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EMU: An Italian perspective

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Abstract:

The paper offers an Italian perspective on the creation and evolution of the European Economic and Monetary Union (EMU), which were and continue to be politically driven processes. European political leaders were responsible not for design defects but for a fundamental fault in execution: an original sin that continues to undermine the workings of the EMU. Contrary to commonly held beliefs, the Maastricht criteria and a rapid convergence process towards political union as the counterpart to the EMU were a viable framework. This consistent time path was not respected when the euro was created: the participation of Italy in 1999 and of Greece in 2001 did not satisfy the condition of prior fundamental convergence, notably in terms of public finance. The currency without a state, the lack of adjustment, and insufficient structural reforms imparted a deflationary bias, heightened the risks of the sovereign/bank nexus, and led to a wrong policy mix. In spite of significant steps to correct the system, current flaws continue to represent a major drawback to improving the resilience of the system.

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1. Introduction (and conclusion!)

The Economic and Monetary Union (EMU) was a political design: the contention of this paper is that the European political leaders were responsible not for design defects but for a fundamental fault in execution: an original sin which continues to undermine the EMU. The following arguments try to give content to this position.

This paper starts (and, as we shall see, also ends) with two references to a great Italian economist, who passed away too early in 2012: professor Luigi Spaventa. As an independent left-wing MP, on 12 December 1978 he gave a remarkable and very important speech in Parliament on the Italian adhesion to the Economic and Monetary System (EMS) – which also foreshadowed the later substitution of the euro for the lira. He spoke against the Andreotti Government's decision to enter the exchange system on many mutually reinforcing –

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economic/political – grounds (Spaventa, 1978). His speech was instrumental in convincing the Italian Communist Party to withdraw its support of the Andreotti Government, but it did not prevent the entry of the lira into the exchange system, and later the participation of Italy in Maastricht (prime minister Giulio Andreotti, treasury minister Guido Carli, 1989-91) and in the euro (prime minister Romano Prodi, treasury minister Carlo Azeglio Ciampi, 1996-98).

We jump now to a later, less well-known interview by Spaventa to *L'Espresso* (30 November 2010): "Going back to the lira: a folly". The argument had become that it was too late to return to the lira, mainly due to the burden of public debt, the speculation "against Italy", and the drawbacks of a possible international default. He summed up the situation with the following phrase in Latin: "*nec tecum nec sine te vivere possum*" (Martial, *Epigram XII*, 46: "I can live neither with you, nor without you"). His thesis has become even more cogent now.[1]

After the European Stability Mechanism (ESM) Treaty (2012), legal clauses were introduced (Collective Action Clauses – CACs) (Bardozzetti and Dottori, 2013; Martinelli, 2016) which should prevent redenomination of government securities with maturity above one year issued on or after 1 January 2013 (art. 12, par. 3); (the effective enforceability of CACs has been put in doubt by some international law firms).

All this reduces the possibility of redenomination of public debt in national currencies (*Lex monetae*, LM): the so-called 'B-Plans'. LM is the law of the place of the currency. It is a legal principle recognized by most jurisdictions, which stipulates that the currency of a debt expressed in foreign currency is determined by the law of the country in whose currency the obligation is expressed. In the EU legal framework, the euro is the currency of the member countries of the Euroarea (EA), which "irrevocably" replaced national currencies. These assumptions of irreversible commitments began to be questioned with the sovereign/bank "doom loop" and the Greek crisis in 2012. The "whatever it takes" position taken by the president of the European Central Bank (ECB) in July 2012 temporarily calmed fears. In any event, as already indicated, the EU decided to introduce CACs with a view to reducing redenomination risks. There is a snag: this by itself made – and makes – it difficult to regard it as "highly unlikely" that parties would consider the possibility of redenominating contracts expressed in euros.

These issues have been taken up in detail in the *Meseberg Declaration* of France and Germany (2018), with a view to facilitating the orderly restructuring and possible redenomination of a sovereign EA debt[2] through more stringent and more easily applicable clauses: "the single-limb aggregation of euro CACs". These clauses should reduce the legal risk of "holdouts", i.e., creditors who avail themselves of all legal means to refuse to accept any losses. The ESM would act as facilitator in the controversies with the private sector. It would also be the examiner and the backstop in case of debt unsustainability and would work in close cooperation with the European Commission (EC).

Automatic sovereign debt restructuring has been propounded by Germany (Schauble, 2017) to reduce/avoid EU taxpayer burdens: a sort of sovereign bail-in framework. A strong counter argument is that liquidity problems might become a solvency question. Very wisely, it

[1] Spaventa wrote two main "academic" papers on these issues (Spaventa, 1990; 1996). See also Spaventa and Chiorazzo (2000). For an overall assessment of Spaventa's contributions to the ESM/EMU debates see (Roncaglia, 2013).
[2] In the event of a severe sovereign debt crisis, two main scenarios can present themselves: debt restructuring and default. The two events must be kept separate. These contingences are recognized by the markets (see charts in figures 2 and 3, below). Default in general implies redenomination. Restructuring – including pre-emptive restructuring – can, but need not, imply redenomination (Asonuma and Trebesch, 2016).

was agreed that automatic or mechanical approaches to debt restructuring should be avoided (Centeno, 2018). In December 2018 the Eurogroup indicated that ESM resources would be increased significantly by 2024, when the mechanism should also become the common backstop to the banking resolution fund. During this long interim period, the ECB could intervene in support by activating the controversial outright monetary transactions (OMT) scheme introduced in August 2012. A country in difficulty would approach the ESM for an adjustment programme (of macroeconomic adjustment or precautionary), which would imply strict conditionality. The ECB would consider in full discretion the use of OMT.

These arguments – together with the Pandora box of settlement of Target2 (T2) balances (see below) – reinforce the logical/political/policy need to consider the possibility of Eurozone exit clauses, beyond the art. 50 of the Treaty on European Union (TEU) procedure (Fuest, 2018). In my understanding, this was the position expressed by professor Savona in his writings (Savona, 2015) and more recently with reference to the possibility of a "black swan" event, which was, however, vehemently denounced as anti-European, notably by many 'conventional' Italian economists!

2. The EMU suffers from inherent technical ill-execution and unfulfilled political promises/premises

The goal of the EMU was officially declared in 1969 at the Hague Summit: the stability and growth path of the European economy would be accompanied by monetary unification. The objective of a single currency was restated in many European Councils, notably in 1988 when a mandate was given to a committee chaired by Jacques Delors to propose a detailed road map. The report (Delors, 1989) was soon ready; it underlined that the introduction of a common currency would have to be preceded by strong and effective economic and fiscal convergence of the countries willing to commit themselves to the common money.

0n 9-10 December 1991 the European Council held in Maastricht set down the Treaty on European Union and on Fiscal Convergence with a formal decision to create the EMU.[3] The Maastricht approach was driven by the German "coronation theory" (Mongelli, 2008). This "economist approach" held that rigorous and sound initial conditions of fundamental convergence were required to enter the common currency.

The Delors model and the technical work of Treasuries and central banks in those years (1988-1991) were geared to ensuring that: *i*) the necessary convergence measures, notably in terms of fiscal policies, would be taken *before* joining the common currency, which did not have the features of an optimal currency area, and *ii*) destabilizing fiscal impulses would be prevented *after* the monetary union, to avoid undermining the smooth operation of the Euroarea.

Contrary to current commonly held beliefs, the Maastricht criteria were not conceived as an austerity driven framework, neither in terms of deficit nor with reference to debt. The 60% ratio was predicated by reference to the weighted ratio of countries recorded in those years (France and Germany were below the limit; the only large deviant country was Italy with a ratio over 110%). The 60% limit was also checked through the Domar steady state model.[4]

[3] The Treaty was signed on 7 February 1992; it entered into force on 1 November 1993.

[4] As shown by Domar (1944) and recognized in the technical preparatory work on the EMU, the following steady state relationship holds for the public debt to income ratio. Whatever the initial conditions, if the overall deficit is

Admittedly, with the benefit of hindsight, the real growth assumptions were too optimistic (and the risks of deflation were not taken in to account!). But this was not clear at the time.[5]

At the same time, the political leaders of Germany and France had agreed that the EMU – as defined by the coronation approach – would have to be sustained by political union, to avoid a currency without a state. The following two quotations bear witness to this determination:

> Our aim is that these fundamental reforms – economic and monetary union as well as political union – should enter into force on 1 January 1993 (Letter by German Federal Chancellor Helmut Kohl and French President François Mitterrand to the Irish Presidency of the EC, 19 April 1990).

> It cannot be repeated often enough: Political union is the indispensable counterpart to economic and monetary union. Recent history, and not just that of Germany, teaches us that the idea of sustaining an economic and monetary union over time without political union is a fallacy (Kohl, 1991).

However, this well-defined and consistent time path was not respected when the euro was created in 1999.[6] The contention made in this study is that the situation had changed significantly ten years after Maastricht. Growth assumptions had to be revised downwards and the convergence of debt to the 60% threshold had become exceedingly complicated for countries with debt to income ratios twice as high.[7] The participation of Italy, and shortly later of Greece,[8] upset the complex process painstakingly created in 30 years.[9]

Strong political pressures by 'weak' countries to adopt the single currency found support by the Commission and by France itself. The stated reasons were that entering immediately, albeit with an incomplete respect of the Maastricht criteria, would have ensured a better external discipline and therefore effective convergence. The inherent competitive advantage which could be anticipated for "strong" countries also played a role.

This however undermined the delicate balance on which the EMU process had been conceived and built. De facto, the monetary union became predicated on a controversial assumption initially propounded by Jacques Rueff in 1949: "*L'Europe se fera par la monnaie ou*

held at 3% of income and the growth rate of nominal income is given by the sum of a constant real component of 3% and a stable rate of inflation of 2%, the ratio converges to a limit of 0.6=3/(2+3).

[5] After the exceptional economic growth recorded in Europe between 1950 and 1971, with an average annual GDP growth rate of over 4.5%, the combined effects of the oil crises, wage and price inflation, and the dollar problems concurred in lowering yearly growth to some 2% per year between 1972 and 1990. During the preparatory technical work for Maastricht, the view was broadly shared that, with the decline of energy costs, monetary stability and the growth-enhancing features of the EMU itself, a sustainable rate of growth of 3% could be projected into the future.

[6] The irrevocable conversion rates of national currencies for the euro were adopted by the EU Council upon a proposal from the EC in accordance with Art. 109(4) of the Treaty on 31 December 1998.

[7] The relevance of political drivers, as against respect of technical requirements, is highlighted by the controversy on entry into the single currency between the then prime ministers of Spain, José Maria Aznar, and of Italy, Romano Prodi. The former claims (White and Burns, 1996) that he rejected Italian requests of a common approach of the two countries to postpone their entry. The latter maintains (Prodi, 2019) that this is not true, and that Italy was determined to join the euro immediately, with political support from France and Germany. (To recall, the debt/income ratio in 1998 was 64% in Spain, compared with 115% in Italy).

[8] Admittedly, other countries also met with considerable convergence problems in the Monetary Union. The debt/income ratio when the euro was created is singled out here as the key stumbling block, which led over time also to political mistrust among Euroarea countries.

[9] A common thrust of the positions expressed over time on these issues from an Italian perspective and broadly in line with the economist approach, by Baffi (1989), Spaventa (1990) and Masera (1994), was that: (*i*) the incentives to adjustment would have proved stronger without a hasty participation in the single currency, (*ii*) the domestic economic costs of convergence would have been lower, and (*iii*) the workings of the currency area would not be weakened, with a credible perspective of the EMU becoming also a political union. These ideas did not meet with success.

ne se fera pas". This change was against the Delors report and the Maastricht models, according to which the jump into the common currency required *prior* fundamental convergence among participating countries. In turn, this would have made it possible to move swiftly to fiscal and political union (and therefore to mutualization of public debts). The idea had been that a currency without a State should be avoided, as the quotations of Mitterrand and Kohl clearly demonstrate. Jacques Delors underlined that the euro creation was marked by a "fault in execution" of his plan by the political leaders, who decided to turn a blind eye to the fundamental weaknesses and imbalances of some countries which entered the single currency (Delors, 2011). Similar concepts had been expressed by Issing (2008). These political decisions can be regarded as the 'original sin' of the single currency.

Italy played a key role in this fundamental change. In spite of some progress, the country had not achieved convergence of fundamentals. The condition of public finances and notably the debt/income ratio signalled the need for a rigorous convergence programme. But this was not the case. The former Governor of the Bank of Italy and Prime Minister (later President of the Republic) Carlo Azeglio Ciampi, as Treasury Minister in the Prodi Government (1996-98), indicated to Helmut Kohl and to François Mitterrand that in a very few years with the euro and an enhanced discipline the Italian debt to GDP ratio would come down to 60%. A large fiscal space was offered by euro interest rates: Italy's debt servicing costs declined by 40% in the decade 1997-2007. But this was utilized to increase current expenditure of a bloated public sector[10] and concurred with the lack of mutual trust among EA member countries.

In 1999 Greece was not allowed into the Eurozone for failing to meet the Maastricht economic criteria. But on 1 January 2001 the country was permitted to join the single currency. To qualify, an austerity program had been adopted but, as was later ascertained, key macroeconomic indicators had been faked. Official comments on the date of entering the Eurosystem were: "this is a historic date that places Greece firmly at the heart of Europe"; "[…] our inclusion in EMU ensures greater stability and opens up new horizons" (Simitis, 2001). The determination was greeted with general euphoria and with two-thirds of the Greek voters in favour, according to opinion polls. Similar rhetorical comments came from the Commission in Brussels.[11]

3. The original sin until now without redemption!

The currency without a State, the lack of convergence/structural reforms, and the fiscal treaties imparted a deflationary bias to the EA, and eventually led to a wrong policy mix (too tight fiscal policy/too easy money), as had been anticipated by Modigliani et al. (1998) and by

[10] The breathing space offered by debt service was de facto largely used to finance a constitutional change (title V) which was aimed at introducing local autonomies, but it became an instrument to create "representation without taxation", overlapping bureaucracies, marred by corruption; two former Italian prime ministers recently referred to the Title V change as a fundamental distortion and a resounding blunder (Letta, 2013; Amato, 2018). The negative Italian experience should be contrasted with developments in Belgium, where the sizable falls in interest expenditures during the early years of the EMU were accompanied by lower other government expenditures in the framework of a sustained fiscal adjustment (ECB, 2016 and Sapir, 2018).

[11] Later, the 'successful' conclusion of the ESM three-year programme in Greece on 20 August 2018, after three successive bailout programmes (May 2010, February 2012, and August 2015), and the largest debt restructuring in financial history, have hardly solved the problem of public debt. In spite of favourable assumptions on GDP nominal growth and on primary surpluses, the debt to GDP ratio is forecast as unsustainable by the IMF and as declining only to 96% by 2060 according to the EU (European Parliament, 2018, fig. 2).

Sylos Labini (1998). What had not been anticipated was that the fiscal constrains would be further tightened, in spite of less favourable perspectives of potential growth. The Treaty on Stability, Coordination and Governance (TSCG, title III, Fiscal Compact, art. 3; Council of the European Union, 2012) introduced the requirement that Euroarea countries adopt into national laws a "balanced budget" restraint (with no form of "Golden Rule" which would allow them to borrow but only to finance investments that benefit current and especially future generations – intergenerational equity).

The "whatever it takes" (Draghi, 2012) and later the (expanded) APP (Asset Purchase Programme) policies (ECB, 2017b) leading to negative interest rates are the progressive steps along this policy mix.

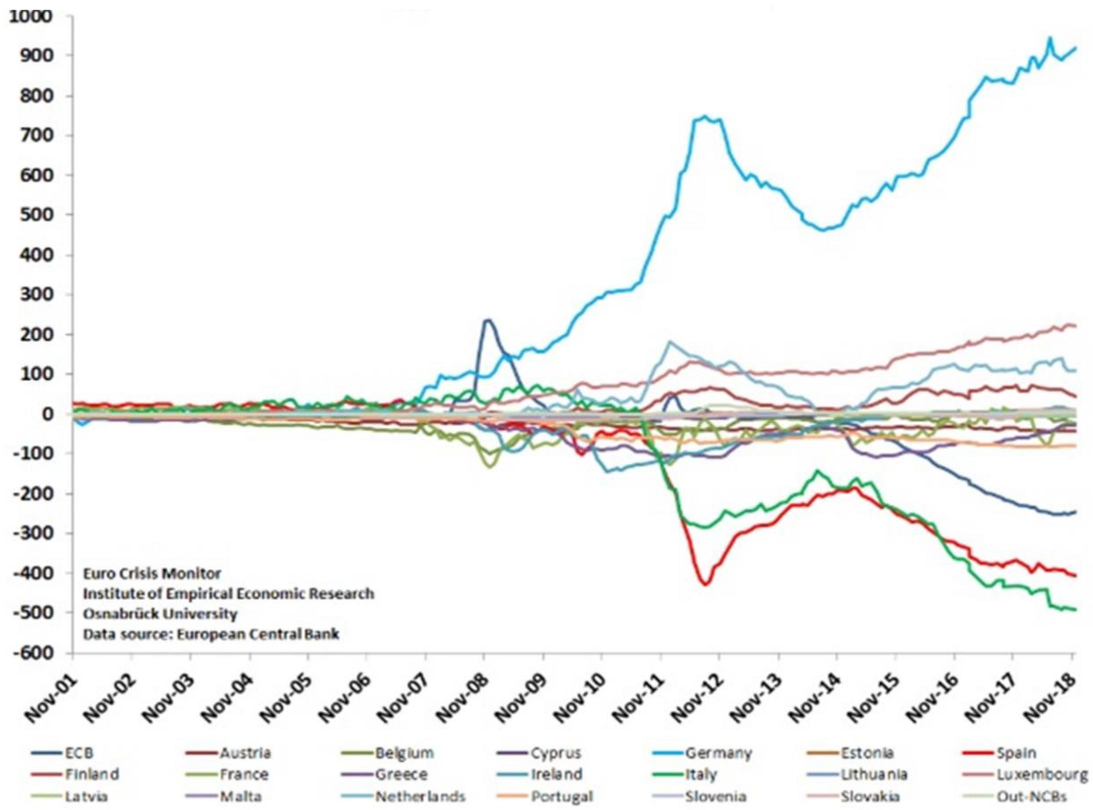
The Banking Union (BU) was a necessary advance. However, without a European Deposit Insurance Scheme (EDIS), which should be the third pillar of the BU, after the Single Supervisory Mechanism (SSM) and the Single Resolution Mechanism (SRM), the system is incomplete. EDIS was meant to offer a uniform insurance cover for retail deposits, with a common fiscal backstop. Also, the resolution framework is unsatisfactory (Balassone and Visco, 2018). The leading/pervasive role of the ECB in the European Systemic Risk Board (ESRB), which is tasked with the overarching role of preservation of macroprudential stability (Mr. Draghi is the chairman of both institutions) weakens de facto the independent role of the ESRB as guardian angel of macroprudential policies, notably with respect to the monetary and fiscal mix, but also on the issue of the workings and sustainability of target balances (see below).

An unsatisfactory application of the Basel 3 framework in the EA (Masera, 2012; de Larosière, 2013) blunted monetary policy and hence required additional doses of monetary base expansion. More technically, the Eurosystem/ECB nexus had and has flaws that have not been satisfactorily addressed so far.

Target2 balances (T2) are the forefront example. Hans Werner Sinn in 2011 demonstrated to the ECB and the Bundesbank that T2 were not merely a booking system: "irrelevant balances with no direct relevance to ECB monetary policy" (Deutsche Bundesbank, 2011). They have to be interpreted within the context of money creation, international capital flows, and current account deficits/surpluses in the EA (Banca d'Italia, 2017).

Target2 balances (figure 1) are official credit lines and therefore represent an exposure notably in the extreme case of a euro break-up (Sinn, 2016). In a nutshell, they are intra Eurosystem-ECB lines of credit which are automatically generated and unlimited in size, are not collateralized and with no redemption (repayment) date. The Eurosystem/Target2 construction can be viewed as a system which lacks the critical economic feature of unified currency, i.e., that transfers of money take place automatically, without national central banks interfering (Friedman, 1968, and Masera, 2018c).

Figure 1 – *Target2 balances*



Source: Westermann (2018), Euro Crisis Monitor, http://www.eurocrisismonitor.com/.

As indicated, the risks of T2 are intertwined with the state and prospect of the euro. The official position of the ECB had been traditionally that the euro was irrevocable and enshrined in the Treaties (Draghi, 2012). But later, Draghi (2017) opened a Pandora box by indicating that "If a country were to leave the Eurosystem, its national central bank's claims on or liabilities to the ECB would need to be settled in full." This statement by the president of the ECB reopened the issue of the LM in two ways.

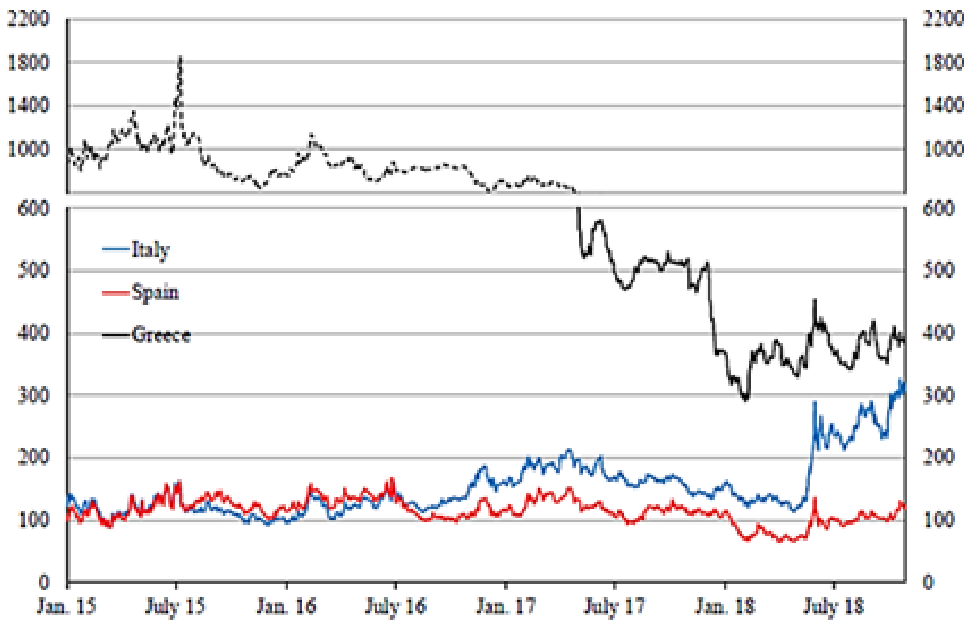
To start with, if a single member state exits the euro and replaces it with a new (national) currency, payment obligations could be redenominated according to the LM of the departing country (which would also leave the EU). It is precisely to cope with this type of risk that CAC procedures have been introduced.

In the extreme case of a euro break-up, the single currency itself would cease to exist, and it would be impossible to impose an obligation to pay in euros. This Pandora box scenario would make it impossible to refer to the euro as the lawful currency.

Legal uncertainties surround this worst-case scenario, also in terms of the enforceability of CACs. This is partly due to the difficulty of matching the governing law of the contract clauses with the courts of the departing member states. Even more complicated, also from a legal perspective, is the treatment of target balances in these circumstances.

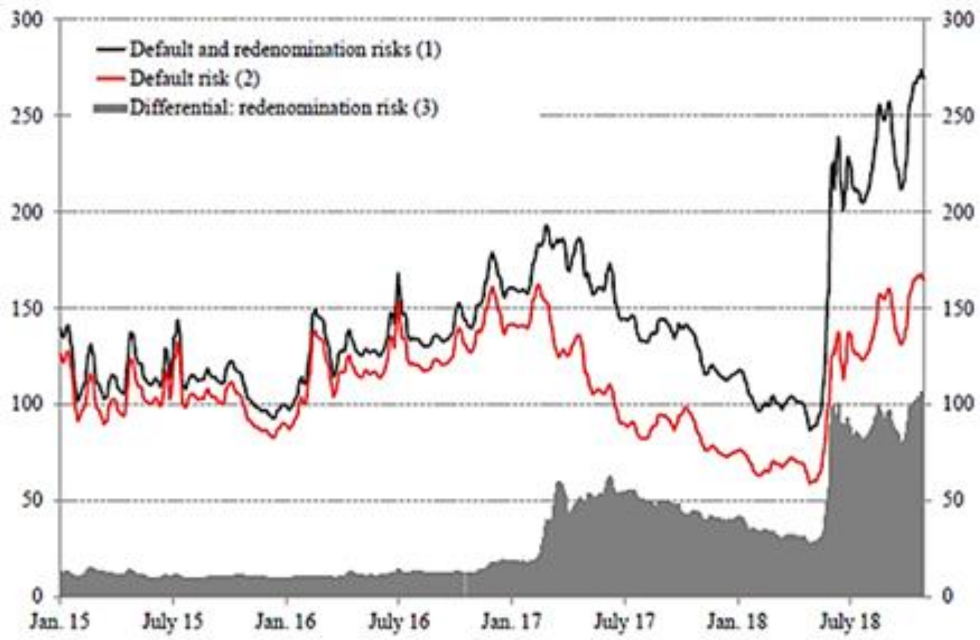
In any case, it has become impossible to consider the adverse scenarios described here as events characterised by a negligible probability. They have been admitted and examined by the official political, economic and monetary authorities of the Euroarea (see for instance *Meseberg Declaration*, 2018; ESRB, 2018; and Visco, 2018). It must be recalled that the whole G20 approach to financial regulation/supervision is based on the utilization of low-probability/extreme value theory models (capital risk weighted requirements, stress tests, bail-in schemes). The current, more consistent and transparent official approach can be epitomized by the following charts recently presented by the governor of the Banca d'Italia (Visco, 2018) (charts in figures 2 and 3) who duly recognised market-derived low, but not negligible, probabilities for these adverse events.

Figure 2 – *Sovereign risk premium: Italy, Spain and Greece* (*yield spreads for ten-year government bonds with respect to the German Bund; basis points; daily data*)



Source: Visco (2018), based on Bloomberg data.

Figure 3 – *Premium for default and redenomination risks on Italian government bonds* (*credit default swaps; basis points; daily data; 5-day moving averages*)



Source: Visco (2018).

To complicate things further, the EA is in the very uncomfortable position of not having a truly "safe asset", which affects risk-taking, portfolio and capital allocation and banks' risk-weighted capital requirements (Masera, 2018b). The traditional national short-term Treasury bill is not available (unless one takes the Bund as a reference point). The other key safe asset is the monetary base itself (on these points, see Tonveronachi, 2016). But the ECB would be at risk in case of a euro break-up. The time-consuming and expensive efforts to create an artificial safe asset based on securitization and tranching of EA official debts (ESRB, High-level Task Force on Safe Assets, 2018) are a mistake (Minenna, 2017; Claeys, 2018).

4. The main areas which deserve immediate attention[12]

- The German and other countries' plans to discipline Euroexits and reduce redenomination risk: feasible or counterproductive? As indicated, the *Meseberg Declaration* underlined the role of strengthened CACs to facilitate the restructuring of country debt and to avoid redenomination in case of a Euroexit. An agreed discipline might have restraining effects on profligate Eurozone governments and make markets more alert to unsustainable policies. A drawback is the official admission that the euro may not be "irrevocable".

[12] A lucid analysis and a clear elaboration of the steps required to overcome the standstill of the European construction are offered, from an official perspective, by Balassone and Visco (2018).

- The distortions of negative interest rates should not last longer, but also the transition to a "normal" monetary policy presents difficulties, mainly because the supposed "underlying strength" of the EA economy (Praet, 2018) is again under scrutiny.
- That on the European Monetary Fund (EMF) is an important proposal (EC, 2017), which is however not yet fully explained. Its main task would appear to be the provision of a backstop for the ESRB. This however is more a recognition of the weakness of the Single Resolution Board (SRB) and Single Resolution Mechanism (SRM) (Masera, 2018a), than a clear case for the EMF (Regling, 2018). The *Meseberg Declaration* does not offer clear insights on the proposed EU institutional changes.
- The resolution framework should be revised in depth, as underlined by Balassone and Visco, 2018.
- The negative feedback loop between banks and sovereigns has not been broken (Angelini et al., 2014), mainly because financial rescue operations enhance feedback effect between bank and sovereign risks.
- The relaunch of (public) investments in the knowledge economy and society, for protection of the environment and for select Trans-European Networks – subject to the European Investment Bank (EIB) and InvestEU monitoring – should have a favourable treatment in the EA fiscal rules (Masera, 2019), also to help raise potential growth.
- A final question mark: is the ECB representative of a decentralised monetary union?

The evolving position of the ECB is portrayed in a further response by Draghi to two members of the European Parliament, Joachim Starbatty and Ulrike Trebesius:

> TARGET2 is integral to Monetary Union as it ensures that banks' reserves held at national central banks (NCBs) can flow freely across euro area Member States. By facilitating the cross-border flow of liquidity between banks, TARGET2 substantially reduces systemic risk and plays a key role in ensuring the smooth conduct of monetary policy, the correct functioning of financial markets, and ultimately banking and financial stability in the euro area. […] Intra-system balances are an inherent feature of any decentralised monetary union. Limiting their size could restrict the free flow of money across borders and as a result undermine the smooth functioning of Monetary Union. For this reason, neither NCBs nor the ECB have put in place provisions to limit the size of TARGET2 balances, which are, however, constrained by the size and structure of the Eurosystem balance sheet (Draghi, 2018).

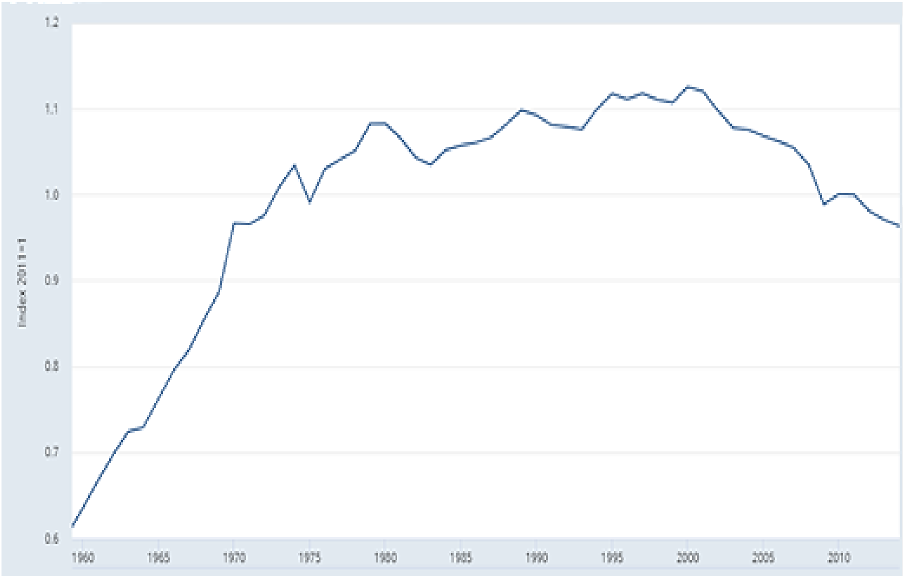
From an economist's perspective, the EU Treaty does not make reference to a decentralized monetary union in the conduct of monetary policy. The consolidated version of the Treaty of the European Union and the Treaty of the Functioning of the European Union (Official Journal of the European Union, 2016, art. 12 of the Protocol n. 4 on the Statute of the European System of Central Banks and of the European Central Bank), reads as follows: "The Governing Council shall formulate the monetary policy of the Community […]. The Executive Board shall implement monetary policy in accordance with the guidelines and decisions laid down by the Governing Council. In doing so the Executive Board shall give the necessary instructions to national central banks." In this institutional framework, account being taken of the creation and operation of the SSM and the SRM, Emergency Liquidity Assistance (ELA) (ECB, 2017a) should move from a decentralized implementation to a "single" mechanism managed by the ECB.

Target2 should be reformed to make it sustainable. But the causal links (who rules the roost?) of the adjustment mechanism are not clear. Two alternative approaches have been elaborated: Turner (2017) and De Grauwe et al. (2017), vs Fiedler et al. (2017): should the burden of adjustment fall primarily on countries with large and persistent current account surpluses or deficits?[13] The stability and effectiveness of the Eurosystem rest on a correct answer to the above questions and on appropriate economic policies.

5. The Italian issue

In Italy the main problem – which is also a cause of the excessive public debt – is represented by the dismal long-term productivity performance (figure 4).

Figure 4 – *Total factor productivity, Italy 1960-2014*



Source: total factor productivity at constant national prices for Italy [RTFPNAITA632NRUG], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/RTFPNAITA632NRUG, November 15, 2018.

This real issue (low growth, low income trap) requires fundamentally real adjustments: on the one hand, structural supply side policies, tax adjustments, cuts in counterproductive, overlapping bureaucratic layers of government and public employment; on the other hand, investments in human capital, R&D and other good infrastructural investments broadly defined.

Country governance is the "context infrastructure" of a civil society, amenable to accumulation/decumulation, with corresponding improvement/deterioration in performance. This concept can be operationally defined and quantitatively measured by means of indicators elaborated and regularly updated by the World Bank (2018). They show an impressive decline of Italy's governance in the past 20 years – in absolute terms and even more in comparison with other Euroarea countries. This negative trend went hand-in-hand with shrinking public investment flows and declining quality and efficiency of these expenditures. The negative loop

[13] It may be recalled that the Macroeconomic Imbalance Procedure in the EU established a framework for surveillance of both excessive current account surpluses and deficits (EC, 2012), which should be used to address the issue of adjustment in a balanced way.

is a major cause of the country's TFP decline (Masera, 2019).[14] Centers of excellence continue to characterize the country in all areas and sectors – as witnessed for instance by the competitiveness of the export industries – but their continued successes are at risk if past trends are not rapidly reversed.

6. Conclusion

As anticipated, I go back to square one, and to Spaventa's Latin conclusions.

But, unless the key areas for attention indicated here are properly – and rapidly – addressed, the system is vulnerable: the EMU appears today an unsustainable equilibrium. "The [European] construction is lopsided and incomplete; its very sustainability requires that the missing elements be incorporated soon" (Balassone and Visco, 2018). The EMU was and continues to be a politically driven process.

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