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Covid-19 pandemic and economy

The crisis triggered by the pandemic and the economic policy of the European Union

- Features -

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This chapter will address the pandemic crisis at the level of political economy and, in particular, the fundamental decisions that the European Union is adopting, whose measures will take precise form once its particular institutional procedure is completed. [1]

The pandemic: trigger of a latent crisis.

The Covid-19 pandemic has overwhelmed our species due to its impact on public health, but even more because of the depth of the economic depression it has unleashed, causing a social and employment disaster which plunges us into uncertainty. This crisis, deepened by the pandemic, occurs in a context where we could already see symptoms of exhaustion of the brief and fragile capitalist economic cycle, which came out of the crisis of 2008 in the wrong way (Toussaint, E. 2020), increasing the size of its problems (low profitability, exhaustion of productivity growth, high indebtedness - first private, then public, useless investment, high unemployment with an unstable and disciplinary employment model, a fossil-based production model, thinned down or semi-privatized public systems and so on).

All in all, the pandemic is giving this crisis its own shape, not only due to the establishment of measures for the partial hibernation of the economy, but also due to the disorder and interruption of supply chains on an international scale and of the capitalist value chain. In fact, the difficulties of reviving the economy will be severe in a context where capital does not expect profitability in most economic sectors, except in those sectors (technology, pharmaceuticals, online and home distribution, real estate reforms, certain food sectors) favoured due to the circumstances imposed by the health crisis.

Rate of Profit of capital (G-20)

https://www.internationalviewpoint.org/IMG/jpg/alb_graph_1.jpg

Source: Michael Roberts (2020b)

The most realistic forecasts clearly contradict the idea that there will be a "V"-shaped macroeconomic impact. Its shape will in fact be similar to the Nike logo, with a deep drop and slow exit (Lucia and AlbarracÃ-n, 2020a).

We are facing one of those events that modify the structure, both by breaking the existing fragile economic balances and by the new doctrines applied that, without questioning the established order, will develop what we have called state neoliberalism.

It is here where the public sector appears as a decisive institution, adopting a leading and novel role, not so much because of the inauguration of a new relationship with the private sector, but because of its proportion. Faced with what is necessary, that the public sector meets the health, social and employment needs of the population, and the urgencies of ecological transition in the energy and production model, promoting public investment aligned with these objectives, public financing will be used, through debt and regressive taxation, so that the private sector can batten off cheap or semi-guaranteed loans, direct aid and public contracting under formulas of public-private cooperation, putting public resources at the service of private profit.

The pandemic has deepened the pre-existing crisis, and the measures employed to face it may lead to an intensified concentration of capital, driving the opaque and oligopolist "big technologies" and geopolitically locking up economies in the face of trade war. In turn, it can tie down workers by forcing them to accept working conditions that would increase the rate of exploitation, in a context of high unemployment, extension of telework without guaranteeing regulation, and maintaining employment reforms or incorporating harmful measures regarding unemployment benefits (Austrian backpack) and pensions (delaying the effective date of retirement). [2] All of these are preconditions for the recovery of the rate of profit of capital, the objective of the ruling classes.

These questions are on the table. Only an organized response from the workers' movement –with the necessary collaboration of social movements and audacious transformative political forces- will be able to curb the interests of a privileged minority. Only with a superior political perspective, based on the organization of civil society, can a type of society and economy be set in motion that responds to the needs of society, health and the planet.

Shielding the political architecture of the EU

The design of the European Union, despite the propaganda and its founding myths, is not conceived to protect its citizens in general, let alone its working classes. Its cornerstones are the defence of the freedom of movement of capital and goods and, when and as appropriate, the mobility of people within its borders, to achieve more profitability and competitiveness for its companies. The aspects of cohesion it may contain do not counteracting this priority.

These principles, aligned with the development of a capitalist economy, practically unreformable after the Maastricht Treaty and the Treaty on the Functioning of the European Union, have taken shape under an institutional formula consolidated under an intergovernmental system, where European policies and institutions reflect only what is decided by its member states. In practice, these decisions are led by the big countries in the Eurogroup, a body which is outside the law and completely undemocratic. Relevant initiatives require unanimity or a qualified majority vote for changes to be established, which often leads to limited blocking coalitions (usually Central European, ordoliberal, and Scandinavian states with a neoliberal orientation that try to reverse their social democratic tradition, or, reactionary in orientation, the Eastern countries of the Visegrad Club). Its formal institutional decision-making process begins with proposals from the European Commission although the last word is for the European Council. The European Parliament can only correct minor aspects, playing a role of political legitimation within a very limited framework.

With this decision-making model, the EU shields a functioning that ensures that its economic orientation continues on automatic pilot in the event of lack of agreement and new developments. If there are blockages, the operation will continue. When it promotes initiatives and reforms, something which is quite frequent, it will do so leaving its principles practically intact, since they must always be respected.

In turn, the EU has equipped itself with an economic architecture consisting of:

- The European Central Bank (ECB), supposedly "independent" (at the service of the private financial system and large corporations);
- A European budget, of diminishing and ridiculous size, restricted by the Multiannual Financial Framework (MFF) for periods of 7 years, which is incapable of stimulating investment and achieving real cohesion and convergence mechanisms;
- The Stability and Growth Pact (SGP), the associated fiscal pacts and the "European Semester" Semestre Europeo" that fix the obsession with controlling the deficit and public spending, as well as preventing progressive fiscal reforms, in order to devolve public debts. [3]
- All this under the seal of the single currency that leads to a divergence, for which no substantive compensatory or correction mechanisms have been established, between central countries and, on the other hand, the southern and eastern blocs, turning the latter into a periphery dependent on the former and deepening the policy of internal devaluation (adjustment of wages, social and employment rights and public services) as a competitive way to adapt

economies. [4]

The ECB is operating as the EU's main instrument of economic policy in this crisis, continuing and deepening the monetary policy known as quantitative easing (QE). This consists of formidable credit facilities, at negative real interest rates (and zero nominal rate) to which only the private financial system has access, and the large-scale purchase of private corporate bonds. For this period, in addition to massive money creation for the purchase of assets and credit facilities, it is worth highlighting the possibility of buying public debt in secondary markets, something that will help lower the financial costs of the public sector, but above all will be a source of private business for the banks and those that transact in great volume with public bonds in the financial markets. Private banks, which will take loans at a negative real rate from the ECB, will be able to do business as they are the only actors that can finance the public sector in the forthcoming issuance of European and state debt, which is expected to be of unprecedented proportions.

Christine Lagarde, as head of the ECB (AlbarracÃ-n and LucÃ-a, 2020b) has launched a bazooka of up to 750,000 million euros more, in addition to the programs inaugurated in the previous crisis - a bigger source of financing than the EU Next Generation Fund –the acclaimed European Recovery Fund- as it involves a total of 1.4 trillion euros, without the conditionality required of governments. This policy aims to stimulate credit for investment, with the aim of alleviating the consequences of the recession. However, as we have seen in the last 10 years, no matter how much the ECB injects money into the economy, if profitability expectations are low, this money will feed circuits of hoarding or speculation and, especially, will cover big companies that suffer from poor financial liabilities. [5] Although this policy relieves interest rates on public debt, in practice it promotes a formidable bailout of large private corporations, and an unprecedented concentration of capital, because this financing will only reach the transnational networks of companies. It is a specific ultra-expansive monetary policy, which is not post-Keynesian in character, since its clear vocation is to rescue and finance the private sector, nor is it comparable to the policy of the Bank of England, which has sovereignty over sterling, so as not to go so far in monetizing debt. This makes it possible to combine a financial rescue for companies, especially in Central Europe, with financial facilities for the periphery to support exports from the central countries, sustaining, for a time, the purchasing power of the target markets. Something that must have been on the minds of Merkel and Macron when changing their minds about the European Recovery Fund. It should be noted that the countries of the South, in the absence of their own public banks worthy of the name, will be more dependent on this financing, both in terms of their enterprises and their states. The lackey vision of the governments of the South, aligned with France and Germany, which have ruled out forming an alternative coalition with their own proposal, is striking, showing once again their weakness and lack of project.

The European Budget, mainly based on national contributions according to the economic size of the country, is relatively small, even more so after the departure of the United Kingdom. Budgets are framed, with inflexible ceilings, by the Multiannual Financial Framework (MFF). The next MFF will be endowed with only 1,074.3 billion euros for the period 2021-2027, in the absence of ratification by the Parliament, a figure lower than the expected 1,134.58 billion, which was the proposal of the European Commission in February 2020, barely representing 1.11% of European Gross National Income (GNI) and below the last MFF for 2014-2020 which amounted to 1.16% of the European GNI. [6] In the version of the Council, the most restrictive of the European institutions, the budget would not exceed 1.074 per cent of the EU's GDP, including cuts in healthcare investment, research and ecological transition. Presumably it will be slightly higher, although only in a token fashion, in its final version, after negotiations with the European Parliament. This represents a cut, in absolute terms, greater than expected, on an MFF that already included a 12 per cent reduction in the Cohesion Fund and a 14 per cent reduction in the Common Agricultural Policy. [7]

The third pillar of European economic architecture has been the Stability and Growth Pact (SGP). This requires policies to limit the public deficit to 3 per cent of GDP and the public debt to 60 per cent of GDP, policies always much stricter with peripheral countries than with central countries, which habitually default more frequently - something that is not often said. Take into account that the average public debt in the is 80.7 per cent of GDP. [8] The SGP has been suspended until, perhaps, 2023. An unprecedented event, a sign of the severity of the crisis, although its spirit will continue to be applied through the instrument of the European Semester, which supervises the macroeconomic policy of member states in fiscal, budgetary and macroeconomic areas. It goes without saying that this temporary suspension, once it is exhausted, with parameters already triggered in the deficit and debt chapter, after a collapse in growth and tax collection, will result in cuts and adjustments in public services, as well as in social and employment rights, and a probable increase in indirect taxes, which are most harmful to the classes that spend the most proportion of their income on consumption. Something with which the Bank of Spain would strongly agree.

The culmination of this economic architecture was the circulation of the single currency, which represents a system of irrevocable fixed exchange rates that benefits the exports of the Central European powers, making their currency cheaper, and which represents an extra cost for the countries with a balance of payments deficit. This is fundamentally the condition of the European peripheries which, in addition, carry out their subaltern activities in the European value chain, dominated by Germany and France, with lower productivity. The single currency, in the absence of progressive fiscal harmonization, a solid and redistributive common economic policy, and a real convergence policy that contributes to a common policy of solidarity and to counteract the economic cycle, causes a permanent divergence that increases the gap between economies, transnational capital and national and social classes.

The response of European policies to COVID-19

The EU has proposed at least four instruments, some a mere extension of some pre-existing ones, to address the crisis triggered by the pandemic.
 It is important to note that the dizzying figures advanced by the European institutions are maximum estimates of financial potential after assuming a multiplier effect of what are in reality lower capital injections. We must bear in mind that for a direct investment, a subsidy of costs or loans, the policy of providing guarantees for bond issue in the financial markets, access conditions or the destination of admissible use are not the same. The so-called financial instruments (providing capital to back a bond issue) usually provide a higher financial multiplier, hence the spectacular figures, although this rarely materializes in practice as advertised. It presupposes a game involving banks, speculators and companies, which operate with money backed by public resources, leaving commissions, bad loan payments, and unrealized preferred public investments along the way. In addition, their consequences and beneficiaries are not the same, because the loans carry indebtedness and normally benefit private corporations that can access them, promoting profitable market solutions. Meanwhile, subsidies and direct public investments tend to be oriented towards policies that are not necessarily subject to private business, except when they are mobilized through public-private cooperation formulas.

Thus, in the face of the pandemic, the European Union initially established financial aid of up to 540 billion (Lucia and AlbarracÃ-n, 2020b), whose degree of use depends on what the member states ultimately request, as follows:
 ? Programs through the European Investment Bank (EIB). The states will contribute a fund of an additional 25,000 million for this program. With the issue of bonds in the markets, guaranteed by this public capita, there could be a multiplier effect of up to 200,000 million in the form of loans guaranteed for companies on a European scale.

? SURE program. 100 billion will be allocated to cover wage costs derived from the stoppage of economic activity. This could serve to cover the ERTE temporary redundancy plan in the Spanish case under the financing of the EU unemployment aid program, backed by public guarantees from the states up to 25 per cent, created without the intention of being a European unemployment reinsurance system.

? European Stability Mechanism (ESM), with 240 billion euros (AlbarracÃ-n, D. 2020) of total loan potential, and a maximum of 2 per cent of GDP for each country. These are loans subject to conditionality through a memorandum of understanding and control by the Troika, demanding respect for fiscal and spending discipline. The experience of Greece in 2015 is the best known. All states will be able to have access, as long as they agree to spend the money on issues related to health care. We anticipate that this resource will be used once the others are exhausted, as it is the one that entails the most commitments.

Next, last July, in the absence of ratification and concretization in the European Parliament and the European Council, the Eurogroup reached an agreement to mobilize a European Recovery Fund, called Next Generation EU, which, for the first time, will use the European budget to issue European public debt, for a financial potential of 750,000 million euros. So what has been created is a financial macro-instrument backed by the European budget, which is a novelty compared to the old intergovernmental system channelled by the EIB.

Of this, 390,000 million euros will be in the form of transfers, which is equivalent to just 0.7 per cent of the economic production of the EU in three years (Kucharz, T. 2020). The rest would be in the form of loans. These will be used less, or later, given that the ECB's monetary policy will facilitate cheap financing in financial markets.

Economic packages under the EU Next Generation Fund will be organized into programs. [9] They will be the following:
• The Recovery and Resilience Facility (RRF), will be the main one with a total of 672.5 billion euros, of which 360 billion are loans and 312.5 billion euros transfers. It would finance programs defined by governments that pass the approval of the rest of the Member states.
• ReactEU: 47.5 billion euros. It will support initiatives whose profile is barely defined and that could give rise to formulas of green capitalism, which could benefit energy and related companies, and the digital economy. economÃ-a digital. [10]
• Horizon Europe: 5 billion euros. Research and science initiatives.
• InvestEU: 5.6 billion euros. To promote investment, especially private, in the EU. Experience shows it finances investment that would be made anyway, concentrating on the most profitable economies.
• Rural development: 7.5 billion euros
• Just Transition Fund (JTF): 10,000 million euros. It will promote public and private investments conceived in the European Green Deal, according to the parameters of green capitalism criticized by Daniel Tanuro (2012).
• RescEU: 1,900 million euros. This is a civil protection mechanism that will also try to make up for the lack of medical equipment, through production, purchasing and centralised storage.

In sum, the priority ends of social utility, in health and ecological matters, barely have 11.9 billion euros reserved for the entire EU, under a format susceptible to business for private initiative to a large extent.

The definition of new specific resources, taxes to finance the European budget, is yet to be decided. There is talk of a plastic tax, of permits to pollute, of carbon emission rights to importing companies, which the European Council says could, in total, raise 31,000 million euros annually. But that they will neither raise enough nor solve the climate problem by themselves and represent regressive taxes. The financial transaction tax, the Google tax or a certain harmonized section of corporate tax, would be more interesting, although insufficient and far from progressive taxation or harmonized tax cooperation (AlbarracÃ-n, Merlo and Lucia, 2020).

The Next Generation EU Fund will allow governments to propose their financial program liable to be financed. The Troika will not be there, but its spirit will penetrate the whole initiative. Not only will the European institutions have to validate it, but it will also have an emergency brake that any member state can activate if it considers that another country is breaking the principles of the agreement, a combination of the private reactivation of the economy and the ability to repay the debts. The spirit of the Troika will not be embodied by the ECB, IMF or the European Commission directly, but will sit in each government cabinet, self-censoring, or will come a posteriori through the potential veto of one of the unsupportive governments, such as the Netherlands. or Austria, jealous to ensure that the principles of austerity are observed in public policies.

If this were not enough, the non-compliance with human rights of the countries of the Visegrad Club, such as Hungary or Poland, will be ignored, while the discounts for Central European countries, which already existed like the well-known and now defunct British check, will continue, so that they do not have to contribute as much as they should to the European budget. Up to 1,124 million euros per year will stop being contributed by the "frugal" countries, to dissuade them from accepting this Fund. This has happened with the Netherlands (whose compensatory discount increases from 1,576 to 1,921 million annually), Denmark (from 197 to 377), Austria (from 237 to 565) and Sweden (from 798 to 1,609). Germany remains as it was (3.671 million euros per year).

In total, we estimate a maximum financing of these measures of 1.29 trillion euros that, added to the loan and purchase policy of the ECB, would represent a potential total of 1.94 trillion euros, which rounded could be 13.9 Per cent of European GDP, if we consider that these stimuli will be so for about six years, and that surely not even half will be taken advantage off. For comparison, in the year-on-year variation of the second quarter of 2020, the EU's GDP fell by 14.4 per cent compared to the same period of the previous year. The recovery of the economy will be slow. In other words, European public policy is very far from being able to cope, in size or content, with this crisis, or those to come.

European funds as manna for state policy?

The Spanish state will have access to 140,000 million euros, for six years, of which 72,700 million will be transfers (Hernández-Ranera, 2020), which will be the figure that matters most. A significant figure, but at an enormous distance from what is necessary, even more so when the entire economic policy of the government will shoot the public debt to at least 115.6 per cent in 2021, an increase of twenty points in just a year. Meanwhile it has entrusted its coverage to European funds, renouncing its own policy based on a progressive tax reform - the wealth tax or a big increase in the effective rate of corporate tax is ruled out - without promoting a robust public investment policy in health, education or change of energy model, leaving little significant improvements, and discarding the review of public debt commitments, for example, or article 135 of the constitution.

Given that national policies are waiting for European funds to support their initiatives, and no ambitious fiscal policy is foreseen, it cannot be expected that the public sector can rise to the height of the economic, energy or climate crisis. And neither will it do so in relation to this crisis caused by the pandemic. We fear that the result of all this will be a combination of public debt, future cuts in public services, wage adjustments, unemployment and perhaps new indirect tax packages. In the field of health policies, it is foreseeable that the policy of public-private cooperation will be deepened, that is, of financing the provision of private services with public money, widely extended by governments such as Madrid, Galicia, and increasingly that of Andalusia. And, in these circumstances, employment and social rights will come to the fore.

Nor will the scarce resources available be used for a big public investment policy for social and health care, and for the energy transition or change in the production model. The social shield measures proposed, even when they are a differentiating element of the Spanish government, are not sufficient, not arriving as said, do not solve the underlying problems, and will raise the debt of the next period. And today's debts will be the cuts and the commodification of the common, the precariousness of employment rights, the intensification of work and the social inequality of tomorrow.

As long as there is no forceful action against the privileges of the capitalist minority and the policies that serve them, with regulations, expropriations and democratization of entire sectors, the trend will run in their favour, in a context where unemployment rates skyrocket and the negotiating power of the workers' movement weakens.

The economic crisis, deepened by the pandemic, has generated a very serious context of socialization of losses, employment costs and private debts that have ended up backed by the public purse. The interruption of the Stability Pact is temporary. Once the health crisis passes, the exceptional period is over and the Stability and Growth Pact becomes applicable again, the Troika or an equivalent policy will return.

In the absence of a sufficient solidarity fund, for example, a broad joint and redistributive supranational sovereign fund, to promote a public investment policy focused on the socio-sanitary area and a change in the productive model, the crisis will be strong and lasting, and the increase in public debt relentless.

Once again, the working classes cannot continue to trust those who are gripped by narrow horizons, fear, mistrust in the popular classes and the poverty of their ideas and who do not organize civil society for the challenges it faces in terms of transformation. Workers must burst onto the scene, organizing themselves, having confidence in themselves as a class, drawing lessons and putting in place a proposal for a democratic policy that involves taking and directing the public sphere and common goods in a solidarity-based, sustainable, inclusive and alternative way the economic resources in the workplaces, the public sphere and common goods.

We are facing the greatest crisis that capitalism has ever faced in its operation. Faced with this situation, the design of the institutional, decision-making and economic architecture of the EU must be questioned. There is no other solution than to build an alliance at both the state and international level to carry out cooperative solutions favourable to the popular classes, public health and the biosphere, disobeying in each country the European Treaties that prevent them. These will have to be done outside the European institutions as they are defined, transcending them and building an institutionality that surpasses them, wherever possible, perhaps starting with the peripheral peoples in broad alliance with the organized and supportive working classes wherever they are.

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[1] This article is the chapter of a forthcoming book, translated by *International Viewpoint* and published with the permission of the author.

[2] Let us not forget that the EU as a market is crushed by the clamp of the trade war between the US and China, and the only way that seems to be attempted is to increase the rate of exploitation of labour, once other exhausted policies within capitalism have failed.

[3] "Between 2011 and 2018, it recommended 105 times that EU member states cut pensions and 50 times that they take action against wage increases. On 63 occasions, the Commission even called for the health care system to be cut back and privatized." (Kucharz, T. 2020)

[4] Curiously, the German courts take the opposite view, stating that German capital has higher real interest rates tan the peripheral countries, which have higher inflation. It should be noted that the German courts and the Bundesbank here reflect the interests of German capital operating in its national market, and not in the European one, and, needless to say, that this alleged damage, clearly minor, is outweighed by the advantages it brings to export-oriented German capital in Europe

[5] The private debt of companies is already equivalent to 110 per cent of GDP in the Eurozone (Husson, M. 2020).

[6] It should be taken into account that while GDP quantifies the total production carried out in an economic space, independent of the residence of the productive factor that generates it, GNI only includes the products or services obtained by productive factors resident in the country of measurement.

[7] Remember that the new budget provides funds for security and for European militarization: 23,000 million euros more for the closure of external borders and 20,000 million more for the arms industry. (Kucharz, T. 2020).

[8] Germany "will borrow 118,700 million more than what is allowed by the fiscal rule anchored in the German Constitution. Likewise, German debt will reach 77 per cent of GDP in 2020, clearly above the 60 per cent defined as a limit in the Stability Pact of the European Union." (Kucharz, T. 2020)

[9] European Council, 21 July 2020 Conclusions.

[10] The digital economy represents a disparate range of initiatives aligned with new technologies, automation, teleworking, robotization, and other formulas of the so-called Fourth Industrial Revolution which, incidentally, entails energy consumption that is impossible to assume to be generalised in the context of the energy crisis.