

**E**urope's three crises—the Eurozone crisis, Brexit, and the refugee crisis—pose formidable problems on their own even without the ways in which each aggravates the others. The Eurozone crisis was the inevitable outcome of flawed institutional architecture, particularly the absence of a fiscal center and lender of last resort, along with very different types of capitalist economies which did not converge in significant respects. The failure of convergence regarding domestic wages, especially regarding Germany and Greece, Spain, Portugal and Italy eventually created a growing gap in real exchange rates and trade balances. The continuing Brexit crisis involves a globally important economy and financial center exiting the European Union and her twenty seven partners. The refugee crisis, the result of wars, instability and poverty in Africa and the Middle East, continues to this day and creates additional pressure on the EU's institutions.

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Each crisis has its own distinctive roots and its own trajectory of development. Yet all three crises are related to the others via feedback loops that worsen already difficult situations. Let us look at these interrelationships in turn.

## **Eurozone Crisis and the Refugee Crisis**

One of the cruel ironies of the refugee crisis is that many refugees went to two of the EU countries—Greece and Italy—hardest hit by the Eurozone economic crisis. Refugees from the Middle East went from Turkey to Greece while those from North Africa went to Italy in a desperate attempt to escape war and poverty. Simple geographical facts – the proximity of Italy, especially Lampedusa, to North Africa and Greece to Turkey—dictated that they landed disproportionately in two countries least prepared to receive them. Greece continues to suffer from high rates of unemployment (over 20 percent) and an economy which has lost nearly a quarter of its annual output. Italy has a slow to negative rate of growth and difficulty absorbing labor. Further, the Dublin Convention, which has been effectively suspended by Chancellor Merkel in the summer of 2015, dictates that the country which admits refugees

has responsibility for processing applications, a rule that puts an impossible burden on first-receiving countries. In short, geography and unintended legal obligations place burdens on both refugees and countries with the initial contact. Needless to say, the Eurozone crisis aggravates matters by increasing intolerance in the affected countries. This is where the economic crisis joins the political crisis marked by authoritarian movements which take aim at immigrants: AFD in Germany, UKIP in the United Kingdom, Golden Dawn in Greece, and the National Front in France, all gain support by appealing to anti-immigrant sentiment centering on jobs and identity. Because of the economic crisis, the domestic economic and political environments of EU countries are less welcoming to refugees who pose short-term burdens even if long-term opportunities for mutual benefits exist. While support for populist, anti-immigrant politics may have crested, governments are not likely to open their doors to more immigrants soon.

## Refugee Crisis and Brexit

Control over borders, especially control over refugees and economic migrants, has always been a salient political aim in the United Kingdom. But more recently in 2015, a fateful series of events was set in motion by Prime Minister David Cameron. Wanting to shore up support for his own Conservative Party, Cameron made a promise before the national elections to also hold a referendum on British membership in the EU. The first part of the bargain worked beautifully from his perspective. The Conservatives won the 2015 election handily and soundly defeated the UKIP.

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However, the other part of the Faustian bargain took place in the June 23, 2016 referendum on British membership in the European Union. The results of this referendum were 52% for leaving the EU and 48% for remaining. This was a surprise for many people since there was a

small majority for “remain” throughout the first half of 2015. Apparently what shifted sentiment was the increase in flows of refugees across the central Mediterranean route in the summer of 2015. With the arrival of warm weather in June of 2015 refugee flows increased and then peaked during the summer. Increased refugee activity was noticed in the British press but was tracked even more strongly in the Twittersphere. Anti-refugee activity based on both volume (of tweets) and attitudes against refugees (sentiment analysis) escalated during the summer. As [Porcaro and Mueller](#) show, anti-refugee sentiment remained strong right up until the referendum, reaching 100,000 tweets in May 2016. While control over borders with regard to both EU economic migrants and refugees from outside the EU has always been a concern of the UK, attitudes hardened starting with the summer of 2015. Clearly, the refugee flows, especially across the central Mediterranean route, intensified in the summer of 2015 and contributed to the referendum's outcome in favor of leaving. The deep causes of the refugee flows into the EU lie in the wars in Syria, Afghanistan, and Iraq as well as the poverty, state failure, and civil violence in sub-Saharan Africa. In this sense, external events helped to shape the UK's decision to leave the EU.

## **Brexit and the Eurozone Crisis**

The last link among the three crises is between Brexit and the Eurozone crisis. How these two events interact is not at all obvious. The United Kingdom is not a member of the Eurozone and never was, though it was a member of the exchange rate mechanism (ERM) from 1990 to September 1992. Non-membership in the Eurozone no doubt shielded the UK from some of the negative consequences of the Eurozone crisis while at the same time exposing it to the ups and downs of the Euro in place of nineteen national currencies. Nevertheless, there were places where the Eurozone crisis and Brexit came together. Three links are particularly important.

The first link lies in the (non-monetary) economic connections between the EU, the Eurozone, and the UK. The UK is linked to the continent through trade, capital flows, and movement of peoples. [Roughly 44% of UK exports go to the EU](#), and there are complex interlinked commodity chains which crisscross the continent and the UK. These trade and production relationships will no doubt be disrupted by Brexit, how badly no one knows. The free movement provisions of the Lisbon Treaty are even more toxic since the UK values highly control over its borders. Indeed, opposition to the free movement of EU nationals was a sore point for the UK well before the refugee crisis which peaked in 2015. Overall, these links of trade, production, and movements of people act as transmission belts from the Continent to

the UK and back again.

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A second link between the Eurozone crisis and Brexit has to do with the evolution of the political institutions of the EU as a result of the ongoing Eurozone crisis. To put it bluntly, UK attitudes toward the EU's institutions are out of line with the thrust of institutional development. Since the Eurozone crisis is managed by member states, especially Germany and the creditor coalition, one might think that British public and political elites would favor these new practices. The story is more complicated. Along with an increased role for the European Council, where member states reassert control, we also see the evolution of practices that result in a greater level of centralization in Brussels and Frankfurt. The new regulations on banking union, supervision of macro-economic imbalances (trade, domestic inflation, real exchange rates), and the increased role of the Commission in monitoring “national” fiscal balances all point to a supranationalism not welcome in the UK. Indeed, the evolution of two distinct sets of governance practices within the EU—a Community method involving the Commission, Council of Ministers, and European Parliament, along with the intergovernmental method embodied in the increasingly specialized activities of the European Council—[increasingly isolates the UK, particularly since some of the legal innovations like the Fiscal Compact circumvented the UK veto](#). They do not have a seat at the monetary table and increasingly decisions within this realm have spillover effects in other areas.

## Full circle

Finally, a full accounting of the triple crisis must note the mutual links among all three. The Eurozone triggered an internal (intra EU) movement of people, mostly from Poland and Romania, whose destinations included the UK, Germany, and Spain. [Matthijs states that](#)

[between 2004 and 2014, over two million people moved from Poland to the UK and Germany.](#) Approximately one-half of economic migrants from the EU that go to the UK [are from three Eastern European and three southern European countries: Poland, Hungary, Romania, Portugal, Spain and Italy.](#) The third leg of the triple crisis occurred with Brexit, which was strongly primed by the movements from Eastern Europe to the subsequent refugee flows from the Middle East and North Africa. Indeed, these two movements of peoples, one basically economic migrants in search of work and one refugees and asylum seekers fleeing for their lives, fed off of one another.

The triple crisis continues today and no doubt its resolution will take place at different speeds. The Eurozone crisis seems to have peaked but is far from over. Fears of contagion and default are for the most part contained to Greece. Italy's and Portugal's slow growth problems preceded the Eurozone crisis and will no doubt outlast it. Yet, Spain and Ireland have recovered somewhat. Positive trade balances are reappearing for all the peripheral countries except Greece and for Greece, there is a forecast for positive growth in 2017. "Brexit is Brexit" says Theresa May so we will have to see that process run its anything but normal two-year course. Finally, the refugee crisis is fueled by wars (civil and international) in the Middle East and Africa which have uncertain durations. One can only hope that these conflicts are brought to a speedy end. But that is more hope than forecast.

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