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EU economic governance in the new geopolitical scenario: a policy agenda

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1. Introduction

In just a few years, the world has changed profoundly; and the process of change is still ongoing especially with regard to the European Union (EU). The pandemic, the acceleration of the climate crisis, the Russian invasion of Ukraine, the threats of nuclear escalation, the energy crisis, the marginalisation of the distinctive rules and institutions of multilateralism, the looming clash of political-economic-military blocs, the associated sharpening of technological competition, and the entering of geopolitical interests on the logic of the market, other economic institutions, and economic policy represent a set of factors that force the EU to radically rethink its institutions, rules and strategies.

In this paper, we will dwell only on issues related to the evolution of the EU's economic governance and the necessary change in its goods and services production model, although we are aware of the growing interconnections between economic and geopolitical variables.

2. The open issues

In the chosen perspective, there are at least three sets of problems that the EU should address as a priority:

(i) The establishment of industrial policy lines that strengthen both the internal and external agendas. Regarding the internal agenda, it is about activating mechanisms for economic stability and convergence among member states that enhance the complementarities between their different production structures and ensure sustainable development in economic, social and environmental terms. Regarding the external agenda, it is to: fill, or at least reduce, the technological gaps with the other two main areas, namely the U.S. and China; increase the security and capability of raw material supply chains, in particular, of those raw materials that are critical for innovative productions (i.e., strategic inputs); and enhance European strengths in terms of mitigation of (and controls on) environmental impacts, and in terms of regulation and welfare state. It follows that industrial policy and other economic governance instruments must enhance the interconnections between the internal and external agendas.

(ii) The effective and efficient implementation of National Plans to have access to the Recovery and Resilience Facility (RRF) resources. RRF and

National Plans (NRPs) are the "engine" for loosening internal and external constraints and creating the conditions for individual member states (especially the most fragile ones) to be on a long-term growth path.[1] Indeed, the success of the RRF would have the effect of making clear the benefits that all member states can derive from a central fiscal capacity (CFC). In turn, this would enable the start of production of those European public goods that are essential to address both contingent economic problems (excessive inflation rates, risks of stagnation) and more strategic problems (building common defence and security systems, common networks of tangible and intangible infrastructure, centralised support of innovative trajectories in industry and services).[2]

(iii) The launch of a new European fiscal governance in order to simplify the old "Stability and Growth Pact" and to adapt the necessary adjustment processes in the national balance sheets to the specificities of individual member states. The aim would be to build a framework of trust capable of activating inter-country solidarity processes and 'positive sum' institutional interactions based on a few central rules. Core ingredients of these outcomes are that all the member states are compliant with the few central rules, and that solidarity is not unidirectional but promises future benefits for all member states. In short, it is about achieving that 'insurance' solidarity that has been called for by Habermas on several occasions and for many years.[3]

The difficulties, which stand in the way of the solution of these three sets of problems, are manifold. Suffice it to mention: the divergence of objectives and differing sensitivities that characterize individual EU member states; fears of giving room for opportunistic national behaviour; the lack of adequate common financial infrastructure which, at least to a first approximation, can be attributed to the modest (if not unsuccessful) results of Capital Markets Union and the failure to complete the Banking Union; and others. These difficulties are exacerbated by the fact that, despite the promising signals issued in response to the pandemic shock, we are far from having overcome that insufficient mutual trust among member states that had stalled the evolution of European economic governance between

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[1] On this point, see Piercarlo Padoan, *'Next Generation EU as a Growth Machine', Astrid Rassegna*, no. 3/2023.

[2] On this point, see: Marco Buti and Marcello Messori, *“A central fiscal capacity in the EU Policy Mix”*, *CEPR*, *Discussion Paper Series*, n. 17577, October 2022; and “*Resetting the EU’s business model after the watershed*”, *EPC Discussion Paper*, 13 February; also available in *Astrid Rassegna*, n.3/2023

[3] See in particular: Jürgen Habermas, *“Democracy, Solidarity and the European Crisis*”, *Lecture delivered at Leuven University*, 26 April 2013.

2015 and 2019. Moreover, the macroeconomic picture does not help. Although the EU economies have shown greater resilience than expected from the second half of 2020 to date partly thanks to expansionary European and national fiscal policies, this picture remains characterised by a slowdown in growth accompanied by monetary policies that are increasingly restrictive as they are aimed at bringing excessive inflation rates under control. In the scenario described the presence of a strong European political-institutional leadership will be crucial.

3. Opportunities to be exploited

Even if the intersection of such important and varied difficulties foreshadows negative consequences, spaces remain for the search for fruitful arrangements. The utilization of such spaces requires the fulfilment of various conditions. Two of these conditions are preliminary and essential. The first concerns the possibility to establish, within the EU, a cooperative environment that can then be extended to international relations. In turn, the establishment of this environment requires the solution of one of the problems evoked above: the recovery and maintenance of relationships of trust among member states that are based on the sharing of a common destiny, the establishment of proportionate and reasonable rules, and the mutual recognition that each country has the will to abide by these same rules. The second condition concerns the ability to deal with the many obstacles, which in the short term make it difficult the search for equilibria, and to achieve the consequent and inevitable compromises as steps to implement the long-term strategic perspectives. The last condition is worth delving into because it crosses various issues that are crucial today.

The solution to the many difficulties, which stand in the way of the implementation of the EU's current priorities (see points (i)-(iii) of section. 2), cannot only be based on short-term interventions especially if these interventions are wrongly considered goals in themselves. Indeed, there is a risk of landing on illusory solutions that create additional and more serious problems in the medium to long term. Conversely, short-term solutions can offer a positive contribution if they become coherent pieces of a well-defined long-term strategy. This means that even when the result is due to unavoidable short-term compromises aimed at solving contingent problems of individual member states, these solutions should not demean the long-term potential of the EU but should be pursued as a first step in the implementation of strategic advances in the internal and external agenda of the area. In this regard, it is perhaps useful to give an example.

The example concerns the loosening of European constraints on state aids. As it is well known, these constraints do not imply a preference of the European legislator for market mechanisms over public intervention; they rather respond to the need to protect the single market from distortions related to anticompetitive practices made possible by asymmetric public aid. In the face of international protectionist initiatives that harm European manufacturing interests, the short-term response of EU countries rests almost inevitably on the call to loosen constraints on state aids. However, to be a component of the European strategy, the loosening of state aids' constraints must be circumscribed in time and made compatible with the EU's long-term goals. In the case of the response to the Inflation Reduction Act (IRA) and other US protectionist programmes to which implicit reference is being made here (such as the Chips and Science Act), this loosening must be harmonised with the dual 'green' and digital transition as well as with European security goals. In any case, it cannot be confused with a strategic goal of the EU that must, instead, rest on a policy mix consisting of an appropriate combination of monetary policy, macro-fiscal policies, and a common industrial policy.

It is important to focus on the need for a European industrial policy, highlighted by the energy crisis and the unavoidable reaction to the IRA and other US initiatives. The geo-political shock produced by the Russian invasion of Ukraine and the related initiatives put in place by the Biden Administration have had the economic effect to expose the incompleteness and in many ways the inadequacy of the European production model. Even more than in the case of the pandemic shock and the ambitious challenge posed by the 'green' and digital transitions, that model appears to be too dependent on an industrial sector characterized by valuable but mature technologies, on ancillary or backward functions of services and on the leading role played by net exports. If not profoundly reorganised, such a model would condemn the EU to the marginal role of a neo-mercantilist vehicle in the international market. The drift is, moreover, sanctioned by the lagging behind the U.S. and China in digital technologies and artificial intelligence. It is unrealistic to think that such a profound productive redesign can rest on the initiatives of individual EU member states, moreover unrelated to each other. It is therefore a matter of reacting to inertia through the implementation of a European industrial policy.

4. The objectives and drivers of a European industrial policy

The main purpose of an EU industrial policy should be to launch centralised incentives (not necessarily fiscal) for activities on the technological frontiers or functional to the development of such activities, and for sectors crucial to European security and its strategic autonomy. These activities and sectors involve not only innovative investments in digital or artificial intelligence, but also the search for new components that can replace - as production inputs - rare raw materials, the development of new sources of 'clean' energy and energy storage, and initiatives in the field of defence. In this regard, the EU's economic institutions can reshape various instruments already available but today too constrained to the use of national resources with circumscribed and marginal European support of the research stage (typical example, the IPCEIs). The aim should be to transform these instruments into programmes that are predominantly or fully financed by EU resources, and to develop new ones.

It is important to emphasise that such a European industrial policy should not be reduced to a centralised and self-referential public decision-maker that decides 'from above' the business sectors to be supported and the technological trajectories to be imposed on private firms in the EU. The European leaders of the various policy programmes are obviously responsible for making the final (often reversible) strategic choices, selecting a portion of the open opportunities on the basis of expert assessments. However, it is essential that these assessments are also the result of market signals.

These signals can come from national firms that have prominent positions in the single market or that occupy a strategic position in the international value chain. However, they can also come from firms that act on a small-to-medium scale and in specific niches of the international market, but that hold significant potential for innovative technologies. Consequently, the allocation of European industrial policy resources should be the result of a complex and dynamic combination of centralised options and widespread guidance. In this way, it would also serve as a guide for corporate choices and reorganisations, and it could facilitate the construction of European companies. The existence of genuinely European productions would make market signals more efficient by weakening nationalistic debris, facilitate the balance between such signals and centralised options, and widen the space for European industrial policies.

The above considerations are not enough, however, to ensure that the new EU industrial policy can reduce Europe's technological gaps and enhance complementarities with other international partners. Additional ingredients, so far neglected, are called upon to play essential roles. Here we limit ourselves to recall two of them.

First, industrial policy incentives should be complemented and strengthened by market financing. However, to date, the incompleteness of the Banking Union and the related drawbacks in the centralised bank resolution processes have reproduced strong segmentations of European credit markets and have, thus, prevented the creation of truly European banking groups. Moreover, the ineffectiveness of the institutional opportunities opened up by the Capital Markets Union process has delayed the construction of significant and efficient European financial markets. Thus, the albeit strong growth of the European corporate bond market has not translated into an adequate expansion of the range of financial instruments systematically used by European firms for their external financing. Partly because of their small average size, EU firms continue to be too dependent on forms of self-financing and on domestic bank credits; in any case, they largely depend on assets offered in domestic segments of the 'thin' European financial market.

Second, it is necessary to prevent the EU's undoubted 'regulatory excellence' from resulting in excessive barriers to innovations and improper rewards for overly precautionary behaviour. The 2007-2009 international financial crisis showed that many financial and 'real' innovations do not benefit economic growth but maximise instability and open the way for opportunistic behaviour and heavy market 'failures'. This crisis also indicated that precautionary choices under conditions of uncertainty are often rewarding. Yet, the EU risks falling into the opposite extreme. For example, overly binding regulations (to protect competition, but not only) risk to sanction those forms of temporary monopoly that, as Schumpeter proved more than a hundred years ago, are crucial conditions for the successful implementation of innovation processes. In addition, the stringent but often burdensome requirements, which European firms must undergo in order to access regulated financial markets, risk to limit the incidence of listed companies or listed financial activities that are affected by regulatory unlevelled duties with respect to the prevailing share of companies operating in unregulated and opaque markets, thus escaping systematic controls.

5. Industrial policy, national plans and fiscal governance reform

It is important to consider that the pressing need for an EU industrial policy is intertwined with many of the problems that characterise the European economy today and that were outlined at the beginning of this paper. Suffice it to point out that a centralised industrial policy can be effective as long as all member states' economies have achieved sufficient levels of efficiency to make convergence processes within the area possible. In this regard, the aforementioned presence of genuinely European firms is a necessary but not sufficient condition. At the same time, it is precisely the impetus resulting from a central convergence strategy that plays a decisive role in enhancing the effectiveness of cohesion policies within the competence of the member states as well: the NRPs, which are the key to accessing the Recovery and Resilience Facility (RRF) funds, can lead to the implementation of reforms and investments (public and private) capable of ensuring minimum thresholds of efficiency in the member states. Conversely, the centralisation of industrial policy requires the presence of a recurring Central Fiscal Capacity (CFC); hence, a successful implementation of the RRF - which is a first example of a CFC - is a fundamental condition for the actual fulfilment of the EU's new industrial policy. However, given the situation of high rates of inflation and productive transformation, it is not easy to measure the actual degree of success of the RRF.

At first glance, it is reasonable to argue that the current macroeconomic evolution requires that the projects included in the original NRPs (April 2021) should be adapted to the changed dynamics of prices (excessive inflation rates) and - above all - the functioning of European economies. These dynamics already urge the European production system to pursue energy conversion and efficiency by accelerating investments in renewable energy, hydrogen, regasification plants and related transportation infrastructure, and energy storage. The revision of the NRPs, in connection with RePowerEu, can foster these dynamics and mitigate their possible negative social impacts by retraining the workforce and facilitating changes in consumer habits. Strengthening the circular economy also becomes an opportunity to accelerate the achievement of energy independence. Finally, the war of aggression against a country contiguous to the EU's eastern borders strengthens the need to increase research and initiatives in the fields of defence and security.

The RRF is intended to support the national reforms and investments (public and private) that are needed to overcome major distortions and weaknesses in specific member states. In some ways, the goals of the RRF and the push to redesign significant parts of national projects are mutually reinforcing. The changed scenario, resulting from the war and the energy crisis, is an additional impetus to carry out the reforms and investments needed to implement the dual transition ('green' and digital) and to ensure adequate levels of social cohesion as called for since the approval of Next Generation-EU (NGEU) in July 2020. However, the rising costs of implementation of the various projects and the need to focus on priorities that are different from the past, make it necessary to overcome those micro-fragmentations peculiar to some of the NRPs approved in April 2021. It is also necessary to verify rigorously the feasibility of the investment projects and possibly to redirect available resources to other projects that are more feasible and able to contribute, in the changed European and international context, to the achievement of NGEU's goals.

These aspects have led some member states to ask the European Commission for extensive flexibility in the reformulation of their NRP, which runs the risk of being at odds with the RRF methodology: European resources with a strong redistributive impact should be allocated to individual member states on the basis of predefined commitments that can be modified for exceptional circumstances and within well circumscribed time and financial limits.

It is undeniable that a war on the EU's borders, unforeseeable in the spring of 2021 and erupting in early 2022, and the outbreak of an energy crisis already underway represent exceptional circumstances. It is therefore legitimate and commendable for the European Commission to have recognized further room for a redefinition of NRPs, for a transfer of unused RRF funds to the European Energy Crisis Plan (RePower-EU), and for the use of other European funds. However, it would be unrealistic to question the time horizon of the RRF (2026) by requesting extensions of the programme itself. Such a radical form of flexibility would risk undermining the success of the RRF and legitimising the position of those EU member states that fear an opportunistic utilisation of this temporary form of CFC and the associated redistribution of European resources in favour of the most fragile countries. Longer-term interventions can be financed by national resources or resources from other European programmes (e.g., territorial and social cohesion programmes) that have different purposes and time frame.

In any case, the actual room for the redefinition of the NRPs and the flexibility in the use of European funds obtained by national governments (Italy first and foremost) will depend on the general purposes. Actions inconsistent with the NGEU methodology, as well as any easing in the rigorous implementation of the reforms envisaged by the NRPs, would have highly negative consequences for the evolution of European economic governance. The one and the other (inconsistency and relaxation in the implementation of reforms) would, in fact, give good arguments to advocates of the temporary and unrepeatable character of the RRF and would delegitimise other crucial European initiatives, including the launch of a centralised industrial policy and the reform of central fiscal rules. Indeed, European industrial policy and new fiscal rules are much more intertwined than may, at first glance, appear.

The Commission's Communication for the European fiscal governance reform (November 2022) and the related legal proposal (April 2023) set simple but strict central rules to be met through adjustment plans designed by each member state. These plans, which have a four-year time horizon (extendable to seven years when justified by reforms and investment), will meet the national specificities even if the specific adjustments has as a reference trajectories outlined by the European Commission through a Debt sustainability analysis (DSA). Each of the national plans is, then, assessed by the Commission and submitted to the EU Council for approval. This fiscal reform proposal, although it has elements to be discussed (for example, the reference to the criterion of net public expenditure) or to be specified (the role of the DSA and some quantitative constraints), has a great merit. It safeguards the growth potential of each member state and is, therefore, an essential condition for convergence within the area and, hence, for the implementation of an EU industrial policy.

Given that the fiscal proposal is based on the RRF method, it follows that failure of the RRF would fundamentally undermine its approval.[4]

6. Industrial policy and European public goods

The preceding considerations make it clear that the intertwining of the various short-run and long-run problems in the EU economy today is very intricate. To manage this entanglement effectively, the EU's policy mix must therefore combine the instruments of monetary policy and fiscal policy (including industrial policy) within a strategic perspective that is able to satisfy the key aspects of the domestic agenda and the international agenda through a change in the European production model. To this end, the EU's policy mix should meet a twofold criterion. On the one hand, it should abandon the illusion that the changes underway can be managed with adaptive responses and without radical reorganisations of the European production model; on the other, it should identify an ordering principle that is able to place the various economic policy instruments within the desired strategic line.

The first criterion can be approached from a negative perspective. The EU and, specifically, the euro area (EA) has long had the largest trade surplus on the GDP among the advanced economies. In the years immediately following the peak of the pandemic, the supply-side bottlenecks and the energy crisis eroded these surpluses. However, a basic fact remains. As a rule, the EA member states as a whole have positive net exports, i.e., their aggregate investment is systematically lower than their aggregate savings. Rather than being an indicator of a high degree of competitiveness, this lack of investment is one of the main determinants of the EU's accumulated technological gap vis-à-vis the U.S. and China and, therefore, of its growing risk of international marginalisation.

To conceive that the EU's economic future rests on restoring a (often stunted) growth driven by net exports is, therefore, equivalent to giving up any ambition in

[4] The point was already emphasised in: G.Amato, F. Bassanini. M. Messori, G.L. Tosato, *"The new European Fiscal Framework: how to harmonize Rules and Discretion*," in *Astrid Rassegna*, no. 1/2022

the international agenda and, indirectly, in the domestic agenda. In a world of growing technological conflict between the U.S. and China such as the one that is on the horizon, entrenchment in neo-mercantilist positions would in fact increase European marginality and eventually dry up the resources available to sustain even the EA's domestic strengths: the welfare state and regulation.

Such a fate of marginality is not, however, ineluctable. As the virtuous example of some EU member states (e.g., Sweden) shows, it is possible to focus on innovation and - at the same time - safeguard the cornerstones of an open society with high social inclusion. The EU as a whole should imitate these virtuous examples. Thus, it could take advantage of its size to rebuild an international model of cooperation (albeit with conflict aspects) replacing the current bilateral geo-political and technological conflict between the U.S. and China. That is, the EU should exploit the fact that, in a two-way conflict, the presence of a 'big' and excluded third player leaves room to change the relations of power in order to transform a conflictual (i.e., 'non-cooperative') 'game' into a 'positive-sum' cooperative game.

It is not a matter of stating that the EU should become an equidistant mediator between the two opposing blocs. This conception would be contrary to what we will emphasise below regarding the EU's position in the global geopolitical scenario. Instead, we maintain that the EU should work to ensure that - as far as possible and in the areas in which it will be possible - the logic of the opposition between blocs does not overwhelm a multilateral and free-trade international economic system. The logic, balances, rules and institutions of a multilateral international setting are the ingredients of the ideal model to strive for in the global interest. This model is also in the vital interest of the EU economy and society. The EU should be part of the western world, but as a co-protagonist not as a subordinate partner.

The EU will be able to work in this direction with some hope of success if its internal agenda also progresses. Within the EU, it is a matter of bringing the following components into a unified policy framework: the new fiscal governance proposed by the Commission, the effective implementation of the NRPs linked to the RRF, an appropriate policy mix capable of balancing the control of inflation and supporting growth in the short term, and the implementation of an industrial policy aimed at changing the EU's production model in the medium to long term. In this last regard, the economic and social costs of the transition will be very high, as the case of the automotive industry emblematically illustrates. The redefinition of the European production model requires the activation of innovative trajectories, an efficient allocation of financial resources, and the strengthening of social safeguards. This redefinition also requires profound transformations in European welfare models, especially in the most fragile countries.

Such a tangle of problems can be put into a unified policy framework through the glue offered by an appropriate CFC. The CFC should aim to ensure stability and convergence within the EU economy, to support the related growth by stimulating reforms and public and private investment, and to strengthen the production of genuinely European public goods. The last two functions are also embodied in new European industrial policy aimed at making the interaction between market, regulation and state intervention effective.

Depending on the cyclical phases the EU will go through, one (or more) of the three functions played by the CFC can take prominence over the others. For example, the EU's current phase is characterized by excessive inflation, triggered by supply-side bottlenecks but now spreading throughout the economy, and by a high risk of stagnation. If monetary policy was left alone, the European Central Bank would be forced to bring the inflation rate under control through dramatic reductions in aggregate demand and consequent increased risks of recession. Conversely, by offsetting supply-side bottlenecks, the production of appropriate European public goods could support aggregate supply without increasing (by as much) aggregate demand, and could thus decrease the risk of recession and counter, at the root, excesses of inflation.

7. The conditions of discontinuity

As noted above, the reasons that support the need and urgency of a strengthened CFC and that place the production of European public goods at the centre of EU economic policy, are very strong. Nevertheless, it would be unrealistic to think that this new production can be implemented in a few months: immediate jumps in centralised spending and productive capacity would meet with resistance from many member states. At the same time, the launching of centralised European programmes (such as SURE and the analysed NGEU) shows that the game for the creation of a permanent CFC is wide open: its outcome will depend largely on the degree of success of the NRPs being implemented today. More recently, the launch of RePower-EU, the debate on a European industrial policy and the Commission's own proposal for a new fiscal governance, confirm that the hypothesis of increased production of genuinely European public goods is less utopian than was thought until a few months ago.

Interesting opportunities for progress in the establishment of a permanent CFC aimed at the production of European public goods could be offered by the revision of the European Multiannual Financial Framework (MFF) scheduled for the next summer. The current MFF was defined before the problems of common defence and security or of energy independence, caused by the Russian invasion of Ukraine and the energy crisis, were brought to the attention of European institutions and national governments. These problems require the creation of European public goods whose crucial importance had been underestimated in the past. The difficulty lies in the fact that, in the short period between now and the MFF revision, the European institutions should provide solutions to the complex tangle of problems examined in this paper. Moreover, these problems may become even more complicated in the coming months both on the security and economic fronts.

The opportunities would, however, outweigh the difficulties if certain conditions are met; or, to put it better, if it is possible to build a broad consensus on the need to make a few innovations in the structure and functioning of the European institutions and in the Union's policy directions.

Among the most important innovations, we limit ourselves to the following:

- An essential condition for the triggering and governance of such radical breaks as those described above, is the presence of a strong European political-institutional leadership, apt to shape European policies with a long-term strategic horizon and to guide the Union's institutions to take bold decisions and assume the associated risks. However, the date for the renewal of the presidencies of the Commission and the European Council is not far off now. The authority of the person who will be elected or confirmed to the presidency of the Commission in the coming years requires that his or her mandate be, as in the last round, the expression of a large majority of the next European Parliament. Analogously, the presidency of the European Council will require a large convergence on a personality capable - by history, experience, and moral and political qualities – to exercise strong leadership, and at the same time to establish a loyal and constructive working relationship with the Commission and its President.

- However, this is not only or mainly a question of personality linked to the selection and election of suitable candidates. Institutional innovations can and should also be considered. Experience shows that the EU's shortcomings lie not only in the difficulty of taking risky policy decisions quickly, but also (and perhaps even more so) in the difficulty of equipping itself with the appropriate means for their implementation. Hence, there is the need to strengthen the community approach as opposed to the intergovernmental one in the implementation of policies. However, it would be illusory to think that the former approach (and thus a reform in a genuinely federalist sense) can replace the latter. It is instead a matter of balancing and making more efficient a model that will long remain a hybrid, including both federal and intergovernmental elements. The aim, then, is not to deprive the European Council of its intergovernmental representative role in favour of community bodies. It is rather to increase, both gradually and rapidly, the scope of matters in which decisions of the European institutions can be taken by qualified majority instead of by unanimity.

- Other essential objectives are: to strengthen the initiatives undertaken and the role played by the European Commission; to reinforce the principle, already adopted for various deliberations since 2011, that Commission recommendations are approved by the Council of the EU unless a qualified majority vote is taken against them (reverse majority principle); and to reserve to the Commission the responsibility for the implementation of the policies that are decided. It is, finally and most importantly, also necessary to strengthen the area of common European policies, instruments, and investments.
- In this context, the discussion on the hypothesis of a European minister (or, better, a ministry) of the economy should be resumed. Beyond the limited weight of the non-commendable episodes that characterised the cohabitation between Charles Michel and Ursula von der Leyen, the hypothesis of a reunification between the presidency of the Commission and that of the European Council or of a personal union between the two presidencies should also be considered. This hypothesis is made urgent by the increasing complexity of the Union's economic policy channels and instruments of intervention, which requires a unified and coherent vision and capacity for action.
- Let now turn to the international agenda. Despite its delays on various fronts (from technological competition to energy dependence), the EU continues to have important comparative advantages, albeit often in terms of soft power. This implies that the EU can and must play an active and proactive role. A European protagonism should be obviously aware of its limitations and, therefore, able to place its initiatives within the

framework of a broader system of alliances and cooperation starting with the Atlantic alliance. This approach should be pursued without both arrogance and subalternity, in the knowledge that the global governance framework faces a growing risk of fragmentation that must be curbed and controlled, but also redesigned. Strong European leadership also serves such a purpose. To this end, it is worth questioning the appropriateness of retooling the institutional system: the High Representative today finds it difficult to identify his or her own role, given the inevitable international prominence of the President of the Commission and the President of the European Council in the narrow spaces left by the heads of the governments of the main member states.

- The Russian invasion of Ukraine has been a game changer. On the one hand, it has highlighted the need for both a common European policy and a significant investment in EU defence and security; on the other hand, it has shown the inconsistency of pan-European strategic concepts that are alternative to the Euro-Atlantic alliance. Thus, the rift that threatened to divide, based on opposing visions and strategic interests, the founding states of the EU from the member states of Eastern Europe has been narrowed. Now it seems essential to redefine the vision, rules and instruments of transatlantic cooperation, leveraging the mutual interest of the EU and the U.S. in order to face together the challenges of this and the coming decades: climate change, military security, technological competition, security of supply chains of raw materials and strategic components, relations with "non-aligned" countries, defence and reform of the institutions and rules of multilateralism.
- From this perspective, the construction of a transatlantic common trade and production space aimed at environmental and digital transition can be envisioned. Unlike the Transatlantic Trade and Investment Partnership (TTIP) attempted unsuccessfully years ago, the new project should be aimed at coordinating policy action on climate transition and digital transformation. In the case of 'green' productions that include clean and digital technologies, the widespread presence of positive externalities offers significant room for coordination of public interventions with mutual benefits; it also offers the possibility to create a much larger market to be managed jointly for products deemed strategic. In this context, the role of the Trade and Technology Council as a tool to resolve disputes and define proposals and instruments for transatlantic cooperation deserves to be consolidated and enhanced.

- Environmental policies are a classic problem of 'collective' action and will require agreement among countries far beyond the transatlantic space. To this end, the revitalization of the U.S.-EU entente could serve as a lever for the formation of a Euro-Atlantic common space open and enlarged to other partners, such as Japan, South Korea, Australia and New Zealand, which fully share the West's own values and principles of democracy and freedom. Within the framework of such restructured transatlantic cooperation, common policies can be coordinated to address - in addition to the climate crisis - technological competition, energy dependence and security of supply of raw materials and rare components. For the same purposes, but also to counter geopolitical risks that have re-emerged in recent years, policies of strategic alliance, partnership, cooperation or dialogue between the countries of the West and the countries of crucial areas of the world (the Indo-Pacific, Africa, the Middle East) should be coordinated. What is needed is a strategic vision and political direction. One hypothesis is to entrust this task to the G7, which has regained a role due to the Ukrainian crisis and the re-emergence of a division of the world into blocs that have diminished the role of the G20.
- In building the transatlantic common commercial and productive space aimed at the environmental and digital transition, as well as in the formation of a broader common space open to other partners as well, the goal should not be to limit virtuous competition among businesses in the various areas but to enable their development based on shared and fair rules. It is also and above all a matter of concerting the public policies needed to secure what, in the long run, could be called not only European public goods but global public goods. In this regard, if competition became counterproductive in specific sectors due to the overwhelming advantage achieved by one of the partners, it could be reasonable to allow concentration and pursue an international division of activities that leads to benefits to be shared equally for the benefit of all.
- On such crucial issues as the defence of multilateralism, its rules and instruments (international organisations), the EU's role could be very significant if not decisive. A fragmentation of the world economy under the banner of widespread protectionism or its polarization centred on a bilateral conflict between the U.S. and China would severely penalise the EU economy. The economic prosperity in the EU needs a world economy that remains open while considering geopolitical and security factors. The

EU must therefore continue to invest in the rest of the world, strengthening and extending the already extensive network of its trade and investment agreements with a large group of countries in all major world areas. The EU should also adopt a strategy for dealing with the now inescapable problem of reforming the rules and institutions of global multilateral governance. In this regard, transatlantic cooperation is a necessary but not sufficient condition for having any hope of success. It requires a cooperation or dialogue that the EU and the U.S. will be able to build or consolidate with the other areas.

8. Conclusions

It emerges beyond reasonable doubt that all member states need a European industrial policy, aimed at producing what the entire Union lacks, both in terms of competitiveness and strategic autonomy. It emerges that such a policy will be even more effective the more it distances our national industries from a production model that is currently too export-oriented and based on technologies that are too often mature.

Therefore, discontinuity is needed. What is missing is the central fiscal capacity that is the natural platform on which common policies must be placed, such as an industrial policy aimed at starting up or strengthening European companies and at promoting and supporting research, energy and digital transition as well as investments in sectors in which it is essential to regain competitiveness and strategic autonomy. In its absence, we will work with state aid, trying to achieve the least fragmented result possible. The Commission will be able to use to its best advantage the reins of the common European project, but it will have to deal only with aid to national firms. Moreover, a half-baked policy would lack a fluid European capital market, which could lead to public/private co-financing. The resources provided to worthy initiatives would thus be far less than they could be. As was mentioned in connection with the Net Zero Industry Act, "the United States have a business project and the European Union responds with a law". It is necessary to combine European funding with European rules.

It would be unrealistic to think of major institutional reforms in the season we are currently going through. The suggestion here is not to propose anything more than what is essential, but nothing less either. An essential step is the strengthening of the Commission's own non-legislative proposal before the Council, following an existing practice. This step could lead to three positive achievements: the opening of the chapter of the Central Fiscal Capacity, either through the placement in the next multiannual framework of the new own resources being worked on, or, better, by adding a less clandestine placement for the common debt incurred for common expenses; an enlargement of the area of qualified majority decisions and the reverse majority system; the revival of the Commission's proposal for the establishment of a European economic ministry, which is essential to fill the gap (that cannot be filled inter-governmentally) of coordination between European fiscal and monetary policy.

The feasibility of these achievements depends on two intangible resources: mutual trust between the member states, and strong European leadership. It is only worth adding, in conclusion, that both the weight of trust between states and that of European leadership are strongly influenced by circumstances. Marco Buti has written a book[5] to remind us of the circumstances that Jean Monnet drew attention to, as occasions for advancing integration. They were and are the crises, the pressing difficulties that convince us that we could not overcome them alone. This happened with the pandemic. This is happening, and will happen more and more, with immigration and with war at the Union's doorstep. If you want to be a sovereigntist, you will end up, in your own interest, calling for more Europe.

In this respect, climate change is until now less successful than the pandemic. It may be because it presents itself with pathological occurrences and phenomena that everyone deals with on their own merits: droughts, floods, devastation of roofs and crops. But the same will not be the case if environmental catastrophes become more frequent and more tragic, which unfortunately cannot be ruled out. And policies for environmental remediation - from the banning of fossil fuels to the renovation of houses, to the code for sustainable pipelines - are already becoming increasingly necessary.

The European leadership we need will have to make inescapable for all of us the belief that this is how it has to be; and that no one is saved alone. This applies to the EU's internal agenda, but also to the international agenda. In this difficult phase, EU policy must be geared towards preserving the essential principles of the multilateral order that Europe has helped to build in recent decades and that is essential for its prosperity. Moreover, the Russian invasion of Ukraine, the growing rivalry between the U.S. and China, and the difficulties of globalisation that have emerged during the pandemic have emphasised even more strongly the need for transatlantic cooperation, in a strategic convergence that should be extended to

[5] Marco Buti, *Jean Monnet aveva ragione? Costruire l'Europa in tempi di crisi*, Bocconi University Press, April 2023

other Indo-Pacific democracies. Such cooperation cannot be limited to security, but it must be extended to the economy and the common challenges arising from the climate and technological transition, overcoming all temptations of closure and protectionism.

It is an action that the EU must carry out in the awareness of its core values, but also in the defence of its specific interests. All this in a spirit of openness also towards that part of the world which, due to history or specific interests, finds it difficult to identify with European values. The prevalence of national and local parochialism is a threat not only to world peace, but to the survival of the humanity in it.