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What saves the euro will kill the union

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Angela Merkel has been saying it for some time: when the euro fails, Europe fails. The German chancellor is right, but I would add a twist: if the euro succeeds, Europe is also likely to fail. The reason is that the policies needed to solve the eurozone crisis will destroy the European Union as we know it. In particular, they will have profound implications for countries such as the UK, Sweden and Denmark.

The euro was introduced on the back of two lies, which the complacent policy crowd in Brussels rarely bothered to challenge. The first, now well known, is that monetary union could exist without political integration. The second derives from it: that the EU's euro and non-euro countries could sustainably co-exist. This is the idea of the EU as a "club of clubs". We all share the single market, but otherwise co-exist in a framework of flexible and variable geometry.

The eurozone's crisis resolution is already unfolding a dynamic that is inconsistent with this. Last week's decision by eurozone members to leverage the European financial stability facility will push the eurozone on a divergent path from the rest of the EU. The measure is as insufficient as previous "comprehensive plans" to deal with the crisis. But the sceptical reaction of global investors will force further measures. Eurozone members will need the European Central Bank as a lender of last resort. They will move from separate to joint liability of sovereign debt guarantees, possibly leading eventually to a eurozone bond. To solve underlying structural problems, they will need to harmonise their financial sectors, improve product and services markets, and co-ordinate labour market rules, an area now off-limits. They will have to start to co-ordinate tax policies, eventually, perhaps, introducing eurozone-level taxes.

My main point is not that the interests of the eurozone collide with those of the non-eurozone. They do, of course. Much more importantly, solving the eurozone crisis requires policies diametrically opposed to those of the EU, most notably those to do with the single market.

The needs of market integration are different for a monetary union in trouble than for a wider club of countries primarily interested in free trade. From a eurozone perspective, the single market's main failure has been an inability to cut persistent economic imbalances: rather than a single market, the eurozone needs the equivalent of an economics minister.

The same logic applies to the financial sector. The eurozone states are not large enough to provide a credible backstop to their financial systems. Over time they will have to establish common deposit insurance, bank resolution policies and banking supervision. This does not derive from the logic of a single market, but from a need to preserve macroprudential stability.

There is no need for non-eurozone members to establish similar structures among themselves, let alone to subject themselves to a regime run by – and in the interests of – the eurozone.

Should we therefore not expect non-eurozone countries to gang up and stop the eurozone adopting divisive policies? I have heard a suggestion that non-eurozone states should hold their own summits, in parallel to eurozone summits. This is unlikely. The non-eurozone EU is not only smaller – 10 countries versus 17 – but less homogenous. It consists of three groups: those that will definitely not join the eurozone, such as the UK; those that definitely want to join, such as Lithuania, but have yet to meet the membership criteria; and those that fall in the middle.

Of course, the eurozone cannot force a change of the European treaties on the non-member states. The veto right is preserved. But the eurozone's crisis resolution is unlikely to proceed on the basis of a full-blown treaty change. One of the most important – and at the time least discussed – innovations of the Lisbon treaty was the possibility for groups of member states to enhance co-operation in selective policy areas. In theory, non-members could gang up against eurozone policies. In practice this is not going to happen.

As the eurozone solves its crisis, a microeconomic community is turning into a macroeconomic union. For Britain, Sweden, Denmark and other non-eurozone countries the question is no longer simply whether they should join the euro, or not. It is whether they want to remain in an organisation with which they will have increasingly less in common.

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