Towards economic recovery?

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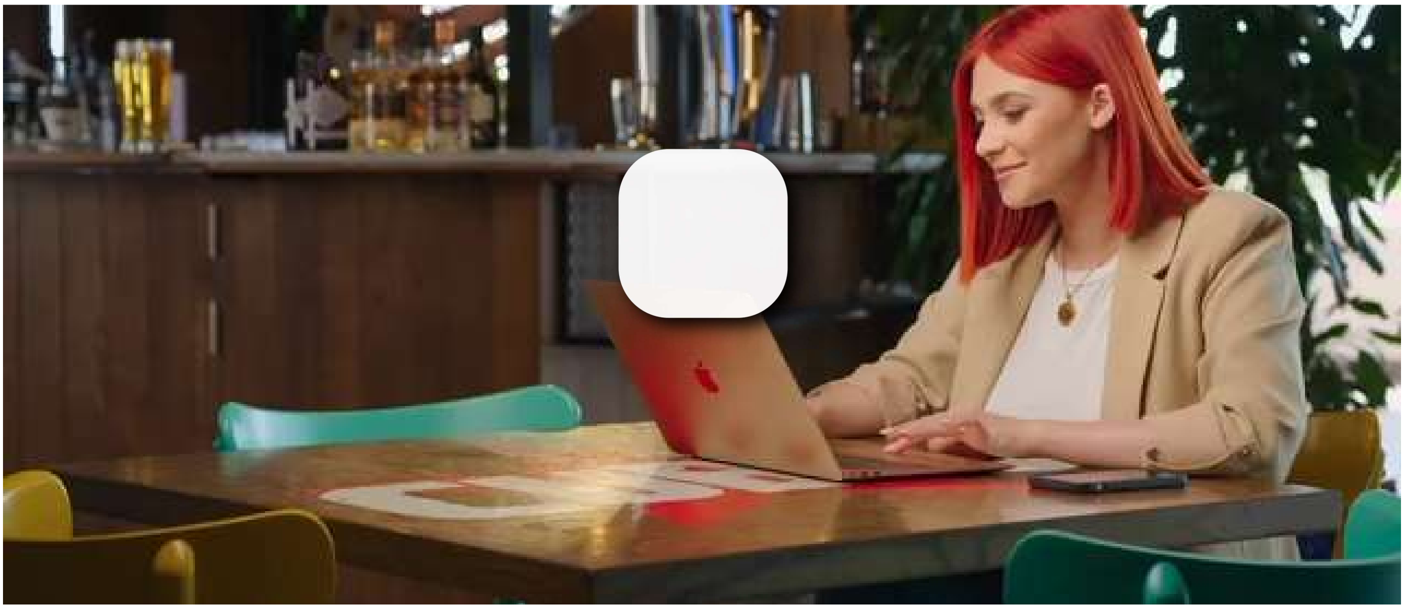
The Coronavirus crisis is a global health, economic and social crisis. It may very well be the case that the real number of cases around the world is much higher than the already increasing number reported worldwide. We do not know how many people are already infected, even because of the global disparity in testing and reporting. We also must factor in demographic factors and social inequalities related to vulnerability.



Within the EU, there is a disparity of numbers between different countries, but crisis is written all over the place. Some are saying that the EU is not doing enough to combat coronavirus, and others are calling for stronger action at a European level.

For example, last week, the European Economic and Social Committee (EESC), which represents organised civil society, called for an urgent and comprehensive economic recovery plan guided by the principle of a community of common destiny. It called for common and solidarity measures to counter the negative health, economic and social effects of the crisis.

When one analyses the EU policy making in this area, various factors should be considered. First, this is an unprecedented crisis within the EU, over and above other challenges being faced by the bloc. Second, the EU has specific competencies and power is shared at different levels, including with member states' national competencies. Third, the EU is governed by democratic procedures and norms. This means that decision-making processes require consultation, deliberation and time to take place, considering that the EU's decision-making procedures involve the Council that represents 27 member states, the Commission and the Parliament.

In this regard, the EU's Coronavirus emergency rescue package was approved by the 19 Governments within the Eurozone through a compromise deal. This promises the availability of over half a trillion euros. Countries could borrow up to 2% of annual economic output at favourable rates to finance direct or indirect costs of the crisis being experienced.

Consequently, €240 billion are available from the Eurozone bailout fund for governments experiencing harsh stress, provided that such funds are used for health care. This credit expires after the Coronavirus pandemic is over

The rescue package also provides up to €200 billion in credit guarantees through the European Investment Bank to help keep companies afloat, and €100 billion to provide safety nets for workers and the self-employed through the 'SURE' initiative, which is based on the concept of state-
open ›rted short time work.

more flexible to assist those in need.

Besides, the European Central Bank is ready to buy €750 billion worth of government and company debt across the eurozone. This can help relieve government debt during the crisis, and it is being topped up with €120 billion in quantitative easing and €20 billion in debt purchases. The European Parliament has also voted to make available €37 billion from existing EU structural funds to combat the Coronavirus crisis.

The EU has also put forward other measures, including border policies to exclude non-essential travel and the repatriation of EU citizens. It is providing medical equipment, and this is facilitated by a huge international tender which allows member states to make joint purchases of equipment and drugs. The EU is also funding research programmes to help identify a vaccine against Covid-19 and is making funds available through the solidarity fund to cover health emergencies.

In the meantime, the European Commission will be proposing a fresh plan for the EU's budget for 2021-27, and this will include a stimulus package. Here, one should note that the half-trillion Euro package referred to above does not deal with longer-term measures such as shared borrowing, but it agrees to provide "funding through the EU budget to programmes designed to kick-start the economy".

As I explained in my last article in the Malta Independent, there is disagreement among member states whether Eurobonds (or 'Coronabonds') should be provided across the EU. An interesting insight on this matter has been provided by social scientists Michael Paetz and Patrick Kaczmarczyk *in the London School of Economics and Political Science blog 'European Politics and Policy'.*

They proposed that the European Central Bank (ECB) should be ready to purchase Eurobonds (and national government bonds), making them risk-free and facilitating funding for Eurozone member states, even if they are sold to capital markets in a first instance.

Such funds would thus be backed by the ECB's promise to buy them, and by the latter's taking of responsibility for sustainable interest rates for all European government debt. According to Paetz and Kaczmarcyk, such an approach would not take anything from taxpayers across the EU, as it would instead be extending the balance sheet of the ECB.

The two social scientists argue that the alternative to this is having exorbitant interest rates that threaten financial stability within the Eurozone, thus providing political windows of opportunity for populist Eurosceptic political parties.

Paul Schmidt, another social scientist writing in the same *scholarly blog, argues that the Coronavirus crisis confirms the prominence of national identities, but he adds that there needn't be contradiction between this and European solidarity. Indeed, Schmidt adds that the crisis could boost confidence in European cooperation if the EU* succeeds in cushioning the impacts of the crisis.

In the meantime, it is important to note the calls being made in Malta for an extension of Government's own Coronavirus economic package. Both the Nationalist Opposition and the Chamber of Commerce have questioned the fact that around 100,000 workers are being left out from the aid package which includes monthly subsidies of up to €800 per worker. They are effectively calling for a widening of the sectors eligible for aid, as otherwise various econom to workers when it would be wiser to keep the same persons in their jobs, with the possibility of top-ups by employers.

On a positive note, a six month moratorium on loan repayments on capital and interest for borrowers who have been negatively affected by the Coronavirus crisis was announced by Government this week.

One appreciates Government's concerns that funds are not unlimited, and all efforts should be made to be as sustainable as possible. But as the Chamber of Commerce put it, within this crisis "Government must not be averse to increasing its debt and disregard any previous commendable targets for debt/GDP ratios. The urgent priority at this point of utter emergency is to ensure that the economy survives to see the future. The future will then deal with the debt incurred today for the purposes of ensuring a tomorrow".

In this regard I reiterate my appeal to Government to widen deliberation on its economic and social packages. Both the opposition and the various voices within civil society and expertise should form part of a national social pact of the willing, with the broadest consensus possible and a strong sense of ownership. We are in this war together.

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