



VillVigoni

Centro italo-tedesco per il dialogo europeo
Deutsch-Italienisches Zentrum für den Europäischen Dialog

VIGONI Papers

Paolo Garonna

Building a New Economic Model for Europe, European Elections, and the German-Italian Dialogue

Notes on the role of the German-Italian dialogue in the European political debate



Vigoni Paper n. 3/2023

Vigoni Paper n. 3/2023

GEFÖRDERT VOM



Bundesministerium
für Bildung
und Forschung

IMPACT

Il Paper è stato pubblicato grazie ai fondi accordati a Villa Vigoni dal Ministero federale dell'Istruzione e della Ricerca (BMBF) nell'ambito del progetto di ricerca IMPACT. Il progetto ha l'obiettivo di: analizzare le conseguenze della pandemia di COVID in Italia e Germania; monitorare e analizzare le strategie per la gestione della crisi; creare forum di discussione e dialogo per mettere in rete decisori politici e società civili dei due Paesi.

Das vorliegende Paper wird im Rahmen des IMPACT-Projekts der Villa Vigoni veröffentlicht. Die Villa Vigoni erhält die Projektmittel für IMPACT vom Bundesministerium für Bildung und Forschung BMBF. IMPACT zielt auf die Einschätzung der Konsequenzen der Corona-Pandemie in Italien und Deutschland. Komparatistisch werden Strategien der Krisenbewältigung beobachtet und analysiert. Zu IMPACT gehören Gesprächsforen, die der Information und Vernetzung der politischen Öffentlichkeit in den beiden Ländern dienen.

This work is licensed under a Creative Commons/Attribution - NonCommercial - NoDerivatives 4.0 International License

Bibliografische Information der Deutschen Nationalbibliothek: Die Deutsche Nationalbibliothek verzeichnet diese Publikation in der Deutschen Nationalbibliografie; detaillierte bibliografische Daten sind im Internet über <http://dnb.d-nb.de> abrufbar.

© Villa Vigoni Editore | Verlag,
Lovenò di Menaggio 2023
www.villavigoni.eu

Assistenza editoriale | Redaktionsarbeit:
Annalisa Grazian

Stampa | Druck: Grafiche Boffi, Giussano (MB)
Printed in Italy.

ISSN (online): 2724-0002
ISSN (print): 2724-0347



I Vigoni Papers del centro italo-tedesco per il dialogo europeo offrono riflessioni, frutto di ricerche ancora in corso, indirizzate sia a studiosi sia a un pubblico più vasto su temi legati ai rapporti italo-tedeschi nel contesto europeo. A partire da prospettive di carattere politico, storico, economico e sociale, l'obiettivo di questa collana è quello di arricchire il dibattito scientifico e culturale in corso tra Italia e Germania per un'Europa più coesa.

Die Vigoni-Papers des Deutsch-Italienischen Zentrums für den Europäischen Dialog bieten Impulse und Reflexionen, die das Ergebnis noch laufender Forschungsarbeiten sind. Sie behandeln Themen, die für die deutsch-italienischen Beziehungen im europäischen Kontext relevant sind und richten sich sowohl an Wissenschaftlerinnen und Wissenschaftler als auch an eine breitere Öffentlichkeit. Ausgehend von politischen, historischen, wirtschaftlichen und sozialen Perspektiven ist es das Ziel dieser Reihe, aktuelle wissenschaftliche und kulturelle Debatten zwischen Italien und Deutschland für ein gemeinsames Europa zu bereichern.

Comitato editoriale/Hrsg.
C. Liermann Traniello, M. Scotto, F. Zilio

Paolo Garonna is Professor of Political Economy at the LUISS University of Rome and President of the European League for Economic Cooperation Italia. He worked in the financial sector, at ISTAT, Confindustria, the OECD in Paris and the UNECE in Geneva.

*Le opinioni espresse appartengono unicamente agli autori e non riflettono necessariamente l'opinione di Villa Vigoni, né possono essere considerate come posizioni ufficiali della stessa.

*Die in dem Beitrag vorgestellten Ansichten sind Ansichten und Einschätzungen des Autors; sie spiegeln nicht zwangsläufig die Auffassungen der Villa Vigoni wider.

Abstract*

Following an "economic politics" approach, the paper discusses the implications for the 2024-29 European Parliament of the transition to a new European economic model. It focuses on ordo-liberalism, its relationship with conservatism, and the role of German-Italian dialogue.

1. Table of Contents

1. Introduction. The German-Italian dialogue at a critical stage in the European project	1
2. The German model in transition: between <i>Zeitenwende</i> and paralyzing prudence	5
3. The trade-off between moderation and reforms.	8
4. The response to the crisis: is the German <i>Zeitenwende</i> sufficient? What about European <i>Zeitenwende</i> ?	9
5. The missing <i>Zeitenwende</i> : the impact of public perceptions in Germany and Italy.	11
6. The German change of pace and the need for European <i>Zeitenwende</i> .	13
7. Energy and the transition to an advanced service economy: no benefit from going it alone.	14
8. The two economies: gaps and synergies	17
9. Shifting equilibria in European politics: what role is there for German-Italian dialogue	18
10. Should the “cordon sanitaire approach” apply to the next European Parliament?	22
11. Investing in political philosophy: value and practical significance	24

12. The fundamental lessons of ordo-liberalism and the “social market economy”	27
13. The shift from the old to a new economic model for Europe: what philosophical roots?	29
14. The cornerstones of the new model and the desired features of the new Parliament	30
15. A common enemy for the European Parliament: populism	33
16. Conservatism and ordo-liberalism, rules and sovereignty	34
17. How do political philosophies contribute to advancing the European integration agenda? The pivotal role of the social market economy model.	38
18. A broad basis for parliamentary action and constructive dialogue	41
19. Maintaining anti-populist red lines	42
20. Summary and conclusions: the interplay between political and socio-economic transitions	45
References	49

Building a New Economic Model for Europe, European Elections, and the German-Italian Dialogue

Notes on the role of the German-Italian dialogue in the European political debate¹

Paolo Garonna

“Pilgrime sind wir Alle, die wir Italien suchen”
– Wolfgang Goethe, Epigramme, Venedig 1790
“Auch ich in Arkadien”
– Wolfgang Goethe, Italienische Reise, 1816

1. Introduction. The German-Italian dialogue at a critical stage in the European project

I have always believed the dialogue between Germans and Italians to be one of the most constructive and beneficial of all the various instances of bilateral and multilateral engagement. That is why I have myself entered into it and promoted it throughout my professional career, always finding it deeply rewarding, and along the way making lasting friendships.

1 My comments were inspired by the discussion at the Seminar on “Economic Recovery and Resilience After the Russian Invasion of Ukraine”, held at the Istituto Affari Internazionali, Rome, 30 November 2022; and at the Seminar “What is Conservative?” at Villa Vigoni (Lake Como) on 2-4 February 2023. I thank the organizers and the participants at those Seminars for their important contributions. I wish to single out in particular Silke Schmitt, Christiane Liermann Traniello and Sabine Seeger-Regling for their astute contributions to the debate. Many of the ideas in this paper came from insightful comments by Massimo De Andreis, Richard Edwards, Francesco Mazzaferro, Tobias Piller and Massimo Ungaro. Special thanks must be awarded to the editors, in particular to Mr Martin Tom, for their invaluable contribution. With the customary proviso that responsibility for the views expressed here, and for any errors or omissions, is mine and mine alone.

I have had the opportunity to participate in a couple of German–Italian seminars that were particularly thought-provoking, as they took place at a critical stage in bilateral and European relations. There are several reasons why in 2022–23 this dialogue proved to be timely and of strategic value:

- Germany and Italy are among the countries most affected by the *polycrisis* in Europe and therefore are undergoing the most radical socio-economic transitions.
- Both countries have been supportive of the Ukrainian resistance to Russian aggression, but they both face staunch “pacifist” constituencies, involving not only the oppositions but also components of the Government coalitions, and influencing a wide spectrum of political opinions.
- Italy and Germany will prove to be of crucial importance for the advancing of European integration. Moreover, each country will often tend to take up diametrically opposed stances, e.g. expansionary policies versus frugality and austerity.
- Post-Merkel Germany and post-Draghi Italy, following the 2022 political elections in the two countries, went through significant changes in Government, parliamentary majorities, and the policy climate, raising questions regarding future political developments and their implications for stability and growth.

There is a more specific circumstance that adds salience to this dialogue. Preparations for the 2024 European elections are approaching a critical phase. Those elections will not only have an impact on the European Parliament (EP), but in addition they represent a test for the new coalition Governments in the two countries. The two Governments therefore – and their oppositions likewise – are naturally inclined to see their respective political formulas (the German street-

light or red-green-yellow coalition, and the Italian right-wing alliance) performing well at the EU level. This could imply an overhaul of the on-going majority at the EP, based as it is on a centre-right centre-left coalition, which has remained by and large dominant for several decades in Europe, opening the way to different political alliances more in line with national Government coalitions. Intense negotiations are under way among the various European political groups with a view to shaping and trying out new formations, new leaderships and correspondingly new platforms for policy programmes. New political equilibria therefore may emerge in Europe after the elections, based on the political offer and the response of the respective electorates.

How will the search for new alliances at the EP affect the policy agenda, the priorities, and the performance of European institutions? I refer in particular to the critical choices required by the passage from the old to a new European economic model that the dramatic crises of the last twenty years have rendered necessary and urgent. The financial crisis, the pandemic and the war (see on this Ayadi Garonna Svilanovic, *Europe after the War*) marked a watershed. What reforms and policy adjustments in Europe are necessary for facing up to the most pressing economic challenges ahead? Will the possible new political equilibria at the EP be in line with the requisite policy adjustments? In other terms, will the political supply match the policy demands? And vice versa?

Naturally, the leeway accorded an analyst when addressing issues of this kind is highly constrained, since the outcome of the elections will ultimately be decided upon by the electorate, and we for our part do not wish in any way to take sides or interfere with the campaign. What the analyst can do, and -in my view- should do, is point out the main thrust of the new European economic model and its policy impli-

cations in terms of reforms. He can also speculate on the political cultures and philosophies in play in order to identify different economic options and strategies. It is a matter of “economic politics”, rather than of political economy. Finally, in comparing the Italian and the German situations, he can draw lessons and dwell on the prospects for the future.

I will offer a few comments on what I learned of the German situation and speculate on possible trends. Significant lessons should be drawn from the political debate in Germany. They point towards historic breakthroughs or *Zeitenwende* that would be required in European policies to match up to the challenges ahead. The case of energy supply and the need to diversify sources away from dependency on Russia is a typical case in point and will be mentioned in the paper.

I will then turn my attention to the Italian situation and refer to the efforts made by the new Government to replicate in the European Parliament the winning formula at the national level, i.e. a coalition of right-wing forces, including the far right. Whereas such an approach is very much at odds with that of the French government, the Italian relationship with their German political counterparts looks less clear and by-and-large uncertain. In that context the dialogue between Italian and German political forces gains significant traction. And it calls into question diverse and conflicting political philosophies.

Among these latter I will focus on ordo-liberalism. The reason is that ordo-liberalism inspired the “social market economy” approach, i.e. the main economic model of European integration we followed in the post-war period. As a new and different model is taking shape in the current geo-political scenario, we need to ask what sources may inspire the newly emerging model, and what role ordo-liberalism should play.

The paper concludes by highlighting the need to build at the EP broad pro-European and anti-populist alliances that provide consensus and support for integration, moderation and reforms.

Investing in a regular in-depth and frank dialogue at the technical and political level between Germany and Italy will provide a fundamental learning experience and make an indispensable contribution to European progress. It has been so in the past, and it will be so in the future.

2. The German model in transition: between Zeitenwende and paralyzing prudence

Germany is undergoing the most radical structural transformation of its economic model to have occurred in the last 150 years. The old model of the German economy represented a benchmark of economic performance and stability in Europe, and beyond. It has been characterized by: an energy intensive manufacturing sector highly dependent on Russian gas and oil; an export-oriented industry reliant on Asia, and on China in particular; export-led growth driven by manufacturing; a leadership position in global value chains supported by US technology; security and defence based on NATO; financial stability anchored in the credibility and independence of the European Central Bank, banco-centric funding markets and “relationship banking” models.

After the successive crises of the last few years, and particularly after the war of aggression of Russia against Ukraine, **this old model no longer looks viable** (see Ayadi et alii, op.cit.). A fundamental change is required. But it is difficult for Germans, and not only for them, to accept that the economic model of the past that made it strong, prosperous and

democratic is no longer workable. Coming to terms with this changed reality is a pre-condition for achieving a successful transition to new economic patterns. Such a change has already started and is gaining ground under the pressure of the green and the digital transitions (e.g. the European “Green Deal”). Relevant features are strategic autonomy, investment in security and defence, diversification of energy sources, a shift towards renewables, research and infrastructure, access to equity and development of capital markets (Capital Markets Union – CMU), flatter, more regional and “friendly” value chains (friend-shoring). A stronger orientation is required towards the pan-European space and the EU near abroad, i.e. Eastern Europe, the Euro-Mediterranean and Africa.

A remarkable feature of this new model is that in all its different elements it requires the acceleration and intensification of European integration. In facing up to the formidable global risks and uncertainties of the future, going it alone for individual European countries simply does not pay. Not even for a strong and stable economy like that of Germany. Brexit taught us a lesson. Germany needs Europe, and Europe needs the German drive towards more European unity. Moreover, the world needs more Europe, German leadership in Europe and a stronger European voice and global role.

Is post-Merkel Germany in step with the new realities, and does it seem to be measuring up to the unprecedented challenges ahead? Looking at the resilience of the manufacturing sector, I would say yes. German manufacturing has been driving the recovery of the whole European economy. We have seen it in Italy and in other European countries, where the performance of manufacturing has been remarkable, counteracting as it has monetary tightening and the impact of the war. This linkage should not come as a surprise. The German model is in fact at the core of the European mod-

el. It is highly integrated throughout the sectors and the regions of the European economy. It has proven its resilience in adapting to the evolving features of globalization and the redesigning of global value chains.

But what about the post-Merkel German institutional and political system? A positive and promising feedback comes from the new Government **coalition agreement** and the *Zeitenwende* announced by Chancellor Scholz in several critical policy areas. Let me mention a few of them: investment in defence and security and military support to Ukraine; defining and sticking to a common European energy policy including price caps, pipelines, oil and gas sanctions against Russia; support for shifting from unanimity to qualified majority voting in European decision -making, notably in fiscal defence and foreign policy matters; openness to unblocking the EU accession process and making it work through bold governance reforms. Moreover, the German Chancellor showed a willingness to accept joint indebtedness at the EU level in order to finance an industrial policy package and support the green transition. The German Government has stated in several key documents its intention to pursue European integration more firmly and speedily than in the past, as required by the new situation, the war, and global fragmentation.

However, bold announcements and good intentions seem to have gone through a severe and painful reality check. Mixed signals have come from current practices and the actual decisions taken. To the point that a looming sentiment of disappointment is spreading through various parts of Europe. The Government has often appeared hesitant and seems to be lagging behind. What is perhaps missing is a sense of urgency and the requisite clarity of purpose. The long-term direction and the actual political practicality of the multiple *Zeitenwende* that were announced were not always clear in

the eyes of public opinion, domestically and abroad. The perception instead is that the policy world does not fully appreciate the extent of the crisis, and therefore the necessity and the urgency of moving onwards, namely in the construction of Europe. Does this reflect a question of commitment and political leadership? Or is it rather the reluctance of public opinion and ordinary citizens to accept the new realities? A fault in communication and a lack of public awareness? The likely factors explaining this gap between announcements and practical (in)decisions must be scrutinized.

3. The trade-off between moderation and reforms.

One possible factor is the nature and inexperience of the new coalition and the unavoidable internal strife that it implies. This by the way is common to many if not all coalition Governments, including evidently the new Italian right-wing coalition governing the country after Draghi.

There is, however, in my view a more serious reason, which has to do with the political stability that has been maintained and the smooth democratic transition that took place in Germany. To this transition, Germans attributed great importance. And rightly so. The outcome of the 2022 election in Germany resulted in a significant political upheaval: a change of Government and parliamentary majority after the long period of Angela Merkel's leadership and the legacy of popular support and stability she bequeathed. The change was quite radical (from a *Grosse Koalition* to a centre-left coalition) but occurred under the aegis of **continuity and moderation**. The political system was keen to show that German institutions are solid, mature, and sustained by consensus. It was capable of withstanding such a change without trauma; tense nego-

tiations perhaps but an orderly procedure, and responsible outcomes. Seen from the outside, it looked impressive. This is how a working democracy should proceed. Particularly so, if compared with recent changes of leadership in other democratic countries like the US, the UK, Brazil, or indeed others. There we saw turmoil, wall-to-wall confrontations and recriminations. The hand-over of power in Germany at the end of the Merkel era represented a remarkable and positive lesson for liberal democracies and for Europe as a whole.

However, continuity and moderation were also interpreted in Germany to mean safeguarding as far as possible the economic patterns inherited from the past, avoiding unduly radical reforms, not frightening public opinion, minimizing transition costs. The collateral damage of this otherwise sensible strategy was that the public was not always well prepared to come to terms with the abrupt changes underway in external circumstances.

The result is that Germany's policy stance has often been perceived as weak and inadequate. The Franco-German *entente* was also affected, even though subsequently it has been repaired. A few decisions taken by the German Government were communicated in a careless and uncoordinated way (e.g., the largescale public expenditure on defence and energy) conveying the impression of unilateralism and isolationism.

4. The response to the crisis: is the German *Zeitenwende* sufficient?

The attack on the viability of the German model came from the outside. It was an attack directed not only at the German but also more broadly at the "European model", its successful performance, its appeal, its democratic underpinnings. The causes

underlying the attack were Putin's war, the pandemic arriving from Asia, the bottlenecks and other supply-side shocks delivered by the *polycrisis*, the inflationary pressures unleashed by over-expansionary (monetary and fiscal) responses to the crisis ... all triggering factors that had their roots outside the German polity. And that affected the whole European economy.

However, the policy reaction in Germany was couched in terms of internal adjustment and the domestic *Zeitenwende*, as if the issues were essentially domestic rather than European and global. The German response to the global crisis focused essentially on national measures, national reforms, national restructuring. How can we explain this oxymoron? Does it reflect an excess of nationalism? Or simply navel-gazing?

I do not think so. We need to consider these issues more deeply. Yes, the Germans have been proud of "their" model, and justifiably so. It is therefore understandable that they were reluctant to drop it and sought rather to try and patch it up. But the success of this model has been in antithesis to nationalism or isolationism. The model has had a global outlook and an international orientation. Consider its principal features: export-led growth, openness to globalization, an eagerness to reach out to distant and diverse markets, the ability to design and lead complex multinational value chains, an ambition to scale up the manufacturing powerhouse to match globalized mass markets, the capacity to draw on the best available technology, energy sources and raw materials wherever they are in the world. In the German model we have seen, and see, globalization at its best.

The fact is that a global crisis requires a global response, a strategic shift implying a leap forward in European integration, a fundamental break with the past division of responsibilities between the national and the European level. The European dimension must feature prominently. A purely national focus

is misleading, and certainly it is not sufficient, considering the European and global nature of the challenge. Reform efforts must have a European focus. The German economy should redirect its priorities towards the EU internal market, Europe's near abroad, the pan-European space, Eastern Europe and the Euro-Mediterranean, Africa.

So, how do we explain the fact that the German reaction focused instead on internal adjustments and internal resources, neglecting the global and European dimensions? Despite a persistent and far-reaching commitment to European integration, the signals coming from concrete policy domains have appeared in Germany blurred, irregular and volatile. Indeed, somewhat inconsequential. Why? How can we correct it and have more pro-European consistency? And more German leadership in Europe?

5. The missing *Zeitenwende*: the impact of public perceptions in Germany and Italy.

To formulate a possible answer, the comparison with Italy might provide a reasonable clue, calling into question public perceptions, and pointing towards a missing *Zeitenwende*, which is probably – in my view – the biggest obstacle to the requisite transformation of the European model, i.e. the **cultural *Zeitenwende***.

In the past Germany has approached European and international relations with a kind of Older Brother or **Creditor complex**, behaving often as a reluctant partner, one that fears it will be asked always to give more, do more, to address others' problems. By-and-large, Germans do not like to ask for help. They roll up their sleeves and do what they can and must do. They assume they do not need the solidarity and

support of others, be it in Europe or the wider world. I believe this perception, albeit understandable and commendable, is also wrong. Germany needs Europe, the Western World, the transatlantic partnership, strong North-South relations, etc. The crisis and the war have made this only too clear.

It must be added that this syndrome is the symmetrical counterpart of an opposite bias, one that we find in Italy, the Younger Brother or **Debtor syndrome**. What do I mean? Let me give an example: if there is a problem, often (in Italy, and in general in the South of Europe) we expect others to come to our rescue and solve it for us. We wish to rely on the solidarity and generosity of others, and if that is not forthcoming, or not to the degree that we expect, we feel betrayed and tend to complain. For instance, even the most entrenched nationalists in Italy ask for European help in the case of migration crises or when there is a lack of fiscal space for necessary investment. I believe this attitude also to be wrong. The two syndromes are two sides of the same coin and should be addressed and redressed jointly and together. Besides, I believe that we would probably not have German reticence if the South had not taken advantage of and sometimes even abused German generosity and European solidarity in the past.

This instance shows how and why the Italian-German dialogue proves insightful and useful, particularly so if and when it addresses cultural stereotypes, promotes a mature understanding of how much we need each other, explains the give- and- take of responsibility and solidarity. More broadly, the dialogue should target what both Italians and Germans can do to build trust and encourage each other to embark upon reforms, thus reaping the reciprocal benefits of cooperation. Dialogue becomes then a double engine for transferring prerogatives to the European level and driving forward European integration.

6. The German change of pace and the need for European *Zeitenwende*.

There are signs now that the German policy world is moving decidedly in the direction of European integration. Let us consider among other things Chancellor Scholz's trips to Africa and the *Zeitenwende* announced on EU enlargement. On 9 May 2023, the Chancellor's speech at the EP was visionary and Euro-enthusiastic: it rivalled Macron's for idealism and rhetoric (see Scholz).

This turn is quite promising and wholly justified. The EU single market in fact should deepen and expand. Not only in manufacturing, but also in services like finance, research, energy, technology, telecommunications, the utilities and social services. The sobering reality is that the single market in services has not advanced enough and is far from complete. Services are still highly fragmented along national lines and often fall prey to national monopolies. Germany needs a more open approach towards integrating not only the EU, but also the whole pan-European space, from Eastern Europe to the Balkans, and towards making decisive inroads in the Euro-Mediterranean and Africa. A more welcoming approach to new accessions and partnerships is needed. Europe needs a stronger, more united and more innovative foreign policy. Moreover, Europe should engage more at the global level, in a dialogue with the two superpowers (the US and China), so that its vision, authority and interests are not neglected or sacrificed in a world disrupted by a more rugged and rivalrous contemporary global multipolarism.

In sum, the *Zeitenwende* cannot be limited to German economics and politics, but must become a feature of European economics and politics, a **European *Zeitenwende***. Germany cannot afford to go it alone on the global exchequer.

This applies *a fortiori* also to France, Italy, Spain, and all the other small or medium-sized European economies. It applies to the UK also, despite and because of Brexit. To play credibly a global role and deal with the G2, Europe should have a united foreign policy, a common defence and security, a single consistent energy strategy, joint investments in technology and research, European public goods of common infrastructure, food and energy security, common frameworks for education and social services, in a word a stronger federal or confederal structure. And Europe must aim at turning the G2 into a G3. This is in the interest of Germany, of the other European countries, and of the world. To pursue its interests and restructure its productive capacity, Germany needs Europe, as much as, or even more than Europe needs Germany.

7. Energy and the transition to an advanced service economy: no benefit from going it alone.

Germany probably is, and certainly feels, more vulnerable than other European countries on account of its dependence on imported gas and oil, notably from Russia. This feeling goes a long way towards explaining German reluctance and hesitations over agreeing a common European energy plan, price caps, joint stockpiling, investment in interoperable grids and pipeline networks. If it were proved that Germany indeed has more problems than others in her energy transition and in complying with the Russian sanctions (and I believe this case can be plausibly argued), why should it not be envisaged that the EU come to the rescue of Germany with specific programmes, including transfers and incentives? The fact that Germany, thanks to her past virtues, has a surplus of fiscal capacity does not mean that she is better off going it

alone in facing up to what are difficult (short-term and long-term) energy decisions. Those decisions are surrounded by structural uncertainties and linked to the unpredictability of the war. When taken together at the European level, they enable more options, flexibility, and opportunities. Consider possible shifts between different energy sources, or the importance of maintaining a united front vis-à-vis Russia, or the ability to take difficult and unpopular decisions. All this would not be easier or even possible at the national or local level. At the European level there are more and more diversified energy sources, there is the possibility of funding through lower cost joint debt (with Euro-safe assets, for which there is high and growing demand), etc. Germany, Italy and all the other EU countries should overcome their national reticence and misperceptions and embrace joint European solutions.

Another relevant aspect linked to culture and perceptions is the question of the relative speed of response and adjustment to the crises. This question has often surfaced in Italian-German comparisons. The power of the German economy was built over time in successive waves of investment, through gradual adaptation, the building up of assets and technology, research and human capital, institutional capacity, and consensus. This deployment of patient capital has given German wealth and competitiveness a kind of “physical” solidity and robustness that makes it appreciated worldwide. But it also implies that it cannot be shifted or turned upside down overnight, and it is indeed not amenable to prompt and variable decisions. Improvisation and instant reflexes do not work well there. Unlike other manufacturing systems (consider for instance the Italian SMEs), Germany changes more through slow-moving tectonic adjustment, than through rapid response and abrupt decisions. Evolution rather than revolution.

This line of reasoning corresponds to a widespread perception and contains a great deal of truth. But I do not think we should overstate it. If the German economy sometimes appears slow and lethargic, it is basically due to part of its service sector. The relative rigidity or limited resilience discernible here is not an attribute of the market economy or of industries exposed to international competition. It is rather a characteristic of the institutional framework. And it is not particularly German either, since most institutional frameworks tend to be bureaucratic and slow moving. We can identify a similar perception in other countries, e.g. in Italy, and outside manufacturing in the service sector. We find it for instance in the European single market for services, still highly segmented and hampered by idiosyncratic barriers, local or national rigidities and corporatist pressures. It suffices to think of sectors like finance, infrastructures, research, etc., which are still burdened by national barriers of regulation and supervision, and of the resistance encountered whenever one tries to promote harmonized standards, single rulebooks, or consistent supervisory practices.

Another consideration should be kept in mind: the prominence of global value chains and the shift from manufacturing to services. Where production operates through global or regional value chains, as in manufacturing, to speak of German, or Italian, or even European competitiveness does not make much sense. This is quite well known. What counts is not the productivity of individual countries, but that of the whole chain -i.e. each and every link in the chain-, which involves most often a high number of countries, localities, institutions and firms. In other terms, the rigidity of the industrial structure is a constraint that affects negatively not only the German, but also the Italian, the French and the European economy. Besides, advanced economies are inevitably shifting towards the

tertiary sector, and in service trade they must compete with large continental players, like the US and China, or with cultures less burdened by regulation and complex legal systems, like emerging economies or the Anglo-Saxon world. Therefore, in addressing the issue of speed of adjustment, Germany should not be set against other continental European economies. Rather, it is the transition from manufacturing towards an advanced and integrated service economy.

In relation to the policy stance, the response should point towards deeper markets and more European integration. It should envisage the elimination of anti-competitive barriers and protectionism. Certainly, in a world dominated by war and global rivalries, liberalization strategies have become more difficult and riskier, but they are nevertheless not impossible and not any the less needed. In any case, difficulties and security concerns should not become an alibi for prophesying the end of globalization and preaching the beauty of protectionism.

8. The two economies: gaps and synergies

In comparing Germany and Italy, we should not overlook the obvious: the different inherent strengths of the two economies. This relates not only to their different sizes. More importantly, it relates to their different capacity for modernization and capital accumulation. Since its first industrialization, and for historical reasons, Italy has lagged behind German innovation and productivity growth. In Germany there has always been more investment in research, stronger infrastructures, larger industries, bigger banks, etc. In the last two decades the Italian economy has basically stagnated, whereas Germany increased substantially output, productivity and income per head.

This structural gap on the one hand creates opportunities for interdependence and complementarities, as we clearly see in the excellent performance of manufacturing value chains. But on the other hand, it has an impact on perceptions and mutual relations. Germans have always had great respect and admiration for Italy's older civilization and traditional quality of life, whereas Italians for their part admire and respect the superior modernity of Germany, its technology and wealth. The drawback, however, is that Germans do not readily perceive the progress achieved by contemporary Italian society, whereas Italians maintain mental reservations and a certain mistrust vis-à-vis their more powerful and dominant economic partner. Those are obvious and by-and-large non-toxic emotional biases. But we should be aware of them and take them into account for two reasons: 1. Because bilateral dialogue can help with managing them constructively, bridging information gaps, eliminating preconceptions, and promoting convergence of opinions; and 2. Because unscrupulous politicians and opinion-makers might exploit those same perceptions with a view to fomenting resentment, inventing scapegoats and fostering mistrust. This is an additional angle through which we fully appreciate the scope and value of German-Italian dialogue.

9. Shifting equilibria in European politics: what role is there for German-Italian dialogue

An area, as we have said, in which Italian-German dialogue has shown strategic relevance and in which there is now a revival of interest is European politics. I already spoke of the stability of the German political system and the solid roots and good performance of democracy there. I have

voiced praise and expressed admiration for how in Germany rotating parliamentary majorities and changes in Government were carried out, thereby maintaining institutional continuity and moderation. Good governance in Germany was built over many years of experience, manifesting a sense of responsibility, learning from the errors, and the horrors, of the 20th century. Moreover, the German political system has managed throughout to marginalise and keep under control the most extreme forms of intolerance, illiberalism and ethno-nationalism. At both ends of the political spectrum (right- and left-wing).

I wish to add that Germany, because of its weight and influence has managed to project the benefits of such moderation and readiness to engage in dialogue at the European level. It is not by accident that the political formula of the Merkel era, i.e. the *Grosse Koalition*, was reflected, and in some sense exported into the EP, after the 2019 elections. Thanks also to the leadership of Ursula von der Leyen, such an equilibrium at the EP and in the relationship between the EP and the Commission ensured a legislature of stability and progress. We may criticize one or the other aspect of the decisions taken, or not taken. But it is indubitable that on balance in the last five years the European institutions have withstood remarkably well the shocks of the crisis and made progress on European integration. Elsewhere, in that same period, we have seen not only attacks **from outside** against liberal democracy (from Putin, Xi, Erdogan, etc.). We have also seen democracy corroded and attacked **from the inside** by populist and illiberal movements, sectarian polarizations, and sometimes even turmoil, violence and racism. Examples abound in the US, in the UK, in France (e.g., the "*gilets jaunes*"), in Brazil, and in other countries of the West. This phenomenon has been called in the literature "the dem-

ocratic recession" (Diamond) or the "democratic disease", a process of pernicious and troubling democratic backsliding. At the level of European institutions (e.g. the EP), instead, we have not witnessed anything of the sort. The EU has been able to project towards the rest of the world the image of a stable, prosperous and democratic community constructing its common future from below and through growing consensus and cooperation. It is fair to say that in this context Germany played a fundamental stabilizing role, and that the moderation of the outgoing EP is to a large extent a positive legacy of Angela Merkel.

But Ms Merkel is gone now, there is a different Government and a novel coalition. It is legitimate to wonder and ask what will come after the European elections and what equilibria we can expect at the EP. Will the new cycle in German politics have implications for the European balance of powers? and how will stability and progress in integration be affected? Will we have more or fewer reforms than we have had in the current legislature?

It is natural that national political parties and coalitions should wish to see a replica of their national formulas at the European level (the Italian Government for instance has voiced a wish of precisely this kind). In parallel or in alternative there could be shifts of policymakers or political formations from one to another group or Party at the European Parliament. The Italian Premier Meloni for instance, and her political group, have recently adopted policy positions that would seem to represent a shift from the far right towards the centre-right, thereby moving closer to those of the European Popular Party (EPP).

Clearly those are political questions with which the expert should not interfere. It will be up to politicians and political forces to pass from one group to another, or propose dif-

ferent platforms, and then to the electorate with their votes to decide. But the expert can, and should, point out what is at stake, the risks and opportunities involved, and how the German-Italian dialogue can prepare the ground for a constructive political discussion.

I see one major risk, and one major opportunity, on both of which the German-Italian dialogue can help us to focus.

The risk is that European elections become “nationalized” and then simply serve as a test or a platform for national Governments, or their oppositions, and for national political Parties to focus on purely national diatribes and posturing.

The opportunity instead is for European elections to lead to the formation of a Parliament where European transnational forces engage on common European issues, including European public goods, strategic autonomy, and the global role of the EU. This would enable broader support for European integration in a context of moderation and constructive dialogue. The corresponding risk is that of an “Americanization” of European politics conducive to “affective polarizations” (Levendusky), a radicalization of the political fight and a confrontation between opposite extremisms, in a context of wall-to-wall sectarianism, entrenched nationalisms, growing mistrust and Euro-scepticism.

On both scores, that of the risks and that of the opportunities, the German experience teaches important lessons. German influence and leadership at the European level should inspire moderation and stability, channelling the preferences expressed by the electorate towards solutions bringing progress in integration and reforms. The bilateral dialogue in that context, as part of a genuine European dialogue, helps to set the electoral competition on a constructive course, strengthening thereby the role of the EP and the effectiveness of European democracy.

10. Should the “cordon sanitaire approach” apply to the next European Parliament?

With the passage from the Draghi to the Meloni Government, Italy moved away from a large centre- right + centre-left coalition (better: left + centre-right) to a right + centre-right new coalition. Please note that the three parties composing the present Government coalition in Italy at the moment belong to three different EP political groups, i.e. the European Popular Party (EPP), the European Conservatives and Reformists (ECR) and the Identity and Democracy Party (ID). Meloni is the President of the ECR. The latter two groups are ultra-right formations that militate outside the boundaries of the current moderate EP majority. This majority has been based on an alliance, the so-called “cordon sanitaire” agreement, which has put the radical Eurosceptic groups at the margins, including ECR and ID. When the latter agreement was introduced in 2019, it looked quite controversial. It was feared that segregating the ultranationalists would make them even more radical, whereas involving them instead might have moderated their claims and positions. With hindsight, however, we must admit that protecting the centrist platforms from radical and populist influence has worked well in the outgoing legislature, which has seen significant progress in European integration and common responses to crisis (e.g. NGEU, Green Deal, SURE, etc.). Moreover, in countries where the centre-right engaged with the ultra-right (as is the case in Italy), it is the latter that ended up gaining strength and popular support, rather than the other way round. When the liberal right is seen flirting with radicalism, it will result in the “real radicals” taking advantage and being preferred by the electorate. So, the question remains: will the logic of the “cordon sanitaire” apply to the next EP legislature?

The Italian right-wing alliance (the Meloni Government) has been working behind the scenes to break up the *Grosse Koalition* and the cordon sanitaire compact and to encourage the centre-right (the EPP) to enter into an alliance with other right-wing groups, namely the conservatives (ECR). This move *prima facie* would appear to suit also the German political parties, as the Social-democrats (SD) and the “populars” (CDU/CSU) are on opposite fronts at the national level and might have difficulties or at least feel some embarrassment at entering once again a centre-left centre-right coalition.

At the same time, the new Italian premier Giorgia Meloni, and her team, have shown moderation and openness, even a certain continuity with her predecessor, the Draghi Government, on several thorny issues like budget discipline and support for Ukraine, showing often greater moderation and openness than her right-wing allies (Berlusconi and Salvini). This has led to speculation about a possible rapprochement between Meloni and the EPP, or at least a partial alignment of their respective positions on a common platform.

Please note that voting at the European elections follows a strictly proportional rule, which implies that political groups *formally* do not need to commit themselves before the elections to any political alliance or specific programme. But what is not “formally” required may still have an influence on the popular vote, because electors may wish to know how their votes will be used and what alliances at the EP they are supporting with their vote. One way to go when addressing the problem (probably the optimal way) would be to spell out in detail in the campaign programmes, objectives and measures, and explain on that basis how and why alliances and decisions after the elections will be made. This mechanism, which somewhat resembles the one applied in Germany for the formation of Government coalitions

tions after political elections, would look very complex, relatively rigid and cumbersome at the EU level (there are 27 member countries and an intricate cobweb of parties and party-affiliations). It is more than unlikely, almost impossible- I would say -, to proceed in this way. The second-best approach would be to refer to political cultures and philosophies, which broadly define the principles and the frameworks within which policy decisions are taken, and alliances are formed, without necessarily having to pin down in detail the clauses of the coalition agreement and specific, and rigid, commitments on specific problems or solutions.

This approach, among other things, explains why there is now a revival of interest in issues of political philosophy within European political circles, and in the German-Italian dialogue. The political question now centre stage is whether there are points of contact between the “popular” and the “conservative” political families, their philosophies and visions of Europe, and whether their cultural bases would justify a rapprochement in view of a post-election agreement at the EP.

11. Investing in political philosophy: value and practical significance

The following questions therefore have been asked: what does it mean to be a “conservative” and/or “Christian democrat” in today’s Europe? What is the relationship between ordo-liberalism and populism? How do social democracy, Christian democracy and liberal democracy interact, overlap or clash in their respective approaches to European integration? What are the points of contact and/or friction between republicanism and liberalism? What are the prospects for

the “social market economy” model in the European context after the Russian aggression? Questions of this type have increasingly moved out of academia and entered the political arena, involving not only the experts but also politicians, the media and the popular debate. And they have aroused particular interest and been most seriously addressed in the German-Italian dialogue, for the reasons I mentioned earlier.

At first sight, to focus on and discuss political philosophies in the midst of a war, while policymakers face daunting and urgent challenges, might appear an exercise in abstract intellectualism, or even an extravagance. Should it be encouraged or discouraged? I believe that, well beyond the German-Italian intentions for the European elections, such discussions are of great value and practical significance.

For at least 4 reasons:

- First, anchoring political strategies in solid philosophical and conceptual foundations makes policymaking more rational, credible, understandable and capable of carrying with it popular support.
- Predictability is an attractive feature of consistent policy decisions. When politics becomes disconnected from its philosophical roots, it appears, and indeed is, more unpredictable, opaque, and in general more sectarian. It thus fosters instability and uncertainty. If I decide on a plan A, simply because my competitor chooses plan B, or vice versa, the political space becomes polarized, and entrenched contrapositions solidify. Bipolarism then is taken hostage by radicalism or “affective polarization” (as it is called in the US).
- If no reference is made to underlying values and political philosophies, alliances and coalitions tend to be perceived as opportunistic, ephemeral or ad-hoc, rather than strategic and structural.

- Finally, political leadership is based on “charisma”, personal abilities to persuade, charm, the use of rhetorical techniques and making an appeal to audiences. But these talents are not enough. Great leadership implies above all political vision, knowing where to go, and how, analytical skills, team building, etc. And this is based on a sound understanding of political philosophies and cultures. Take for instance the case of President Zelenski: he might have been helped at the beginning of his career by his skills and his appearance as a TV actor, but he became a great leader when and because he was able to lead his people with clear objectives, courage, determination and vision.

For all these reasons, I believe that doing research and discussing political philosophies is a sound investment. Intellectuals, analysts, and spin doctors have a fundamental role to play in that context. Policy decisions founded on deep and rigorous conceptual bases represent a major contribution to good governance, and even to pragmatic and innovative solutions.

The Italian situation provides a good case in point, or perhaps a proof *a contrario*. In the 1990s, in search of radical innovations, discontinuity, and “revolution”, traditional political cultures in Italy, which had played a major role in providing stability and moderation in the turbulent context of the post-war period, were wiped out. This “revolutionary” process (led by the anti-corruption “clean hands” movement and the judiciary) destroyed not only political parties, individual careers, and political organizations, but it destroyed also important political “cultures” that had previously played a leading role, like those of the Christian Democracy, the Socialist Party, the Republican Party, and the Liberal Party. Those Parties were replaced by new formations that took on colourful or vague denominations, but had weak, uncertain, and variable philo-

sophical roots. The ensuing political instability and far-reaching shifts in the mood of the electorate should in my view to a significant extent be attributed to this abrupt and traumatic uprooting of political foundations. A symptom of this malaise or disease is the – alas – marginal role that once prestigious think tanks, analytical journals, training camps, and political academies have assumed in the Italian policy debate. Now, TV, social media, twitter, and talk shows lead in informing and orienting (or disorienting) public opinion.

12. The fundamental lessons of ordo-liberalism and the “social market economy”

The specific issue I would like to address in this context may be phrased in terms of the following question: what contribution can political philosophies make to the establishment of a new economic model in Europe, the need for which I spoke about earlier? This is, I believe, a substantive question on which the EP and policymakers will have to focus in the next legislature, and therefore around which political platforms and alliances will have to crystallise. For the sake of brevity and pragmatism I will be rather trenchant. Moreover, I will only refer to one prominent philosophical tradition that played a fundamental role in Germany, but also in Italy and in Europe: the social market economy model, or Christian democracy, or ordo-liberalism, as it is called in Germany. This approach has remained quite strong and influential in Germany and in Europe thanks to the relative importance and electoral appeal of the CDU/CSU and the European Popular Party (EPP). In Italy, it used to be quite strong before the 1990s, and throughout the post-war period, but now as we have said it has all but disappeared, becoming

weak and marginal, spread out across diverse and heterogeneous political groupings.

In the conceptual approach of ordo-liberalism there are three basic features that define the essence of the model:

- First, the search for a middle road between unfettered market competition (the neo-liberal approach) and state intervention in the economy. The “liberal” component of the approach points to economic freedom, entrepreneurship and civil society dynamism in driving innovation, economic growth and social progress. The “ordo” component instead underlines the important role of the State, a small State but also a strong State providing the rules of the game for the market economy and promoting equal opportunities for all. This without stifling innovation, hampering competition and undermining the freedom of economic initiative.
- Second, the clear posting of red lines vis-à-vis what ordo-liberalism cannot accept or compromise on. On the one hand, big government (the Leviathan), high taxation, hyper-regulation, and the pervasive role of public monopolies and bureaucratic welfare. Ludwig Erhard, one of the leading statesmen and thinkers of German ordo-liberalism, did not like to use the term “third way” or “mixed economy”: between capitalism and communism there could not, he reckoned be any ambiguity, there could be no third way; likewise between the command economy and the market economy. There are boundaries or limits that cannot be crossed. *Tertium non datur*. But red lines must be guarded also against the far right: there should be no complacency with regard to the threats posed by illiberal democracy, autocratic leadership, intolerance, and ultra-nationalism.

- Finally, a strategic approach to alliances and cooperation. In the formation of parliamentary majorities or Government coalitions, pragmatism is needed but also a strategic approach. Strategic means that the issue of “an alliance for what?” must precede the issue of “an alliance with whom?”. It implies a clear understanding of what the most important threats are, and who the coalition’s most dangerous opponents might be.

13. The shift from the old to a new economic model for Europe: what philosophical roots?

After the crises of the recent past, the pandemic and the war, as we have said, it has become apparent that the old model on which Europe built its past prosperity and stability is no longer viable. A new model must be developed where energy sources are diversified rather than highly dependent on Russian energy, the export orientation (particularly towards Asia) and the focus on manufacturing should for their part be replaced by more reliance on internal demand and services. Finally, with regard to technology and defence, in lieu of dependence on the US, Europeans should strive for strategic autonomy.

The question is: what are the philosophical roots of this new model? Do ordo-liberalism and the social market economy, which were at the basis of the old model, provide inspiration and insights also for the new economic model? Would conservatism also provide support to help the transition? Similar questions could be asked of social democracy and socialism. The former in fact, from the time of Jacques Delors (the French President of the European Commission from 1985 to 1995) onwards, supported socio-economic integra-

tion, adding a “Social Europe” dimension to the European economic, monetary and financial Union.

Related questions should be asked regarding the possible post-election alliances. What coalition would be more supportive of the European integration agenda? And in particular, would an all-right-wing or an all-left-wing coalition be better suited to dealing with the upcoming challenges and the transition to the new model?

14. The cornerstones of the new model and the desired features of the new Parliament

To respond to those questions let us first consider in greater detail the cornerstones of the new model. I would summarize them in the following way:

- A) **The single market for services.** European integration has so far given priority to the single market for goods and manufacturing, whereas the single market for services has lagged behind. From now onwards, services will have to be the driving force behind European stability and growth. This means giving priority to research and development, finance, logistics, transport, technology, and the environment. Foreign policy and defence will also have to become more integrated and better coordinated. The service sector, as is the case with, but to a greater degree than all other sectors of the market economy, needs an effective regulatory and supervisory framework. To this end, a simpler, less intrusive and more user-friendly architecture and set of practices must be put in place. Consider, for instance, the baroque and inconsistent regulatory rules and institutions that preside over the still incomplete and fragmented Banking Union

or the Capital Markets Union (CMU). Gold plating and ring-fencing must be eliminated. Inconsistent rules and supervisory practices should be harmonized. Ultimately, this means that regulatory power and supervision should be transferred from the local and the national to the European level, if we are serious in our commitment to establishing a functioning “single market for services”.

B) **European sovereignty**, i.e. European decisions on defence, foreign policy, energy, infrastructure, migration, etc. That is what strategic autonomy and European public goods mean. For this market regulation and supervision, i.e. the rules of the game, are not sufficient. One needs European decision-making, a European executive function, a “European governmental”, or federal, level. The governmental framework at the European level, which is the level consistent with the single market, is weak, fragmented, slow and cumbersome. That is why it takes so long for Europe to jointly respond to crises, particularly unanticipated ones or “black swans”. The provision of European public goods is still patchy and insufficient, leaving citizens often exposed and vulnerable, and the decision-making process is paralyzed by unanimity voting and national vetoes. A European executive function does not necessarily mean a centralized superstate that stifles the market with interference and distortions, and that sacrifices the tailor-made requirements of different territories and specific social groups. But it does mean effective European decision-making and a single and credible voice at the global level.

Thus, the new model requires more European integration, more sharing of sovereign prerogatives and more European sovereignty, i.e. more transfer of powers from the national to the European level. In a word more “federalism” in public poli-

cies. It will also require more integrated and better functioning markets particularly in the service sector, i.e. greater freedom of economic initiative, less cross border obstacles to trade and investment, less bureaucracy, less tax- and non-tax barriers, etc. In a word, more "liberalism". The transition, or better the transitions (green, digital, social, governance, security, technological, etc.), will have to be managed at all levels in a coordinated way, i.e. not only at the local and national level, but also at the European level, so that no peoples feel neglected or left behind (this is the logic of the "just transition").

This implies that the next Parliament will have to be more pro-European, more pro-market and pro-economic freedom, more pro-security and defence (and therefore more committed to strategic autonomy and Atlanticism), more pro-reform and structural change. A Parliament oriented towards nationalism, Euroscepticism, and anti-Atlanticism, one reluctant to engage in reforms and deal with the costs and pace of the needed transitions, would seriously damage the prospects of the European economy. Equally damaging and dangerous would be a Parliament that dreams of global peace while ignoring the hard realities and threats that our enemies pose (externally and internally) to European values, one that would not be willing to invest in defending our freedoms, engage actively with our allies and pay the costs of such investment.

Naturally, this is not to say that there is one way, and only one, one policy, a single blueprint for the transition to the new economic model. There are many ways, and the strength of pluralist democracy is that only a democratic discussion on how best to go about achieving reforms and adjustment, security and market liberalization, European programmes and social policies, etc. will ensure that real progress is achieved and that all citizens contribute and benefit from it. The main

place for such discussion is the EP where the different forces and perspectives find a synthesis and produce not only effectiveness but also consensus.

15. A common enemy for the European Parliament: populism

But there are also political red lines that must not be crossed, i.e. political orientations that prevent the EP from playing its role in addressing the policy challenges. We must be fully aware of those threats, because on certain values and policy goals there can be no compromise and no negotiation. The main red line concerns "populism", a political orientation that is still widespread in Europe and enticing both for unscrupulous politicians and for irresponsible public opinions in search of chimerical escapes from present difficulties. Populism is a relatively new political category that has gained favour recently in policy analysis applied to advanced liberal democracies (see Madde C. and Mueller). It is mostly defined as the gap between the élite and the masses, but it could also describe the inadequacy of the élite, their lack of vision and leadership, what in the interwar period came to be called the "*trahison des clercs*" (Benda). In fact, there are many "populisms": we find them in all parts of the political spectrum, on the left, on the right, and sometimes even in the centre when improbable compromises are proposed. Relative to the EP, I would put in that category several extremist and ultraradical positions that risk inflicting serious damage to democratic discussion at the EP and blocking progress in the European policy agenda: a) nationalism, as exemplified by "Britain First" or "America First", or anti-globalization (which is anti-Europe-

an by definition and undermines international economic integration); b) anti-market anti-capitalism or anti-finance, which assume that markets produce only exploitation and social injustice; c) illiberalism, which erodes the rule of law, human rights and democracy; d) anti-Americanism or anti-western prejudice, the legacy of cold-war propaganda; e) protectionism, subsidies and barriers to free trade and investment; f) 'woke' leftism that speculates on the resentment of minorities, rejecting moderation, the élite, the role of majorities and social cohesion in democracy.

These negative positions are quite different from one another and take root in many different political movements or ideologies. But their most dangerous feature is that they often merge and overlap, feeding perverse alliances and coalitions of destructive radicalism of both extreme right and extreme left. In the heat of political confrontation, spirals of competitive sectarianism and "affective polarization" (Levendusky) contaminate the political climate, kindling the "democratic disease" or "democratic recession" (Diamond) and eroding the *modus operandi* and the credibility of liberal democracies. We have seen such mechanisms at work in the US (the assault on Capitol Hill), in Brexit UK, and in several other episodes, and we would not like to see this happening at the European Parliament with its fledgling democratic credentials and the incomplete institution- building of the EU.

16. Conservatism and ordo-liberalism, rules and sovereignty

We can now go back to the questions we asked in para. 13: what are the sources of inspiration for the new European economic model? What political cultures and philosophies

can be at the root of the new model? And therefore, what political forces and alliances constructively contribute to advancing the EU policy agenda?

I will focus on ordo-liberalism and conservatism. What distinguishes ordo-liberalism from unfettered or classical liberalism is the ordo- component, in other words the importance given to a strong role for the State in all cases where the market alone, albeit well regulated, cannot guarantee stability and growth. In supra-national European relations, ordo-liberalism implies going beyond the agreed set of common rules that characterize standard intergovernmental relations. A strong executive is needed to add to and complement the legislative and jurisdictional functions in Montesquieu's definition of State governance.

One way of interpreting the separation of ordo-liberalism from conservatism could have to do with the latter's denial of the need for executive decision-making in European relations, and its propensity to limit the European level of governance to the coordination of national decisions and the definition of common rules. In other terms, the prerogatives of sovereignty remain at the national level, whereas at the European level there would only be common rules agreed ex-ante, as in any international treaty. Clearly European integration has made progress well beyond this weak degree of common governance. Suffice it to refer to competition and trade, the Euro and the single market, not to speak of the perceived need to move on to a common defence and foreign policy.

An ordo-liberal perspective, when applied at the European level, would by contrast strengthen the executive functions and enable quick, effective and democratic decisions. Ultimately, therefore, we might say that the true distinction between ordo-liberals and conservatives lies in European

governance, and the true test for such a distinction is a different vision of Europe and its future. This would seem consistent with the Euro-scepticism in the current programmes of the European conservatives (ECR) as well as with the claim that national law has primacy over European jurisdiction.

Please note that a similar distinction can and should be made also on the left of the political spectrum, where a separation between a socialist (or communist) and a social-democratic perspective might be postulated. The former would be taken to favour a staunch defence of state prerogatives (even sometimes monopolies) at the national level over welfare, education, research, the financial sector, health, migration, etc., whereas social democrats would be open to liberalizing and Europeanising the service sector and related policies. Consider for instance pension reforms and the modernization of the "pay as you go" (PAYG) national pension mechanisms.

Where do Germany and Italy stand on these different approaches? I would say that in both cases, whereas the starting point is relatively clear, there are now significant evolutions under way. The Meloni government, if we look at the promises of the electoral campaign and the programmes presented, appears to be clearly on the conservative side, in line with the Eurosceptic slant of the ECR group. But there is now a significant evolution towards more pro-European and liberal positions, notably in migration, fiscal and foreign policies and in favour of a common and unwavering support for Ukraine. The main opposition in Italy, the one that is affiliated to the Socialists and Democrats group (S&D) has in recent years had a tradition of greater openness to European sovereignty, but would they go as far as accepting the implications of more competition and greater liberalism in the service sector? And welfare reforms (e.g. public pensions, education and health)? Or liberalizations and privatizations?

The situation in Germany looks more complex: in general, I would say that ordo-liberalism and social democracy tend to prevail at home in Germany, whereas conservatism prevails vis-à-vis European policy making. We have already highlighted how when facing a crisis Germany tends to roll up its sleeves and set to work alone, not so much from a nationalist reflex, but rather because this seems quicker and more in line with national responsibilities, pride, and self-confidence. This happened at the time of the German reunification with the extraordinary solidarity effort (the impressive *Solidaritätszuschlag*) to bridge the West-East gap; it happened again with the Hartz labour reforms that unblocked the reform stalemate (*Reformstau*); and it happened again in 2022 when facing the defence and energy emergency with the two uncoordinated investment packages in energy and defence. In all those cases, a European approach would have probably been less painful and more effective, but instead a national go-it-alone solution was preferred.

But in Germany too, as we have said, there have been some new openings in the Merkel period and significant changes are now under way. We have seen and are seeing a more pro-European evolution in the German approach, starting with the Merkel Government, on to the NGEU, up to the German initiative in 2023 to introduce qualified majority voting at the European Council. Does this trend mark a break with the past and a new commitment to lead European integration? Does this imply an awareness that we need more than rules in Europe, and nothing less than European sovereignty? What would this new wave if confirmed imply in terms of structural alliances between EPP and Euro-sceptic conservatives?

In sum, mixed signals and uncertainties prevail in a situation that in both countries is on the move amid lively policy

discussions and promising openings towards a pro-European leap forward.

What is striking is that, seen in the European perspective, and framed in terms of political philosophies, the confrontations seem in the two countries more internal to the right and left camps, between the more moderate and the more extreme positions, than polarized conventionally right against left; and more related to differing views of Europe, than to irreconcilable values and ideologies. The prophecy of the 1941 Ventotene Manifesto would seem therefore to have come true:

the dividing line between progressive and reactionary parties will fall from now on not on the formal line between left and right, but rather on the new line that separates those that envisage the political struggle as conventionally targeted to conquering national political power, and those who see their main goal as that of creating a solid supranational state
(my translation, *Ventotene Manifesto*, 1941).

17. How do political philosophies contribute to advancing the European integration agenda? The pivotal role of the social market economy model.

Applying political philosophies to concrete policy options belongs to the sphere of politics, the debate among and across political forces. The analyst can only point out consistencies and inconsistencies, what in principle fits or does not fit. The economic benchmark we would wish to pick out here is the change in the European economic model required by the post-crisis geopolitical scenario. We have already briefly described this model. Against this background, it is important to consider how different political philosophies would fit in and contribute.

In principle, one can argue that the best we can hope for at the next European Parliament is that a maximum number

of the different political cultures will be represented there, will become constructively involved and will positively contribute to making Europe stronger, larger and more united, which means supporting the transition to the new economic model.

From the point of view of political philosophies, what would this goal imply? I will appeal for inspiration, first and foremost, to the ordo-liberal approach. This philosophy in fact was one of the main foundations of the old model, as we said. How does ordo-liberalism fit into the new model? Let us look at the three basic components of that model:

- A) **The EU single market for services.** We refer here to sectors that are key for growth, productivity and employment, and are still highly fragmented along national lines, often dominated by public monopolies and state-owned enterprises, like utilities, welfare, logistics, data, research, etc. Those sectors are, and need to be, given market imperfections, regulated and supervised. Consider for instance finance or health services. The application of ordo-liberalism would imply that regulation and supervision are effective, simple, user-friendly, and that they are fully harmonized and organized at the European level. Clearly, we are still quite far from that in Europe, even though progress has undoubtedly been made. Take the case of finance. We are still far from completing Banking Union and advancing on the CMU. We need more and larger cross-border trade, European "champions", streamlined European and global value chains, etc. We should avoid protectionism, wasteful industrial subsidies and irresponsible fiscal policies. We should invest in research, better regulation, smart supervision and total factor productivity. All these are ordo-liberal recipes.

- B) **European level ordo-liberalism.** The state at EU level is weak, fragmented, paralyzed by vetoes. We lack European public goods. We are missing a strong, albeit small, executive function at the European level. In one word, ordo-liberalism at the EU level. We do not need a European super-state, one that would foster bureaucracy and stifle innovation. We should not interfere with, nor distort, free markets, but should invest in European public goods, i.e. infrastructures, defence, energy, research, border control, foreign policies, etc.
- C) Finally, a **smarter globalization and a more credible multilateralism.** They should be greener, more nature-positive, more secure, more democratic. Ordo-liberalism implies that we resist the sirens of de-globalization, sovereignism, and the fragmentation of international relations around antagonistic blocks, avoiding as much as possible unnecessary weaponizations of the world economy. We must invest in friend-shoring and promote stronger foundations for globalization based on friendship, common values and security.

For the reasons above, I believe that ordo-liberalism and the social market economy are set to play a pivotal role in the next EP. They are in a strong position to contribute to the transition to the new economic model and give concrete shape to such a model.

18. A broad basis for parliamentary action and constructive dialogue

Other families of political culture can also play an important role and contribute. I will only mention them in passing here, leaving to other occasions a more comprehensive treatment. I start with the Social Democrats and the Socialists. They naturally would put the emphasis on the social aspects of European integration, the need for safety nets, equal opportunities and convergence of living standards. Any credible reform programme, in fact, particularly the most ambitious and politically costly ones, must take care of the “losers”, those that are hit hard by competition and reforms, and are often forgotten. In an integrated services Union, the rigid and bureaucratic welfare states that were built and operated at national level, will have to be liberalized, targeted so as to promote mobile, diverse and increasingly cross-border skill and labour markets. They will evolve into multi-pillar public-private protection systems. Opening and reforming state monopolies and national welfare systems is the way forward in the field of pensions, health, education and public services. But those reforms must be accompanied by public mechanisms at the European level to compensate the losers and guarantee minimum standards of common protection (the SURE programme would fit into this category). Integrated labour and social policies should not lag behind economic and monetary policies at the Union level. This interplay must be an integral component of the new model, and social democratic culture, among others, should be active and vigilant on this score.

Analogously we should expect other political philosophies to join in with their unique and valuable contributions: e.g. the Greens in support of the green transition, the Liberals as guardians of competition, the single market and entrepre-

neurship, the Republicans presiding over the simplification of rules and the lowering of taxation, etc. I believe that there is scope and hope for all those and possibly other political forces to join in supporting the European reform agenda, bringing to the fore their visions of European unity, strengthening ownership and consensus, and thereby making the process richer, more pluralist and democratic.

What about the conservatives? We said that if one looks at the past, as reflected in official documents, Euroscepticism and national sovereigntism are the dominant views (think of Brexit) on the conservative agenda. But we also said that there are promising developments towards pro-European and pro-reform positions. We may see this at play in Italy, but also in Eastern Europe, in Scandinavia, and possibly elsewhere. The war of aggression in Ukraine is having an important influence on conservative thinking. It clearly shows how ultra-nationalist and sovereigntist stances risk leaving citizens exposed to external threats and vulnerable. On this front the Italian Government and other conservative Governments have taken up consistent and unambiguous positions in support of Ukraine, aligning themselves with mainstream European and atlanticist platforms.

I believe that the German-Italian dialogue can play an important role in this evolution, helping conservative forces, or at least a part of them, to move away from Euroscepticism and adopt pro-European and pro-reform strategies.

19. Maintaining anti-populist red lines

However, there should be no room for complacency. We should expect that some political forces, basically those at the extremes of the political spectrum, will seek to create

obstacles, campaign against European integration, or strive flat out to undermine the prospects of integration and the future of the Continent. This is for a variety of reasons, ranging from staunch anti-Europeanism and ultra-nationalism to populism, and disaffection with democracy and politics. That is why in the new EP there should be an alliance, or better a set of alliances, against populism and populist orientations. Such alliances should aim at marginalizing populist platforms and narratives, thereby protecting the functioning of liberal and pluralist democracy in Europe and ensuring a rational and constructive outcome from a vibrant electoral and post-electoral competition.

Such anti-populist alliances should work first **within** political groups and movements, both on the right and on the left of the ideological spectrum. And **across** political forces of different philosophical denominations. "Within", because the populist temptation and contagion a priori does not spare any political formation and must be fought and resisted at 360°. But also "across", because it is likely that after the elections different political groups will have to engage in coalitions to provide a stable parliamentary majority. Since fundamental questions to ask in deciding whether and with whom to enter into an alliance are "for what?" and "against what?", the fight against populism will be a critical benchmark. In practice, it will be important to assess what political groupings or parties are more contaminated with or prone to populist attitudes.

The transition to the new European model has already started and is making progress in the private sector, particularly in industry. Global value chains have been redesigned and adjusted to the new geo-political realities. The private sector must now be accompanied and supported by public policy, and by the essential contribution on this of the EP. The

new legislature is expected to provide leadership and define an appropriate normative and policy framework.

How to proceed?

First, a careful analysis is needed of the fears, concerns and demands of the electorate. People have been shaken by unprecedented shocks (Covid, the war, the cost of living crisis, etc.), and are stressed by an uncertain and threatening future. They must be understood and listened to carefully. At this initial stage, popular and populist approaches probably show no significant difference, because all political groups, including the most opportunistic and populist ones must analyse popular sentiment, listen to people, understand their angst, become familiar with their aspirations and their fears.

After this initial step, however, populist and popular approaches diverge sharply. The former propose pseudo-solutions based on fake news, opportunistic calculations, and nostalgic illusions. Populist programmes are not grounded in reality. They point their fingers at scapegoats in order to irresponsibly arouse and channel the rage and the emotions of the public. Consider that often it is "Europe" that is chosen as an easy target for bearing the brunt of all that does not work. It is at this stage that the fight against populism finds its most critical and useful test: the task of liberal democratic parties is to provide realistic and adequate solutions to the problems at hand, showing the social and economic costs of those solutions and preparing citizens for the efforts, the resilience and the time lag required to bring the issues under control.

As I have said, populism may take root both on the right and on the left of the political spectrum, generally assuming radical, illiberal, disruptive and sometimes even violent connotations. Wherever it hides and festers, populism must be strongly fought without showing any complacency, minimalization or compromise. This is a fundamental red line for all liberal

democratic and reformist forces. Their opposition to populism should be radical, intransigent and uncompromising.

As a Christian, I tend to believe that each person and political group should start fighting populism in their own camp, and in themselves, rather than in the opposite camp. However, unfortunately this is exactly what extremist and populist parties do not do, when sectarian polarizations prevail. Populist leaders and groups are always ready to denounce and condemn the populism of their opponents, while downplaying and condoning the populism of their own rank and file. This practice must be stopped.

The next step is to promote alliances and join forces with political cultures and parties that are willing and committed to upholding responsible and anti-populist strategies. Certainly, there can, and should be competition and democratic battles between different opinions, programmes and orientations, and between different political groups, but such constructive and even energetic confrontations, should not prevent collaboration targeted at resisting all forms of wasteful radicalism.

The bottom line is that after 2024, the new EP must be able to express a majority that is more pro-European, pro-reform, pro-atlanticist, and pro-multilateralism.

20. Summary and conclusions: the interplay between political and socio-economic transitions

Europe is facing a critical task at a critical time. Threatened by multiple crises and geopolitical risks, Europe must rebuild its economic model based on European sovereignty and service sector market integration.

In the perspective of the approaching European elections, we have adopted here an analytical perspective that

links economic change and institutional reforms with political change, an approach that is not often used in the literature. I would call it an “economic politics” approach.

This is necessary. Politics in fact, unlike the “*intendance*” in Napoleon’s Army, “does not necessarily follow”, and political transitions are at least as important as other structural transitions, like the green, the digital or the energy one.

We applied this approach to the analysis of the German and the Italian situations, dealing both with economic and political change, and speculated on what we can expect from European elections, on the assumption that the new European economic model should be put in place, up and running as quickly as possible.

There emerged several conundrums, or oxymorons, to which the German-Italian dialogue provides interesting clues. For instance, we asked: why do the Germans, despite their political stability and moderation, not lead European integration towards more strategic autonomy and European sovereignty, given that it would be in their own best interests? And, in relation to the Italians, why do they strive for an all-right-wing EP majority? Do they wish to provide a stronger and wider popular base for European reforms? Or rather, do they seek to “Americanize” European politics, fomenting in the process “affective polarization” and sectarianism?

We have investigated also the issues of perceptions and emotions that crowd the political arena and have a fundamental impact on the reform process, thereby affecting mutual trust and solidarity.

To address this kind of question we turned to political foundations, i.e. the political philosophies and cultures around which consensus is built and democratic choices are made. We focused on ordo-liberalism, the social market

economy and their difference/ proximity with conservatism. Not only in fact was ordo-liberalism at the basis of the European integration process throughout the whole post-war period. It appears to be also the main source of inspiration for the European transition to a new economic model.

We highlighted the importance of political alliances in Europe engaging the broadest possible number of families of political philosophy. Such alliances would pave the way for bolder, broader, more equitable and more consensual transformations.

But we also need red lines. This essentially means raising bulwarks against populism and its many tentacles. We had recourse to the relatively new category of populism, despite it being multifaceted, controversial and sometimes ambiguous. Because it looks to be in any case preferable to older, often abused concepts from the past (i.e. fascism, communism, etc.), or to terms referring to forms of violent radicalism, such as terrorism, racism, suprematism, authoritarianism or dictatorship, which often even violent radicals and autocrats apparently reject (on this see Guriev's book on "spin dictators").

To strike a positive note, we have highlighted in the paper the fact that positive trends are emerging in Germany, in Italy and possibly elsewhere, which seem to converge towards more pro-European, pro-reform and anti-populist positions. A powerful factor behind such a search for alignment and moderation is Putin's war of aggression, which shows just how dangerous Europe's vulnerabilities are and how urgent it is to redress them.

The omens therefore look favourable for European politics to provide the next EP with a broadly based and diversified democratic majority striving for progress in European integration and a more influential role for Europe in the world.

But care should be taken not to enter into Faustian negotiations and pacts. Obviously, the jury is out on what this would entail, and whether it would work in practice.

What is sure is that the German-Italian dialogue provides essential contributions on all the fronts we mentioned, as we have tried to show. Consider for instance the fundamental lesson that Germans gave us on *Vergangenheitsaufarbeitung*, the intense and painful reworking of the past (see on this Susan Neiman), for which we should be ever grateful to them, and compare it with the easier and more superficial concept of “pacification”, implying simply to forgive, forget, turn the page and move on. Working out and deepening the dialogue, both bilaterally and at the European level, is an investment that not only is necessary for understanding the present and the past, but also importantly, *Zukunftsaufarbeitung*, for designing a better future.

Rome, May 2023

Applebaum A., *Twilight of Democracy: the Failure of Politics and the Parting of Friends*, Penguin, London, June 2021

Ayadi R., Garonna P. and Svilanovic G., *Europe After the War. Financial cooperation for Pan-European, Euro-Mediterranean and EU-Africa Integration*, CEPS and EMEA, Brussels and Barcelona, 2023

Benda J., *La trahison des clercs*, Editions Bernard Grasset, Paris, 1927

Diamond L., "Facing up to the democratic recession", in *Journal of Democracy*, vol. 26, n.1, January 2015

Guriev S. and Treisman D., *Spin Dictators. The changing Face of Tyranny in the 21st Century*, Princeton University Press, Princeton, 2023

Levendusky M., *The Partisan Sort. How Liberals Became Democrats and Conservatives Became Republicans*, The University of Chicago Press, Chicago, 2009

Levendusky M. and Stecula D., *We Need to Talk, How Cross-Party Dialogue Reduces Affective Polarization*, Cambridge Elements in Experimental Political Science, Cambridge University Press, Cambridge UK, 2021

Madde C. and Kaltwasser C.R., *Populism. A Very Short Introduction*, Oxford University Press, Oxford, 2017

Mueller J.W., *What is Populism?*, University of Pennsylvania Press, Philadelphia, 2017

Neiman Susan, *Learning from the Germans. Confronting Race and the Memory of Evil*, Penguin Books, London, 2020

Ohran Yunus E., "The relationship between affective polarization and democratic backsliding: comparative evidence", in *Democratization*, vol. 29, n.4, 2022

Scholz O., *Address to the European Parliament plenary on "This is Europe"*, 9 May 2023, European Parliament, Strasbourg, 2023

Spinelli A. e Rossi E., *Il Manifesto di Ventotene*, Mondadori, Milano, 2006

Welle K., "The return of conservatism in Europe? Self-reflections and new perspectives", in *What is Conservative? News*, Villa Vigoni, February 2023

Il **Centro italo-tedesco per il dialogo europeo Villa Vigoni** è un laboratorio di idee, un punto di riferimento del dialogo e della collaborazione tra Italia e Germania nel contesto europeo. Convegni accademici, conferenze internazionali e manifestazioni culturali rendono Villa Vigoni un luogo d'incontro e di confronto, in cui si promuovono progetti e si approfondiscono conoscenze in ambito scientifico, politico, economico e artistico.

Das **Deutsch-Italienische Zentrum für den Europäischen Dialog Villa Vigoni** ist eine Ideenwerkstatt, ein Referenzpunkt für den Dialog und die Zusammenarbeit zwischen Italien und Deutschland im europäischen Kontext. Wissenschaftliche Tagungen, internationale Konferenzen und kulturelle Veranstaltungen machen die Villa Vigoni zu einem Ort der Begegnung und der konstruktiven Auseinandersetzung, an dem Projekte gefördert und Kenntnisse auf den Gebieten Wissenschaft, Politik, Wirtschaft und Kunst vertieft werden.

villavigoni.eu
Via Giulio Vigoni, 1
I - 22017 Loveno di Menaggio (CO)

