

Regulating for Globalization

Trade, Labor and EU Law Perspectives

The European response to the Covid-19 crisis – where are we going to?

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From an EU social and labour policy perspective, 2020 started off on the right foot. In mid-January, the Commission presented its Communication on “[A Strong Social Europe for A Just Transition](#)”. In the Communication, the Commission’s priorities (the European Green Deal and the digitalization agenda) appeared to be intertwined with the commitment to promote fairness and justice. Some of the announced initiatives seemed to confirm a renewed emphasis on upgrading the social dimension of the EU (an action plan to implement the European Pillar of Social Rights, a proposal for a European Unemployment Benefit Reinsurance Scheme, and an [initiative on fair minimum wages](#), among others).

Covid-19, a game changer?

Then, Covid-19 happened. The pandemic changed the lives of millions of EU citizens and, with it, the priorities of national and EU policymakers. What initially presented itself as a health emergency triggered an economic crisis, whose disruptive effects are yet to be fully understood.

Since the enactment of the first lock-down measures, national governments -and especially those from the most-hit countries- have been calling for a meaningful European response. This quickly triggered two parallel and intertwined debates, touching two of the most sensitive issues regarding the future of the EU:

1. how to (re)define the balance between economic (and fiscal) objectives and social values?
2. how much European integration do we need?

In both issues, the main danger is to repeat the same mistakes that occurred when the EU managed the 2008 crisis. Then, social priorities were largely sacrificed on the altar of economic and fiscal responsibility, and the (political and economic) divide among “low debt” and “high debt” countries worryingly broadened.

It is still too early to tell how the response to this covid-19 related crisis will affect the tension between the social and the economic dimension on the long term and whether European integration will deepen or rather stall. However, the preliminary scrutiny of the initiatives adopted at the EU level allows to formulate initial considerations.

The EU response to Covid-19 crisis

As national productive activities were put on hold and national economies entered into a violent halt, the EU's response has essentially been to support Member States' actions oriented at protecting businesses and workers from the immediate effects of the lockdown. The EU thus intervened with instruments to facilitate the Member States' access to liquidity and, subsequently, public spending.

- The [Stability and Growth Pact](#) general escape clause was immediately activated. This allowed Member States to temporarily derogate from the rule that the state's deficit has to remain below 3% of GDP and national debts cannot be higher than 60% of GDP.
- [EU state aid rules](#) were also made more flexible, thus widening the leeway for governments to provide support to undertakings in economic difficulty.
- The [European Central Bank](#) launched the PEEP package of € 750 billion, thus providing a monetary stimulus.
- The [European Investment Bank](#) set up a €25 billion guarantee fund, thus substantially expanding the support to national companies.
- All resources still available in the EU budget have been channelled to support national governments and enterprises to limit the damages of the crisis. Access to [existing EU Funds](#) has been made more flexible.
- The Commission created a mechanism providing Support to mitigate Unemployment Risks in an Emergency ([SURE](#)). SURE is designed to ensure financial assistance to Member States for up to €100 billion. The financial assistance is in forms of loans at low interest rates, from the European Commission to national governments. This instrument is conceived to provide a safety net for both employees and self-employed against the risk of loss of income and can be used to finance national short-term work schemes. SURE was presented on the 1st of April as a quasi-immediate support consenting a quickly accessible relief for national finances. However, the process is slower than originally anticipated. The Council reached an agreement on the regulation at the end of May, but negotiations will need to continue between the Commission and each of the Member States that asks to benefit from it. It is reasonable to expect that actual access to the fund will only take place next Autumn. Questions on the adequacy of the instrument have been raised. In particular, its main limitations concern the duration of the loans (too short term for Italy and Spain) and the cost of the loans (not cheap enough for countries with solid public finances, like Germany).
- The Eurogroup meeting of 9 April reached consensus on establishing an [Enhanced Conditions Credit Line of the European Stability Mechanism \(ESM\)](#). This reformed ESM allows Member States to access low-interests loan (up to 2% of their GDP) to face the direct and indirect healthcare costs. Especially in the Southern Member States, the ESM has a very negative reputation, since it is perceived as a trigger for austerity measures, as it happened during the 2008 crisis. However, this time, access to ESM loans is subject to different rules, and there would not be any conditionality. Therefore, national governments could apply for loans without being subsequently required to undertake severe public spending reforms.

These EU initiatives have supported national governments' responses to the crisis. Across the Member States, the public sphere has increased its presence into society and into the economy, trying to alleviate the socio-economic impact of the pandemic. This has been done by regulating the labour markets, preventing loss of income, and providing different forms of support to protect the most vulnerable spheres of society (more encompassing short term schemes, direct income

support for self-employed, tax relief, mortgage support, etc.).

However, while the EU accorded more flexibility and room for manoeuvre for national governments' response, it did not provide a genuinely European defence strategy. So far, to expand their public spending, Member States have been borrowing on the financial markets, thus increasing their sovereign debt. For countries with troublesome public finances (such as Italy, Greece or Spain), this financing comes with a quite high price, dictated by the high interest payments. For those countries, it is a vicious circle leading to a progressive increase of public debt which, on the long term, will have damaging effect on the state's ability to make the necessary public reforms and pursue public interest objectives.

A European Strategy for Recovery?

A genuinely European solution would instead allow Member States to boost their spending without affecting the public debt level. It would be a stronger response, since it would provide relevant financial stimulus and avoid further polarization among the “fiscally responsible” and the “(Southern and) fiscally irresponsible” countries.

It is in this context that, already during the April Eurogroup and European Council meetings, the adoption of Eurobonds (or Coronabonds) was strongly promoted by Italy, France, Spain and Portugal, among others. The idea behind Eurobonds is indeed that it would be all the countries together (for instance, represented by the European Commission), and not the single state, to borrow on the financial markets. This would allow financing at a rather low cost since the interest rate of the debt would be substantially lower than what highly indebted countries such as Italy or Spain could obtain.

The possibility of Eurobonds was then quickly discarded as multiple Member States (among which Germany), opposed any form of debt mutualization and declared not to have any immediate interest in helping Southern countries to limit their public debt increase. However, an intense debate on the desirability of different forms of financial solidarity and the intensity of European integration was at this point triggered.

The German position in the meanwhile has evolved, and Germany and France recently adopted a [joint declaration](#) supporting the creation of an EU Recovery Fund financed through a substantial increase in the EU budget and by allowing the European Commission to borrow on the markets (basically, by issuing Eurobonds). The resources of the fund would then be redistributed among the countries, as grants. This plan is firmly contrasted by a coalition of [“frugal” countries](#) (the Netherlands, Denmark, Sweden and Austria) who reject any EU budget increase and any support which is not in the form of loans.

At stake there is not only the ability of the Member States to effectively overcome the crisis but also, and equally crucial, a chance for a substantial deepening of European integration.

The European Commission seems to be fully aware of that. With its [Communication of the 27th of May on the European recovery](#), the Commission has taken a shy step in the direction of a tighter Union. The proposed recovery programme basically consists in increasing the EU's own resources (both through a higher EU budget and by issuing bonds) which would then be distributed cross-countries both as grants (€ 310 billion) and loans (€ 250 billion). The initiative is weaker than that put forward by Germany and France and will have the effect of expanding the public debts of

already highly indebted countries. However, there are innovative elements of fiscal integration. Negotiations will be tough and lengthy, and the outcome is difficult to predict.

A Crucial Crossroad

2020 can still be an interesting year for European policy making, with progress both on the front of the EU's social market economy and for the solidity of the European integration process. Much depends on the agreement that the Member States will reach on the European Recovery Programme and to what extent the crisis will revamp de-regulative trends.

Regarding European integration, it will be interesting to observe how the position of the “frugal four” will be integrated into the final version of the Recovery programme. Three aspects are particularly sensitive. One is the amount of additional resources that the Member States will devolve to the EU, in the framework of the Multiannual Financial Framework. The second salient aspect is whether and to what extent the Commission will be able to increment such budget by borrowing on the market on behalf of the EU. The third relevant element is how the EU resources (either obtained by direct transfer from the Member states or through the financial markets) will be redistributed to the Member States. More specifically, what will be the limit for each country to access the Recovery Fund, and what will be the exact ratio between grants and loans.

If the final version of the Recovery Programme will be substantially distant from what is proposed by the Commission, it would be a failed opportunity for a stronger and less intergovernmental Union.

The next months will also show whether the initial positive premises for a more balanced equilibrium between social and economic objective will survive the early stage of the crisis. Attention should be given especially to two elements.

The first is how the Commission will re-adjust the Social Agenda adopted last January. On the 3rd of June the Commission has launched the [second stage consultation with social partners on wages](#), where it stressed that promoting collective bargaining and ensuring a decent earning for all workers is essential, even more during the recovery phase. This seems a step in the right direction.

The second element to consider is the possible impact of the crisis on EU economic governance.

The Commission's proposals for the Country Specific Recommendations, adopted on the 20th of May, do not provide yet indications on how the current deviation from the EU fiscal rules and from the Stability and Growth Pact will constrain national policies. Indeed, taking into account the symmetric effect of Covid-19 on the Member States' economy, the Commission proposes not to assess (yet) the fiscal consequences of national governments' policies. However, it is clear that fiscal sustainability remains a medium- and long-term priority, and that more stringent forms of monitoring of Member States' finances will be adopted from the Autumn. Moreover, Commission vice-president Dombrovskis has recently stated that there will be a clear link between the implementation of the Country Specific Recommendations and the access to the Recovery Programme's support.

There are encouraging elements, but only the next steps will determine whether EU policymakers will be able to effectively take advantage of the momentum for more (fiscal) integration and for boosting the social dimension of the EU.

The Regulating for Globalization Blog is closely following the impact of COVID-19 on the labour, trade and European law communities, both practically and substantively. We wish our global readers continued health and success during this difficult time. All relevant coverage can be found [here](#).

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