“If the sovereignty of the Union were to engage in a struggle with that of the States at the present day, its defeat may be confidently predicted; and it is not probable that such a struggle would be seriously undertaken ... If one of the States chose to withdraw its name from the contract, it would be difficult to disprove its right of doing so; and the Federal Government would have no means of maintaining its claims directly, either by force or by right.”

Alexis de Tocqueville, author of these words on the prospects for the US, was the shrewdest foreign observer of that country. Yet he failed to foresee the outcome of a civil war. Similarly, over the 10 days that I have spent in the US, I have found that informed Americans believe the eurozone will not survive. That is because they view it as a marriage of economic convenience, as de Tocqueville viewed the US as a marriage of political convenience.

The parallel is inexact, but illuminating. It is inexact, because the eurozone is no country. If it were, the economic stresses to which it is subject would be easy to handle. It is illuminating, because it shows that the survival of any political construct depends on the strength of the centrifugal and centripetal forces at work. In the case of the US, the former were sufficient to
persuade the Confederacy to undertake secession, but the latter were sufficient to defeat that attempt.

What, then, can we say of the forces at work on the eurozone?

The centrifugal economic forces are all too painfully clear.

First, since the eurozone is a monetary union, without fiscal backups, the pressure of adjustment falls on notoriously inflexible labour markets. Since the agreed objective is low inflation, that means downward pressure on nominal wages. That entails soaring unemployment, collapsing economies and debt deflation (see charts).

Second, the birth of the euro coincided with a global credit boom. The convergence of interest rates consequent upon its creation was reinforced by the disappearance of risk spreads. The result was a surge in cross-border lending to both private and public sectors, reduced pressure for fiscal consolidation in high-debt countries (such as Italy), and the emergence of huge payments imbalances and divergences in competitiveness. Then came the financial shocks, which brought “sudden stops” in lending, a collapse in private borrowing and spending, and a wave of fiscal crises.

Third, in such a crisis, the eurozone had no effective way to sustain banking systems, finance countries in trouble or secure adjustment by creditor and debtor economies. We see improvisation instead: the eurozone’s aircraft is being redesigned while crashing.

Now consider the centrifugal political forces. I would list two.

First, solidarity remains largely national. Remember these are the most generous welfare states in the world. Yet the provision of relatively modest cross-border financing, to help economies in difficulty, has proved extremely difficult. This is why the European Central Bank has de facto emerged as the principal cross-border financier (see chart).

Second, power rests in member states. In the case of the euro, power is concentrated in the hands of Germany, the largest creditor country. This makes the eurozone function, politically, like a multi-country arrangement, not a country. Germans understood this problem at inception. The French often did not.

Last, consider the ideas. The most important centrifugal force is the wide disagreement on what has gone wrong and how to put it right. In particular, the dominant German view is that the crisis reflects fiscal indiscipline. Others insist (rightly) that the core problem was excessive lending, divergent competitiveness and external imbalances.

This disagreement matters because adjustments cannot merely be imposed. Given the exit option, they have to be negotiated. In such a negotiation, creditor nations must understand their role in the crisis. If they wish to preserve their surpluses, they must finance their borrowers. If they wish to be repaid, they must move towards deficit. The two sides – finance and trade – have to be brought into alignment.
Are these centrifugal forces powerful enough to break the system? To give an answer, one must also examine the centripetal forces.

The principal economic force now keeping the system together is fear of a break-up. An additional justification for the union, in crisis-hit countries, is the useful pressure for reform. Many believe the single currency offers a positive long-run economic pay-off, though that view has to be tempered by the costs of coping with crises and the reduction in cross-border financial integration.

The principal political force is the commitment to the ideal of an integrated Europe, along with the huge investment of the elite in that project. This enormously important motivation is often underestimated by outsiders. While the eurozone is not a country, it is much more than a currency union. For Germany, much the most important member, the eurozone is the capstone of a process of integration with its neighbours that has helped bring stability and prosperity after the disasters of the first half of the 20th century. The stakes for important member countries are huge.

Thus, the big idea that brings members together is that of their place within Europe and the world. The political elites of member states and much of their population continue to believe in the postwar agenda, if not as passionately as before. In more narrowly economic terms, few believe that currency flexibility would help. Many continue to believe that devaluations would merely generate higher inflation.

If this were a mere marriage of convenience, a messy divorce would seem probable. But it is far more than such a marriage, even if it will remain far less than a federal union. Outsiders should not underestimate the strength of the will behind it.

The most likely outcome – though far from a certainty – is compromise between Germanic ideas and a messy European reality. The support for countries in difficulty will grow. German inflation will rise and its external surpluses fall. Adjustment will occur. The marriage will be far too miserable. But it can endure.