Insight

European Disunion

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Are there any precedents for a transnational economic union that came apart?

By Ike Brannon and Matt Thoman.

The Greek financial crisis has brought a much sharper focus to the problems in other European Union nations, in particular Portugal, Ireland, and Spain. A default on Greek debt would likely push this trio into insolvency as well, which would threaten the economic stability of the entire European Union. The suddenly very real possibility of the demise of the EU raises an interesting question: Are there any precedents for a European transnational economic union that came apart? The answer is yes, although we have to go back four centuries to find one.

The Hanseatic League (or *Hansa*, for short) was a loose association of merchant towns that originated around the Baltic Sea in the thirteenth century. It started as a trade federation—like the EU's precursor, the European Economic Community—but gradually expanded both geographically as well as jurisdictionally, eventually including a multitude of treaties, a Diet, and various methods of adjudicating disputes among governments that went far beyond trade. In the 1360s the League waged war against Denmark (try that, EU!) which ultimately gave the entity a trade monopoly in Scandinavia.

Hansa eventually collapsed around the end of the sixteenth century. The rise of England, Holland, Germany, and the Swedish empire offered a different political model, one that made more sense than the far-flung, heterogeneous conglomeration of competing interests that Hansa had become. It couldn't offer protection in trading routes, it had expanded too far, and it tried to take on too many roles for the limited power accorded it.

There are parallels in the current European crisis. European elites were eager to expand the European Union during the post-Cold War period for a plethora of reasons. Among them was a desire to gain the benefits of a larger free trade zone and to offer the former communist states membership in a Western entity that would solidify their transition to democratic, market-based economies.

> In their haste to expand into Eastern Europe, the EU granted membership to a number of countries that had not yet managed to meet the EU's strict eligibility conditions.

And while many new EU members used the newly conferred status of membership to move towards a market economy and strengthen their fiscal condition, Greece went the other way. Shortly after gaining membership, Greeks voted into office a Socialist government that had campaigned on the platform of raising pay for civil servants, lowering the retirement age, and abandoning wage increases based on merit. This largesse has proven difficult to reverse: As Greeks staged violent street protests over an increase in their retirement age from 61 to 63, Germany was raising its own retirement age from 65 to 67.

While there's no competing entity to take the place of the EU, simply going it alone may make more sense for many of its countries. Several countries must find great appeal in not being saddled with a monetary policy run without consideration of members' individual economic situations, and in avoiding Brussels's ever-increasing burdensome economic regulations. And merely maintaining membership in NATO and a free trade community still confers security, market access, and intimations of fiscal stability without much being asked in return.

The EU needs to decide if it would rather function as a means for weakly confederated states with often aligning interests to resolve grievances and maintain some sort of customs union, or whether it will move to gain even more power over national governments. It is a truism that the EU political leadership is well aware of: French President Nicolas Sarkozy and German Chancellor Angela Merkel recently announced a proposal to more fully integrate EU nations, which could include the formation of an EU presidency and the EU issuing its own bonds.

The history of the Hanseatic League suggests that there is no middle ground.

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