

**L'Unione europea nel XXI secolo.**  
*Profili e prospettive  
dell'integrazione europea*

**a cura di**

Paolo Caraffini, Università di Torino

Filippo Maria Giordano, Università Link Campus di Roma



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Paolo Caraffini e Filippo Maria Giordano

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## **From Recovery Plan to Federal Union? Institutions, policies and the place of Europe in the global arena**

Emanuele Felice

### **1. Introduction**

From a Kantian perspective, we may define «progress», in history, as the process of gradual extension of human rights, and related duties, which is facilitated by science and technology (thus, ultimately, by human reason and the Enlightenment)<sup>1</sup>. In the first half of the twentieth century, the European civilization, which in the previous centuries had conquered most of the world, and which effectively ruled on other civilizations on the basis of her alleged moral superiority (or actually, following a liberal narrative, on the basis precisely of this definition of progress), sank into a massive and prolonged violation of human rights and human dignity, arguably unparalleled in all human history – at the very core of Europe: the two world wars, Nazism and the Shoah. Europe fell in such an abyss just when it was at the height of its power, compared to the other civilizations of Eurasia and Africa, and maybe of its culture, in comparison to the past. From those events, Europe did awaken not only with tens of millions of deaths (besides those wounded, mutilated and traumatized), but deeply shaken in its ethical convictions, that is, in the confidence in progress (technological advancements had also made war crimes more easy and devastating) and in the very foundations of Western culture; it ended up economically in ruins; and annihilated both in geo-political and military terms, no longer fully sovereign, divided into zones of influence led one by the United States, the other by the Soviet Union. From her previous peaks, the European civilization had reached the lowest and most terrible point, arguably, of the entire human history: and the claims of moral superiority over the rest of the world were transformed into their exact opposite, a black shadow of crime and shame before the humankind.

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<sup>1</sup> Cf. Emanuele Felice, *La conquista dei diritti. Un'idea della storia*, Il Mulino, Bologna, 2022.

Yet, from such an abyss Europe would have risen again. It would have done so, slowly, with a new message to the world: a Kantian perspective of perpetual peace, of human rights and a federation of states capable to overcome the barriers of national sovereignty. It would have been born again: not only economically, with the golden age of Western capitalism from the late 1940s to the early 1970s, but culturally and socially, as a political (geo-political) model of coexistence among peoples, and of social cohesion and civil liberties, for other regions of the world. In some sense the opposite of what Europe was in the past! Even only in institutional terms, the path that from the European Coal and Steel Community (1950) led to the European Economic Community (1957) and thus, gradually, through an expansion of both countries and sovereignty, and albeit with some inconsistencies and setbacks, to the current European Union, in essence means this. But it did happen, not least, because the countries of the Old Continent, while integrating with each other by sharing trade, some political institutions and later also their currencies, in turn tried to make real, within their own national boundaries, the ideal of guaranteeing their citizens both material well-being and individual freedom: thanks to the encounter of progressive liberalism with democratic socialism, thanks to Keynesian-type economic policies and inclusive social policies, as well as to the favourable technological, demographic and international conditions of the «golden age» (1945-1973). Material as well as cultural wealth, and social rights too and indeed old and new civil rights, all together, flourished, as probably never before in human history.

This combination of internal social cohesion, coupled with widespread well-being and personal freedoms, and a peaceful and democratic geo-political projection, through a confederation of inclusive liberal democracies, represents the winning characteristic of Western Europe with respect not only to the Eastern bloc (to the countries of «real socialism» unable to withstand the competition with this model), but ultimately also to the United States. Here, indeed, during the 1960s we observe something similar to what was happening in Western Europe, from Kennedy's New Frontier to Lyndon Johnson's welfare policies; in its rhetorical discourse it was maybe even more ambitious, but surely more problematic, burdened with greater internal conflicts, especially the racial ones, and with the country's military weight and projection (above all the war in Vietnam); also, it was shorter, coming to a halt in the 1980s and never to be reverted, due to the

advent and the implementation, much more than in Europe, of the neo-liberal doctrine. Not least as a consequence of the US' falling back<sup>2</sup> Old Continent has effectively become, in the last decades, the region of the world that can best ensure its citizens not only economic prosperity, but also civil and social rights<sup>3</sup>. It may not be a coincidence that, all things considered, liberal-democracy, too, looks in Europe more healthy than in the United States (just compare Trump and the 2021 Capitol attack with the stability of the most important European country, Germany; but see also the international reports on freedom in the world by the US Ong Freedom House). Currently, in Biden's era, it is the United States that have been searching for a change of course (at least in domestic economic policies), that is, for a way to come close to the European model.

The social, civil and economic achievements of Europe were basically a product of each single nation state. In this respect, the institutional architecture of the European Union was quite unefficient, being essentially of a confederal type (albeit with some federal-type characteristics) and thus hampered by unanimity. Actually, this confederal framework contributed to turn the 2010-2011 sovereign debt crisis into a serious problem for the European social model and its internal cohesion; later, a significant setback as Brexit, and the rise of populist and sovereignist forces in many EU countries, have nourished fears of even a possible dissolution of the Union. More recently, however, following the outbreak of the Covid pandemic, the European Union looked as it was finally heading towards greater integration, with the launch of «Next Generation EU» and then, after Putin's aggression against Ukraine, the calls for a convention to reform the treaties, with the aim of abandoning the unanimity rule. What is the place of Europe today in the West and in the new global scenarios? How should its institutions, and policies, evolve? This essay tries to provide answers to these questions. It does so, first, by analyzing the Next Generation EU and the possible turn it represents (Section 2), then by discussing the possibility of reforming the international order and the role that Europe should play in this respect (Section 3), finally by exploring the ways to gradually evolve towards a fed-

<sup>2</sup> E.g. Anne Case and Angus Deaton, *Deaths of Despair and the Future of Capitalism*, Princeton University Press, Princeton, N.J., 2020.

<sup>3</sup> The European Union now performs better than the United States in terms of education, health and welfare, and scores lower level of inequality: for instance, in 2019 life expectancy was 81.1 years in the European Union and 78.8 in the US; in 1980, it was higher in the US, 73.6 versus 72.8 (<https://data.worldbank.org/>, last access July 2022).

eral Europe (Section 4)<sup>4</sup>. These three issues, I argue, are correlated with each other: actually, the federal reform of Europe is a fundamental step in order to make Europe capable of achieving social and ecological goals, as well as to make the policies of the Next Generation EU more strong and effective, and in order for Europe to play an active and positive role in reforming the international order; hopefully, thus, it can crucially help the West to address the challenge posed by authoritarian regimes.

## **2. Next Generation EU. The beginning of a new age?**

In the decades following World War II, the European (Western) countries achieved considerable success in terms of material well-being, as well as of freedoms and human rights, not least because they could benefit from a favourable international context. Then, in the 1970s and 1980s, with the collapse of the Bretton Woods system, with the stagflation crisis (a combination of stagnation and inflation, due to the sudden rise in oil prices in 1973) and the beginning of the liberalization of capital movements on a world scale, the global context became less favourable: for what regards, for instance, the investments in technological innovations, or the scope for progressive taxation and thus for redistributive policies. Since the 1990s, with a further massive liberalization of capital movements, together with the new agreements on intellectual property led by the United States, and with the impressive rise of Asian productions, the international context became indeed, in many respects, an obstacle to the European social model – whose welfare state was threatened (as in other places of the Western world) by population ageing and the slowdown of productivity growth. In fact, the European model entered a problematic phase, concerning both economic growth and social cohesion; in part, and arguably as a consequence, also on «cultural» terms, that is, as regards the fascination it exercised over its citizens and the rest of the world. It may be added that, in this scenario, European politicians did not commit themselves to change the international order – namely, for what concerns the way the second globalization was negotiated and implemented – in a direction more favourable to the European social model: they accepted the international framework (the neo-liberal one, fostered by the US and UK), at best trying

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<sup>4</sup> For more on some of the theses proposed here, allow me to refer to three articles in Italian, of which this essay is, in many ways, an update and an improvement.

to limit the damages to the European social model, but more often neglecting them or even favouring them<sup>5</sup>.

This approach, followed by the EU politicians in the 1990s and early 2000s, which in short is derived from the German *ordo-liberal* thought<sup>6</sup>, played a part in the crisis of the the advancements of European construction. Above all, it contributed to halt progress towards a common fiscal Europe, that is, the necessary second leg to be placed side by side with monetary union – and an unavoidable premise of political union. Especially after the 2010-2011 sovereign debt crisis, the convergence in public spending required of the Southern European countries (understandable though, from the perspective of a progressive political unification of the continent) was not accompanied by expansionary policies at the European level, of a Keynesian type and aiming at social cohesion (and which would counterbalance the negative social and economic consequences of the former). As a consequence, the gap between the countries of the South and the North widened further, as did inequalities, especially in the weakest countries and regions. This ended up undermining the European unification process, rather than strengthening it.

Things changed (temporarily, at least) with the launch of «Next Generation Eu», during the first months of Covid pandemic. Approved in July 2020, the plan amounts to 806.9 billion euros to be disbursed in the years 2021-2025<sup>7</sup>. Most of it is the «European device for recovery and resilience», 723.8 billion euros, of which 385.8 in loans and 338 in grants: they will finance projects, prepared by national governments in agreement with the European Commission, mainly (but not only) in the areas of social cohesion,

<sup>5</sup> Cf. Rawl Abdelal, *Writing the Rules of Global Finance: France, Europe, and Capital Liberalization*, *Review of International Political Economy*, vol. 13, no. 1, 2006, pp. 1-27; Dani Rodrik, *The Globalization Paradox: Democracy and the Future of the World Economy*, Norton, New York, 2011, pp. 89-134; Id., *Straight Talk on Trade: Ideas for a Sane World Economy*, Princeton University Press, Princeton, N.J., 2018, pp. 267-273.

<sup>6</sup> This is a «milder» variant of the neo-liberal ideology: some public intervention is necessary to guarantee the proper functioning and the benefits of the markets. Cf. Emanuele Felice, *La conquista dei diritti. Un'idea della storia*, Il Mulino, Bologna, pp. 85-99.

<sup>7</sup> Data from the official website of the European Union, [https://ec.europa.eu/info/strategy/recovery-plan-europe\\_en](https://ec.europa.eu/info/strategy/recovery-plan-europe_en) (last access July 2022). See European Commission, *The EU's 2021-2027 long-term Budget and Next-GenerationEu. Facts and Figures*, Publications Office of the European Union, Luxembourg, 2021, pp. 54-55. Also for a direct comparison with the Multiannual Financial Framework (available at <https://op.europa.eu/en/publication-detail/-/publication/d3e77637-a963-11eb-9585-01aa75ed71a1/language-en>, last access July 2022).

energy transition, digital transition. Overall, the sum corresponds to 6.1% of EU's GDP in 2020 (around 13,300 billion euros). Since it must be spread over a five-year period, it is about 1.2% of the annual GDP: these figures are significant, although not impressive, for instance when compared to the entire European Union budget thus far (Multiannual Financial Framework, MFF: 1,210.9 billion euros for the period 2021-2027). Equally significant is the fact that the program will be almost entirely (800 billion euros) financed through the issuance of common debt, i.e. with the so often invoked Eurobonds, here named EUbonds: this too constitutes a break with the traditional fiscal policy of the European Union, which thus far had been committed to covering the (limited) spending budget with equivalent revenues, i.e. without running deficits. Actually, it may be reminded that at the very beginning of the pandemic the Eurobonds (asked, among the others, by the governments of France, Italy, and Spain) appeared to many experts an unattainable goal – a taboo that Germany, above all, would never trespass. Well, that taboo has been broken. Also it is worthy of note that the Recovery must be accompanied by structural reforms: now, unlike in the past, these are to be implemented through incentives (the Recovery itself).

Overall, we may say that the European Union has replied to the Covid crisis with expansionary, common policies; unlike with previous crises. Even more so, because the Next Generation was not the only EU's response. The Sure program («Support to mitigate unemployment risks in an emergency») allocates to member states up to 100 billion euros, as loans from the European Commission, in order to support national relief against Covid-related unemployment. To these, we must add 200 billion euros by the European Investment Bank, for aids to small and medium-sized enterprises, and 1,100 billion euros for the purchase of national bonds by the European Central Bank, together with the suspension of the rules of the Stability Pact; these last two measures, in particular, meant that in 2020 and 2021 each EU country was able to get indebted with little or no risk (and this, in addition to EU's funds).

As a whole, all these instruments amount to 2,207 billion euros, corresponding to roughly 17% of the EU's GDP in 2020 (not including the Mes' 240 billions). In absolute terms, the country who benefits the most is Italy: around 524 billions<sup>8</sup>, corresponding to 23.7% of all the allocated

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<sup>8</sup> Of which, 244 billions from Next Generation, 40 billions from the EIB, up to 20 billion from Sure, plus 220 billions from the ECB.

funds (compared to a population share of about 13.5%); they equal to about 32% of Italian GDP in 2020 (1,652 billion euros), or over 5% of Italy's GDP for six years.

It is an ambitious plan of aids. Could it be compared to the Marshall Plan (1947-1951), the «European Recovery Plan» launched by the United States to help the European recovery after World War II? In terms of stark figures, such a comparison does not seem inappropriate. Concerning Italy, for instance, the Marshall Plan mobilized resources equal to about 10% of national GDP in 1947<sup>9</sup>, that is about 2.5% annually for four years. At the European level, in relation to the EU's GDP the Next Generation is about half of that, as we have seen, but if we consider all the other instruments then the share on GDP grows indeed even higher. Looking at Italy, the Next Generation corresponds to 14.8% of GDP in 2020, which means 2.5% for six years. It goes without saying that the two programs are structured in a very different way: in the Marshall Plan, as a general rule industrial goods and raw materials were given directly by the US government to the governments of each beneficiary country; then the national governments sold these assets to the entrepreneurs, in turn using the sums they received to restore the foreign exchange reserves and to pay for the post-war reconstruction. However, and *variatis variandis*, the underlying economic strategy may be similar: just as the Marshall Plan was used by some countries, and among these arguably above all by Italy, to innovate technologically by adopting the Fordist model and the assembly line (i.e., the most advanced technology of the time), so now the Recovery should be used to innovate in some of the most promising areas of our age: from renewable energy to the digital economy, and in some respects healthcare too. To say it differently: the Marshall Plan actually served as a premise, and laid the foundations, for the subsequent golden age of Western economies, by creating in some ways its «preconditions»<sup>10</sup>. Can we hope the same today for the Next Generation EU? Could it set in motion a new era of European growth and prosperity, and of social cohesion and environmental improvements, thus bringing new life to the European socio-economic model?

<sup>9</sup> My calculations from the Statistical Appendix in Emanuele Felice, *Ascesa e declino. Storia economica d'Italia*, Il Mulino, Bologna, 2015.

<sup>10</sup> For Italy, Francesca Fauri, *Il Piano Marshall e l'Italia*, Il Mulino, Bologna, 2010. and then, for a broader picture, Francesca Fauri and Paolo Tedeschi (eds.), *Novel Outlooks on the Marshall Plan. American Aid and European Re-Industrialization*, P.I.E. Peter Lang, Brussels, 2011.

In order to provide an answer, we must place the Next Generation EU into a wider picture, which is not only European, but global; also, we must address the issue of a more consistent evolution of the European Union, for what regards both its institutional framework and the economic policies. Looking at the global context, we may see that, when compared to 75 years ago, the situation in our days is more problematic. While in fact the Marshall Plan was part of a broader and more coherent redesign of the entire international economic and financial order (at least, in the West), which aimed to promote Keynesian policies in different and several areas, the Next Generation EU, instead, is implemented within global arrangements which are still largely those of the neo-liberal age, although perhaps under change. Not only this. At present, it is not even clear whether the European policies themselves (they, at least) will steadily move towards a more expansive path (as was the case for the national countries in the years following the Marshall Plan) or if instead we will soon return to a condition of restrictive monetary and fiscal policies; in short, it is not clear whether the Next Generation EU itself is indeed the beginning of a new age, or just a parenthesis.

### **3. The international context**

The Marshall Plan was part of an overall redefinition of the international (Western) economy, through arrangements that allowed for expansive, Keynesian policies. The pillars were the 1944 Bretton Woods agreements, which guaranteed the return to the gold exchange standard, a mechanism of fixed (although somehow flexible) exchange rates based on dollar and ultimately on gold. Such a system also provided for the control of short-term capital movements, and in doing so it made Keynesian policies within national states feasible, to the extent that it avoided that differentials in inflation rates would automatically result into tensions on the exchange rates; it is worth noting that, by discouraging speculative short-term movements of capital, the Bretton Woods agreements favoured instead long-term movements, i.e. Foreign direct investments (Fdi), made by multinationals in new factories and branches (which also meant a transfer of advanced technology, generally from US to Europe). At the same time, exports were fostered by agreements on a progressive trade liberalization, starting with the foundation of GATT (General Agreement on Trade and Tariffs) in 1947, which would become another pillar of the new

international order, and obviously (for Western Europe) with the birth of the European Economic Community in 1957. Finally, we should remember that energy, and oil in particular, was particularly cheap, thanks to the dominance of Western oil multinationals (the «seven sisters») on the supply side. These are the «foreign» ingredients for the growth of Western Europe, and Japan and then the «Asian tigers», in that period. To these external factors, each country could contribute with expansionary policies aiming to create and expand the welfare state (on the demand side), and with public enterprises and subsidies for specific sectors and territories (on the supply side); these policies were sustained, in turn, by a progressive taxation on income, also made possible by the Bretton Woods system that, as mentioned, limited to a certain extent capital flight.

To sum up: it was an architecture which favoured the flow of capitals (and profits) to the most innovative sectors, rather than towards speculation or *rentier* activities, while national demand was sustained by Keynesian policies, and public intervention favoured the growth of specific sectors and territories (such as the *Mezzogiorno*, in Italy)<sup>11</sup>; and while trade treaties opened foreign markets and thus prompted, on the whole, the rise of global demand. The result was economic growth (with yearly rates globally never seen before, or since then) and also a wider spread of well-being (with an equally «exceptional» reduction in inequalities)<sup>12</sup>; in turn, the related stability favoured the expansion and strengthening of liberal-democracies, often newly created or re-created (as in Italy, Germany, Japan). Of course, there were some problems too: inflation began to rise as early as the 1960s, in parallel with the slowdown in productivity growth due to the progressive saturation of mass Fordist technologies. Furthermore, not all the merits should go to policies: demography (a higher share of young people, and therefore of active population, than nowadays) played an important role. But on the whole the system had its own coherent logics, it was in many respects a «development model» (and a progressive one). It worked.

Since the 1970s, and then above all in the 1980s and 1990s, such a development and progressive model was gradually dismantled; it was not re-

<sup>11</sup> See on this Emanuele Felice and Amedeo Lepore, State intervention and economic growth in Southern Italy: the rise and fall of the 'Cassa per il Mezzogiorno' (1950-1986), *Business History*, vol. 59. no. 3, 2017, pp. 319-341.

<sup>12</sup> Cf. Walter Scheidel, *The Great Leveler: Violence and the History of Inequality from the Stone Age to the Twenty-First Century*, Princeton University Press, Princeton, N.J., 2017.

placed by any equally coherent industrial and economic policy, of any kind, other than the (almost) uncritical trust in the virtues of markets. The decrease in growth rates, especially in Western Europe and Japan (which in some respects were the most penalized by this global change), in comparison to the United States, should not come as a surprise; actually, and despite the tumultuous rise of Asia, on average growth diminished at the global level as well<sup>13</sup>.

In our days, is it possible to think of a new set of international rules that would favour growth, inclusion, and sustainability? In 2021 the first steps of the Biden administration, following its ambitious «Build Back Better Plan», looked as a serious move in this direction: their core was the recovery of tax revenues from global giants (the transnational companies) and the fight against tax havens; more generally, they aimed to return to put limits on financial globalization, in order to save the positive aspects of (commercial) globalization, and thus to be able again to implement, at the national level, expansionary policies for growth and investments. It goes without saying that this aim is vital for Europe too, in order to make common investment policies – such as those of the Next Generation EU – structural and stronger in future, as well as to allow for expansionary and redistribution policies at the national level. However, on this Europe appeared to be reluctant to follow the United States. During the 2021 G7, the Biden's proposal, a minimum global tax on corporate income at 21%, instead of being supported by the European countries (and the Commission) was by them downsized, with a final agreement on a 15% tax rate (6 points below the US's threshold).

A part from this episode (emblematic, though), the European Union also needs to act decisively against tax havens, starting with those within itself, and in favour of fiscal transparency, a field where progress thus far has been uncertain and slow. Furthermore, the issue of patent reform, which has by now become an obstacle to the diffusion of innovation<sup>14</sup>, should also be put forward in G20 meetings, first of all by Europe which arguably

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<sup>13</sup> Again, see the historical series of GDP at constant prices on the World Bank website, <https://data.worldbank.org/> (last access July 2022). For some figures see also Emanuele Felice, *La conquista dei diritti*, op.cit., p. 215.

<sup>14</sup> Cf. Mariana Mazzucato, *The Value of Everything. Making and Taking in the Global Economy*, Allen Lane, London, 2018; Ugo Pagano and Alessandra Rossi Alessandra, *The Crash of the Knowledge Economy*, *Cambridge Journal of Economics*, vol. 33, no. 4, 2009, pp. 665-683.

has been damaged by this system to the advantage of US companies. And it goes without saying that the limitation and taxation of speculative movements of capital, that is, the issue of how to put and enforce new rules on global financial markets against speculation, and indirectly in favour of productive investments and welfare policies, should also be on the agenda.

To these reforms of the international economic system – that is, the financial brand, in order to favor progressive taxation and to shift the tax burden from an increasingly weakened labor towards profits and rents, and the commercial brand, in order to incorage the global spread of research and innovations – environmental policies must be added: not only at the national but at the global level, in order to limit the ecological crisis. Yet, provided that there is the interest and the will by the democratic countries, could all of this be made in a context of a Second Cold War with the powers of authoritarian capitalism (China, Russia above all)<sup>15</sup>?

It may be useful to linger a bit more on the importance of these issues and on the fact that, in order to properly address them, some collaboration between the democratic countries and (at least) the second economic power on Earth, China, is mandatory. The existence of tax havens, or in any case of very different taxation regimes on capital and profits, from country to country; the absence of shared and coherent rules for the taxation of transnational companies (as would be, for instance, a taxation based on the share of turnover made by each company and country); the lack of an open and efficient sharing of fiscal information between states; the total liberalization of financial movements, even in the short term and also for what concerns the speculative ones, pursued in the last decades and recently worsened by the invention of cryptocurrencies: these are some of the main factors that undermine the possibility, for national states (and for the European Union), to implement effective progressive taxation, given that capitals and profits can easily move, even without violating any law, where they pay less. In the Western countries, where the share of active population tends steadily to decrease, and GDP growth rates seem bound to structurally hover about levels close to stagnation, if profits and rents are not properly taxed it becomes almost impossible to have the resources to maintain levels of welfare compatible with the protection – not to say the ad-

<sup>15</sup> Or «political capitalism», to use instead the definition proposed by Branko Milanovic, *Capitalism, Alone: The Future of the System That Rules the World*, The Belknap Press of Harvard University Press, Cambridge, Mass., 2019.

vancement – of social rights (education, health, pensions); probably it becomes also impossible to make investments to limit the ecological crisis (that is, to achieve the ecological transition and to make it socially sustainable) and perhaps even to maintain infrastructures (both tangible and intangible) in line with the standards of advanced economies. However, in order to reform the rules of the international economy in favour of a stronger and progressive taxation of income and profits, and of rents, some agreement among the G20 countries must be reached. Reaching such an agreement is possible, in principle – as proved by the very compromise over a 15% global minimum tax and a fairer system of apportionment of the tax base of multinationals (operational from 2024), which was reached at the G20 meeting in Rome, in the fall of 2021, just a few months before the invasion of Ukraine. But it is almost impossible that such an agreement can be reached in a context of a Second Cold War.

In addition, we should remind that even the 2021 G20 in Rome, even though it reached an agreement over a global minimum taxation and a fairer distribution of the multinationals' tax base (a concrete result), proved to be dramatically inconclusive on environmental issues. China is the most populous country in the world, followed by India. Russia is the largest one. In order to avoid the collapse of our ecosystem, the environmental policies of the Western countries are necessary; but they are not enough.

A Second Cold War may instead cause a return to the regionalization of trade, perhaps on a scale similar to what was observed in the 1930s – in order to help, in the advanced countries, the losers from trade globalization with protectionist policies, i.e. with subsidies, duties and restrictions in favour of the national production (rather than with welfare state and labour policies). Such a scenario would be the worst one, first because it would further increase hostility between countries and therefore the risk of armed conflicts; secondly, because it would hamper competition, the circulation of innovations, and probably also the possibility of convergence of the poorest countries to the income levels of the advanced ones; finally, because this is by nature the terrain where the populist and sovereignist forces appear to be best equipped, in Europe as well as in the United States. Liberalism – in all its forms – would end up even more weakened as it is now. In this scenario, we should also consider that a re-regionalization of trade, presumably by slowing down the growth of emerging economies, could lead to a rise of migratory pres-

asures, thus unwillingly providing more ammunition to for the far-right propaganda. In addition, the impossibility of reforming the global financial order and therefore taxation would involve that at the national level, in the West, any social policy, or even the subsidies for domestic production, should presumably be done through deficits and debts, that is, by expanding the monetary base: thus, by increasing inflation, a mechanism which would then be further reinforced by the limitations on global trade; the outcome could be a strong weakening of the purchasing power of the working and middle classes, with the risk of making the support for liberal democracy even frailer, and of benefitting even more the populist and sovereignist forces.

#### 4. The road to Federal Europe

In the previous Section, we have discussed what could (and should) be the contribution of Europe to a redefinition of the rules governing the international economy. To play such a role, however, Europe itself must be reformed, towards greater integration; indeed, it should become a federal Union, from the current mainly confederate structure.

This means reforming the rules of operation, in order to overcome the current predominantly intergovernmental mechanisms (and which require unanimity for an important area such as taxation, which is crucial also for reforming the international financial order) and to give primacy, instead, to the European Parliament, and to the European Commission with that. *Inter alia*, it is worth noticing that during the negotiations for the Recovery Plan, and more generally for what concerns the common European response to the Covid pandemic, both the Parliament (above all) and the Commission had a progressive stance; the European Council (which brings together the Heads of Government) and the Council of the European Union (which brings together the ministers for specific areas and currently shares legislative power on a par with the European Parliament) held instead, on the whole, a more conservative approach.

Such a reform is a fundamental step not only for playing a more active role on the global scene (provided that there will then be a European, federal, political will for this), but also for implementing, at the domestic (European) level, an incisive and ambitious industrial policy – that is to say, for the second internal pillar that is missing to fulfil EU's ambitions.

It is worth reminding, in this respect, that behind the idea of the European Union, and indeed behind its fascination and strength, lay also the opportunities for stronger economic growth, by virtue of the economies of scale allowed by what was, at the end of the last century, the largest world market. After the 2010 crisis and Brexit, and after falling behind the US in GDP growth for three decades, today the European Union is no longer the biggest «economy» in the world, in terms of nominal GDP; in 2021, it was surpassed by China<sup>16</sup>. However, it remains one of the three economic giants of the planet. Europe is declining, and if we look at the new sectors, in recent decades, it has lost ground especially in the digital economy and in automation, compared to China and the United States. But still Europe has a remarkable potential, in terms of industrial capacity, human capital, research and development, and this is true especially for a couple of very promising, and broad and varied, areas: healthcare, from medical research to biotechnology, and green technologies. In these two fields, where public intervention tends to play a very important part, Europe can take a leading role at the world level and, thus, it may aim to pave the way for a new age of world development focused on well-being and the quality of life. At least to a certain extent, European federal industrial policy in these two areas may also be a prosecution of the Next Generation EU (his latter, therefore, may come to be regarded as the first step); continuous policies and further investments must be carried out on a continental dimension, and they must be coordinated in order not only to be consistent, but to benefit from EU's returns in scale (as is the case for China and the United States). A similar argument goes for transport and, maybe even more, digital infrastructures. The instrument could be the creation of state-owned (European) enterprises, as proposed by Fabrizio Barca and Patrizia Luongo<sup>17</sup>, for healthcare, energy transition and digital innovation. And of course, defence industry, a strategic sector characterized by strong economies of scale, should also be added to the list.

However, the question must first be asked: is there the awareness, let alone the political will, for the necessary changes? The picture here appears contradictory and uncertain. In recent years, there have been grassroots movements and social forces that, from below, have begun to call for greater

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<sup>16</sup> <https://data.worldbank.org/>, last access July 2022.

<sup>17</sup> Fabrizio Barca and Patrizia Luongo (eds.), *Un futuro più giusto. Rabbia, conflitto e giustizia sociale*, Il Mulino, Bologna, 2020, pp. 141-146.

integration: for example, for a common, progressive European taxation to combat inequality and promote ecological conversion, and for engaging the European institutions, starting with the Commission, on this. Worthy of mention is the European Citizens' Initiative «Tax the rich», promoted by political exponents of left or centre-left formations, private citizens such as the Austrian multi-millionaire Marlène Engelhorn, public intellectuals such as Thomas Piketty, and non-profit organizations such as Oxfam International, a confederation of 21 independent NGOs committed above all to fighting inequality: the initiative aims to collect one million signatures of European citizens by 9 October 2024, so as to oblige the European Commission to make an official proposal on this issue<sup>18</sup>. One has the impression, moreover, that there is a growing awareness also on the part of the European ruling classes, at least some of them. Particularly significant in this regard was Mario Draghi's speech at the Ecofin (the council of EU finance ministers) on 24 February 2024: Draghi argued that EUR 500 billion per year are needed to be invested in the ecological and digital transition and in defence, to avoid falling behind what the United States, starting in 2021 with Biden's Build Back Better Plan, and the other giants of world geopolitics are doing; they should be raised with a mix of public resources and private savings (the latter to be mobilized by completing the capital market union), presumably also by issuing common debt<sup>19</sup>. In short, it would not only be a matter of making the NRRP structural, but of expanding and strengthening it significantly. It should also be noted that, on the need to increase public debt, thus opening the way to Keynesian policies and overcoming the ordoliberal approach, Draghi had already expressed himself in a *Financial Times* article March 2020<sup>20</sup>, even though, at that time, in the exceptional circumstances of a «war» against the Covid pandemic; and his main economic advisor (at least during the period in which he served as Italy's Prime Minister), the influential Italian economist Francesco Giavazzi, is moving along the same lines, with a significant rethink on his part, compared to the past<sup>21</sup>.

<sup>18</sup> <https://www.tax-the-rich.eu/>. However, the mobilization for a tax on multimillionaires is not limited to the European Union.

<sup>19</sup> Cf. Marco Bresolin, Draghi sprona l'UE su transizioni e difesa, *La Stampa*, February 25, 2024.

<sup>20</sup> Draghi Mario "We face a war against coronavirus and must mobilize accordingly". *Financial Times*, 25 March 2020.

<sup>21</sup> Francesco Giavazzi, Il debito comune? Oggi è possibile, *Corriere della Sera*, February 17, 2024.

On the other hand, at the end of 2023 a reform of the Stability Pact was approved, which in many ways appears disappointing, since it essentially re-proposes for the nation states a return to a policy of austerity – and with identical parameters for each state – albeit formally somewhat attenuated. But we might say: precisely because individual states will be able to do very little, a spending and investment policy is required proper to the European Union, which therefore should become a federal union. Draghi's speech at the Ecofin, however, remained almost unheard, both among public opinion and in the political debate in view of the 2024 European legislative elections. In fact, even these European elections, like the previous ones, have been tackled with a predominantly national approach and with little attention paid to the crucial issue of reforming Europe (and the related issue of creating a common budget and investments), with few exceptions. Above all, the issue continues to be little perceived by European citizens and, before that, by the respective media systems (perhaps also due to its high complexity). Actually, those national political forces who do not want change in Europe have a great advantage over the reformers: it is enough to leave things as they are to ensure that little or nothing changes. And they are facilitated in this by the orientation of their national electorates and debates.

Perhaps, therefore, are first of all the European ruling classes (political, but also social ones) who must be capable of addressing these challenges: they have to take the initiative, as happened in the past, but having care this time that proper social policies are carried out too, in order to ensure that consent by the broader social body (and electoral) will follow. To begin with, this means that they should be able to make the steps needed to progress steadily on the road to a Federal Union (or the United States of Europe). Which measures should be taken, in this direction?

There are basically two paths. One is that of the common European institutions, starting with the European Parliament (renewed in 2024), striving for a change in the treaties. The other is that of Enhanced Cooperation, in some sectors or for certain policy areas, on the initiative of individual governments that are willing to participate. These two paths, as I will try to show, are not alternatives but complementary.

In May 2022, the approval by the European Parliament of a resolution for the creation of a Convention which should amend the treaties, and in particular abandon the unanimity rule, is good news in this respect. But

even the Convention may not be enough: in fact, according to the treaties it can be set up by a majority of members, but then the agreements and the proposed reforms must be ratified by all countries, unanimously. We therefore run the risk of starting a process, even an ambitious one, which at the very last stage can be blocked by one or more vetoes (and the more ambitious the process, the higher this risk). For this reason, the Convention should run parallel to the Enhanced Cooperation, which realistically can work in a two-speed scheme (roughly, similarly to what we have seen with the monetary union), at least in the short and medium term. Actually, the Enhanced Cooperation, requiring the adherence of at least 9 member states (Article 20 of the Treaty on European Union and Title III; Articles 326 to 334 of the Treaty on the Functioning of the European Union), have already been activated for various issues, from divorce, to patents, to taxation on financial transactions, or the creation of the European Public Prosecutor.

Defense seems a natural candidate for the Enhanced Cooperation, since it is essential for the European Union to become a significant, autonomous subject on the global scene<sup>22</sup>; furthermore, as mentioned the military industry is characterized by strong economies of scale, which make the continental dimension more efficient, not only as the sum of the parts. Energy is another natural candidate: because the ecological transition must be addressed in a coordinated and consistent way; again, due to the economies of scale, and scope, in this sector; again, for Europe to play an autonomous and strong role on the geopolitical arena (including greater market power, when it comes to price negotiations). According to the theories of «regional public goods», these sectors (defence and energy, but also the environment, or regional integrated transport, or digital infrastructures; and then security, immigration; now perhaps, after Covid, we should also add some areas of health policies and related research) should be correctly framed as «European public goods» in which, just as has been done for the currency and the common market, a European dimension and policy are preferable, more economically efficient and also more effective politically, to the national ones<sup>23</sup> (Russo 2010, Amato 2010). Both in defense and energy, but

<sup>22</sup> Cf. Patrick Bellouard and Nathalie De Kaniv (eds.), « *Souveraineté et solidarité: un défi européen* », Les Éditions du Cerf, Paris, 2021

<sup>23</sup> Cf. Giuliano Amato, Sicurezza. Un bene comune europeo, in Maria Teresa Salvemini and Franco Bassanini (eds.), *Il finanziamento dell'Europa. Il bilancio dell'Unione e i beni pubblici europei*, Astrid-Passigli, Florence, 2010, pp. 204-215; Vincenzo Russo, I nuovi beni pubblici europei, in *Ibidem*, pp. 121-144.

as mentioned also in healthcare and digital transition, the creation of state-owned European enterprises, with golden shares owned by the governments of each participant country, is indeed a way through which Enhanced Cooperation can become reality.

Alongside the «Europe of defense» and the «Europe of energy» (or the «green Europe»), as we may call them, the third pillar should be «social Europe», that is, the creation of a common European welfare, as a social baseline, with autonomous, federal, resources and budget; not least, because reducing inequalities and broadening social rights should be part of that consistent affirmation of human emancipation which Europe may propose to the world<sup>24</sup>. A «social Europe» marks a substantial difference with past policies and – a point often overlooked even by the proponents of a Federal Europe – it can be the key to bring Europe closer to its citizens, that is, to create consensus, in the public opinion, for a broader transfer of sovereignty from nation states to the federal dimension. Social Europe should lay the foundations for a common welfare, which as mentioned must be based on a significant European budget, as well as for a common tax system – thus also putting an end to fiscal dumping within the Union. Its first area of intervention should be the ecological transition, in order to make it socially just or at least sustainable; in other words, «social» Europe should implement redistribution policies – e.g. through a progressive wealth tax – to compensate, with incentives and subsidies, those citizens whom the European Union demands sacrifices and adaptations for the sake of the environment and who, without public aid, would not be able to cope.

It has been suggested, among the others by Romano Prodi<sup>25</sup>, that moving along a two-speed Europe, based on Enhanced Cooperation, could be through the impulse and guidance of the four major eurozone countries (Germany, France, Italy, and Spain). However, it does not seem, currently, that there such an impulse is present. In fact, most of the efforts are directed to the Convention (whose success, desirable though, remains highly uncertain), few towards Enhanced Cooperation – a path that should be complementary to that of the Convention, as mentioned. Incidentally,

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<sup>24</sup> See Emanuele Felice, *La conquista dei diritti*, op. cit.

<sup>25</sup> Romano Prodi, *La nuova politica estera e di difesa europea deve partire dalla Francia*, *Il Messaggero*, 20 March 2022; Id., *La spinta al dialogo di Roma e Parigi*, *Il Messaggero*, 12 May 2022.

one of the four core EU states, Italy, whose government is supposed to take the lead in initiating Enhanced Cooperation together with France, Germany and Spain, is currently (since 2022) led by a sovereigntist political force that would hardly agree to give up its national veto power - let alone promote it.

In other words: even the path of Enhanced Cooperation between the major governments appears difficult today, certainly more so than only a few years ago. And that is why it cannot remain the only way, but must be accompanied by a common initiative coming from the European Parliament, starting with the results of the legislative elections in 2024. In both cases, and for the common goal, an awareness is worthwhile. If ultimately Europe remains as is now, with little or no changes in its political governance, the West will lose the ability to speak with a second authoritative voice, in addition to that of the United States, a voice resting on a model of personal freedom, well-being, social justice and environmental conservation which is arguably more advanced and consistent than the US', and therefore more attractive.

## 5. Conclusions

The regimes of authoritarian capitalism may not be as strong as they present themselves. The resounding failure of Russia in the first weeks of the invasion of Ukraine (Putin was misinformed by his subordinates?), that of China in dealing with Covid (in the initial phase, when the lack of free information has favored the spread of the disease; in the production of effective vaccines; in the 2022 new waves, characterized by the repressive policies of Xi) and its correlated economic slowdown, or the ecological disasters produced by the adventurous Dubai's «turbo-capitalism»<sup>26</sup>: examples like these show by contrast as our open societies, thanks to freedom of research and information and to the limitation of powers, can be ultimately more efficient in addressing the great challenges of current age. This is particularly true when we need to invest in and find new solutions within highly complex systems (as is the case with research on vaccines, or with the ecological transition): it is difficult to know in advance

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<sup>26</sup> For instance, the construction of artificial islands and archipelagos, which for the most part turned out to be a failure, but only after the having devastated the coastline of that country: cf. Emanuele Felice, *Dubai, l'ultima utopia*, Il Mulino, Bologna, 2020.

the right thing to do, and the trial and error methods of free science and societies, the public discussion of alternatives and solutions, may be also an effective way to minimize the risks of irreparably taking a wrong way.

The West can therefore really persuade the people living in autocracies that liberal-democracy, and its ideal of a world coexistence based on the rule of law and a meaning of history based on human rights (civil, social, environmental), is preferable, and can even have a universal grasp: because, fundamentally, such a statement is true. But in order for this to become manifest, the West must find a certain degree of coherence, between the ideal claims, on the one hand, and its society and its international conduct, on the other. It is precisely for this purpose that Europe, today, may have a fundamental historical role; and if it wants to effectively play it, the European Union must reform itself, with a decisive turn in its institutional structure, from confederation to federation, and with the parallel launch of social, ecological and industrial policies on a continental scale (the Next Generation EU in this respect may be regarded as a first step). Actually, the reform of Europe and the reform of the international system are held together. And this is the real test bed on which European politics must be measured, in the new age that is unfolding.

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