Economic Affairs, Vol. 66, No. 2, pp. 279-297, June 2021
DOI: 10.46852/0424-2513.2.2021.14

AESSRA

Review Paper

Economic Problems of Our Time

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Received: 07-04-2021 **Revised:** 27-05-2021 **Accepted:** 09-06-2021

ABSTRACT

In this paper, we aim to look at the main problems which arose or aggravated in recent years, concerning the economic crisis, stagnation, inequalities, and globalisation, what we call 'the terrible four'. These are partly old problems (and we trace them back in economic history), but they have become more profound in the last decades. Notwithstanding the fantasy of economists that has led to suggest the possibility to make use of new instruments of economic policy, some of them are politically constrained, which implies the impossibility for the Government to reach its economic policy targets. In fact, if the number of instruments is less than that of targets, the Government becomes a 'lame duck'.

Highlights

- A number of policy issues have emerged recently, while some of the traditional instruments are barred or unavailable, which makes it impossible to reach these policy targets.

Keywords: Economic crisis, Stagnation, Inequalities, Globalisation, Feasibility of policy targets

In this paper, we aim to look first at the main problems which arose or aggravated in recent years, concerning the economic crisis, stagnation, inequalities, and globalization, what we call 'the terrible four'. These are partly old problems, which have, however, become deeper in the last decades. We also analyze the relationships between these four problems.

The existence – or aggravation – of so many problems that must be faced by public action is so more relevant and pernicious because, for several circumstances, at least some of the tools available to public action - such as conventional monetary policy and some traditional fiscal policy tools - have become useless. In addition, other tools, from price and incomes policy to international policy coordination, are practically barred.

The fantasy of economists has led to suggest the possibility to make use of new instruments of economic policy in the field both of monetary theory (e.g., the unconventional monetary policies implemented by both the Federal Reserve and the European Central Bank and other central banks) and fiscal policy (limits to debt, rather than deficit). In addition, new policy instruments such as macro-prudential tools have been devised to limit excessive bank loans in times of market euphoria.

This notwithstanding, facing the multiplication of problems, there has been a reduction in unconstrained instruments, which implies the impossibility for the Government to reach its economic policy targets. If some instruments are unavoidable, the Government becomes a 'lame duck'.

The four economic situations needing policy interventions are linked one to the other. In addition, all of them have a negative influence on the life of most people. This explains part of the title of this paper: The terrible four.

How to cite this article: Acocella, N. (2021). Economic Problems of Our Time. *Economic Affairs*, **66**(2): 279-297.

Source of Support: None; **Conflict of Interest:** None

The plan of the paper is as follows: In Section 1 we deal with the crisis. Section 2 deals with secular stagnation, Section 3 with poverty and inequalities. Section 4 is dedicated to globalization. Section 5 pulls together the threads of the previous issues, emphasizing, on the one hand, the interrelations between the 'terrible four' and, on the other, the economic policy rule stating equality of the number of targets and instruments, from which the observation of insufficiency of the latter in order to reach the former derives, which makes the economic policy a true 'lame duck'.

1. The Great recession

The determinants and the evolution of the financial crisis in the USA are well known. In Europe, it appeared initially in forms similar to the American ones, but they soon took on a very different guise. This was due first to the different types of financial systems, lacking control, supervision, and rescue instruments common to the whole E.Z., even if also in the USA the centralized control on the financial system had been dismantled by deregulation.

An additional role was played by the specific financial imbalances that appeared in the EMU due to the formation of a monetary area. As mentioned, the accumulation of private debt in some countries (in particular the PIIGS countries, i.e. Portugal, Ireland, Italy, Greece and Spain, which constitute the so-called *peripheral* countries of the EMU) was inherent in the modalities of the common institutions, which caused macroeconomic imbalances.

The pre-existing imbalances became more intense when Germany decided to deal with the difficulties of a mature economy and unification with the Eastern *Lander* by adopting a growth model driven by exports, supported by a real devaluation and a careful remodeling of its productive role and specialization, especially concerning Eastern European countries. There was freedom in capital movements and deregulation of the financial sector, as in the USA, but within a framework of asymmetrical structures of the different countries, market rigidity and imbalances in the current account and public finance.

Finally, the EMU lacked the support of standard active policies, in particular, fiscal policies. After about 2005, the 'peripheral' countries began to run current account deficits with countries outside the EMU (China, Central and Eastern European countries) due to trade liberalization and the appreciation of the euro. Capital account surpluses also filled these deficits with the 'core' EMU countries.

When the financial crisis triggered by the Anglo-Saxon countries caused panic in the European financial system and affected the peripheral countries, capital returned to the countries of origin. The banks found themselves in difficulty, and the states had to intervene with loans, which burdened the public debt and threatened a sovereign debt crisis. More recently, this debt has been absorbed in part by the banks, causing problems for them and then again for the public debt.

1.1. The dynamics of the crisis in the EMU

As with the USA, a central role for the E.Z. was played by the substantial deregulation of the financial sector and the disorganization of the residual supervisory system. The financial sector had been significantly influenced by the Single Market, which played a decisive role on international trade in services in the European Community first and then in the E.U., even more so than for other goods. In addition to currency controls, the barriers were (and to a lesser extent still are) mainly represented by the various regulatory systems adopted by member countries. In financial services, these systems, justified by the need to safeguard systemic stability, certainly imposed different restrictions and rules from country to country, thereby segmenting individual national markets. However, they were not replaced by appropriate regulation at the E.U. level.

The dynamics of public debt usually characterise the E.Z. crisis in certain countries, particularly the peripheral ones. This characterization should be corrected or completed for several reasons.

First of all, to some extent, the imbalances indicated above originated before the creation of the E.Z.. However, they later increased in some countries due both to errors of approach in the institutional framework and the inaction of national and European policymakers. In addition, some imbalances were inevitably symmetrical: deficits

in some countries corresponded to surpluses in others, even within the E.Z. However, the burden of adjustment fell mainly on the deficit countries. Third, imbalances in private debt were more critical than those in public debt (especially at the time of the U.S. financial crisis) and, to a large extent, the pre-existence of the former gave rise to the latter (a 'transformation' problem, as we shall see). In turn, the public debt crisis generated a new private debt crisis, as in a 'diabolical loop'. Fourth, the fundamental determinants of the crisis of European private debt were often different from those that had triggered the financial crisis in the U.S., stemming from countries' balance of payments imbalances in a situation of incomplete economic union. Finally, the American financial crisis only served as a trigger for the specific European crisis. To understand the reasons for this, it is necessary to analyze the causes, dynamics, and effects of the crisis in terms not only of the complex links between private and public debt but also of the characteristics of the growth process in the EMU.

Let us first analyze the formation of the debt crisis in Europe and the characters assumed by growth in different countries. We show that the public debt crisis was essentially a consequence of the personal debt crisis and then how the policies decided by the Union concurred to translate the debt crisis into a depression (Acocella, 2015).

The European crisis was triggered by the American one, but it germinated and developed in very different forms.

Expectations of high real income growth deriving from bubbles and increased consumption convinced people of the sustainability of debt. They made the signals about imbalances weak and uncertain, not only for citizens, but also for banks and policymakers. The analytical work of leading economists helped to induce people not to care about current account imbalances.

A lack of financial regulation in the EMU allowed the bubbles to grow. Their burst required the intervention of governments to rescue financial intermediaries and, thus, an increase of public deficits, threatening the entire European financial system, as we shall see in a moment. Moreover, the absence, once again, of EMU policies forced individual countries to solve the problems independently, despite the deflationary effects on the entire area that would have resulted from restrictive national policies. Some PIIGS countries implemented fiscal policies of this kind, while others preferred to maintain their previous position, resorting to questionable measures to increase labor market flexibility. Greece did not change any of its policies, with the consequences we know. However, inflation differentials with Germany did not diminish due to the previous wage reduction implemented by this country in 2003-4. Appropriate wage policies set at EMU level would have prevented the virulent onset of the crisis and, above all, its subsequent evolution.

From the end of 2007 capital stopped flowing into the PIIGS countries and from 2009 returned to the countries of origin, with a reduction in the leverage of banks and companies and the need for public intervention.

Thus, to avoid bank failures, public debt was tied to private foreign debt and replaced it. Before 2007, it had been reduced throughout the E.Z., except for Germany, Greece, and Portugal. And, as mentioned above, there were no signs of significant tensions in its development. The significant difference between the core and the periphery lies in the fact that the former had shaped the economy in such a way as to make it more resistant to the crisis. For this reason, in particular, the public accounts were not overburdened by the need to counteract the shock. The sovereign debt situation after the crisis was heavier for the peripheral countries in particular, but also to some extent for the others.

1.2. The economic impact of the pandemic so far

At the end of 2019, forecasts for 2020 were optimistic, indicating a recovery in the global economy. Instead, in the first months of 2020, the effects of the pandemic hit the global economy, reflecting on: production, the aggregate demand and supply of all economies, international trade, stock market prices, and inflation expectations as well as an initial significant increase in the spread in the yield of government bonds in EMU peripheral countries' compared to German ones. Inflation has not risen too much so far in the periphery, thanks to the collapse of oil prices and many commodity prices, but it could rise with the recovery (and therefore

with an increase in the prices of oil products and commodities), if the negative effects on supply prevail over those of demand. There would then be 'stagflation', i.e., stagnation of production together with an increase in inflation.

In short, the effects of the pandemic are both real and financial. The real effects on production may take a V-shaped or U-shaped form. In the first case, the fall in activity will be promptly followed by a recovery. In the second, the end of the fall will be followed by a period of stagnation before recovery. Moreover, this second case seems to be the most probable one. Because of the occurrence of many V-shaped changes in the various activities and locations, changes that, added together, will give rise to the other trend, namely, the emergence of a period of stagnation. The evolution of activity in services, on the other hand, is expected to have an L-shaped profile.

The International Monetary Fund has estimated a fall in GDP in 2020 of 7.2% for the Eurozone (lower by 1% concerning its previous estimate, practically the largest fall among all areas). The reduction for the United States should be more minor (3.4%). The reduction for Italy (9.2%) will be the highest in the Eurozone, after Spain (11.1%). All areas should then register a recovery in 2021, but in some cases at rates that will not bring GDP back to the level of 2019, as for Italy and all economies advanced. The estimates, which date back to January 2021, will be revised in the coming months (Table 1).

If Europe does not act in a timely, massive, and coordinated manner in 2020-2021 the decline could be more than double that of 2008-2009. Compared to the financial crisis, this is different: back then, it was an avoidable failure of finance and global demand in some countries, up to the Greek disaster. In that case, the support of demand was (or would have been) sufficient to revive the economy. Today the pandemic shock, in addition to hitting demand, also reduces global supply.

The impulse for recovery can be ensured both by monetary policy, with the reduction - down to negative levels - of interest rates (Rogoff, 2020), and, above all, by fiscal policy. The advantages of coordinated fiscal and monetary policy action are underlined by Pietrunti (2020), who points out the consequences of this coordination in a contained increase in inflation and in a cut in the dynamics of the ratio between public debt and GDP.

With specific reference to this ratio, public investment with a high multiplier should be favored, which should grow by at least 1-2 p.p., even using the desirable golden rule of public finance.

In supporting the need for higher public spending, the solutions for its coverage must also be indicated through both internal and European sources.

There may be a need for monetization, restructuring or fiscal consolidation. However, the persistence of current low-interest rates can be instrumental to avoid these solutions and ensure both limited budget surpluses and debt reductions. Ultimately, the impact of the pandemic on debt may be smaller than that of the financial crisis. A different solution can leverage on the reduction of tax evasion and avoidance (or elusion), which usually takes time and also has international implications, linked to the existence of tax havens and the adoption of 'tax rulings', by Luxembourg, Ireland, Netherlands, Belgium, Malta, and Cyprus, with lower annual revenues for Italy of approximately 5.6 billion euros in 2015.

Returning to the initial discussion, the problem of solutions at the European level to stem the negative economic effects of the pandemic requires a longer discussion, with an initial digression on the reactions of the various countries to the epidemic. We deal with this in the following section.

1.3. Solutions at a European level

The coronavirus has imposed a crossroads on Europe. Either the E.U. can proceed in a coordinated way in implementing an appropriate strong reaction, or there is a very high probability of a financial, social, and political crisis, even with the possibility that the unity of the Eurozone and perhaps also of the European Union are threatened.

As for the contrasting economic measures, the orders of magnitude of the fiscal policies decided in each country range from about 1% of the GDP of the Mediterranean countries to 2% of France and Denmark, up to 8% of Germany. The resources to be invested in public health are partly linked to the state of the public accounts of the various countries. They certainly do not depend at all on the extent of the infections. However, the deficits needed to cope

Table 1: Recorded and projected changes in GDP by countries and regions, 2019-2022
(*Source:* International Monetary Fund, 2021)

	Estimate		Projection	
	2019	**2020**	**2021**	**2022**
World Output	**2.8**	**-3.5**	**5.5**	**4.2**
Advanced Economics	**1.6**	**-4.9**	**4.3**	**3.1**
United States	2.2	-3.4	5.1	2.5
Euro Area	1.3	-7.2	4.2	3.6
Germany	0.6	-5.4	3.5	3.1
France	1.5	-9.0	5.5	4.1
Italy	0.3	-9.2	3.0	3.6
Spain	2.0	-11.1	5.9	4.7
Japan	0.3	-5.1	3.1	2.4
United Kingdom	1.4	-10.0	4.5	5.0
Canada	1.9	-5.5	3.6	4.1
Other Advanced Economics 3/	1.8	-2.5	3.6	3.1
Emerging Market and Developing Economics	**3.6**	**-2.4**	**6.3**	**5.0**
Emerging and Developing Asia	5.4	-1.1	8.3	5.9
China	6.0	2.3	8.1	5.6
India 4/	4.2	-8.0	11.5	6.8
ASEAN-5 5/	4.9	-3.7	5.2	6.0
Emerging and Developing Europe	2.2	-2.8	4.0	3.9
Russia	1.3	-3.6	3.0	3.9
Latin America and the Caribbean	0.2	-7.4	4.1	2.9
Brazil	1.4	-4.5	3.6	2.6
Mexico	-0.1	-8.5	4.3	2.5
Middle East and Central Asia	1.4	-3.2	3.0	4.2
Saudi Arabia	0.3	-3.9	2.6	4.0
Sub-Saharan Africa	3.2	-2.6	3.2	3.9
Nigeria	2.2	-3.2	1.5	2.5
South Africa	0.2	-7.5	2.8	1.4
Memorandum				
Low-Income Developing Countries	5.3	-0.8	5.1	5.5
World Growth based on Market Exchange Rate	2.4	-3.8	5.1	3.8

with the pandemic and the resulting accumulation of debt will require further measures later to reduce spending and/or increase revenues to repay the accumulated debt (Cochrane, 2020).

Regarding common interventions, monetary and credit policies were first adopted, implementing a new unconventional monetary policy program, particularly with the purchase of public debt securities of the euro area countries (*Pandemic Emergency Purchase Program*, PEPP, a program worth € 750 billion). At the beginning of June 2020 the European Central Bank announced an increase of 600 billion of the PEPP, bringing the program's total to 1,350 billion, and the extension of the same to June 2021, therefore beyond the initially planned date of December 2020. The reference interest is zero, and that on bank deposits with the ECB is -0.50%, again to not induce them to deposit their liquid assets with the same central bank and stimulate banks' lending. The operation was not bound to a division of the acquisitions of the securities of the various countries proportional to their share of capital in the ECB, in order to counter the action of speculation on the differentials of the yields of different countries' securities, i.e. on the spreads. The banking systems of the various countries have also been refinanced, which has allowed, on the one hand, the maintenance of public securities held by the banks and, on the other, the financing of the private sector, also facilitated by the granting of state guarantees on bank loans to businesses.

Regarding macroprudential policy, temperaments could be introduced to the new accounting standards in relation to expected losses and in the calculation

of troubled loans to assess the soundness and capital requirements of banks.

Apart from the interventions of the monetary authorities and macroprudential policy, new credit measures have been adopted at the Community level. As for the European Stability Mechanism(ESM), the financing details were only clarified in early May 2020. On the occasion of the epidemic, it was specified that conditionality relates only to the object of expenditure (medical and health care), and not to the adoption of other measures to reorganize the existing public debt, which would otherwise have slowed the use of the Mechanism by heavily indebted countries such as Italy. The loans have a term of ten years, and a rate of 0.1% is applied to them. If we consider that the interest rate on Italian 10-year BTPs was 1.83% at the beginning of May, recourse to the ESM becomes convenient for Italy, as it ensures a lower financing cost of 1.73% per year. On a loan of up to 36 billion, the savings would be more significant than 600 million euros per year (Accademiadei Lincei, 2020). However, it should also be noted that access to the Mechanism by a country could imply a reduction in its credibility and therefore an increase in the cost of other loans.

The E.U. Commission can authorize state support in various ways. In addition, the European Investment Bank (EIB) has created guarantee funds for bank loans to companies with an endowment capable of supporting loans for a total of 240 billion euros. The funds should be financed by E.U. member countries according to their participation in the Bank's capital. Various funds were then set up such as SURE (Support to mitigate Unemployment Risks in an Emergency) and other funds for a total of 540 billion euros. In July 2020, the so-called 'Recovery Fund' was also defined. It has been renamed 'Next Generation E.U.' (European Commission, 2020).With this newly created fund, the European Commission intends to raise up to 750 billion on the market, giving long-term funds as collateral made available by a (temporary) increase in the European budget 2021-2027 up to 2% of GDP (therefore doubling the current amount of the budget) for a value of 1,100 billion over the seven years, from new direct contributions (for 390 billion) and greater guarantees from member countries. The funds will be repaid against future budgets, not before 2028 and not after 2058.

The use of these funds was also allocated by the European Commission to countries with more significant difficulties, Italy and Spain in the lead, to carry out investments and reforms necessary for recovery. The Mediterranean countries, also supported by France, have advocated this tool because, unlike the others, these are partly very long-term loans, therefore to be repaid much later in time and at rates lower than those of national bonds, and partly non-repayable. The main recipient will be Italy, which will receive 208.8 billion (81.4 through non-repayable subsidies and 127.4 in loans). Spain will receive a total of €140 billion (72.7 of which non-repayable), France 39 billion, Greece 31.5, Portugal 26,1 and Germany 23.6.

The estimated effects on GDP are shown in Fig. 1. They are more favorable in the peripheral countries, Greece and Portugal first, and a little less for Italy.

The so-called 'frugal' countries (i.e., Austria, Denmark, Finland, Netherlands, Sweden) have objected to the ratification of the Treaty for some months and, therefore, this will enter into force a few months later than the date of January 1, 2021, causing a delay in cash outlays even beyond Summer 2021.

Access to funds is not conditional on compliance with the Stability and Growth Pact (which, however, is suspended for now, as we will see shortly) nor obviously on the adoption of 'structural reforms'. The disbursement of funds is subject to the presentation by individual countries of national spending plans that will be evaluated by the Commission and approved by the Council with a qualified majority, i.e., with the vote of at least 15 countries representing no less than 65% of the population. The approval will be accompanied by 'country specific recommendations' (CSR). These will in fact constitute the reference for the evaluation of national spending plans, with particular attention to reforms that improve the potential for growth, employment, and economic and social resilience.

Measures that are halfway between monetary and fiscal ones are represented, among other things, by 'helicopter money', consisting of the opening of an irredeemable credit by the ECB to governments or by direct purchase at the issuance of public debt securities and their immediate cancellation or the conversion of such securities into irredeemable

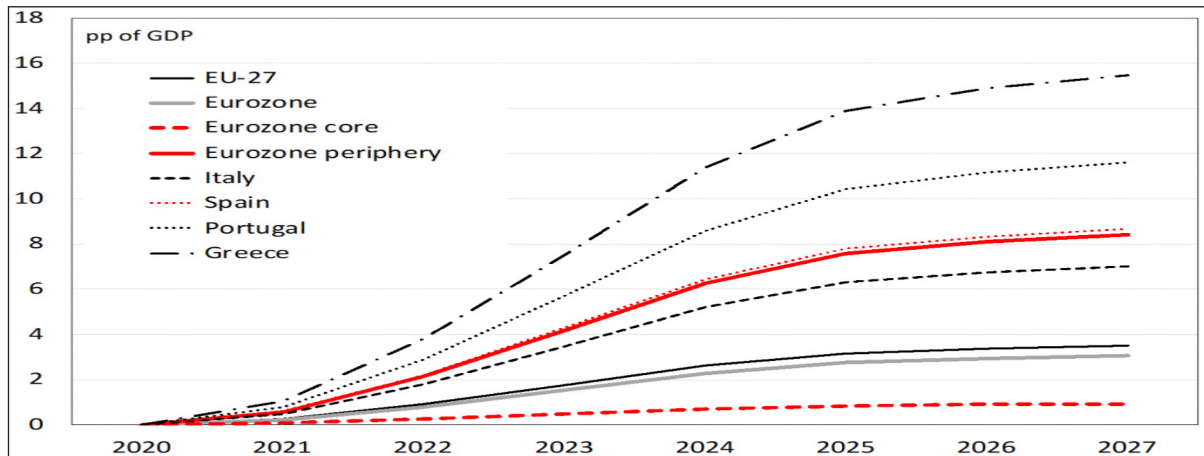


Fig. 1: Cumulative effects of the Next Generation EU Fund (***Source:*** Codogno, Van den Noord, 2020)

securities. Many objections would probably arise against such an intervention, starting from the one according to which it would be precluded by the independence of the ECB and by the existing rule that prohibits direct financing by governments or by the fact that it would generate inflation. The first of these objections can be overcome, because the exceptional nature of the situation requires an adaptation of the existing rules, as happened to purchase public securities on the secondary market. In addition, the ECB could decide independently to follow such a policy. The second objection has no basis, given the existing lack of aggregate demand and the need to activate public spending to increase income and employment (Galì, 2020).

As for expansionary fiscal policies in the strict sense, the Stability and Growth Pact was first suspended, allowing individual member countries to adopt significant expansionary fiscal policies financed in deficit. The ban on state aid to companies has also been suspended since mid-March[1].

It would also be desirable to transform part of the national debt into European debt (Eurobonds or similar), to reduce the ratio of public debt to GDP, which is particularly high - or destined to become so - in some countries Greece and Italy. Several further initiatives could be devised, in addition to the enhancement of various trans-European infrastructures.

[1]The apparent generosity of the concession - in the past particularly opposed by Germany - was linked by the media to the fact that German companies have already benefitted from half of the aid measures approved by the European Commission.

1.4. Problems and solutions worldwide

As a consequence of both the financial crisis and the pandemic, there are essentially problems: increasing poverty, imbalances in the supply and demand of goods, with the negative economic, social, and political implications that derive from it; and – as we will see later - effects of de-globalization. Therefore, various questions arise on the guidelines to be imprinted in the various fora on international economic policies and related provisions.

As for the immediate responses to the health emergency by international organizations, more than 100 member countries of the International Monetary Fund have requested access to its funding, and funds have already been allocated for about half of the requests. The World Bank suspended its debt service until the end of 2020. The group of the twenty most prominent countries, the G20, also outlined an action plan to deal with the health and economic emergency in a coordinated way. The suspension period has also been extended through June 2021.

For interventions on a broader scale, the reduction in employment should be noted, which has cut the incomes of many families and increased poverty. The pandemic has mainly affected some categories of workers, first of all, women (who occupy 70% of positions in the health and care sectors and are therefore on the front line of the epidemic), workers in the informal sectors or with casual jobs and temporary, young people, whose employment prospects are more sensitive to fluctuations in demand, the elderly, who are also affected from the

point of view of vulnerability to infections, refugees and immigrants, particularly if employed in certain sectors, micro-entrepreneurs and self-employed workers (ILO, 2020; Palomino *et al.* 2020).

Aside from the general fall in demand, the Coronavirus has implied a change in the composition of demand, with an increase in demand for food and a fall in demand for durable goods (e.g. cars). The ensuing impact of the increase in the prices of essential goods affects the various income earners differently, worsening the distribution of income and wealth to the detriment of the less well-off. The availability of food and the worsening of this distribution could cause social unrest and, in any case, will affect the political structures of many countries.

Absolute poverty will be increased, as will be seen better in Section 3. Perhaps the only positive effect of the pandemic has been the improvement of the environment in terms of lower energy consumption and reduced carbon dioxide emissions.

With an upward trend that had already declined since 2008, international trade will also suffer further from the pandemic. There will be reductions in the trade volume of goods ranging from 13 to 32% in 2020. A process of de-globalization could be activated, with various effects, such as the isolation of many countries and the re-nationalization of supply chains, which are now unfolding at the world level, and reductions in people's movements. Finally, the risk of further trade wars arises beyond those that have arisen in more recent years.

Some of these effects can be counteracted by appropriate policies of the individual countries concerned, such as monetary policy and capital controls. A superior alternative from the point of view of collaboration between countries is the search for a more sensible model of globalization that focuses on areas of effective convenience, in particular cooperation on public health, environment, production and distribution of essential goods, elimination of tax competition (which allows tax evasion and avoidance), granting of emergency loans to many developing countries, as well as temporary suspension of repayments of their pre-existing debts.

Overall, the future of the world economy depends not only on the action of the virus but on the responses of public and private operators.

On the economic level, the effects will be as profound as ever since the Great Crisis. While an overall limited reduction in GDP was expected earlier in 2020, with a partial recovery in 2021, the violent return of the virus in Europe, the United States, and other countries from the end of the Summer has certainly worsened the situation.

2. Stagnation

2.1. The trend of growth before and after the crisis in the European Union and abroad

In recent years, a generalized reduction in income growth rates has emerged, affecting the major developed countries and emerging and developing countries. In fact, not only the Eurozone but also the USA and Japan, among the industrialized countries - as well as the so-called Asian 'tigers' (primarily China, India and other countries in the South-East of that continent) and fast-growing countries scattered in the other continents, Brazil, Russia and South Africa (which together with China and India form the quintet of the BRICS) - have strongly reduced their growth rates. Forecasts for the future are no better than current events.

In past centuries, the reduction in growth rates in the most advanced countries occurred to some extent after they had passed the 'roaring' years of industrialisation, due to the reduction of the driving forces deriving from a new discovery or invention, before others occurred. The prospect of stagnation became much more valid after the Great Crisis, which began in 1929 and lasted practically throughout the 1930s to be overcome only by the significant increase in public spending for military purposes in Germany, in all other Western countries and elsewhere. After the financial crisis that began in 2007, the prospect of secular stagnation is re-emerging once again.

Stagnation is a recurring theme not only in real life, but also in economic thought. Classical economists had already talked about it. Most of them viewed the 'steady state' with disfavor, as in this situation, the economic system would reproduce itself without growing. This perspective - defended instead by the last of the classics, John Stuart Mill (1887), who was pleased to see a situation in which men no longer have to struggle to 'collide' and 'climb over',

the former against the others, and there is room for contemplation of nature and for reflection - is undoubtedly full of aesthetically, ecologically and ethically appreciable aspects, but forgets issues of poverty and distribution. The issue remained in the shade until the Great Crisis, at the end of which a situation of stagnation emerged, which was analyzed by Hansen (1939). The rearmament, before, and the intense development in the decades following the Second World War, again left the subject in the shade (except for Steindl, 1952), which was re-proposed after 2010, when once again the Great Recession seems to have weakened the determinants of growth, giving way to different explanations of the situation (see, e.g., Reinhart, Rogoff, 2009; Summers, 2014).

In the following sub-section, we deal with the determinants of growth specific to the most important countrie. In contrast, in sub-section 2.3 the factors capable of generating it are analyzed. Sub-section 2.4 explores the relations between stagnation, economic crisis, distribution worsening and globalization. Sub-section 2.5 deals with policies able to contrast secular stagnation. Sub-section 2.6 concludes.

2.2 Growth before and after the crisis in the European Union and abroad

The dynamics of growth and employment in and outside the E.Z. has been different, higher outside than within the Euro area. This is the effect of the various factors of growth operating in the different countries, which have produced a kind of bifurcation or dualism between them. These factors and their fragility were not detected by many observers, who extolled the results of the European Monetary Union, after 10 years, thus ignoring existing disequilibria – which would soon have led to a deep crisis – and the reasons that could make acceptable the situation only to casual observers. In fact, the situation was the result of a kind of drug, being thus precarious. Looking at the factors of growth after 2007, overall investment has lacked in the EMU and public expenditure has been the main factor to domestic demand, which has been the most critical factor everywhere, except in Germany (and the Netherlands), where exports – already a critical factor for German growth, following compression of wages and of prices – are the most essential component, which explains the relative immunity to the crisis of this country. The different inflation rate of the various countries has led to a situation where 'core' countries have accumulated positive balances in the current account of the balance of payments, whereas the peripheral ones have negative balances. The asymmetry imposed by the EMU institutions led to an obligation of adjusting negative balances rather than (or together with) positive ones. This has implied a deflationary push and a tendency to stagnation for the whole Union (De Grauwe, 2015). In the E.U. countries that are not members of the EMU the foreign sector has impressed a stimulus, and the exchange rate has been used to this end in some countries, such as Poland, the Czech Republic, the United Kingdom, and Sweden, in 2007-2009. This shows how hard it could have been for the EMU peripheral countries exiting the financial crisis while being anchored to the single currency: a position outside the Monetary Union would have allowed them to devalue their currency and thus sustain the economy.

The case of the USA is different. In this country, both before and after the crisis, private consumption – sustained in both cases by the strength of the financial market – has been the main factor of growth, but also the determinant of the crisis begun in 2007-08. Exports have been boosted by the dollar weakness after 2013-14. Before the crisis the share of exports in the GDP had remained practically constant. Thus, the only novel aspect of the American strategy after the crisis has been the role of the foreign sector, complementary to that of the financial sector, which has revived after the crisis. In the second decade of the current century the economy has always grown, but at rates lower than those of the previous period.

In the last decades, growth has been low also in Japan. '*Abeconomics*', i.e. the doctrine imposed by Prime Minister Abe, has tried to revitalize it by making recourse to various instruments, going from '*quantitative and qualitative easing*' to the traditional budget policies and to microeconomic reforms. Over the last 4-5 years, the results appear to be encouraging, mainly in terms of unemployment, with a rate of unemployment in 2019 of 2.3%, as low as in the first half of the Eighties.

OECD predicted in June a fall in the GDP ranging from 6% in Japan to 8% in the United States and more than 10% in the Euroarea. In 2020 these trends have all worsened due to the burst of the pandemic. Partial recoveries are predicted for 2021 and only in 2022 or 2023, will it be possible to return to levels similar to those of 2019.

A fact common to various countries is the deflationary tendency impressed to public expenditures. If these were grown in 2010-2013 by 2% yearly in the United States, in the United Kingdom and the Eurozone, i.e., at a rate a bit lower than the long-run trend, the level of public expenditures in 2013 would have been higher than the actual one by 10% in the E.Z., a bit higher in the United Kingdom and by 15% in the United States, with obvious expansionary effects. GDP, e. g., in Europe, would have been over 4% higher (Wren-Lewis, 2015).

2.3. The general determinants of stagnation

Since we don't want to discriminate between the various explanations of stagnation, we define it in general terms as a situation implying a reduced GDP growth rate.

There are two different theories explaining this tendency. The first one is the so-called 'financial cycle' one, according to which stagnation reflects the economic phase following a financial crisis (Reinhart, Rogoff, 2009; Reinhart *et al.* 2015).

The second explanation first points out that, in any case, the current low rate of growth will last for some time, and the recovery will not be easy and fast, which explains why according to this current of thought, one must more precisely speak of '*secular stagnation*'.

The first idea of secular stagnation can derive from the estimated actual and potential trend of the GDP offered by the following Fig. 2 (Summers, 2014).

Fig. 2 shows the descending trend of the GDP in advanced economies in the 25 years after 1971, with an annual rate that is reduced by more than 1%. At the same time, the natural interest rate has reduced even more, reaching values near zero. Rachel, Summers (2019) observe in this respect that the natural rate would take negative values even of hundreds of base points if it were not for the rise in public debt, which reduces excess saving and keeps market interest rates high.

Alvin Hansen gave an explanation of secular stagnation in 1938 (see Hansen, 1939), who doubted that after the Great Depression there would have been enough investment to sustain growth, due to the reduced rate of growth of the population and, then, of the demand for goods. Actually, Keynes (1930) had already raised the issue whether the factors underlying consumption would have been able to cope with higher productivity.

An additional explanation – based on Michał Kalecki's (1954) analysis – was offered by Josef Steindl (1952), who attributed great relevance to oligopoly formation, with a redistribution of profits in favour of dominant firms and the fall in the degree of utilization of productive capacity and therefore of the low propensity to invest. Over time various factors implying secular stagnation have emerged (Summers, 2014): lower inflation and possibly lower technical progress that reduce demand for new capital goods and make it necessary a lower amount of saving; reduction of the working-age population and growth of *e-commerce*, which reduce demand for new capital goods; rising inequalities, implying a lower average propensity to consume and an increase of saving; increased uncertainty, lowering demand for loans and leading to a savings rise; institutional features, such as those of the European Union architecture.

Real interest rates, which are influenced by demand for investment goods and the supply of savings, have fallen to harmful levels in the last two decades, notwithstanding the rise in public debt. This is meant to prove the validity of the hypothesis of secular stagnation: difficulties to absorb saving have probably contributed to limiting the interest rate and the growth rate (Summers, 2020).

Obviously, reducing equilibrium interest rates to negative levels can become a problem when inflation is low, since nominal interest rates are '*zero lower bound*', except to a reduced extent and in specific circumstances.

2.4. Policies that can help fight secular stagnation

The policies to implement against secular stagnation are manifold. They include running countercyclical budget deficits to support public investment[2].

[2]From this point of view, a high deflationary impulse derives from the rules of the EU Stability and Growth Pact. A similar or worse effect is produced by the so-called fiscal compact.

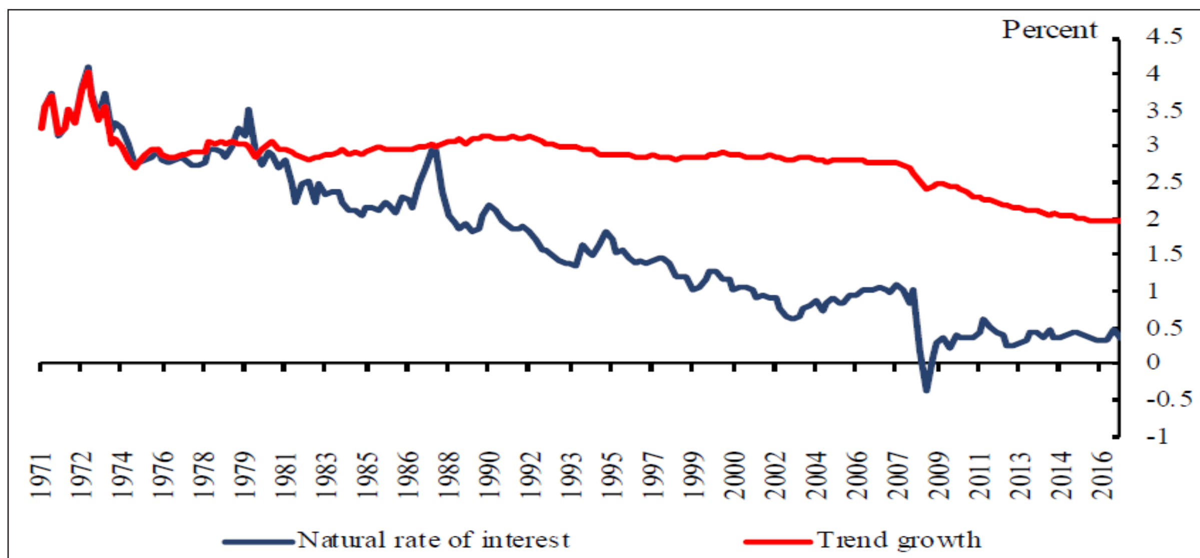


Fig. 2: Rates of growth of GDP and natural interest rates, Advanced economies, 1971-2016
(***Source:*** Rachel, Summers, 2019)

The possibility that deficit financing increases the already high levels of public debt can, on the one side, advise proceeding to debt restructuring and, on the other, might favor forms of financing of the kind of helicopter money (Buiter *et al.* 2015).

Other measures must tend to give an incentive to private investment by creating a climate of confidence in the private sector. Enhancing the welfare state can be helpful as it keeps households' spending capacity high, thus promoting private expenditure. Related to the enhancement of the welfare state is the empowerment of the educational system, which raises working capacity and returns on investment. Also, the retirement age should be raised, in correspondence with the lengthening of the mean age, to lower savings. Always to this end, simplified procedures for business start-ups and limits to monopoly action can be useful.

Moreover, state action must be strengthened precisely in the field of innovation, in order to foster technical progress, thus reducing the negative effects of the rents deriving from the action of private monopolies in this field (Mazzucato, 2018). To these actions must be added: inflationary policies, as they can lower real interest rates and the high public debt-to-GDP ratios that are necessary to absorb excess saving (Eggertsson *et al.* 2017); policies to control the financial sector (Teulings, Baldwin, 2014; Summers, 2020).

Posen (2020) invokes international coordination of the various policies, particularly monetary, macro-prudential, and trade ones. Thus, central banks should increase their inflation target and the liquidity available for the economic system. Authorities in charge of macro-prudential policies should grant deferrals in the deadlines of credits to small firms. Also, protectionist threats, which have increased recently, should stop.

Krugman (2020) suggests increasing deficit-financed public investment continuously. The deficit does not cause an increase in the public debt-to-GDP ratio since the cost of debt is usually lower than the rate of growth generated by public investment.

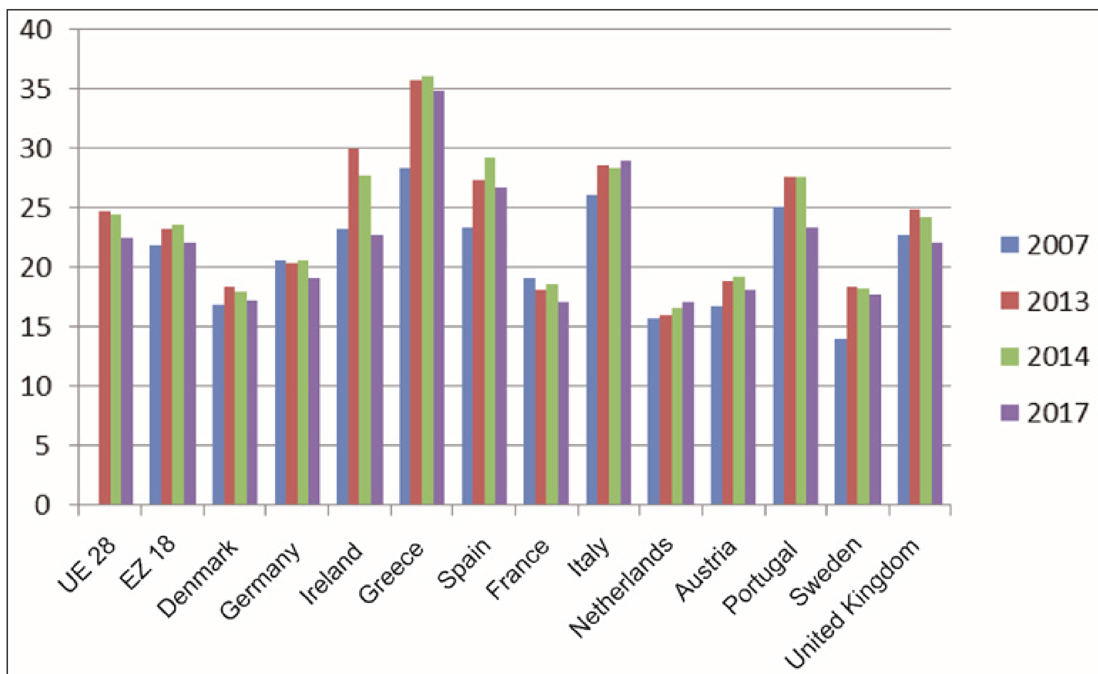
3. Equity after the crisis

In this paper, we often use data relating not to the last few years for which they are available, but to the last years of the financial crisis, therefore mainly to 2014 and 2015, depending on the incidence of the phenomenon. As for the macroeconomic effects of the pandemic, the data for 2020 are still fragmented and do not provide sufficient indications.

The crisis has hit hard on equity and social participation both in the E.Z. average and in most countries, with the exclusion of Austria, Denmark, France, Germany and Sweden, as shown in Fig. 3.

From 2007 to 2017, the percentage of people at risk of poverty – i.e., the poverty rate[3] - (the main component of the poverty and social exclusion

[3]It is defined as the number of poor people belonging to families with a disposable income (therefore, income net of social transfers) equivalent to less than 60% of the national median.



***Note:** 2007 data is not available for E.U. 28.*

Fig. 3: People at risk of poverty and social exclusion (%), various countries, E.U. 28, E.Z. 18, 2007, 2013, 2014, 2017 (***Source:*** Eurostat)

rate) increased by 0.3 p. p. in the E.Z., to 22.1%, but had already reached a maximum value of 23.5% in 2014, reflecting the dynamics of income and employment in the main E.U. countries. In reality, the slight increase of the indicated rate - in the extreme years of the period now considered - can underestimate the trend of the phenomenon in question, in particular because disposable income and not the gross income is taken into account in the calculation of the index. Thus, public transfers have a high incidence in reducing the poverty rate, equal in 2015 to approximately 9% of the median income for the E.U. as a whole and such as to reduce the rate of poverty itself from 26.0% to 17.3%.

In 2019, the risk of poverty before and after transfers remained at levels similar to those of three years earlier. It should be noted that the gap between the two rates is particularly low for some European countries (such as Italy and the other Mediterranean countries). Instead, the component of social transfers is very high, not only in the Nordic countries (Denmark, Finland, and Sweden), but also for Ireland and Germany (Table 2).

Globally, the absolute poor fell from 1086 million in 1981 to 706 million in 2015 and 650 million in 2018, with a percentage incidence on the population that fell at the same time from 42.25% of the world population to just under 10% in 2015 and 8.6% in 2018 (Roser, Esteban Ortiz-Ospina, 2019). Following the pandemic, absolute poverty will be increased. The impact on poverty and its geographical distribution will not be proportional to infections in the various countries and areas. Thus, for example, the countries of sub-Saharan Africa are for the moment, relatively little affected in terms of the number of confirmed cases of Coronavirus. But the fact is that many people live there in conditions on the verge of absolute poverty. Therefore even a limited impact of the epidemic on economic activity levels would be enough to make them fall below that threshold.

A rather complete picture is offered by Table 3 below, which indicates the percentage and number of people who in the event of a low-income reduction (5%) would be below various absolute poverty thresholds, the minimum - considered so far - of 1.9 dollars a day, and then also the thresholds of 3.2 and 5.5 dollars.

Poverty is essential, but inequality must also be considered. Similarly to poverty, inequality can also be measured in various 'spaces', such as consumption, income, wealth, utility, capacity.

Table 2: People at risk of poverty (%) before and after transfers (excluding pensions), E.U., E.A., 2019 (*Source:* Eurostat)

GEO/TIME	2019 before transfers	2019 after transfers
European Union - 27 countries	24.5	16.5
Euro area - 19 countries (since 2015)	24.5	16.5
Belgium	25.4	14.8
Denmark	23.7	12.5
Germany	23.2	14.8
Ireland	30.9a	14.9a
Greece	23.2	17.9
Spain	26.9	20.7
France	23.5	13.6
Italy	25.9a	20.3a
Hungary	20.0	12.3
Netherlands	21.4	13.2
Poland	24.4	15.4
Portugal	22.7	17.2
Finland	25.2	11.6
Sweden	28.9	17.1

a: values for 2018.

The most common ones are income and wealth[4]. Regarding country-specific inequality, the results of various studies - referring to different periods, countries and indicators - differ. From 1865 to the years following the Second World War, inequality for European countries in terms of the Gini index decreased mainly after the world wars, which had implications that to some extent erased the past and transformed the structure of inequality (Piketty, 2013). Using an indicator other than the Gini index, the picture is confirmed and some particular aspects become clearer. More recently, the trend has changed. In the last three decades, inequality has risen a lot in transition countries (mainly the Baltic countries), the U.K. and some Nordic countries, less so in other countries such as Italy, remaining largely unchanged in Austria, Denmark, France, and Germany, particularly after the Great Recession. In the Anglo-Saxon countries, the income of the wealthiest 1% of the population has grown, especially in the U.S., while it has remained essentially unchanged in the countries of continental Europe; on the other hand, income inequality increased in the United Kingdom, France and the Scandinavian countries, while it decreased in Spain, Ireland and Italy.

[4]Income inequality can be related to factors of production (labour, capital, land) or to people (personal distribution) or to geographical distribution. Inequality in wealth can be calculated gross or net of debt or can refer to specific items of wealth, such as homes, land, or financial wealth. Different indices can be calculated for each space and size. For example, personal income distribution can be assessed with the use of synthetic indicators, such as those of Gini or Theil, or with reference to more detailed values, such as deciles, quartiles or other percentages of income earners.

4. Globalisation

Multiple meanings have been attributed to the term globalization. We can briefly define it as the growth on a global scale of the interrelationships between the various national economic and social systems through private economic institutions. For this reason, globalization is different from (increased) competition on the markets for goods and factors of production, even if, in certain phases of the globalization process, this is an entirely probable outcome, as will be seen later. Indeed, globalization may not be accompanied by increased competition: the more significant interrelationships may also lead to the monopolization of markets.

Globalization takes the form of movement of people (and of communications and ideas), goods and capital. In addition, it includes interrelationships on environmental and health issues.

International movements of people are of short or long duration. The former are in particular for tourism or short stays for work or care. The

Table 3: People who would find themselves below different absolute poverty thresholds in the event of a reduction of 5% in per capita income. Absolute values and percentages of incidence on the total population, 2020 (***Source:*** Sumner *et al.* 2020)

Aggregate	$1.9		$3.2		$5.5	
	%	Mill	%	Mill	%	Mill
East Asia and Pacific	1.6	33.8	8.8	184.0	27.9	580.0
Europe and Central Asia	1.4	6.7	5.0	24.8	13.2	65.0
Latin America and the Caribbean	4.8	30.5	11.3	72.3	26.0	165.7
Middle East and North Africa	8.0	31.2	21.8	84.4	47.3	183.4
Other high Income	0.7	7.4	0.9	10.0	1.4	15.3
South Asia	14.8	259.8	52.3	914.4	83.3	1,457.4
Sub-Saharan Africa	44.2	474.6	69.2	744.0	86.8	932.6
World Total	**11.2**	**844.1**	**27.0**	**2,033.8**	**45.2**	**3,399.5**

latter corresponds to international migration, which is to add to migration within a country. These flows may involve people with more or less professional training. They may have different primary motivations, ranging from political (often corresponding to persecutions, wars or the like) or health (epidemics) or economic (for the need to find work and livelihood). Both in the past and now, all these reasons have been or are widely present.

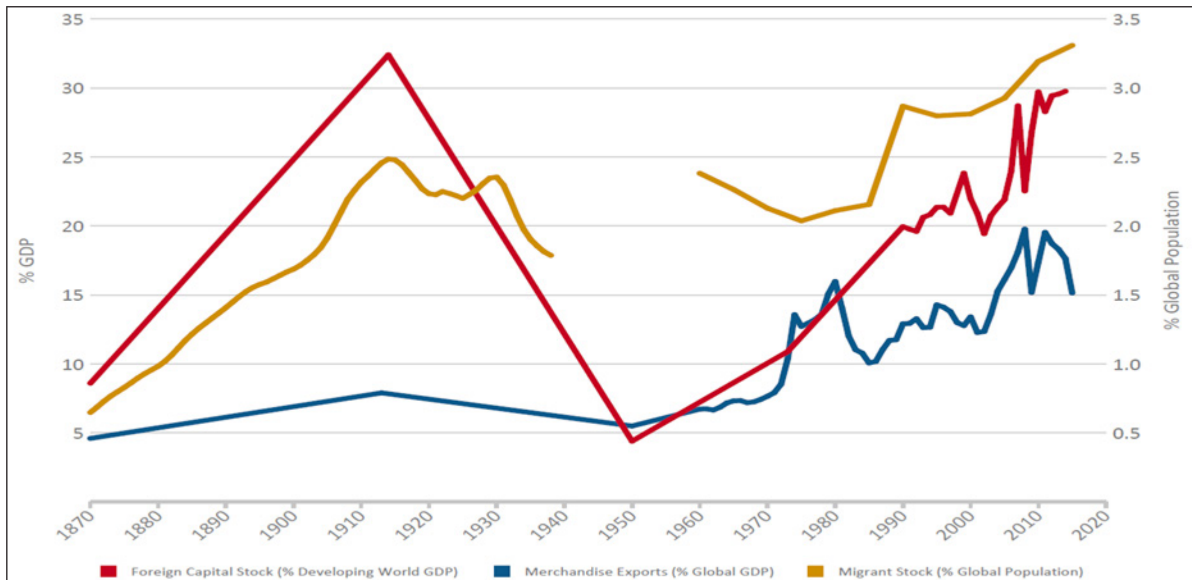
The globalization of the movement of goods corresponds to the worldwide extension of trade in goods. This can be the exchange of raw materials, semi-finished products, final products or their parts, or exchanges of services, such as the rental or insurance of goods, financial intermediation services, information-technology (I.T.) services (for example, for processing data) and communication[5], royalties and licenses for the exploitation of patents and similar, copyright and image rights. International capital movements are of various types. There are movements of financial capital under the form of loans at different maturities, short, medium or long. Short-term capital movements often have a high speculative component, leading to high returns (or losses), connected in particular with changes in exchange rates. Medium and long-term capital movements that tend to exploit the higher yields of securities issued abroad are intended to be held for a specific time and are therefore called portfolio investments. They include purchases of shares to the extent that does not give rise to control of the companies that issue them. Instead, the capital movements that lead to the acquisition of controlling interests in pre-existing or newly founded foreign companies are foreign direct investments (FDI). The companies that usually own one or more subsidiaries in various foreign countries are called multinational companies or multinationals or transnational corporations.

The increase in international trade in goods, financial capital (short-term capital and portfolio investments), and labor configures a *simple integration* of the various economies. The increase in FDI and, consequently, in international production instead implies a *deep integration*. The reason that leads to defining FDI as a case of deep integration, and not superficial, is that they contribute to directly shaping the productive structure not only of the country of destination of the investments but also of that of origin and of those where the subject who carries them out has some operation, such as sub-contracting. Indeed, multinational companies often design the structure of production in the various centers in an integrated way - as we have said, with the breakdown of the production of individual goods into component parts (*global value chains*) - and not as a replica of the operations carried out in one of them.

A more detailed picture of information with reference to the period after 1870 and up to a few years ago is offered by Fig. 4.

The international economic integration that took place after the Second World War represents the re-emergence of a trend that characterised the world economy a century ago, but the resumption of that trend takes place with at least partially

[5]The growth of communications and the circulation of information should be considered as an addition to (and within certain limits a substitute for) the physical movements of people, constituting their virtual movement.



Note: The broken curve with the largest variations indicates the stock of foreign capital (expressed as a % of the GDP of developing countries). The curve that rises smoothly and shows cyclical variations since 1970 shows exports of goods as a % of world GDP. Finally, the curve that breaks between 1940 and 1950 indicates the stock of emigrants as a % of the world population.

Fig. 4: Trends in globalisation, 1870-2015 (***Source:*** Chandy, Seidel, 2016)

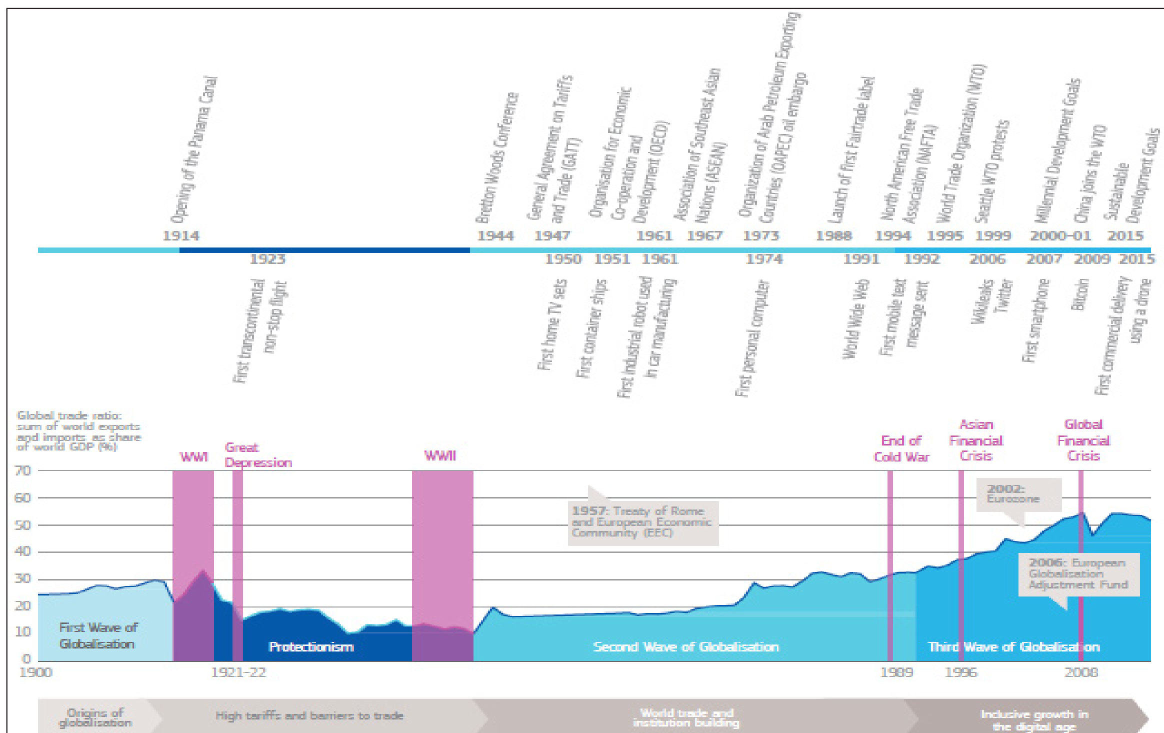


Fig. 5: The phases of globalisation, 1900-2015 (***Source:*** European Commission, 2017)

new characteristics, which justify the use of the term 'second globalisation', the first reflecting the integration process prior to the Great War. In fact, the number of countries participating to it is wider and the type of international operations is different, with a higher relevance of FDI.

If we broaden our gaze at the beginning of the twentieth century, the trend in the relationship between exports and GDP appears as in Fig. 5, in which the authors - in addition to identifying the main historical facts relevant to globalisation - distinguish a second post-war phase of globalisation

from a third phase, while we speak here simply of a second globalisation, reserving the term 'third phase' for a possible near future.

5. Pulling the strings of our arguments. Mutual relations between the terrible four

Many issues arise if one looks at our findings in the previous sections. The first regard the relationships between each of the phenomena examined there if one refers to the various channels tying these phenomena and, in some cases, the direction of causality between them. This means that the indicated issues must be treated in an integrated way. In any case, the problem arises whether there are enough instruments to solve them.

In the following sub-section, we deal with the nature of the interrelationships between the various issues. Sub-section 5.2 investigates the problem of the number of instruments to face the various targets.

5.1. The interrelationships between the various issues

In some cases, the crisis – and globalisation[6] – have shrunk in this century, in others have exacerbated the problems of poverty and inequality between countries, the effect much depending on the way we measure inequality. According to various empirical investigations, crises tend to worsen distribution. While the average income in some emerging countries such as China and India has risen, in many cases, the differences between the less well-off and the better-off have increased inside them. Therefore, worldwide inequalities, after having increased continuously since 1950, have reduced in this century, if they are measured in terms of average incomes in the various countries, without weighing the countries themselves with their population. The same result is not obtained if we consider the differences between countries by weighing the countries themselves with their population. If measured in this way, inequalities have continuously reduced. As was to be expected, the worldwide inequality considering the income of each inhabitant regardless of the country of origin is higher. It has a fluctuating trend over the last 30 years up to 2010.

[6]To be true, it is difficult - but not impossible - to disentangle the effects of the two factors.

If, instead of underlining the trend over time of inequalities in synthetic terms, we try to examine the variation of the inequalities themselves for the various subjects over time and as a result of the economic crisis, the income earners who benefitted most were those included in the percentiles from 30 to 65% (in short, the middle classes), with gains equal to or greater than 60%. The higher-level income earners had instead lost ground (with gains even lower than 10%). Only the last percentile still had gained.

As mentioned, the crisis has also led to rethinking the extension of production internationally, making us reflect on the opportunity to re-nationalize global value chains and the possibility of a process of de-globalization.

In addition to the effects of crises on inequality there are also effects of an opposite kind. One can argue that rising inequality has a negative macroeconomic effect, as it creates a downwards pressure on aggregate demand. In addition, increasing inequality can originate a crisis due to the higher propensity to speculate and hold riskier financial assets of more affluent households (Stockhammer, 2015).

Rajan (2010) argues that U.S. consumers with low income have reduced savings and increased their debt since the early 1980s. This contributed to creating a credit bubble, which eventually burst in the second half of the first decade of the 2000s, leading to the financial crisis that soon spread to Europe. Rajan adds that inequality influenced the crisis mediated by politics, which raised housing subsidies. Instead, Acemoglu, Robinson (2006) think that it was politics that influenced both expansions of financial lending (thanks to lobbying of the financial sector) to the poorer segments of the population and inequality, thus fostering top incomes growth.

If one looks at the effects of the crisis on single countries, as we implicitly have done until now, they are certainly negative on distribution. Instead, if one looks at the income distribution at the world level, he can find – as said - that it has not worsened, from some points of view, i.e., if it is measured as for a single country. The share of highest income earners has indeed risen, but the rise in the share of middle classes has increased much more. It is also true that this depends on the differential growth rate of

developed and emerging economies, but the origin of this can be imputed exactly to globalization. One can, however, say that this is only the initial effect of globalization. Longer-term effects can be negative, due to increasing monopolization. Thus, this was the effect of globalization, while the crisis has had no negative influence on this distribution.

As for the relationship between globalization and stagnation, it is pretty clear that the formation of international oligopolies can contribute to stagnation by reducing the competitive pressure which is the driving force behind productivity growth.

Stagnation has effects similar to those of the crisis on poverty. In turn, this implies an increase in savings and a fall in investment, with consequent weakening of growth.

The problems indicated are also linked to each other because they all raise the question of the public action necessary to counter them. Briefly, we can say that it is now time to abandon the liberalism that for too long (has not) guided public action and found a balance between the market and public action (Johnson, 2019).

As to the effect of the crisis on globalization, we can say that it is negative since it threatens global value chains, thus inducing firms to re-nationalise at least some segments of these chains.

Stagnation is fostered by a deep and prolonged crisis, as we have been arguing in the previous pages. It can have effects similar to the crisis on distribution.

Various links are then established between the various issues.

5.2. Economic policy as a lame duck?

As we have seen, there are currently several hard problems to be faced by economic policy. Thus, the bad news aspect is because many issues have arisen with evidence at the same time. The Great Recession and the Covid pandemic, secular stagnation, rising inequality and globalization are the (partly) new issues in recent decades. The emergence of so-many problems has raised questions as to the ability of economic policy to adequately deal with them. The monetary and fiscal policy were the classical tools to deal with economic issues like those indicated. However, the availability of only two such tools was not enough to solve so many problems at a time. In fact, a number of policy tools equal to that of policy objectives is required for reaching fixed policy targets (*golden rule of economic policy*).

In addition, the insurgence of constraints practically implied dropping one policy tool: fiscal policy (due to fiscal constraints, such as to the budget deficit), and monetary policy, due to the impossibility or difficulty to lower the nominal policy interest rate below zero, thus remained stuck at the '*zero lower bound*', ZLB (which prevents the current short-term interest rate and the expected future short-term rates – on which long-term interest depends – from reaching the level that the market for profitable investment would require). The alternative to dropping some policy tool has been confining its use within strict boundaries, which is tantamount to the impossibility of respecting the golden rule and the need to resort to a 'second-best' prospect. The implications for managing public policy thus have been negative, as the set of tools available for a lasting exit from the crisis has been impoverished.

However, together with these hard problems there seem to have also arisen several new instruments available to policymakers. In order to enlarge the number of existing policy instruments, monetary policy has searched for *unconventional* tools such as '*quantitative easing*' and '*forward guidance*' to add to the usual interventions in the short-term market, to lower long-term interest rates, which influence investment and thus recovery and growth. Also new rules of fiscal policies have been introduced, such as: (1) the so-called '*golden rule of deficit financing*', prescribing that current revenues must balance only current spending over the cycle and borrowing is permitted to fund public investment; or (2) debt target rules, instead of budget rules.

Then, new instruments can face new issues, at least in theory. In practice, there are several political constraints limiting the possibility to use these new instruments, in particular, fiscal policy, both in the E.U. and the USA, to deal with the new issues that have arisen in the last decades.

CONCLUSION

The problems facing us – and the next generations – are essentially ancient, but they have aggravated recently. These problems are strictly interrelated one to another and are certain to be faced by public action. Their relevance is increased because

the 'golden rule' of public action requires the availability of several policy tools at least equal to that of targets. It is true that facing the multiplication and aggravation of the problems, there has been an increase in the number of instruments due to the inventiveness of the economists, which has provided several new tools, ranging from macroprudential policy to unconventional monetary policies. These have partly remedied to the reduction in the effectiveness of some traditional instruments, which has decreased due to the duration and depth of the crisis, but also to the constraint of the ZLB, which blocks policy interest rates at a zero level, as negative interest rates are not conceivable (or are limited to particular circumstances). However, it is also true that – at the same time – the use of some policy tools is limited not only by economic constraints - due to the consideration of the possible reaction of markets, but also by political constraints, which only partly express the existence of these limitations due to markets. This implies that economic policy appears as a 'lame duck'.

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