THE WORLD ECONOMY AFTER COVID-19.
BIDEN AND EU STIMULUS PLANS

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Let me start addressing a warm welcome to the speakers, discussants and to the 80 participants to this webinar devoted to *The world economy after Covid-19. Biden and EU stimulus plans*.

The webinar is the second of three meetings presenting some of the issues of Villa Mondragone Conference, to be held next July 6 and 7, titled “Lessons from Covid-19. A stronger EU: Staying together in a new policy space”.

The Covid-19 pandemic and the widespread lockdowns imposed in 2020 led to the worst peacetime global contraction since the Great Depression.

Next Generation EU, the unprecedented 750 billion fiscal package adopted by the European Council this summer, is a Plan intended to boost public investment with the objectives: to support aggregate demand particularly in the most hard-hit countries in the pursuit of cohesion; and to strengthen the economic growth potential of the Union, promoting structural reforms.

President Biden introduced a $2 trillion “American Rescue Plan” last March 11 which first half consists of proposals for roads, bridges, broadband, clean water, and more projects intended to create millions of jobs in the short run and strengthen American competitiveness in the long run. The details of the second half, focused on child care, education and other home-centric priorities - are still under wraps.

The Next Generation Eu Facility and the Biden Plan represent the scenario permitting to IMF to project a strong recovery for the global economy with growth estimated 6 percent in 2021 and 4.4 percent in 2022. A sizeable upgrade is projected for the United States (1.3 percentage points) that is expected to grow at 6.4 percent this year. Other advanced economies, including the euro area, will also rebound this year but at a slower pace. Among emerging markets and developing economies, China is projected to grow this year at 8.4.
The IMF outlook put on evidence that is one year into the Covid-19 pandemic and the global community still confronts extreme social and economic strain as the human toll rises and millions remain unemployed. Yet, even with high uncertainty about the path of the pandemic, a way out of this health and economic crisis is increasingly visible.

A lot of questions have to be considered looking to the future economic scenario: 1. the estimation of the economic consequences of the absence of an equitable distribution of vaccines and the clashing of European countries with one another over hoarding the doses of vaccine; 2. The government’s debts sustainability; 3. the probability of an inflation/deflation or of a stagflation scenario; 4. Us and Europe’s economic policies will be equally successful in regaining economic growth?

P. Aghion (2021) argues that by choosing a swift elimination strategy, several countries around the world have gained control over the virus. By contrast, most European countries have followed a stop-and-go logic that turned out to be more restrictive, more dangerous, and more damaging to the economy. With the pandemic continuing now for over a year, it has become clear that there is no trade-off between health and wealth. Successful pandemic management has relied on aiming for and protecting Covid-free green zones.

The economic costs of the pandemic have fallen most heavily on those least able to bear them. Governments supported people and firms through wage subsidies, unemployment benefits, and other fiscal measures.

But more investment in health care, education, and other basic public services will still be needed, and this will come at a cost. With rising inequality and mounting public debt, countries will have to find innovative approaches to raise the money to pay for it all.
Gaspar, in the IMF blog suggested that given the public mood during this unique period in history, policymakers could consider the need to raise the resources for an inclusive recovery.

Is there a deflation or inflation scenario in our future? Some observers point to falling commodity prices, stumbling oil prices, and a depressed labour market and see low inflation, perhaps even deflation as far as forecasts go. Others point to the very large increases in fiscal deficits and central bank balance sheets and see inflation, perhaps even high inflation.

O. Blanchard put most of his probability estimate on the low inflation forecast. But he admits that cannot completely dismiss a small probability of high inflation.

Let me ask to D. Salvatore and the panelist to present their ideas on these points and, mostly, on the degree of success they assign to US and Europe in regaining economic growth.