Reforms and Investments. Europe and Italy. By Marco Fortis and Alberto Quadrio Curzio. An analysis

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Riforme e investimenti. Europe e Italia.

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Abstract

This paper is an analysis of the book by Marco Fortis and Alberto Quadrio Curzio, Riforme e investimenti. Europa e Italia, Il Mulino, 2017.

Keywords: European Union; Italian economy; economic reforms; institutional change; investments

Introduction

Marco Fortis and Alberto Quadrio Curzio edited the volume, ***Riforme e investimenti. Europe e Italia*** (Il Mulino, 2017), which contains a collection of articles in newspapers by the two authors. The 65 articles in this volume, partly written by Quadrio Curzio and partly by Fortis, focus on the European and Italian economy and address many aspects of an economic, political, social, and institutional nature. These articles are also rich in ideas and proposals and refer to the period June 2016-April 2017.

While the contributions of the volume are the result of the public activities of the two authors, animated by their civil commitment, and are dictated by questions related to the current debate on the European Union, the Eurozone and Italy, at the same time in these writings the scientific rigor and the theoretical vision, conjugated to empirical evidence, of the two expert economists clearly transpires.

In the Introduction, 'Europa e Italia: Realtà, Limiti e Potenzialità' (Europe and Italy: Reality, Limits and Potential), Fortis and Quadrio Curzio explain the principles and method that guided their analysis. The authors followed an approach based on a rational pragmatism "*within a framework of social liberalism, where the application of the principles of subsidiarity and solidarity make public-private partnership indispensable and complementarity between institutions, society and economy in the European space*" (p. 12), and where Italy naturally operates.

The book can be read using the two key words of the title: "Riforme" e "Investimenti" ("Reforms" and "Investments"), crossing them respectively with those of "Europe" and "Italy." The author will focus on some salient points, given the extent of the topics dealt with in the volume.

1. Europe and Reforms

The European Union (EU), in its 60 years of life, has been and continues to be an important political and economic reality that has guaranteed its citizens peace, security, and well-being. At the same time, it cannot be satisfied with its current condition that sees it without a well-defined medium-long-term vision, and with a decreasing weight in the global scenario, as Quadrio Curzio argues in some chapters of the first part of the book 'Europa e Geometria Variabile.' In fact, all this creates uncertainty and disaffection towards the EU. This is why the EU must make a qualitative leap through reforms aimed at completing and strengthening its institutions and its governance.

In this regard, the first issue addressed in the volume concerns the reforms that the European Union must take to make a qualitative leap. First of all, that of "variable geometry," with the Eurozone at the center, with important changes in governance and institutional strengthening, but also that of investments in tangible and intangible infrastructures to boost growth. These reforms should contribute to achieving those goals that the EU has always proposed to pursue, which is to become more prosperous and sustainable, more inclusive socially, and stronger on the world stage.

Quadrio Curzio also indicates the values to which Europe must refer: de facto solidarity and subsidiarity. Without a de facto solidarity, in particular, it is not possible to build a confederal system of states, or to achieve economic convergence within the European Monetary Union (EMU).

As for the Eurozone, the analysis of Quadrio Curzio takes into consideration some official documents, including: the annual report of the International Monetary Fund of June 2016, the Project on the EMU of the 5 Presidents (June 2015), the speech on state of the Union of Commission President Jean Claude Juncker (15 September 2016), and his proposal, Towards a Positive Fiscal Stance for the Euro Area (16 November 2016), three resolutions of the European Parliament on the Lisbon Treaty and the Eurozone (February 2017).

However, the document that underlies Quadrio Curzio's reasoning on new governance is undoubtedly the *White Paper on the Future of Europe* presented by Juncker in the European Parliament (1 March 2017), having, in fact, Junker and the Commission playing a more political and less technocratic role than in the past. Among the five scenarios presented in the White Paper, the author identifies in "scenario 3," which provides for a strengthened Eurozone with cooperation in defense, security, and justice, and with a budget capacity able to meet common goals, as the one to be preferred. The theme of budgetary capacity is also taken up in one of the European Parliament resolutions of February 2017 (pp. 79-80). This "scenario 3" envisages a Europe with variable geometry and involves the need to re-establish the governance of the Eurozone. In this new governance, according to Quadrio Curzio, a budget of the EMU or 'Eurobalance' is important and would serve to support an investment strategy combined with reorganization in the Eurozone in order to foster convergence among member states and counteract shocks.

The theme of a broader EU budget, currently equal to about 1% of the EU's GDP, has long been a hotly debated topic in European institutional forums and by many authoritative economists. The Community budget should adhere to the principles of cohesion and solidarity, which, according to the Lisbon Treaty, are among the founding principles of the EU. The possibility of devoting within it chapters exclusively for the Eurozone countries, or the most radical hypothesis of creating a real budget for the Eurozone, is seen as a way to have a greater impact on the stability of the whole system, an instrument for pro-growth policies, and also for encouraging convergence.

A major problem is how to find resources, whether directly through a tax system or through targeted financial transfers from member states. The issue of the Eurozone budget inevitably touches the controversial issue of the tax union, before which the member states, still jealous of their sovereignty and also worried about the anti-euro populist pressures, tend to have a very cautious attitude. In fact, the Eurozone remains a supranational and intergovernmental political and institutional reality where there remains a difficult balance between national interests and European interests. The choice of "scenario 3" aims at strengthening governance in the Eurozone and also provides for the establishment of a finance minister for the Eurozone, which assumes the role of vice-president of the Commission and chairs the Eurogroup. This project was also re-launched by Juncker in the last speech of the Union on 13 September 2017. This choice would imply a greater weight of the European institutions, first of all the Commission and the European Central Bank (ECB), and of the community-supranational interests compared to those of the individual states.

Among the reforms proposed by Alberto Quadrio Curzio in this volume, there is that regarding the Eurobonds. This is a proposal to secure the public debts of the EMU countries and encourage growth. Quadrio Curzio, for several years, suggests the EuroUnionBond, and on this theme has put forward a proposal with Romano Prodi[1]. More recently, he elaborated with Attilio Bertini in two articles published on Il Sole 24 Ore in March 2017, and reported in the volume (chaps 13 and 14), another solution for Eurobonds. This is the establishment of Synthetic Euro Bond (EuroSintBond), based on the securities already held by the ECB (Euro Bond Composites) for quantitative easing and, in particular, as a consequence of the Public Sector Purchase Program (PSPP). In fact, in November 2017, the government securities held by the ECB amounted to € 1,848,984 billion, while the total of securities in the portfolio relating to the Asset Purchase Plans (APP) amounted to € 2,243,094 billion[2], whereby a transformation of these securities held by the ECB into EuroSintBond would have a considerable impact.

According to Quadrio Curzio, the transition from Euro Composite Bonds to EuroSintBond would not be a further monetary option, but a strengthening of Europe's economic policy instruments (p. 84). They would, however, serve to improve the solvency of the Eurozone states. The EuroSintBonds would become Eurozone benchmark securities that would be risk-free, also helping to loosen the 'doom loop' between sovereign debt and banks. The nature of these titles resumes the one elaborated in a contribution by the European Systemic Risk Board (September 2016)[3], requested by the European Commission itself, which proposed the European Safe Bonds (EsBies). In fact, the EsBies exploit the diversification of risk through the creation of branches of securities according to their seniority, thus determining a segregation and containment of systemic risk. In the proposal of Quadrio Curzio and Bertini, an important role is entrusted to the European Stability Mechanism (ESM), the saving-States fund, which is a mechanism for resolving the crises of the EMU countries by transferring the ECB securities (called "Composite Eurobonds"), would become the entity that issues European debt for the purpose of market stability and growth. Finally, these EuroSintBonds issued by the ESM, which would enjoy a very high rating, would return to the ECB as risk-free securities (pp. 93-95). Naturally, to do this, a modification of the statutory purposes of the ESM would be necessary. It is therefore a technically complex and creative proposal from the point of innovation in the governance of the Eurozone, although Quadrio Curzio does not hide the political difficulties so that this proposal can be accepted at the European level. Quadrio Curzio also hopes that the ESM will be transformed into a European Monetary Fund. This hope could instead find a concrete possibility of implementation, since Juncker relaunched and supported this idea in his speech on the state of the Union on 13 September 2017.

In conclusion, regarding the issue of reforms in the Eurozone, the project of strengthening the governance envisaged in the White Paper is a necessary step to overcome the impasse that saw the Eurozone and the whole EU live for the day and undergo events: from the financial crisis, to migrants, to Brexit. However, this is an ambitious and demanding project which will have to consider not only the European institutions but also the individual states in the near future, taking into account the climate of political uncertainty, but at the same time encouraged by the favorable economic moment in which they all find themselves. The member countries of the Eurozone, also from a single currency, the euro, which in 2017 recorded a particularly favorable year and renewed confidence in the currency markets.

2. *Investments and Growth*

In 2017, the Eurozone recorded the best annual performance over 10 years, in a context where global economic growth and global trade are proceeding at a rapid pace. This favorable economic situation seems to be continuing in 2018, despite some negative signs from the United States of a protectionist trade policy. Indeed, Eurostat confirms that all the Eurozone countries recorded a

[1] Prodi and Quadrio Curzio's proposal has been put forward in their article 'EuroUnionBond, Here Is What Must Be Done' on Il Sole 24 Ore, 23 August 2011, and resumed in another article of 23 August 2012, again on Il Sole 24 ORE.
[2] Figures reported on the website www.bce.org
[3] M. K. Brunnermeier, S. Langfield, M. Pagano, R. Reis, S. Van Nieuwerburgh, and D. Vayanos, 'ESBies: Safety in the tranches.' European Systemic Risk Board, *Working Paper Series* No 21 / September.

positive growth rate in 2017, and that the Eurozone is growing more than the United States and the United Kingdom. In turn, the ECB, in its Bulletin (December 2017), notes that the Eurozone GDP growth rate in 2017 was 2.4%, while a growth rate of 2.3% is expected in 2018.

As for Italy, as stated by Fortis and Quadrio Curzio (p. 21), after having successfully reversed the GDP dynamics in 2014, it undoubtedly managed to consolidate the exit from the crisis in 2015, 2016, and 2017, but certainly not to recover the pre-crisis levels for total GDP, per capita, unemployment rate, production capacity. The growth of Italy in 2017 was 1.5%, but the potential of the economy is lower; according to the International Monetary Fund, a little below 1%. The priority of Italy today, underlines Quadrio Curzio, is to implement lasting reforms that allow it to grow even more than 2%. In this regard, one of the key messages of Quadrio Curzio (pp. 151-152) regards the importance of the principle that good institutions and stable governments are also important for a solid economy. For this reason, Quadrio Curzio hopes that in Italy the government will enhance this principle.

To grow at a more sustained pace in Italy and in Europe it is necessary to focus on investments. The theme of investments occupies a central part in the volume of Fortis and Quadrio Curzio. In particular, in the second part of ‘Europa, Investimenti e Infrastructure,’ Quadrio Curzio tackles this issue with rigor, and links it to that of the combination of growth-employment and environmental protection. If, on the one hand, the growth rate in the Eurozone in 2017 has exceeded 2%, one must look beyond the favorable cycle and maintain a long-term perspective. Quadrio Curzio observed this for a long period of time in Brussels, unfortunately, the thesis prevailed that the combination of stricter rules and more powerful markets was enough to ensure a spontaneous diffusion of well-being (p. 106). Moreover, the Eurozone, in recent years, predominantly focused on monetary policy. However, this policy alone is not able to revive growth, if it is not supported by an investment-based economic policy. From the years of the crisis until today, the theme of the relationship between investments, in particular investments in infrastructure and economic growth, has assumed an ever-increasing interest. Much empirical research has amply demonstrated that investment in infrastructure is a variable that positively influences GDP. Naturally, not only are investments in tangible factors and infrastructures, but are also in intangibles (of which technological knowledge, research networks and the quality of human capital are certainly important elements). Furthermore, tangible and intangible infrastructure investments are instruments of infrastructural economic and social policies, which, combined with technological progress and globalization, can effectively contribute to economic growth. This is why, according to Quadrio Curzio, infrastructures are the key to growth in Europe. Moreover, in the world, and not only in Europe, there is a great need for investment in infrastructures to stimulate development, especially in the poorest countries, but, as Quadrio Curzio points out, citing a McKinsey study on the subject, it is necessary to find funding from institutional investors and banks, which have substantial capital (estimated in about $ 120 trillion). To make this possible, the EU should aim not only at public investments but also at investments in public-private partnerships and, at the same time, improve the management of projects and funding. A public investment policy, also indicated by Christine Lagarde, would at this time be particularly facilitated by interest rates close to zero or, in any case, very low. Quadrio Curzio positively assesses the Juncker investment plan[4], but still considers it insufficient. He also stresses that China is the country that invests more in infrastructure (think of the “New Silk Road”).

Linked to the problem of growth is that of productivity. Quadrio Curzio notes a strong divarication of productivity in the Eurozone countries that has gone hand-in-hand with the increase in income inequalities and qualifications. Here then is the fundamental role of training and, in general, of education, which “expresses a great declination of creative solidarity” (p. 107) in order to reduce inequalities and to generate innovation. Therefore, it is necessary to invest in education,

[4]The plan to revive economic growth and produce investments without producing new public debt was launched by Junker in November 2014. Subsequently (September 2016), Junker proposed to double the duration of funds and its financial capacity.

infrastructures, and mobility in research and development in the most promising economic sectors, as is being attempted in Italy with the Industry 4.0 model, but extended a little to all sectors (research, public administration, finance, etc.). Furthermore, with a reference to the recommendations of the International Monetary Fund, Quadrio Curzio (p. 114) observes that, in order to increase productivity, the complementarity between monetary policies and unitary economic policies that should favor convergence between states with budget surplus is important. Such states must invest more, and states with deficits must also respect budgetary constraints, but also continue with structural reforms and reduced taxation on factors to increase productivity. Finally, Quadrio Curzio, after having favorably judged the flexibility on the Stability and Growth Pact by the European Commission, hopes for a bolder step with the application of the golden rule to remove investments from the deficit (p. 136 and p. 159).

On the theme of investments and growth in Italy, Quadrio Curzio, referring to the OECD Economic Outlook, notes that growth in Italy remains the lowest among the Eurozone countries. Investments are growing little and private investments in particular “are weak due to a combination of unused capacity and lack of credit due to the heavy suffering” (p. 147). But also for Italy, as for Europe, the message of Quadrio Curzio is as follows: to achieve greater growth, credible, efficient, and stable institutions are needed to implement lasting reforms and facilitate investment.

3. Europe and Italy

The themes of growth and reform also characterize the third part of the volume ‘Europe and Italy,’ which includes 11 chapters, including 5 curated by Fortis and 6 by Quadrio Curzio, and in which the focus is on the complex relationship between the European Union, its institutions, the Eurozone countries, and Italy. Fortis, starting from the results of Brexit, underlines the importance of a more inclusive policy, but warns that without growth, politics are not credible and growth in the EU and in Italy must go through the revival of the real economy and manufacturing. Fortis also notes that data on GDP growth may be unreliable (as in the case of Ireland) or misleading (as in the case of Spain), so it is necessary to look at other socio-economic variables to understand if the lives of citizens, after the long economic crisis, is better in Italy than in the other Eurozone countries (p. 184). Fortis also highlights the weak growth of the Eurozone and points out that Germany, which could be the driving force behind the growth of the entire area, does not use its large “coupon” of the trade surplus, instead fueling the Eurozone’s macroeconomic imbalances, moreover, in contradiction with the European rules (p. 202). He underlines (chap. 32) how Italy found itself, in 2015, in a condition of commercial surplus, in a phase of slowdown in trade. This surplus was repeated also in 2016 and 2017, confirming Fortis’s “optimistic” vision, which is based on the correct observation of a repositioning of Italian companies on increasingly higher added values in traditional sectors (fashion, home furnishings, etc.), but also to the excellences in mechanics and means of transport, and to the improved international positioning of important sectors of the chemical-pharmaceutical industry.

The issue of flexibility in the application of budgetary rules in relations with Europe is at the center of the attention of Quadrio Curzio due to Italy meeting emergencies (earthquakes, migrants), the needs for growth that must be driven by greater investments, but constrained by a high public debt and by European rules too strict and often divorced from reality. Quadrio Curzio asks for a different attitude that of the politics of Brussels. However, he does not hide the economic aspects that have to be improved in Italy to accelerate growth. First of all, greater productivity. In fact, the low productivity of the Italian economy is also determined by a strong divarication of productivity itself (p. 195). This divergence is not only sectoral, but in some services greater productivity is required, but also territorial. This is due to the prevalence of micro-enterprises in the regions of the south compared to those of the north, and the lower productivity of these compared to larger companies. The presence of numerous micro-enterprises also in the north conditions the overall productivity of the entire system. So, to be part of the club of the strong Eurozone countries together with Germany and France, Italy must make a qualitative leap in terms of productivity and organization of its production system.

4. *Italy, Stability, and Competitiveness*

Fortis, in the fourth part (12 chapters) 'Italy and Stability' and fifth of the volume (13 chapters) 'Italy and Competitiveness' addresses various topics that have Italy as its epicenter. First of all, the theme of banks (chapters 41 and 42). We can thus summarize Fortis's arguments. In the first place, having defended the banking system, even if Italy has moved late, has been a legitimate and correct choice to protect the savings of the citizens. (This is an argument to be fully shared.). Second, there have been responsibilities in the management of some banks and in the control system. (This is a question to be verified, but the real problem is that of finding feasible solutions to make the Italian banking system less vulnerable.). Third, the thorny issue of bank overdrafts, which remains a problem of a certain entity, but which shows signs of improvement (In November 2017, non-performing loans in Italy fell from 8% to 6%. However, Italy still remains above the European average of 3%.). Fourth, although Italian banks have many bad debts, unlike the major European banks, they hold a limited number of derivatives (level 3 securities). The conclusion of Fortis is that overall the Italian banking system does not suffer disproportionately from the banks of the rest of Europe. However, there is one issue that Fortis is not discussing but is recently animating the debate among economists, especially the French and German[5] economists, which concerns the completion of the European Banking Union and the diversification of the banking portfolio, with the possibility of setting a limit to the sovereign debt securities of one's own country held by banks to avoid the "doom loop" phenomenon, i.e. the link between the public debt crisis and the banking crisis. Undoubtedly, solutions must be found that limit or discourage the presence in the portfolio of banks of public debt securities of their country.

Growth is one of the main themes on which Fortis focuses. He observes (showing a series of data) how Italy has begun to grow again and how this fact drags the debt down with it. Growth is the main way to come back from an undoubtedly very high debt, not the austerity of the fiscal compact. It also notes that growth would be greater if there were more investments in infrastructure, new technologies, and research at the Community level (p. 234). Finally, in 2016, Italian GDP growth in value grew almost three times more than GDP in terms of volume, in a period of low inflation. This means that Italy has shifted its center of gravity and the weight of its production from quantities to values (p. 282).

Fortis also addresses some critical issues of the Italian economy: poverty, Southern Italy, employment, population decline, public debt, and consumption. He noted that these problems had already existed for some time, but became more acute with the crisis. However, during the period of 2014-2016, the situation has improved employment and also consumption (The demographic decline has unfortunately increased and, in future, it will affect the southern regions more.). Fortis reiterates the progress made by Italy in employment, thanks to measures such as reductions and the Job Act, and also in household consumption, certainly favored by the € 80 monthly bonus.

Undoubtedly, regarding the criticalities listed above, there has been an improvement, at least in cyclical terms, however some serious problems remain, such as poverty, the strong delay of the South compared to the strongest areas of the country, youth unemployment, and the presence, also in the southern areas, of a very high percentage of young Neet. Of this, of course, Fortis is aware, but he emphasizes that growth remains the necessary condition to try to tackle these critical issues in a more organic and effective way.

Italy has started to grow again, despite the little public spending provided by the government from 2014 to 2016 due to European constraints. Not only that, but regarding the real economy (agriculture, manufacturing, trade, transport, and tourism), Italy has grown, especially in 2016, more than Germany, while the growth of the latter was largely generated by the public sector. Fortis

[5] A., Bénassy-Quéré, M. Brunnermeier, H. Enderlein, E. Farhi, M. Fratzscher, C. Fuest, P. O. Gourinchas, P. Martin, J. Pisani-Ferry, H. Rey, I. Schnabel, N. Véron, B. Weder di Mauro, and J. Zettelmeyer (2018), "Reconciling risk sharing with market discipline: A constructive approach to euro area reform," *CEPR Policy Insight*, No. 91.

observes that on the basis of ISTAT data (March 2017), the “made in Italy” sectors (agriculture, manufacturing, trade, accommodations, catering, and professional and real estate activities) have grown in terms of value added by 4% in real terms in triennium 2014-2016, compared to a progress of only 1.6% of the Italian economy as a whole (p. 294). Apart from the expense of the PA that could not increase due to budget constraints, sectors like banks, telecommunications, electricity, and local public services seem blocked. It follows that there is the need to modernize with more innovations and competition in public and private services to support the economy (from PA to banks, from local public services to networks) so that they begin to create more value, especially in the south. Only in this way can the overall growth of the Italian GDP be doubled (p. 295).

Fortis concludes, in the last chapters of the book, that the blame for low growth is not attributable to Italian companies, which in large part obtain excellent results in foreign markets and should be encouraged, avoiding protectionist temptations, but are attributable to the support system to the economy that has lagged behind for a long time and which needs to be improved through targeted economic policy actions.

Conclusion

To conclude, the volume testifies to a still resilient Italy, but with economic and social problems and unresolved territorial imbalances, undoubtedly a coherent reform agenda and a substantial investment plan to be shared in Europe, as a medium-long-term strategy can constitute the virtuous path to solve these structural problems.