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The Soviet Collapse vs. an EU Collapse

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At the same time that Russia is marking the 20th anniversary of the collapse of the Soviet Union, the West is beginning to talk seriously about the possibility of the collapse of the European Union. As with the Soviet collapse, the more politicians try to save the EU, the less viable it becomes.

The EU is threatened with disintegration by the very institution that was supposed to unify and strengthen the continent — a common European currency.

Back in the early 2000s, many economists, including myself, argued that trying to integrate countries with different economies and nationalities into a single financial system would not lead to greater unity but to increased conflict.

We also argued that the euro would cause inflation in less developed southern EU countries to spread like a plague to their more developed northern neighbors, and that financial policies aimed at austerity and maintaining a stable exchange rate for the euro would strangle the economies of Greece, Spain and Portugal.

Unfortunately, these predictions have proven true. The unified financial system has led to a reallocation of capital in favor of Germany, the most powerful European economy, while the countries with the weakest economies suffered constant financial shortfalls and were forced to borrow increasingly larger sums, pushing them to the brink of bankruptcy. Many had hoped that integration would improve the performance of less-developed European countries, but this didn't happen.

Meanwhile, countries with weaker economies were tempted to use whatever political leverage they had to improve their status within the EU. This was an important factor in the collapse of the Soviet Union and could have a similar impact on the EU.

The fact that Germany and France propose strengthening financial integration as a means of overcoming the crisis only proves that politicians have not learned anything from recent crises. Stiffening the demands made by financial and political institutions will only widen the gap between those institutions. Worse, it will decrease people's standard of living.

It is interesting to compare the EU to the former Soviet Union. In many ways, the EU is less of an integrated body than the Soviet Union. Social, cultural and economic institutions were more homogenous in Soviet society, but under the pressure of market reforms, the ethnically diverse Soviet republics began to diverge quickly.

Historically, market forces have divided social groups. Brussels was more or less able to cope with these divisive forces when the economy was booming, but in a recession the situation has worsened significantly.

Unfortunately, rather than acknowledge the problem and institute reforms to correct the negative effects of recent policies, European leaders are trying even harder to put their failed ideas into practice. The result will be disastrous.

The Soviet Constitution granted republics the right to secede, but the EU Constitution does not offer the same right. This only means that if the EU starts falling apart, it will be even more chaotic and uncontrollable than the collapse of the Soviet Union.

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