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It's not too early to start planning for the end of the EU

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The EU could be a very different organisation by the time Britain comes to leave - if it still exists at all CREDIT: AFP

Financial markets are remarkably myopic. Faced with a choice between paying attention to the risk of nuclear war next year and the prospect of the US non-farm payroll number, out at, say, 1.30 tomorrow, the non-farm payroll number wins hands down every time.

This is not altogether daft. How should you cope with things utterly uncertain? The markets do it either by ignoring them altogether or by adopting a conventional assumption – usually the comfortable continuation of the status quo.

History tells us that most of the time things do indeed continue much as they were before. Yet sometimes big things happen. The US stock market did crash in 1929; the Second World War did break out in 1939; the Soviet Union did break up in 1991; there was a financial crisis in 2008; and the UK did vote to leave the EU in June of this year.

It should not come as a surprise that the markets barely reacted to the result of the referendum on Mr Renzi's proposed constitutional reforms for Italy and his subsequent resignation. After all, even the opinion polls called this result correctly and the financial markets foresaw it more clearly.

That does not mean, though, that they are right to be sanguine. The prospect of an Italian euro exit is now much closer. Barring a miracle, the best that can be hoped for the Italian economy is that it will stagger on with minimal growth and continued high levels of unemployment. But if it were to suffer a serious shock, deriving from either the domestic banking sector or the world economy, then the country would be plunged back into recession.

Matteo Renzi after his resignation from the role of Italian prime minister CREDIT: EPA

Yet there is no equivalent of Article 50 for the monetary union. The euro is meant to be forever. Up to the 2012 crisis, it was widely argued that it was impossible, legally and technically, to leave the euro. That was always bunkum. In Capital Economics' winning submission for the Wolfson prize in 2012, we showed how it could be done. And in 2015, Mr Schauble, the German finance minister, actually offered to facilitate Greece's smooth exit from the euro.

During the 2012 crisis, whatever the economic difficulties, an overwhelming majority of voters in euro-zone countries wanted to stay within the single currency. Since then, however, euroscepticism has risen significantly, fuelled by continued weak economic performance and the EU's lamentable handling of the migration crisis.

This political change has an important economic consequence. The 2012 crisis convinced most observers, both expert and non-expert alike, that the eurozone could not continue as it was. Indeed, as some of us had argued right from the start, essentially it was a half-way house. In order to survive, it would have to go forward to full fiscal and political union (FPU). And if it could not achieve this then it would have to break up.

Achieving FPU was always going to be difficult, even in the best of all possible worlds. But does anyone seriously think it is achievable in today's Europe? So the other destination is now where the euro is headed. Only the route and the timing remain in doubt.

It is possible that Italy will stumble on within the euro and muddle through its current political impasse. After all, that is what Italy usually does. But my view is that she is more likely to leave the euro within the next year or two. The boost that this would give to Italian competitiveness would see Italian GDP recover and this would prompt other southern countries to leave.

Before long, the euro would be in tatters. Could the EU itself survive the collapse of its greatest project, along with the consequent recriminations and financial wranglings between Germany and the southern members? I doubt it.

Italy could leave the euro in the next year or two - where does that leave the currency bloc? CREDIT: SHUTTERSTOCK

Yet Italy is not the only existential threat to the EU. The selection of the supposedly Thatcherite François Fillon as the Right's candidate in next year's French Presidential election has increased the chances of the National Front's Marine Le Pen winning next May.

A dose of Thatcherism may well be exactly what the French economy needs. But is it exactly what the French electorate will vote for? Even if Italy clings on inside the euro, if Marine Le Pen becomes President of France, then it is probably curtains for the EU.

This prospect tickles my sense of irony. Here we are in this country agonising about how we get out of the EU; and their august lordships of the Supreme Court are currently deliberating the finer legal points, going back to the Bill of Rights of 1689, if not to Magna Carta.

Meanwhile, among the ranks of the once great and the now not-so-good there is a conspiracy to keep us in the EU, or at least to ensure that if we leave, it will be in the softest possible way. How funny it would be if the EU were not there to be left!

Funny but potentially dangerous. Before the referendum, apparently no preparatory work whatever had been done on the prospect of Britain negotiating an exit from the EU. This must not be repeated with regard to the possibility of an EU break-up.

What should replace the EU? Surely not a complete return to the status quo ante. As I argued in my book The Trouble with Europe, we need some sort of loose, supra–national structure to underwrite free trade, friendship and co-operation. It is just that the EU is not it.

With Britain having taken the lead in voting for Brexit, and given the prior British rejection of both the euro and Schengen, we would be in a strong position to take a leading role in thinking about, and building, such a structure.

You might well say that it is too early to be thinking about this. But if you are going to prepare for an eventuality you can only do it early.

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