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Where can the EU find the ammunition to fight a coronavirus induced economic slump?

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John BRUTON

The Covid-19 outbreak, and its deep financial aftermath, will put the European Union under unprecedented stress over the next five years or more. Brexit will add to these tensions for some members, notably Ireland. It is a matter of vital national interest for Ireland, that the EU gets its response to the crisis right, and does not allow it to create dangerous social distancing between the Member States of the EU.

A crunch point will be reached next Tuesday when EU Finance Ministers must make vital short and long term decisions.

The existing structure of the EU is unfitted to a crisis like this. The public expect the EU to act, but has not been given the EU the powers it needs to do so.

Unlike its Member States, the EU itself has no capacity to borrow money, and no capacity to raise taxation. So it often lacks the financial clout to take decisive action.

The amount it is allowed to spend is a mere 1% of GDP, whereas EU Member States can and do spend around 40% of their GDP.

Membership of the EU has been enlarged to include populations who have radically different understandings of the obligations and responsibilities of EU membership.

Some think EU membership is compatible with authoritarian systems of governance. Others think EU membership is about entitlements, without commensurate responsibilities. Yet others see the EU as a means of creating a sphere of influence and projecting national power. Some (like the UK) see the EU as just a trading arrangement, with few political obligations at all. Many see membership of the EU as a transaction, from which they should always gain more than they were giving up.

The countries and regions that gain most from the EU Single Market, are either unaware of the gains, or mistakenly think it is all due to their own efforts.

A recent study by the Bertelsmann Foundation showed that the big objectors to Eurobonds (Germany, Austria and the Netherlands) gain almost three times as much per capita from the EU Single Market as do the assumed beneficiaries of the Eurobonds, Spain and Italy!

If the Single Market were to fail, the objectors would lose the most. But their national politicians fail to tell them this. Incidentally the study showed Ireland to be a big gainer from the Single Market.

Meanwhile the countries and regions that gain comparatively less from the Single Market resent this, and fail to acknowledge that they too are gaining from being in the EU Single Market, albeit a bit less than the others are gaining. Envy blinds some to reality.

Of course, these contradictory feelings are rarely expressed publicly, but they are under the surface, ready to emerge when a crisis happens and decisions have to be made quickly.

Covid-19 has been such a crisis.

The first reactions of some EU Members States were revealing, and deeply troubling.

On 4 March, France and Germany decided to block export of personal protecting equipment outside their own borders, even within the EU. This was done notwithstanding the fact that restrictions on export to other EU states are forbidden by Article 35 of the EU Treaty.

Two days later, Italy requested an extraordinary meeting of EU health Ministers. This was declined, notwithstanding the fact that the health crisis was worse in Italy than elsewhere, and Italy (like Greece) had already borne the brunt of the refugee crisis, with little or no help from its EU partners.

It took several days of pressure before the export bans were lifted, and 1 million German masks eventually did reach Italy. Meanwhile China scored a public relations coup by getting equipment to Italy, equipment that Italy's EU partners had failed to supply.

The restrictions on economic activity, as well as the direct health and income support costs, arising from Covid-19 will dramatically increase the debts of all states in the EU.
Assuming a 20% drop in GDP as a result of Covid-19, an economist in the Bruegel Institute in Brussels has estimated that the Debt / GDP ratio of Italy could rise from 136% of GDP to 189%, that of France from 99% to 147%, that of Spain from 97% to 139%, and that of Germany from 59% to 94%.

As all these countries can expect their workforces reduce in the next 20 years, because of past low birth rates, this is a very troubling prospect. A way needs to be found to spread the debt as widely as possible and as far as possible into the future.

One of the proposals made to do this is Eurobonds which would enable counties to borrow with a guarantee from all eurozone states. The interest rate might be lower but it is still just another form of borrowing. If Italy issued a Eurobond, it would still be increasing its overall debt, and might face a higher interest rate on its ordinary bond issues. Another objection is that it might take 18 months or more to get these Eurobonds up and running, and the markets need something quicker.
Another proposal is that distressed countries borrow from the European Stability Mechanism (ESM). Some believe that the ESM is too small for all that needs to be done. Others worry about the conditions that might be imposed.
Meanwhile the ECB continues to buy the bonds of member states. For example it owns 26% of all German government bonds and 22% of all Spain's bonds. This bond buying by the ECB enables governments to continue borrowing, but its support is confined to members who are in the euro. It is using monetary policy to achieve the goals of fiscal policy, which is controversial.

I suggest a better solution would be to allow the European Union itself to borrow, up to a limit of (say) 0.5% of the EU GDP, to spend exclusively on Covid -19 related expenditures.

Article 122 of the Treaty already makes provision for the EU to give aid to help states suffering from "natural disasters and exceptional occurrences" beyond the control of a member state or states. Covid 19 meets this criterion.
But the EU is not using this power, because its budget is fully committed to other things. It has no room to respond to sudden emergencies. It would have such room if it was allowed to borrow. This power could then be activated to allow direct transfers of funds to a state in acute distress because of Covid 19 or the like, without adding to the recipient state's debt.
Doing this would require an amendment to Article 310 (1) of the Treaty. This article presently requires the EU always to run a balanced budget. This could be amended to allow borrowing that was confined to spending on matters, like Covid-19, that had arisen suddenly and were beyond the control of the state looking for help. Such a limited borrowing authority would command a lot of support from the electorate.
It would also be borrowing under the democratic control by the Council of Ministers and European Parliament, something that does not apply to bond buying by the ECB.
The EU faces an unprecedented situation which justifies unprecedented actions.

John Bruton
Irish Prime Minister (1994-1997)