

Macron's victory may create more problems than it solves

Emmanuel Macron campaigned for – and indeed, won – the French Presidential election on an unashamedly pro-EU platform. His victory was greeted with huge sighs of relief across the Continent. Rather ironically, however, his enthusiasm for the Single Currency and indeed the European project as a whole may have the opposite effect, as John Stepek pointed out in a recent edition of *Moneyweek* magazine.

At the heart of the problem is that when it comes to further integration within the EU and in particular, the single currency area, it is far easier to talk the talk than walk the walk.

A broad range of economists acknowledge that so many economically divergent nations pushing ahead with a single currency in the 1990s was far from ideal. If a monetary union is to work, fiscal and political union, while not prerequisites, certainly reduce the risk of a catastrophic failure. As it currently stands, the Eurozone is far from being an optimal currency area.

This is exactly the line Macron has been taking. In other words, as Stepek puts it, "He's one of the rare pro-eurozone politicians who's actually quite honest about the euro and the eurozone. He is calling openly for a much closer Europe. He reckons that Europe needs a common budget, a common banking system – effectively, a full-blown United States of Europe."

Any French politician who has made such a proposal in the past has been fobbed off by Berlin with the curt instructions to put their own house in order first. Reforms to France's generous pension arrangements, bloated public sector and short working week have been often proposed by a number of newly-

elected Presidents only to be scuppered by tyre-burning, stone-throwing protesters backed by France's powerful trade unions.

But just suppose Macron succeeds where his predecessors have come to grief. Even a streamlined French economy will take years to converge with Germany's and then, what about Italy or Greece? Following Macron's victory, the headline in the *Bild* newspaper, which Stepek describes as the rough German equivalent of the Sun, was **"How expensive will Macron be for us?"**

This is not just the heart of the Eurozone's problem – it highlights a major stumbling block with the whole European project. Germany has been happy to be a net contributor to the EU's funds via the EU budget. In some ways, it would be very churlish of the Germans to moan about this. Labour market reforms in the first decade of the 21st Century made German businesses more competitive and the single currency also made German goods relatively cheap in other Eurozone countries. Italy and Spain, habitual devaluers before adopting the Euro, have lost this option. Unable to weaken their currency and thus boost their export markets, businesses in these countries have failed to compete with the Germans.

The unemployment figures bear this out. Only 3.9% of working age Germans are out of work and youth unemployment was a mere 6.7% in March. The corresponding figures for Italy are 11.7% and 34.1%. Spain and Greece are even worse, with overall unemployment at 18.8% and 23.2% respectively and more than two out of every five young people out of work in both countries.

Closer fiscal union means that not only would German taxpayers be paying into the EU budget to rebuild the infrastructure of the former Soviet bloc countries, but they would be liable for the social security and pension benefits of unemployed and retired Greeks, Italians and Spaniards. At the same time, a banking union would increase German liabilities if an Italian

bank went bust. In short, it would be all pain for the average German (who is doing very nicely out of the Euro) with very little gain.

But surely the gain would be the big step towards full political integration which has always been the goal of the EU project? We are now getting to the heart of a fundamental flaw in the whole federalist vision. The idea of an United States of Europe may have been appealing in the late 1940s when everyone was keen to find a format which would prevent another world war. The problem is that while certain intellectuals, particularly on the political left, have long had an internationalist outlook, ordinary men and women are far more attached to the concept of nationhood and ethnicity, even though they may not even be aware of how deep that attachment runs.

But the subject of fiscal transfers, along with the related issues of benefits and welfare, can be guaranteed to bring such sentiments out into the open. Even in the United States of America, there is considerable resistance in some states to a European-style welfare state – and significantly, the states in question are the most ethnically diverse. It seems to be hard-wired into our nature that we are more willing to make sacrifices for people who are “one of us” than for people we perceive to be different.

A German, whose public sector employees have to work well into their 60s, is therefore unlikely to take kindly to subsidising the pensions of Greek public sector workers, many of whom used to retire in their 50s. But Greek austerity is biting impossibly hard. At our Annual CIB rally, Ambassador Chrysanthopoulos told us that his own pension had been cut from 3,400 euros per month to 1,200. If the recently announced cut of a further eighteen per cent applies to him, he will be down to under 1,000 euros a month – and he reckons himself

lucky! So real hatred for Germany is building up in Greece, as is impatience with Greece in Germany. The German people may yet find the price of European empire too high while poorer Greek households on the most basic social security are currently receiving around 8 euros per household (not per person) per day. So starvation stalks the land – all in the name of building a European superstate.

An extreme example? Perhaps, but it illustrates graphically the challenges which Macron's election has brought to the surface. How deeply does the average German, Greek, Frenchman, Swede, Pole, etc – as opposed to an intellectual or a politician – really love the EU? If the depth of love of the rank and file isn't strong enough to transcend ethnic and cultural divisions or to be willing to endure financial deprivation and extreme hunger, the only question which Macron, Merkel or their successors will need to consider is how the whole EU project can be put peacefully to sleep without a total political and economic catastrophe.

Photo by Lorie Shaul 