

The financial crisis of 2011 has precipitated a political crisis in Europe and a reminder of the geopolitical drivers that got us here.

The continent is split in two – the European Union of 27 nations (EU), and the rest, who'd like to join it if they were allowed.

But now the EU, which hoped to be more than the sum of its parts, is being facing hard choices as a result of the sums that some of its parts owe.

"Here's another nice mess you've gotten us into" Oliver Hardy famously said. It's a jibe that could fairly be aimed at Portugal, Ireland and (particularly) Greece – the so-called PIG countries. And to a lesser extent Italy and Spain have the contagion too.

A few years ago, when the livin' and credit was easy to come by, these countries closed the gaps in living standards between themselves and the industrial and commercial heartland of Europe by leaps and bounds. But the easy money is no more. What was borrowed now has to be repaid, or refinanced.

The 640 billion dollar question is – "how are you gettin' out of the nice mess"? It's a question with no easy, but several very hard answers.

The drivers of what eventually became the EU are worth revisiting.

For centuries, what might be called civil war raged across Europe. The high water mark of Napoleon's European empire was the gates of Moscow. So too was the high water mark of Hitler's 100 year Reich.

Germany suffered the humiliation of unconditional surrender and four-power occupation in 1945. In one sense it was lucky – the atomic bomb was ready in time to be used against it.

The German people in effect said "never again". They buckled down to a divided country, and worked. They rebuilt the industry that had been fire stormed, came to terms with their collective guilt, and concluded that a strong currency had more benefits for them than a strong army.

It is that ethos that underlines the German approach to the formation of the EU and towards its current problems.

Within a year of the end of World War II, Winston Churchill was standing alongside Robert Schuman, Foreign Minister of an also-victorious France, calling for Franco-German reconciliation.

It was Schuman, one of the Founding Fathers of the European unity, who took up the challenge. Institutions followed – a Council of Europe, a Coal and Steel Community, and Euratom to begin with. The Schuman Declaration of 1950 proposed, inter alia, the transformation of Europe on a

"step by step" basis. It called for a single market across Europe, anti-cartel arrangements, and aimed to make war between Member States impossible.

In this latter aim it has been spectacularly successful. My grandfathers fought the Germans. My parents fought the Germans. The only fight I've had with them is over a sun lounger on a public beach. And I hope that will be the same for my grandsons and their children.

But there is a price. The obvious outcome of the "Common Market" was ever-closer union. Huge milestones were the introduction of the Euro, a single currency for 17 of the 27 member States, and the Schengen Agreement, which resulted in the scrapping of internal border controls between 25 states.

There is now in excess of 800 billion Euros in circulation – it overtook the dollar last year as a global currency – and over 400 million people can move across state borders freely. The UK opted out of these initiatives.

The European Union is therefore a sort-of United States of Europe, but there are no more opt-outs. New entrants to the EU must join both the Euro and the Schengen Area. But those in the queue have weak economies and migrant peoples.

That brings us back to the Euro problem. There's a single currency, but not a single finance ministry. There's harmonisation of trade, but not harmonisation of taxes and spending. There's a sort-of Federal Reserve (the European Central Bank) but it has no authority to issue Euro-bonds, analogous to US Treasury Bills.

Each country has borrowed to spend in its own way, with its debts denominated in Euros. As debts have risen, so have some national interest rates, to an unsustainable level. PIG countries have been pushed to reduce Government spending and increase taxes. The reaction of their people, who've liked the good times funded by other people's money, has included strikes and riots.

Under pressure, politicians have started to bite the bullet. But in the process, many have written their own political death warrants, starting with Ireland. Nevertheless, those that come after them will have the same problems and the same solutions presented to them.

Political leadership in Europe has usually come from that Franco-German axis which was foreshadowed in 1946. The French have the ideas, the Germans, more or less reluctantly, pay for them.

The August 2011 summit between the French President and the German Chancellor lasted little more than two hours. Yet its outcome is that the EU has decided (or will decide, when the decisions are ratified by Parliaments) to press forward with its ever-closer Union, stopping short, for the moment, of allowing Euro-bonds to be issued with the implied German guarantee.