SECOND TAORMINA/ MESSINA CONFERENCE
(ORGANIZED BY TAOBUK FESTIVAL AND VISION)

LA METAMORFOSI DI EUROPA[1]

EUROPE IN A POST PANDEMIC WORLD – ONE YEAR ONWARDS LOOKING FOR THE IDEAS TO CONTINUE THE DEBATE ON THE FUTURE OF EUROPE IN THE 21ST CENTURY

18th – 21th JUNE 2021

[1] Europa is the mythological Phoenician princess whose seduction from JOVIS gave birth to the kingdom of CRETE and to the idea of the WEST as civilization.

WORKING GROUPS - BACKGROUND

GROUP 2. NEXT GENERATION EU AND COMPLETING THE EU HAMILTONIAN MOMENT[2]

The unprecedented decision of having the European Commission to directly borrow money on behalf of its 27 member states[3] in order to finance a 750 billion Euro plan for recovery (the NEXT GENERATION EU), was rightly welcome as the “HAMILTONIAN” moment in the history of the European Integration.

However, Alexander Hamilton did not stop himself to propose the federalization of the debt due to the funding of the “independence war” which gave birth to the United States. He went on to give to the federal government in Washington DC the monopoly of issuing money (which the EURO member states have already forgone to the European Central Bank) and the power to establish the quantity of overall public debt in the USA. Federal taxation was introduced in 1787.

One year after the historical proposal made by Merkel and Macron (which the European Commission used as a blueprint), Hamilton would suggest that we still have a long way to go. Main doubts are on three crucial issues: the adequacy of the sixe of the package; the timing by which it eventually reaches European economies; the quality of the expenditure and, thus, the question whether NGEU can have a transformational role of old industrial models into greener, digitalized growth patterns.

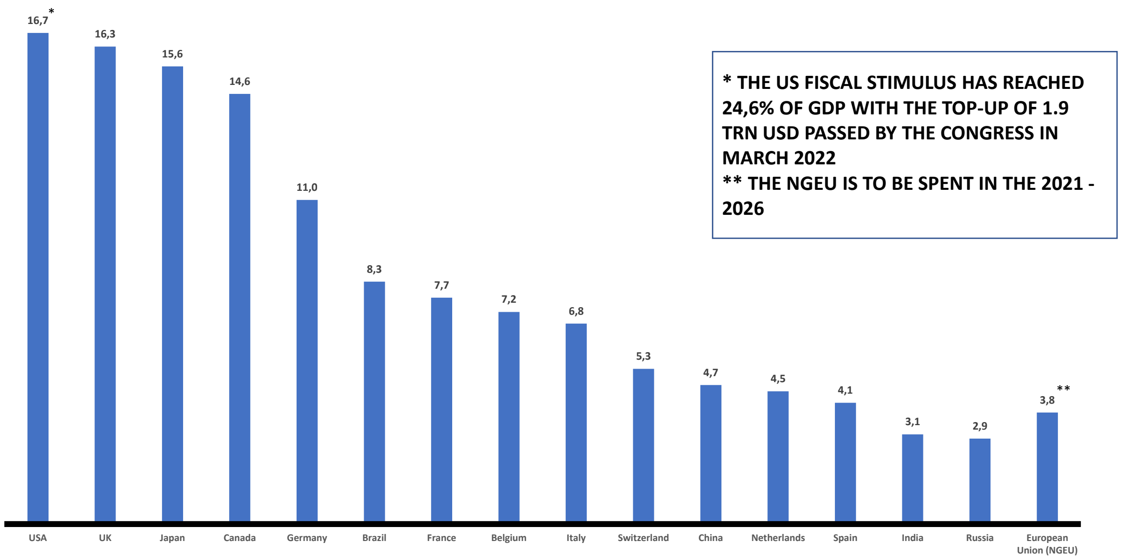
[2] The background is completed by the VISION paper on “completing EUROPE’s Hamiltonian moment” accessible at https://www.thinktank.vision/en/magazine/the-future-of-europe/one-year-later-is-next-generation-eu-working

[3] In fact this was not exactly the first time – the European Commission did, in fact, borrow to finance the European Financial Stabilization Mechanism before. However the dimension of NGEU financial needs (750 billion EURO) is on a totally different scale.

One year after, NEXT GENERATION EU seems to be too little vis-à-vis a crisis which became much deeper.

As for the following graph, 750 billion EURO of which only 390 billion are grants (this sums up to 0,7% per year, in the next six years, of the GDP of the 27 countries)[4] are smaller than the stimulus that, in comparison, the US[5] or the UK[6] have injected in their economy; but it is, also, relatively little when compared to the “immediate stimulus” injected in the economy by single member states in 2020[7], although this again points to be a still largely national response.

SIZE OF THE FISCAL STIMULUS AS RESPONSE TO COVID-19 (ADDITIONAL GOVERNMENT SPENDING AND FORGONE TAX REVENUES IN 2020, AS % OF 2019 GDP)



Source VISION on IMF data

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4 As a matter of fact to keep numbers comparable we should qualify them by considering that 360 billion of the 750 are loans to member states. The same applies to the additional 100 billion of the SURE facility whose objective is to address sudden increases in public expenditure for the preservation of employment.

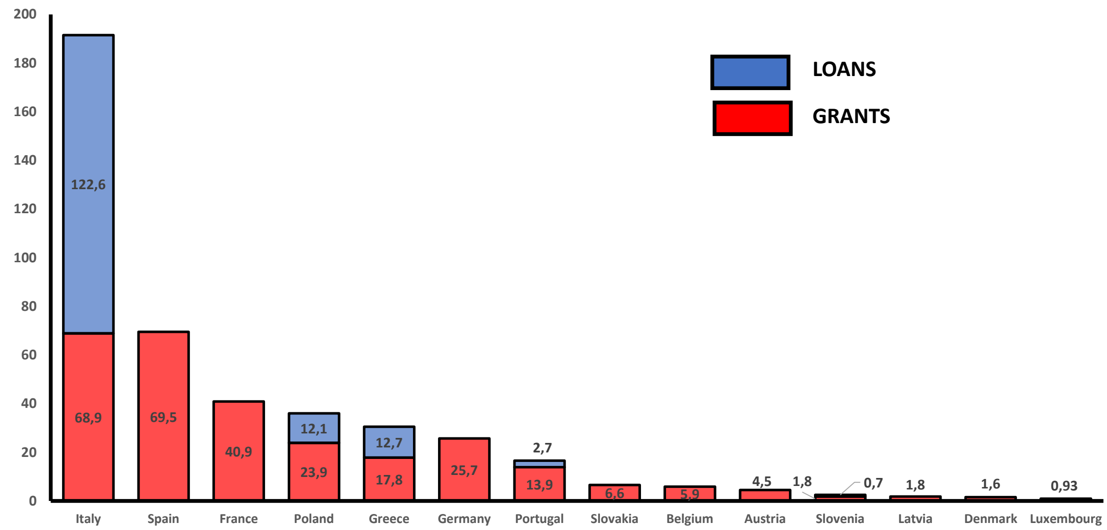
5 In 2020, the US congress spent 4 trillion USD – 9,1% of the 2019 GDP - and it is now considering an additional 2 TRN of emergency spending

6 8,3% according to “Fiscal response from the economic fallout from CORONAVIRUS”, 24 November 2020, BREUGEL

7 This ranged from the 8,3% of the GDP in 2019 for Germany to 3,4% in Italy. Again according to same BREUGEL’s publication

As for April 31st [8] fourteen out of 27 member states had presented Plans for Recovery and Resilience and yet the overall package became a) smaller due to the reluctance of some member States to ask loans (which may have been crowded out by the support of the European Central Banks making cheaper for EU States to issue public debt in the markets) and b) dangerously dependent on the outcomes in one single country (Italy) which may end up counting almost 40% of all NGEU's resources.

RECOVERY AND RESILIENCE FACILITY, FUNDS REQUESTED BY COUNTRY, NATIONAL PLANS DELIVERED TO THE EUROPEAN COMMISSION C BY MEMBER STATES (AS FOR THE 8th MAY 2021, BILLION EURO)



SOURCE: VISION ON EUROPEAN COMMISSION

Yes, the NEXT GENERATION EU was a big decision, but it fully describes a mechanism (it took more than six months for the proposal of the Commission to be first approved by the Council and then by the Parliament, whereas the first money will be spent roughly one year after) which is simply to slow a reaction to emergencies and this partially explains why European Commission itself is forecasting that the EU will reach the same level of PRE-COVID output roughly one year after the rest of the world (as for the EC's winter economic forecasts).

[8] As for the art. 15 of the "Regulation establishing a Recovery and Resilience Facility", "the recovery and resilience plan presented by the Member State.. shall be officially submitted at the latest by 30 April".

Not less importantly even the effectiveness of promoting some strategic priorities (the green deal as well as digitalization) by earmarking money to certain minimum percentage to be spent on those issues, appears to be questionable. A greener Europe will be a lot about innovating radically consumption (circular economy) and production models (together with entire industries like car making): any innovation, however, requires to make choices that seem to go beyond the possibilities of an instrument managed through regulations.

Vision proposes few questions/ proposals around which the WG will articulate its problem solving:

1. is it a good idea to wait for the outomes of the current NGEU before we can possibly start a first assessment of the mechanism (of its regulation) with the view to "make it permanent"? is it a good idea considering that these "outcomes" will mostly depend on the GDP growth rates of a country (Italy) which has been lagging the others for a couple of decades (and at a much lesser extent on Spain)?
2. Should a permanent NGEU, and thus a permanent capability of the European Commission to respond to crises with its "own resources" come with a reform so that the Commission can act – within certain conditions and budget – independently? Hcih should be these conditions and upper limit budget? Should more power for the EC come with EC's more responsibility on the final results? Should such a process be delegated to some EC agency or to a technical body similar to European Stability Mechanism) the power to react to shocks?
3. If the problem is too late, what if part of the money is spent directly reaching citizens and individual needing support? What about the hypothesis to create a safety net (via re-skilling and universal basic income) directly managed at European level for people left unemployed by crises?

4. If the question is about mobilizing private money, what about using more EC money to co-finance with private financial institutions close end fuds specialized to provide equity into some specific industries?
5. If the problem is over-ambition, what about the (apparently crucial) link between reforms and investments? What if the EC focues just on “changes” (“reforms”) which are necessary to implement the plans (for instance rules of public procurement)?
6. Is the earmarking (minimum percentage of money spent on green, digital, ..) of the “national recovery plans” an effective instrument to make sure that some European priorities are respected everywhere?
7. What about spending a significant share of the funds on EU-wide projects which may be focused on cross border digital infrastructures (broadband) and on reseach/ production projects on technologies which are key to EU ecological transition or digital soverignity? So to bypass lengthy negotiations amongst States (for instance the one between “frugals and the rest)?
8. What if we overcome the idea of having one single day for the delivery of National Recovery and Resilience Plan and we move to a more realistic “fist come, first served” approach where different investments/ reforms are presented to the Commission when ready?
9. What about the relationship between the NGEU and the European Central Bank? Is there something to be done to avoid that too low interest rates “cannibalize” the option for States to get loans from NGEU?
10. How should change the “growth and stability pact” within this context?