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# 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](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.