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Taking the challenge: A joint European policy response to the corona crisis to strengthen the public sector and restart a more sustainable and social Europe

Jo Ritzen, Javi Lopez, André Knottnerus, Salvador Perez Moreno, George Papandreou and Klaus F. Zimmermann

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Maastricht Economic and social Research institute on Innovation and Technology (UNU-MERIT)
email: info@merit.unu.edu | website: <http://www.merit.unu.edu>

Boschstraat 24, 6211 AX Maastricht, The Netherlands
Tel: (31) (43) 388 44 00

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Taking the Challenge: A Joint European Policy Response to the Corona Crisis to Strengthen the Public Sector and Restart a More Sustainable and Social Europe

Jo Ritzen, Professor UNU-MERIT, Maastricht University, Javi Lopez, Member European Parliament, André Knottnerus, former President Scientific Council for Government Policy, the Netherlands and Professor Maastricht University, Salvador Perez Moreno, Professor University of Malaga, George Papandreou, Member of Parliament, Greece and Former Prime Minister, Greece, and Klaus F. Zimmermann, Professor University of Bonn and UNU-MERIT, Maastricht University

20 April 2020

Towards the end of 2020 the economies of many EU countries will be in serious disarray due to the corona crisis. In the attempt to regain employment and production, EU member state governments will be tempted to fall back into the 'old normal' – over the thorny alternative of employing a policy of 'creative destruction'. Here we argue in favour of a more visionary strategy to achieve sustainability and to further a social Europe with a stronger public sector. A strong Europe is the solution and not the problem for the future of the continent. EU cooperation implies joint Euro area monetary funding (ECB) and joint Euro area borrowing (ESM or otherwise), but only conditional on strong commitments for sustainable development, an improvement of the public sector, joint taxation as well as for sound fiscal behaviour.

Keywords: Corona crisis, Europe, employment, economic development, environmental sustainability, social Europe, education, health, ECB, sovereign long-term interest rates, conditionalities, taxation.

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R30, I25, F30, G15, H25, H87

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1. Where we are now

Although not comparable to the Black Death in the 14th century or the 1918 flu pandemic ("Spanish Flu"¹), the Corona-virus (COVID-19) pandemic has become a major challenge to mankind. After some delay, most European governments reacted with largely uncoordinated national policies all relying on social distancing mostly with substantial lockdowns of the economies and social life including the closure of borders and the termination of cross-border human mobility. The lockdown measures will cause a tremendous recession, much stronger than the global (2007-8) financial crisis with substantial long-term negative consequences for government debt and the flexibility of government activities. The burden for the next generations has therefore substantially increased above the huge challenges already present through climate change, demographic imbalances, global refugee pressures and digitalisation.

The state is back in a dominant role for society and economy, while the end of Schengen and of free labour mobility seem possible (if not even likely). Autocratic measures in many countries, in particular Poland and Hungary, may lead to a decline of democracy. After the Eurocrisis, Brexit and the impossibility to develop a common refugee policy, Europe has been largely absent in the initial response to the Corona-crisis leaving the message: *the European Union is superfluous*. This is a dangerous development since it is strong European collaboration (within the best possible global cooperation) that is essential to deal with the challenges and to ensure a healthy and prosperous social and economic development of Europe.

This paper is concerned with the long-run European strategy requested by this situation. We suggest to use the challenge *to foster structural reforms to invest in the future to strengthen education, digital and transportation infrastructure, the healthcare industry, and to handle the challenges of climate change, demography, open labour markets and refugees*.

2. Where we are by the end of 2020.

The Corona- crisis is very likely to keep us busy in a crisis-rapid response-mode for at least half (and possibly for a full) year to be followed by a gradual restarting of an economy in shambles. OECD estimates of April 7th, 2020 show that the lockdown will directly affect sectors amounting to up to one third of GDP in the major economies. For each month of containment, there will be a loss of 2 percentage points in annual GDP growth. The tourism sector alone faces an output decrease as high as 70%. Many economies will fall into recession. In all economies, the majority of this impact comes from the hit to output in retail and wholesale trade, and in professional and real estate services. There are notable cross-country differences in some sectors, with closures of transport manufacturing relatively important in some countries, while the decline in tourist and leisure activities is relatively important in others. The impact effect of business closures could result in reductions of 15% or more in the level of output throughout the advanced economies and major emerging-market economies. In the median economy, output would decline by 25%. Variations in the impact effect across economies reflect differences in the composition of output. Many countries in which tourism is relatively important could potentially be affected more severely by shutdowns and limitations on travel. At the other extreme,

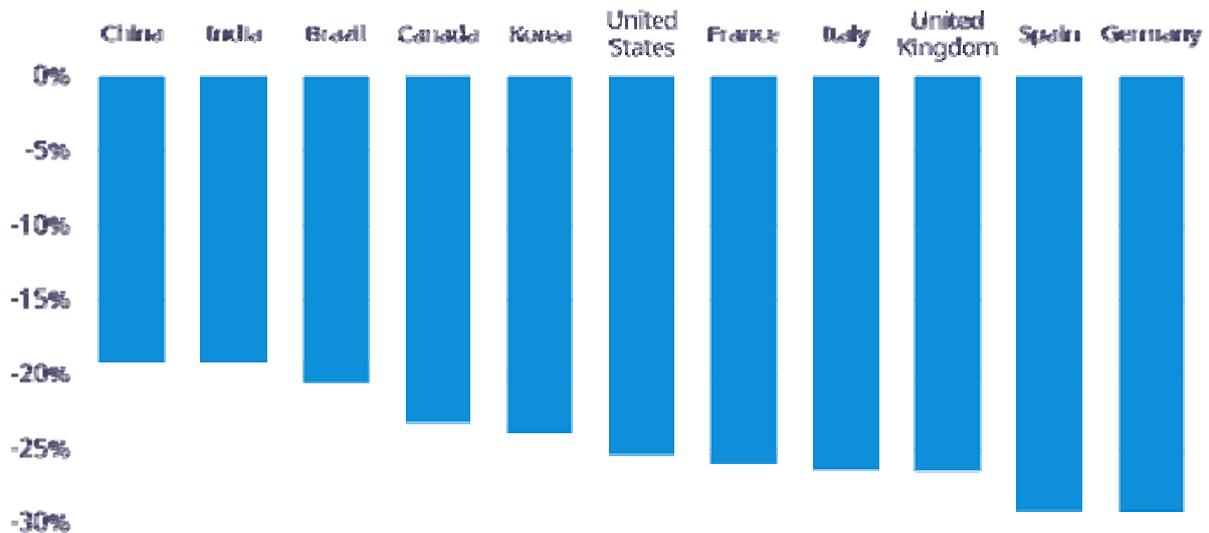
¹ Originating from Kansas (USA), but -in a time of press controls- first mentioned in Spanish newspapers.

countries with relatively sizeable agricultural and mining sectors, including oil production, may experience smaller initial effects from containment measures, although output will be subsequently hit by reduced global commodity demand.

Figure 1 gives an impression of the effect of the lockdown on selected countries²:

The initial impact of containment measures will be felt worldwide

Selected countries, in % of GDP at constant prices



Source: OECD Annual National Accounts; OECD Trade in Value-Added database; Statistics Korea; Brazilian Institute of Geography and Statistics; and OECD calculations

Unemployment will be substantial, depending on the EU country³. It might be in some countries in the order of magnitude of some 25%, with possible defaults of some 25% of the small and medium scale firms and with some major international firms also sunk into a default. Tax income will drop.

Governments will have to borrow on a large scale, giving rise to an international credit crunch and rising interest rates. The interest costs and back payments on loans will force considerable pressure the Government budget. Without a long term strategy, social security networks will be under pressure, as is public funding for health (sic!) and for education.

We have seen this before. The developments of today are in the same order of magnitude or larger (says the IMF) than after the Lehman Brothers crisis (2008, made in the US), the Greek sovereign crisis

² From:

http://www.oecd.org/coronavirus/en/?utm_source=Adestra&utm_medium=email&utm_content=Coronoavirus%20Hub%3A%20Policy%20Responses&utm_campaign=What%27s%20New%20-%2006%20April%202020&utm_term=demo#policy-responses

³ Matteo Lucchese and Mario Pianta (2020) give an emerging picture for Italy in: The Coming Corona-virus Crisis: What Can We Learn? Intereconomics, 55, (2), pp. 98–104.

(2010) or outside Europe, the South East Asia crisis (2000). The IMF speaks of the worst economic since the great depression of 1930⁴.

In those days, the bazooka's of monetary policy with (as in South Korea) or without (as in most of Europe) the IMF have then been effective in the restarting the economy. National policies by opening the flood gates of budgetary deficits were helpful (when Government debt was not already too high to allow for reasonable interest rates).

At the same time it appears that crises in the recent past have given rise to increasing income inequality and rising insecurity of large parts of the population often turning towards introversion and authoritarian populist policies⁵, while continuing the damage to the sustainability of life on the planet for its population.

Hence the question for policy analysts and advisers: how to imbed monetary and financial policy into a sustainability and social cohesion framework when emerging from the crisis? At the same time: what is the power of European cooperation to emerge faster and better from the crisis? Or in general: how to restart without the negative consequence of previous crises? We restrict ourselves to the EU countries.

Can we learn from the previous crises, in particular the financial and economic crisis in the EU from 2008 -2013? In those days policy was entirely fixed on bringing the EU back to the *old normal*: the way it had been before, in particular by strengthening the financial sector and the resilience of Government debt to shocks⁶ by putting Government borrowing (budget deficits) under a ceiling. For example, in countries like Greece the EU priority was given to reigning in the budget deficit while neglecting an array of underlying causes concerning productivity, competitiveness and good governance, as well as a delayed realisation of the underlying flaws in the architecture of the Eurozone. We should not make this mistake again of attempting to return to the 'old normal. More so as the depth and breadth of this crisis is profound.

The present crisis is also entirely different: it is the breakdown or serious reduction of demand in all sectors related to mobility in particular tourism, passenger air-traffic or related to gatherings of people, like events of all kinds, visits to bars and restaurants, while the costs of medical treatment are soaring. It is this time not a serious defect in the economic or financial framework, or in Government financial policies, but an external scourge⁷. This makes it all the more likely that –without a second thought- the economic and financial measures taken will be to reproduce as much as possible the state of before the before the Corona crisis. This would result in wasting the opportunity this crisis has produced to make more meaningful changes for the future of our societies and Europe as a whole.

The present European debate is how common action on the European platform should unfold, in addition to the measures of the ECB. The ECB reacted to the development of in the wake of the Corona

⁴ <https://blogs.imf.org/2020/04/14/the-great-lockdown-worst-economic-downturn-since-the-great-depression/>

⁵ See: Ritzén, Jo and Klaus F. Zimmermann, 2017, chapter 3, A Second Chance for Europe, Springer (also in German and Spanish).

⁶ See: Ritzén (op.cit.)

⁷ One might say that is the result of globalisation, creating food chains evoking zoonosis-related risks,

pandemic and decided on an extensive package of measures: it would temporarily carry out additional longer-term refinancing operations to provide direct liquidity support to banks and to ensure conditions in the money markets. On 16 March 2020, the Governing Council adopted an additional program to purchase of assets in order to risks to the monetary policy transmission mechanism and the economic outlook of the euro area⁸. Under the Pandemic Emergency Purchase Program (PEPP), the ECB will exchange assets with up to EUR 750 billion. The purchases should be made at least to be carried out by the end of 2020 and can be used to assets acquired under existing purchase programs. Also the ECB expects to make -for the period from June 2020 to June 2021 more favourable conditions for all targeted longer-term refinancing operations (TLTRO III). By changing the terms of these transactions, the banks' lending to those most affected by the Corona pandemic is intended to support in particularly small and medium-sized enterprises. Yet the biggest step of the ECB is the net purchases of assets in the order of €120 billion by the end of this year as part of its purchase program of securities of the Corporate Sector Purchase Program (CSPP). This is bound to reduce the spread in interest rates.

Also other measures of the Euro area or the EU are going to help reduce the spread in interest rates, like loans from the European Emergency fund (set up to salvage the Euro's banking system) for budget support. After acrimonious discussions the Eurogroup finance minister concluded on 9th April to make EUR 400 billion available for health related costs due to the Corona-virus⁹. In discussion are still for all EU countries loans from the European Investment Bank for some 300 billion. It is important to note that for the whole EU that interest rates for all EU countries are likely to increase, also for Germany and other countries which now borrow money for close to zero%. This was the result of what was called "secular growth": insufficient investment opportunities with high savings rates. It is to be expected that worldwide there will be a surge in the demand for borrowing. A major question remains to what extent "expansionary monetary policy" (printing money) may under these circumstances will have an inflationary effect and how this might influence interest rates.

The present spread in interest rates in the EU is likely to remain, in line with the differences in Government-debt between countries.

Eurobonds have been debated in an acrimonious fashion: the South pleads that all measures should be taken, in order to avoid an increase in the interest spread between Euro countries. This has already happened for Italy with a substantial debt overhang. The North argues that in particular Italy, the country worst hit by the crisis, has given the middle finger to the EU when it came to keeping to the rules of Stability pact and now has to bear the consequences of its huge debt. However blaming and shaming in the middle of a crisis will divert our common efforts from the problem at hand, as it did during the previous crisis of 2010 in Europe. The result then was further contagion and prolongation of the crisis.

⁸ <https://www.consilium.europa.eu/es/search/?filetypes=PAGE&Keyword=>

⁹ <https://www.consilium.europa.eu/es/press/press-releases/2020/04/09/report-on-the-comprehensive-economic-policy-response-to-the-covid-19-pandemic/>

We would argue that the present crisis of such a magnitude that it requires a new pact, with emergency measures to restart the economy and restore healthcare, while at the same time laying down the groundwork for the post Corona EU economy, where temporary Corona EU bonds might be used to prevent an increase in the spreads¹⁰.

In the following we give some suggestions on how to restart the economies in the EU while honouring the need for structural change to bring about *more sustainability*, while responding better to the need for *full employment*, with commitments to *re-deploy the social Europe* with concomitant taxation and concomitant fiscal policies after the EU has been back in full economic swing.

Some of these actions could be viewed as to be applied by individual countries. However, most measures **require a joint EU action**. When actions by individual countries are concerned, the EU support can help in the political process to ease transitions.

3. Restarting with a vision for Europe

3.1. Sustainability: What about the climate goals now?

Sustainability was high on the agenda of the EU and the member countries in 2019. Economic and financial measures to counteract the fall in demand due to the Corona crisis *should not* change that. The Paris agreements have to be honoured. Speeding up towards sustainability is especially urgent and justified since, as we can expect more frequent severe global epidemics as global warming continues¹¹. The EU has announced legislation to ensure the implementation of its future-friendly resource policy. This needs to continue, even though the restart will be accompanied by an outcry to relax environmental standards. Yet the restart is an opportunity to speed up the much needed transition. This requires EU consistency and solidarity¹². Then *the monetary and fiscal stimulus needs to be directed to that end: no EU or ECB support without honouring the Paris agreements*.

We exemplify with some measures where there is consistency between restarting and sustainability:

- CO2 rights should be bought up on a massive scale by the EU centrally. These rights have been made amply available to firms in the pre-crisis period. Due to the Corona inflicted decrease in production the rights have been down to some 15 euro per ton CO2¹³. The ECB should now use part of its purchase program to buy them up on a massive scale, so that at the end the price

¹⁰ There is -empirically- truth to the political observation that nothing is as permanent as a temporary measure. This observation plays a substantial role in the resistance of some countries to temporary bonds.

¹¹ European Academies' Science Advisory Council. The imperative of climate action to protect human health in Europe. EASAC policy report 38, June 2019. ISBN: 978-3-8047-4011-2 . This report can be found at www.easac.eu

¹² This is in line with the plea of Frans Timmermans and Bertrand Piccard of April 17, 2020 in major European Newspapers.

<https://www.euractiv.com/section/energy-environment/opinion/which-world-do-we-want-after-covid-19/>

¹³ See: <https://markets.businessinsider.com/commodities/co2-european-emission-allowances>.

rises to \$400 per ton CO2 to cover the actual environmental damage to be compensated¹⁴, while the EU wide legislation on import duties according to CO2 emissions involved in production will be creating a level playing field.

- Companies wishing to receive public funding / subsidies should be obliged to address the EU Green Deal to demonstrate their commitment to use the funds for the transformation from a carbon-intensive and linear business model to a low carbon and circular business (e.g. car-manufacturers should mainly be supported in their development towards 0-emission vehicles instead of fossil based).
- A greenhouse tax on products which do not comply with environmental standards, as has been discussed for at least 10 years in the Council, should finally be implemented. These revenues could be used as own resources for the EU.
- A tax on kerosene should be levied in line with the tax on gas, with incoming air traffic taxed for their use of kerosene on the route towards the EU.
- A value added tax should be imposed on air tickets, with incoming air traffic charged in the same way.
- Europe still has a fractured infrastructure, in part because of the Cold War divide. East, Central and West, North and South mass transportation, digital and energy connection remains feeble. For a unified European market and polity, it is imperative to heavily invest and construct this infrastructure. Intra- European fast railroad transport should get a substantial investment fund so that by 2040 intra- European passenger air transport can be reduced to less than 10% (following the Chinese and Japanese model).
- Investing in renewable energy networks throughout the continent will ensure sustainability and greater self-reliance for Europe. And in particular investment in renewable solar energy can become an important buffer for the economies of the South whose tourist industry will be direly hit by the pandemic.

Many more measures are feasible. The greening of the European economy need be seen as part and parcel of the Economic recovery Program, creating new jobs and demanding new skills. *Conditionality in financial and fiscal support programs is essential to speed up the implementation of sustainability policies which help to ease the impact of economic crises or shocks.*

3.2 Towards full employment, nevertheless

Time and again it has been noticed how important work is to the individual and to society, far beyond the income earned with that work¹⁵. The 2008 crisis has demonstrated the vulnerability of employment in EU societies to shocks. The lessons learned need to be part of the tremendous fiscal and monetary stimuli prepared. We better do not forget the benefits of structural reforms.

These were:

¹⁴ See: https://www.nature.com/articles/s41558-018-0282-y?utm_source=Nature_community&utm_medium=Social_media_advertisingCommunity_sites&utm_content=BenJoh-Nature-MultiJournal-Social_Sciences-Global&utm_campaign=MultipleJournals_USG_SOCIAL.

¹⁵ Happiness as a guide to labor market policy, 2019, IZA World of Labor.

- Vocational education needs to be upgraded.

The European crisis has shown how important apprenticeship training is in avoiding youth unemployment. Cahuc et al. (2013) showed that youth unemployment jumped after 2011 to high levels in France (as in the US) while it continued to decrease in Germany. The only explanation is the differences in the vocational education system: in Germany with a highly respected and well certified apprenticeship system and in France (as in the US) with school based vocational education. More-over, they make plausible that economic growth resumed faster in Germany than in any other EU country (and in line with the re-emergence of the US out of the crisis) because of the “hoarding function” of the German apprenticeship system. The EU included in its policy advice attached to the approval of national budgets generally a call to set up and expand the apprenticeship system of the country. There was also a European Youth employment plan supporting the introduction or expansion of apprenticeship training.

These developments are likely to help in ensuring that in the post-corona period youth and general unemployment are limited and not too far apart (as it was in 2011, when youth unemployment was, for example in Italy and Spain with 50% double that of general unemployment). Yet, we are not so sure what happened with vocational education programs in Europe when the urgency for reform had disappeared in 2016 and onwards, because of high economic growth.

Imbedding this as conditionality in support packages from the EU, but also in the ECB programs would speed up this transformation of vocational education.

- Retraining

Many jobs will be lost at least for a number of years or perhaps permanently. These are jobs in the air-passenger transport industry. For the coming two years an optimistic picture is that half of the staff of airlines will be unemployed. The same is true for the entertainment industry. Unemployment benefits may ease the transition to individuals. Yet, more importantly massive retraining should be set up towards new employment with the shortest possible transition. Indeed, new employment is available in the sectors where in the recent past deficits were encountered, like in education, health care and public administration, all with the extra signature of competency in ICT.

The need for retraining the labour force has been with us since the early 1970 with an obvious need for Government intervention. Firms will solely retrain if they see the short run pay-off. Individuals will perhaps recognise the need for training but are uninformed about the directions and quality of the training. They also may not have the ability to pay for the investments involved (except for the top 20% of workers). Government intervention would be first and foremost in creating an accredited competency enlarging system of retraining towards the types of jobs which have been identified as increasing and/or emerging (see for example, <https://futurism.com/images/age-automation-welcome-next-great-revolution> or <https://www.oecd.org/employment/future-of-work/>).

Conditionality in financial and fiscal support programs is essential to speed up the implementation of employment policies which help to ease the effects of economic crises or shocks. Every EU country can

do this primarily on its own. However, the EU support can help and stimulate national politics to make transitions easier.

3.3. Strengthening and preserving an open European labour market

Free labour mobility within Europe is a cornerstone of future growth and well-being. To reap the benefits for Europe and full employment of workers, we need to return to Schengen and to intensify within EU labour mobility to remain stable against asymmetric shocks and bring scarce labour to where it is needed. To remain competitive at the global level, Europe needs further a selective common labour immigration policy to attract talent.

3.4. Creating a social Europe

The EU as a whole and individual EU countries have greatly benefited from the policies which allowed for greater competitiveness and higher growth, along the two different axis: a higher level of innovation (by increasing R&D and making the transition from new knowledge to the market faster) and by reducing the costs of production, by lowering labour and capital costs. The latter has forced EU Governments to cut down on expenditures in the domain of public services (education, health) and social transfers, so that taxes could be reduced, the most prominent being the tax on the proceeds of capital for international industry. In three different domains the public sector needs to be boosted in post Corona times.

-Education

Pre-Corona education suffered from a shortage of well qualified teachers. International comparable scores of reading comprehension show that Europe wide the percentage of 15 -16 year olds who cannot understand a simple text on a recipe or a manual is increasing and creeping above 25%. This should be a wake-up call as we have the evidence that this is related to the quality of our teaching staff¹⁶. Use the restart to raise relative teacher salaries, bring teacher education in the university realm, and provide ample room for certified retraining of teachers, to help bring about the “teaching for the 4th industrial revolution”¹⁷.

-Health

The public sector has suffered in the past decades in the struggle for international competitiveness. The health sector is a case in point. The heroes of today were an underpaid group of yesterday. Let those days be bygone. In addition, the disastrous way in which the corona crisis has affected people's health healthcare's capacities and infrastructure internationally, has made clear that important efforts and investments should be made, not only to repair but also to be better prepared for similar events in the future. These efforts and investments should imply, for example: more effective prevention and anticipation of emerging zoonoses and strengthening related research; public health interventions to reduce the prevalence of risk factors such as obesity and cardiovascular and chronic respiratory illness;

¹⁶ The Value of Smarter Teachers International Evidence on Teacher Cognitive Skills and Student Performance, Eric A. Hanushek Marc Piopiunik Simon Wiederhold, 2019, THE JOURNAL OF HUMAN RESOURCES.

¹⁷ Doucet, Armand et al., 2018, Teaching in the fourth industrial revolution, Routledge.

policy interventions to reduce socio-economic health differences and the related inequalities in susceptibility to the impact of pandemic-like developments; and strengthening capacities and resilience of public health and health care services to ensure fast and effective responses to future corona-like events. The important role of schools in health education of families and communities must be part and parcel of these policies.

- Refugees

A European policy, based on solidarity has to make a contribution to the solution the global refugee challenge. This begins with ending conflict and war in the countries of origin, but also with a fair distribution of the burden of taking and integrating refugees in Europe. Integration into Europe also implies that refugees acquire skills and civic knowledge useful for both their host communities but also for the future re-construction of more free, open and equitable societies in countries from where they have originated. This is not only a humanitarian obligation, but also the only way to avoid an otherwise chaotic development generating a greater burden for the European Union.

-Social transfers

Leaving no one behind is a core principle of the 2030 Agenda for Sustainable Development that recognises that the dignity of the individual is fundamental. This should guide public administrations in delivering on all their functions and, in particular, in terms of social protection.

Social transfers systems must cover the needs of all age groups in a future oriented way. The provision of adequate social transfers was already challenged by demographic changes for an ageing population in the EU. This also points to the challenge of achieving the UN SDG goal of healthy longevity. It demands that we re-think the role of aged and their creative contribution to society. Nevertheless, as a consequence of the Corona-virus crisis, now the challenge is much bigger. In this context, it is crucial to develop strategies that help face the new social reality across European countries and secure the sustainability of social protection systems.

3.5. Institutional convergence

The size of Government has been under attack since the early nineteen eighties. This has perhaps initially led to a strengthening of Government effectiveness, but in recent years the quality of public institutions has been often neglected and suffered from insufficient capacity at the administrative level.

In this context, the increasing institutional differences across European countries undermine the smooth functioning of the EMU.¹⁸ The countries with lower-quality and weaker governance institutions become more vulnerable to adverse shocks, and are more easily captured by lobbies and special interests which divert crucial resources from serving the public good, thus making the Euro area as a whole more susceptible to present and future shocks. Furthermore, in the long term institutional differences may

¹⁸ Pérez-Moreno, Bárcena-Martín and Ritzen (2020): Institutional quality in the Euro area countries: any evidence of convergence? *Journal of Contemporary European Studies*, forthcoming.

provide divergence in terms of per capita income across the Euro area countries, consolidating the existing differences in the standard of living between the core and periphery countries.

The UNSDG's highlight the importance of sound institutions for the resilience and the long-term prosperity of the EU and the need to address institutional convergence as a previous step to contribute to real convergence.¹⁹ Since the implementation of the Euro, the European authorities have systematically promoted ambitious structural reforms. These were typically associated with regulatory policies aimed at strengthening market-based incentives in domestic product and labour markets. However, there has not been a clear EMU or EU harmonisation policy dedicated to such national institutions. Reforms enhancing national institutional quality such as accountability, transparency and e-governance, in countries with lower quality institutions should be promoted through a combination of European and national actions. To begin with, improving the public sector could be part of the new conditionalities –bearing in mind at all times the lessons learned from 2008-2013 crisis– for the application of the monetary and financial bazooka.

3.6. Taxation

The restart should be accompanied by a rise in taxation across Europe, if only to allow for the interest payments and the return payments on the loans as for the strengthening of the public sector. The Corona crisis has made it abundantly clear that a modern welfare state cannot survive by markets alone. Too much of our environment is publicly shared, like health, like education, like good governance, like the environment. This needs to be funded.

The obvious sources are European wide taxes on multinationals. Stolper and Samuelson, early on, explained how increased international trade with capital-intensive goods and labour-intensive goods, between labour-abundant and capital-abundant countries, would reduce the relative wage in the capital-abundant country, hence increasing the income gaps between capital and labour²⁰. The relative decrease in the earnings of labour versus the relative increase in capital earnings of the last decades can be seen in this perspective. The share of income going to capital nearing almost 50% in OECD countries is historically one of the highest, and leads to income inequalities between the wealthy and wage earners which have already undermined social cohesion.

Taxation of wealth should also be among the European alternatives for raising taxes (as argued by Piketty)²¹. In fact, Piketty argues for a worldwide wealth tax. A European one might be possible. National ones are bound to fail because of tax migration. One of the major sources of taxation should be to combat tax havens which deplete substantial resources from governments. Governments must then

¹⁹ See e.g. European Central Bank (2015). Real convergence in the Euro area: evidence, theory and policy implications, ECB Economic Bulletin 5/2015; European Central Bank (2016): Increasing resilience and long-term growth: the importance of sound institutions and structures for Euro area countries and EMU, ECB Economic Bulletin, 5/2016; Beyaert, García-Solanes and Lopez-Gomez (2019). Do institutions of the euro area converge? Economic Systems, 43(3), 1-18; Schönfelder and Wagner (2019): Institutional convergence in Europe. Economics: The Open-Access, Open Assessment E-Journal, 13(3), 1-23.

²⁰ Stolper, W. F.; Samuelson, Paul A. (November 1941). "Protection and real wages". *The Review of Economic Studies*. 9 (1): 58–73. doi:10.2307/2967638. JSTOR 2967638.

²¹ Capital et idéologie (Seuil, 2019)

place the tax burden primarily on the middle class, increasing inequity within our societies. While this was a Council Conclusion in 2010 it remains to be implemented in an effective way. Another possibility is the transaction tax on capital flows (which the European Parliament had debated during the financial crisis). All these thoughts are not new. Former EU Commissioner Moscovici has prepared extensive plans for a revision of the EU tax system²². Also the recent French Recovery Plan has several detailed proposals to work in the direction as indicated above. It should be part of the way forward with a long term vision.

4. Europe in the world

Europe continues to be an exceptional example of cooperation between different nations, cultures and peoples. A project of the 20th Century which has brought peace, democracy and well-being to millions on this continent. If it is to survive it needs both new internal policies (as described) but also a stronger role in today's global community. Our planet today is becoming more fractured, contentious, nationalistic with consistent attacks on multilateralism and multilateral institutions, such as the WHO or the WTO. Europe need step up to the mantle, sustaining and promoting its common values, while playing a new role in strengthening global cooperation. This cooperation is needed if we are to deal with new challenges and crises, such as pandemics, refugees and the climate crisis. Close cooperation with Africa and the African Union will be of crucial importance to both our continents.

Global conflict or animosity has spurred a new arms build-up, from conventional to nuclear. The possibility that new technologies, such as AI, automation, cyber warfare, biological warfare may merge with other arms of mass destruction, could be disastrous for humanity. Europe needs to demand transparency and cooperation on these fronts.

Our traditional relations both with the Atlantic community but also with emerging leaders such as China, India, and other Asian countries need be strengthened but also placed within a framework of strengthening the global institutions such as the UN as well as regional such as the African Union, ASEAN, MERCOSUR, etc.

It is no time for introversion in this interconnected world. The recent pandemic is proof enough to all of humanity that we are one and together we can and must deal with these crises.

²² A list with the main files on tax proposals that were initiated in the last mandate is:

- Common Consolidated Corporate Tax Base (CCCTB)
 - VAT definitive system reform (a package)
 - Interest and Royalties directive (notably on a minimum rate for income from interests and royalties)
 - Digital Tax (Digital Services Tax (DST) and Significant Digital Presence (SDP))
- (Not for all EU but only the 9 countries from enhanced cooperation):
- Financial Transactions Tax (FTT)

5. Restarting with increased European cooperation

The most important learning from the EU economic crisis of 2008-2014 has been the Banking Union. The Banking sector had become led by the adagio: profits are private while we can bring losses under the public umbrella. The Banking Union has turned this around. This has led to such a strong banking sector in Europe that banks are now part of the solution. Also Government debt and Government deficits were restructured (with the exception of Italy), so that some resilience for shocks is built into Government finance. The old economy was by and large restored.

The present crisis asks for an approach to restart with a vision based on European cooperation. Nothing is more seductive to cooperation than greasing it financially.

European cooperation is essential for sustainability, raising taxation for international firms cannot be achieved without European cooperation, strengthening the soft belly that education, health and government effectiveness form for a competitive market, is eased by European cooperation.

Hence a no-brainer: imbed the European support measures into conditionalities reflecting a long term vision. Many private firms are again holding up their hands for support after massive profits in the past. Here the same should apply as was introduced for the banking sector: private losses are for the private sector as were the profits of the past. Government and EU support should be for restructuring with a long run vision.

6. Political support for more Europe

The mood of the European citizens after the 2008 crisis was nudging towards more Euroscepticism²³. The present crisis is no different with border closures and reproaches across boundaries on ineffective anti-Corona policies and the observed lack of solidarity.

In this respect is the situation in the EU not so different from the year 2011/2012 when Greece could be saved from bankruptcy only after an endless squabble with promises to citizens in richer EU countries that they would not have to pay. There was no EU leadership, with political parties fighting for space, with "we first" arguments.

This is why "we [appear to] learn: The world is being rebuilt after Corona. And probably back as a house of cards," (Steingardt's morning letter, March 25th).

Yet there is a chance. Corona is not the fault of insufficient responsibility on any-one's part. No-one is to blame. This has led to greater support for Government action in the individual EU countries than any time before in peace time, without forced silencing of the opposition.

Smart political leadership could see this as a chance. When there is no visibility of political parties in the positioning on the short run, there is a chance to be visible with long run policies. Political leaders throughout Europe should start to reflect on **joint** positions towards the future and engage voters in

²³ Ritzen and Zimmermann (2017), (op cit.) Chapter 2

that debate. Everything should be aimed at ensuring that governments and parliaments can and will work together to effectively address the major challenges we face today, both nationally and internationally. Achieving this objective is so urgent that it must outweigh the electoral short-term interests of individual political parties.

Corona is now the invisible threat to health for each and every-one of us. Let it be a call for a second chance for a common European future in harmony.

Maastricht, April 20, 2020

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