Europe's Other Crisis

The bailout of Greece threatens the very integrity of the European Union.

By MATTHEW KAMINSKI

Last December, the European Union jolted the Treaty of Lisbon to life. You may have missed it, but the sales pitch sounded good. The 27-member bloc put its bureaucratic house in order, created an EU president and foreign minister, and prepared itself to become a global power, albeit of the soft genus. This treaty "marks a watershed in the history of European integration," said José Manuel Barroso, president of the EU Commission, the EU's executive arm.

Then, just around the time of the festivities for the Lisbon treaty, Greece went into a financial death spiral, at first quietly. Today, the country's debt troubles threaten other southern European economies as well as the single European currency. How's that for "watershed"?

European leaders and the International Monetary Fund (IMF) are discussing a rescue package, now northward of 100 billion euros over three years. It may or may not ease the financial crisis. Markets don't look convinced. But this Greek drama has at the same time provoked a political crisis in Europe that's redefining the rules of the club.

For a decade, the stable euro and its low interest rates hid the profligate spending and structural weaknesses of Greece, as well as of Portugal, Spain and Italy. The Greek blowup exposed another euro-fiction—that a consensus exists on the Continent about the nature of the "Union."
Europe is what people want, or fear, it to be. A Trojan Horse for a welfare state or the free market. "Hostility to taxes and social spending" defines Brussels, as a lefty blogger in Paris wrote this week—presumably when the EU isn't busy trying to manage competition and expand social protections. There's an element of truth in all of that. In good times, these contradictory visions coexisted in this large and complex union.

Greece forces Europe to choose. Implicit in the bailout is that "solidarity" overrides fiscal sanity—or crudely put, that the rich countries, Germany above all, are to pick up the tab for the misdeeds of the Greeks today and maybe the Spanish and Portuguese tomorrow. A decade ago, Germany would only ask where to send the check. This time Berlin put its foot down—at least hard enough to bring the IMF in, against the wishes of the French and the European Central Bank.

Even should Greece get its billions, Europe must still deal with a new sort of Germany. Chancellor Angela Merkel was a lone sceptical voice on the bailout in EU councils, an unusual position for a German leader. She had her public behind her. Germans no longer feel obliged to pay for the sins of their forefathers by bankrolling Europe. But the responsible side of the German character also looks in horror at the spendthrift ways of the Mediterraneans. Other northerners share their unease and were happy to hide behind the initial Merkel nein.

This may at the same time be a last nail in the coffin of the Franco-German alliance. Once the cornerstone of the postwar European order, it sputtered this past decade. Ms. Merkel never got on with President Sarkozy, yet in recent weeks Berlin and Paris openly bickered over their own economic policies, never mind the Greek bailout. Europe has few good leadership options. No one at the EU in Brussels stepped up. Ms. Merkel is the natural candidate, but by temperament she prefers to lead from the back.

Charles Grant, the founder of the Center for European Reform, is a perennial fount of intelligently argued and realistic euro-optimism. "The EU is falling to pieces," he now says. "The long-term effects of this crisis will be with us for many years."

Southern Europe's economies look condemned to depressed (or negative) growth, difficult measures to rein in public debt, and street unrest and strikes. The social mayhem in Greece offers a preview. And Athens resists the hard measures that Ireland, Hungary and Latvia took to dig their way out of similar troubles.

The political ructions will continue to be felt across the EU. The divisions exposed in recent months, and the end of the Paris-Berlin axis, make any talk of a "deeper union" to govern the euro a pipe dream. But the EU will also shy further away from continuing to bring in new members from southern and eastern Europe, bad news for the Balkans and Ukraine.

The best that can be said is that the EU was forged by crisis and in the past came out for the better. Setting aside its dreams of superpower status, the bloc might turn its sights to the fundamental problem. This aging continent spends too much and grows too little, with Greece an extreme example. If the political tensions end up reinforcing what some have called an emerging Berlin consensus—a Europe without free lunches—then all this may have been worth it.

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