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# The specificities of the Covid-19 crisis and how to respond

**When the Covid-19 pandemic exploded, there was a temptation to refer to the Global Financial Crisis (GFC). But these two cataclysms may have little to do with each other.**

The differences are huge.

This crisis originates from a biological virus and not from toxic subprime mortgages. It is a health crisis and not a financial market one.

This crisis spreads at a high speed and Members States or EU institutions have been reacting much faster than in 2007-2008.

This crisis is a systemic one, with no place for a debate on moral hazard.

This crisis is deadly, it hits people first and its impact on the real economy is of a complete different magnitude, even though a big open question is its duration.

One way to fight this virus and its spreading is to enhance the surveillance of citizens' mobility. Advocates of full transparency of financial transactions should in democracy ask themselves more questions about the full tracking of individuals. Monitoring financial transactions and jeopardizing the freedom of movement of people are not the same.

But somehow, we observe the same mistakes and lack of solidarity.

Sub-primes were viewed as a US disorder against which EU fundamentals and automatic stabilizers were supposed to resist. This time, Covid-19, like Ebola or SARS, would not hit Europe; even when it arrived in Italy, there was some kind of condescending blindness.

Like a reflex, the same group of Member States shot again first rejecting any strong EU solidarity and fiscal stimulus. On the front line a country, known for opposing reforms to rebuild a EU and Members States capacity through a fair corporate taxation regime, notably for platforms.

There is hardly any health coordination at the EU level even if this is mainly an area of national competence and that there have been few cross-border transfers of severely sick patients. But the trading of drugs and medical equipment remains a jungle with no internal market.

We would be much better off today if we had drawn all the lessons of the GFC and the legacy of the latter was a better-equipped EU to face crisis.

This is true when it comes to have a revision of the Stability Pact to support long term investment, to establish a euro area budget to absorb symmetric shocks, even though up to now this crisis has no euro area specifying impact, to integrate the European stability mechanism (ESM) into the EU legal framework, to set up an unemployment

benefit scheme acting as an automatic stabilizer or to issue Eurobonds.

But, fortunately, one should also recognize that we have learned some lessons from the GFC. Some Members States have quickly put in place partial unemployment schemes, deferrals of tax and loan guarantees. Banks have much thicker liquidity buffers.

Mistakes vis-à-vis Italy were corrected, at least in the wording and after some hesitations, EU institutions reacted much more rapidly, the ECB with its 750 billion euro Pandemic Emergency Purchase Program (PEPP), the Commission with the suspension of the Stability Pact, decisions regarding state aids, structural funds, and the launch of SURE (Support to mitigate Unemployment Risks in an Emergency). While writing this paper, let's hope that Members States will demonstrate the same wisdom to commit to real fiscal solidarity.

What should we worry about for tomorrow? President Trump could for once be right! "We cannot let the cure be worse than the problem itself".

In the short term, we need to have at our disposal a complete range of tools to tackle the different dimensions of the crisis, knowing that there is a dilemma: the more we are careful about people's health and smoothening the curb of hospitalized persons, the more we damage the economic situation.

For the future, to respond to the challenge of EU sovereignty and common goods, many EU policies will need to be reshaped; this is true for competition and industrial policies, trade, economy and taxation, notably of digital economy, but also for foreign affairs and development, having in mind the geopolitical implications of such a global pandemic.

No doubt that after this crisis the debt issue will be once more on the table, even though there are still two unknowns, the crisis duration and the debt level. This should only be evaluated at the end of the period as a one-off debt without making the same mistake made with the Greek debt.

Nevertheless, and on top of that, the question of fiscal tools and how to finance public services and public goods will have to be reopened.

The greatest risk would be to rush to restart the economy at any price, ignoring the still-valid urgency to lead the ecological transition. In the aftermath of this crisis, we will have no choice but to rebuild our economy around priorities for people, health and environment. This time, the main answers will not come from financial markets. One should make sure that they remain sustainable and contribute to collective preferences. ●