

**Speech delivered by Minister Tria at the XXXI Villa
Mondragone International Economic Seminar**

Prof. Giovanni Tria

Minister of Economy and Finance

I am honored to open the works of our traditional appointment of the Villa Mondragone International Economic Seminar. For many years, 31 years, this has been an important opportunity to explore topics on the frontier of knowledge and debate, but also to discuss in a constructive way the benefits and costs of alternative policy solutions.

Despite having participated to this forum many times (as a professor and more recently as a dean of the Faculty of Economics), it still makes a great effect on me to be again speaking for this seminar in this historical and beautiful facility of our University.

This year's theme gives me the inspiration for some considerations, regarding both the international context and the action carried out by the Government.

Capitalism, globalization and sustainability are closely linked, both as models of organization of our society and as novel and disruptive political and social phenomena.

In the same way in which positive external effects can promote endogenous growth beyond the limits of pure individual interests, in fact, negative global external effects may undermine the private bases of growth, depressing factor productivity and agents' motivation for productive work.

The lack of convergence among the different economies and the increasing inequalities can be, in some extent, explained by lacking or insufficient capacity for autonomous development in a world of increasing interdependence and systemic risks.

The presence of negative endogenous factors, amplified by the hyper-connective features of finance and technology, may in fact transform a condition of insufficient economic development into

a trap, from which it may be increasingly difficult to get out. It is perhaps this trap that characterizes the present crisis of the world model of growth and the conjectures of secular stagnation that some economists have elaborated to explain the slowdown of development and transformative innovation in many countries and in the world as a whole.

Is globalization fostering such a trap? Many waves of globalization have crossed the world in the past. What is new with globalization as we have known it in the more recent years is that it seems to have fostered forms of organized society that by (recklessly) pursuing an ideal of absolute freedom of global markets ended up by undermining the very principles on which this pursuit was predicated. The new type of economic recklessness has taken many forms.

First, by aggressively asserting the superiority of the free market system in securing sustained growth, it has opened itself to dramatic disapproval and disappointments against the hard facts of the recurrent economic crises and declining well being. Far from generating enthusiasm and innovation, it appeared to worsen social injustice and further instability and income inequality.

Second, by invoking a supposed convergence of economic efficiency with social justice, it let narrow economic targets dominate government policies and concern, thus exposing itself to major market failures led by a combination of financial bubbles and monetary and fiscal repression. Third, globalization has favored an unorderly reallocation of the industrial base. This led to a massive re-structuring of the value chains, with specialization shifting from the production of final goods to intermediates, and increasing technological and financial interdependence across countries. De-industrialization in

developed countries has followed with a new set of industrial ties potentially vulnerable to disruptive tariff and trade wars. What is happening now with the USA-China trade tension, if we look at Huawei affair, is a potential shift from a trade war to a potential disruption of the global supply chains.

Fourth, the “new” labor policies, austerity and minimal government, combined with the inability to tackle economic crises, and the threat of jobless technology transition have all been instrumental in determining an environment dominated by lack of public capital, job insecurity, youth unemployment, and fraught with economic and political risks.

The upshot of all these features is a general process of disillusionment and breakage of trust, which goes to the very root of civil society, and is threatening to destroy the fabric of social capital. The disappearance of intermediate bodies, wiped away by the disintermediation operated through the globalized media, has been especially effective in depriving local communities of their network of mutual obligations based on reciprocity and trust.

How do we exit the trap and build a new confidence in the future? This process is difficult to construct, but clearly requires a new synthesis between national, European and multilateral policies. The nature of the challenge is indeed global and return to a form of responsible nationalism is an effective response, but only if this means taking charge of the crucial needs of each country and build public and social capital through a dedicated and far reaching investment program. Real multilateral cooperation and international institution building appears also to be critically important, and to an extent that is both practically effective, and capable to overturn the current expectations of

the and disillusioned citizens. Rather than turning away from it, the world needs an extension of multilateralism from the narrow financial and economic space where it has been confined by the Bretton Woods partial vision, to a broader array of global institutions. This extension is especially important for the European institutions, the third critical pillar of an effective response strategy. Even though the centers of the European government have great responsibilities and still appear to hold only a very tenuous vision of their mission as leading actors of the globalization process and of its dramatic challenges. As important counterparts in the process of economic and political integration, they should not be considered superfluous or fastidious in their interaction with the national governments. However, and more importantly, they should also receive a clear mandate to act on all economic fronts at the supra-national level, including the fiscal, financial and investment areas, and a genuine commitment to improve the global practice of societal values to yield inclusiveness, security, innovation and trust. It is in this direction that our action within the government is moving, and it is only in this direction that our European membership is justified, not only in terms of formal compliance, but in the constructive spirit which is at the base of the treaties.

We need an effective economic policy at European level, and this means a coordination between monetary and fiscal policy. Now in the middle of an economic slowdown and negative risks for growth may be it is not sufficient a simple recommendation to the countries with fiscal space to use this space. But it is an improvement because last year in October this opinion was supported at Eurogroup or at IMF meeting only by Italians. Now

the focus of the debate changed: from financial risks to growth risks.

We need to support this new awareness that Eurozone needs an effective and adequate eurobudget to support convergence and competitiveness as well as stabilization policies. And this means investment programs based on the European priorities. We are aware that the decisional process is difficult because many countries, mainly the northern countries don't like a real progress in the European integration process.

Few words on our negotiation with the European commission.

I don't see obstacle for an agreement. For a zero growth economy, a public finance target of about 2,1 deficit for current year represent a more than prudent fiscal policy, and we are going to this level of deficit thanks to a prudent management of public finance even if we are implementing the planned social policies decided with the last budget law.

For the future the idea is to keep low the deficit and continue in the objective of decreasing debt not through higher taxes but through lower current expenditures: this is our commitment with parliament and we are working to fulfill this mandate with the next budget law.

On these bases we feel that Italy is substantially compliant with the European fiscal rules and I am optimistic for this reason regards the EDP.