining the reliability of renewable energy sources in Texas, USA, ranging from integration of backup power plants to erection of power storages, the price of wind and solar power per MWh has risen seven to eleven times [98].

Declining energy prices can potentially undermine the profits of the energy sector. In turn, a slump in renewable energy prices might distract investors.

Policies based on stringent standards and high carbon emission prices takes a toll on the European industry in terms of competitiveness. The dismal economic repercussions are incommensurable with the benefits of environmental charges, as such practices are not universal. Carbon pricing is not a general trend; artificially inflated production costs drive the energy-intensive EU industrial products from the global market and have a particularly strong impact on the German economy.

Carbon emission pricing is still rarely used around the world. And in the case of the IRA adopted by the US, the world's second largest source of greenhouse gas emissions, such pricing imposes a completely different approach, that is green technology development and implementation assistance. As a result, the number of production outsourcing and investment transfer cases is on the rise.

The CBAM implementation slated for 2025 is likely to cause headwinds from Europe's main trading partners and will probably end up affecting only a small part of its trade. In the green import policy, CBAM must be implemented gradually and take into account sector-wide benchmarks.

Achieving the absolute zero targets is infeasible in a stagnant economy. Especially amid tensions with China providing 90% of rare earth elements which are fueled by the US defense lobby in Brussels. A liberalized energy market further squeezes supply and increases energy poverty. It provides fertile ground for abuse by corporate behemoths. Private investment is neither keeping pace with the targets nor is it considered to be viable without a substantial increase in state participation.

In view of the above, it can be concluded that the narrative of balancing a free-market economic system and state participation to achieve decarbonization looks conflicting. The failure of net-zero targets gives place to the search for alternatives subject to increased emphasis on environmental transformation. The lack of CRM resource potential necessitates a greater emphasis on investment in recycling and a stronger role for the circular economy.

2. Post-EU Economy Development Prospects

Summary and Beneficiaries of the Degrowth Model of Social Capitalism

There is plenty of room for alternative ideologies, theories and policies amid apparent decline of neoliberal authority. The European Parliament has laid down the groundwork for implementation of an economic model according to which the EU's economy should, in the long term, straddle the line between stagnation and dwindling growth. In May 2023, the European Parliament held a Beyond Growth conference inspired by the Degrowth and Post-Growth concepts [99]. It was preceded by the 2019 OECD paper, titled "Beyond Growth: Towards a New Economic Approach Report of the Secretary General's Advisory Group on a New Growth Narrative," pointing to fallacies of the mainstream neo-Keynesian model and the need to make a transition to "a concept of economic progress pushing the boundaries of individual material prosperity."

Thus, the European Union is on the verge of sweeping changes, the solutions to which are agreed upon at the supranational level and can transform the life of all member states into a new reality where the economic and social framework is strictly subjected to the principles of carbon neutrality rendered absolute. The open letter proclaiming the path to the new economy was signed by 159 civil society organizations, including the Club of Rome, and 274 researchers and experts [100].

Outlined in policy papers released by the European Commission and the World Bank, the green growth approach will, although crisis-stricken, transform into a new authoritarian economic model. The situation, demanding that this resource consumption be curtailed to maintain the current level of welfare, suggests a systemic social crisis which should be resolved by focusing the social and economic models on environmental standards. The current European system will be dismantled and rebuilt based on the need to save resources and the continued reduction of living standards and energy poverty.

The idea of failure of economic growth, both as a paradigm and a macroeconomic model of environmental idealism, was widely recognized in the 1972 report by the Club of Rome, titled "Limits of Growth," which stressed the physical measurement of the economy in accordance with basic laws of physics, such as thermodynamics. It described disastrous ramifications of humanity reaching certain demographic and environmental limits and a "zero growth" objective by conservation of industrial development and population decrease. The absence of any real economic analysis underlying the model unveiled in the MIT study and the system designed to manage the market mechanisms of supply and demand became the main target of criticism by economists, both in the past as well as in modern commentaries [101].

Ideologically, the Club of Rome is a successor of the New Age movement based on the cult of "deep ecology," the main point of which is creating a single global religion [102]. These ideas are based on the Malthusian philosophy speculating that population tends to outpace the capacity of supply. It should be noted that the Club of Rome was established by OECD representatives in October 1968 in Bellagio, in collaboration with the Rockefeller Foundation the cooperation and with funding from the Rockefeller Foundation. The symposium focused on the dangers of exponential growth — which by its nature cannot continue forever — and ended with participants signing "The Bellagio Declaration on Planning," which emphasized the need to overcome global problems through coordination [103].

Proclaiming a development trend on behalf of the entire world and employing the institutional framework of the OECD, often referred to as the "Club of the Rich," the list of its decision makers included elitists who acted from positions of economic privilege and power. The entire network had academic qualifications in natural sciences (more specifically, in chemistry and physics) or engineering, few had economic education and none of them had any qualification in social studies or liberal sciences. Almost all members had spent at least part of their careers as experts or executives in national governments [104].

Circular economy stems from the book by Barbara Ward, “Spaceship Earth” (1966), where the Earth is a closed-loop system, like a spaceship, with limited resources that need to be reused. “Spaceship Earth: The Life-Support System” is also the title of a chapter in the 1977 book by the Rockefeller Brothers Fund, “The Unfinished Agenda,” promoted by the Club of Rome.

The year that this book came out, Walter Stachel, of the Club of Rome, developed the concept of circular economy. The Member Squadron is a traditional gathering of grand reformers with heads of state, UN paper shufflers, leading politicians and government officials, diplomats, researchers, economists, and great business leaders. It is a gathering from all over the world between the strongest of the rich western “elite.” This political lodge also brings together multibillionaires from the Rockefeller, Rothschild and Soros families, as well as political shapeshifters, such as Anders Wijkman and tycoons, such as the late oil baron Maurice Strong.

Let us take a look at biographies of the fathers of the Degrowth concept.

Maurice Strong (1929–2015)

His biography includes positions as an advisor to the Rockefeller Foundation, a member of the Commission on Global Governance and the Brundtland Commission, Senior Advisor to UN Secretary-General Kofi Annan, Senior Advisor to President of the World Bank James Wolfensohn; Chairman of the Board of the Earth Council Alliance; Chairman of the World Resources Institute; Co-Chairman of the Board of the World Economic Forum, and a member of the International Advisory Board at Toyota. He was also linked to high ranking members of the Liberal Party of Canada. Strong gathered wealth in the oil and energy business, running such companies as Petro Canada, Power Corporation, CalTex Africa, Hydro Canada, Colorado Land and Cattle Company, Ajax Petroleum, Canadian Industrial Oil and Gas [105].

Strong portrayed himself as “a socialist in ideology, a capitalist in methodology.” He wrote the backbone report, “Only One Earth: The Care and Maintenance of a Small Planet,” delivered in Stockholm in 1972. The report was co-authored with Barbara Ward, who headed the International Institute for Environment and Development in 1973, and microbiologist René Dubos. The report summarizes expert findings in preparation for the United Nations Conference on the Human Environment chaired by Maurice Strong.

From 2003 to 2005, Strong served as a personal envoy for Annan during the North Korean Nuclear Crisis. He is linked to Kofi Annan (married into the Swedish influential family of Wallenberg) and his colleague at the World Bank in the mid-1990s, all thanks to baron Mark Malloch Brown, a managing board member of the Soros Foundation, who worked with Strong as one of his special advisors, then under Kofi Annan from 1999 to 2005 as director of the UN development program.

Maurice Strong became known for a federal corruption investigation into the United Nations Oil-for-Food Programme which revealed that Strong, who worked for Kofi Annan at the United Nations back in the day, endorsed a $988,885 check issued in his name by a Jordanian bank. He received the check from a South Korean businessman who was convicted by a New York federal court in 2006 for conspiring and bribing UN officials to falsify the Oil-for-Food Programme in favor of Saddam Hussein. Maurice Strong got away with it [106].

In 2017, the World Economic Forum launched a public-private cooperation initiative, dubbed "The Platform for Accelerating the Circular Economy" (PACE), with Philips CEO Frans van Houten as its chair.

Ellen MacArthur

She is the founder of the Ellen MacArthur Foundation, an active research and project organization promoting the Degrowth concept. The Ellen MacArthur Foundation was founded in collaboration with Cisco, BT Group, B&Q, Renault, and National Grid. By 2013, she was elected a member of the Club of Rome.

Anders Wijkman

Anders Wijkman is a former member of the European Parliament, Assistant Secretary-General of the United Nations and UNDP Policy Director, Honorary Chairman and former Co-President of the Club of Rome 2012-2018, a councilor for the World Future Council [107]. He is the head of several NGOs funded and promoted by foundations of the Swedish Wallenberg family, historically linked to the Rothschilds.

The Degrowth idea gained momentum during the Global Financial Crisis in Paris in 2008. The Degrowth movement is based on, and increases, fears that the planet is about to go up in flames and enjoys an influx of popularity during economic crisis. Less Is More: How Degrowth Will Save the World, a book by economic anthropologist Jason Hickel explaining the benefits of a circular economy, has become a work intended to raise public awareness about the new capitalism system. The book was published in 2021, amid a global recession caused by the COVID-19 pandemic.

Essentially, Hickel declares the strongest decline in the living standards because even in developed countries, workers have fewer, rather than too many, opportunities to consume: “Reducing resource use removes pressure from ecosystems and gives the web of life a chance to knit itself back together, while reducing energy use makes it much easier to accomplish a rapid transition to renewables before dangerous tipping points begin to cascade.”

In a piece, Beyond Growth: Towards a New Economic Approach, OECD argues that trust in established institutions, experts and elites has declined. Over the last five years, rejection of the central role of economic growth took lead in the European discourse of economic policy. This fundamentally means more movement towards the destruction of the capitalist substance and shape of the EU [108]. The Stockholm Resilience Centre Planetary Boundaries framework is intended to show the failure of the European development model based on economic growth [109].

The Marxist ecology [110] opposite to this concept denies the importance of international trade accelerating consumption. There are projections to reset a socially oriented model that would make the non-profit sector a center for European development management. Going “beyond growth” takes the shape of a political goal which, in turn, should be reflected in a new public narrative and discourse on the nature of economic and social progress.

Versatile scenarios of the future economic model of social post-capitalism determine efficiency and are scaled up by monetizing metrics (susceptible to manipulative estimates) of non-material factors of production, such as satisfaction of wants, well-being, communications (primarily on social media), happiness, psychic health, etc. The current weakness of economic growth suggests building models with limited or no GDP increase.

Despite the concept name, Degrowth proponents do not propose a total reduction in economic activity. What they propose is to scale back economic sectors directly in conflict with environmental standards. Among examples of such sectors are industrial meat and dairy production, fast fashion, advertising, automobiles, and aviation.

The Degrowth economy denies other approaches to the environmental crisis, such as green growth and the Sustainable Development Goals (SDGs), as the compromise with democratic capitalism they propose gives rise to a series of irrepressible conflicts. The current model of capitalism is based on capital, that is embodied labor realized self-expanding value, while the axis of capitalism as a system is private ownership of production’s material factors which are rejected in the Degrowth concept. This theory is committed to improve environmental conditions by reducing the size of the global economy so that it falls within the biophysical boundaries of the planet.

A major systemic crisis is a convenient and the only dismantling opportunity to put environmental alarmism at the center of the EU and US economic model in which economic hardship is perceived "as an opportunity to abandon socially and environmentally damaging competition for economic growth and instead move towards cooperation for well-being" [111].

In the European Union, the Degrowth economy model is politically promoted by **the Intergroup on the Social Economy** [112] which includes representatives of The Greens/EFA, The Left Party, Renew Europe, and S&D [113].

The social economy projects promoted by Nicolas Schmit should play a key role in the EU initiatives, such as the Green Deal, a European pillar of social rights. He has expressed willingness to cooperate with his colleague Thierry Breton [114], known as Macron's protégé and working closely with the powerful arms lobby in Brussels [115]. The initiative of the social economy plan, a step towards a Degrowth economy, is outlined in The Social Economy Action Plan (SEAP) [116].

Many facts confirm the beginning of Degrowth political transformations in the UK, now separated from stringent EU standards, which is rapidly turning into a test ground. It is maintained and supported by CUSP, a research institute headed by Tim Jackson, a renowned environmental economist and author of the report, "Prosperity Without Growth." The All Party Parliamentary Group on Limits to Growth was established in 2016. There was a spike in concept promotion in the UK in May 2020, amidst the COVID-19 crisis, when more than 2,000 experts signed and published a manifesto calling for the Degrowth strategy [117]. Its renowned advocate, Jason Hickel, sums up Degrowth as "de-developing." It is a planned reduction of energy and resource use designed to bring the economy back into balance with the living world in a way that reduces inequality and improves human well-being" [118]. In an interview this April, Huw Pill, an economist at the Bank of England, spoke in favor of limiting growth: "[...] someone needs to accept that they're worse off and stop trying to maintain their real spending power by bidding up prices, whether higher wages or passing the energy costs through onto customers" [119].

According to numerous polls, the Labor Party, tightly linked to the movement of Fabian socialism, known for its rebellion against capitalist rationality, is promised a landslide victory in the coming elections [120]. Many Labor MPs are members of the Parliamentary Limits to Growth Group in local governments and focus on localism and the use of local wealth and financial flows over globalized finance and domestic investment. Some sources argue that the party's future policy will most likely be under the banner of spending cuts with elements of growth reductions [121].

The prerequisites for implementation of Degrowth as a new economic system in the EU are as follows:

- Heated public debate based on the conviction that the conflicts in the Global South and environmental problems come from the failure of neoliberal and neocolonial policies. However, conflicts in the Global South in the nearest term will be rooted to a greater extent not in environmental safety problems, but in the fact that the ongoing slowdown of growth in the Global North will dramatically curtail development in the Global South. This being due to the interdependent nature of the global economy and escalation of regional religious disagreements and struggle for resources, especially energy and rare earth elements which is fraught with severe labor exploitation. As this is the case, the development of a political discourse focused on institutional fears about the scarcity of resources and global displacement of human populations, as a result of climate change, is actually a potential source for escalation of interstate and regional tensions. Thus, “vulnerability” of a group can be used as a weapon against the interests of a target group, benefiting “disaster capitalism” elites. Non-public actors on this track can amplify the agenda by using climate change for certain political goals [122].

- Declining economic growth and contracting industrial capacity, destruction of the industrial non-environmental-centric lobby. Rising unemployment rates and declining living standards as factors for fueling public discontent, investment squeeze and decrease in the credit supply for business.

- A shrinking share of the middle class as a social stabilizer leading to a rise in the reactionary, revolutionary masses of people. Degrowth, a model authoritarian in nature, will sacrifice the foundations of democracy under the noble pretext of saving the planet.

- Media promotion of socialist narratives, emphasizing the problems of inequality and capitalism amid growing crisis phenomena in the European economy with deliberate politically motivated reporting of the environmental nature of the population vulnerability. People give weight to their current level of GDP per capita due to the loss aversion effect. Without effects of deteriorating circumstances, such radical policies will gather only limited electoral support.

- Irreparable reputation damage to the neo-Keynesian model of capitalism approaching a dead-end on any opportunities for further development and satisfaction of basic desires of the EU population. Incitement of protests around the political consequences of capitalism and US imperialist policies financing wars may be a milestone and a pretext for the escalation of the environmental agenda. For example, the reaction to the Gaza genocide can be positioned as a reason for the destruction of the existing economic model.

- Staging of mass protests maintaining the problem of the climate crisis, artificial exaggeration of the situation and its legitimization in mass media. A fine example is the plan for XR’s The Big One which is to get 100,000 in the streets around parliament. The group says: "The streets will be transformed with People's Pickets outside government departments and a diverse program of speakers, performers and workshops, awash with color and culture" [123].

- Dismantling of systems based on the national sovereignty, European integration transforming the EU into a solid rock which completely erases the boundaries of identity and independent political will of the member states.

- Money denationalization, obliteration of connectivity between monetary and fiscal policies, effective destruction of the national model. Money and Sustainability: The Missing Link, a report by the Club of Rome, explicitly points out the need to give new meaning to the traditional money creation principle: "Seeking to counteract all deleterious effects of economic growth. Without questioning, the omnipresent monetary tool driving this growth could not work. The Limits to Growth and The Future of Money complete each other" [124].

- Destruction of the system for competitive interaction between economic agents and capital increase by progressive accumulation.

- The planned-economy model, introduction of annual budgets for balance, inability to expand the budget by lending to governments for long-term objectives [125].

- Rebuilding the capitalist system by its existing main beneficiaries without losing actual influence. The Degrowth system of investment and generation of financial return based on achievement of social and environmental well-being metrics will be built around the impact investing system, a capitalist model that stems from social entrepreneurship [126].

- The Global Impact Investing Network is a large conglomerate sponsored by major global multinational foundations, with vested interests of the largest beneficiaries of the harshly criticized Degrowth economic model of capitalism: Ford Foundation, Rockefeller Foundation, Omidyar Network, Robert Wood Johnson Foundation, the Kresge Foundation, Skoll Foundation, JPMorgan Chase&Co, Visa Foundation, Johnson&Johnson and many others, including the Netherlands and Australia [127,128].

The Degrowth principles and goals include the following transformations:

- Denial and dismantling of economy based on the "neoclassical" model, **destruction of liberalized markets as such.** The Malthusian rhetoric of Degrowth advocates puts on a pedestal economies with low average income and proposes self-imposed restrictions on energy consumption and use and GDP reductions. In doing so, no maximum permissible level of GDP has been set and no wealth limit has been justified scientifically.

- **Pressure to reduce consumption, ban on advertising.**

- **Restraint on development in the Global North** will not cause changes in the Global South, according to the model, which is not subject to degradation despite emission leadership of the oil industry (Saudi Aramco, National Iranian Oil, Petroleos Mexicanos, PetroChina, Petroleos de Venezuela and Kuwait Petroleum). Furthermore, the countries of the Global South will receive huge compensations.

- **Energy poverty** as a standard of living. The Intergovernmental Panel on Climate Change (IPCC) has already identified the need to reduce demand for energy and materials, production and consumption. Deindustrialization trends and shortages of energy capacity lead to insufficient resources for investment in climate change mitigation technology and make European countries less competitive in technological development. In terms of economic efficiency, investment in green growth technologies will be less expensive than EU economy Degrowth [129].

- Inequality reduction. Inequalities in wealth stem from rising value of assets which is a cause of financial instability. The new model proposes **the reduction of material consumption, equalization of the living standards based on minimum basic needs** and destruction of the middle class as the main “indulgent consumer.” Amid destructive economic processes, society is built around a provision of basic necessities and services. The metric will be based on a subjective perception of an improved quality of life, satisfaction rather than a materially measurable improvement in the quality of life as such.

- **Unemployment reduction due to a large number of precarious jobs without any appropriate benefits.** Most people will have to make do with temporary low-paid jobs without any guarantee. This format prompts forced collectivization and proletarianization when people are transformed from employers or self-employed individuals to low-paid workers.

- Sectors related to basic needs, such as energy, food, housing, healthcare, and education, should be taken out of exploitation and defined as financial ones.

- **Definancing of energy,** food, real estate, healthcare, and education. Promotion of such economic activity formats as worker cooperatives. Phasing out of fossil fuels, restrictions on extraction of raw materials.

- **Minority Democracy** means the targeted impact of governing structures in society as one of the performance metrics on wider active participation of marginalized groups in society and the incorporation of feminist principles into politics and the economic system. Affiliation with these groups will require access to preferences which transforms society along a controversial, artificially imposed path. Democratic activity is strictly environmentalism-bound and diversity of opinions will be left out.

– Profit will not measure business performance. **The government will be mandated to define "good" and "bad" companies** in terms of zero growth and decide which companies will thrive and which will no longer exist. Businesses will be monetized by flywheel investments in the service of the non-profit sector.

The manipulative nature of models which deny the importance of economic growth and focus on its reduction is determined by the minority share of the EU and US CO_2 emissions (about 37%) in the first place. Furthermore, most developing economies and China ignore or get around emission restrictions, while import-oriented restrictions can become a conflict barrier and a pretext to embargoes on countries producing CRMs indispensable for further technological advances.

According to Wim Naudé, a visiting professor of economics at the University of Johannesburg, most key Degrowth proposals will quite likely encourage consumption and economic growth, rather than restrict them. Energy costs, a four-day week, basic income subsidies, and a ban on advertising may cause a rebound and will actually accelerate materialization and economic growth. Thus, policies may be ineffective in the minimization of environmental damage. Economic stagnation showed that a slowdown in growth would lead to a zero-sum society where redistribution, rather than production, becomes the basis of economy. For which reason, a further slowdown in growth will only exacerbate problems. Society becomes a theater of conflict when a group or a country can improve their standing at the expense of another group or country following the logic of redistribution rather than production. Humanity does not need to be chained by planetary boundaries. It should seek to transcend them instead.

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The New Strategic Concept (NSC) is an independent, non-partisan, and non-commercial expert initiative, functioning as a network-centric think tank.

The mission of the NSC is to craft an alternative perspective.

The aim of the NSC is to assist our partners in perceiving events from a different viewpoint.

We endeavor to introduce an alternative understanding into the discourse, providing our own assessment of the emerging threats and opportunities associated with these events. The methodologies employed by our experts grant us a substantial informational advantage, allowing us to view a single event from multiple perspectives.