

## The European Union: Too Big to Fail or Too Fragile to Survive?

April, 26th 2020

The covid-19 has accentuated the fragmentation of the European Union. In a moment of political fragility we have performed a resilience rating analysis of the union as a whole as well as of the individual countries and specific macro regions. The idea is to perform a preliminary and simple assessment of how each country could resist a potential, even partial breakdown of the union.

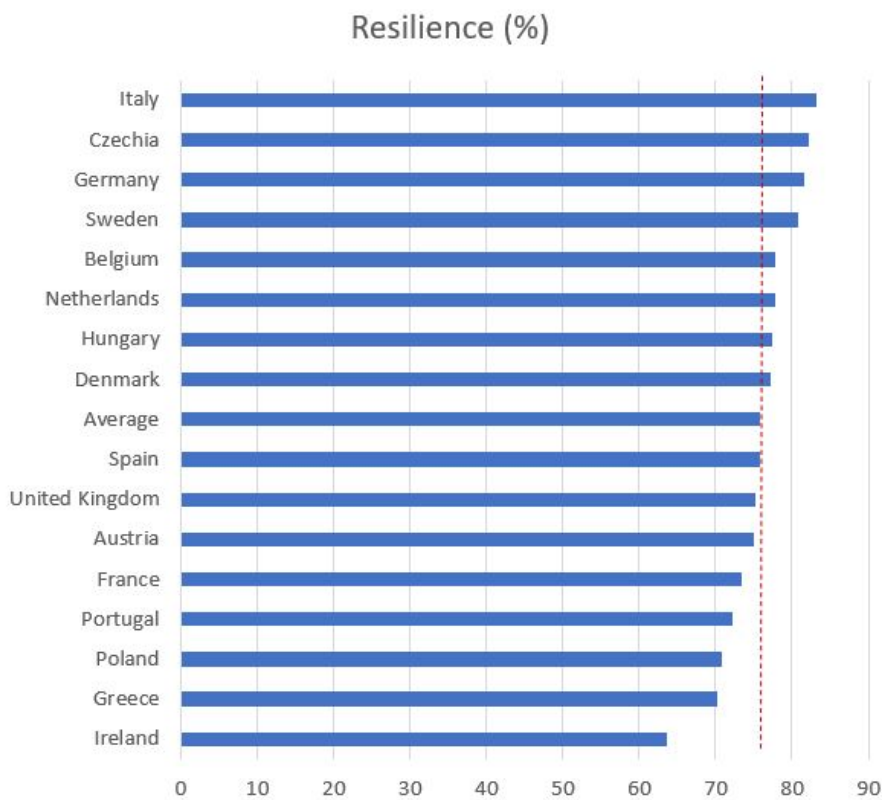
As is customary, we utilize the following parameters reported on a quarterly basis by EUROSTAT (updated on Q4 2019):

Gross domestic product at market prices
Value added, gross
Final consumption expenditure
Final consumption expenditure of general government
Individual consumption expenditure of general government
Collective consumption expenditure of general government
Household and NPISH final consumption expenditure
Final consumption expenditure of households
Final consumption expenditure of NPISH
Actual individual consumption
Gross capital formation
Gross fixed capital formation
Changes in inventories and acquisitions less disposals of valuables
Changes in inventories
Acquisitions less disposals of valuables
Exports of goods and services
Exports of goods
Exports of services
Imports of goods and services
Imports of goods
Imports of services
External balance of goods and services
External balance - Goods
External balance - Services
Compensation of employees
Wages and salaries
Employers' social contributions
Operating surplus and mixed income, gross
Taxes on production and imports less subsidies
Taxes on production and imports
Subsidies
Taxes less subsidies on products
Taxes on products
Subsidies on products
Final consumption expenditure and gross capital formation
Final consumption expenditure, gross capital formation and exports of goods and services

Resilience ranges from a minimum of 63.7% (Ireland) to a maximum of 83.1% (Italy). Average resilience is 75.8%.

Country	Resilience (%)
Ireland	63.7
Greece	70.3
Poland	70.9
Portugal	72.3
France	73.5
Austria	75.1
United Kingdom	75.2
Spain	75.8
<b>Average</b>	<b>75.8</b>
Denmark	77.3
Hungary	77.5
Netherlands	77.8
Belgium	77.9
Sweden	80.8
Germany	81.6
Czechia	82.1
Italy	83.1

The ranking is illustrated in the bar chart below.



Unlike the ratings provided by Credit Rating Agencies, the above ratings are not opinions or sensations, or result of interviews with experts. They do not take into account political aspects. Resilience ratings are objective. Science, not opinions.

NB. Resilience does not necessarily equate to performance. A resilient system is only better equipped to resist shocks and is more stable in the face of adversities. Italy is an egregious example.

As is customary, Credit Rating Agencies tend to punish Italy with rating downgrades, especially in the proximity of elections. In terms of resilience, however, Italy has enjoyed a high rating over the past years. Italy’s membership of the Euro has greatly enriched other nations, while impoverishing itself. And now, in the moment of need, the EU has abandoned Italy. This endangers the not only the Euro but the union itself.

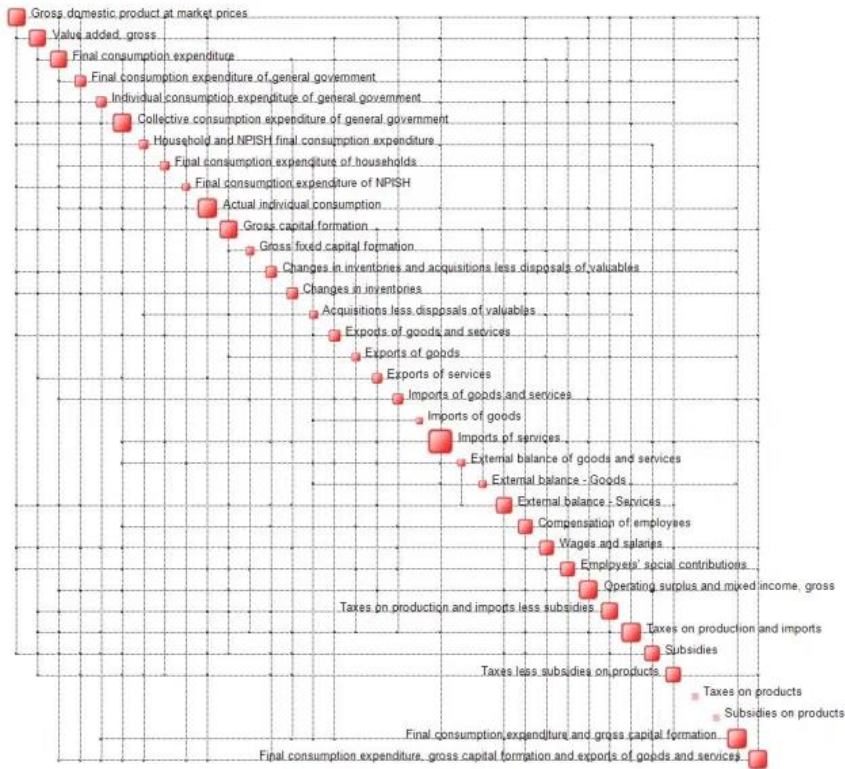
In a recent article, it is stated that: ” Belgian economist Professor Paul De Grauwe said that if the European Union does not show solidarity with member-states like Italy that have been hit hardest by the coronavirus, “the whole European project will disappear.” He went on to advocate for the creation of “coronabonds,” a financial tool previously known as eurobonds, to help share the economic risk to countries affected by the virus. Coronabonds have been advocated by several countries, including Italy, as well as European Central Bank (ECB) president Christine Lagarde — but have been largely opposed by richer countries like Germany and the Netherlands.”

It is interesting to note how a systemic analysis of the union yields a well below-average resilience of 67%. The other macro regions, such as the V4 (Poland, Hungary, Czechia and Slovakia), the Austerity proponents (Germany, Austria, Netherlands and Denmark) or the Mediterranean group (Italy, France, Spain, Portugal and Greece) all have very similar resilience, close to 70%, only 3% above that of the system as a whole.

Macro Region	Resilience (%)
EU27	67.1
Vishedrad Group	69.8
Austerity Group	70.7
Mediterranean Group	70.5

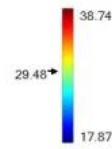
The bottom line is that these crises could have been be predicted with considerable anticipation. For illustrative purposes only, we show the Complexity Maps of Italy and Ireland. It is interesting to compare the respective hubs (the large boxes on the diagonal).

ITALY



Map Info  
Nodes = 36  
Active Nodes = 34  
Rules = 327  
Density = 0.58

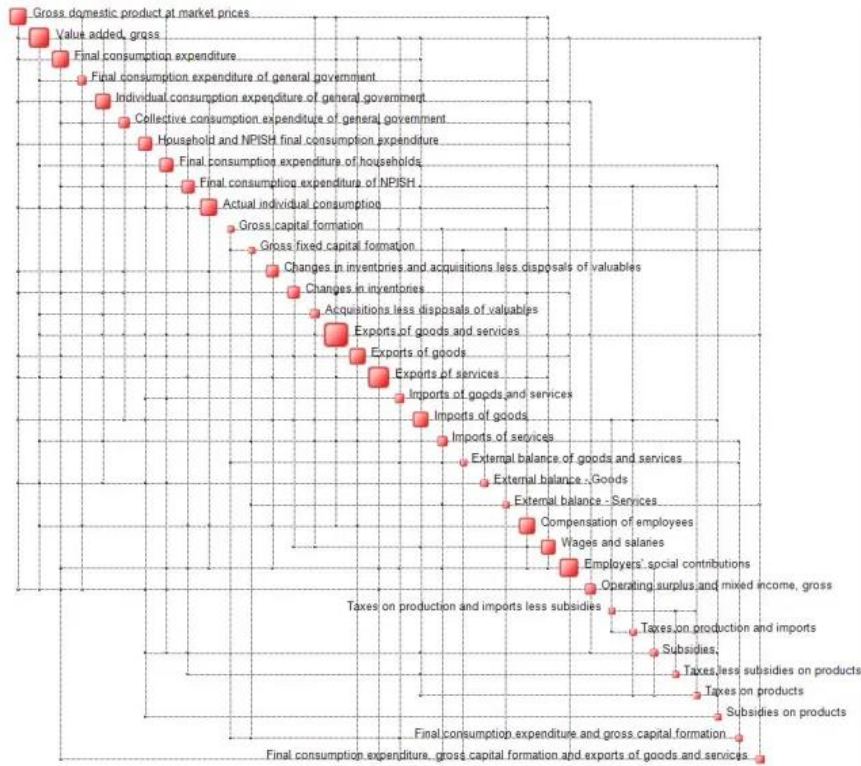
Complexity Measures  
Critical = 38.74  
Current = 29.48  
Minimum = 17.87



Robustness = 83.09 %

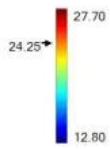
RATING  
☆☆☆☆

IRELAND



Map Info  
Nodes = 36  
Active Nodes = 36  
Rules = 246  
Density = 0.39

Complexity Measures  
Critical = 27.70  
Current = 24.25  
Minimum = 12.80



Robustness = 63.99 %

RATING  
☆☆

Without Italy, one of the founding members of the European Union, the Euro will not survive. However, without help from the EU, Italy will have to do it alone. Italy is a G7 country. It has the second largest manufacturing industry in Europe and the World's third largest gold reserves (after the US and Germany). Moreover, it has one of the most resilient economies in Europe. Italy can do it alone.

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