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The European debate on the new Stability and Growth Pact invests several European and global challenges at the same time. Each of these will have consequences for the others. And also for the balance of power between the "European government" and the member states.

Over the past few years an impressive series of events has hit Europe (and the whole world). After the global financial crisis of 2007-2009 and the European sovereign debt crisis of the first half of the 2010s, COVID struck at the end of 2019. Then came Russia's invasion of Ukraine. And after that, the energy crisis and soaring inflation. Additionally, all this happened as a new structural scenario is emerging: the environmental crisis that forces a global response; and contradictory thrusts for the search of a new world order brought about by the decline of US leadership and the emergence of new powers (China, India and others); in fact, we are facing an alternative between renewed international cooperation with shared global rules and the clash between superpowers for the global hegemony. It is not surprising that all this is prompting a rethinking of the

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European economic architecture. A first, historical, response has already come in the form of the Next Generation EU (NGEU), the post-pandemic Recovery Plan financed with debt jointly guaranteed by member states.

And now two other fundamental topics are up for discussion: the revision of the Stability and Growth Pact (SGP); and the development of a new European industrial policy. Put together, these areas of intervention promise to reshape the global EU economic governance.

The European Commission itself recognised that the current version of the SGP doesn't fit the modern world. When the pandemic struck, the general escape clause of the SGP was activated, allowing member states to react to the COVID-19 crisis by providing sizable fiscal support to their economies; this strong countercyclical response proved highly effective in mitigating the economic and social damage of the crisis. The NGEU was then set up to help the various European economies to recover and to shift towards a greener and more digitised future. At the same time, the crisis resulted in a significant increase in public debt ratios, highlighting the importance of reducing them to prudent levels; indeed, fiscal prudence in times of sustained growth helps build fiscal buffers that governments can use to provide countercyclical fiscal support in times of crisis.

The time has thus come for a comprehensive reform of the SGP. The current set of rules is based on the famous Maastricht's thresholds: a country's debt to GDP ratio and annual deficit to GDP ratio cannot exceed, respectively, 60 per cent and 3 per cent. If the government debt is beyond such a limit, the country is required to lower its excess over the 60 per cent limit by one twentieth each year. This reduction plan, which constitutes the "corrective arm" prescribed by the SGP, is objectively too rigid since it doesn't take into account the specific economic conditions of the country under examination. The same argument holds for the general set up of the current rules.

The reform proposed by the Commission is aimed at relaxing these parameters and, at the same time, at politically engaging the member states. Essentially, it is based on a multi-year approach. In a first moment the member states would be classified in different risk categories in accordance with a debt sustainability analysis. The Commission would then propose a reference multiannual adjustment path to the countries with substantial and moderate fiscal challenges based on the net primary expenditure, i.e. the expenditure under the direct control of the governments. The goal of the plan is to bring the public debt on a plausible and continuously declining path at the end of the 4-year period.

At this point, the member states can present a counter-proposal. It has to include a detailed description of reforms, public investments and fiscal adjustments needed to put the debt on a declining trajectory; the involved government may also request an extension of the adjustment period for three more years. Finally, the European Council would be in charge of approving or rejecting the country's proposed plan. If rejected, and in case of no agreement between the Commission and the member state, the adjustment path initially proposed by the Commission would automatically become the reference plan. From a governance perspective, this process would increase the federal power of the Commission which supervises and coordinates the national economic plans, thus promoting converging growth and stabilisation paths and, in turn, favouring the integrity of the entire system.

The reform proposed by the Commission represents an important step in the right direction both from a purely economic point of view and for its political implications. First of all, it is based on the net primary expenditure which, as said, represents the costs under the direct control of the governments. This ensures that the country, in carrying out its adjustment path, is shielded from variables like interest rates movements (which can be due to speculative market swings or to monetary policy interventions) or higher automatic stabilisers (like unemployment and social benefits). This gives the government enough room to implement the plan independently and to focus on the actions under its direct control. Furthermore, several economists have argued in favour of stabilising the public debt by focusing on the net primary expenditure: the public debt does converge towards a steady level if the net primary expenditure is under control, provided that the economy enjoys a certain level of growth.

Another relevant merit of the proposed reform is the multi-year approach. This allows for medium and long-term planning, which is the proper time horizon in terms of public finance sustainability. The government is given a good timespan to manage the level of spending according to the chosen fiscal policy. In particular, the duration of the plan may coincide with the government term, which means it is not forced into a short term rush but it has the opportunity to manage its economic policy throughout the whole legislature. This is first of all a sound economic principle on its own. And secondly, this translates into a political stimulus: making more stable governments, a challenge particularly important for several European countries unfortunately accustomed to short-lived governments (like Italy for example).

At the same time, member states are more actively involved in the process. While in the old system they were asked to curb spending in a rigid way, now they work together with the European institutions. This method gives them full political responsibility for the actions undertaken, covering a period of several years. The Commission’s objective is therefore twofold: giving more flexibility on the economic front and more stability and responsibility on the political one.

Not only stability

Ursula von der Leyen has recently announced that the Commission will propose a new EU Sovereignty Fund next summer to support European industry’s green and digital transition. The project is at a very early phase; indeed, there is not a formal proposal yet. Nevertheless, the final objectives of the initiative are already clear: helping the economic growth with structural interventions and launching what has been defined as “strategic autonomy” i.e. a new European industrial policy. Several political leaders and pundits have already been arguing in favour of such initiatives for a long time. Then, the disruptions created by the pandemic and later by the war and energy crisis have made clear that a European intervention in this direction is really needed. Lastly, the political pressure to act has mounted as President Biden signed into law the Inflation Reduction Act (IRA) with its “made in America” subsidies.

The Commission is determined to accommodate the transition and to make the European economies more resilient. It is urging the member states to shorten permitting times for green projects, to ease redtapes and to retrain workers with the new skills required. It has spoken out in favour of signing long-term agreements with countries that supply crucial raw materials in order to reduce dependence on single suppliers. Investments throughout the entire supply chain will be proposed.

However, as we are still at a very early stage, the details of the interventions are still to be defined. A first crucial point will regard financing. The most obvious choice would be the emission of Eurobonds, as already done for the Next Generation EU. This would allow the set-up of a Sovereignty Fund with enough scope to act decisively. It would also boost the creation of the capital market union and provide financial markets with more risk-free euro denominated securities. Hopefully, the likely resistance from Central and Northern European countries will be overcome (resistance that, of course, should be overcome thanks to the good usage of the funds received under the NGEU; it is reasonable, compelling indeed, to verify how the current resources are used before adding more common debt). Other, less preferable, alternatives might be direct contributions from member states or involving the European Investment Bank (EIB).

Possibly still more important will be the decisions made in terms of European industrial policy. In doing so, the EU absolutely needs to maintain the market-based approach it has always embraced. Responding to the American IRA with an indiscriminate subsidy race would make everyone worse off; on the contrary, the integration of the single market and the openness Europe has had towards the rest of the world have served the continent remarkably well. As of now, European leaders fear jobs and investments may move to America; but they also need to consider that Europe has a large, functioning and growing green industry, thus it is far-fetched for firms to abandon Europe massively. Better to use the Sovereignty Fund to invest in public infrastructures, build electricity grids, invest in renewables. Europe needs huge structural investments which cannot be sustained only by privates; that’s where the public pot should go. Of course, targeting help towards the poorer would be sensible, which is different from the sort of handouts for everyone approach some governments have pursued.

Making the EU economy more resilient will need a mix of “strategic autonomy” and diversification. The production of some essential goods might be internalised; at the same time, diversifying the supply chain will be important. Again, this is the job of a vigorous trade policy, on which the EU excels.

In short, in pursuing its industrial policy, the EU needs to build on its strengths: strong internal market, limits on subsidies, openness, multilateralism. It is worth noting that this approach makes sense from an economic point of view but also from a political one. The EU is a champion in international cooperation and often stands as a “normative power”, setting global standards for others to follow. War has erupted on European soil and geopolitical tensions are high almost everywhere. The EU is a landmark for multilateralism and should continue to act as such. Implementing a common European industrial policy is essential for the EU to thrive; at the same time, it must do it by remembering its strengths and, most of all, its ideals. The Commission has hinted into this direction; hopefully the process will follow this lead, preparing the ground for a bigger Europe into a cooperative world.

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Combining stability and growth

Global public debts ballooned over the last decades. A first considerable surge happened because of the financial crisis of 2007-09. When COVID-19 struck, governments in rich countries spent freely to support their economies. They were right: they learnt from the previous crisis when public response had been too timid in helping the economies out of recession. Fiscal largess has been favoured by central banks which slashed interest rates and bought huge amounts of longer dated government bonds via their Quantitative Easing (QE) programmes. But now governments face two major problems. The first one is that it is difficult to reverse public spending. Once a bonus or tax relief has been introduced, it is politically tricky to remove it; moreover, after some time of big public support, people now come to expect the government to do the same when the next crisis hits. This is another reason to refrain from a costly subsidy race, preferring instead the sort of carbon pricing scheme the EU has successfully implemented.

The second problem is that interest rates have now been increased by central banks in the attempt to tame inflation: they reached 5-5.25% in the US, 3.25% in the Eurozone and 4.50% in the UK; only Japan has still a loose monetary stance but even there pressures to start tightening are mounting as inflation is approaching an uncomfortably high level. Costs for interest are then climbing and, as a consequence, debt levels risk becoming unmanageable.

Against this backdrop, it is important to consider the double objective the European Commission is aiming for. On the one hand, the reform of the SGP wants to lower government debt in a gradual but credible manner. This is particularly relevant at a time when several factors promise to keep pressures on already strained government budgets for a long time: the green transformation of the economy, more defence spending, the reconstruction of Ukraine, increasing health care costs linked to ageing population. On the other hand, the European industrial policy wants to create the structural conditions to help the economy grow and make it more resilient; combining growth with fiscal prudence is indeed essential for stability itself. Besides, contrary to many European governments, the Commission has fiscal space to act properly, which is why it would be reasonable to finance the Sovereignty Fund with European resources.

The process for reforming the SGP and setting up the European industrial policy has just begun. With the various legislative steps the European Parliament, Council and member states will surely have the possibility to improve the initial proposals of the Commission and make them as suitable as possible. However, at the present time, it is relevant to highlight that the direction indicated by the Commission is the right one: fiscal rules must be reintroduced as the shocks from COVID and the energy crisis give way to ordinary conditions; such rules need to be reviewed in a more flexible and, as a consequence, credible way; additionally, European intervention is needed to spur growth and accommodate the economy towards the new normal, through a bigger and sustainable EU budget.

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The COVID-19 pandemic has profoundly shaped and speeded up the actions taken at European level, especially regarding the economic governance. As a consequence, also the debate about further reforms has been affected, as the previous agenda has been totally overcomed by the events.

This crucial aspect about the future of the EU economic governance has been addressed, among others, by a Policy Brief of the Jacques Delors Centre ("*Everything will be different: How the pandemic is changing EU economic governance*"), which highlights and discusses some key points. Based on this very interesting work, we would like here to provide our thoughts and recommendations on the main issues raised.

EU fiscal capacity and common debt

The first aspect to deal with is the newly EU fiscal capacity and its common debt. First of all, it is worth noting that the EU has been able to incur common debt under the current Treaties, which made it possible to provide a common answer to the crisis in a relatively short time. This will also enable the EU to fund new common expenditures in the future, under the legal basis already used. It is telling that Paolo Gentiloni, the European Commissioner for Economy, has recently noted that "if you introduce a new tool that works, it can be repeated".

The Next Generation EU has been a dramatic turning point in the process of the European integration. For a start, the European Commission has been invested with the duty of closely monitoring the investment plans drawn up by the member states. Even if the projects will not be directly managed by the Commission itself, the investment guidelines provided and monitoring authority assigned at European level gives to the Next Generation EU a real sense of common federal action.

Additionally, the Next Generation EU allocates the resources to the member states by taking into account the asymmetric effects of the crisis. In general, it can be argued that a larger EU budget was badly needed in any case, regardless of the current economic situation: indeed, a large centralised federal budget is required for a currency union to work properly. Specifically, one of the primary goals of a federal budget is to provide support to specific areas within the union affected by an asymmetric shock. The ECB had already taken a comparable step in March 2020 when it launched the Pandemic Emergency Purchase Programme (PEPP) and, in doing so, it dropped the Capital Key rule by allowing itself to buy more sovereign bonds of the countries hit hardest by the pandemic. With the creation of the Recovery Plan, also the fiscal lever is now available to tackle asymmetric shocks, bringing the European Union closer to a proper federation.

Apart from the importance in fighting the COVID-19 related crisis, a key issue is what all this means for the future. According to the current redemption schedule, the EU will eventually withdraw its bonds from the market (the current plan is to start repayment in 2028, over the next three decades). This would be a mistake. It's preferable for the EU to roll over its debt and keep its safe bonds on the market. Firstly, simply because withdrawing the EU common bonds would essentially mean transferring such a debt on the member states, which would be politically undesirable and financially expensive. But most of all, keeping the EU bonds on the market would be essential for creating a Capital Market Union, strengthening the international role of the Euro and making it easier to set up new European investment plans in the coming years. It is no surprise that Mario Draghi, the former ECB boss and current Italian Prime Minister, has recently called for the creation of the Eurobonds. In particular, in a comparison with the US, he stressed the importance of having a truly Euro safe asset, an integrated Capital Market and a Banking Union: these aspects would help creating a vast, common market for firms and consumers, with the obvious related benefits.

Lastly on this topic, the reform agenda must include a rethinking of the public debt and deficit rules. This aspect is far too complex to be technically addressed here; it needs an in-depth analysis by economists and politicians alike. We want here just to highlight a couple of points. The various thresholds on the public debt and deficit, as well as the path to reduce and keep them under control, were set up in a completely different economic context. Now, we have been facing a low interest rates – low inflation environment for more than a decade. Only in recent times economists have seriously started talking about inflation again, as lockdown measures are going to be eased and the effects of the enormous fiscal and monetary stimulus on the price dynamic have yet to be fully seen. In general, the need is to combine a set of rules that are flexible, in order to be adapted to the evolving economic environment, but also credible – for convincing the market and the public that the Government debts will not run out of control. But even more important, the rules need to be rethought in light of the new European public debt, which removes the burden of some expenditures from the national Governments and which in effect has created a new big macroeconomic player: the European Union.

Economic and Institutional architecture

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After the Euro crisis, the EU created a framework for preventing and managing future shocks. The main problem with this architecture was that the process was largely technocratic, and the Economic Recommendations given to the member states were widely ignored. The monitoring authority given to the European Commission within the Next Generation EU will replace such a construction, transforming a technocratic process into a political one. Regardless of the specific form that future common investment vehicles will have, it will be necessary to maintain this type of control for economic policy coordination. Indeed, this political mechanism is far better than a technocratic one since it is more transparent and it makes the Commission accountable in front of the European citizens, making the whole system more democratic and understood from the general public.

Against this backdrop, one clear example is provided by the European Stability Mechanism (ESM). The ESM was an instrument specifically designed to be used during periods of financial distress and, given the exogenous nature of the crisis, the member states agreed to remove almost all the conditions attached to it: the only one remaining was to use the funds for health care costs, both direct and indirect. And yet the ESM has totally gone unused. The reason for this failure is twofold. First of all, in many countries populist parties used the pretext of the old tough conditions imposed during the Greek crisis to campaign against the new ESM which, as said, has actually been cleared by these very conditions. If you think this makes no sense, it's because it doesn't. Nevertheless, the intergovernmental nature of the ESM didn't help in making it transparent and easily understandable by the citizens, thus somewhat facilitating the populist argument.

But most of all, the reason lies in the fact that no country would have known what to do with the ESM funds. Applying for the ESM loan required a plan for reforming the sanitary system, which no one had prepared. The pandemic has swept all national health systems and shown how ill prepared they were for managing a major challenge. In this respect, it would be more appropriate to introduce a European basic health system: the aim should be to provide common guidelines to the different countries in order to ensure equal treatment for all citizens of the Union, especially – but not only – in critical situations. Indeed, inequalities are totally unacceptable when it comes to personal health. A good case in point is given by the vaccines: smaller and less rich member states would have incurred difficulties in getting a fair share of vaccines. The centralised management of the situation by the European Commission, which was put in charge of procuring vaccines for a population of 450 million, has prevented this intolerable outcome. This is true, of course, regardless of the possible errors in the negotiations made by the Commission: this is not a judgment on the goodness of the work of the Commission in this case; this is an indication of how it is appropriate to structurally divide the tasks between member states and Europe to avoid inequalities. Setting up a European basic health system would help in ensuring equality in such a relevant context.

These examples show that the political interventions – which are necessary to implement the NextGenEU investments – make the Commission's action increasingly political and not just technical, as it was when the European Semester was in place. And this will inevitably affect the future European governance.

Eurozone and EU-27

Lastly, the events of the last few years have cast doubts on the need of focusing certain reforms on the Eurozone dimension instead of the whole EU-27. The first step in this direction has been the UK's exit from the EU. Even if "Remain" would overall have been a preferable outcome and the effects of Brexit will be a controversial issue for a long time, it is known that the UK has often tried and succeeded in watering down ambitious EU reforms. As a consequence, the focus needed to be shifted on the Eurozone dimension to make significant progress in such areas. As Brexit has become a reality, this is no longer the case. Indeed, it can be argued that the Next Generation EU would not have been possible with the UK in the EU (even if we cannot be sure of this, given that the dramatic circumstances called for unprecedented answers).

In addition, the non-euro member states have lost considerable weight. And looking forward they will even more, as new countries will join the Eurozone. This reinforces the case for addressing more issues at EU level, leaving aside the Eurozone format.

As a matter of fact, the Next Generation EU is a EU-27 project, as well as the 2021-2027 revamped EU budget. This has made the talks for a Eurozone budget totally obsolete and the decision-making has shifted at EU level. This is not only good in principle, but also convenient in practice: acting within the framework of the Union law makes it often possible to take decisions by qualified majority, instead of by unanimity. This allows to speed up the process of decision-making, a key point in successful politics. In this context, it is very important to point out that we are not facing a trade-off between reactive decisions and democracy. At a first glance, it may seem that unanimity requirements guarantee the respect of the will of everyone; but in reality, a situation where a single country has the power to block the other 26 can hardly be defined as a functioning democracy. Thus, the right direction should be to make it clear that in certain areas the sovereignty is correctly allocated at European level – for better serving the interests of all member states, as in the case of the Next Generation EU – and that in such areas the EU-27 framework should always be chosen whenever possible.

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A challenge from the Recovery Plan for Europe

The corona virus outbreak has provoked the most dramatic global humanitarian crisis in living memory. It forced a deep change in our way of living, keeping us apart from our friends and families and, most sadly, the casualties due to it keep climbing all over the world.

At the same time, the pandemic has triggered the most drastic world economic crisis of the last century. In response, central banks and governments have unleashed a series of unprecedented stimulus-packages to fight the downturn. Such measures are absolutely needed. Firstly, they provide vital support to workers, consumers and businesses, helping them to go through the emergency. And secondly, they are necessary to limit the economic scars, the lasting economic damages that persist even after the emergency-phase has finished and that limit the subsequent recovery.

But simultaneously, it is crucial to stay focused on the medium-term objective: the transition to a green and digital economy. In fighting the short-term damage caused by the pandemic, most governments have failed to subordinate the aides provided to any ecological requirements – even those given to the largest firms. It would be a terrible mistake rebuilding the economy as it was before the pandemic. Several industries used to rely on obsolete models and were already in decline: the outbreak has suddenly accelerated this trajectory. The fundamentals of our economy need to be reshaped, and we can't afford to waste this occasion.

In fact, history is full of episodes like the one we are facing. Of course, not in the sense of recurring, widespread and highly deadly pandemics. But the economic shock generated is nothing particularly new. Over time, major events that disrupt the existing political and economic balance are quite common. Such events profoundly shape the development path followed by different countries or, more in general, by different geographic areas.

In this context, it is relevant to notice that the same initial shock can have – and usually has – very different consequences in terms of economic changes across different areas, depending mainly on the political and economic institutions which deal with it. Thus we have first to recognise that we are in the middle of such a moment, which means recognising that this tragedy must be used to push the transition toward a green and digital economy. Secondly and even more important, it is needed to put the right institutions in charge of leading this dramatic change.

The pandemic and the economic challenge are global issues and, as such, must be addressed accordingly. You can't secure the U.S. if, say, the virus is still spreading in Mexico. Or it is useless if one part of the world cuts its emissions but the other keeps polluting heavily. This is to stress the importance of multilateralism and acting internationally in a coordinated way. Institutions like the WTO and the WHO should be given more institutional power; a world agency for the environment would also be welcomed. With the leading role of the European Union and the departure of Mr. Trump from the White House, improving the international coordination is possible.

From a pure economic point of view, a balanced and sustained recovery is achievable via inclusive institutions, capable of creating a level playing field and

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to encourage investments in new technologies and skills. In fact, the European Union has agreed earlier this year to a renewed institutional framework: the Next Generation EU, within a revamped EU budget. It is not just a matter of money. It is also a political turning point. In the coming years, the Union will work towards reforming the own resources system and introduce new own resources. Possible examples include a carbon border adjustment mechanism, a digital levy, the plastic tax and a Financial Transaction Tax. Moreover, the investments under the Next Generation EU will be approved and monitored by the European Commission, strengthening its political grip. These are the sort of changes required for a political federation to work properly. The declared aim of the Commission is to help the economy in the short run, but also (and mainly) to transform the economy, to drive its transition by incentivising creativity and innovation. Every economic shock brings destruction; but history suggests that often they actually bring creative destruction. It's the politics' responsibility to make this possible. The action of the European Union goes precisely in this direction.

A key element in moving toward a more sustainable economy will be the chemical sector, starting from the plastic industry, since it enters basically into every productive process. The research is making big steps ahead, particularly in producing basic chemicals from renewable sources. At the same time, examples abound from other industries as well. The textile sector is giving itself a series of stringent ecological parameters with the aim of limiting the emissions during the entire productive cycle. Also the agro-industrial sector is moving fast with new ideas and methods.

One of the crucial aspects will be to maintain an integrated approach to take advantage of the possible synergies between sectors and to avoid the so-called greenwashing: avoiding, for instance, the risk of simply shifting the environmental impact from one sector to another, or from one continent to another, instead of concretely eliminating it.

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The objective of the European Green Deal is to make Europe a carbon neutral continent; but this goal cannot be reached at the expense of the competitiveness of the European industry. For this reason, the green revolution has to be based on the digital transformation of the economy and in general of the society. The technology is involved in all sectors and the digitalisation of processes and products is needed to gain competitiveness. In other words, the traditional economy should move toward a real smart economy.

Several examples stand out. The *Ubiquitous Connectivity* makes different sectors of society constantly connected to the internet; the *Datafication* transforms every aspect of our daily lives in data, from which useful information can be obtained; the *Internet of Things*, billions of objects simultaneously connected in order to provide data to be used for, say, reducing the emissions of a whole city, or helping an executive in charge of monitoring a productive process. The final goal of these – and several other – innovations is to interconnect as much as possible the physical world with the digital one, to create a smart economy and a smart society. To this end, the European Commission has proposed a new program, the Digital Europe Programme, with a budget of 9,2 billion euros for the 2021-2027 Multiannual Financial Framework.

Finally, also changing the personal behaviours will be very important. First of all, despite all the efforts we can make, the global temperature will continue to rise in the next years, before eventually we will be able to stop it. Everyone needs to adapt to a world hit by extreme natural events. The risk of low probability – high impact events must be taken more seriously.

Moreover, people need to adapt also as workers. New technologies require new skills; old jobs will be replaced by new ones. This is the concept of creative destruction that we have mentioned earlier. Even if this can create fear, especially among the low skilled workers, this is precisely how the economies should work. Moving towards more productive industries boosts the economic growth and the living standard over time. As said, it is up to the politics creating the right sort of inclusive economic institutions to minimise the short term costs and to accommodate this transition. The "Skills Agenda for Europe" will address this very important topic. Indeed, a research from Green Italy shows that companies investing in technologies and models oriented to environmental sustainability tend to be more productive. So, we are not talking about a distant and uncertain future; we already have the evidence that this direction is the right one.

As anticipated above, governing the economic change will be essential. The steps taken at European level are a very turning point. Until now, the monetary policy has been the only real federal instrument available. With the Recovery Plan, the common public debt and the new own resources, the fiscal lever is going to be introduced as well. Such common resources and the supervision of the European Commision make it possible to govern the economic change at federal level; this renewed institutional setting can activate a European economic policy, at this point in time focused on the green and digital transitions. Again, we need to stress the dramatic change the economy is going through and the importance of handling it. The political developments underway go in the right direction, since they add a genuine European fiscal capacity and the possibility to build a European industrial policy.

For the European Union the challenge is to develop the proper skills to be able to lead the energetic transition. This will show the rightness of the European integration and will allow to strengthen further the federal institutions, which is something badly needed especially in the current historical context. Not only for the correct functioning of the Europe Union itself. But also for the whole world. In the last 4 years the U.S. has turned inward and the EU has been the main advocate of multilateralism and international cooperation. Even if the hope is that America will return to a normalized politics starting from 2021, Europe should keep and reinforce its role. Now more than ever we need a world order based on a strong cooperation between the regional superpowers; the alternative is a world, at best, of isolationism and mistrust and, at worst, of open conflicts. The European Union has been able to keep at bay the populist movements in the last 2018 elections; now it can and must act for turning this tragic period in a starting point for Europe and the world.

A turning point for Europe and the World

The coronavirus outbreak has shaken Europe and the whole world. It has put a stop to our most important freedoms, changing our way of living and working. Our healthcare systems have been put under severe stress and, most sadly, people have lost their loved ones.

The public health challenge quickly became the most drastic world economic crisis of the last century. Given the uncertainty of the situation, it is hard to provide accurate estimates of the economic slowdown we are facing. Anyway, the calculations of the European Commission suggest that overall the EU economy should shrink by more than 7 per cent in 2020, reaching even 16% in case of a second wave and extended new lockdown measures.

As expected, the European Central Bank (ECB) has been the first one to provide support to the economy. Under the Pandemic Emergency Purchase Programme (PEPP) initiated in March 2020, which is added to the older QE programme still in place, the ECB is due to buy 1.600 billion Euros in public and private sector debt in 2020, equivalent to 14 per cent of the Eurozone last year's GDP. Moreover, the ECB is not buying assets in line with its Capital Key, giving instead more support to the countries hit hardest by the pandemic. The intervention of the ECB aims to provide the necessary liquidity and guarantee a smooth functioning of the financial markets.

Secondly, the European governments stepped in. The EU encouraged national supports by allowing the full flexibility in the budgetary and State aid rules. The European Commission took the decision to suspend the Stability and Growth Pact, based on the provisions included in the Treaties. As a result, the intervention has been of an unprecedented scale. This is surely welcome, since this package of measures provided vital support to workers, businesses and in general to the Member States' economies in the first phase of the emergency.

Yet it is also a cause of concern since it risks to deepen the differences between countries and to provoke an unbalanced recovery. The main problem is that the economic crises has been symmetric in the sense that everyone has been affected, but it has been asymmetric in the magnitude of the resulting economic slowdown. In particular, the economies relying mainly on services, tourism, exports and composed in large part by small businesses have been hit much harder than others. Worryingly, this description fits best with the countries having higher government debt ratios, such as Italy, Spain and France. As a consequence, the fiscal stimulus provided by those relatively less affected by the pandemic (like Germany) are greater than the ones put in place by the countries facing the most severe economic damage.

In this context, it is absolutely necessary a European response. Acting at European level is the only way to ensure a fair and balanced recovery. The European Commission has proved to be well aware of this, and in May has officially proposed a new Recovery Plan for Europe, including an instrument called Next Generation EU, within a revamped EU budget. First of all, it can be argued that a larger EU budget is needed regardless of the current economic situation. Indeed, a large centralised federal budget is required for a currency union to work properly. In any case, history has shown that often dramatic events are needed to spur a decisive political action.

Next Generation EU

Specifically, the Next Generation EU proposed by the European Commission amounted to €750 billion – €500 billion in grants and €250 billion in loans to Member States. The European Council on July 21st decided to change the amounts to €390 billion in grants and €360 billion in loans, leaving the total to €750 billion. The funds will be borrowed on the financial markets and will be repaid starting from 2028 until 2058 through future EU budgets. In addition to the Next Generation EU, the Commission has proposed a revamped 2021-2017 EU budget, amounting nearly to €1.100 billion, which has been confirmed by the European Council.

The agreement reached by the national governments is a sort of watered-down compromise with respect to the initial proposal of the Commission, due to the unanimous approval required to pass the Plan (the perfect example of fake democracy that needs to be urgently reviewed). Nevertheless, this represents a historic moment for the European integration and its way of addressing common challenges. As a matter of fact, the crucial aspects of the plan have been confirmed by the Council: common European debt and new own resources. Now the hope is that the Member States will propose a set of credible reforms to be implemented with the upcoming funds.

For a detailed description of the actual programs proposed, the reader can refer to the documents released by the European Commission (the documents can be reached at the following links. “Europe’s moment: Repair and Prepare for the Next Generation”: https://ec.europa.eu/info/sites/info/files/communication-europe-moment-repair-prepare-next-generation.pdf. “The EU budget powering the recovery plan for Europe”: https://ec.europa.eu/info/sites/info/files/about_the_european_commission/eu_budget/1_en_act_part1_v9.pdf). Hereby a few considerations are made about the plan trying to highlight the most relevant aspects, which in fact make the European Union one of the global player most ready to affirm the liberal values and aware of the modern, global challenges we all are facing.

Firstly, it is worth noticing that the Plan includes both short term support and medium to long term investments. Indeed, although supporting workers and businesses is very important, it is not enough to provide a stable economic recovery. The immediate support has been provided mainly via the SURE program (temporary Support to mitigate Unemployment Risks in an Emergency), as well as by the measures taken by the Member States. These kinds of interventions are essentials to protect the livelihood of people in the short run.

But the Next Generation EU also recognises that a proper economic recovery requires new jobs to be created. Indeed, there are only two ways in which the economy can grow: by increasing the number of workers (more precisely, the total amount of time spent at work) and/or by increasing the output per worker (the output per unit of time). The EU acknowledges this by proposing a number of new investments capable of creating new jobs. In particular, it focuses on the European Green Deal and on the Digital Single Market. It is also important to bear in mind that this intention is not new, but it was already included in the program of the previous Commission (the Juncker Commission), resulting from the discussion between the Commission itself and the European Parliament. The pandemic has thus accelerated and made more urgent something already thought by the previous Commission.

It makes sense for the EU to focus mainly on these two topics. The two of them represent a shared interest of the whole European people, so a common coordination at federal level is welcomed. Moreover, such policies look at the present and at the future – and can serve as a guide for the world in two areas where a global response would be preferable. Preserving our planet is a duty we have for the next generation (or we can say even for ourselves, given the most pessimistic climate-change forecasts). And a deeper Digital Single Market is needed for a fairer and easier business environment, now and especially in the coming years.

The tech industry is object of a fierce debate. As of now, it seems hard to state that the tech giants represent a problem, since the users enjoy free and innovative services. But the point is that, first of all, such services are not really free, since users give up their data which are extremely valuable – a lot more than they can imagine. And secondly, the dominance of a few firms in an under regulated environment prevents smaller businesses to grow and compete. In the long term, the lack of competition inevitably results in less innovation, less grow, and more inequality. Thus, the Commission stresses the importance of striking a balance between the free market and the need to prevent the abuse of market power and to ensure a fair market place for potential competitors. The importance of a Data Act is also highlighted, to handle data sharing across

Member States and sector.

Another relevant aspect is the need to retrain workers. The pandemic has accelerated a trend that was already in place, in which some sectors of the economy are losing importance at the expense of others. As a consequence, workers need to acquire new skills and to adapt to the new jobs. It is somewhat understandable that this process can create fear, especially among the low skilled workers. But this is precisely how the economies should work. Moving towards more productive industries boosts the economic growth; in turn, this improves the living standard over time. It is up to the politics creating the conditions to minimise the short term costs of this transition. The "Skills Agenda for Europe" (another point of the Recovery Plan) will address this very important topic.

The issue of public debt is also very telling. The common eurosceptic argument among the southern States goes that the European Union is obsessed by the public debt and is against it in any circumstance. If this can be the case for the group of countries that defined themselves as "frugal", the Commission has instead shown a different approach. As said, the Next Generation EU will be financed on the financial markets, i.e. by public European debt. Here the Commission is making a crucial point. First of all, the deficit spending is useful to help the economies to escape from a recession; this has been immediately clear when the Escape Clause has been triggered. And secondly, the public debt is desirable when it is used to finance long term, structural investments – as the ones proposed in the Next Generation EU. As a matter of fact, the benefits of the plan will be released over the years, so it makes sense to pay for them over time as well. In other words, the payers and the beneficiaries of the investments tend to be the same. On the contrary, the EU opposes the deficit spending for financing current expenditures, since the next generations are left with the burden of more debt but with no benefits at all.

A special consideration has to be done for the implications of the European bonds, whose guarantor will be the EU budget that needs to be expanded accordingly. A first way to do this would be an enlargement of the contributions by the Member States. But this is not a desirable method because basically it would translate in an increase of the national debts. The Commission has therefore proposed a number of new own resources, such as a Carbon Tax based on a Carbon Border Adjustment Mechanism, a new Digital Tax building on the work done by the OECD, and the proceeds from fighting the fiscal dumping and money laundering. Fortunately, such proposals have been accepted by the European Council. It stated that "the Union will over the coming years work towards reforming the own resources system and introduce new own resources". As examples, it cited a carbon border adjustment mechanism, a digital levy and a Financial Transaction Tax (the final document released by the Council can be found here: https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf). This aspect of the plan is truly revolutionary: it marks the beginning of a genuinely fiscal capacity of the European Union, which is added and works in parallel to the one of the Member States. This has been possible by taking advantage of the "implicit" federal powers of the EU, without reforming the Treaties. Some observers are finally referring to this as the European "Hamiltonian moment".

Last but not least, Europe will pursue a model of "open strategic autonomy". By this term, the European Commission means to reduce dependency and strengthen security of supply in areas like pharmaceutical or raw materials. Far from having a self-sufficient spirit in general, the Commission wants instead to create an environment more protected by future shocks in certain key areas. In order to make this clear, the word "open" stands to indicate the commitment to open and fair trade, as well as to international cooperation and common solutions for shared global questions. One of the most misguided concept of the sovranist parties is that international trade and in general international affairs are zero-sum games in which one country can gain only at the expense of another. This is just wrong. Everyone has to gain from fair trade and international cooperation. The

Commission is thus pushing for a stronger Europe in the world, capable of leading the global response working closely with the international organisations, as it is actually already doing. The necessity of addressing certain issues at global level is arising, and the EU is in fact stressing the need of a global sovereignty in such key areas.