

# The EU's new coronavirus relief deal is a gift to Europe's enemies

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Ignore the headlines about €500bn to rescue Europe. Refusing to share debt across the eurozone threatens the union's future

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**E**urope suffered a historic defeat on Thursday night. After weeks of impasse, the Eurogroup gathering of finance ministers, whose countries share the euro, reached a decision on their collective response to the coronavirus pandemic's economic impact. Besides constituting an epic dereliction of duty, the Eurogroup's decision dealt a decisive blow to the foundations of the European Union - much to the delight of Europe's critics and enemies.

Most of continental Europe using the euro is in lockdown. The economic shockwaves caused by a lockdown do not care what currency we use. Just as in the United Kingdom, the United States or Japan, the precipitous falls in private incomes must be counterbalanced by substantial increases in public expenditure. If governments fail in this, the sum of private and public expenditure (which equals aggregate income) will crash even faster, bankruptcies will burgeon and government tax revenues will collapse further in the medium term.

The challenge facing the 19 countries of the eurozone is unique. The massive boost in public debt that is now so necessary is hampered by the quaint arrangement of sharing a central bank that, on the one hand, has no common treasury to lean against and, on the other, is banned from backing directly the 19 treasuries that must borrow in euros to fight the crisis. The euro crisis that began in 2010 stretched this monetary architecture to its limits. The coronavirus recession is now pushing it beyond them.

With the countries worst hit by Covid-19, such as Italy, being the most indebted and thus the least able to shoulder the necessary new debt, an impossible conundrum emerges: the new debt needed to revive the private sector will push the state into default, so destroying the banks whose capital is mostly government debt and, in short order, the rest of the private sector. The only way out of this trap is for the new debt not to fall on the weak shoulders of the most indebted eurozone countries but to be shared across the eurozone. Except that this debt-sharing is banned by the treaties that created the eurozone, at the insistence of the northern European countries running a trade surplus with the rest.

It is in the shadow of this riddle that the Eurogroup met on Thursday night. To counter the oncoming tsunami of bankruptcies, they had to emulate the British, American and Japanese stimuli programmes by channelling approximately 8% of total eurozone income (€1tn) into fresh public expenditure, while also setting aside another such sum for an investment fund to power up the post-Covid-19 recovery. And they had to find a way to avoid circumventing the ban on debt-sharing without which an additional €2tn public expenditure would crush members such as Italy, Spain and Greece thus reviving the spectre of disintegration.

On Thursday night, impasse gave way to an agreement. While you may be reading headlines of an impressive sum of €500bn to rescue Europe, the truth is far less heroic. In fact, the price of reaching the agreement was impotence. Instead of the 16% of total eurozone income (€2tn) stimulus needed, the eurozone will throw a derisory 0.22% (€27.7bn) at the crisis. To make the numbers sound better, and reach the magical €500bn figure, they will extend credit lines to countries such as Italy, via Europe's bailout fund (the European stability mechanism, or ESM), to the tune of 2% of a recipient country's national income. And they will allow for more loans, of about €100bn, to the social security systems of countries whose unemployment benefit bill spikes more than others - on condition that the monies will be returned when unemployment subsides.

Before the Eurogroup met, hope was in the air that Europe would, at last, change its rules to save its greatest creation: the European Union. Unlike in 2015, when I was alone in the Eurogroup in demanding a common instrument for restructuring public debt, in the past few weeks the governments of eight southern states, plus France, demanded a rethink on debt-sharing without which the eurozone will remain an iron cage of austerity for most and a source of economic stagnation for everyone. Belatedly, but correctly, they demanded a so-called “eurobond”: a common debt instrument that allows total long-term debt to shrink by transferring a portion of it from member states, which have a lot of debt, to the eurozone, which has none.

This debate is now dead in the water, killed off by the Eurogroup’s decision to rely almost entirely on new debts falling squarely on the member states’ weakened shoulders. The only concession to the nine governments suggesting debt-sharing was that the new ESM loans will have no strings attached to them. This is, alas, a red herring as the conditions will come later, once the eurozone’s fiscal rules bite again.

The message today to Italians, Spaniards and Greeks is: your government can borrow large amounts from Europe’s bailout fund. No conditions. You will also receive help to pay for unemployment benefits from countries where employment holds up better. But, within a year or two, as your economies are recovering, huge new austerity measures will be demanded to bring your government’s finances back into line, including the repayment of the monies spent on your unemployment benefits. This is equivalent to helping the fallen get up but striking them over the head as they begin to rise.

The EU is, of course, a lot more than a monetary area. It is a peace project, a realm of shared culture, a source of identity and an opportunity to stem toxic nationalism. Nonetheless, if its economic foundation buckles, powerful centrifugal forces already in play are ready to tear the union apart. Thursday’s Eurogroup verdict, besides being macroeconomically insignificant, was politically irresponsible and a fantastic boon for Eurosceptics in Europe, the UK and indeed in the White House.

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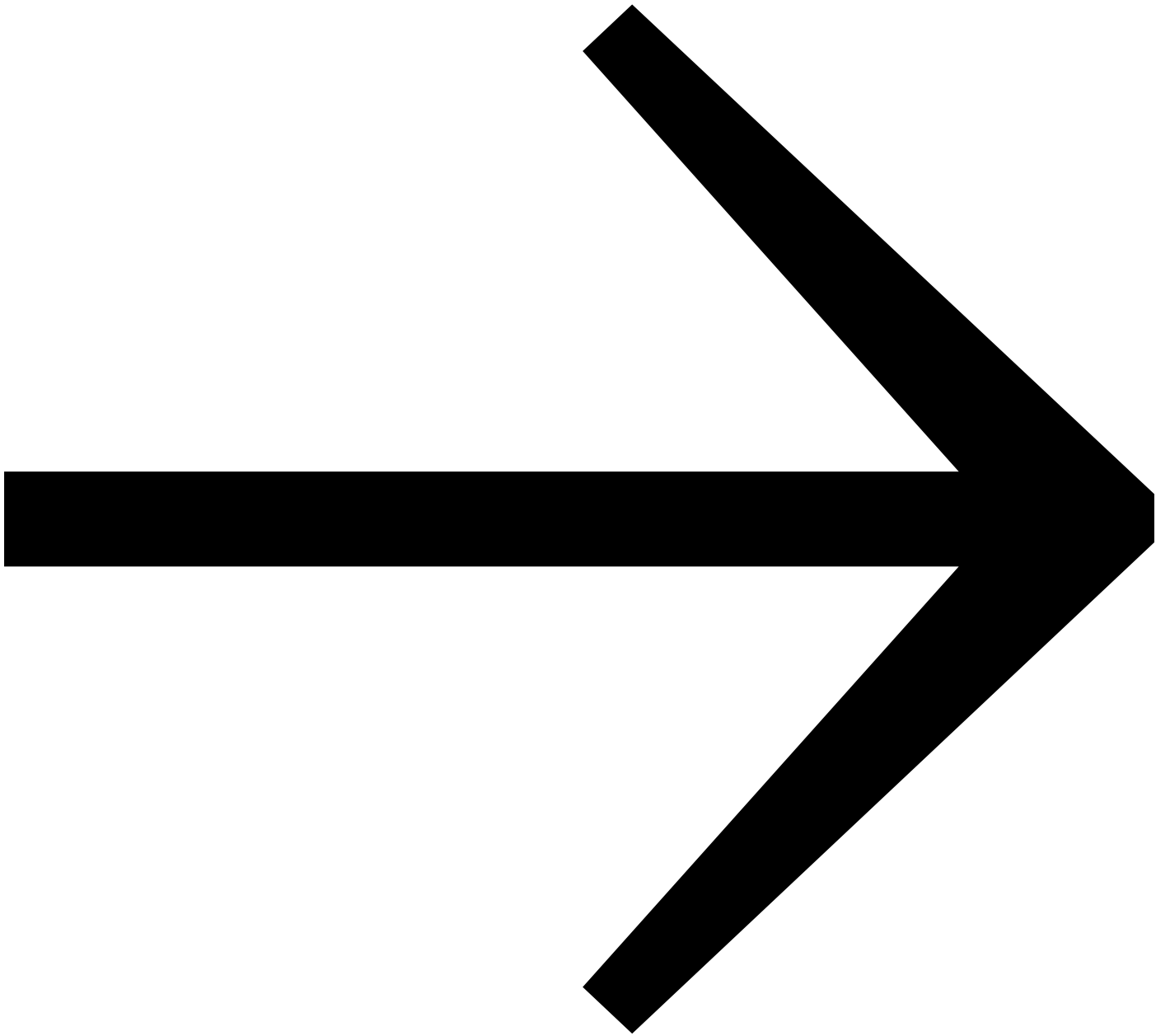
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