

(poly-)crisis as an “opportunity”?

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Convergence across progressives?

- Active State
- “muscular industrial policy”
- Strengthening the domestic supply chain
- ... finally competing on our forte?

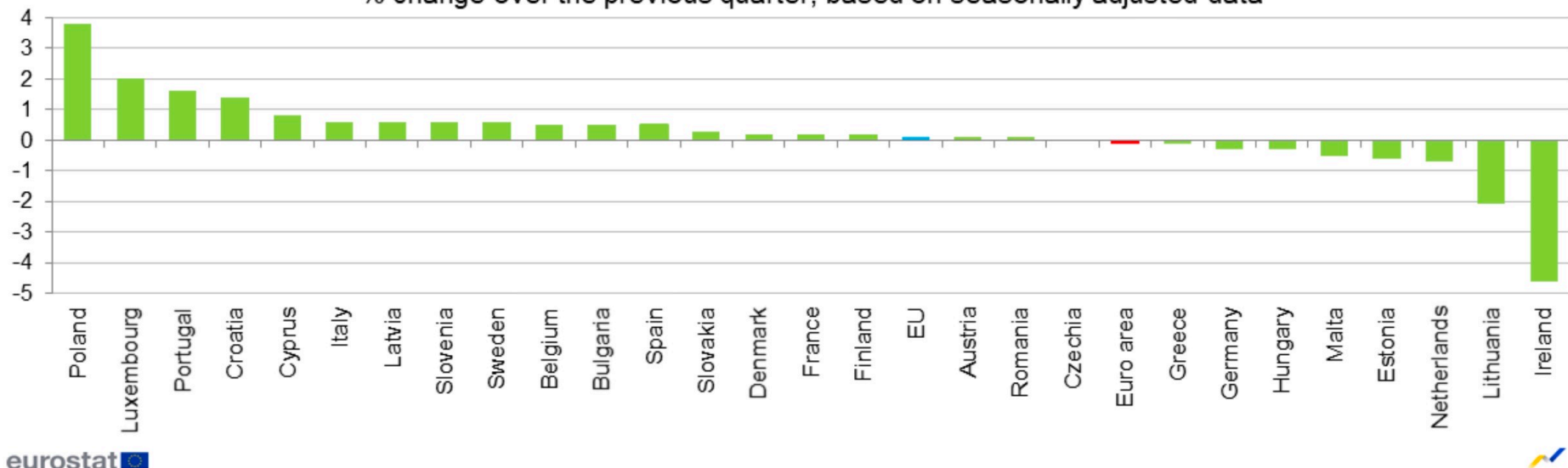


Poly-crisis

- Ecological crisis
 - not just climate change: e.g. biodiversity
- International relations crisis
 - The war in Ukraine, but also a creeping Cold War 2.0
- Demographic crisis
 - Multiculturalism, but natality decline too.
- ... but an economic one?

I'd rather talk of risks, and fragmentation

GDP growth rates in the first quarter of 2023
% change over the previous quarter, based on seasonally adjusted data

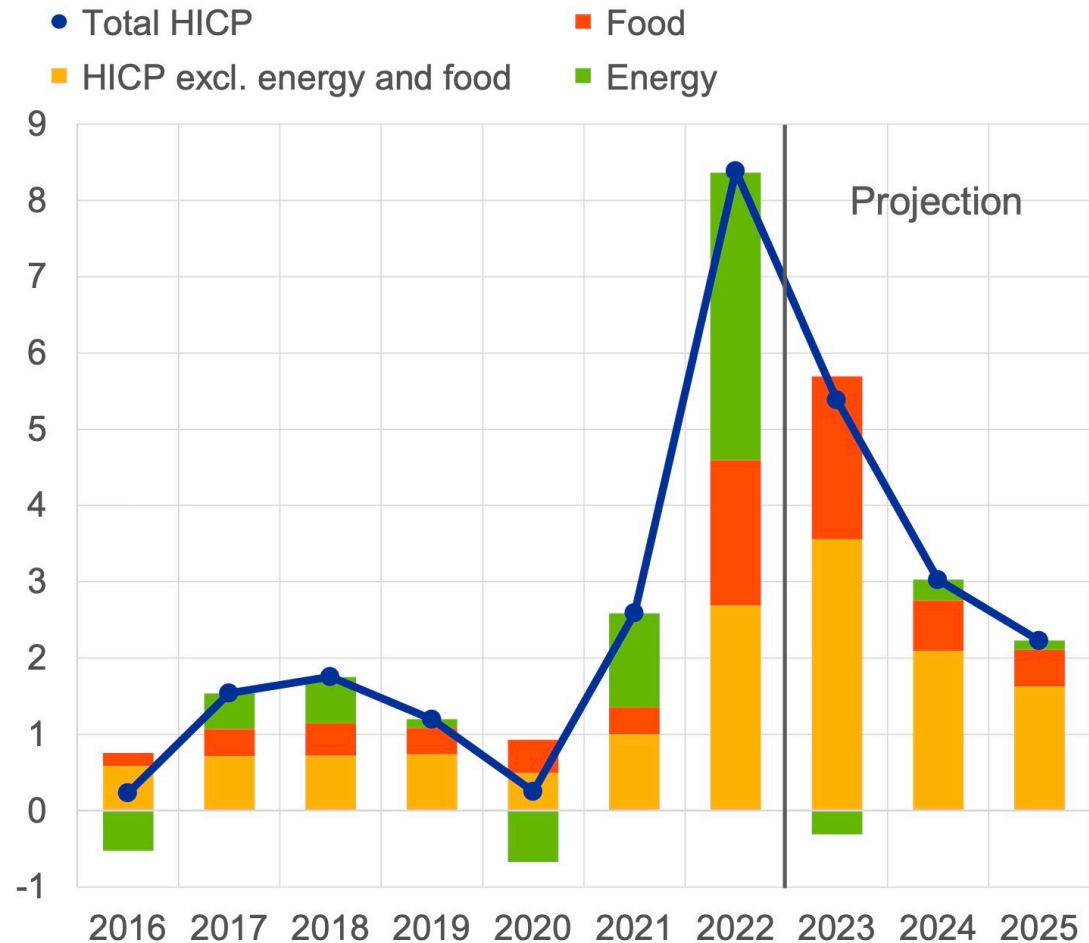


The main risk

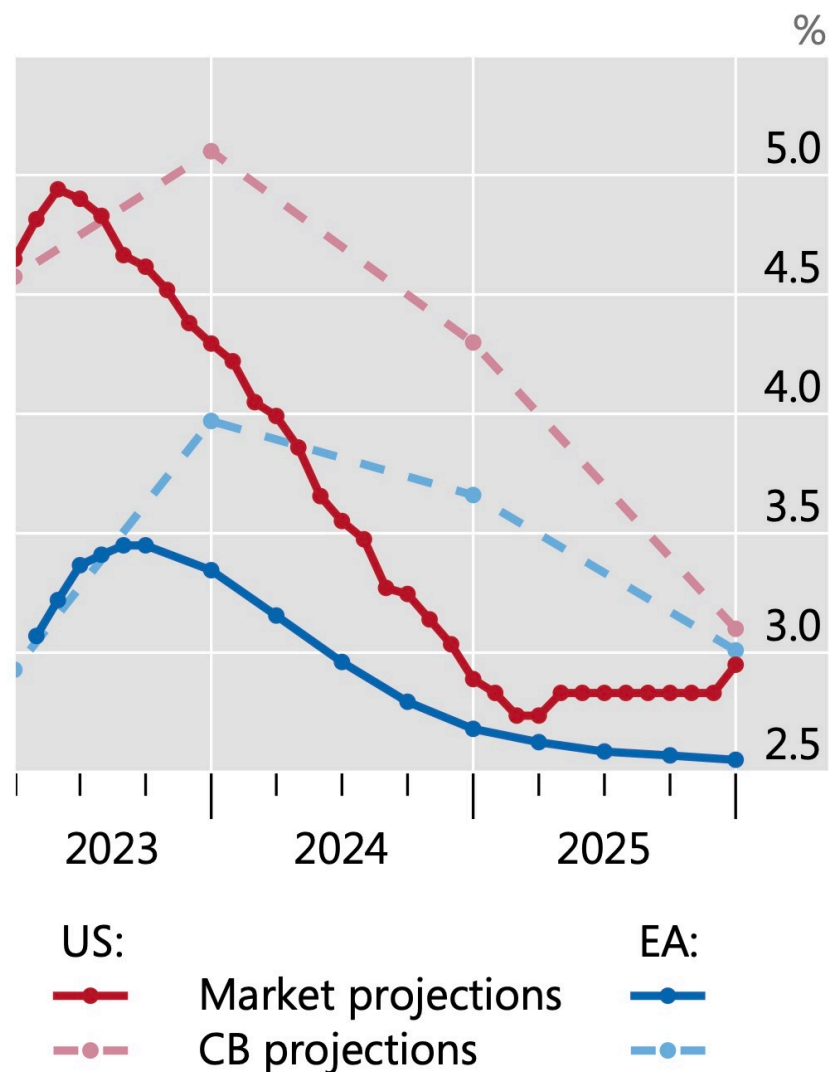
- CBs engineering a crisis
 - (will they help then?)
 - leading to lower exports, and more pressure on public finances.

HICP inflation projections – main components

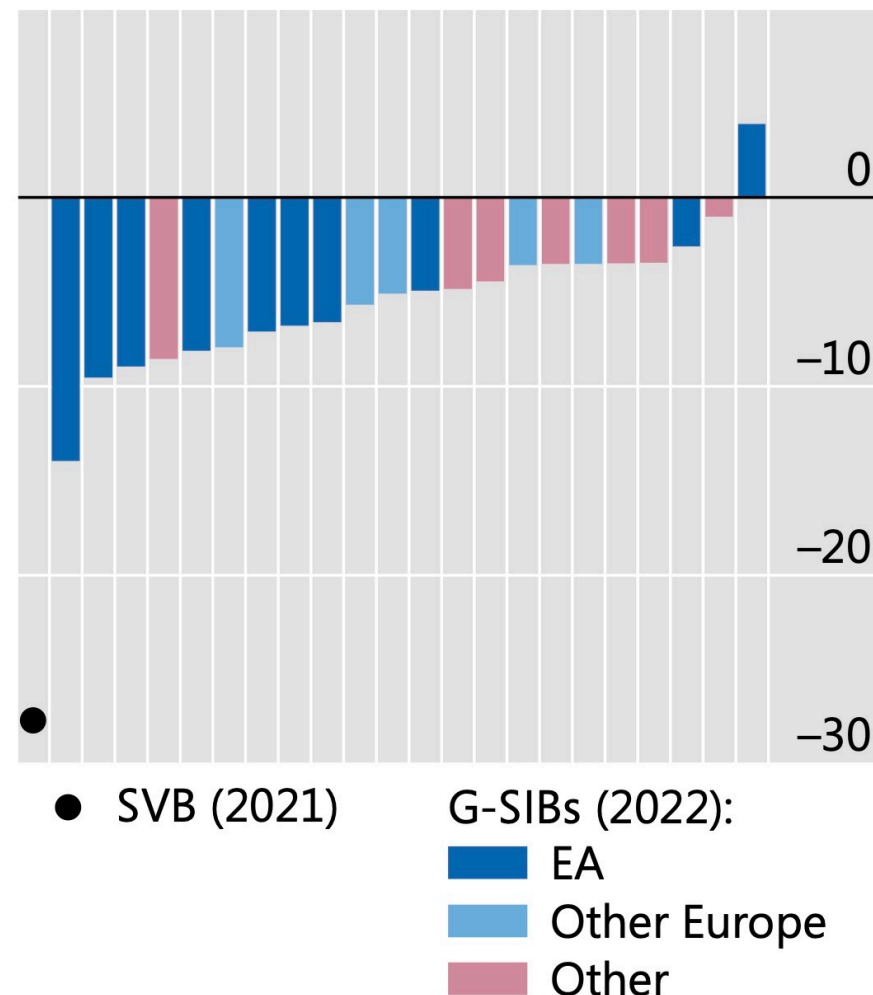
(annual percentage changes, percentage points)



A. Market expectations of policy rates differ from central banks (CBs)¹



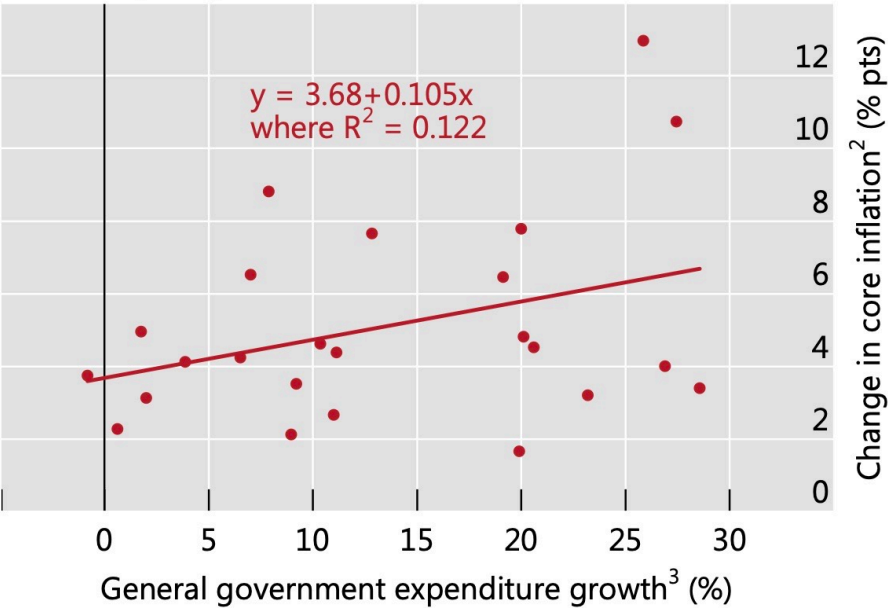
B. Projected decline in bank equity due to upward shift in yield curve



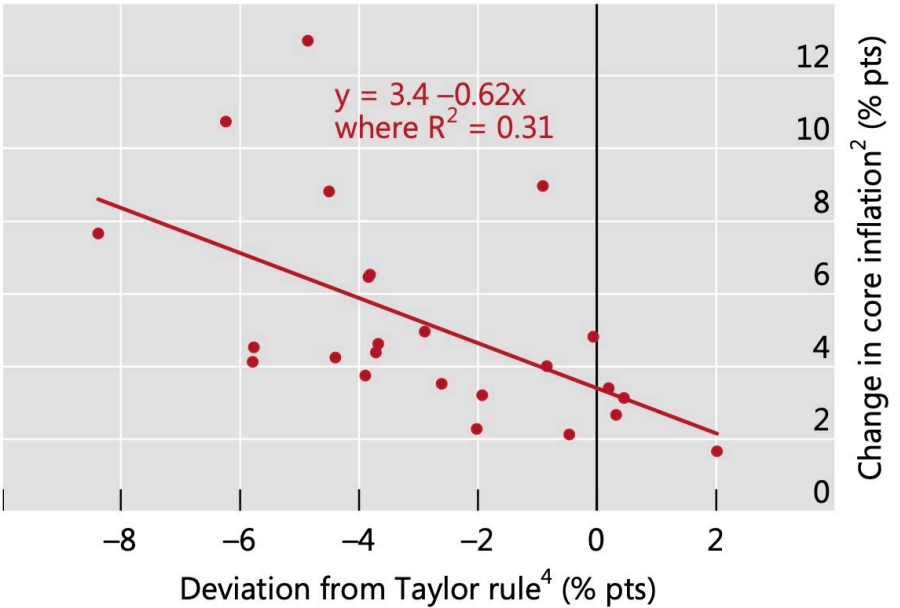
Bank for International Settlements (2023)

More expansive policy mix has contributed to inflation surge¹ Graph 20

A. Fiscal policy



B. Monetary policy



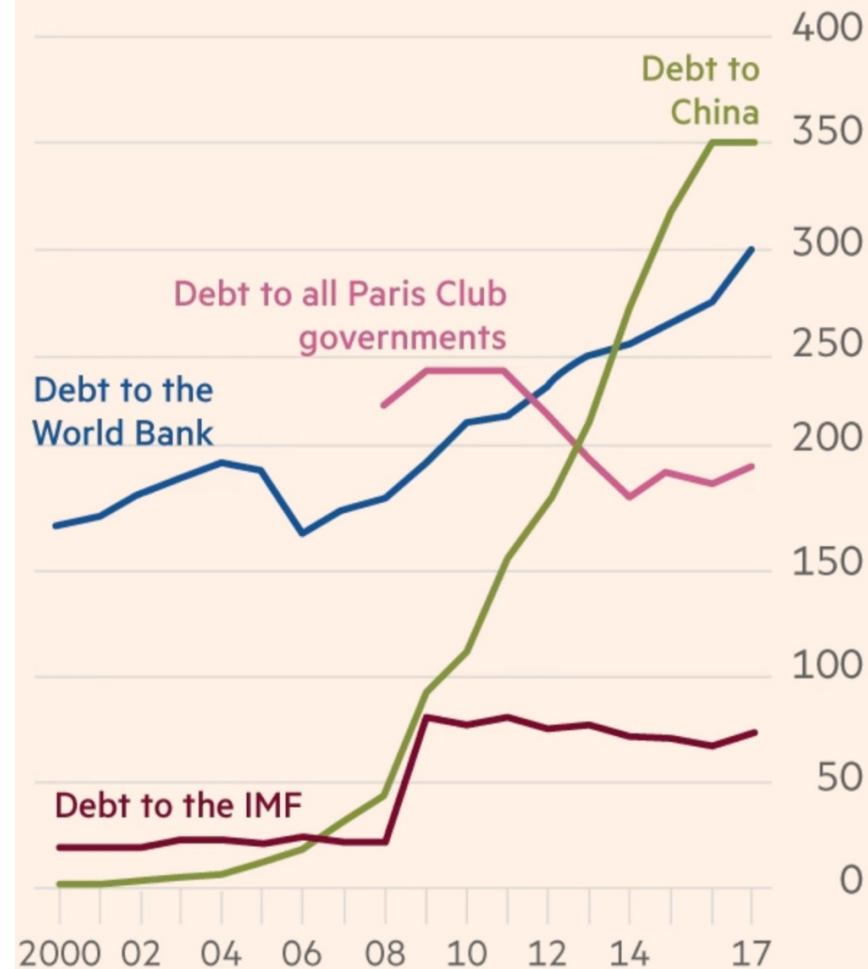
¹ Based on 11 AEs and 15 EMEs, subject to data availability. ² Q1 2021–Q1 2023. ³ Cumulative change in 2021–22. ⁴ 2021–22 average.
Sources: IMF; OECD; national data; BIS.

Global North vs. South

- A new stage in the financial cycle: higher interest rates \Rightarrow capital flows to the centre \Rightarrow debt refinancing problems in the periphery
 - How can we help more/better than China?
- This has consequences for exports, and FDI.

China is now the largest official creditor to the developing world

Aggregate external public debt owed to different official creditors (\$bn)

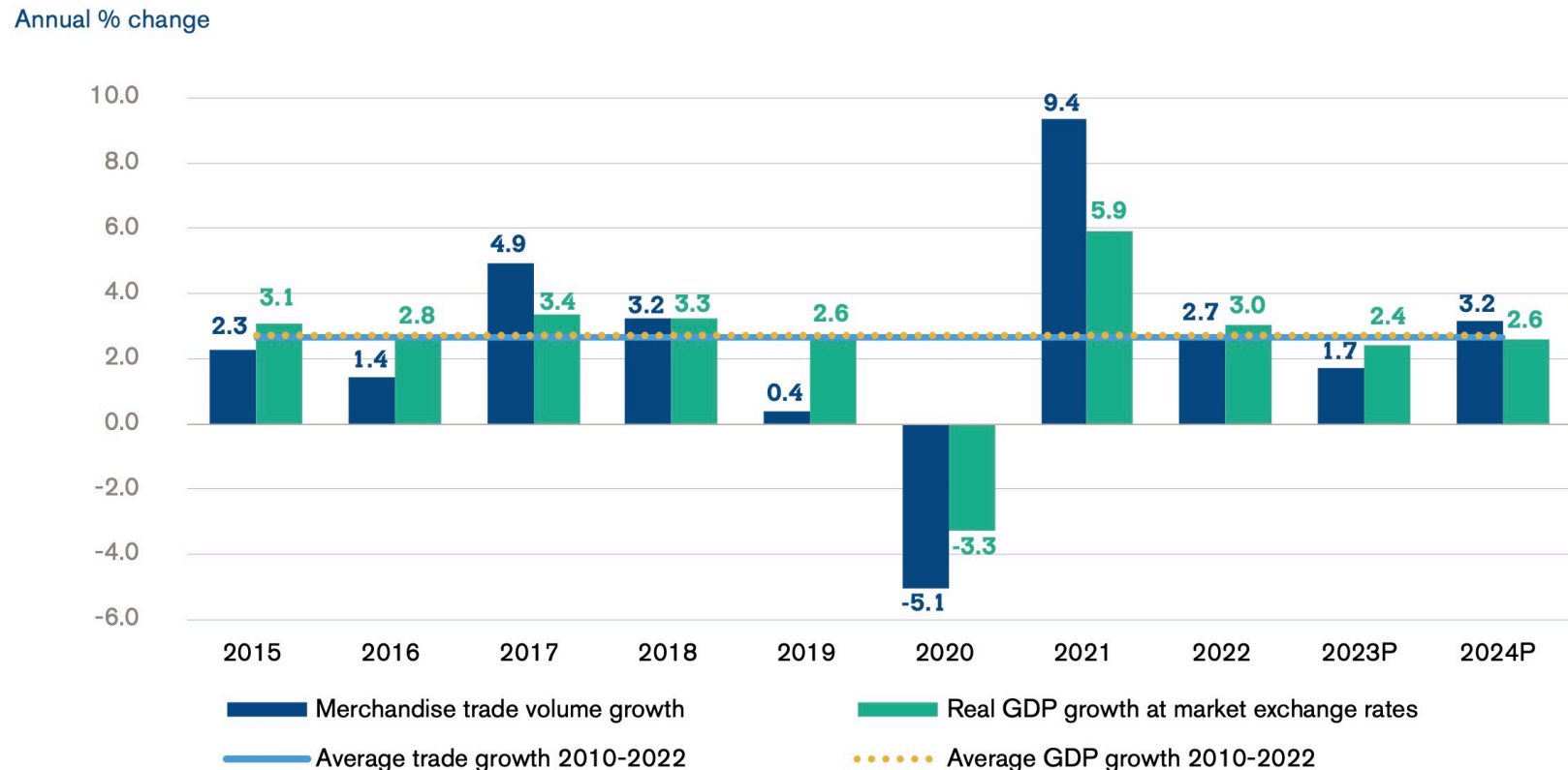


Sources: Horn, Reinhart and Trebesch (2019); World Bank; International Development Association; Paris Club

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East-West divergence: a new Cold War is brewing

- Global trade keeps on growing, just slower
- It is not deglobalization, but **technological competition**



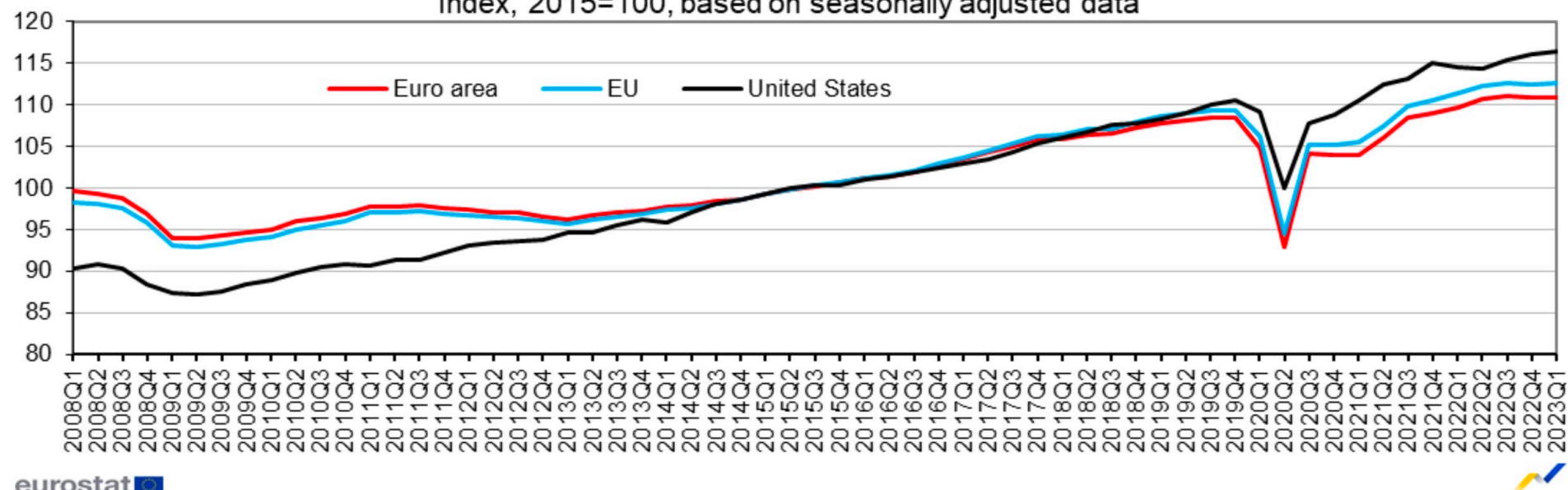
Note: 2023 and 2024 are projections.

Source: WTO for merchandise trade volume and consensus estimates for GDP.

Two sides of the Atlantic

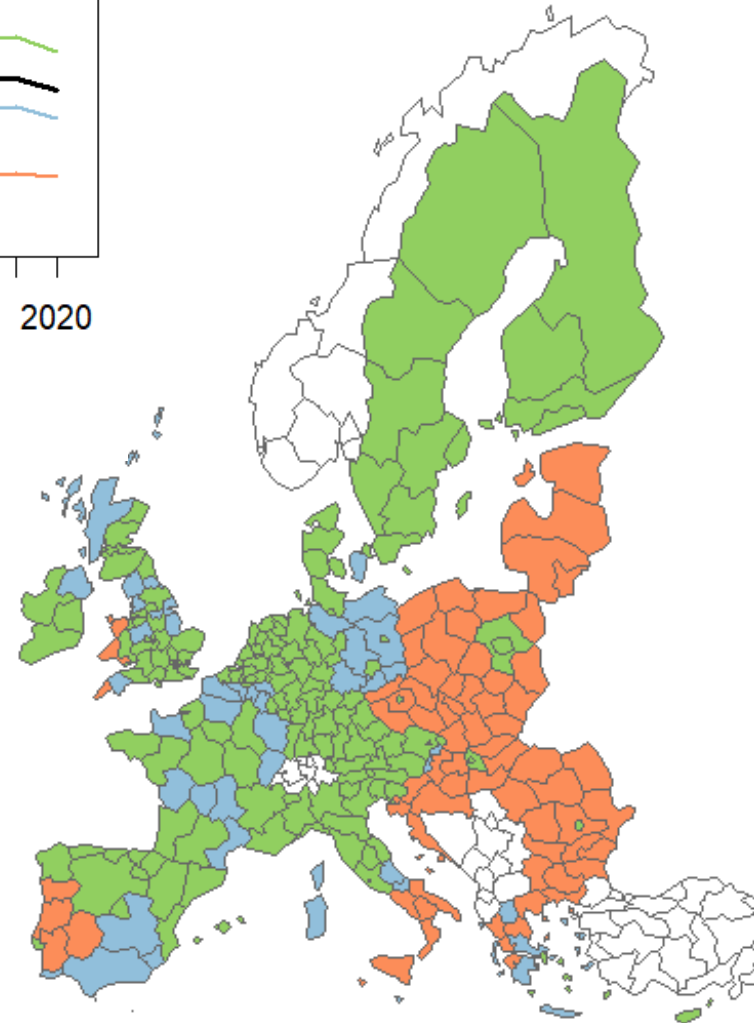
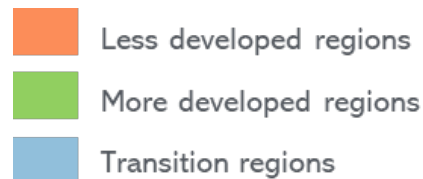
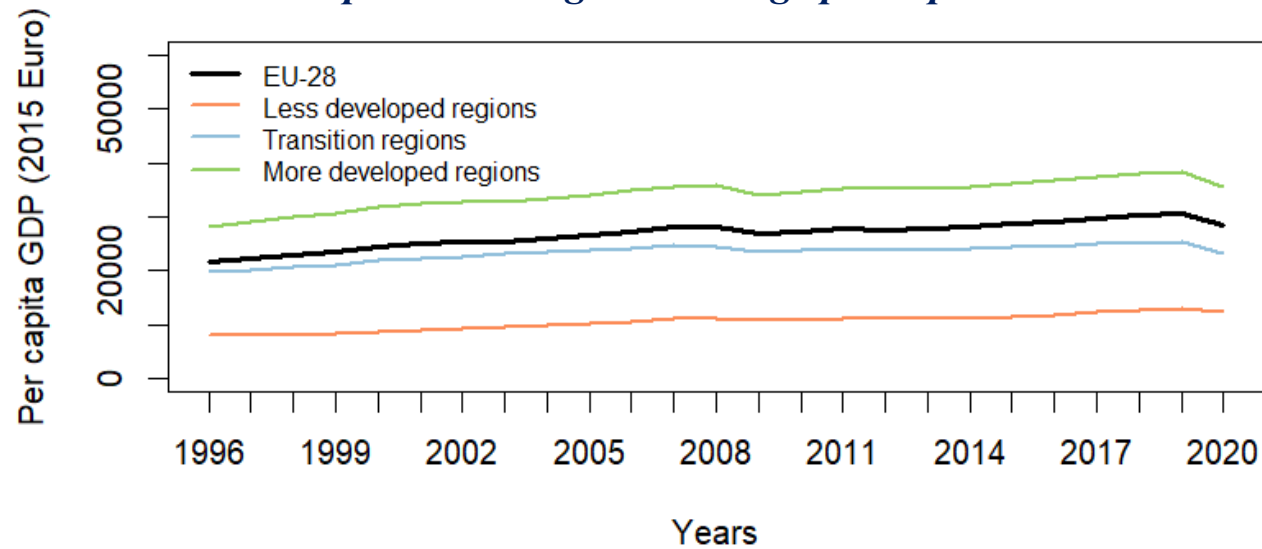
- Within the West: USA has a tight labour market and is a net energy exporter; EU and UK are engaged in a badly disguised currency war.

Evolution of GDP in chain-linked volumes
Index, 2015=100, based on seasonally adjusted data



Lack of regional convergence in Europe

Population-weighted average per capita GDP



THE WHITE HOUSE



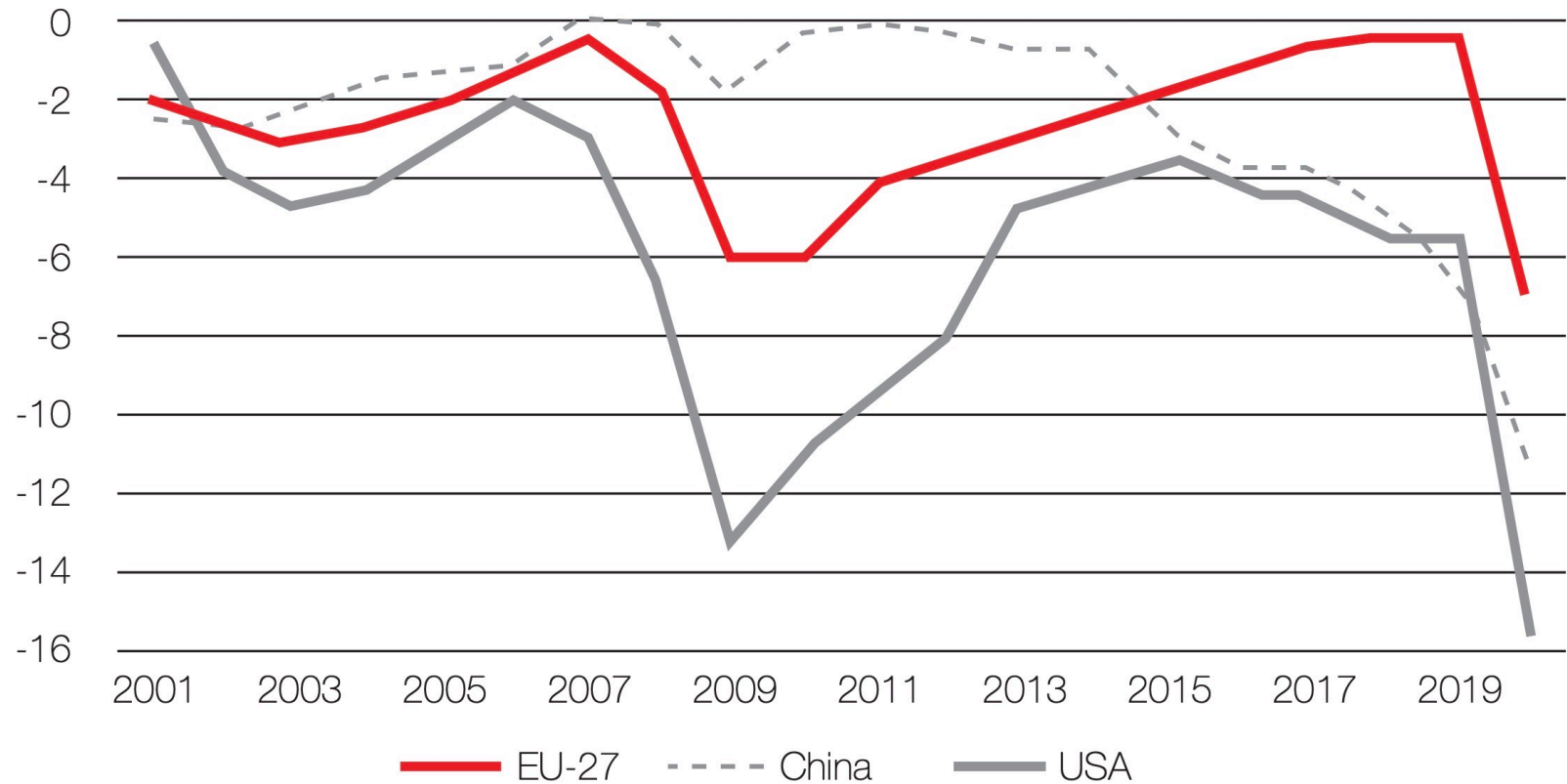
The President took office determined to move beyond these failed trickle-down policies and fundamentally change the economic direction of our country. His plan—Bidenomics—is rooted in the recognition that the best way to grow the economy is from the middle out and the bottom up. It's an economic vision centered around three key pillars:

- **Making smart public investments** in America
- **Empowering and educating workers** to grow the middle class
- **Promoting competition** to lower costs and help entrepreneurs and small businesses thrive

An opportunity for the social democrats?

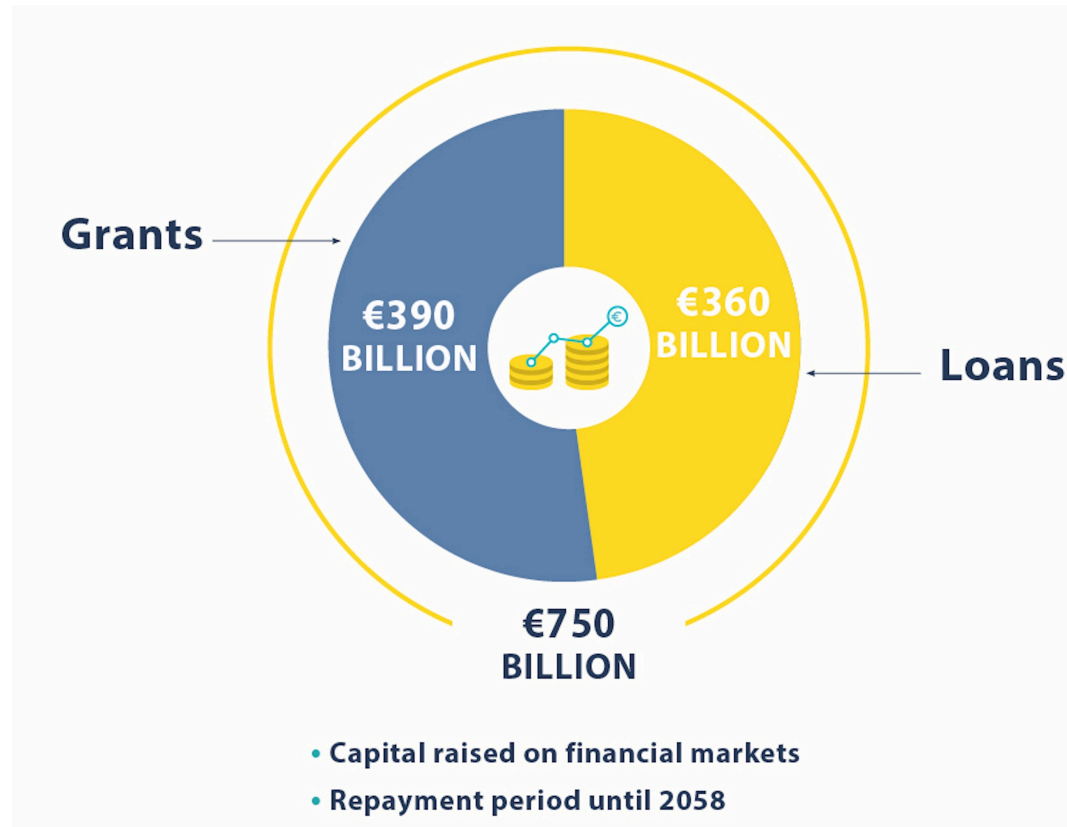
- Interventionism, a strong public sector, industrial policy, industrialization. They are ‘our’ themes.
- But then again, so were they after the GFC.
 - We need one or two big selling points.
- Economic difficulties:
 - Banks are still too big to fail
- Political challenges: fragmentation an obstacle to a shared agenda
 - Militaristic Keynesism a US specialty.
 - There, public funding never lacked: debt ceiling debate is often misunderstood.
 - In EU, more difficulties both for private and for public investment.

General gov. deficit as a % of GDP

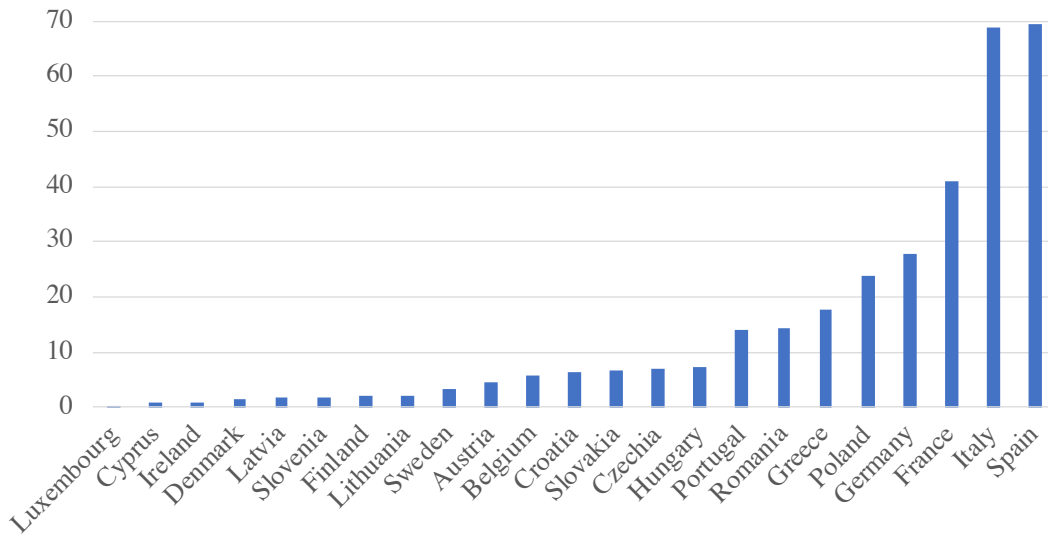


A totally different response to the crisis

- Finally, a EU-level, (partly) cooperative, expansionary approach
- Issuance of joint bonds on a medium-large scale
- Emergency plan & long-term perspective

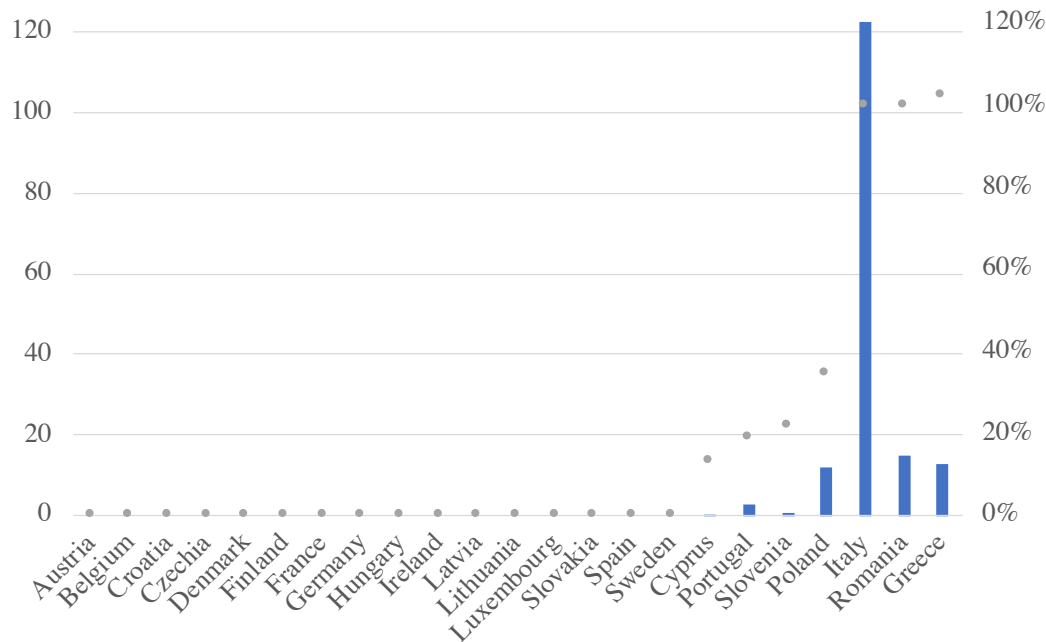


Grants requested, € billions



- Member States initially asked for 496 bn€; after RePowerEU, **581 bn€**.

Loans requested, € bn (left axis) and as % of max loans (right)

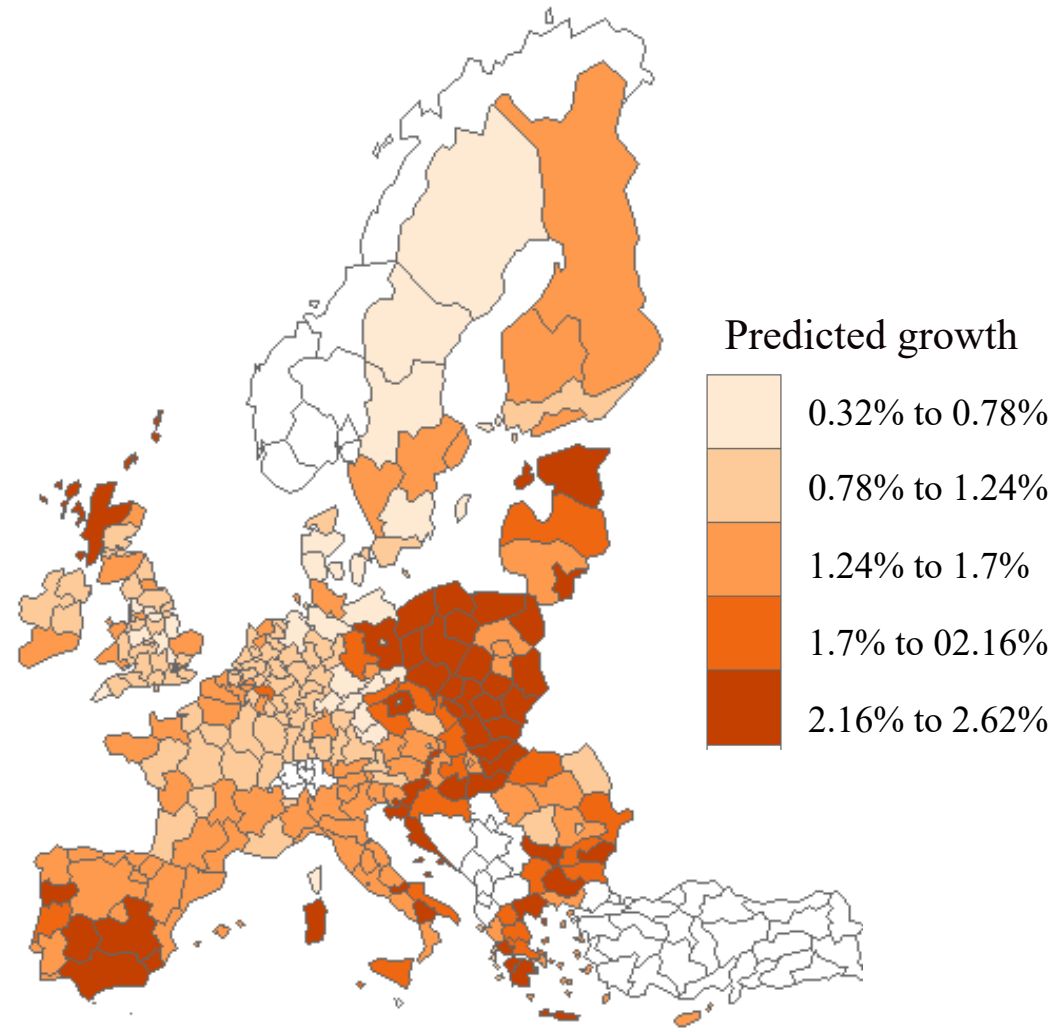
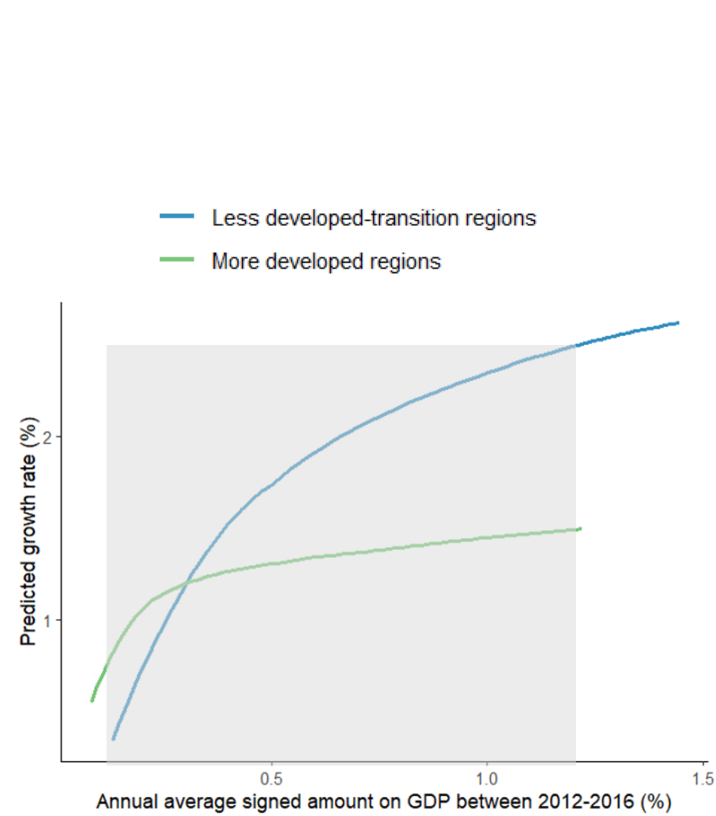


- Some MS are recontracting; for others the EC has not approved the 3rd instalment (yet)

Sustainability of public debt

- New fiscal rules in the EU:
 - focus on (primary) expenditure will reduce scope for increases in expenditures financed with higher revenues
 - investments require (maintenance, operation) running expenses too
- Everywhere:
 - “Quantitative tightening”: the return of the bond vigilantes?

Impact of additional investment for 1% of GDP



Tentative ideas

1. Welfare Keynesism: strong internal demand as a foundation for the growth model
 - (beware of imports: need to coordinate this with industrial policy)
2. Fiscal constraints: who should pay?
 - what happened to taxing multinational corporations, fighting tax base erosion and elusion, etc.?
 - Have we given up on a stronger EU budget?
3. Fragmentation: How to distribute the benefits
 - Can we repeat the Airbus model?

Thank you

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