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If not end European austerity now, when?

A European recovery must break with the austerity dogma. The alternative is to slip back into small-state mentality

The latest EU summit can certainly be seen as a success. The heads of state and government signed off on the support package that had been put together by finance ministers. Moreover, they have emphasised that more comprehensive European efforts are needed, beyond the immediate short term measures, to support the reconstruction of the European economy.

Nevertheless, as expected, they were not able to agree on a common position as to how and to what extent the EU should support member states in breathing new life into their economies after the end of the coronavirus crisis. Instead, well-known opposing points of view were exchanged. But they don't want postpone the discussion for too long. As early as by 6 May 2020, the European Commission is supposed to produce figures with regards to the scale of support needed. In addition, it should develop the main features of a recovery programme.

However, it is exasperating to see the public show put on by some heads of government, who, probably because of domestic political pressures, cannot refrain from reeling off positions with limited substance.

A favourite faultline is: Are you for or against eurobonds? Some say that eurobonds are good, but loans from the European Stability Mechanism (ESM) unacceptable. Italy's head of government Giuseppe Conte has for a long time clung to this piece of wisdom. But the key question is not what label the lines of credit have. Instead, it's key to establish whether European funds will be passed on as grants or just as loans for member states to pay back, what the conditions are and whether they will be calculated in the national debt levels. Of course, it has to be accepted that the states that finance the transfers will want to discuss what happens with the money and whether that money is financing additional expenses.

A new dimension of European solidarity

Just as nonsensical is the position of many conservative or liberal politicians, who regard eurobonds or even Europe pooling some debt as the work of the devil. Supposedly, this would mean the emergence of joint liability in Europe. However, this joint liability for the debts of member states has already existed since the start of the currency union, at least considering that one of the bigger states belonging to the eurozone going bankrupt would have such serious effects on the whole currency area that the others would come to its rescue in any case.

But also those member states particularly affected by the coronavirus crisis will need considerable financial support from the EU.

The EU can thank its lucky stars that the European Central Bank (ECB) openly acknowledged this already in 2012 and made a considerable contribution to rescuing the eurozone with its programme of buying up government bonds, which is in principle a pooling of debt. But whoever openly acknowledges this will find it harder to push states with financial problems into a rigorous stability and austerity policy. The advocates of stability among heads of state can be clear that this form of paternalism is not very likely to be politically successful among the bigger member states.

The depth of the crisis we are facing requires a new dimension of European solidarity. And it must clearly differentiate itself from the support for individual member states in earlier times. Pressing on as before with austerity will not be possible without jeopardising substantive elements of the eurozone and the EU's internal market. That was already the case before the coronavirus crisis. It is not for nothing that the debate, also among more stability-oriented economists, has become more dynamic as to whether a marked increase in the public debt is needed to fight climate change, promote the digital transformation and go beyond the political boundaries that have been staked out up to now.

Financial support from the EU

A comprehensive European recovery programme is urgently needed and must include very different measures and levels based on different challenges. We need a combination of member states' policies with EU, ECB and European Investment Bank measures. Considering the necessary financial scale, it will not be possible without Europe taking on considerable debts.

No one can yet say how deep the economic slump will be. However, it will certainly be bigger in size than the one during the 2008-09 financial crisis. We can only assume right now that the slump in growth will come in at around 5 per cent of the EU's GDP. However, double-digit slumps cannot be ruled out either.

There will be a need for financing for companies as well as government budgets. Considerably expanding the activities of the European Investment Bank (EIB) would make sense to provide financial support to companies. That means that member states are being requested to raise the European Investment Bank's capital stock and expand deficit guarantees so that the EIB is in a position to extend their bank lending to private companies with appropriate conditions.

But also those member states particularly affected by the coronavirus crisis will need considerable financial support from the EU. Should this be put in place merely by granting additional lines of credit for the affected countries, then they would, according to the current rules of the Stability and Growth Pact, be forced into a strict reduction of their public expenditure in just a few years. As the big member states apart from Germany would be affected too, a lasting revitalisation of the economic situation in Europe would be ruled out for years to come. Correspondingly, a considerable proportion of European support must be handed out as a grant. This is where the question arises as to who decides on the use of the money and who exercises democratic control over it.

Using the EU budget

As envisaged in the Spanish government's proposal, the common EU budget and its possibilities for taking on debt should be used. Whoever wants to avoid perpetual bonds, as per the Spanish proposal, can also service their debts via the EU budget. This will require a corresponding increase in member states' contributions or of EU's own resources.. A further advantage is that experience with the European structural funds could be used in the distribution of resources. For that, it would need to be ensured that projects are being financed especially in countries particularly affected by the crisis. In this way, one could also guarantee that fighting climate change and promoting digitalisation would be adequately taken into consideration.

Heading into a European debt situation also requires minimum

Moreover, it would be important that funds are only paid out to those member states that fulfil the criteria of a system based on the rule of law. Should consensus for this not be achieved in the

harmonisation of other state income.

Council, the recovery funds could be built up only with eurozone countries or in the context of 'voluntary cooperation'.

Accompanying the construction of the fund, economic and financial policy coordination would have to be consistently reformed in the context of the European Semester. The current suspension of the strict stability orientation must be translated into a lasting change of its criteria and objectives. Hitherto, supervision has been geared to limiting the annual issuing of new debt (not over three per cent) and to the debt level of the member state (not over 60 per cent). The objective of stability here stands above all other objectives.

Taxes, taxes, taxes

In the future, the economic and finance policy should instead, in line with the German Stability Act of 1967, be aimed at promoting a stable level of prices, a high level of employment, external trade balance, steady economic growth and the achievement of the Paris climate goals. Regulatory criteria would therefore be, among others, unemployment and employment levels or the reduction of CO2. The resulting potential conflicts between objectives require stronger coordination by the EU, which must also be ensured at the institutional level.

Heading into a European debt situation also requires minimum harmonisation of other state income. That is why it is essential to strengthen European efforts to fight tax dumping, tax avoidance and tax evasion. That is why the minimum harmonisation of corporate taxes, the introduction of a financial transaction tax and a digital tax is being put on the political agenda with renewed urgency. European solidarity also means using the economic potential of all parts of society according to what each can contribute; a few should not able to get away with contributing less.

At first sight, such a change in course sounds utopian precisely because it also requires many institutional changes. But every crisis contains the power of creative destruction and can be the basis of a fundamentally new direction. It is worth fighting for that, above all as the alternative is to slip back into a small-state mentality.



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