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If we are not after the essence, then what are we after?

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Good afternoon everybody. It is a great pleasure to be here in Rimini, at this important annual gathering. My thanks to President Scholz for inviting me, and to all the participants for their warm welcome.

I am especially grateful to Professor Vittadini for his introduction, which underlined the obstacles to delivering economic growth that is at once robust, balanced and sustainable.

This year's theme, the pursuit of the essential, is of fundamental importance, yet often neglected in our frenetic everyday lives. The essence is what remains when the superfluous has been stripped away; it forms the core of values and objectives that lend direction and meaning to our actions. And yet, distracted by the here and now, by life's contingencies, we often lose sight of what truly matters.

With its youthful and vibrant participants, this event provides a unique opportunity to reflect on what really counts in our lives and in our society.

Today I will focus on economic matters, an area where I feel most at home. Though I am far from convinced that economics can define the essence of human life, it is, however, an important part of it. Just consider the central role that work and financial decisions play in our lives: not only because they affect our ability to live a full life, but because they help define our identities as members of a community.

In my speech, I will talk about one of the key themes for our economic future: European integration. What does the European Union really represent? What is its true raison d'être? And how does it contribute to prosperity, the common good, to peaceful coexistence – in short, to what is essential?

I will mostly speak about Europe, before making a few remarks about Italy. Italy and Europe are intertwined not only in terms of trade and finance, but also from a social and regulatory perspective. To understand Italy's economy, we must therefore start with Europe.

What Europe teaches us: the essence as a foundation for prosperity and peace

The European project got under way almost eighty years ago, rising from the ruins of World War II, in response to the collective aspiration to prevent another fratricidal war between neighbours. The two global conflicts that succeeded each other in just thirty years marked the culmination of a long history of disputes and fighting that had tormented Europe for centuries, with the tensions between France and Germany at the centre.[1]

The driving force behind European integration was aptly summarized in Robert Schuman's famous declaration of 9 May 1950: 'A united Europe was not achieved and we had war'. The solution he proposed was economic unification, which would make war 'not merely unthinkable, but materially impossible'.

This ambitious and far-sighted vision led to the formation of the European Coal and Steel Community in 1951, inspired by such eminent figures as Robert Schuman himself, but also Jean Monnet, Alcide De Gasperi and Konrad Adenauer. Subsequently, with the Treaty of Rome in 1957, another step was taken towards the creation of a common market, a customs union, and the design of measures to reduce regional disparities.

The genesis of the European project helps us comprehend its highest purposes: the forging of shared interests and common goals among countries with the aim of generating well-being and prosperity, and the ultimate objective of ensuring peace. In the words of President Mattarella last year in this very setting, '... a shared commitment to peace that Europe's peoples and nations made to one another, after plumbing the depths of World War II'.[2]

Only by keeping this essential inspiration alive can we respond to the current difficulties with the necessary momentum.

Over time, European integration has delivered important benefits for citizens. The progressive abolition of customs tariffs has favoured specialization and economies of scale, stimulating efficiency and competition, and raising employment and living standards. Indeed, it is estimated that without the single market, GDP per capita in Europe would be around one fifth lower than it is today.[3]

The creation of the European Union in 1992 and the launch of the Economic and Monetary Union in 1999 were two key milestones, broadening the coordination of economic policies among Member States and introducing a single monetary policy. From 1999 to today,

1 Such was the depth and strength of the enmity between France and Germany in the modern era that historiographers have spoken of 'hereditary hostility'.

2 Address by Sergio Mattarella, President of the Italian Republic, on the closing day of the 44th Foundation Meeting for Friendship, Rimini, 25 August 2023.

3 J. Lehtimäki and D. Sondermann, 'Baldwin versus Cecchini revisited: the growth impact of the European Single Market', *Empirical Economics*, 2022, 63, pp. 603-635, and H. Badinger, 'Growth effects of economic integration: evidence from the EU member states', *Review of World Economics*, 2005, 141, 1, pp. 50-78.

EU-wide trade has increased by one quarter relative to gross domestic product, and the links between companies within Europe's supply chains have intensified. The euro has become the second most important global currency, strengthening our economic sovereignty and international standing.

However, the crises that have hit our continent in fewer than twenty years have put a severe strain on the Economic and Monetary Union.

The response to the sovereign debt crisis of 2010-12, which followed the great financial crisis of 2008-09, proved to be a stumbling block on the path to European integration, in part revealing gaps in the institutional set-up. The policies of austerity adopted at that time exacerbated the recessionary effects of the crisis in several countries, making the subsequent recovery slow and fragile, and causing economic and political rifts between Member States.

The responses to the latest crises – triggered by the pandemic and the energy shock – have instead been marked by progress on common policies. Significant fiscal measures have been implemented at European level – especially under the NextGenerationEU (NGEU) programme – to support economic activity, thereby strengthening the effects of monetary policy. Support to the private sector has been flanked by measures to raise growth potential.

Europe's governments must now preserve this momentum and continue on their shared journey. To paraphrase Jacques Delors, another leading light of Europeanism, in times of crisis a strong and united Europe requires both firefighters and architects.[4]

The impact of crises and geopolitical tensions

The European project is now facing both internal and external challenges that put its resilience and cohesion to the test.

Weaker economic growth, the transition from industry to services and the resulting cracks in social cohesion, the difficulties of integrating an increasingly large immigrant population, and the development gaps between different areas of the continent, which have been widened by the sovereign debt crisis, have all eroded confidence in the European project. Nationalism is on the rise and the integration process has slowed down. Our common response to the pandemic has merely mitigated this trend.

These phenomena are not exclusive to Europe; they are also global. The sequence of unprecedented shocks in recent years – from the pandemic to Russia's aggression against Ukraine and the energy crisis – has had far-reaching economic repercussions, exacerbating pre-existing protectionist pressures. After decades in which globalization seemed unstoppable, geopolitical conflicts are now threatening international trade and the stability of the world economy.

4 'Face à une crise, il faut le pompier mais aussi l'architecte' (J. Delors, interview with S. Maillard and J.-C. Ploquin, *La Croix*, 12 October 2012).

Global trade shows worrying signs of fragmentation, as highlighted by Brexit, waning US support for the World Trade Organization, and protectionist disputes between the US and China. Moreover, the governments of the major countries are increasingly reluctant to rely on trading partners with which they do not have stable relations or political, economic and cultural ties.

All of this fuels fears of a world once again divided into economic, political and even military blocs. Indeed, it calls into doubt the principles of international cooperation and the multilateral order that has underpinned global economic development and ensured peace among the major powers since World War II.

Such a scenario poses significant risks to the European economy, which is dependent on foreign demand and poor in raw materials, and thus vulnerable in a world where trade is fragmented.

Strengthening the European economy to ensure growth and stability

The European authorities now face the arduous task of ensuring prosperity for their citizens in a less stable and less open world. This will require progress in several directions.

First, it is crucial to continue along our path towards integration.

The test bench for the newly elected European institutions will be the EU's ability to continue to launch common funding programmes and to advance towards a more complete and integrated union, both financially and fiscally.

With the end of the NGEU programme just two years away, we need to start thinking about the next steps. The design and scope of future programmes will largely depend on the success of the current ones, especially on the ability of individual Member States to make good use of the funds available under their national recovery and resilience plans.

Second, it is essential to boost growth, not only to ensure citizens' well-being, but also to secure the EU's role as a global player. Twenty years ago, both the European Union and the United States accounted for a quarter of global GDP each; since then, the EU's share has fallen to 18 per cent, whereas that of the US has remained unchanged.

The European economy must be strengthened on multiple fronts: by reducing its dependence on foreign demand and making the most of the single market, by making it more competitive, by positioning it at the forefront of technology and energy, and by empowering it to defend its external security.

I have already discussed possible actions in these fields on other occasions,[5] so I will not do it again today. However, I would like to focus on some aspects that are particularly important.

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5 F. Panetta, 'The future of Europe's economy amid geopolitical risks and global fragmentation', Lectio Magistralis delivered on the occasion of the conferral of an honorary degree in Juridical Sciences in Banking and Finance by the University of Roma Tre, Rome, 23 April 2024; and F. Panetta, 'The Governor's Concluding Remarks for 2023', Rome, 31 May 2024.

Demographics and the labour market

Demographic projections indicate that the number of working-age citizens will decrease and that of elderly people will increase in the EU over the coming decades.[6] This trend risks having negative effects on the resilience of the pension and healthcare systems, on entrepreneurship and innovation, and on public debt sustainability.

To counter these effects, it is essential to invest in human capital and to increase youth and women's employment, especially in countries – including Italy – where the gender and age gaps in labour market participation are still too wide.

Measures favouring an inflow of legal foreign workers are another economically rational response, regardless of other considerations. The legal entry of migrants will require coordination among EU Member States, balancing production needs with social equilibria, and enhancing the integration of foreign citizens into the education system and the labour market.

Productivity and technology

Even with more jobs and foreign workers, however, labour's contribution to growth will be limited. Only higher productivity – namely an increase in GDP per hour worked – will deliver growth and high incomes.

Nevertheless, productivity in Europe has grown slowly: over the last two decades, we have trailed the US by 20 percentage points, mainly because of EU companies struggling to incorporate new technology in their production processes.

According to recent studies,[7] this weakness reflects uneven research and development efforts and a lack of synergy between science and business. Europe's industry is caught in a middle technology trap[8] and is barely present on the cutting edge of innovative technology, despite the excellent research being conducted in individual countries.

Artificial intelligence (AI) is emblematic here.[9] Although European universities have produced high-level research in this field, the contribution of European businesses to the development of this technology is negligible: between 2013 and 2023, private

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6 Today in Europe there are around three people of working age per elderly person; there will be fewer than two by 2050.

7 C. Fuest, D. Gros, P.-L. Mengel, G. President and J. Tirole, *EU innovation policy. How to escape the middle technology trap*, EconPol Policy Report, April 2024.

8 This includes, for example, the manufacturing of transport equipment and household appliances.

9 Artificial intelligence is currently the most debated example, but similar considerations apply to other sectors such as robotics, digital and communication technologies, space exploration and biotechnology.

investments in AI amounted to $20 billion in Europe, compared with $330 billion in the US and $100 billion in China.[10]

It is clear, both for economic and strategic reasons, that Europe cannot confine itself to being a mere user of technology. It must strive for an active role in its production.

A significant European presence in this sector – currently dominated by a few global tech giants – would widen competition and benefit not only production but also the fundamental rights of citizens, such as the protection of personal data and the pluralism of information sources.

Strengthening Europe – and with it Italy – is not just an economic necessity; it is also a way to assert our strategic sovereignty and fundamental values.

Looking ahead

In order to overcome its weaknesses and to keep pace with global progress, the European Union will need to embark on profound reforms and make huge investments in the years ahead.

In terms of reforms, I have already stressed the importance of creating a common fiscal capacity, without which the current European governance – with a single monetary policy and patchy national fiscal policies – remains unbalanced.

The idea that the European Monetary Union can work well without a central fiscal capacity is just an illusion and must be abandoned. A common fiscal policy would redress this imbalance and strengthen cohesion between Member States, facilitating strategic investment on a large scale.

Among the other reforms that are vital for the competitiveness of the European economy, I would just recall here: extending the EU single market to sectors that are currently left out, such as telecommunications and energy, to encourage competition and efficiency; creating a business-friendly regulatory environment that can attract private investment and spark innovation; and strengthening ties between academia and the production system, in order to turn research findings into competitive products and services on the global market. On financial markets too, where integration is well on track, there has been no significant progress for years towards completing the European Banking Union and creating a single market for capital.

As for investment, EU leaders have already identified the key areas to focus on: the twin green and digital transition, and strategic sectors such as food, energy, health and defence, where foreign dependence needs to be reduced.

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10 N. Maslej et al., *Artificial Intelligence Index Report 2024*, AI Index Steering Committee, Institute for Human-Centered AI, Stanford University, Stanford, April 2024.

Investment in these areas will be effective if made at European level, using both public and private funds. The amounts required are so staggering – in the order of hundreds of billions of euros per year for many years[11] – that it is unrealistic to think they could be funded by public finances alone or by individual countries.

Many of the industries mentioned above revolve around supranational public goods and therefore require a coordinated approach at European level.[12] This would also make it possible to benefit from economies of scale and increase the effectiveness of spending programmes.[13]

What is essential for Europe and for Italy

The Italian economy reflects many of the weaknesses of the European economy.

In my Concluding Remarks, delivered at the General Shareholders' Meeting last May, I discussed the structural issues that have been holding back our country for a quarter-century: from low growth to poor investment trends, from stagnation in productivity to a worrying demographic outlook.[14]

On that occasion, I did also highlight the signs of buoyancy that have emerged in the post-pandemic years. Investment, job creation and economic growth have seen a recovery, and Italian firms have demonstrated a competitive ability in international markets that should not be underestimated.

This progress allows us to look to the future with confidence. Without being overly complacent, we should start from here to secure a path to robust, sustained and inclusive development.

Growth remains the key target for Italy, but in order to achieve it, we need to be determined to tackle our unresolved structural problems. We must focus on the main goals of strengthening competition, investing in human capital, improving labour productivity, raising youth and female employment, and designing good migration policies.

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11 The European Commission estimates that over €800 billion in public and private investment will be required annually until 2030 for the climate and digital transitions alone and in order to raise military spending to 2 per cent of GDP (as agreed by NATO members); see European Commission, *2023 Strategic Foresight Report. Sustainability and people's wellbeing at the heart of Europe's Open Strategic Autonomy*, COM(2023), 376, final, 6 July 2023, p.7.

12 In the environmental area, for example, efforts to reduce carbon emissions are very expensive for any individual country, not to mention largely ineffective. With national government intervention, a single country would bear the costs while all others would reap the benefits. This externality would be mitigated or removed in the context of central spending programmes with shared costs.

13 One example is the lower costs and efficiency gains of a single defence apparatus compared with a number of national defence systems.

14 According to Istat, the number of working-age people will drop by almost 5.5 million over the next 15 years, despite an estimated inflow of 170,000 migrants per year. Assuming that labour productivity and the unemployment rate by gender and age group remain at 2023 levels, it is estimated that population trends will reduce Italy's GDP by 13 per cent in aggregate terms and by 9 per cent in per-capita terms if there is no appropriate policy response.

Reducing debt as a share of GDP remains crucial.

High debt makes lending to firms more expensive, hindering competition and discouraging investment; it makes the Italian economy vulnerable to episodes of financial turmoil. It drains resources from countercyclical policies, welfare and development measures. Italy is the only euro-area country where interest payments on public debt almost equal education spending. I'm making this comparison because it is emblematic of how high debt is weighing on the future of the younger generations and limiting their opportunities.

Addressing the debt issue requires stability-oriented fiscal policies to gradually achieve sufficient primary surpluses. However, debt reduction will be difficult to deliver without accelerating economic development.

The key to this is prudent public finance management, alongside a leap in productivity and growth. This virtuous circle would significantly improve our chances of success, enhance the credibility of our policies and ease the burden of interest payments.

* * *

In conclusion, what choices can we make for a better tomorrow?

The answer can be found in the values that inspired the creation and development of the European Union.

After the devastation of World War II, what was essential for Europe finally became clear: building a prosperous and above all peaceful society.

This founding principle must continue to guide our decisions, especially at a time when old conflicts and tensions have resurfaced.

We can rely on the same recipes we have used so far, with cooperation as the main ingredient for building a modern economy that can cope with global challenges. The aim is to achieve strong, inclusive growth as a condition for pursuing cohesion and the common good.

Italy can play a key role: addressing its structural weaknesses, reducing public debt and fostering high growth will not only strengthen our economy, but also contribute to making the European Union sounder as a whole.

Only in this way can Italy and Europe separate the essential from the non-essential and shape their legacy for future generations by focusing on what matters most.

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