

**Will the EU survive its
crises?** **Martin Wolf, Associate Editor
& Chief Economics Commentator,
*Financial Times***

Instituto Europeu

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Lisbon

Will the European Union survive its crises?

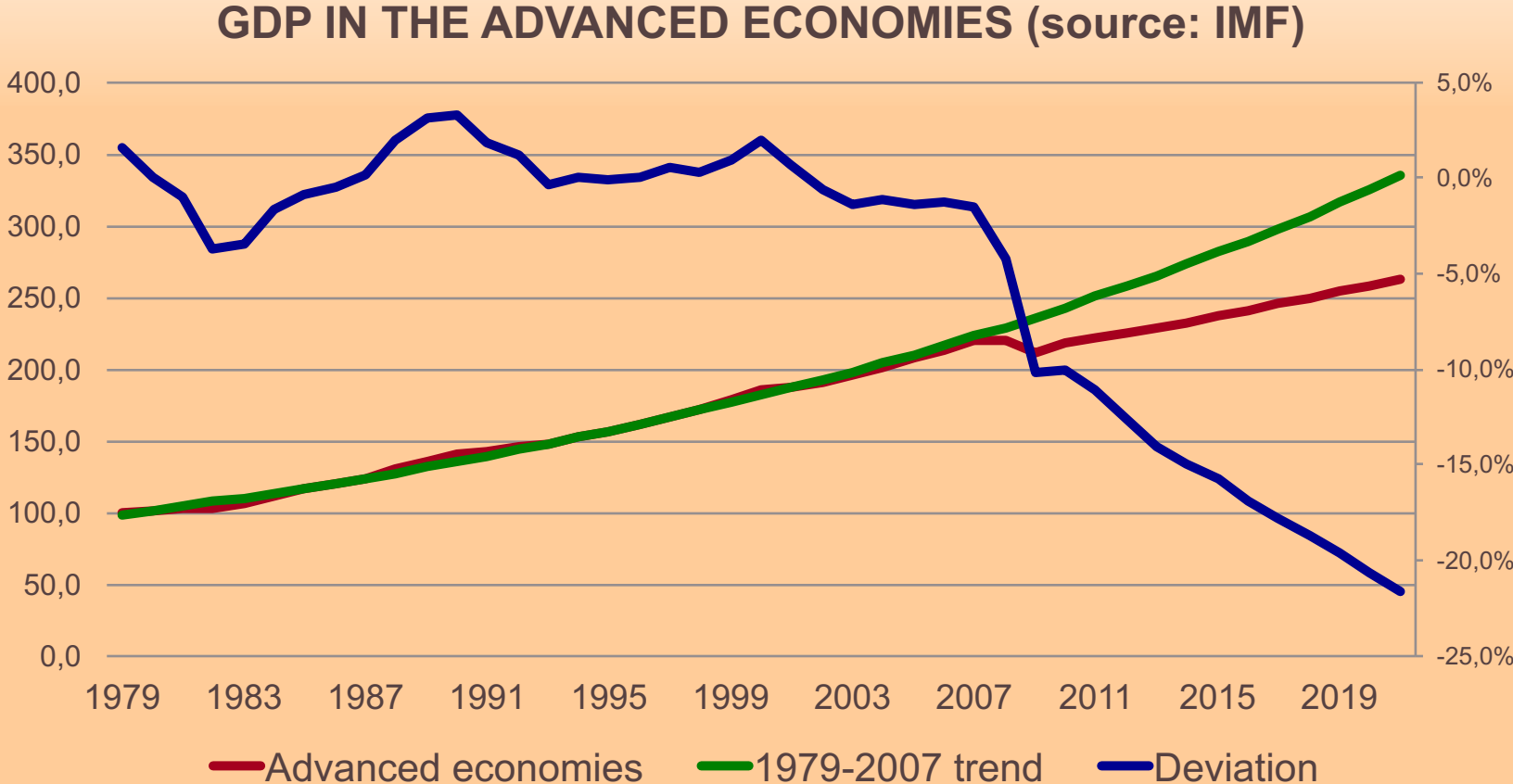
- The rebirth of populism
- The economic crises
- The political crises
- Too little Europe or too much?

1. The rebirth of populism

- Populism of the right and left have emerged
- It is anti-elite, anti-foreigner and anti-trade
- It reflects a mix of economic and political forces: income stagnation, inequality, the financial crises and status anxiety
- It has produced Brexit, Trump, Le Pen, AfD, Podemos, Syriza, etc
- It is not over yet
- It now threatens the end of the postwar world

2. The economic crises: global

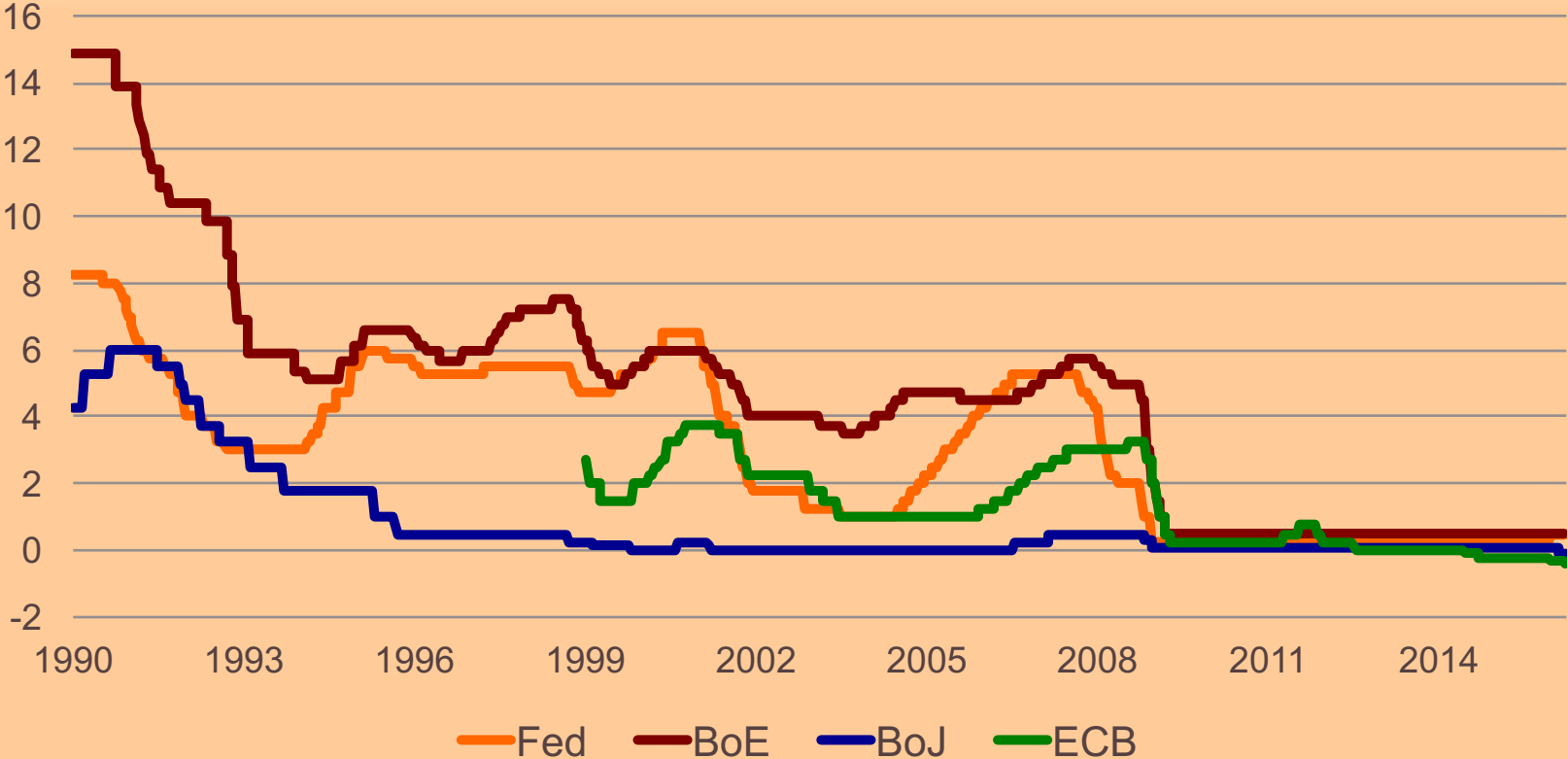
THE SLOWDOWN IN ADVANCED ECONOMIES



2. The economic crises: global

CENTRAL BANKS STUCK ON ULTRA-LOW RATES

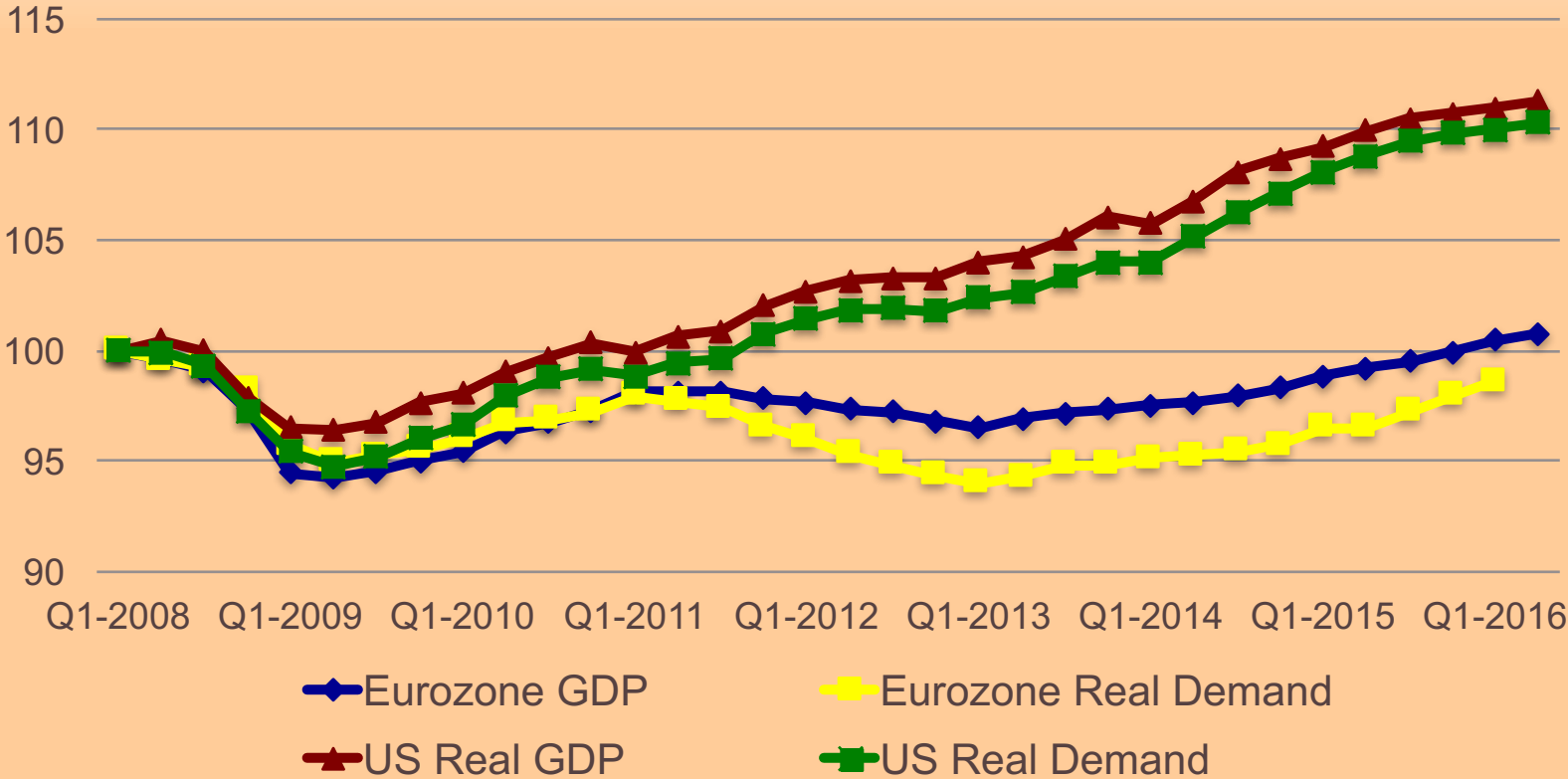
CENTRAL BANK INTERVENTION RATES



2. The economic crises: divergence

EUROZONE BECOMES JAPAN

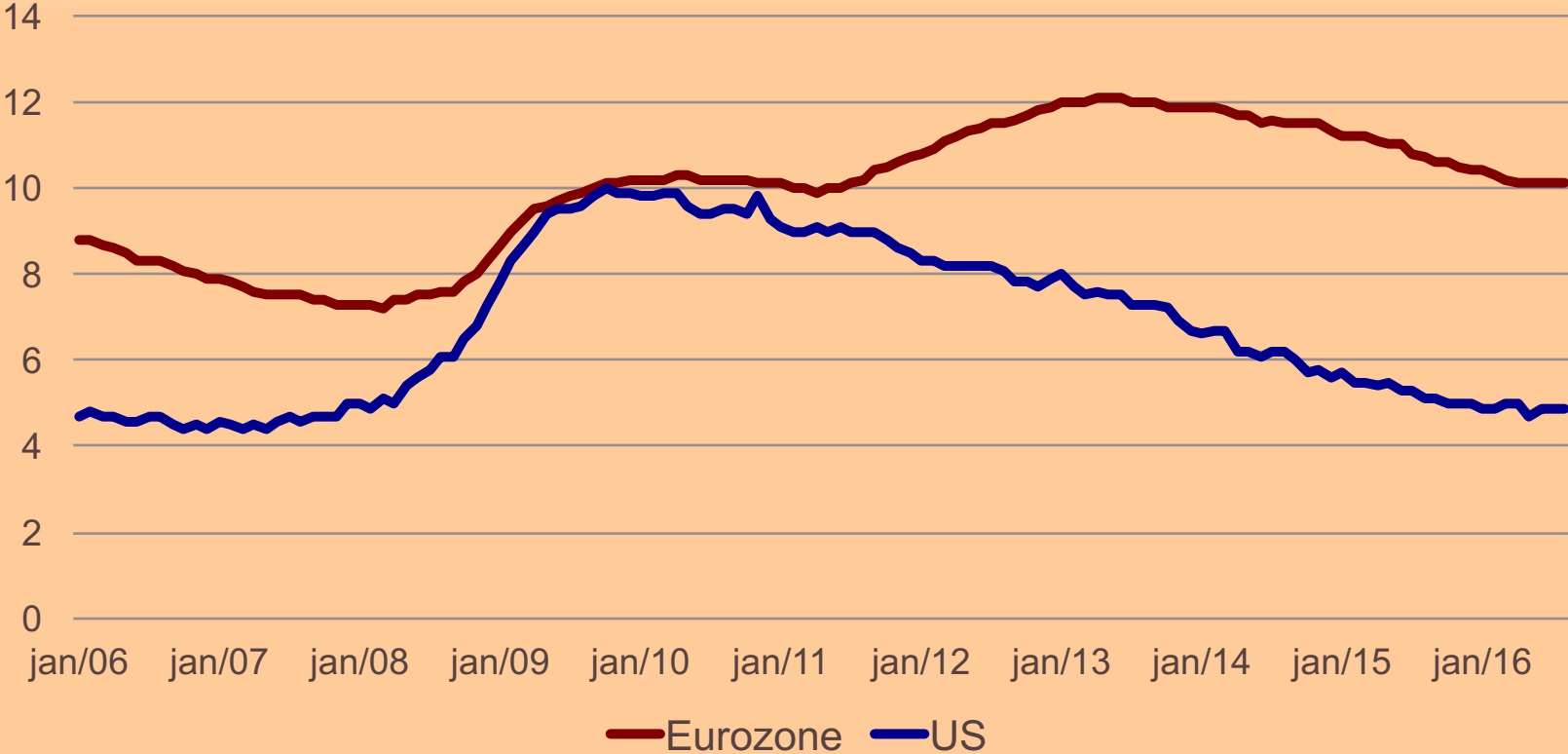
DIVERGENT IMPACT OF THE GREAT RECESSION



2. The economic crises: divergence

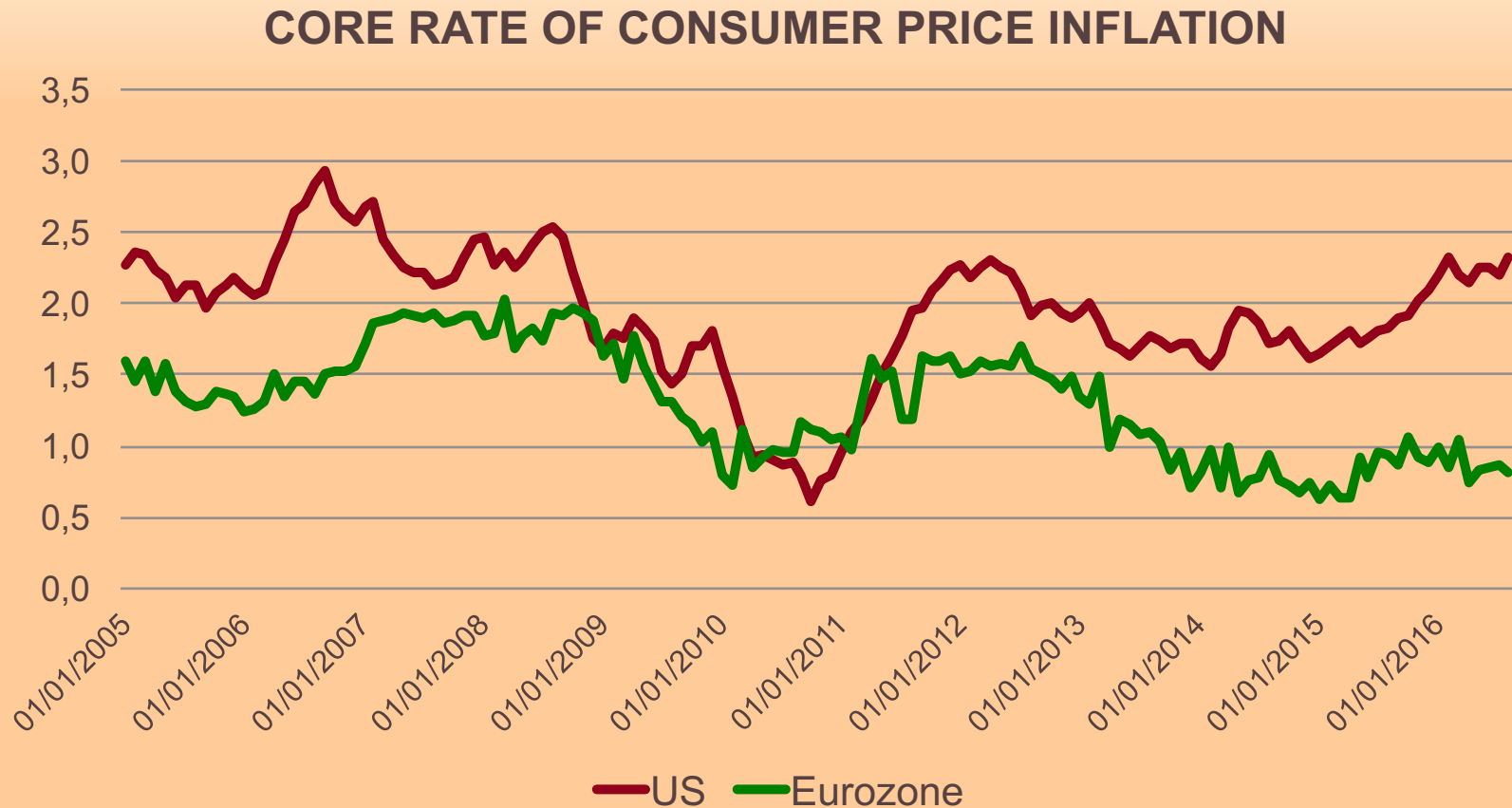
POST-CRISIS DIVERGENCE

HARMONISED UNEMPLOYMENT RATES



2. The economic crises: divergence

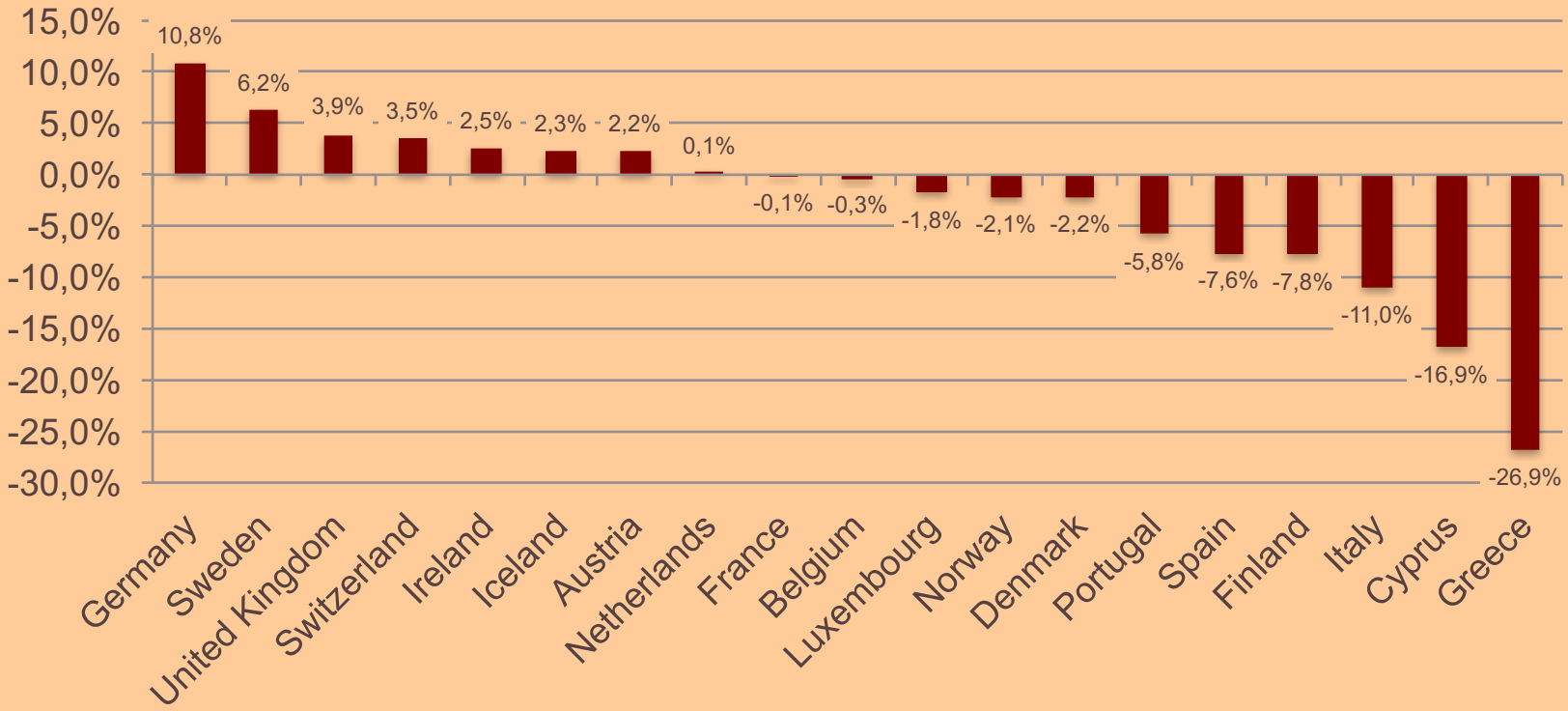
EUROZONE FAILS TO HIT ITS TARGETS



2. The economic crises: divergence

POST-CRISIS DIVERGENCE

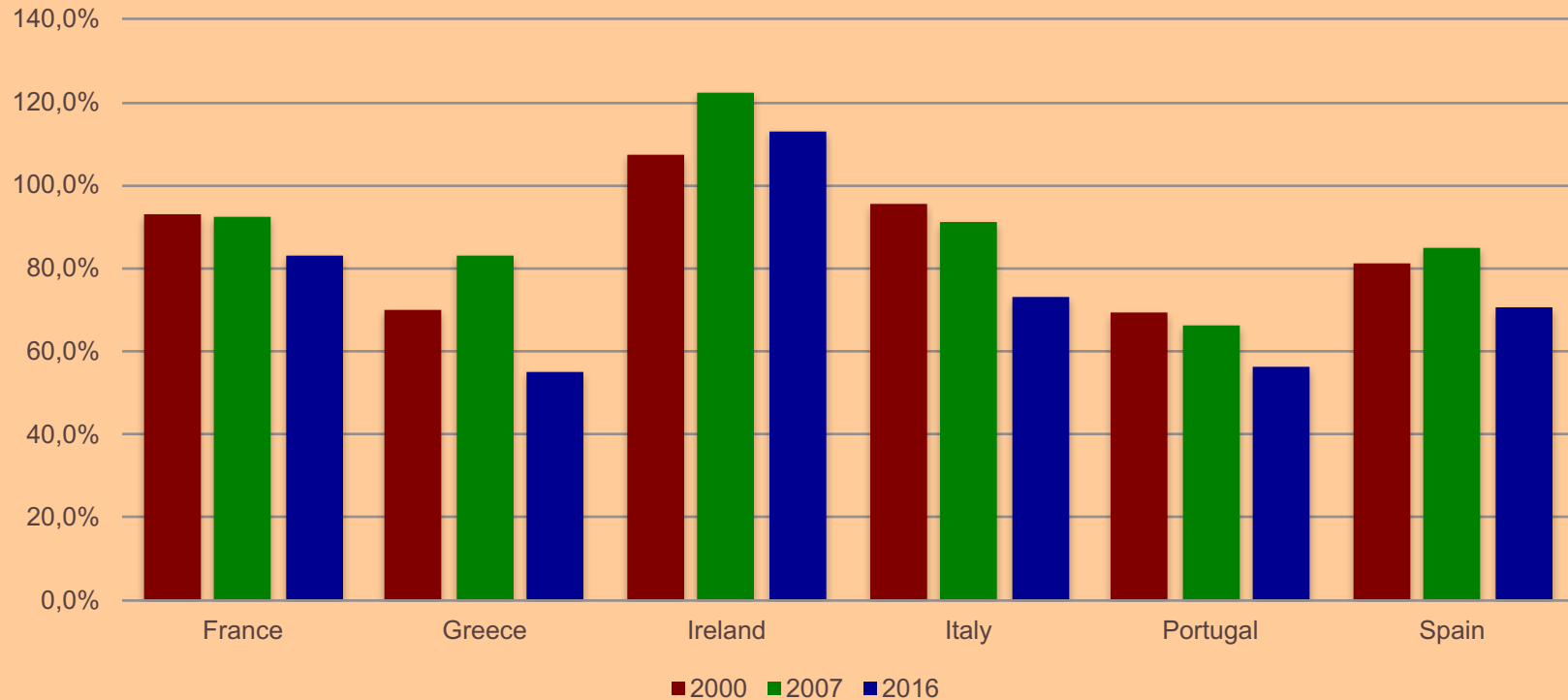
CHANGE IN GDP PER HEAD 2007-2016
(at purchasing power parity)(Conference Board)



2. The economic crises: divergence

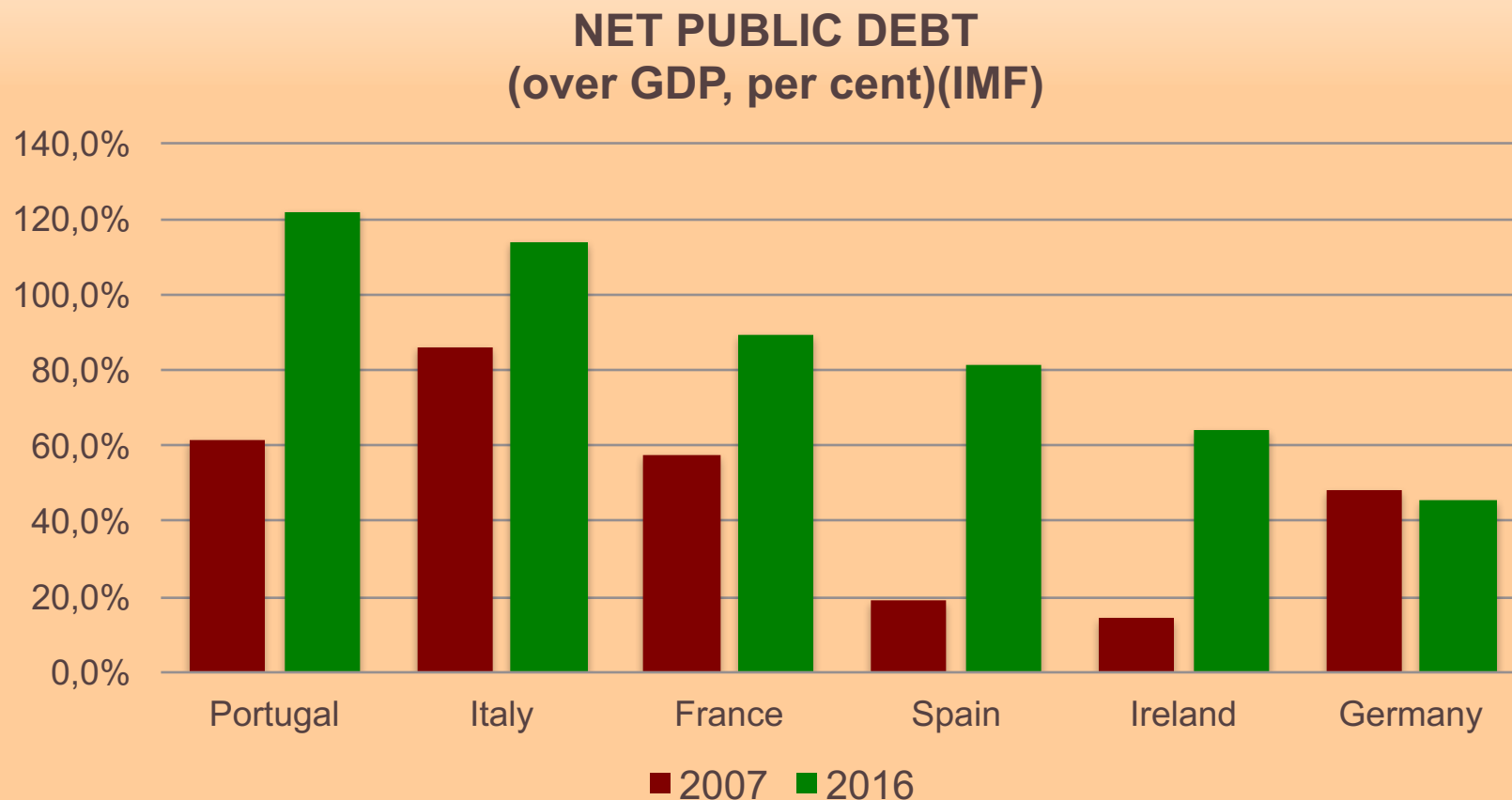
POST-CRISIS DIVERGENCE

GDP PER HEAD RELATIVE TO GERMANY
(at purchasing power parity)



2. The economic crises: divergence

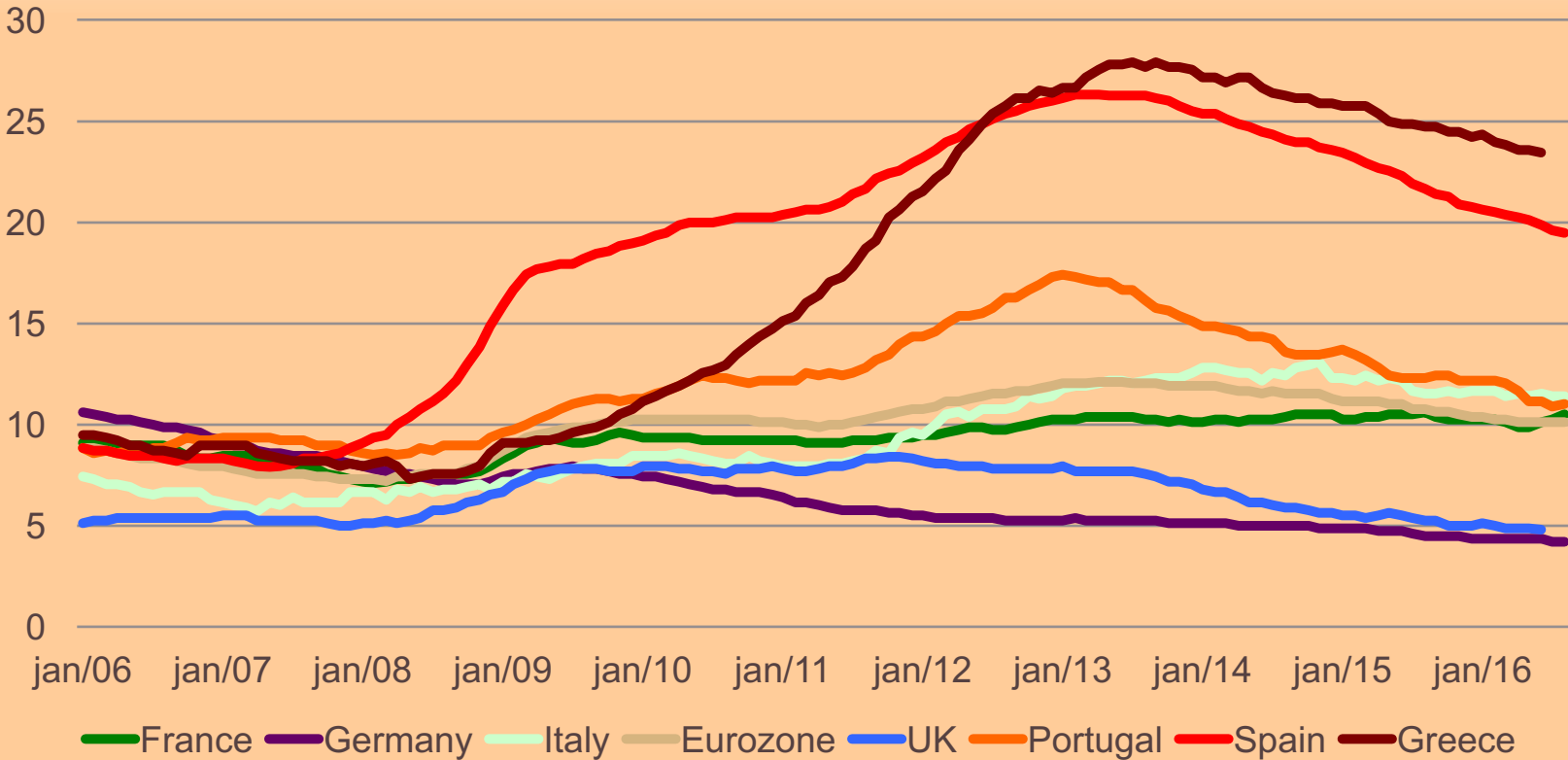
CRISES MEAN SOARING PUBLIC DEBT



2. The economic crises: divergence

POST-CRISIS DIVERGENCE

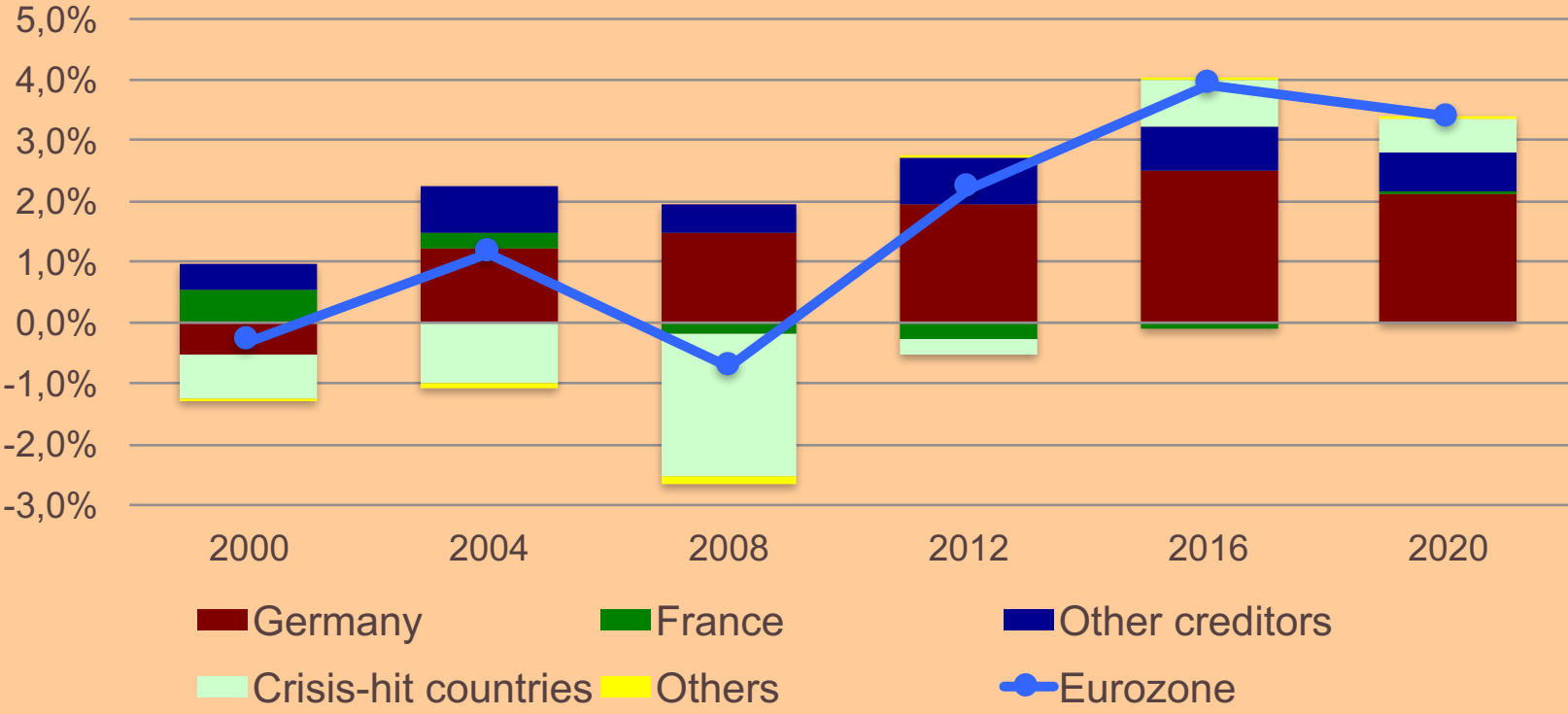
HARMONISED UNEMPLOYMENT RATES



2. The economic crises: adjustment

POST-CRISIS DIVERGENCE

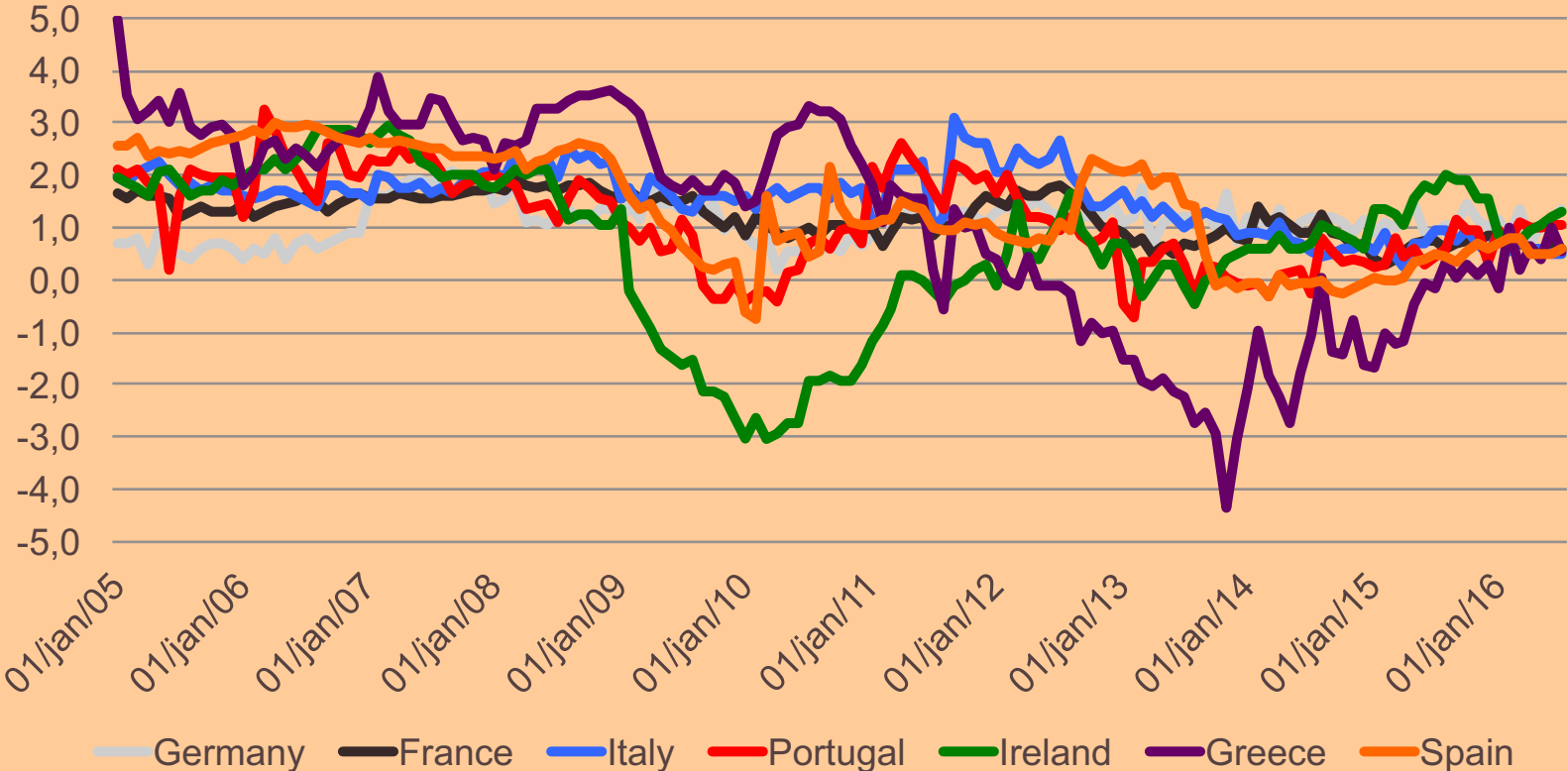
Eurozone Imbalances on Current Account (as per cent of eurozone GDP) (Source: IMF, WEO Database)



2. The economic crises: non-adjustment

DEFLATIONARY PRESSURE

CORE CPI INFLATION



3. The economic crises: Brexit

THE BENEFITS OF CURRENCY ADJUSTMENT

REAL EXCHANGE RATE FOR STERLING (J P Morgan)



2. The economic crises

- The eurozone delivers deflation and divergence, not prosperity and convergence
- This is because of:
 - Structural weaknesses in many economies
 - Structurally weak aggregate demand
 - Completely blocked adjustment mechanisms
 - Insufficient financing
- There is a risk that some economies will wither away
- The UK now confronts a painful adjustment

3. The political crises

- The big challenges
 - Stagnation or prosperity
 - Challenge of international relations:
 - The US;
 - Russia;
 - Middle East
 - Migration
 - Brexit
- Can the EU cope?

4. Too little Europe *and* too much?

- The EU has chosen to do more together than it can
- This is not an institutional question, but a political one
- It would not be so difficult if the countries were more similar, economically, politically and culturally.
- The UK has moved from being semi-detached to being fully detached – “hard Brexit” is in the offing
- But the EU’s life will not be made easier by Brexit
- Break-up is an eminently possible outcome