

# COVID-19: A turning point for the EU?

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What long-term lessons can we draw from the corona crisis? Which ones must we draw?

Many say that our way of life has changed so much that there will be a time before and a time after this crisis. For me, there is a distinction between values and behaviours. There is, undoubtedly, a kind of togetherness between people, grown out of the feeling that we are all in the same boat. A lot of creative energy has been released. Digitisation has prevented us from becoming alienated from each other. Social media have shown that they don't just polarise. Their positive uses have made the new media truly social. We have also learned that we can meet remotely, collaborate and be productive.

There are, of course, underlying inequalities in the way we can protect and isolate ourselves. But nobody is truly safe, and there are also a few 'big names' among the victims.

Conversely, in addition to connectedness, distrust has also grown. These days people look at each other too much as potential carriers of infection. Foreigners are often considered more dangerous than fellow countrymen. At the beginning of the crisis, Asians, and in particular the Chinese, were viewed with great suspicion in the West. Now, it could be the other way around. Let's hope it is transient. Let us also hope that the rediscovery of connection is not! After all, once the crisis is over, daily life will absorb us again and the 'rat race' will resume. Hopefully, there will also be something left of the slower and more conscious life, of living together. 'My world may have flipped, but my priorities are falling back into order': wise words from an unknown older man.

There is undoubtedly a lot of solidarity among populations, but too much is focused only on people of the same nation or tribe. Cross-border solidarity that requires a greater effort, that points to the transcendence of one's own ego, is much more difficult. The painful discussion in the European Union (EU) about the willingness to help, and under what conditions, is unfortunately an illustration of this.

This crisis is about life and death. Had we done nothing, the cost of human life would have been enormous, many times higher than what a normal winter flu brings.

A virus emerges somewhere in the world and every country is on its knees. We've become so interdependent and so vulnerable.

Among populist forces we have witnessed different reactions to this pandemic. A number of parties sided with health, because a populist wants to be popular. Others took advantage of a new external enemy – the virus – to expand their political power. Still others first gave the impression of choosing money over human lives – a real conflict of values – but they were unable to hold out for long. But for those populists, it was about more than economics. The primacy of politics had to give way to experts and scientists, until recently presented by them as unworldly and irrelevant. How hollow the slogan to

'take back control' sounds! The crisis also spiralled out of control in countries ruled by populists. The heroes are not the new populist elite, but doctors, care workers and other ordinary men and women who, at great personal risk, save lives and keep society running.

Once again, the facts are the ideologists' greatest enemy.

The opponents of a strong and big government are waning. Only governments can turn the tide. The markets are wavering. Private investors are paralysed with uncertainty and fear. Protecting everyone is ultimately a task for the government.

The most basic function of the state, to protect the life and limb of its citizens, is back to the fore.

Monetary and budgetary policy are now working together in one direction. The 'frugals' are opening all the taps in their own country, but tend to refuse to do so for other countries – even within a political entity like the EU. Who dares to ask for austerity today? Who would dare to repeat the past savings in health care? If savings are needed later, everyone now knows where not to cut and where to invest. It is a question of priorities and therefore of values. This does not mean that efficiency gains should not be made in the medical sector as well. And if there is a shortage of money, more must be contributed if necessary. More than ever, it will be about the just distribution of the burden. The question of taxing companies that pay little or no tax will be more pressing than ever. A tax on large digital companies is a must. Obamacare will only be a start in the USA, Trump or no Trump. We have now discovered that among us there are many Dr. Schweitzers, Father Damiens or Florence Nightingales.

The enemies of the EU have a point when they ask where the Union was at the beginning of the crisis. The answer is paradoxical and simple: yes, there was too little EU; but that is because it is not a superstate! Even though the Union has no competences in health or social matters, everyone expected that there would be much more coordination on the necessary restrictive measures. And, once again, one already sees purely national strategies for the exit from quarantine.

Those working on the new Conference on the Future of Europe should realise that many citizens would have preferred 'more Europe' to today's patchwork.

Economically, the EU and the eurozone will have to be much more relevant, if only because 19 out of 27 countries have a single currency. All of them will be dragged into the post-corona depression, which will strike harder in some countries than in others. Some countries will have to give up illusions. The 'strong countries' were not so strong before February 2020. Economic growth in Germany was the lowest in the eurozone, with the exception of Italy.

The overall impact of national fiscal stimulus measures is much greater when taken in a coordinated manner at European level. Certainly, in small economies that are more open than larger countries, a budgetary stimulus is

'leaking' to a good extent through, among other things, increased imports.

The European Central Bank (ECB) had to, and is doing all it can, again. This new Pandemic Emergency Purchase Programme (PEPP) will have an overall envelope of €750 billion. The central bank will do whatever is necessary, within its mandate. It is fully prepared to increase the size of its asset purchase programmes and adjust their composition, by as much as necessary and for as long as needed. It cannot be said that the ECB is acting 'too little and too late'. Some said before the corona crisis that the central bank had nothing left in its toolbox. They were wrong. Those who feared more inflation in recent years after the expansionary monetary policy of recent years have had to conclude that this did not result in more inflation – on the contrary.

The crisis response will not succeed without European coordination and solidarity. As in the years 2010-2013, we will achieve solidarity not for ethical reasons but because the enlightened national interests of a number of countries ultimately coincide with the European interest. It takes a while before this insight matures. But we cannot wait two and a half years to make that decision, as we did then. Fortunately, the non-empathic statements made by EU institutions and some member states were so poorly received that the authors had to make adjustments. These errors are at the root of changes in a positive direction! For those who had forgotten, this crisis is a reminder of the existence of a European public space.

The compromise reached in the Eurogroup is proof that we have drawn lessons from the past. The three new EU safety nets (ECB, EIB, EMS) add up to around half a trillion euros.

As usual, we will go from compromise to compromise. The question is whether and when the answer will be sufficient. Taboos have already perished at the national level, such as the obsession with absolute budget equilibria. At the European level, the Stability and Growth Pact has been temporarily pushed aside and the ECB will run up even more massive public debt. These European taboos are being shattered. White Thursday's recent compromise includes another breakthrough. The SURE programme proposed by the Commission to help f.i. member states finance temporarily reduced working time is a step in the direction of a unemployment reinsurance system that is part of any genuine economic and monetary union. It was presented in a broader sense in the four presidents' report in 2012. ESM loans for domestic financing of direct and indirect healthcare, cure and prevention related costs due to the COVID-19 crisis, are also a novelty. Especially if macroeconomic conditionality does not apply. The amount can be 2% of the respective member's GDP as of end-2019.

However, public debt in Italy and other countries should not spiral out of control, because then, not only one country would have a problem, but the eurozone as a whole. Lending more to that country via the European Stability Mechanism (ESM) or other funds is therefore not enough. The idea of forms of temporary solidarity derives from this observation. The Recovery Fund i.a. can play an important role.

The compromise of 9 April is a very important step but will not be the last one. I've heard some people say: 'Italy has no and will not have liquidity problems, so there is no need to consider even more far-reaching measures'. But are we going to wait as we did in the Greek crisis? Will we wait again for the verdict of the financial markets? The past has taught us that even bolder compromises were only possible 'with the back against the wall, the abyss in front of our eyes and the knife at our throats'. This time we need to anticipate and prepare for the next phase. Apparently, we're working on that. 'If we really ever need anything bolder, I'm sure we will succeed.' An old friend with an impressive record in the Union confided it to me. Time also should be allowed to do its work to bring minds and interests together.

However, the debate within the eurozone is much more emotional now than it was ten years ago. The ghosts from the beginning of the polycrisis have resurfaced. I sometimes have the impression that some of them are still in the trenches of a war we thought had passed. The dividing lines also run right through the European political parties, even among the populists. The patience of the 'South' is gone. We cannot live for a long period in that climate, as we did during the eurozone crisis. A great responsibility rests once again on France and Germany. They played their role in the final stage leading to the recent compromise. Some Visegrád countries cannot hold up progress if a compromise is found, as three out of the four are outside the eurozone.

One of the instruments to address the impact of the crisis should be the Multiannual Financial Framework (MFF). The European budget, the MFF, is of course ridiculously small: between one fiftieth and one fortieth of the total public spending of all governments in the Union. There is no bazooka hidden within it. But, yet again, there was no agreement in February 2020 on the next MFF. The Commission is right when it says it will come up with a revised budget proposal in the light of the double crisis we are currently experiencing: the pandemic and the economic depression. The hypotheses on which previous proposals were based are no longer valid. This time, when the European Council meets on this issue, we must be sure to succeed. If not, the current budget will have to run for an extra year.

The firepower of the European budget can be enhanced if the EU has the possibility to borrow. The Juncker Plan was a creative idea. It worked on the principle of underwriting risk, so the funding comes from the private sector and/or national authorities. The funds of the EIB, backed by a provision in the EU budget, are there to take the first tranche of losses. The proposed Recovery Fund will mobilise future-oriented investment and help spread the costs of the extraordinary crisis over time through appropriate financing. Some member states were of the view that it should be based on common debt issuance, while others advocated alternative solutions, in particular in the context of the multiannual financial framework. These are investments for which even Adam Smith thought it was responsible to borrow!

Without more economic growth, private and public debt will become unmanageable. We must, of course, hope

that growth in 2021 will make up for the bulk of the depression of 2020. It is not impossible. Surely, we are not going to do as we did after the financial crisis, where the European Council at the end of 2008 first decided on a budgetary injection of 1.5% of GDP and one year later on fiscal consolidation. It is not forbidden to learn from the past. We have already seen a rapid, massive, co-ordinated impulse from the monetary and fiscal authorities and from regulators: nearly 3% GDP of fiscal measures on top of the impact of automatic stabilisers. A one-time breakdown can be offset by a one-time injection. In the long run, economic growth cannot come from demand alone. Without stronger productivity, there can be no stronger GDP growth. Italy, like the UK, has been struggling with this for decades.

If the euro area does not achieve better macroeconomic balance, it is under threat. Countries cannot have current account surpluses that go to 10% of GDP, albeit vis-à-vis the rest of the world. If there were still national currencies, these surpluses would disappear due to a revaluation of those currencies. But because we only have one currency, they will continue to exist. In a way, the surpluses of one currency are also the deficits of another. During the eurozone crisis, we had set up a mechanism to avoid such a situation. It turned out to be a dead letter. That too is a lesson.

At the same time, but unlike in 2008, we are witnessing a 'my country comes first' approach around the globe. The climate was already soured by the USA's useless trade war with China, and even partly with the EU. It was a capital blunder. Brexit also took us further away from international cooperation. How can a country be against protectionism when it is prepared to impose tariffs on the goods and services of its largest trading partner?

The pandemic is a global phenomenon, which should lead to a higher level of international cooperation. The G20 finance ministers did not agree on a joint text a few weeks ago because the current administration in the USA insisted that China should be blamed for the current crisis. The G20 has definitively become an empty box. It had already been downgraded to a discussion forum beforehand, far removed from the original idea of a global policy centre. After 2008, the G20 never found its élan again. Only the Paris Climate Conference (December 2015) was a bright spot in multilateralism. However, the economic depression will not make countries more climate-friendly. I fear that the old trade-off between ecology and economy will be brought back to life. Perhaps it's not a bad thing that the COP-26 has been postponed for a while so that the long-term climate objectives can once again receive sufficient attention. And yet we must continue with the Green Deal. The relaunch of the economy through investment in energy and climate fits perfectly into that major project. It would be a break with the traditional recovery programmes of the past, which were not inspired by sustainability.

Generally speaking, in the future, the world will have to deal even more with exogenous developments, such as climate change and pandemics. The devastating fires in Australia and the COVID-19 pandemic teach us that the exception is almost becoming the rule. Crises are not just endogenous, specific to our individual economic, political

or societal systems. Disruptions are not just technological, like the digital revolution. Disruption exists on all levels. It will make our populations even more anxious and insecure. Vulnerable to reason after the traumas of the last few months or susceptible to emotions? Long term or short term? Stability or adventure? Solidarity or tribalism? How to prepare for new crises if there is no more solidarity in society and political courage at national and European among leaders? The EU institutions have their role as engines but they cannot do anything without the member states. France and Germany continue to carry a major responsibility.

But do not think that authoritarian regimes will come out of this crisis strengthened. In China and Russia, too, the crisis has provoked a major internal debate that is not public, of course, but nevertheless real. Russia finds itself in a chaotic medical situation, in stark contrast to its so-called geopolitical ambitions. In addition, how does the Russian economy deal with the extremely low current oil prices on which the country is so dependent? Would an export-oriented Chinese economy benefit from a world economy in depression? China will also discover that Western countries will rethink their production chains and will no longer want to be dependent on a single supplier in strategic sectors. They will want to keep more strategic activities in Europe in their own hands. The world will not de-globalise economically, but there will now be a greater tendency to emphasise strategic autonomy. Private companies in the West that usually look for the cheapest solution and do not care much about geopolitics have learned their lesson.

If one wants to make a comparison between authoritarian regimes and democracies in terms of corona crisis management, one has to conclude that there are also differences in the performance of the latter. What is it due to? Germany is doing better than many other countries, including northern countries. That may also be said. "Gouverner, c'est prévoir". "To govern is to plan".

The EU as a whole must be much more sovereign in the economic, technological, energy, medical and agricultural fields. We must also protect our external borders better, also in the name of sovereignty. Another theme for the Conference on the Future of Europe. If not, we cannot 'protect' our citizens sufficiently, a primary task of any political system. Many are even more convinced of this in these times of quarantine.

In the midst of the tragedy of tens of thousands of deaths, we must continue to hope that we will learn lessons to avoid repetition. Hope, however, is a verb. How to turn fear into hope? Politics is action.

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