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The rationale behind the Italian-German rift

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- Acrimony among European states is harsher today than during the euro-crisis a decade ago, jeopardizing the integrity of the EU and of the euro. The rationale behind the confrontation poses a different question: how long will the economic consequences of the health crisis last? If people are able to go back to work before this summer, the European toolbox will be suited to smooth over the recession that has already set in everywhere. On the contrary, if the European economies plunge into a deep recession and remain there for a longer period of time, much more powerful instruments will be needed.
- While some countries, such as Germany, can wait until the summer to see whether or not the available resources are enough, others cannot. France, Italy, Spain or Ireland, among others (all countries whose public debts are close to or above 100% of their GDP) cannot wait and run the risk of incurring serious financial troubles. Even a relatively short recession might bring those financial positions to the brink of unsustainability, thus justifying the call for common instruments for the issuance of public bonds.
- A symptom of the different attitudes is the size of the fiscal response offered by Germany (4% of its GDP), France and Spain (2%) and Italy (1%), so far. This clearly indicates that the effects of the crisis will be asymmetric and illustrates the lack of consensus within the European Union: not moral attitudes, but financial leeway.
- The current instruments are sufficient to bridge the current recession. But they will not even come close to being sufficient if the recession morphs into a depression. There is no doubt that the EU and the euro will not be able to resist if the economy suffers a decline in its potential growth level.
- The EU needs to call for a new Intergovernmental Conference now. European projects for common defense and security, for the automation of the economy, for the homogeneity of welfare and education, and for a relaunch of health and environmental policies need to be designed now. And yes, no doubt, all this will require Eurobonds and a common fiscal authority.