

Theresa May's Britain will become Europe's haven of order and calm



AMBROSE EVANS-PRITCHARD

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Assuming that Theresa May wins a landslide victory on June 8, she will be the only leader of a major EU state with a crushing mandate and the backing of a unified parliamentary phalanx.

All others will be in varying states of internal disarray. None will have a workable majority in parliament. Bitter internal disputes will continue to fester over the loss of democratic control under monetary union, whether or not eurosceptic parties actually come to power.

This gives the Prime Minister formidable clout. We have moved a long way from the first chaotic weeks after the referendum when Belgian premier Charles Michel could suggest in all seriousness that the British institutional system was disintegrating, a country led by populist dreamers, disappearing into a "black hole". Such was the view in Brussels.

The tables have since turned. Britain will enter the Brexit talks led by an ancient and disciplined party of great governing credibility - solid on NATO, free trade, climate accords, and liberal principles - with UKIP and the ephemeral forces of populism scattered to the four winds.

Discord lies on the other side of the Channel. Let us suppose that the ardent Europeanist Emmanuel Macron makes it through to the presidential run-off in the French elections on Sunday - far from certain - and therefore captures the Elysee two weeks later. How is he going to govern and reform France?

His manifesto is studiously vague. The French parliament will be split five ways and Balkanized. Anti-EU candidates from hard-Left to hard-Right have garnered half the support in this extraordinary campaign, united on core complaints that the EU has eviscerated French sovereignty and that the euro has become a cloak for German interests.

There is much hope in French progressive circles that Mr Macron will be able to rebuild the eurozone on better foundations with a putative Chancellor Martin Schulz in Germany. Even if Mr Schulz were to beat Angela Merkel in October, this would be wishful thinking.

There is scant difference between the German Social Democrats and Christian Democrats on euro ideology. Both are captive to mercantilist thinking. Both think Germany's current account surplus of 8.5pc of GDP is a virtue. Both are opposed to

fiscal union and pooling of debts. Both are wedded to creditor interests. There is only a German view.

Italy above all is a political accident waiting to happen. Beppe Grillo's Five Star movement leads the polls by a staggering eight percentage points. It has suffered no erosion after its latest plans for a parallel "fiscal currency", a Trojan horse for the lira.



Comedian Beppe Grillo fulminates against the tyranny of the euro. His Five Star movement leads the Italian polls by eight points

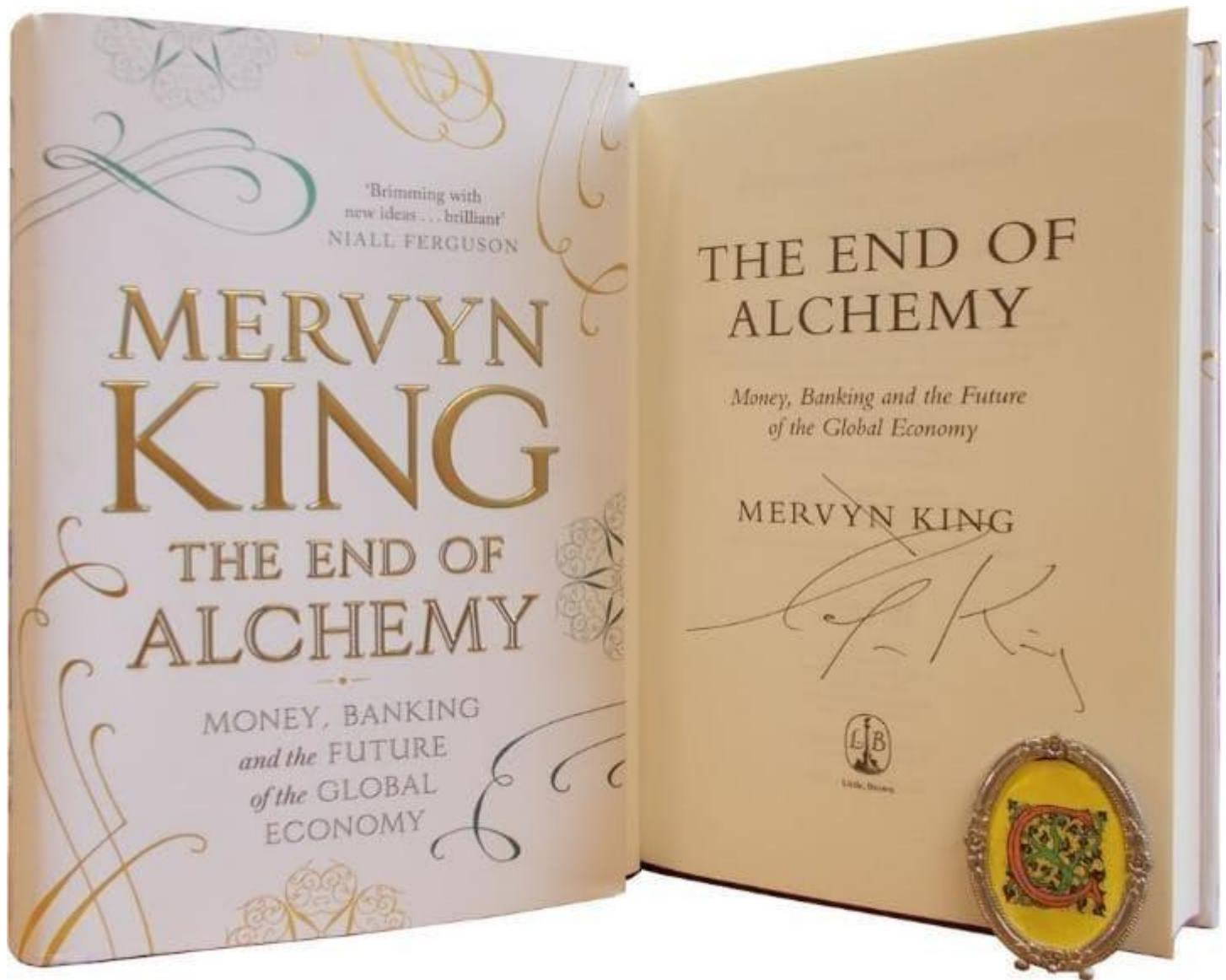
Last week Mr Grillo again repeated his call for a currency vote. "Obviously the markets will react badly to our electoral victory and a euro referendum. That just shows we are a revolutionary political force. But there are counter-measures that an important country like Italy can adopt, and will adopt," he wrote.

The four anti-euro parties are poised to win a majority of seats in elections early next year. The eurozone's cyclical recovery does not shield Italy from danger. On the contrary, it brings forward the moment of bond tapering by the European Central Bank. Italy will lose the chief buyer of its debt even sooner.

My point is not that the euro is about to break up. Mervyn (Lord) King says the tragedy of monetary union is that Europe's political class may go to extreme lengths to hold the euro together regardless of economic logic. But that perpetuates and deepens the political crisis.

"Monetary union has created a conflict between a centralised elite on the one hand, and the forces of democracy at the national level on the other. This is extraordinarily dangerous," he writes in his exquisite book 'The End of Alchemy'.

Theresa May will have another five years to reach a modus vivendi with this dysfunctional project. She will do so with greater control over timing - clipping one of the EU's trump cards - and she does so from a far less damaged position than widely assumed just months ago.



The former Governor of the Bank of England says the euro has created a very dangerous political situation that cannot end well for Europe

It is true that the squeeze on real living standards is barely beginning as higher import costs feed through, pushing inflation towards 3pc. Mrs May is shrewd to hold a vote before this hits in earnest.

It is disturbing that the household savings ratio has collapsed to an all-time low. The Financial Policy Committee has issued a risk warning on ballooning consumer credit. This is not the portrait of a healthy economy. But it is not an economy in crisis either and that alters the psychology of Brexit talks.

The International Monetary Fund has upgraded its growth forecast for the UK to 2pc in 2017, higher than for Germany, Italy, or France. It will again be the second fastest-growing economy in the G7.

Revised figures show that the current account deficit was never as bad as feared. Societe Generale estimates that it peaked at 4.4pc of GDP on an annual basis last year. It was down to 2.4pc by the fourth quarter. Income on British investments overseas have recovered. Weaker sterling has worked its magic, leading to a textbook recovery in manufacturing exports.

We have probably seen the bottom for sterling. The pound has broken out of its 'hard Brexit' trading range over the last four months. Extreme short positions by hedge funds still have to be covered. There is a risk that sterling will rise too fast.

Deutsche Bank's George Saravelos calls the early election a "game-changer" for the currency. The argument - broadly shared by traders - is that a bigger majority in the Commons will liberate Theresa May from Brexit blackmail by eurosceptic ultras in the Tory Party.

It gives her more leeway to reach a deal with the EU over divorce payments, and to agree a temporary extension of the European Court's sway during a transitional phase after Britain leaves in 2019. This reduces the risk of a 'sudden stop' when the guillotine falls.

Paradoxically, officials in Brussels welcome the snap election, sharing the market view that it will soften Brexit. The German press reports that Chancellor Merkel prefers the clarity of an-all powerful Mrs May to the cacophany of a divided Westminster.

My guess is that Brexit will soon be overtaken by fast-moving events in Europe. If correct, the media narrative of EU politics will change beyond recognition. Britain will start to look like a safe-haven, a beacon of sober well-run democracy amid unsettling disorder.

If the premise is wrong, Britain will at least have a government enjoying unquestioned authority, able to manage the complexities of withdrawal with tact and professionalism. Things haven't looked so good for a long time.

