LUISS SCHOOL OF EUROPEAN POLITICAL ECONOMY

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FIVE BULLETS ON EUROPE, POST-BRATISLAVA

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THE SPECIAL SUMMIT of 27 European Union leaders in Bratislava reached a negative but foregone conclusion—until Autumn 2017 (when national German elections take place), there will be no progress in the euro area toward federalism at "low intensity." In principle, this progress, which would have underpinned the call for "closer coordination of economic policies" in the *Five Presidents' Report* (2015), had the chance of gaining momentum due to the Brexit vote. In fact, in the next twelve months, the efforts of German Chancellor Angela Merkel, who remains the EU's *dominus* despite recent electoral defeats in the local arena, will be concentrated on a handful of security and social welfare initiatives, with the limited scope of preventing member states (above all, the Visegrad Group) from spinning away from the Union, as well as pacifying the weaker subsets of the area's population.

This minimalist strategy is aimed at reducing the short-term probability of EU dissolution given the challenges posed by a slew of upcoming elections and referendums. However, it leaves the euro area vulnerable to negative exogenous shocks since it weakens European economic institutions and stalls further cooperation between member states. Thus, the multiple nodes of instability, smoldering beneath the ashes of an insufficient economic recovery, risk becoming unmanageable for the more fragile countries in the euro area.

This situation has at least five implications for the European Economic and Monetary Union (EMU), and specifically for the Italian economy:

- It would be useful to expand and modify Chancellor Merkel's European agenda in order to reduce the possibility of undesirable, unforeseen events.
- By Autumn 2017, Italy should nonetheless fulfill other more strategic objectives and, above all, strengthen its potential for growth and competitiveness.

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- To do so, the Italian economy needs to improve the diffusion of those technical and organizational innovations that are already present in more advanced productive systems, but that require firms of adequate size and qualified employees in order to spread.
- The diffusion of innovations will create economic “losers”; analogously with other EMU member states, Italy should thus implement reforms capable of redistributing income and ensuring effective social protection to the most vulnerable subset of its population.
- Finally, the Italian government must bring structural disequilibria in the public budget under control.

Let us assume that the next European “political cycle” arrives at a destination compatible with the European Project without running into irreversible “accidents.” Then, the aftermath of German elections, which will likely coincide with the end of the European Central Bank’s quantitative easing (QE), could signal the beginning of a decisive new match for the future of the euro. Unprepared countries will be condemned to the benches, limiting their sway on the ultimate outcome. If Italy wants to be a major player in the upcoming game, it will have to satisfy the final four bullet points above, as well as cooperate with other EMU countries to ensure the first.