

Mr Macron's concentric circles

Mr Macron was misinterpreted by some this week who strain to discern an agreement between the EU and the UK in what he said. When Mr Macron stated he wanted reform of the EU he went back to the old idea of accelerated union and integration for an inner group. He then wants the UK to fit into an outer circle, where doubtless he thinks we should be rule takers. We would be grouped alongside eastern European countries who may want fuller integration but are not welcomed or thought to be ready by the elite countries to join the core of the Euro.

Mr Macron thinks France, Germany, the Netherlands, Belgium and Luxembourg, five of the original six founders of the EU, and maybe Spain, are ready to move to a single budget, a single Finance Minister and a joint foreign and security policy. Italy would probably be told if they want to be part of this inner core they have to forget all their wishes to change the budget strategy and to bin their request to toughen migration and border controls. There would be no room for dissenters in the core. The UK will of course be "offered" a security and defence partnership, because the UK provides more already to European defence than our GDP share would imply. The EU would like access to our two carrier groups and to the squadrons of F 35 fighter bombers, as well as to our Intelligence services. The EU has in mind some kind of Association Agreement with the UK, which is a watered down version of the EU Treaty without the voting rights and place at the table to complain in person about bad laws and bad policies.

Mr Macron's vision is backward looking and out of time. Mrs Merkel is finding it very difficult to hold her coalition together, and will be in no position to offer a joint budget and common Finance Minister given the antipathy of German electors to the idea of Germany paying more and sponsoring a so called transfer union. As transfer unions are central to most countries with their own currencies this remains a major stumbling block for the Euro. Mrs Merkel's traditional coalition partners, the CSU, face a difficult election in Bavaria in October, where they could lose control of their Lander Parliament thanks to AFD candidates. This means Mrs Merkel has to pose as tough on matters European and migratory for the next two months.

Mr Macron will also alienate many of the keen members of the EU that are excluded from his inner core. The countries to the south – or their governments – believe in the Euro scheme and were expecting a bit more financial and budget leeway. Instead Mr Macron seems to envisage more budget flex only for the chosen few that have passed the austerity test and joined the core. He will also continue to annoy the Hungarians and Poles who are the new naughty boys of the bloc, wanting the whole institution to adopt anti migrant policies.

It is going to prove a problematic few months for the EU, with Macron and Merkel in disagreement and with Italy pressing hard for changes to both migration and budget policies. Mrs Merkel usually gives in to pressure, so expect German policy to move to a more anti migrant stance.