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Covid-19 pandemic and EU

# European Union: economic response to health crisis is a new disappointment

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**The response of European community institutions has come late, after several weeks of uncontrollable advance of the coronavirus disease, the palpable (and irresponsible) uncoordinated action of governments and the confirmation of the start of an economic recession that, although already likely before Covid19, is now already an obvious fact. And this at a time when we can say that, more than ever, international cooperation is needed to ward off the dangers of a global crisis of a still unknown scope.**

Institutions and policies reveal their true nature and pass or fail the test of their social utility precisely in difficult times. From this point of view, in terms of defending the interests of the social majority, the actions of the European Union (EU) have revealed it as clueless, overcome by events and in a frank process of decomposition.

The media have announced that, finally, the community institutions that govern the EU have taken note of the seriousness of the situation. The European Commission (EC) accepts the breach of the Stability and Growth Pact (SGP) and the European Central Bank (ECB) has opened emergency lines of financing, expanding its program of purchases of corporate bonds and public debt securities.

Some political leaders and community leaders have also sparked debate about the possibility of launching "corona bonds", opening the door, hitherto blocked, to the mutualization of public debt through what have been called Eurobonds. These have been repeatedly rejected by the ruling neoliberals who run countries like Germany and those in their immediate area of influence, as is the case in the Netherlands. And now, more of the same. As we finish this text, the German finance minister has completely discarded this alternative, with the same arguments as always; ignoring the gravity of the situation for the EU, which would require a joint response from it.

In the reflections that follow we refer especially to the first two issues. In relation to the SGP, the President of the EC, Ursula von der Leyen, has declared that, given the exceptional circumstances that the EU countries are experiencing, noncompliance with it is authorized, limiting herself to recognizing what reality has already made abundantly clear. The reduction in tax collection as a consequence of the collapse of economic activity and the increase in public spending to face the disease make it impossible to achieve these objectives of public deficit and debt.

A welcome break, in any case, from the straitjacket of austerity policies, since in this way governments have a much-needed margin of manoeuvre to face the pandemic, although insufficient and temporary. But we cannot forget that the restrictive obsession of community institutions in the budgetary field, in addition to being a key factor in the increase in inequality, in addition to having socialized in 2008 and the following years the costs of a crisis caused by a runaway financial industry, in addition to having trapped the economies in a recessive loop ... in addition to all that, has weakened the capacities of intervention of the public powers, whose coffers are empty and indebted, putting them on the ropes in an emergency situation like the current one. A dramatic example of this is found in the degradation of public health, unable at the moment to put a stop to the unstoppable advance of the coronavirus.

For all these reasons, in our opinion, the position of softening, in such an adverse situation, the strict budgetary criteria established by the EC and embodied in European treaties and national constitutions, only to return to them later, when the crisis has been overcome, constitutes a conjunctural solution to the emergency, but not a change of course, which is a fundamental error.

The crisis has highlighted the need for a powerful public sector, committed to the popular classes; in the same way

that, beyond the disease, the great challenges that lie ahead in terms of equality, sustainability, democracy and decency require a strategic intervention by the state. Which brings to the fore the question of undoing the mess of neoliberal policies. Immediately, it involves supporting public health, reversing the process of dismantling and privatization, as well as social services. But also to place on the horizon the development of the public sector in banking, pharmaceutical and bio-sanitary industries, water, gas and energy.

And that is incompatible with budgetary austerity policies and with the very existence of the SGP, but also with privatization and the absence of social and fiscal harmonization.

As a background to the foregoing, it must be borne in mind that the EU has been built on the strict separation between monetary policy, located "above", without political or member state control, and budgetary (and therefore social) policy that lies within the remit of the states, subject, in turn, to restrictions. The SGP cannot and should not be complied with, now or when it is time to rebuild the economy after the tsunami caused by the disease. This pact, its content and its logic, must be definitively questioned.

Regarding the role of the ECB, Christine Lagarde, its president, has made a few unfortunate statements recently, pointing out that the function of this institution was not to intervene to reduce the risk premiums of the public debt of the states, thus blessing the trading and speculation that private financial intermediaries carry out on account of that debt, which had an immediate impact in raising risk premiums, especially in the most vulnerable economies, such as Italy.

More recently, Lagarde announced the launch of a program of purchase of public and private bonds worth 720 billion euros, on top of the previous 125 billion. With two fundamental objectives. On the one hand, to stop the rise in the risk premium of public debt (contradicting what was said a few days earlier); on the other, to provide resources to governments, families and companies, which, theoretically, will benefit from lower interest rates on loans from banks.

The truth is that this intervention (presented as an extraordinary response to an exceptional situation) does not change the roadmap set out in the asset purchase programs - quantitative easing - that Mario Draghi launched. These actions, although it is true that they have appeased the markets, reducing the risk premium, have had above all the "virtue" of providing financing under extraordinarily privileged conditions to large banks and corporations.

If the objective was for this financing to reach families and companies and to widen the margin for action by governments, the balance sheet is a resounding failure. It has been used primarily to reward senior executives and large shareholders, to buy back shares in order to increase the stock market value of the companies and to open lines of credit to "zombie" companies that already have high levels of debt. The result has been a substantial increase in debt, especially private debt, the upward trend of stock indices and the substantial growth of inequality. In reality, the ECB has moved, as always, within the coordinates established in its founding treaty, which prohibits opening direct financing channels to the states, which, of course, have to go to the markets to meet their needs.

Community institutions, precisely to avoid putting everything on the backs of national budgets, should have mobilized resources to meet the challenge posed by the pandemic. They have not, and the response today benefits oligarchies and in no way guarantees that the money gets where it is needed urgently. In this sense, the ECB could and should have acquired public debt at a zero interest rate, that is, at no cost to governments, and convert it in perpetuity, to facilitate the extraordinary financing required to fight the disease. That would suppose direct injection of sound cash money to face the present sanitary, humanitarian, economic and social crisis.

It is not just a matter of lack of reflexes, of the weight of institutional inertia, of the neoliberal ideology that weighs down all community policies, of prejudices about the virtues of budgetary austerity and of the supposedly neutral role of the ECB. All of that counts, of course. But the most important thing to keep in mind, which allows us to explain all of the above, are the powerful interests that are behind the SGP and the asset purchase programs: those of the

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private corporations that have turned the public sector into a market, the banks who have found a succulent business with the debt, the wealthy who have received resources with which to continue speculating on the stock market, the large shareholders who appropriate a fundamental part of the profits obtained by the companies, and the top executives, who have kept their salaries extraordinarily high. This is the "coalition of interests" that governs Europe, these are the pillars on which an asymmetric Europe has been built that has benefited, above all, the business and financial elites. This is the cancer that must be eradicated.

*26 March 2020*

*PS:*

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