Comments on the proposal: "To complete the EMU and ensure prosperity we have to start from the Eurozone budget"

I generally agree with the approach and conclusions of the EM document submitted by P. V. Dastoli and P. Ponzano. The four observations below should be viewed as helping to underline a number of strategic aspects that could reinforce their general argument.

1. One aspect that should be highlighted, with regard to the reforms that the EU urgently needs, is the close interdependence between foreign policy and policies for economic and social cohesion among member countries and their citizens. Effective foreign policy is impossible without strong internal social cohesion: this applies to any state, including the EU. The EU is now facing crucial international challenges, such as euro-dollar relations, the reform of the WTO, and pressure from the USA, Russia and China. It risks succumbing to the traditional divide and rule approach being applied by medium and large powers. The existence of troubled regions including central Europe (Ukraine, etc.), the Mediterranean and Africa calls for significant investments, which as the EU budget stands are largely insufficient or non-existent. Another topical issue is that of sustainable development, and the fact that environmental policies are currently not being implemented by member states, despite having signed the 2015 Paris agreements. To face these challenges, will it be sufficient to allocate the additional budget as described in the document?

2. The second aspect to consider is the creation of an economic and monetary union, as decided in Maastricht, without strengthening the European budget. Despite the articles of the Lisbon Treaty (article 3 in particular) clearly stating that social solidarity is a political goal of the EU, events have taken us in the opposite direction, as shown by the sovereign debt crisis, rightly mentioned in the document. This situation, and the resulting social discontent, is one of the factors behind the resurgence of nationalism in Europe. Along with the migration crisis, it has enabled nationalist and populist movements to gain popularity and votes. The flaw in the Maastricht Treaty is the following: although the Treaty and the EP view policies for growth and employment as shared policies, they have actually remained national policies. This is exploited by some governments - the Italian government in particular - as justification for breaking rules on the deficit and public debt, to gain traction at election time with disaffected voters who have low expectations of the EU. One key proposal to remedy this situation, which has been discussed for around ten years (from Laslo Andor's project to that of Pier Carlo Padoan, and many others) is for a European fund for unemployment caused by asymmetric shocks (all countries have some long-term unemployment rate, but in a recession the short-term unemployment rate can spike, see for example youth unemployment in Greece, Italy, Spain, etc.). A fund to offset the effects of asymmetric shocks would not call for significant resources and cannot be viewed as a stepping stone to a "transfer Union", because it has been shown that even Germany could have benefited from it during the recession (around 2000). The political value of this fund would become visible if this European unemployment benefit went directly to the individual worker (rather than national or regional governments). One serious issue affecting European policies (see the Juncker plan, regional funds, etc.) is that they are not perceived as such by citizens, enabling sovereignists to blithely accuse the EU of doing nothing to help workers and regions in difficulty. To conclude, it is a matter of ensuring that policies for economic and social cohesion are perceived by citizens as *shared policies* on two levels, the European level and the national level.

3. A fiscal union should also take account of the issue of European public debt (Eurobonds, say) proportional to the Union's fiscal resources. This applies to both the EU budget and the additional budget. One of the causes of the weakness of the EU and the euro in international politics is the EU's failure to attract international investments in the European capital market, fragmented as it is by national barriers. We cannot overcome this fragmentation until there is an authentic European bond in circulation, whose value must not depend on national policies (as is the case with all European public securities today - a fragmentation evidenced by bond spread). Savers must be given the opportunity to invest in a European bond, in euros, whose value depends on the political decisions of the EU. The US market is very competitive thanks to the fact that Treasury Bonds circulate freely throughout the Union and are kept as reserves by US banks. This idea has been rejected, above all by Germany, due to fears of it putting the European banking system at risk. Yet this issue cannot be ignored if the euro is to become competitive with the dollar - as is now necessary if we want to react to Trump's political use of the dollar, e.g. the sanctions against Iran: the EU has its hands tied because European companies do not want to miss out on the American market. We also need Eurobonds if we want to fund a European

investment plan for sustainable development, an area in which the EU could play a leading role on the world stage.

4. It is also useful to consider the relationship between the Union's own resources and European investment policy. European investments are European public goods and therefore differ from national public investments. One aspect that has not yet been sufficiently discussed is the potential impact of European investments on the European economy, especially in the context of anti-cyclical and sustainable development policies. During the financial crisis it was noted that the value of the Keynesian investment multiplier varies according to what phase of the economic cycle the economy is in. Furthermore, the value of the multiplier varies depending on whether one considers national or European investments. In an paper (*A Keynesian Recovery Policy for the European Union*, Bulletin of Political Economy, 2014, 145-174) written with Riccardo Fiorentini, we say about the multiplier: "Typically, when a proposal for a European investment plan is put forward, some object that the EU budget is too small to support a recovery plan. This is inaccurate. The European economy is more than the arithmetic sum of national economies. It comprises several national economies plus a supranational government, whose power is not used to its fullest. Consider the Keynesian multiplier: $k = 1/(s + m)$, where s is the propensity to save and m is the propensity to import. If we assume provisionally that the EU economy is closed and that s is the same in every member state, a national government must consider that the value of m (i.e. the propensity to import commodities and services from other member states) in its multiplier is positive. If one national government finances an expansionary budget, it cannot expect the other 26 governments to do the same. In theory, perfect coordination amongst national governments is tantamount to an expense financed by the European government. But some public expenditure in national investment plans (such as Galileo or the European supergrid of renewable energy) cannot be taken into account, as they are European public goods that lie beyond the reach of national budgets: any national investment plan must take external diseconomies and leakages into account. On the contrary, a European investment plan (amounting to the same total of national expenditures) would provide public European goods, which no national government can provide, and yield spillovers into national economies. European public investment has a multiplier of $k = 1/s$ because it would impact all European national economies and kickstart some national public investment programmes – of interest to national governments only as part of a pan-European plan (such as hooking up to the European supergrid). Therefore, if the European investment plan concerns European public goods, the impact of the expense is greater, perhaps markedly greater, than the sum of national expenses." In that period, given that empirical research on the value of the multiplier was in its infancy, and a source of some controversy, we were therefore only able to make some general considerations in our article: "in 'normal' times, when the economy is working around full capacity, the fiscal multiplier is smaller than one and often very close to zero; in periods of recession and stagnation, when the interest rate has bottomed out, the fiscal multiplier is greater than one, sometimes even above 2." Recently, the value of the multiplier for the euro area has been investigated more thoroughly. An IMF working paper (WP 19/133, Amendola et. al., *The Euro-area Government Spending Multiplier at the Effective Lower Bound*, 2019) reaches these conclusions: "The multipliers are contingent on the overall monetary policy stance, captured by a shadow monetary policy rate. In the short run (one year), whether the fiscal shock occurs when the economy is at the effective lower bound (ELB) or in normal times, does not seem to matter for the size of the multiplier. However, as the time horizon increases, multipliers diverge across the two regimes. In the medium run (three years), the average multiplier is about 1 in normal times and between 1.6 and 2.8 at the ELB." To conclude: a) further econometric research on the value of the European multiplier, also taking account of the European budget of the Eurozone, could prove that a certain sum of financial resources deployed on a national level (i.e. split between eurozone member governments) would have *less* of an effect on the Union's overall income than the same sum deployed by a European government; b) it follows that the Union's own resources must be viewed as an indispensable tool when it comes to fostering the growth of the European economy and increasing the prosperity of its citizens; and c) the fact that European own resources – such as the "seigniorage" gained by the European Central Bank and alloted into national banks – are currently redistributed to national governments, represents a regressive policy. These European own resources should be paid into the European budget; the appropriation of these revenues by national governments is a clear waste of wealth.

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