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The future of the EU

BY FEDERICO CARLI AND HUGO SAVOINI

Despite the ECB's bold action provided the monetary firepower to back up EU finance ministers' rhetoric, there have been public displays of disunity over its "no limits" policy. Signs of discord or failures of cooperation among EU leaders will fuel fears of disintegration. But the current disarray should become an opportunity to fill European gaps.

The European Central Bank's headquarters.

Just two months ago we used to consider the coronavirus, which is now paralyzing the Old Continent and the rest of the world, to be exclusively a Chinese problem. Within a few weeks the disease entered our own home and spread with a disconcerting speed, upsetting our lives as never before in the past 75 years. On January 24 the first European patient infected with Covid-19 was diagnosed in Germany, on February 21 the outbreak started in Northern Italy; since then, the whole of Europe gradually took unprecedented decisions and lock-down. Italy can be proud for having immediately and seriously tackled the emergency and for having approved health measures proportionate to the extent of the danger. Unfortunately, the same cannot be said of the many European countries that have underestimated the threat and adopted an irrational wait-and-see approach.

It is now clear that the emergency will not only put under strong strain the local and national healthcare services of any country affected by the pandemic, as it will not only provoke an unknown number of casualties (the health-related side). The emergency will have repercussions at the economic level, at the social level, at the political level; also, it will have an impact on the very same lifestyle and individual range of freedom developed over the centuries in the Western societies: something which we have the duty to defend. There-

fore it is necessary to put on the table – with a sense of urgency – solutions that are not limited to the fundamental priority of tackling the pandemic, but rather look beyond the strictly health emergency and face in advance the political and social consequences of the outbreak, as well as its philosophical and juridical challenges to our way of life.

But there is something more. The consequences of the crisis will exert its effects on the current national order, on the current European order and on the current global order. All these problems are interconnected, and the changes taking place in one of them will have a reflection, to a greater or lesser extent, on the others.

The European Union and Italy are particularly exposed. The EU is getting through years of asphyxiated growth and has completely lost the ideal momentum that has long inspired its vision: the EU was already in a state of profound suffering before the outbreak of the epidemic, which has now highlighted all its limits and incompleteness. Italy faces very serious risks, as the recession that looms on the horizon jeopardizes its social stability which has been weakened by years of stagnation, low wages, the absence of prospects for a better life, and the glaring inadequacy of the leading groups that led the country over the past thirty years.

The coronavirus crisis made apparent all the knots of the thirty-year long Italian decay, as well as all the knots of the thirty-year long political vacuum of the EU institutions. In the last century, the Twenties did not bring luck to the world. The mistakes of the past (far and recent past) must be avoided: the time for the language of truth and action has come.

Faced with the coronavirus emergency, the "Union" – defective and sluggish – has quickly shown all its





“The virus continues to spread,” von der Leyen told a press conference in Brussels.

limits: it does risk disintegrating. Hence, the crisis must be transformed into opportunity and we must work to find those tools that will give back a renewed spirit and vision to the “Union”. Italy must return to play a leading role for reforming the EU, as it always did: at the time of the Treaties of Rome, at the time of the Delors Plan, at the time of Maastricht. Europe needs Italy’s critical thinking if it wants to regain momentum and progress; Italy has all that’s needed in order to return to play this leading role.

Among the many issues that have opened up with the Covid-19 pandemic, we will focus on the economic aspects and on the aspects related to European construction.

On an economic level, the political response to the crisis must be centered on an aggressive expansive fiscal policy which will compensate the collapse of aggregate demand and production, by the means of public investment in infrastructures. Obviously, monetary policy must complement fiscal policy, introducing the necessary liquidity into the economy to support recovery. However, the ECB cannot continue to be “the only game in town”. In recent years the expectations on the ability of the Central Bank to revive the economy have been excessive. Pierluigi Ciocca made it clear that monetary policy can pull the rope to eradicate

inflation, but it cannot push the rope against recession. When pessimism over profit prospects prevails, even an interest rate close to zero does not justify investing to produce goods that will remain unsold.

As demonstrated by the great English economist John Maynard Keynes, the best way to counter a collapse of the real economy is a mix of expansive, investment-centered, fiscal policy and a consistent monetary policy. In 2009, the United States, the epicenter of the crisis triggered by the failure of Lehman Brothers, followed this path. The US managed to contain the fall of GDP (-2.6%) and already in 2011 returned to income levels higher than before the crisis.

The EU must avoid repeating the gigantic mistake committed in 2009 when it was unable to prevent the collapse of GDP (-4.5%), due to the inability – or perhaps the unwillingness – to operate a powerful package of fiscal stimulus. As the world reacted to the great recession by intelligently applying Keynesian suggestions, Europe continued to discuss accounting constraints, a fully balanced budget and structural reforms. The European economy still pays the consequences of that mistake.

By the will of Germany, flanked by the other Northern European countries, the equilibrium of public finance has been placed before any other political and



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social consideration, even before the prosperity of German citizens themselves. The budgetary and balance of payments surpluses that Germany insists on pursuing, even cutting its own internal investments, are a strong evidence of this choice: for twenty years Germany's production has grown by only 1.4% per year (half of its potential); Germany has handed over and continues to hand over valuable real resources to the rest of the world (about 8% of its GDP); Germany is exposed to suffer huge capital losses on its net credit position abroad (over 60% of its GDP). The adoption of these policies could only result in an inevitably slow recovery of the GDP, accompanied – especially in Southern Europe – by high levels of unemployment, low wages and growing inequalities.

These elements explain the citizens' disaffection for the European project and part of the political turbulence that the Old Continent is going through in these years. Finally, weak domestic investment and consumption left the aggregate demand to be mainly driven by exports, and exposed the European manufacturing system to the risks stemming from trends in international trade.

The coronavirus emergency showed up on this uncertain framework. What could the EU, Germany and Italy do in this difficult situation?

The European Union's reaction was unsatisfactory. Unfortunately, this is the only word that can be used to define the response that the Brussels' institutions and our European partners provided when the European coronavirus epidemic seemed to affect only Italy. Life continued in the capitals of all Europe as if nothing was happening, while the Italian government was asking for medical supplies to be sent in order to deal with an already very serious emergency: no Member State showed signs of that solidarity that is at the basis of the fundamental treaties of the European Union.

Utter absence of policy coordination, lack of co-operation between countries, underestimation of the severity of the health emergency and its economic, political and social consequences: this is the impression that the EU has given to the world. The EU solidarity to Italy was so scarce as to prompt the Italian Treasury Minister to thank Brussels for granting budgetary flexibility to Rome, which was actually something already provided in the Treaties: the budgetary flexibility was due to Italy, not at all kindly "granted" by the European Commission. Thanksgivings were out of place, given the situation.

As if that wasn't enough, some days after that, the President of the European Central Bank, Christine Lagarde, made the worrying statements which confirmed

Businesses are being forced to close as social distancing to avoid COVID-19 takes hold.



Recession is on the horizon even for Germany.

the feeling on the lack of a common spirit of solidarity. The Presidency of the Italian Republic delivered a prompt and decisive reply, in which it was noted that "Italy is getting through a difficult condition and its experience of contrasting the spread of coronavirus will probably be useful for all the EU Member States. We therefore rightly expect, at least in the common interest, solidarity initiatives and not moves that can hinder our action". Ultimately, the ECB has taken a step towards restoring its credibility. By its bold action of launching a €750 billion bond-buying program combined with quantitative easing already under way, the Central bank will buy over a trillion euros of assets over the rest of the year. This move sharply reduces fears of a repeat Eurozone crisis. And yet this "big bazooka" has put the onus on EU politicians to follow up with spending programs providing support to workers and businesses worried about the future.

In a nutshell, Brussels must recover "*L'Esprit Européen*" of its roots, otherwise it will condemn itself to perish.

Despite some recent overtures by Chancellor Merkel vis-à-vis the Italian government's proposal for the establishment of "solidarity bonds", the basic attitude of the German government continues to cause

concern. After the identification of the first European infectious-case in Munich and with the health emergency taking place in Italy, the voice of Germany was weak. Berlin's silence ended on March 13, when the government presented a first response to the crisis, announcing what the press called the 550 billion "German bazooka" in support of the real economy. Unfortunately, this is not a fiscal policy stimulus as many would have hoped for, but public guarantees to provide liquidity to German companies. It saddens to note that, even at this very serious juncture, Berlin does not intend to renounce to the principle of a zero-deficit budget constraint.

It is time to reverse course: Germany is urgently required to play a leading role in the Old Continent, it cannot escape the responsibilities that history gave it.

Italy in the absence of radical interventions, is heading towards a recession. If we thought of contrasting the decline of the economy exclusively through sectorial transfers and tax reliefs, we would simply dispense some minor palliatives; above all, we would miss a new opportunity to revive Europe. The main road to obtain the result of sustaining our economy and revive Europe passes through a double node: firstly, ensure the cooperative and supportive coordination of

the economic policies of the EU Member States, a “European Bretton Woods” (this is already stated in the Treaties); secondly, set up and implement multi-year investment plans in infrastructure to protect health, climate and environment, land security, education and to modernize large infrastructure networks (both tangible and intangible), wholly fulfilling the spirit of the Treaties.

The lack of cooperative and supportive coordination of Member States' economic policies contrasts with the letter of the Treaties: therefore, Italy must request and obtain its application. The European governments can no longer circumvent this question, if duly urged by the Italian government.

With reference to the second point, in the current emergency phase, Italy has the opportunity to promote a wide-ranging economic support program, focused on investments and financed through the introduction of the “golden rule” and/or through bonds issued by the EU or issued by the Member States and guaranteed by the EU.

The time has come to distinguish between capital expenditure and current expenditure: only the latter must be considered for the purposes of the Brussels budgetary rules (this is the “golden rule of public finance”); also, the time has come to create a European budget of adequate dimension for the construction of those social infrastructures essential for the life of citizens of the entire Continent. “Golden rule” and euro-bonds aimed at the realization of public works of vital importance for Europe must become the rule, even (after the emergency) for ordinary times. Only in this way will it be possible to give a significant boost to growth and a non-illusory response to the unemployment and low wages problems that are plaguing some European regions in a dramatic way. Far from being compromised, the fundamental value of the fiscal equilibrium of States would be strengthened by such a project, within which there would be no room for current expenditure. Hence, the diffidence of the blockade of the Northern European countries towards the assumptive tendency of easy spending of the Mediterranean countries would have no reason to exist.



A now dated Eurobond fantasy note printed by the Naples Bank Note Company.

The health and economic emergency triggered by Covid-19 can be tackled with appropriate technical solutions and can give momentum to a new thinking for Europe. From this consideration we launched the idea of issuing euro-bonds for specific investment plans and of introducing the “golden rule”, two technical tools which, in reality, pursue a political purpose: the re-ignition on new foundations of a tardy European Union, in accordance with the vision of its founding fathers. As Helmut Kohl put it: “It cannot be repeated often enough: political union is the indispensable counterpart to economic and monetary union. Recent history, and not just that of Germany, teaches us that the idea of sustaining an economic and monetary union over time without political union is fallacy”.

Now, there has come the time to put a full stop to the EU's incompleteness. There is no alternative, if not disintegration.

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