

Europe's Economic Contagion Is Turning Ugly

By [Dani Rodrik](#)

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As if the economic ramifications of a full-blown Greek default were not terrifying enough, the political consequences could be far worse. A chaotic euro-zone breakup would cause irreparable damage to the European integration project, the central pillar of Europe's political stability since World War II. It would destabilize not only the highly indebted European periphery, but also core countries like France and Germany, which have been the architects of that project.

The nightmare scenario would also be a 1930s-style victory for political extremism. Fascism, Nazism and communism were children of a backlash against globalization that had been building since the end of the 19th century, feeding on the anxieties of groups that felt disenfranchised and threatened by expanding market forces and cosmopolitan elites.

Free trade and the gold standard had required downplaying domestic priorities such as social reform, nation-building and cultural reassertion. Economic crisis and the failure of

international cooperation undermined not only globalization, but also the elites that upheld the existing order.

As Jeff Frieden, professor of government at Harvard University, has written, this paved the path for two distinct forms of extremism. Faced with the choice between equity and economic integration, Communists chose radical social reform and economic self-sufficiency. Faced with the choice between national assertion and globalism, fascists, Nazis and nationalists chose nation-building.

Fortunately, fascism, communism and other forms of dictatorship are passe today. But similar tensions between economic integration and local politics have long been simmering. Europe's single market has taken shape much faster than Europe's political community has, and economic integration has leaped ahead of political integration.

The result is that mounting concerns about the erosion of economic security, social stability and cultural identity could not be handled through mainstream political channels. National political structures became too constrained to offer effective remedies, while European institutions still remain too weak to command allegiance.

It is the extreme right that has benefited most from the centrists' failure.

In Finland, the heretofore unknown True Finn party capitalized on the resentment surrounding euro-zone bailouts to finish a close third in April's general election.

In the Netherlands, Geert Wilders' Party for Freedom wields enough power to play kingmaker. Without its support, the minority liberal government would collapse.

In France, the National Front, which finished second in the 2002 presidential election, has been revitalized under Marine Le Pen.

Nor is the backlash confined to euro-zone members. Elsewhere in Scandinavia, the Sweden Democrats, a party with neo-Nazi roots, entered parliament last year with nearly 6 percent of the popular vote. In Britain, one recent poll indicated that as many as two-thirds of Conservatives want Britain to leave the European Union.

Political movements of the extreme right have traditionally fed on anti-immigration sentiment. But the Greek, Irish, Portuguese and other bailouts, together with the euro's troubles, have given them fresh ammunition. Their Euroskepticism certainly appears to be vindicated by events. When Marine Le Pen was recently asked whether she would unilaterally withdraw from the euro, she replied confidently, "When I am president in a few months' time, the euro zone probably won't exist."

As in the 1930s, the failure of international cooperation has compounded centrist politicians' inability to respond adequately to their domestic constituents' economic, social and cultural demands. The European project and the euro zone have set the terms of debate to such an extent that, with the euro zone in tatters, these elites' legitimacy will receive an even more serious blow.

Europe's centrist politicians have committed themselves to a strategy of "more Europe" that is too rapid to ease local anxieties, yet not rapid enough to create a real Europe-wide political

community. They have stuck far too long to an intermediate path that is unstable and beset by tensions. By holding on to a vision of Europe that has proven unviable, Europe's centrist elites are endangering the idea of a unified Europe itself.

Economically, the least bad option is to ensure that the inevitable defaults and departures from the euro zone are carried out in as orderly and coordinated a fashion as possible.

Politically, too, a similar reality check is needed. What the current crisis demands is an explicit reorientation away from external financial obligations and austerity to domestic preoccupations and aspirations. Just as healthy domestic economies are the best guarantor of an open world economy, healthy domestic polities are the best guarantors of a stable international order.

The challenge is to develop a new political narrative emphasizing national interests and values without overtones of nativism and xenophobia. If centrist elites do not prove themselves up to the task, those of the far right will gladly fill the vacuum, minus the moderation.

That is why outgoing Greek Prime Minister George Papandreou had the right idea with his aborted call for a referendum. That move was a belated attempt to recognize the primacy of domestic politics, even if investors viewed it, in the words of a Financial Times editor, as "playing with fire." Scrapping the referendum simply postpones the day of reckoning and raises the ultimate costs to be paid by Greece's new leadership.

Today, the question is no longer whether politics will become more populist and less internationalist. It is whether the consequences of that shift can be managed without turning ugly. In Europe's politics, as in its economics, it seems that there are no good options — only less bad ones.

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