

Nationalists have launched their assault on the European project and they may manage to

upset the current institutional equilibria after the European elections of next May. How did we get here and what can Europe do to save itself? We discussed this with Mark Blyth, the William R. Rhodes '57 Professor of International Economics at Brown University in Providence Rhode Island. He is the author of several books, including *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (Cambridge: Cambridge University Press 2002), *Austerity: The History of a Dangerous Idea* (Oxford University Press 2013), and *The Future of the Euro* (with Matthias Matthijs) (Oxford University Press 2015).



Mark Blyth (Watson Institute for International and Public Affairs)

Professor Blyth, after the election of Donald Trump you said: “The era of neoliberalism is over. The era of neo-nationalism has just begun”. Unfortunately, now, nationalism is also spreading around the European continent. In economic terms, what are the main differences and the main similarities between neoliberalism and neo-nationalism?

This is a much deeper question than people probably realise, and it is a much deeper question than I myself realised when I put out the tweet. My initial idea was that neo-nationalism – if you

think about the language of Brexit, "take back control", if you think about the language of Trump, "secure the borders", if you think about Salvini, "we, the Italians" - is a protectionist nationalism that takes the ethnic identity as the marker of those deserving of protection. That is represented very much by Steve Bannon's wing of populist nationalism.

However, this is only one strain. There is a very interesting book that came out last year called "Globalists", by Quinn Slobodian. He knows Germany very well and he points out that, if you look at the German right-wing party Afd, the Alternative für Deutschland, what you find is that many of the leading members of that party were key neoliberals. So, there is certainly the Bannon wing but there is also a kind of neoliberalism 2.0.

The globalist neoliberals have realised that there are political limits to their project, but this does not mean that these limits cannot be overcome. As a consequence, nationalism becomes a second-best option to sustain market-oriented societies. In this regard, the two sides of neo-nationalism are very much in conflict. These seem to be united by a common purpose, which is to knock over the established order. But they are actually extremely different. The Bannon wing is a kind of welfare state, whereas the Afd version, even if they make some social noise, is very much neoliberalism 2.0, on a kind of national and bilateral level.

Inequality is an issue everywhere. Corporate profits have never been higher, labor's share of national income has almost never been lower, and inflation has been replaced by deflation. Is there a set of economic ideas, a new economic paradigm that can help to reverse this situation? I do not think that it is helpful to think in terms of paradigms. Paradigms imply giant interconnected sets of ideas where everything presents itself neatly, and you choose between clear options. Think about neo-nationalism. We've just mentioned that there are two strains. According to the country you look at, you may find even more strains. Let's take the case of Sweden. Why are the Swedish extreme right doing so well? To me the most convincing explanation is not immigration, because that does not really move that much in the polls. And it is certainly not inequality because Sweden is still one of the most equal societies on the planet. The answer has to do with the fact that for many years the elites, the governing classes and economic classes of that society, have decided that they will decide what everyone else should want. And if those elites want a multicultural multiethnic society, then Sweden will have that. They will enforce those policies. And if anyone disagrees with them, he or she will immediately be called a racist. When you have a conflict between the preferences of the governing elite and the preferences of the public, this can also lead to some kind of nationalist reaction.

I mention this because when we talk of economic ideas there is a tendency to think that there was

this wonderful thing called Keynesianism and the whole world had it. This is not really true. If you really want to understand neoliberalism, it is less a series of ideas and more a series of things you do. You integrate, you privatise, you liberalise, you globalise, and that has particular consequences for the distribution of income and wealth. Once those institutional links have been forged or broken, your trade unions are afraid to ask for a pay rise because if they do, the plant will move to Romania, which is the case for German trade unions. If you live in a society that simply does not have a viable economic growth model because the demography is wrong and because your companies are far too small to compete globally - which is very much the Italian case -, then there is no one set of economic ideas which is going to make this magically better. It is not just about ideas, it is about the institutions, the practices, the social capacities and the ambitions of political parties. And what we have at this moment is a series of political parties, particularly the centre-left, that have absolutely no ambition and that is the main problem. It is not the lack of alternative economic ideas. There are lots of alternative economic ideas. But no centre-left political party has the courage to even talk about them. They simply do not have the courage to address alternative ideas.

Think about the Democrats in Italy and their attitude towards Cinque Stelle's proposal for a universal basic income. I do not think that the universal basic income is a good idea, but in a society like Italy with stagnant wages for a whole decade, plus terrible demographic growth and high debt, the centre-left might want to say "We disagree with that, but here is an alternative". But there is no alternative. The alternative is "we will get a little bit more from Europe". This lack of ambition is more of a problem than a lack of ideas.

So, what should an ambitious centre-left do?

The very first thing it could do is to actually tax corporations. EU states should have uniform tax rates. They were heading towards this, but the northern economies said no and they scuppered this plan. Secondly, they could have what is called a joint safe asset, which would relieve fiscal pressure on heavily indebted states in the south, which are mainly indebted - in some cases - because of the austerity policies of the last decade.

There are many more inventive things that could be tried, like proposals for citizens' wealth funds, increasing public investment and public housing, building up the capital stock in the public sector while interest rates are very low. All of these things would be productive and positive and none of them are what is been talked about.

In Europe the competition is not just between left and right but also among different member states. Don't you think that the measures that you propose would be hindered by such

competition?

We have to be careful when we use the word competition here. Farmers compete against each other, countries do not. Most of what we consume these days are services. Services tend to be locally produced. They are not in competition with anyone else.

The story in the eurozone is that since the crisis the eurozone as a whole has run a surplus against the rest of world. EU countries have been exporting more than they have been importing. This mainly benefits countries like Germany and those in Eastern Europe, and some of the other northern countries. The southern countries, the big ones, Italy, France and Spain are much more driven by domestic consumption. And the problem is that domestic consumption, if it is stimulated, it can be a drag against export competitiveness because wages would rise, and consequentially their export competitiveness would fall, not against each other, but against the rest of the world would fall. That is the line of tension. Put simply: if the plan is for the EU as a whole to become more like Germany then the problem is that Germany is Germany only because everyone else is *not Germany*. The eurozone has to work to allow France to be France and Italy to be Italy.

Structural problems must be addressed without everyone trying to export its way to success because it simply cannot work. Particularly in an environment where the only people who are importing are the Americans and they are watching the bilateral trade surplus that Europe has with the United States very closely.

So, going in-depth, what do you propose to reform the eurozone?

It is very difficult to do so. You would need to empower the European Parliament, which would mean that European publics would have the confidence to delegate more of their sovereignty towards Brussels, in a time when nationalism rather than internationalism seems to be on the rise. The fundamental reform you need to have is what the French call a "gouvernement économique", an economic government, and that means having more than common deposit insurance. It means much deeper capital markets, so that things like pensions can be transferred and workers can be more mobile. It means open borders, i.e. what the British do not want to do with their current rejection of the freedom of movement of workers. It means having a common unemployment insurance scheme. It means having a common level of taxation against corporations so that they cannot play member states off against each other. It is very difficult to do this in an environment where Britain is on the way out, Macron is paralysed because he has been exposed for being what he is, i.e. contentless, and Merkel is retiring, leaving an uncertain future for the traditional parties in Germany.

In several European countries the middle class is in crisis. The living standards of many people

have worsened, other people fear losing their status. Is it possible to reverse this trend or is Europe condemned to an inevitable decline?

There is nothing inevitable about decline. But if you have politicians that lack any imagination about what to do and lack the courage to try unorthodox policies, then you will end up in decline. There are structural factors that matter. Italy, for example, has far too many small businesses which are poorly capitalized, its big firms do not employ a great deal of people, the service sector is very resistant to add capital to augment productivity and the population is very old. Moreover, banks are too small. Let's not kid ourselves on the "all of the problems lie at Europe's doorstep". They don't. What they require is new thinking, new action and a new type of politics. This is why people are attracted to nationalism, because the centre parties cannot even see what the problem is, and insist that everything is fine because they are fine, because the top 20 percent who they represent are fine. As a consequence, the bottom 80 percent are looking to others to change things.

In Europe capitalism seems no longer able to guarantee full employment. Can a universal basic income, like the one supported by the Five Star Movement in Italy, represent a credible solution to the problem of guaranteeing everybody a revenue?

I think that universal basic income is a bad idea because it presumes that people are redundant. It is like saying that we no longer need the talents that they have. We are buying into a lot of extremely dubious reasoning about the future being populated by robots. It is almost like a science-fiction narrative of a future that will probably never come to pass.

And at the end of the day, like many Italians, I am a Catholic and the one thing that we Catholics understand is that the devil gets his chance when the hands of people are idle. I do not see how any country benefits by saying to a third of its population "you are no longer needed". And we would do this in a world in which the biggest threat that we all face is climate change, which is going to require massive public investment in climate change adaptation and mitigation, which could create literally millions of jobs? I just find absolutely laughable the notion that there is an end of work.

The fight to climate change finds the opposition of large strains of the population. In France, the so-called yellow vests started their revolt because of the increase in the price of diesel...

This is less about the poor rejecting climate change than the fact that it costs the poor more to mitigate climate change, which is well known. And it also reflects upon that technocratic deafness I was talking about in Sweden. Think about the following. The French government decides that diesel is bad. We all know that diesel is bad, and we also know that car companies have been lying

to us for 20 years. The government wants to get diesel off the streets and wants to meet climate change targets, so it passes a tax on diesel. Of course, national politicians do not drive very much themselves and they live inside rich cities. They are more likely to get on a jet plane and fly off than to drive a truck.

So the diesel tax is a tax which is always paid by other people, and they are not the people that a member of the elite ever meets. So politicians do not really pay attention to the fact that people already pay a huge amount of tax on diesel.

Instead, they are about to fly business class to some meeting on the other side of the world and they can afford to pay a special tax for that. They are about to meet some millionaire on his yacht while switching on his yacht for 20 seconds puts more than a car does in a whole year. But we are not talking about these things as being a problem.

At the end of the day the little people have to pay for this. This is just another example of what the populace correctly characterises as an elite that likes to tell people what to do without actually listening to what people need. I do not blame them and I do not think that the poor reject climate change. I think that in some cases they understand it far better than those at the top, because they live in neighborhoods which are vulnerable to it. But if governing classes are going to expect them to pay for it while they continue to fly around the world in business class without it costing a lot more than it does just now, then it's not going to work.

So what would the right way be to fight climate change?

There was a study that said that there are basically 120 corporations worldwide that cause 90 percent of carbon emissions. We know who these people are. We know who these governments are. We know the processes that do this. It goes back to the one thing we spoke about at the start. It is the lack of political courage. That is all.

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Thanks to Alessandro Dowling for his contribution with the editing.