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1. Introduction

A recently published *Policy Brief* (see Buti and Messori 2020) examines the quantitative and qualitative aspects that characterize the proposal made by the European Commission on May 27, 2020 called "Next Generation - EU" (NG - EU). These aspects show that NG - EU represents a fundamental turning point in European economic governance as it strengthens the weight and the redistributive role of the European multiannual budget (MFF), provides for an enormous issue (750 billion euro) of long-term European debt bonds guaranteed by several MFFs (until 2058), and paves the way for the strengthening of 'own resources' as revenue for future MFFs. If approved by the European Council and the European Parliament, this proposal would strengthen the single market, support national convergence processes within the European Union (EU) and open a process of centralization of fiscal policies and taxation decisions that would lead - as an inevitable outcome – to some form of European federalism. In another recent *Policy Brief*, Bastasin (2020) offers stimulating arguments that reinforce these theses. In fact, the new centrality of the European budget and of 'own resources' would produce substantial changes in relations between the State, the market and the intermediate institutions at a transnational level.

The aim of the present paper is not to revisit and discuss such complex issues. Instead, it aims to show that especially the most fragile EU countries - and in particular Italy - must put themselves in a position to take advantage of the turning point represented by NG - EU. It is therefore necessary that these countries be ready to use, in effective and efficient ways, the resources that could be made available between 2021 and 2024 by the European Commission's initiative (500 billion euro in transfers, including guarantees, and 250 billion euro in loans). If this does not happen, it would become even more problematic to obtain assent for the current proposal of NG - EU from the European institutions that play a crucial role in its approval process.

In what follows, I aim to achieve three specific results. First of all, after summarizing the conditions that each EU member state has to meet in order to gain access to the most substantial shares of NG - EU resources, I examine the main obstacles that must be overcome (especially by the most fragile countries) to obtain such access and make adequate use of the consequent resources (see section 2). Secondly, I try to clarify why Italy is the EU member state which risks encountering the most significant obstacles and which - at the same time - has an unrepeatable opportunity to exit from its inertia and face its serious macroeconomic imbalances (see section 3). Finally, this analysis of the Italian case brings out the problems that must be addressed and removed to prevent the NG - EU proposal from being distorted during its long and complex approval process (see section 4). In the Conclusions, I draw some consequences of the analysis with specific regard to the Italian case.

2. Access to resources by 'fragile' countries

It is known that the quantitatively most significant components of NG - EU are made up of the programs inscribed in the first of its three pillars (see Buti - Messori 2020, section 2). This first pillar, called "Supporting Member States" (SMS), covers about 87% of the NG - EU total and includes the "Recovery and Resilience Facility" (RRF) program, which, alone, should manage 85.5% of SMS resources. The weight of RRF is therefore equal to about 75% of the resources available for the entire NG - EU initiative. At least in the Commission's proposal, the actual allocations of SMS resources and, in particular, of RRF resources to EU member states are, however, subject to a twofold condition. First condition: they presuppose the formulation of national strategies that incorporate a transition to activities with low environmental impact and with innovative digital technologies and that, within the European Semester, meet the priorities identified by the country-specific recommendations. Each beneficiary state of the EU is therefore called to formulate a "National Recovery and Resilience Plan" (NRRP) which defines its strategy and illustrates the related investment and reform projects to be financed with SMS resources and - in particular - with RRF resources between 2021 and 2024. Second condition: each of these specific national plans must obtain approval from the Commission and the other European institutions involved and, if so, must then be implemented in the subsequent years.

The complexity of the drafting, submission and desirable approval of the NRRP of each member state of the EU represents an excellent example of the fact that, even if the NG - EU were approved by the European Council and by the other EU institutions (first, the European Parliament and, probably, the national ones) in the form proposed by the Commission, access to the relevant resources by the countries would not have to be taken for granted because it would have to comply with the difficult passages already outlined, which can be summarized in three points. First of all, there has to be a preventive and systematic effort to define a strategic destination of the resources made available by the European Commission to the individual member states through the specific programs included in the NG - EU, and this destination has to comply with the European objectives. Secondly, this strategy has to be translated into actual projects to be submitted for approval by the European institutions and, subsequently, to be implemented in time constraints. Finally, the individual projects have to be implemented through the effective transfer of the different flows of resources to their final beneficiaries.

Preparing adequate strategies for the recovery of the most fragile economies and those most affected by the pandemic shock, which could lead to sustainable development from a social and environmental point of view, is a task not to be underestimated; and it is even more challenging to select priorities among a set of concrete projects which are consistent with those strategies, so as to identify processes that can be implemented in no more than five years. In this regard, a necessary condition is that the most fragile EU countries avoid the temptation to use the resources of SMS and other NG - EU pillars to finance those current expenses in favor of households and businesses which have been and are still in demand due to the pandemic emergency, and to cover other short-term expenses which are needed for the difficult transition phase currently underway. An appropriate use of NG - EU resources entails their destination to the recovery phase, which - in the absence of further and unforeseeable pandemic episodes - should begin in the winter of 2020-21 and then lead to convergence between the member states to the core of the EU, with consequent absorption of the heaviest macroeconomic imbalances in the fragile countries.

Those who complain that almost all the resources put in place by NG - EU will only be available to EU member states starting from 2021 demonstrate a substantial misunderstanding of the aspects just examined. As will become clear in the autumn of 2020 and in the winter of 2020-21, the crucial problem does not lie in the fact that the resources will arrive late, but in the fact that some of the more fragile member states have not adequately prepared themselves to guarantee access to those resources once they become available. An increase in this risk is also one of the main elements that can hinder the long and complex approval process of NG - EU.

The considerations made show that the governments of the EU member states and, above all, those of the most fragile countries must not fall into a double misunderstanding: to believe that the liquid resources coming from the various NG - EU programs are available regardless of the member states' investment and reform commitments; and to assume that, once acquired, liquidity can be managed without compliance with the commitments made. For example, it is impossible to use transfers and loans, which are in any case one-off and which are - at least in part - temporary, to permanently increase public expenditure or to permanently reduce the resources of national government balance sheets. A strategy and projects that went in this direction would not be able to pass the screening of the European Semester; an implementation of approved projects that deviated in similar directions would be blocked by the European institutions. The underestimation of these aspects of NG - EU is a sign of a more general problem: the misunderstanding of the fact that, if it was fully approved, the proposal of the European Commission would offer the most fragile EU countries an unrepeatable opportunity to converge towards the 'strong' countries and to regain an active role in the EU. Therefore, the most fragile and most benefited countries cannot endanger, underutilize or waste this opportunity; otherwise they would risk irreversible or prolonged marginalization from the EU.

3. The case of Italy

Italy is an emblematic example of a 'fragile' country hit hard by the pandemic. Between March and May 2020, the Italian government issued three decrees that led to the creation of more than 75 billion euro in public deficits and increases in public debt of around 130 billion euro. Furthermore, between March

2020 and June 2021, the European Central Bank (ECB) has purchased and will purchase approximately 220 billion euro in Italian public bonds on secondary financial markets. Added to the additional public expenditure in support of households and businesses that will be disbursed in the second half of 2020, at an aggregate level these liquidity inflows appear to be of sufficient amount to stem the impacts of the pandemic emergency without making the management of the Italian government balance sheet unsustainable in the short term.[1] In addition, Italy has access to more than 100 billion euro of funding, thanks to the initiatives taken by the Eurogroup and other European institutions, which will become operational by summer 2020; therefore, Italy has sufficient resources to manage the transition phase. It follows that the Italian government also has room to immediately deal with the recovery. In this regard, it should plan how to use the large share of loans (around 90 billion euro) and transfers without reimbursement (around 80 billion euro) reserved for Italy in the current NG - EU proposal.

In this perspective, it is essential that the Italian government draw up its NRRP with the aim of defining a macroeconomic framework that is capable of producing both sustainable development and a gradual but credible adjustment of one of the country's fundamental imbalances: the abnormal relationship between public debt and GDP. The country-specific recommendations that the Commission addressed to Italy before the outbreak of the pandemic (2019) offer valuable guidance in this regard. The Commission underlines that Italy must design an economic and industrial policy aimed at restarting public and private investments in order to strengthen research, innovations and its infrastructure endowment. These investments should also have the task of laying the foundations for a mitigation of serious territorial divides and for a radical reorganization of the public administration and other institutional settings. However, they would not be sufficient to redesign production processes and to make the environment in which firms have to act more efficient. For these purposes, it would also be necessary to improve the education system and professional training, preparing qualified human resources for the organizational changes brought about by innovative firms and training public employees suitable for the digitalization of the public administration. The consequent imbalances in the labor market should be managed through active policies that minimize the creation of new areas of marginalization and that increase the participation rates especially of the workforce’s weaker components. Furthermore, the social components most affected by the changes should be supported by an effective welfare reform and by systematic reinsertion into the workplace.

These results cannot be separated from the implementation of more efficient market regulations, tax and justice reforms, administrative simplifications compatible with the full protection of the substantive legal framework and the assumption of institutional responsibility. Italy must: remove protection of rent-seeking positions; reduce the tax burden on workforces by streamlining the pool of subsidies and benefits; report, at physiological levels, the extent of undeclared work and tax evasion; reshape the division of work between state, regions and local authorities; cut timeframes and simplify civil and criminal justice as well as public administration procedures to obtain effective protection of economic and social rights and efficient public services; re-design the incentives of senior and middle public

[1] Here, any assessment of the allocative effectiveness and actual implementation of the measures taken by the Italian government is disregarded. Therefore, judgment regarding whether the adequate quantitative dimension has ensured microeconomic efficiency in protecting households and businesses from the pandemic emergency in Italy is suspended. Many qualitative signs indicate that the results have been partial and, in many ways, unsatisfactory.

executives so that - in the areas of their respective competences - they assume decision-making responsibilities. These reforms would have the effect of "opening" the Italian economy and society to change, thus restoring the conditions for sustainable development from an economic, social and environmental point of view. Combined with higher growth rates, these reforms would also tackle with effective gradualism the issue of the reabsorption of excess public debt in the post-pandemic phase.

If it were not to follow any of these suggestions, Italy would risk being placed on the 'accused bench' and taking on the unwelcome role of the burden which prevents a rapid and full approval of the European Commission's ambitious project. As explained above, Italy is one of the major beneficiaries of NG - EU. On the other hand, in past years, Italy acquired a bad reputation in terms of exploiting European resources due to inadequate allocations of structural funds. Therefore, the Italian government must not regret the postponing to 2021 of the loans and transfers from NG - EU. Even according to past Commission recommendations, it must develop a recovery strategy and prepare a coherent set of concrete projects in time to ensure access to SMS and RRF resources and to a part of the other MFF items for the 2021 -2027 period (which is equal to approximately 1,100 billion euro).

The generous contribution offered by the ‘advisory groups’ set up by the Presidency of the Council of Ministers and the convening of the 'States General' as a starting point rather than a destination for preparing a strategy show that the Italian government is still far from defining a consistent set of specific and ordered projects based on a priority scale.

4. The risks to be avoided

The most fragile and most benefited countries from NG - EU - and therefore, in particular, Italy - have an interest in reducing, as much as possible, the probability of the occurrence of two unfavorable events: (a) a weakening of the NG - EU initiative during the complex approval process compared to the original proposal of the European Commission; (b) an inefficient and inadequate national use of the resources offered by NG - EU and - in particular - by RRF.

The Commission's proposal is very ambitious but, as pointed out in Buti - Messori (2020, section 1), it represents only the beginning of a long approval process. It must be examined by the financial component of the Council of the EU (ECOFIN) and - above all – it must obtain the approval of the European Council and the European Parliament. Furthermore, by implying an additional expenditure commitment (even if spread over several MFFs), it obliges many members of the European Council to make their approval conditional on national assessments which can take the form of votes of the national parliaments. The countries defining themselves as 'frugal' (that is, Austria, Denmark, the Netherlands and Sweden) and traditionally unfavorable to any increase in the size of the EU MFFs, as well as some German politicians, have made several criticisms of NG - EU. Other countries (for example, Belgium and some members of the so-called Visegrád group) have contested the criteria for allocating resources. The most insidious criticism comes, however, from the 'frugal' countries. In a joint document (see Non-paper 2020) drafted in response to a Franco-German document (see French-German

Initiative 2020),[2] these countries rejected the principle of transfers without reimbursement and insisted on limiting the financing to medium-term loans, that is, loans temporally attributable to the 2021-2027 MFF. The crucial point here is that they justified their position by underlining the risk that, especially if there is no constraint of paying the financial charges and repaying the financing, the most fragile countries would prove unable to formulate appropriate NRRPs and, therefore, to use the resources in accordance with European objectives and their own medium-long term needs.

There is, however, an important aspect that justifies some optimism regarding the implementation of the Commission's proposal: the four 'frugal' countries have not rejected the basic principle of NG - EU: the need to cooperate so that the most fragile EU member states can implement a convergence process. The caution, manifested by the Netherlands and its allies, has a fairly obvious explanation. Their past opposition to initiatives for greater European integration was successful only when it was able to count on at least implicit support from Germany. In the present case, as shown by the Franco-German document mentioned above, Chancellor Merkel and the majority of German politicians have openly supported the Commission's proposal, perhaps aware of the need to strengthen the European internal market in a future framework of less integrated international markets.

The strategy of the 'frugal' countries is likely to aim at three limited results: safeguarding their rebates under the MFF, a rebalancing between loans and transfers, and a more stringent conditionality in the disbursement of resources. As reiterated throughout this section, the second and third objectives are motivated by the high risk that the fragile EU countries make poor use of NG - EU resources. The most effective response from these countries, especially in the case of high public debt member states such as Italy (and Greece), should therefore be to accept greater conditionality in the disbursement of resources and to oppose a significant rebalancing between loans and transfers. Each of the countries most benefited by NG-EU should prepare an appropriate NRRP and make the related priority projects operational as soon as possible. If this were to happen, we would see the beginning of a negotiating strategy capable of producing generalized benefits within the EU.

5. Conclusions

Buti-Messori (2020) examines the contents of NG - EU. If we compare these contents with the specific recommendations that the Commission sent to Italy in 2019 and with the general terms of the debate under way between Italian economists and other social scientists,[3] we see a shared point of view on the investments and the reforms that should be implemented thanks to the use of NG - EU resources.

As specified above (see section 3), it is a question of restoring the conditions for long-term growth that depends on a positive dynamic in the various forms of productivity. Therefore, the first set of reforms

[2] The Franco-German document, published a few days before the presentation of NG - EU (i.e., 18 May 2020), proposed a 500 billion euro transfer program to EU member states, financed by the issue of European bonds guaranteed by EU MFFs.
[3] The references would be excessively numerous. Suffice it therefore to refer to the many Policy Briefs that have appeared on the Luiss School of European Political Economy website in the last three months. Let me also refer to Carli - Messori 2020.

should be aimed at removing the obstacles - internal and external to the Italian production system - that impede a positive dynamic in productivity; and public and private investments should be aimed at reducing the innovative gaps in digital and artificial intelligence that penalize Italy (and other fragile countries) with respect to the rest of the EU and - even more so - from China and the United States. Furthermore, these reforms could stimulate dimensional leaps in very small and small firms with good growth potential, strengthen financial markets and identify non-banking sources of financing, make various network services more efficient, and simplify procedures for public and private decisions. Finally, it would be necessary to implement a second set of reforms to ensure that the conditions for recovery benefit the various social aggregates and do not open impeding conflicts. It would also be necessary to increase social protection and reduce territorial imbalances. In Italy, the potential long-term growth would thus turn into sustainable development which would allow for the gradual reduction of the abnormal public debt/GDP ratio.

The European Commission’s proposal makes available to Italy (and to the other fragile EU member states) the appropriate programs and resources to finance this set of reforms. If the Italian government included in its NRRP a strategy and projects suitable for the implementation of the consequent investments and initiatives, access to NG - EU would be a foregone conclusion. The point is that, in general, the Italian political system (as well as that of other fragile EU countries) does not adopt time horizons that are long enough to conceive and find such an ambitious perspective worthwhile. Moreover, even if the severity of the economic depression induced by the pandemic shock pushed Italy in this positive direction, difficulties would arise in the implementation of the NRRPs once approved. At least a part of the political-institutional establishment would oppose, in fact, the transformation of similar commitments into actual projects that would end up undermining consolidated rent-seeking positions. The challenge therefore lies in modifying the interests and consequent objectives of the Italian political system.

NG - EU is taking the first step in the right direction. It has already been said that the two principles of the Commission’s proposal are that: an EU member state which formulates an inadequate NRRP risks not having access to resources; and unilateral and unjustified deviations from an approved NRRP lead to the suspension of financing. If each of the fragile EU countries substantially accepted the two stated principles, there would be a strong incentive to achieve a 'good' equilibrium between the many possible equilibria (some of which are very 'bad')[4]. Furthermore, the strong incentive to obtain the approval of its NRRP and to execute its NRRP once approved to avoid the blockage of financing would lower the risks of misusing NG-EU resources; and this would eliminate the main reason for urging a reduction in transfers compared to loans.

This 'good' equilibrium would also be an effective response to the second unfavorable event that the most fragile EU countries have an interest in avoiding (see section 4, point b). By definition, it would in

[4] The theoretical reference is to the various models with 'multiple' equilibria, in which the analytical problem lies in identifying the efficient mechanisms for selecting a 'good' equilibrium that only rarely coincides with an optimal equilibrium. The literature on the subject is very rich and varied. Here it is enough to refer to only two, by now, classic contributions: Rubinstein 1989; Morris-Shin 2000. With reference to the European problems, the first authors to face the selection of equilibria were probably: De Grauwe-Ji (2012).

fact minimize the probability of an inefficient and inadequate national use of the resources offered by NG - EU and - in particular - by the RRF. Moreover, it would trigger a series of further virtuous implications. In the Italian case, the expectation of an appropriate use of NG - EU resources would have the immediate effect of increasing the growth potential of the Italian economy and of pushing downwards the interest rate spreads on Italian public bonds with respect to those on Spanish bonds of equal maturity. The higher rate of GDP growth and the lowering of financial charges would improve the conditions for the placement of public debt and would facilitate its gradual reabsorption.

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