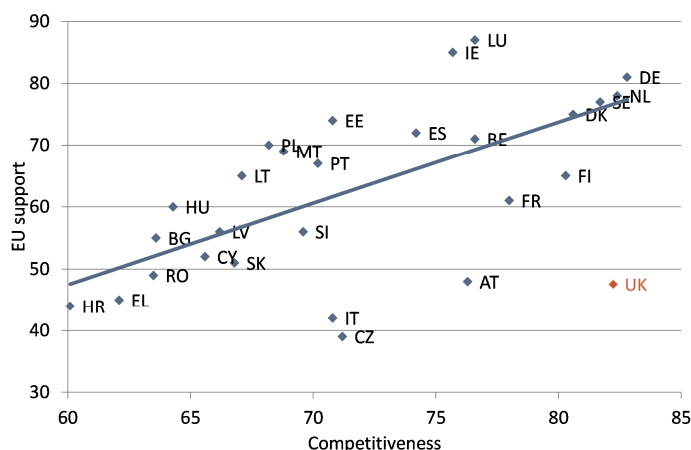




19 October 2018

Bad policy choices at home can put the EU at risk

Support for the EU in % versus country score in global competitiveness ranking



See [Eurostat](#) for country abbreviations. Sources: European Parliament, World Economic Forum.

- Mind the gap:** Two distinct surveys published this week have shed further light on the economic and political challenges that the EU faces. In the World Economic Forum's global competitiveness rating, six members of the EU Single Market made it into the global top 10, with Eurozone members Germany (No. 3) and the Netherlands (No. 6) ahead of the United Kingdom (No. 8), Sweden (No. 9) and Denmark (No. 10). While some Eurozone members fare badly, with Greece only No. 57, Switzerland - de facto part of the EU's Single Market - comes in as No. 4.
- Masters of their own fate:** Of course, the competitiveness ranking is a little unfair. By their very nature, emerging markets are still behind the global leaders on many counts, including infrastructure and the number of top-notch research institutions. That partly explains the low rankings for most central and eastern European economies. However, the key message is different: within the confines of the Eurozone and the EU Single Market, countries are masters of their own fate. If they get their domestic policies right, they can excel. If not, they do badly.
- Scapegoat Brussels:** A separate survey commissioned by the European Parliament found that approval for the EU ranges from 87% of voters in Luxembourg to just 39% in the Czech Republic, with a particularly huge gap between Germany (81%) and Italy (42%). Our chart shows a rough correlation between the two surveys: in highly competitive countries, happy voters usually support the EU. In less competitive countries, voters are often more sceptical. As membership of the EU Single Market seems to be helpful rather than an obstacle to success, with six Single Market members in the global top 10, the explanation must be different: in underperforming countries such as Italy, some voters have come to blame the EU for the results of misguided policy choices at home.
- The Italian risk:** With a populist government that is openly flouting EU fiscal rules, Italy's combination of impaired growth potential and low support for the EU could be a dangerous cocktail. If [ratings downgrades](#) and the reversal of labour market and pension reforms get Italy into more trouble, will its populist leaders manage to pin the blame on the EU? If so, could this stoke a discussion about an Italexit eventually? This is the top tail risk to watch in Europe. So far, Italian voters draw a fine distinction, though: while only 42% of Italians support the EU, the same survey found a rise in support for the euro from 61% in April to 65% now, with only 26% not in favour of the euro. Many Italians are disgruntled – but they certainly do not want their pensions to be paid in a new national lira. That supports our call: like their Greek predecessors in mid-2015, Italy's radical leaders will ultimately shy away from the brink of euro exit even if the going may get a little rough occasionally.
- UK – the odd country out:** Less than six months ahead of Brexit, the United Kingdom is more removed from the EU mainstream than any other country. While it is highly competitive – in our view partly thanks to enjoying the benefits of the Single Market – support for the EU at 48% (after 47% in April) is much lower than in other countries that are similarly successful. The UK debate is shaped to some extent by its own national – or perhaps insular – concerns.

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