The Economist

Europe's future

Can anything perk up Europe?

Yes: the European Union will thrive if its leaders seize the moment in tl way they did 20 years ago

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WHEN Europeans fear for their jobs and their savings, when their governments and com cannot easily borrow money, when banks fail and the single currency trembles, then the Union is facing not just an economic crisis, but a political crisis, as well. And, so far, Eu leaders have not been equal to the threat. Over the past 18 months they have mostly ta in denial and bluster, punctuated by bickering and by heaping blame on financial marke a recent bout of austerity and the 11th-hour launch of a vast bail-out fund for its most fr economies, Europe seems a diminished force in the world.

In Asia and America it has become fashionable to look upon these failings with disdain. time is past, it is said. Its ageing, inward-looking citizens no longer have the resolve to adversity. And yet an ailing Europe benefits nobody. Even now the European Union is th biggest economy. Were it healthy, the worst of the global economic crisis would be ove Politically, everyone has a stake in the fate of Europe's Big Idea, that rival nation states better by pooling some sovereignty instead of going to war. And socially, all democracie eventually have to grapple with Europe's Big Problem, that governments and social prot tend to grow until they choke the economies that pay for them.

So rather than sneer at Europe's impotence, the world should be asking whether Europe rediscover its vigour—and if so how. This newspaper offers an unfashionably optimistic There is nothing ordained about Europe's failure. Indeed, if EU leaders show a little cou crisis offers the best chance at revival since the 1980s.

Jacques the lad

In that decade, when central and eastern Europe were still part of the Soviet block, Euro suffered low growth and high unemployment caused by two oil shocks. "Eurosclerosis", called, led, under the European Commission presidency of Jacques Delors, a brilliant an French politician, to the single market in 1992 and to a rejuvenation of Europe's instituti Those reforms laid the ground for one of the most dynamic periods in EU history. There here for leaders today. Unfortunately, they seem to be missing the point.

Inspired by Mr Delors, some in Europe now grappling with the fate of the euro argue tha always lead to a leap in EU integration. Championed by France, they argue that the chac spread from Greece to southern Europe shows the euro zone needs a core of *dirigiste* po run Europe in a more political and less technocratic way. To limit "unfair" competition, t things like Europe-wide labour standards and some harmonisation of taxes. They want t transfers of communal cash to the euro's weakest members.

Yet the appetite for this sort of integration is not shared in other countries—not even in which, mindful of its own history, does not trust politicians with monetary policy. Its pe assured that the euro would be run with the same discipline as their beloved Deutschma they are sick of paying for all of Europe's new schemes. Instead Germany wants a harsh rules, enshrined by treaty if need be, that would ban countries from spending too much.

If the French idea is unacceptable, the German idea is unworkable. Politics has tended t economics right from the start of the euro, when indebted countries like Belgium and Ita allowed in. You cannot simply decree that every one of 16 countries in the euro zone wil behave responsibly. Someone will break the rules and, as often as not, someone else wi reason to connive with them.

Tidy minds contemplating the contradictions between the euro's two most important me foresee either integration or collapse. They argue that without a clear political mechanis with wayward countries, the euro is doomed to repeat the sort of crisis it has suffered th One day this view may be proved right. But tidy minds underestimate the European art compromise (see article). And they overlook the determination in Europe to make the eu because to pull it apart would be ruinously costly and threaten the EU's very existence. moment, therefore, the most likely outcome is neither collapse nor a dash towards integ but for the euro zone to muddle through.

1992 and all that

Muddle avoids problems, it does not solve them. Instead of miring itself in internal mec EU should embrace the lesson from the other, more radical, half of Mr Delors's programi bit that focused on freeing its economy and setting up the single market. By boosting ec growth the EU could ease its political difficulties and help its citizens. At the moment EU are putting their effort into cutting spending: if only they were to add a dose of 1992-sty

The single market remains half-built. Mario Monti, an Italian economist and a former commissioner, has recently set out just how much more is left to do. The EU is 30% less productive than America in services. Because European services companies operate beh national barriers they innovate less and they tend not to gain the full economies of scale areas, such as health care, are exempted from EU-wide competition. Likewise some higl industries, such as telecoms, have been protected and others, such as e-commerce, bar in 1992. A single digital market could be worth 4% of EU GDP by 2020. The EU has a co fragmented patent system, so products (like far too many workers) cannot cross borders energy supply has not been properly liberalised; debts are hard to collect across borders goes on. National to-do lists are just as long. In Spain and Italy privileged workers are discouraging new permanent jobs. German entrepreneurs are immediately taxed on equ put into a start-up. Europeans retire too early everywhere.

The barrier to reform has always been political, not economic. Jean-Claude Juncker, prir minister of Luxembourg, put it best in 2007: "We all know what to do, but we don't kno get re-elected once we have done it."

But does that excuse still hold? The crisis has shifted the political landscape in Europe. was supposed to spur reform by preventing governments from restoring competitivenes devaluing their currencies. And it did. Not at first, when Greece, Spain and the others us euro's low interest rates as an excuse to party. But now they have woken up hung-over, that reform can be put off no longer (see article).

There are signs that Europeans understand this better than their timid leaders. Asked if better off in a free-market economy, 73% of Germans and 67% of French said yes, acco survey released in June by Pew Research Centre. That compares with 65% and 56% res at the height of the boom in 2007 and it rivals America, with 68%, and eclipses Britain, where support for free markets has fallen.

The moral case for reform has never been clearer. The European "solidarity" that protect life in Spain for the lucky few is hard to defend when it means that young people, who c ever get work on temporary contracts, have been thrown onto the dole. In France it is ir see your taxes paying healthy people to retire at 60 when schools and hospitals need th more. Cash-strapped households in Belgium might rather like the idea that competition their bills. Were he speaking in 2010, a European leader seeking re-election as well as r might just fancy his chances.

Listen to the people

In the past couple of decades Europe's privileged "insiders" have blocked change. Mr De managed to take them on by building a coalition of the free-market liberals and believer European integration. Today the crisis has given Europe's leaders the chance to create tl coalition for reform, focused again on the single market. They should seize it.

An interactive guide (http://www.economist.com/blogs/freeexchange/2010/07/european_ecor the EU's debt, jobs and growth worries

Leaders