

Tipping point?

Electoral advances by anti-European parties and vocal criticism by influential voices represent the most serious challenge to the European project in a generation. While a rapid restructuring of the eurozone, or of the union itself, may feel unlikely, risk managers ignore the possibility at their peril, warns David Rowe

My early years as an economic forecaster have made me sceptical about the ability of anyone, especially myself, to predict the timing of political tipping points. That said, structural pressures sometimes build so rapidly that it becomes foolhardy to ignore completely the possibility of a rapid, historic change. Recent events in Europe meet this condition.

In early May, France aligned itself with the southern tier of the eurozone by declaring the dogma of budget austerity was coming to an end – part of an ever-nastier split between the fiscally cautious northern countries led by Germany and the traditionally more profligate south.

This whole episode has highlighted the grave difficulty of recovering a country's relative competitive position through internal devaluation. Inevitably, some segments of society have greater legal or political resources than others to resist the pressure on wages and prices. The resulting disproportionate burden borne by some social segments only intensifies the inevitable anger – which manifests in violent protests or, as in the case of one Greek newspaper last year, depictions of the German chancellor, Angela Merkel, as a swastika-festooned Nazi soldier.

These are dramatic – but transient – illustrations of a growing problem. In recent days, however, the same fundamental problem has been highlighted at the ballot box and in pronouncements from influential political figures. Electoral gains by nationalist parties have been seen across Europe. Sadly, many of these parties harbour some viciously intolerant figures. In the past, this limited their popular appeal but – amid growing anger at the impact of austerity in the south and at the fiscal cost of funding bail-outs in the north – the share of the vote for these parties has risen dramatically.

In addition, influential voices from both the left and the right have begun to express opposition to the single currency and even to the European Union (EU) itself. Germany's Oskar Lafontaine was an aggressive advocate of monetary union in the 1990s. He viewed it as an instrument for the creation of a “united Europe” and the “end of the

nation state”. Obviously he failed to realise, or didn't care, that ending the nation state would undermine popular sovereignty and erode the consent of the governed.

Lafontaine recently accused Merkel of thinking only of “German savers, her trade balance and her electoral future”. Well, duh! What does he expect politicians to think about? More to the point, how long does he think politicians can remain in office if they ignore the people who elect them? Lafontaine is inadvertently highlighting the fact that there is not enough solidarity among EU citizens to form the basis for legitimate government based on popular sovereignty. Having been a strong voice backing monetary union, he now believes it is unsustainable. Perhaps his most convincing statement was this one: “Hopes that the creation of the euro would force rational economic behaviour on all sides were in vain.” Well, better late than never.

On the right, Nigel Farage, leader of the UK Independence Party (UKIP), has long exhibited outspoken disdain for monetary union and opposed Britain's continuing membership in the EU itself. In their most hardline form, these views were long dismissed as those of a quirky political fringe. In the latest local elections, however, UKIP garnered a quarter of the vote in districts where it fielded candidates, and polls have moved them into third place ahead of the Liberal Democrats, Britain's traditional third party.

More mainstream voices on the political right have also contributed to the anti-EU chorus. Nigel Lawson was chancellor of the exchequer under Margaret Thatcher. He fell out with her over his efforts to take the UK into the European Exchange Rate Mechanism, a forerunner to the single currency. He recently said that the EU is “beyond its sell-by date” and that “the case for exit is clear”. The following day, Michael Portillo, another former Tory cabinet minister, threw his support behind Lawson's position. Subsequently, Boris Johnson, the mayor of London, and two currently serving cabinet ministers in David Cameron's Conservative government voiced similar views.

When positions that were once widely dismissed start to be voiced by mainstream politicians, the tectonic plates are shifting. As an often bloodied forecaster, I am not foolish enough to predict the imminent breakup of the euro or of the EU itself. I will say risk managers ignore these scenarios at their peril. ■

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