OPINION EUROPE

A Vision of Post-Crisis Europe

In 2023, Europeans still don't love the EU. But they acknowledge that joint action ended the euro crisis.

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It's October 2023. Political parties in the 31 member states of the European Union are haggling over who should be their lead candidates for the next elections to the European Parliament. Turnout in the 2024 elections is expected to be respectable, if not overwhelming. Europeans still do not love the EU institutions, but most acknowledge that it was joint action at the EU and euro-zone levels that got Europe out of its crisis 10 years earlier.

Backstopped by the European Central Bank's 2012 pledge to buy the bonds of troubled euro countries, the EU continued to muddle through for a few years after 2013. Deepening reforms in Spain and Portugal put pressure on France also to get its act together—or see its factories move south, to where labor costs were lower and regulations more business-friendly. Germany responded to France's economic opening and fiscal consolidation by offering to reconstruct the Franco-German partnership.

This alliance had driven European integration in the latter half of the 20th century and into the 21st, but it frayed during the crisis years. The slowdown in German growth in 2015—and the rekindling of Germany's own reform debates—helped to make the EU's biggest country seem less schoolmasterly. Berlin and Paris overcame their differences over the future shape of Europe and started working on a road map to revive the EU.

In 2017, the British government won a referendum on continued membership in the EU. London had previously gained small opt-outs and big promises from its European partners that they too wanted to make the EU leaner, more effective and more adaptable. The British "yes" paved the way for EU countries to sign a new treaty in Reykjavik in 2019. The treaty allowed individual member countries to integrate at their own speed, for instance with regard to tax rules and labor regulations. It was this added flexibility that finally revived the moribund Turkish accession process.

The Reykjavik treaty also helped to put the euro on a sounder footing. It supplemented the stricter fiscal monitoring put in place during the crisis with new rights for the European Finance Commissioner to impose spending cuts and emergency taxes on any country that continues to break fiscal rules. A new exit mechanism also reminded euro countries that membership in the single currency should not be taken for granted.

This helped to reconcile bailout-weary Finns, Germans and Austrians to the euro project. The treaty's new sovereign-debt restructuring mechanism did not spook

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financial markets as many had feared. On the contrary, it brought investors the certainty they had craved during the years of muddling through.

With these new integration measures in place, Europe's creditor countries dropped some of their resistance to risk-sharing. In 2020, the EU started issuing so-called euro basket bonds: Each participating country remained liable for its own share of debt, but the lower interest rates helped a still-struggling Italy to make much needed investments in infrastructure and education, as did the new euro-zone budget specifically set up to help countries implement painful reforms. Bond-market investors acknowledged Italy's efforts by pushing lending rates lower still.

Britain and Sweden are still outside the euro in 2023, but Poland, the Czech Republic and Lithuania have joined. Britain, meanwhile, is a leading member of the group of countries that is running European foreign and defense policy. Sweden is very much engaged in the new European energy and infrastructure market.

This picture of 2023 is not a prediction. It is a sketch of what could—and should—happen now that Europe has, one hopes, left the worst of the crisis behind. Many things could still go wrong; a Greek exit from the euro still cannot be fully ruled out. But it is time for us Europeans to emerge from our valley of doom and start looking for some light.

Every big project the EU has ever embarked on—be it the single market, the euro or the integration of formerly communist countries—was previously deemed virtually impossible. With a little bit of vision, some clever changes at the EU level and rigorous reforms in member countries, Europe might well emerge strengthened from the crisis.

Mr. Heise is chief economist of Allianz SE and author of "Emerging from the Euro Debt Crisis: Making the Single Currency Work" (Springer, 2013).