

Poor Leadership Makes for Somber Outlook

6. November 2018 by [Ricardo Cabral](#), [Viriato Soromenho-Marques](#)

It's difficult to imagine a worse moment to start a new and acute political '[confrontation](#)' in the European Union. We are referring, of course, to the rejection of the Italian national budget proposal for 2019 by the European Commission.

Meanwhile, Europe's geopolitical environment looks increasingly grimmer and more dangerous. The erratic Trump presidency continues its restless endeavours of damaging numerous existing institutions and international agreements which during decades of strenuous diplomatic bargaining and compromising among the big and the regional powers, have been designed and implemented to avoid turmoil and prevent chaos. We have witnessed the rejection of trade deals, the 'withdrawal' of the 'Iran Nuclear Deal' and the application of economic sanctions to partners that continue to be bound by the terms of the same international agreement. A recent example is the impending unilateral termination of the Intermediate-Range Nuclear Forces (INF) Treaty, signed on 8 December 1987, which symbolises the astounding appeasement between Gorbachev and Reagan that avoided a nuclear war on European soil in the eighties. On top of that, Brazil, a large country and key economic player has just elected a rogue neo-fascist individual as president, while at the same time the important, very traditional and very conservative Saudi Arabia, murders with indescribable cruelty the former diplomat and journalist Jamal Kashoggi on its Istanbul consulate premises. Yet, the obvious general outcry is cautious enough to prevent harming the large weapons deals that so many western capitals already signed with the House of Saud. Nonetheless, this brutal assassination of a single individual, unlike the Saudi-led war in Yemen that has starved, maimed and killed countless civilians, has precipitated yet another crisis in the Middle East, this time centred around a deep uncertainty about the future of Saudi Arabia and its political stability.

It should also be mentioned that the incredibly poorly timed clash between the European Commission and the new populist coalition forming the Italian government also occurs on the verge of a possible 'hard' Brexit, or, at least, in a situation in which more time will be offered to negotiate a separation that will always be painful for the UK and Continental Europe alike, as well as damaging to the noble idea of a free and consented political coming together of the European peoples.

The tectonic plaques of the eurozone are again on the move. As far as we can anticipate, if the existing 'European Semester' process is strictly adhered to and cooler heads do not prevail, the tension between Brussels and Rome will last for a long period of time. The first thing a candid analyst needs to avoid is the temptation to quickly choose sides. This situation does not ask for biased Europhilia but for a sober, critical and reasonable scrutiny of what is really at stake. The Pavlovian reaction of pointing out the Five Stars and League Vice Prime-Ministers, Luigi di Mayo and Matteo Salvini, as the sole culprits for this new crisis is too simple to be true. The rise of populism and the extreme-right both in the *Palazzo Montecitorio* in Rome, or in the *Bundestag* in Berlin, or in many other parliaments, is not the beginning but rather the result of a long process of political flaws and errors. In a recent speech delivered at the Humanities College of the Goethe

University, the German philosopher Jürgen Habermas suggested some key elements that allow us to better understand why the future of the eurozone is not an issue that may be dealt with in a '[black-white-dichotomy](#)'. To cope with the current populist upheaval in Europe it is necessary to better characterise the roots of the EU malaise. Habermas underlines the diversity and even contradictory features of the challenges, dominated by two main narratives. The first one is linked basically to the immigration and asylum policy problem, which is the main reason for the rapid and expanding appeal of the AfD to German voters. The second narrative has to do with the always delayed reform of the Economic and Monetary Union (EMU), and explains the dismal electoral performance of traditional parties in southern Europe, as well as the arrival of Emanuel Macron at the *Élysée* Palace, which however should not be separated from his main campaign proposal for a programme of profound reforms to the eurozone in cooperation with Berlin, which we already analysed in a [previous post](#). There is a problem, nevertheless, in binding together the two narratives of the EU crisis. In spite of the high price paid by Greece, Portugal, Ireland, Italy and other EU Member States that still experience high unemployment, particularly among the young. It seems that some countries more worried about the immigration and asylum issues have a blind spot regarding the grievances of the Member States suffering under the yoke of austerity and very large public debts. In his speech, Habermas wrote these eloquent words: 'I am astonished about the *chutzpah* [the nerve] of the German government that believes it can win over partners when it comes to the policies that matter to us – refugees, defense, foreign and external trade – yet simultaneously stonewalls on the central question of completing EMU politically.' Not only the expectations regarding a revival of the German-French Entente, ended up in a state of stagnation and paralysis, but also the consensus that prevailed in the first stages of the EMU framing process, according to which the euro should become a tool for social and economic convergence within the eurozone, seems to have sunk into total oblivion.

The populist nature of the ruling parties in Rome is no excuse for the fact that under its current status, the EMU fiscal rules and the rigid attitude of the European Commission are increasingly the fault lines of the eurozone, whereas it should instead foster the economic, social and political strength of the eurozone and of the European Union fabric as a whole. With its current software, which was worsened by the fiscal rules introduced since the euro crisis (particularly, the Six-Pack, the Two-Pack, and the Fiscal Compact), designed to operate like a *quasi*-Constitution, the future will show a growing abyss between the winners and the losers of the EMU.

It was to be expected that the eurozone fiscal governance reforms hurriedly put in place following the 2010-2012 Euro crisis would fail the test of time. So tight-knit a straitjacket, with fiscal consolidation objectives that grow ever more demanding over time, was bound to be politically tested sooner rather than later. The reason why Italy is now at the centre of a new hurricane increasing in force has to do with the fact that Rome (like also Athens) was severely and simultaneously hit by the chief component blocks of the two narratives identified by Habermas, cited above. Luigi di Maio's Five Star Movement grew upon the social unrest caused by strong austerity measures imposed by a combination of technocratic government and market pressure concerning the price of public debt. On the other hand, Salvini's League capitalised exponentially citizens' fear of the ills of immigration and asylum policies, disseminating a racist and extreme-right discourse prone to add gasoline to a fire already in progress.

Instead of going to war with Rome, by threatening it with bankruptcy and exit from the euro, in response to the 2019 national budget proposal that merely increases the budget deficit by a few tenths of percentage points, while keeping it well below 3% of GDP, the European Commission should have urged the European Council and the Eurogroup to launch a process aiming for a profound revision of the fiscal and governance rules of the euro.

The success of the eurozone policies and of their political and technocratic leadership should be measured not according to structural budget deficits of tenths of percent of GDP, but along altogether different criteria. In fact, if the young and already much acclaimed historian [Yuval Noah Harari](#) is right, the key test of any contemporary liberal and democratic system of government is linked to the ability to respond effectively to the three main and global perils that threaten to overwhelm humankind in the near future: How to prevent nuclear war? How to fight back climate change? How 'to create a global safety-net to protect humans against the economic shocks that AI [Artificial Intelligence] is likely to cause'?

Needless to say that trying to find guidance in the 16 articles of the Fiscal Compact for an EU wide response strategy up to the task of facing these three major challenges would be a [futile exercise](#). It could rather be considered a hilarious endeavor, if the consequences were not so tragic for hundreds of millions of citizens, in and well beyond the EU. Under the current rules of the euro it is a complete delusion to believe that public policies able to promote a bold transition to a low carbon economy, requiring very large levels of investment across the whole of the EU, possibly for decades, can be developed according to a public finances codebook that seems to be a robust financial analogy to the Freudian concept of 'anal-sadistic stage' (*sadistische-anale Stufe*), developed namely in his 1915 work, *Drei Abhandlungen zur Sexualtheorie*.

The conflict between Brussels and Rome is currently on track to becoming a war of attrition. Many among the eurozone ruling elite believe that if subject to sufficient combined pressure by European authorities, Italy will quickly fold like Greece did in 2015. However, Rome is not Athens. Italy is one of the world's leading and largest economies, it has a robust current account surplus, a nearly balanced international investment position, a positive primary budget balance and, until recently, the level of foreign capital flight has been manageable. Italy is not in the desperate negotiating position of 2015 Greece, and the Italian political leadership knows it. The eurozone authorities' negotiating threat is not credible, not unless the eurozone leadership is willing to drive Italy to the edge of bankruptcy and exit from the euro, by restricting the access of the Italian banking system to the Emergency Liquidity Assistance of the Bank of Italy.

It is only the fiscal rules developed since 2010 which prevent the Italian populist government from having its fiscal way. However, every policymaker knowledgeable enough recognises that the Six-Pack, the Two-Pack and the Fiscal Compact are already by-gones of the quite unique euro crisis era. Surely, the strict enforcement of those rules against Italy is but a façade to avoid 'losing face'?

Thus, most likely the current confrontation of the European authorities with Italy will end in some sort of a fudge. The wasteful rules so laboriously elaborated will be amended and 'reaffirmed'!

If, however, the 'fudge' cannot be reached between the warring parties, what is already possible to foretell with a great degree of accuracy is that by the end of this negotiation we will all be losers in a greatly troubling Mutually Assured Destruction (MAD) type of negotiating game.

The eurozone, and the European Union with it, is on a collision course against an imaginary but quite robust wall built by the misguided, if not outright evil, deeds and omissions of its strayed leadership.