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THE REVIVAL OF NATIONALISM IN EUROPE AND THE ZERO-SUM GAME OF EU INTEGRATION

*Paolo Guerrieri**

Abstract

In the Eurozone fiscal austerity measures applied on a large scale are determining recessionary effects on output in many Southern European economies and stagnation in the core euro area. The European Central Bank's intervention (OMT) can temporarily stabilize the Eurozone and the financial markets, but is not able to address the underlying problems of the crisis in the peripheral countries: large and rising private and public debt as share of GDP on the one hand, and a deepening recession and large macroeconomic imbalances on the other. The major risk is a prolonged double-dip European recession and the shift of EU integration into a zero-sum game. Under these conditions, more tension and national confrontations is likely and Europe will suffer along with the rest of the world.

To avoid this very negative outcome the key challenges lie in a different approach to address the crisis by using a more balanced composite mix of policies based on austerity, liquidity and growth measures. A specific role should be assigned to each of them so to better distribute the burden of adjustment between creditors and debtors. Strengthening the political capacity of European institution should be a fundamental complementary goal as well.

* *College of Europe and the University of Rome, Sapienza*