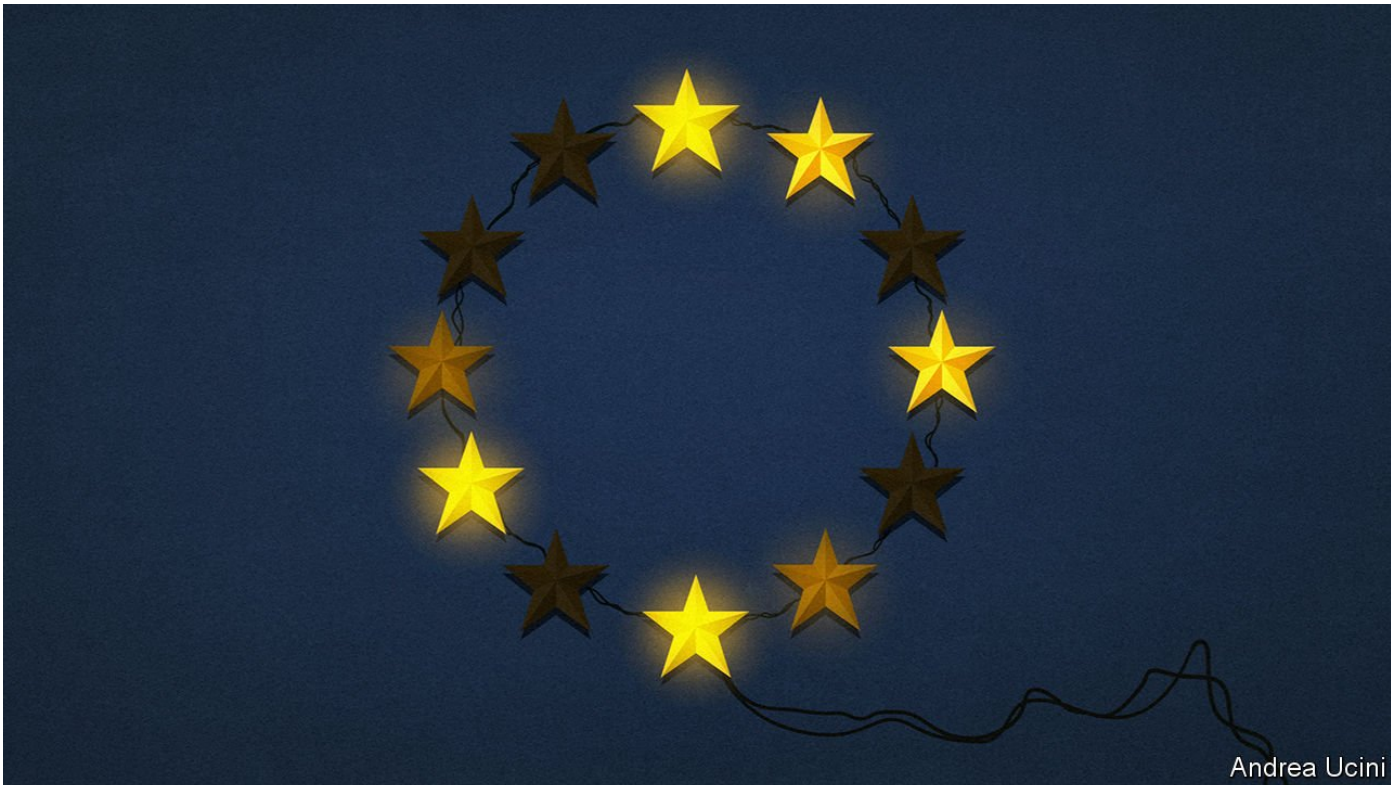
Menu

Leaders

May 14th 2020 edition



On the blink

The European Union is having a bad crisis

By failing to face up to its difficulties, the EU only makes them worse

May 14th 2020

Editor's note: The Economist *is making some of its most important coverage of the covid-19 pandemic freely available to readers of* The Economist Today, *our daily newsletter. To receive it, register here. For our coronavirus tracker and more coverage, see our hub*

SEVENTY YEARS ago this month Robert Schuman, the French foreign minister, proposed a European "coal and steel community". With that humble agreement governing two commodities, six war-ravaged countries created a common market that evolved into the European Union.

The journey towards integration since then has been bumpy, but it has had a sense of direction. National leaders came and went, the Berlin Wall rose and fell, economic hurricanes struck and blew themselves out. Somehow, the EU muddled through. It deepened, building the world's largest single market, letting its people move freely across borders and creating a common currency. It broadened, as 22 states joined the original six, including 11 that had suffered for decades under communism. It cemented peace and spread prosperity. Today, Europe is a beacon of liberal values and an exemplar of a gentler type of capitalism.

Yet the EU has also lost its way. The pandemic in Europe is not just an economic crisis, as elsewhere in the world, but is fast becoming a political and constitutional crisis, too. This is solvable in principle, but the EU's members cannot agree on what is needed to make their union more resilient, nor on how to bring about reform. Now of all times, when America and China are at loggerheads, that is a tragic missed opportunity.

Belonging to the EU is supposed to bring countries safety in a dangerous world. Instead the pandemic is testing the bonds of membership, just as the financial crisis of 2007-09 did (see Briefing). One example is the single market. This is governed by strict rules limiting subsidies, but they have been suspended as governments pour €2trn ($2.2trn) into saving businesses from collapse. Half of this was in Germany: a problem if you are a producer based in a country that cannot afford to be so generous, but which must accept German-made goods.

Another example is the single currency. As countries cushion the effects of lockdowns, their debts are rising sharply. Because governments in the euro zone borrow in a common currency but must finance themselves, these debts could rise to unsustainable levels. The problem is severe in Italy, which was in trouble even before covid-19 struck and had gross public debts of €2.4trn, or 135% of GDP. Italy's Eurosceptic firebrand, Matteo Salvini, is hammering the EU for doing too little to help; his party may yet ride this crisis to power, where it would thrive on creating outrage and exploiting divisions with far-off Brussels.

A third example is the status of EU law. Earlier this month Germany's constitutional court questioned whether the European Court of Justice (ECJ) should have ruled that the European Central Bank could, in effect, backstop the euro by buying debt. Separately, Poland has disputed the ECJ's precedence over its own supreme court. The EU is built on law. If the stresses of the pandemic weaken the ECJ's foundations, the entire union will shake.

All these problems can be solved with vision, compromise and reform. Indeed, before the pandemic France's president, Emmanuel Macron, warned that the EU needed to fortify itself against a less forgiving world. But such sentiments crumble before countries' different views of what the EU should be for. The prosperous north hates the idea of a "transfer union" that subsidises the needy south—and it hates even more the prospect of mutualising any of the poorer members' debt. Members cannot agree on what to do about the erosion of democracy and the rule of law in Hungary and Poland. Even before the first death from covid-19, they struggled to forge common policies on defence, Russia, migration and much more besides.

Ominously, the mechanism of reform is also broken. Ever since Schuman's day, the EU has grown by repeatedly amending the treaties that govern it. But EU leaders have shied away from treaty change since the plan for a new constitution was thrown out by French and Dutch voters in 2005. Leaders have not dared to put through a significant amendment since 2007.

Some northern European leaders recognise that they have a problem. In the coming months they are likely to agree to a one-off increase in the EU's seven-year budget, but the terms are in dispute—the southerners are calling for as much as €1trn-1.5trn and they want grants, not loans. There is also a proposal to issue common debt as a token gesture, but that is disputed, too.

If the EU is to thrive, it will have to be a lot more ambitious than the northerners admit. For a start, if it is not to stagnate it will need to adapt, and this means overcoming the taboo against treaty change. Successful treaty change entails a broader acknowledgment that different countries want different things from the union and that such a "multi-speed Europe" can be more resilient than today's unmet aspirations. That, in turn, requires the EU to complete projects like the euro that are vulnerable to shocks because they are only half-done.

Doomsters have often predicted the break-up of the EU or the euro, only to be proved wrong. Muddling through can go on for a long time—especially now that Britain has shown how painful and expensive divorce would be. In the end, though, political systems are judged by their outcomes. The failure to reform treaties puts a burden on the ECJ and the rule of law; German subsidies risk undermining the single market; and economic stagnation will poison the euro.

The Zoom where it happens

So long as the EU remains a conduit for spreading crises, the risk of collapse will be high. To stiffen their resolve, its leaders should reflect on a more remote anniversary. In June it will be 230 years since the Compromise of 1790, when Alexander Hamilton persuaded Thomas Jefferson and James Madison to allow the new United States government to assume the debt of the 13 individual states. Europe does not need to go so far, and a latter-day Hamilton has no obvious carrot to offer the rich states (in 1790 the deal put America's new capital city in the South). But there is a stick: if Europe's wobbly members do not get help, the euro and the single market could eventually implode. European leaders currently negotiating by videoconference must therefore be bold. Bigger transfers and significant debt mutualisation would be hard, but as a down payment to avert catastrophe and to set the EU on the path to stability, they would be worth it. ■

Dig deeper:

For our latest coverage of the covid-19 pandemic, register for *The Economist Today*, our daily newsletter, or visit our coronavirus tracker and story hub

This article appeared in the Leaders section of the print edition under the headline "On the blink"

More from Leaders