REDUCING UNCERTAINTY, NOT UNDERSTIMATING THE EU COMMITMENT, FOCUSING ON A COMMON INVESTMENT PROGRAM[1]

SUMMARY

In order to deal with the immediate and the future consequences of the Covid-19 pandemic, a primary requisite of the European Union policy actions should be to reduce the prevailing uncertainty, both at the health and general economic level. In the perception of families and businesses, uncertainty is the real enemy to be beaten and it is therefore necessary to take decisions that define immediately and clearly the amount of EU resources mobilized and the timing and the manner of their use. Priorities should thus be ordered according to a precise time scale. The need to overcome uncertainty requires that the two phases of the immediate intervention (Phase 1) and the re-start of the economy (Phase 2) are closely related, so that Phase 1 does not compromise the objectives of Phase 2 and that the latter is consistent and reinforces the objectives pursued in Phase 1.

Phase 1 aims to implement an immediate intervention plan and a massive investment in hospital equipment, tampons, serological and sample analysis, capable of reducing uncertainties and infections. The resources available without conditionality to the ESM could prove valuable in this regard. The issue of reducing uncertainty is crucial not only for the coming months. It is necessary to define and make the project public immediately. At the economic level, this means that the re-openings of the various activities must be planned from now on, defining the safety conditions in the factories, with a shift in working hours capable of reducing the risk of contagion, in particular on public transport.
Immediate intervention to support the income of families and, in particular, those in need is essential. But it is also essential to extend a lifeline to business to restore minimum operating conditions and to avoid the destruction of a significant asset of productive and entrepreneurial capacity. Compensatory measures should be taken to provide companies with financial resources related to the lack of added value of these months of closure.

The EU swiftly responded to the call of national authorities in support of their health systems, businesses and workers, by providing a series of unprecedented measures. These include suspending the SGP's deficit limits, loosening the implementation of state aid rules, and adopting the temporary framework to allow member states to provide subsidies in a number of cases. On the other front, the European Central Bank (ECB) launched a new purchase plan of over one trillion dollars of public and private securities (the so-called PEPP program) by developing a fundamental protection network for the issuance of sovereign bonds of European countries until the end of the year. The ECB's action is essential to make the new debt sustainable and, for this reason, the ECB must make clear its willingness to refinance the purchases of a significant portion of the maturing securities after December 31st 2020.

[1] The document is the result of the contribution by Luigi Paganetto (Group of 20 Coordinator), *Patrizio Bianchi*, *Luigi Bonatti*, *Paolo Guerrieri*, *Rainer Masera*, *Beniamino Quintieri*, *Nicola Rossi*, *Pasquale Lucio Scandizzo*, *Giovanni Tria*.
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Regarding international trade, the importance of the export sector for Italy is so great that it will be crucial for our country to be able to be immediately engaged in the recovery of the world economy and, in particular, of the European Union, where more than half of our exports are directed. Today, the opportunities for recovery of our economy are strongly linked to the development of world trade and to the role that the Single European Market will play, which must continue to be a fundamental cornerstone of European integration. From this point of view, the Italian Government’s decision to extend the applicability of Golden Power to new sectors is a cause for concern.

Phase 2 is a subsequent stage of action only from an abstract point of view, because it must be conceived, planned and made clear from now on. It will find more reliable foundations the more successful will have been Phase 1 in mitigating the “destructive” aspect of the pandemic. The effective use of funds in this phase is as essential as is the huge need for public resources. Only massive, prompt and efficient interventions of unprecedented scale and effectiveness may be able to initiate and support the re-start of the economy, with expansionary macroeconomic policies, financing, and incentives for implementation in various forms for public investment.

In this regard, the proposal for the creation of a Fund linked to the European budget (Recovery Fund) aimed at restarting the current and future economy should gain the full support of all EU members. Since efficient and prompt actions are required, the Green Deal Plan for the Green Transition, together with the Digital Transformation and 5G Plan, launched by the new EU Commission just a month before the outbreak of the epidemic, are visionary programs for sustainable development, that can be used to start immediate and effective investments, together with safety and health interventions, which the pandemic crisis has singled out as absolutely necessary. The ways in which these and other interventions will be financed require public debt financing with various degrees of European backing. Rather than the mutualization foreshadowed by the Coronabond hypothesis, the proposal put forward here is for the creation of a common European program of Recovery Bonds (ERB). These represent a challenge for all European countries to create a secure common debt backed by a patrimony of common and sustainable infrastructure at the level of the whole union. This could also be supported by a EU’s long term budget (MFF) of a greater scale and scope of the present one, as proposed by the Commission and the European Parliament, increasingly financed by own resources.

The ERBs could thus contribute to create the basis for a Europe united by prosperity, growth and enhancement of savings. They could be implemented by using instruments already tested by the European Investment Bank (EIB) and the European Fund for Strategic Investments (EFSI). Sustainable infrastructure projects should be able to attract private, available and necessary co-financing with the additional support of national development banks (the Deposits and Loans Fund, in Italy), and banking and insurance companies (with less stifling regulatory constraints on capital).

In conclusion, we are facing an epochal crisis in which, on the one hand, substantial and immediate funds are needed to help businesses and citizens during a period of uncertain duration in which economic activities are suspended or severely forced by external constraints. On the other hand, the restart will require more resources, but also adequate capabilities to direct them towards reconstruction and revitalization activities effectively and quickly.

In the case of Italy, a set of long-term structural reforms and measures are needed - however unpopular - to boost growth by focusing on digitization and Green Deal with EU shared resources.

A crisis like the one we are experiencing is a once-in-a-lifetime opportunity to get a grip on crucial nodes of the economic and political system that threaten to hamper sustainable development and democracy in our country. However, we must also be aware that the main obstacles to implement an adequate program of public capital reconstruction will not reside in a shortage of financial resources, but in the lack of capacity to use and manage them properly and effectively. The main difficulties for the revival of the Italian economy, in fact, for the near past and even more, predictably for the immediate future, originate from the lack of technical and administrative capacity to plan, design and carry out public interventions.

The challenge of reconstructing the economy provides also the opportunity to direct resources to building up public capacity, by revamping skills, competence and authority, as well as by introducing incisive legislative and regulatory reforms. Both these measures should be sufficiently large, ambitious and far reaching to allow the public sector to really get projects off the ground, in particular for health, public works and infrastructure.

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