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A quantum leap for the EU

The Commission's recovery plan is an unprecedented — and certainly unexpected — leap forward in the history of the EU

'The world is watching us.' This is how I started my speech at the European Parliament during the debate with Commission President von der Leyen, who presented the much-awaited recovery plan for Europe. After a delay of a couple of weeks, the Commission has finally put forward a very articulated and ambitious strategy for the relaunch of the EU economy.

It comprises a new recovery instrument, Next Generation EU, a reviewed MFF, an adjusted work programme as well as further measures to tackle the major social consequences of the Covid-19 pandemic, a strengthening of its health agenda and important improvements to its main research programme. A package that will now be scrutinised by the co-legislators, Parliament and Council, and will also need to get the political backing of the Heads of State and Government at the next European Council meeting on 18 June.

The world is watching us, indeed, to see if our Union, founded on the rule of law and a unique social model, will be able to survive the crisis we are experiencing. Not only Europe's economic prosperity is on the line, but also the credibility of the European Union, called upon in this historical moment to step up with leadership, vision, responsibility and solidarity.

The proposal represents a major leap forward in the European response to the pandemic, both in quality and quantity, certainly *unprecedented* in the history of the European Union, and maybe also *unexpected*, given the disappointing recent history of the EU crisis management abilities.

Why a European recovery plan is

necessary

Next Generation EU is set to become the stimulus package for public and private investments in the real economy, which are necessary after the major symmetrical shock that struck the whole world. Given the profound macroeconomic divergences still existing among EU member states, this shock will end up having asymmetrical effects. They will be aggravated even further by an uncoordinated policy and fiscal response by the European capitals.

The suspension of the Stability and Growth Pact was certainly needed to quickly free up substantial liquidity to member states in face of the health crisis. Similarly, the triggering of the emergency mechanism on the state-aid rules, because of a 'severe disturbance of the economy' caused by the pandemic, was just as necessary in the short term while it is unsustainable in the long run.

The crucial criterion to judge the package is whether it provides for a degree of mutualisation of the risk of recession in Europe.

For instance, the Commission announced that around €2 trillion in state aid has been made available. Almost half of that is attributed to Germany, which is more than twice as much as Italy and France. The problem is that such a discrepancy in the national fiscal intervention capacity will cause a serious laceration of the integrity of the EU internal market and disrupt industrial and trade value chains. Ultimately, this will also worsen the economic outlook of countries with higher public debts, especially because of higher interests payment on debt caused by higher spreads. It will make inequalities grow further, nationally and among member states.

This is why it is essential to deploy a European, community-based recovery plan, as was originally requested by the European Parliament and by a coalition of nine countries, with Italy, France and Spain at their lead, in a letter to Charles Michel ahead of the European Council meeting in March. This position was pushed forward by the more recent and focussed Franco-German proposal, which certainly paved the way to the Commission proposal.

This is different from the last crisis

response

The crucial criterion to judge the package is whether it provides for a degree of mutualisation of the risk of recession in Europe. While the taboo of a mutualisation of sovereign debts would have been politically indigestible by the frugals in Northern Europe, the Commission proposal to issue common bonds guaranteed by the EU budget, delivered mostly through grants, and the intention of coming up with new own resources to cover their repayment, does appear to be a viable political compromise. It is above all, in my view, a credible compromise, which sends the right message to the world.

The delivery of the funds will be linked to national recovery plans, following a radically different approach compared to the intergovernmental, memorandum-styled approach chosen during the 2012 crisis with the European Stability Mechanism. In fact, this objectives-driven approach seeks to align national investments towards a green and sustainable agenda, digital transition and the resilience of the economy. The link to the European semester, the strongest convergence instrument at EU level, if adequately fine-tuned with the implementation of the Pillar of Social Rights, would also create social upwards convergence.

The European Council meeting in June must now take bold decisions, because the details of this recovery plan will require months of work, especially on the reviewed MFF, the new own resources (a very crucial knot to be solved, especially to overcome once and for all the total dependence on the system of national contributions) and on the regulation establishing the Recovery and Resilience Facility. There is an economy to salvage and there is a political project, the European Union, to redeem. It will be a hot summer.



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