

Charlemagne

A flailing economy has left the EU exposed to Trumpian outbursts

Europe is back in crisis, as so often before



Illustration: Peter Schrank

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Given the plethora of crises the European Union has faced in the past 15 years or so—from the euro-zone miasma to those on migration, Brexit, the pandemic, then the war in Ukraine and an ensuing energy-price spike—it can be hard to know when one emergency ended and the next began. If the continent was not in crisis at the start of the week it certainly feels as if it is back in one after the re-election of Donald Trump in America. Bar the odd autocrat like Viktor Orban of Hungary, Europe’s leaders did not expect his return and did not do much to prepare for it. Most anxiety will be felt around the prospect of needing to support Ukraine *sans* America, should it come to that. But the outlook for the European economy will come a close second. Already in a long-term funk, Europe’s clapped-out economic engine leaves it even more exposed to a dose of Trumpism than in 2016.

At the start of the week—as long ago as it may seem—the focus in EU circles was on a “new and comprehensive horizontal strategy” for its flailing economy. Though that sounds like something either a yoga instructor or a brothel owner might have in mind, it was in fact what the leaders of the bloc’s 27 member states had agreed to recommend to boost competitiveness during a meeting in Budapest on November 8th. (A broader group of European leaders including Sir Keir Starmer of Britain were to meet the previous day, as *The Economist* went to press.) Events across the Atlantic rather overtook preparations for the long-planned summit. As necessary as the horizontal reforms seemed at the time—think deepening the single market and turning off the regulatory firehose—it all looks hopelessly underpowered in the face of the world’s biggest economy once again seeking to make itself Great Again, possibly at others’ expense.

Dealing with a me-first America would be challenging enough for Europe in times of rapid GDP growth. Alas, growth has flagged. The economic story of Europe of late has been an ever-lengthening list of things it needs to pay for, from cutting carbon emissions to industrial subsidies to pensions for its ageing population, none of which it can easily afford. With the re-election of Mr Trump that list has become considerably longer just as the ability to pay for it has diminished.

Perhaps the worst part is the uncertainty. Nobody knows what Mr Trump has in mind for Ukraine, leaving the potential bill for Europe going it alone, should that even be feasible, impossible to quantify. More broadly the incoming president’s hostility to NATO means European defence budgets, which have already gone up in recent years, will have to increase yet further. Few have spare cash to fund this. (Germany is one notable exception, but it has a self-imposed limit on running up deficits.) The prospect of across-the-board tariffs for EU firms

selling into America will sap whatever little growth the bloc currently has. Again, nobody knows exactly what lies in store. The EU sells far more to America than it buys from it, a surplus Mr Trump equates with stealing American jobs. Its firms would be hard hit by across-the-board tariffs of 10-20% that have been mooted in the past. If Mr Trump plans to, in effect, freeze China out of the global economy, as he sometimes suggests, Europe will also feel some of the impact as Chinese firms redirect their wares its way. A budding EU industrial policy designed to mitigate the club's dependence on imports may be an early casualty of America's new regime.

Mr Trump's political revival is all the more unwelcome to those who had hoped that Europe might seize a moment of quietude—the continuing war in Ukraine aside—to address those very economic woes. In September Mario Draghi, the former boss of the European Central Bank, delivered a 400-page report on the bloc's economy. It is stuffed with (mostly) good ideas, notably on how to deepen the single market. Something close to consensus existed that much of it should be turned into reality. But having been the planned star guest of the Budapest meeting, Mr Draghi will make little more than a cameo appearance before EU leaders. Any political will to enact long-term reforms will once again be diverted into dealing with an immediate crisis instead.

What happens next depends partly on Mr Trump's whims. He may insist that, if the war in Ukraine is as much of an existential threat to European security as some politicians there (especially on its eastern fringe) make out, defence budgets should rise beyond the current target of 2% of GDP. Some countries will struggle to afford that: the German government has collapsed in part over rows over passing its annual budget and France's may yet face a similar fate. One way to get round the issue would be for the EU to borrow the money jointly, as it did to underpin the post-pandemic recovery plan. But that would require unanimity among member states, which has not been forthcoming. Old debates pitting penny-pinching northern countries against "profligate" ones in southern Europe will, predictably, be revived.

Trump towers

The problem Europe faces is that though upheaval has arrived in American politics, Europe remains stuck with its muddle-along attitude. Emmanuel Macron of France will no doubt spend his time in Budapest reminding his fellow leaders he had long called for "strategic autonomy", jargon for Europe being able to stand on its own two feet (and not rely on America or "brain-dead" NATO for its security). Central Europeans, in Poland and the Baltics, will argue that even an unpredictable America is a better deterrent against Russia than flaky France or Germany. Perhaps the crisis triggered by the return of Mr Trump will be one of those that prompt Europe to ditch old shibboleths and move forward into ever-closer union. That is certainly one possible outcome—but there are others, too. ■