

# Intelligence MEMOS



From: Pierre Siklos  
To: The EU Commission  
Date: June 20, 2016  
Re: **CLOSER TO DIS-UNION?**

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In 2017, the European Union (EU) marks the 60th anniversary of the Treaty of Rome which created the European Economic Community, the predecessor of the EU. But these are troubled times in a part of the world determined to create, as stated in the Treaty on European Union, "...an ever closer union among the peoples of Europe...". Beyond the possibility of Brexit and its implications for Europe, if not the global economy, in the periphery of the union of 28 states there is considerable economic and political turmoil. In Greece, where Grexit is seemingly temporarily off the table but not out of the question, the economy is likely to record another year of negative growth. According to IMF data, this marks 8 out of the last 9 years that real GDP growth will be negative. This translates into a staggering cumulative reduction in real GDP of just over 30%.

Elsewhere, economic and political challenges persist in Italy, Spain, and Ireland. Only Ireland seems to defy the rest of the EU by registering real GDP growth rates of over 5% in 2014 and 2015, high even by global standards. And, of course, the UK has also been growing steadily since 2010 when the European sovereign debt crisis erupted. But on the Eastern periphery, things are bleak. Hungary and Poland continue to pursue more nationalistic policies and defy the EU's directives. In the Northern periphery the economic news is better but only in Sweden and Denmark. Finland continues to struggle and is barely able to report positive economic growth after three consecutive years of negative growth rates. The only bright spot in the Eurozone is the unemployment rate that is now back at levels not last seen since 1999.

With the exception of Ireland, the countries that perform most poorly belong to the euro zone. Others are not likely to join it anytime soon, even if they are eventually required to do so under the Maastricht Treaty. Therein lies the danger for the dream of a united Europe that hangs on the survival of the single currency. Meanwhile, the European Central Bank (ECB) is doubling down on its own version of quantitative easing (QE). By sheer coincidence the ECB's program expires next March around the time of the anniversary of the signing of the Treaty of Rome. Mario Draghi, ECB President, recently gave a speech reminding his listeners: "So I will only note once more the critical need to restore clarity and confidence on the institutional setup of the euro area". At this moment there is not much to celebrate as the fault lines in the EU become clearer. In 2014 I wrote a Commentary for the C.D. Howe Institute asking about the economic consequences for Canada of a serious economic disruption in the Eurozone. The coming months, even if the "remain" camp wins in the UK Brexit referendum, may require revisiting this possibility.

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