Covid-19: Should EU states share the economic burden?

The Italian economy has been left in a particularly vulnerable position by the Covid-19 outbreak. **Jasper Doomen** *examines how the EU could attempt to share the economic burden of the crisis. He argues that while there are grounds for some form of solidarity, attempts to bring the member states together could equally end up pushing them further apart.*

One of the European countries that has been hardest hit by the spread of Covid-19 is Italy. Alongside the healthcare problems, the outbreak has had a dire effect on the country's economy, as a result of which it has appealed to other EU member states, stressing the need for solidarity between them. How should the European Union respond to such an appeal?

Solidarity between the member states is an important principle in EU law (Treaty on the Functioning of the European Union (TFEU), art. 122, par. 1). It is easy to adhere to such a lofty principle in times when those united under a single banner have no need to invoke it. The value of that banner is put to the test in times when their interests do not harmonise. In certain respects, the European Union, and in particular the Eurozone, is more aptly characterised as a union of dissent than as an organisation whose members agree upon compliance with commonly agreed upon rules. May a country such as Italy rightly call on the European Union as a whole and thus, in fact, on those countries that have followed a more austere budgetary policy than it has?

Italy is faced with an immediate crisis, to which a swift response is fitting. This is arguably not the time to blame Italy for fiscal policy and political choices that have resulted in its present poor economic position, if such a time should even exist. On the other hand, simply providing aid does not seem appealing, either, since such a policy could be viewed as rewarding member states for their poor choices.

Short-term assistance may be realised by referring to TFEU, art. 122, par. 2, which appears to provide a sufficient basis to aid Italy, since it indicates that financial assistance may be granted to a member state that is "seriously threatened with severe difficulties caused by natural disasters or exceptional occurrences beyond its control". Importantly, the article stipulates that the aid shall be granted "under certain conditions." Similarly, art. 12, par. 1, of the Treaty establishing the European Stability Mechanism stipulates: "If indispensable to safeguard the financial stability of the euro area as a whole and of its Member States, the ESM may provide stability support to an ESM Member subject to strict conditionality, appropriate to the financial assistance instrument chosen. Such conditionality may range from a macro-economic adjustment programme to continuous respect of pre-established eligibility conditions."

Charles Michel, European Council President, speaking at the Coronavirus Global Response pledging conference on 4 May, Credit: European Union

Greece was aided when it was confronted with the government-debt crisis of 2009. It was forced, in return, to privatise government assets and to reform its economy. The first demand could be made here, too (although, admittedly, this does run the risk of fostering undesirable external – such as Chinese – influence). In exchange, Italy could receive the means to address healthcare issues. If this seems too harsh, one may consider making funds available unconditionally, provided they are indeed allocated to combat the immediate health problems. The need for economic reforms is a separate issue, to which I will return below.

One may, in addition, consider aiding Italy in the long term; the aid would then not have an incidental but a structural character, being intended to support the Italian economy. In this case, it would be wise to exercise restraint. The principal argument is based on the given that the member states that have adhered to the demands that the ratio of the government deficit to gross domestic product not exceed 3% and that the ratio of government debt to gross domestic product not exceed 60% (TFEU, art. 126, par. 2, in conjunction with art. 1 of Protocol no. 12) have reaped the benefits of their budgetary policy.

Member states such as Finland and the Netherlands have almost consistently met these criteria. Their economies are thriving and they are able, accordingly, to issue bonds intended to solve their problems at low interest rates. Being cautious when structural aid for those member states which have consistently *not* met them is not to be interpreted as a means to berate them, or as a sort of punishment. Rather, aiding them unreservedly conflicts with the basic idea that member states are individually responsible for implementing sound economic policy.

The European Central Bank has established a temporary pandemic emergency purchase programme to the amount of EUR 750 billion, notwithstanding the previously defined limit of 33% under the public sector asset purchase programme. It does not thus directly support member states, but it is, on this basis, able to do so indirectly, by purchasing bonds, thereby ensuring that member states will be able to continue to attract sufficient financial means at an interest rate that is mitigated as a result of this measure.

Italy will thus be able to increase its already substantial debt at – veritably artificially – low interest rates, reducing or even – in a pessimistic scenario – removing its incentive to carry through economic reforms, especially if it is able to operate on the assumption that other member states or the European Union as a whole will come to its aid if the debt becomes too great to bear. National political considerations may be an important factor as well.

One may think that the problems are exaggerated; as long as Italy simply promises to realise the reforms desired by the European Union (and certain member states in particular), the issue will resolve itself, albeit in the long term, its debt gradually decreasing to manageable proportions. Still, even irrespective of the issue just addressed, namely, that the incentive to realise those reforms is diminished, the demand to keep the government deficit and debt in check exists for all member states; reforming one's economy as a means to realise those goals just means that one does what one is already obligated to do, which should not merit a special reward.

It would be a positive step if the European Union were to disburden Italy as far as the country's immediate needs are concerned, irrespective of whether the other member states consent to the measures on the basis of humanitarian considerations or self-interest. In the latter case, a very difficult calculation, given the variables, would have to be made in order to determine whether they are – in the long run – better off without Italy's presence in the single currency. Arguably, Italy may also be better off if it were able to adopt a new currency and pursue a devaluation.

Italy is currently unable to pursue this strategy as it is bound by rules that other member states are able and willing to uphold. While other member states consider these rules to be sensible directives, the prevailing view in Italy at present seems to deem them a straitjacket from which it must free itself. Given the fact that isolated devaluation is impossible, the harm of the 'remedy' of monetary financing cannot be ignored, with increased inflation in the Eurozone in its wake being a serious danger.

I readily grant that it is easy for me, exercising armchair jurisprudence from a relatively comfortable position, to judge these matters. In any event, should it, for whatever reason, be decided that certain measures are necessary in addition to those focused on addressing the immediate healthcare problems, a piecemeal approach would be prudent. Such an approach was not taken by the former President of the European Central Bank in his policy of quantitative easing; Italy was, as a result, able to muddle through.

It is difficult to say what the effects of rigorous measures to provide structural support will be, but the adverse result of the attempt to bring the member states together may be that they end up further apart than ever before.

Please read our comments policy before commenting.

Note: This article gives the views of the author, not the position of EUROPP – European Politics and Policy or the London School of Economics.

About the author

Jasper Doomen – *Open University*
Jasper Doomen is an Assistant Professor at the Open University. He has previously taught, inter alia, at Leiden University and Utrecht University. He holds a Ph.D. in Law (Leiden University, 2014), an LL.B. (Utrecht University, 2005), and a B.A. and M.A. in Philosophy (Leiden University, 2001 and 2003). His publications mainly deal with topics in the fields of philosophy and law.