A warning for Europe
Claude Smadja |business-standard.com

Every survey indicates that anti-European Union (EU) parties are going to win at least 20 per cent of seats in the European Parliament in next Sunday's election, which brings home to Brussels and the capitals of 27 EU members the realities of the new European landscape as a result of the economic crisis that continues to affect the continent.

There has been much wishful thinking - and window dressing - since the beginning of the year that Europe is now on the path to recovery. It has been mentioned time and again that Ireland and Portugal have been able to exit the bailout programme and to return to the markets to borrow at reasonably low rates, along with the forecast of 1.2 per cent gross domestic product (GDP) growth for the euro zone this year and 1.5 per cent in 2015. Unfortunately, one swallow does not a summer make. The latest statistics by Eurostat show that the euro zone's GDP grew by 0.2 per cent in the first quarter of this year against the previous forecast of 0.4 per cent. The German economy grew by 0.8 per cent; the French economy was absolutely flat; and Italy, the Netherlands, Portugal and Finland registered negative growth (between -0.1 per cent and 0.6 per cent).

The forecast for the second quarter of 2014 is no better, which aggravates the risk of seeing the euro zone sinking into deflation - a major new threat, which could further doom Europe's prospects for a genuine recovery. What makes the official line that Europe has turned the corner so hollow is the fact that the way this crisis has been addressed - an obsession with German-mandated drastic austerity policies - has inflicted tremendous pain, and exacted a very heavy social and political price. It is this factor that is going to weigh heavily on Europe in these coming years without having, in fact, provided any significant improvement.

Portugal may be boasting that it has gone out of the bailout programme and that, along with the other countries in the euro zone, it can now borrow at much lower rates. However, Portugal's debt stands at 214 per cent of GDP, four per cent lower than it was before the bailout programme. Ireland's debt-to-GDP ratio was 64.4 per cent in 2009, and it is now 124 per cent. Italy's debt-to-GDP ratio was 116 per cent in 2010; it is now 132.6 per cent. France's debt-to-GDP ratio has climbed from 79 per cent in 2010 to 92 per cent now.

The optimistic view is that reforms in the periphery countries have made their labour markets more flexible and are helping increase their productivity and competitiveness, hence laying the basis for future growth. While this is worth taking into consideration, one needs to look at the very negative structural and political impact that five years of destructive austerity have had on what the EU was supposed to be. The process of European integration was meant to make the economies and societies of the member states converge, but the way the crisis has been managed has in fact widened the social and wealth divide between Germany (and a small group of countries around it) and the so-called Club Med countries - including France, where youth unemployment remains staggeringly high, between 45 or 47 per cent and 25 or 30 per cent. How many young
people who have been jobless for the last four or five years will ever be able to integrate successfully into the economy? In the same way, it remains extremely difficult for companies in the countries of the periphery to get the bank loans required to sustain their activity; when they get such loans, they are at rates two or three times higher than what German or Scandinavian companies get.

These dire conditions are not seen as convincing enough for the European Commission to relent on the absurd deadlines set for such countries as France or Italy to achieve the target of reduction of budget deficits to three per cent of GDP, despite the pleas from Prime Minister Manuel Valls in Paris, or Matteo Renzi, his counterpart in Rome. Similarly, while it is now expected that the European Central Bank (ECB) will decide on some kind of monetary easing at the June meeting of its board of governors, the general feeling is that, given the pressure from the governor of the Bundesbank, it might be too little, too late to bring a significant relief to economies and corporations crying for help.

European officials may pat themselves on the back, considering that they have saved the euro and that some progress has been achieved towards putting in place a banking resolution mechanism that would strengthen the resilience of the European systems. However, one cannot but share Citi's chief economist Willem Buiter's view, quoted in a recent Financial Times column, that "those who say the European economy is recovering are smoking something".

In this context, the surge of anti-EU sentiment in the pan-European elections next Sunday should not come as a surprise. It would be a mistake to consider that this is just a reaction to bad economic times and that Europe will be back in popular favour once times get better. What is now in question for many Europeans is the idea of European integration. The process of integration has not continued in a way that would truly help Europe restore its ability to generate growth and sustainable prosperity in a fast-changing global environment.

European leaders need to start understanding that it does not do any good to repeat the mantra that the solution to all this is "more Europe". They know pretty well that "more Europe" no longer means the same thing to the French as it does to the Spaniards, or the Germans or the Finns. And there is no support whatsoever in any country for giving any additional power to the European Commission - remember former French president Charles de Gaulle fulminating against "the stateless functionaries of Brussels"? - or to the ECB. The idea would rather be to reverse the creeping expansion of their intrusive power.

Mutual recriminations among some European leaders are barely masked by the usual diplomatic facade. Many in Paris, Rome or Madrid resent German patronising, and point out that Berlin's persistent current account surplus and export-based growth strategy are one reason for the enduring severity of the crisis. At the same time, there is no underestimating the anger and frustration, the concern about the future, and the total scepticism about Brussels' ways and about mainstream national political leaders that shape Europe's present mood. The elections next Sunday should be seen as a warning
that the political sustainability of a faceless, ever more intrusive European process is now clearly in question.