Communication from the Commission – Annual Growth Survey 2012 and relevant annexes

APPROVED FINAL DOCUMENT

The Budget Committee of Italy's Chamber of Deputies,

having examined the Communication from the Commission – Annual Growth Survey 2012 (COM(2011)815 final) and the annexes thereto;

observing that the document is of considerable importance in light of the European Semester in that it identifies policy priorities for EU Member States in general and sets out, albeit only in summary form, the principal issues that individual countries need to address;

Whereas:

a) such was the strategic importance of the document that this Committee resolved to make a thorough preliminary consultation on its contents, being of the opinion that the document also represented a valuable opportunity to put the question of economic growth at the heart of parliamentary debate. The purpose of this exercise was to focus on some methodological and substantive points in the document, and submit them to the consideration of, above all, the Italian Government, but also the institutions of the EU (the European Commission and Parliament);

b) to this end, the Budget Committee decided to carry out a fact-finding inquiry, which entailed hearing evidence from many different parties. Accordingly, diverse representatives appeared before the Committee and submitted a broad range of facts, figures and assessments;

c) the hearings produced generally converging views on the efficiency (or inefficiency) of economic policy instruments and on the best prescriptions for dealing with the current economic crisis, whose end is not yet in sight. Essentially, the interlocutors agreed that active economic policies that use monetary, fiscal and budgetary levers were at risk of being ruled out *a priori* without adequate consideration of their merits;

d) the positions articulated in the Document would appear to be based on two assumptions. The first, which cannot simply be taken at face value, is that stable public accounts are not only completely necessary to reassure the markets of the sustainability of government finances in the euro zone, but are also an indispensable condition for growth. Meanwhile, the second assumption, which appears to have widespread currency, is that using the lever of public finance to support economic growth must necessarily be discounted, not only because it conflicts with the goal of stability in public finances but also because it is *per se* unworkable and ineffective. Accordingly, then, growth could be triggered only from the spontaneous dynamics of the economy, and would require the untrammelled freedom of the industrial and financial systems so that, unimpeded by any interference from the public sphere (apart from regulatory provisions), they may give full rein to their potential;

e) in recent decades the inertial trend of the increase in public spending, which due to its poor quality has often given rise to rent-seeking situations, in itself does not seem sufficient to justify the conclusions that have been drawn in the Document. A new more accurate and systematic evaluation of public spending, such as is taking place in other countries, including in Europe, should make it possible to discover what opportunities are available for qualified spending such as might provide some leeway for the application of pro-growth policies capable of exercising a multiplier effect on a macro-economic scale.

f) the prevailing argument must not be mistaken for an absolute and self-evident truth, for even from the perspective of economic theory it is no such thing. After all, the experiences of the second half of the 20th century and the first decade of the 21st century have shown that approaches to the functioning of markets and the role and effectiveness of economic policy can oscillate;

g) the worsening state of the crisis leaves no margin for errors of judgement that might jeopardise the chances of reversing the negative cycle and inhibit a solid and lasting economic recovery in the euro zone. In particular, the potential recessionary impact of austerity measures combined with a systematic reduction in spending and a rising pressure of taxation is a risk that must not be underestimated;

h) in recent years low growth has been a feature of many European countries, Italy in particular, but the notion that it is essentially ascribable to the imperfect functioning of markets has not been sufficiently demonstrated. Obviously, there is no gainsaying the contribution to economic growth made by liberalisation and the opening of markets, though it is unlikely that liberalisation is able to effect the sort of short-term benefits attributed to it. Structural reforms are unquestionably now a fundamental part of the global strategy to reinvigorate growth and alter the behaviour of the investors and economic operators who harbour doubts about the medium- and long-term prospects of highly indebted countries, but liberalisation projects on their own may not be enough;

i) a non-dogmatic inquiry into the workings of economic systems leads to the conclusion that economic policy instruments can vary in accordance with the nature of the problems an economy faces, and should be flexible enough to adapt to different circumstances and changing phases in the economic cycle. This suggests that situations of excessively weak demand can arise, and when they do, instruments to boost the economy may be required. In other situations – typically when the system is overheating – policies to dampen supply may be more appropriate;

l) at the current phase of the economic cycle, the austerity-inspired approach is a paradoxical peculiarity of Europe. The United States, on the other hand, faced with a serious crisis first of finance and then of the general economy, rolled out massive programmes to sustain demand, and resorted to public finance levers. The manner in which the US authorities conducted monetary policy has also differed markedly from that of their European counterparts, with the result that the gap between the two sides of the Atlantic has widened, with Europe in a state of constant exhaustion and increasingly exposed to speculative attacks of rising aggressiveness;

m) the issues mentioned above, which need to be addressed in the context of the European Monetary and Economic Union, are particularly pressing for Italy the performance of whose national economy is a cause for considerable alarm. Since the second half of 2011 Italy has slipped back into recession. Unemployment is on the rise, especially in the south of the country, which is already afflicted by widespread social malaise. Some of the forthcoming taxation deadlines will presumably lead to a reduction of disposable income and, consequently, a further contraction of domestic demand, especially in the category of household consumer spending. At the same time, capital investment is also in decline, largely as a result of the particularly severe constraints that, in accordance with the terms of the Internal Stability Pact, have been imposed on local authorities, which are the chief sources of general government capital spending. That said, it needs to be acknowledged that the recent rigorous budgetary policies have been indispensable for the consolidation of the public accounts;

n) the most alarming fact concerning the Italian economy is that it has been unable to make up for the cumulative growth differential over the past few years, not only with respect to the most aggressively competitive countries of the world, but also with respect to its main trading partners in the European Union. The risk that the country will fall into a long period of recession is very great. There is a diffuse sense of fatalistic resignation concerning the ability of our country to get back on the road to recovery; it is almost as if Italy's capacity for growth has been all used up;

o) a return to stable and lasting growth rates is simply not possible unless we address the structural failings that have left our economic system insufficiently dynamic and open, and less able to compete in Europe and elsewhere. Yet, the remedial action must be taken at the level of Europe, where, it is to be hoped, steps will soon be taken to carry out a thoughtful and in-depth analysis of the current situation, so that the policies that have hitherto been used to counter the crisis may be expanded and enriched, and efforts to reverse the current recessionary trend may be informed by a broader perspective. Specifically, it is necessary to give serious consideration to the possibility of making more active use of economic policy instruments, beginning with budgetary measures;

p) nothing of the above should diminish appreciation for the serious and sustained commitment of Italy to consolidating its public finances, which has placed the country in a better position than some of its European partners as regards commitments to control the general government borrowing requirements;

does express itself in favour of the Document, with the following recommendations:

1. efforts must be made at a European and international level to use every available opportunity to engage in frank discussions, open also to the principal financial operators, concerning the need for a more ambitious and concrete pro-growth agenda in the EU, given that policies for the reform of public sector finances are unsustainable over the medium and long term unless accompanied by adequate economic growth;
2. in particular, steps need to be taken to ensure that the Economic and Monetary Union liberates itself from the current difficult situation which has left it exposed to persistent and repeated attacks that are clearly intended to test its reactive capacity and resilience. The Economic and Monetary Union has been subjected to a series of stresses to which it has so far responded with damage-limitation exercises, but failed to come up with a sufficiently ambitious strategy that would allow it to assert its still considerable economic strength and potential;
3. the harmful tendency to blame the conduct of individual Member States for the continuous attacks on European Economic and Monetary Union needs to come to an end, because all it does is exacerbate the divisions and conflicts within the Union. A firmer and more cohesive response would probably have lessened the impact of speculators;
4. for Europe, the most pressing need now is to identify where anti-cyclical policies may be applied to put an end to the stagnation, if not full-blown recession, of the European economy. The goals set forth in the Europe 2020 strategy are not sufficient for this purpose, especially since they are not backed by adequate financial resources;
5. there is no escaping the fact that the exchange rate of the euro is affecting the economic performance of Member States, a point that was raised, although only partially, by some of the representatives of the business world during the Committee's fact-finding work. They explicitly declared that the high

exchange rate of the euro had been one of the factors contributing to the serious crisis of the Italian economy. The notion, which has become prevalent in recent years, that a strong exchange rate somehow forces countries to make choices that increase their productivity should be open to debate. Europe should be prepared to take an unbiased look at the effects of the euro exchange rate. An exchange rate that made exports more competitive on international markets could contribute a great deal towards the fulfilment of the objective of balanced public accounts;

6. it is to be hoped that the Italian government and its major partners, acting within the framework of the European Economic and Monetary Union, will raise the matter of the need to stimulate economic recovery through the deployment of appropriate financial instruments such as, perhaps, Eurobonds, to complement and balance the programme for the consolidation of public finance at national level. At the same time, it would be appropriate for Italy to undertake extraordinary measures to bring down its public debt, which may entail the divestiture of movable and immovable assets and the creation of investment funds. This would free resources that could then be used as additional investment capital, increasing the rate of growth of the national economy without repercussions on the balance of spending. In view of the expected fall in national income in 2012, this approach would make it possible to inject economic resources into the system and thereby set in motion the recovery of the Italian economy;

7. the completion of the spending review could also further this end. Expenditure savings, especially if they relate to structural items, coupled with the additional revenues raised from anti-tax evasion measures, could be used to reduce the tax burden on households and companies, which would have immediate and positive repercussions on the economy;

8. as regards the destination of the resources, an effort would need to be made to ensure that actions to boost demand are planned with the utmost care. This implies carrying out a preventative review of the likely outcome of each measure, with reference to the available resources and the elasticity of the economic sectors that stand to benefit. Indeed, the fact that the room for manoeuvre in economic policy has now been reduced should lead to an upgrading of the instruments available, a refinement of evaluation techniques and more discriminating approaches. Similarly, steps should be taken to calibrate the economic corrections being made. Not only should their effectiveness in reducing expenditure and increasing tax receipts be evaluated, but their consequences on a macroeconomic scale also need to be measured. This has not been done yet, and it will require an updating of the technical support systems used by decision-makers. The new calibration needs to be introduced systematically, so that adjustments are made in

parallel with any provisions that have a bearing on the national accounts, and not just whenever economic planning documents are being drawn up;

9. the coming into force of the Stability Treaty, which coordinates the governance of the European Economic and Monetary Union, is without doubt an important milestone in the journey towards the adjustment of the public finances, but cannot stand as the only initiative undertaken by the European Union. Rather, the Treaty needs to be complemented by a reform phase that does not a priori exclude the possibility of a revision of the rules governing European Monetary Union;

10. that said, it is necessary to reiterate that the rebalancing of the public accounts is a fundamental objective to which this country is committed. In parallel with this objective, decisive action is needed on a European scale to put into effect the full range of provisions contained in the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union rather than mere enforcement of the fiscal compact. The fiscal compact is not something that can exist in isolation; it must form part of a comprehensive and far-reaching strategy that is attentive to the need for social cohesion, capable of reactivating the virtuous cycle of growth and employment, and ready to apply targeted investment policies on a national and European scale;

11. in light of the above, and with reference to its constitutional obligations, the Government should consider adopting measures that can have positive repercussions on the real economy, such as:

a) incentives for new investments, particularly in research and especially if made by SMEs or in disadvantaged areas; and tax and social security relief for companies that increase the number of employees with indefinite contracts;

b) measures to increase the consumer spending capacity of low-income households (whose propensity to consume is higher);

c) measures to support the construction sector or, in any event, economic sectors where small companies employing a large number of workers are prevalent;

d) support for the expansion abroad of small and medium enterprises by encouraging coordination between the promotional work of regions and national policies, and by leveraging the competences of specialist export-promotion bodies;

e) measures to ensure the rapid settlement of accounts payable by the public sector for services supplied, with priority accorded to SMEs that use their receivables to finance new investments;

f) measures to encourage the transition of the industrial system to the green economy, beginning with a re-introduction of the incentives for energy-saving;

g) a reform of the Internal Stability Pact to facilitate, in a manner consistent with the implementation of fiscal federalism, local authority financing of indispensable capital investments, with particular regard to infrastructure projects, which are apt to bring concrete and appreciable advantages to the local economy and community;

h) the adoption of initiatives, to be agreed with the banking system, to mitigate the risk of a contraction in the credit provided to companies. This might necessitate an expansion of the resources earmarked for certain instruments such as the Central Guarantee Fund for SMEs.