Reopening a can of worms?

At the moment, the papers, especially those of a remoaner persuasion, are full of positive news about the Eurozone economy. In spite of the European Central bank’s programme of quantitative easing, which tends to reduce the value of a given currency, the €uro hit its highest level against Sterling since 2009 on 23rd August. The Eurozone manufacturing sector is doing well, with even the French economy showing signs of improving after a rather stagnant period.

So all looks rather hunky-dory across the water – or does it? As we have pointed out before, a number of underlying tensions lurk beneath the seemingly calm EU waters. Emmanuel Macron, the EU’s new blue-eyed boy, has not only seen a sharp fall in his popularity ratings in his native France, but looks likely to stir up West-East tensions following an attack on “social dumping” – the reduction in wages caused by the arrival in the west of large numbers of migrants from the former Soviet Bloc countries. This desire to control the level of East to West migration is viewed by these countries as a form of protectionism incompatible with the Single Market.

Then the North-South divide could be rekindled soon if a recent statement by Spain’s Prime Minister Mariano Rajoy is anything to go by. The Spanish government is keen to press ahead with closer fiscal and monetary integration within the 19-nation single currency bloc, calling for Eurobonds, a European Monetary Fund and a common Eurozone budget.

This move has the support of Germany’s Chancellor Merkel but not of many of her countrymen, who fear they will end up subsidising the weaker economies of Club Med. Luis de Guindos, Spain’s Finance Minister, said that Brexit, along with the election of President Trump, has pushed the EU and the Eurozone closer together, but given that this proposed deepening of integration within the Eurozone would require treaty change and thus reopen a can of worms, the net result could be the opposite.

Besides the hostility among the German public to Eurobonds, there is also the issue of countries outside the Single Currency Area. Poland, which has historically looked to the UK to be the spokesman for the non-Eurozone group, is concerned that closer integration among single currency users would lead to the formalising of a two-speed EU, which it has long opposed. Technically, all member states apart from Denmark (and, of course, the UK) are required to adopt the €uro after meeting certain criteria, but there is no enthusiasm to adopt the Euro in Poland, Hungary or the Czech Republic and given the tensions between these countries and Brussels over migration quotas, amendments to existing treaties – or indeed, a successor to the Lisbon treaty – is likely further to fuel tensions.

So while the improved performance of the Eurozone may perhaps take something of the sting out of the North-South divide which, after all, is primarily about economics, we need to remind ourselves that the EU has always been a political project. A drive to closer integration which leaves some member states on the outside could have highly unpredictable consequences.