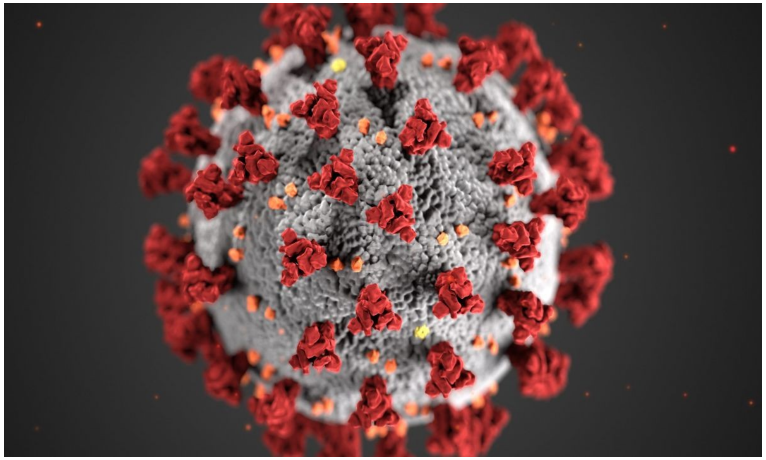
A few thoughts on a post-Covid19 European Union

Dr David Rees



Introduction

The Covid19 crisis is social, economic and political. It has created a shock to the system, as did the 2008 Sub-primes Crisis.

How will the EU institutions, national governments and European people react once the virus has run its course?

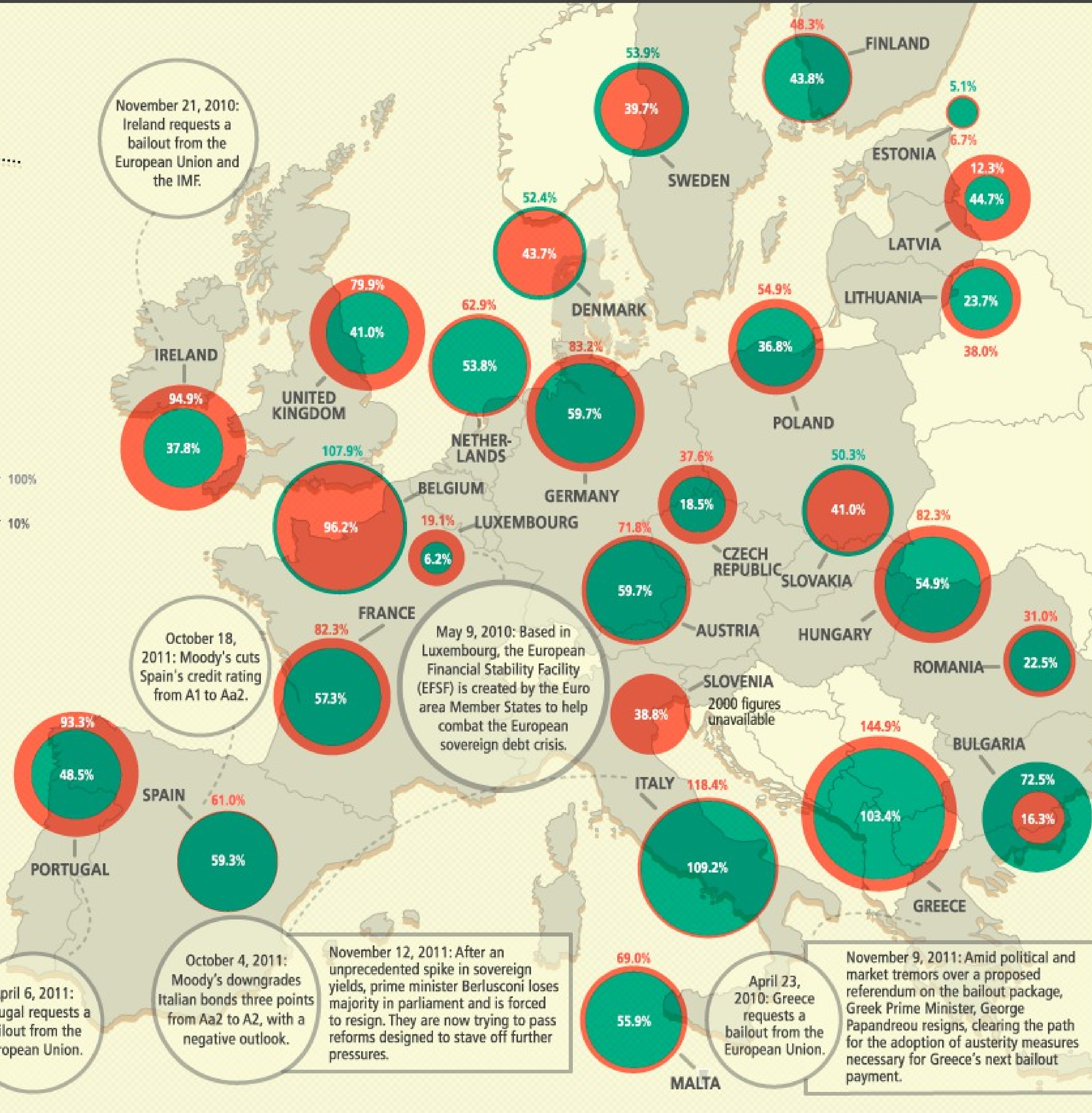
Will we see another Neo-Liberal reaction to the shock (See Naomi Klein. The Shock Doctrine) as we have seen with the post-subprimes crisis resulting in a European austerity programme, greater inequality, and a European predatory model as the rich countries benefit at the expense of the poorer countries? Who will pay the debt? Will the EU change direction to invest in society and a green economy?

THE DEBT QUAKE IN THE EUROZONE

KEY

Public Debt as a Percentage of GDP:

As the global economy continues to falter, all eyes are fixed on the European Union nations who have been rocked by credit downgrades, bailout discussions, and austerity measures. The recent events have even forced the resignation of the prime ministers of Greece and Italy. Here we examine how government debt as a percentage of GDP, an indicator of a nation's current economic fortitude, has changed from 2000 to 2010 for all 27 European Union countries, including the 17 within the Eurozone.



mint.com

Source: epp.eurostat.ec.europa.eu

Economic Consequences of Covid19

Examples of government debt before and after the 2008 sub-primes crisis (Stability Pact limit 60%)

	Public debt 2007	Public debt 2012	Public debt 2017	Public debt 2020 (estimated)
France	65%	96%	98%	115% *(Prime Minister)*
Germany	64%	81%	65%	80 *(Trading Economics)*
Greece	102%	160%	176%	183% *(Trading Economics)*

Debt as % of GDP. Source: Trading Economics

With growth falling from weak pre-Covid19 rates (France 0.8%, Germany 0.4%, Greece -0.7%), the current economic contraction will mean:

- ***Higher expenses in debt servicing***
- ***Higher expenses in Social Security***
- ***Higher unemployment***
- ***Lower tax revenues***

Pre-Covid 19 decline in Public Health Expenditure

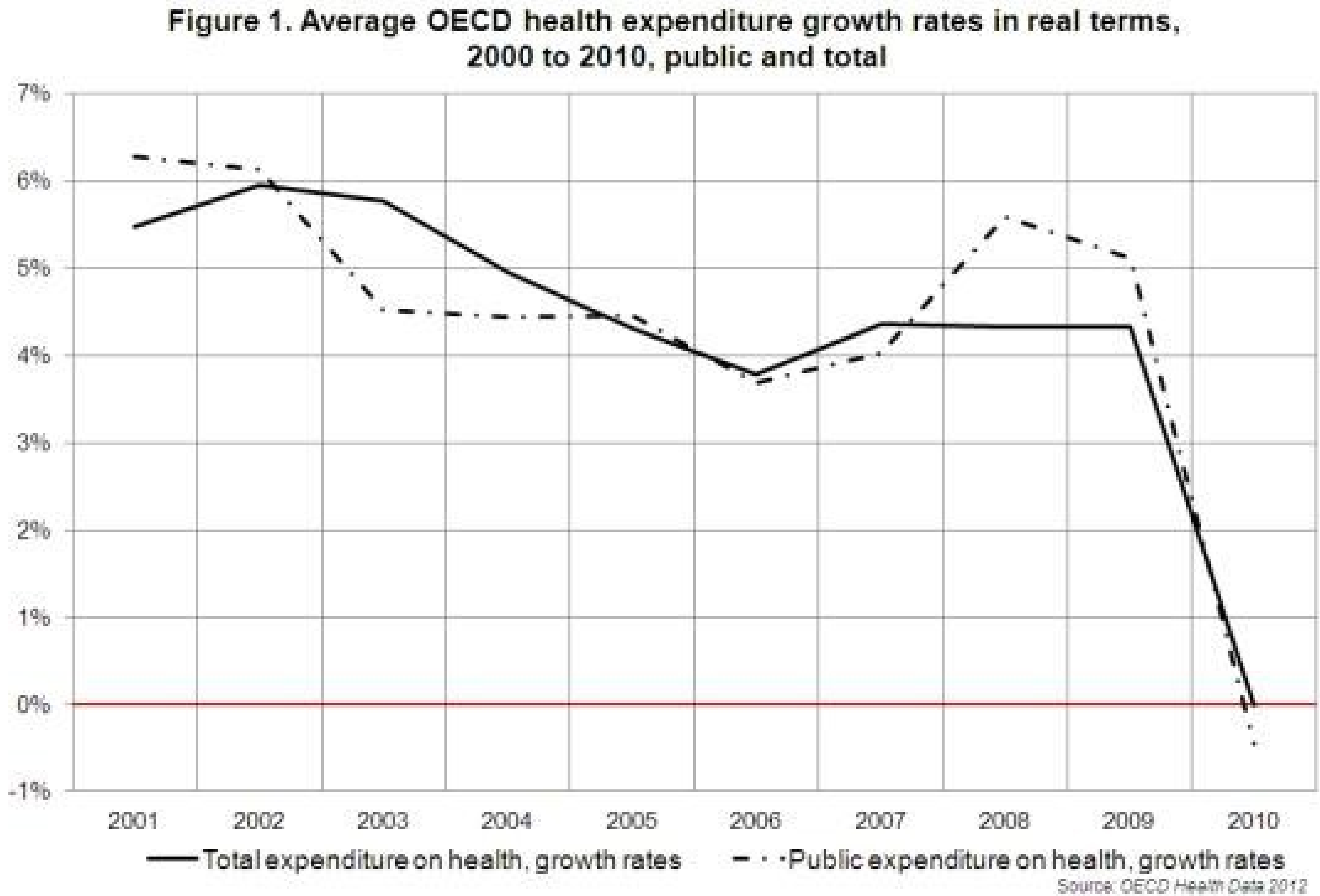
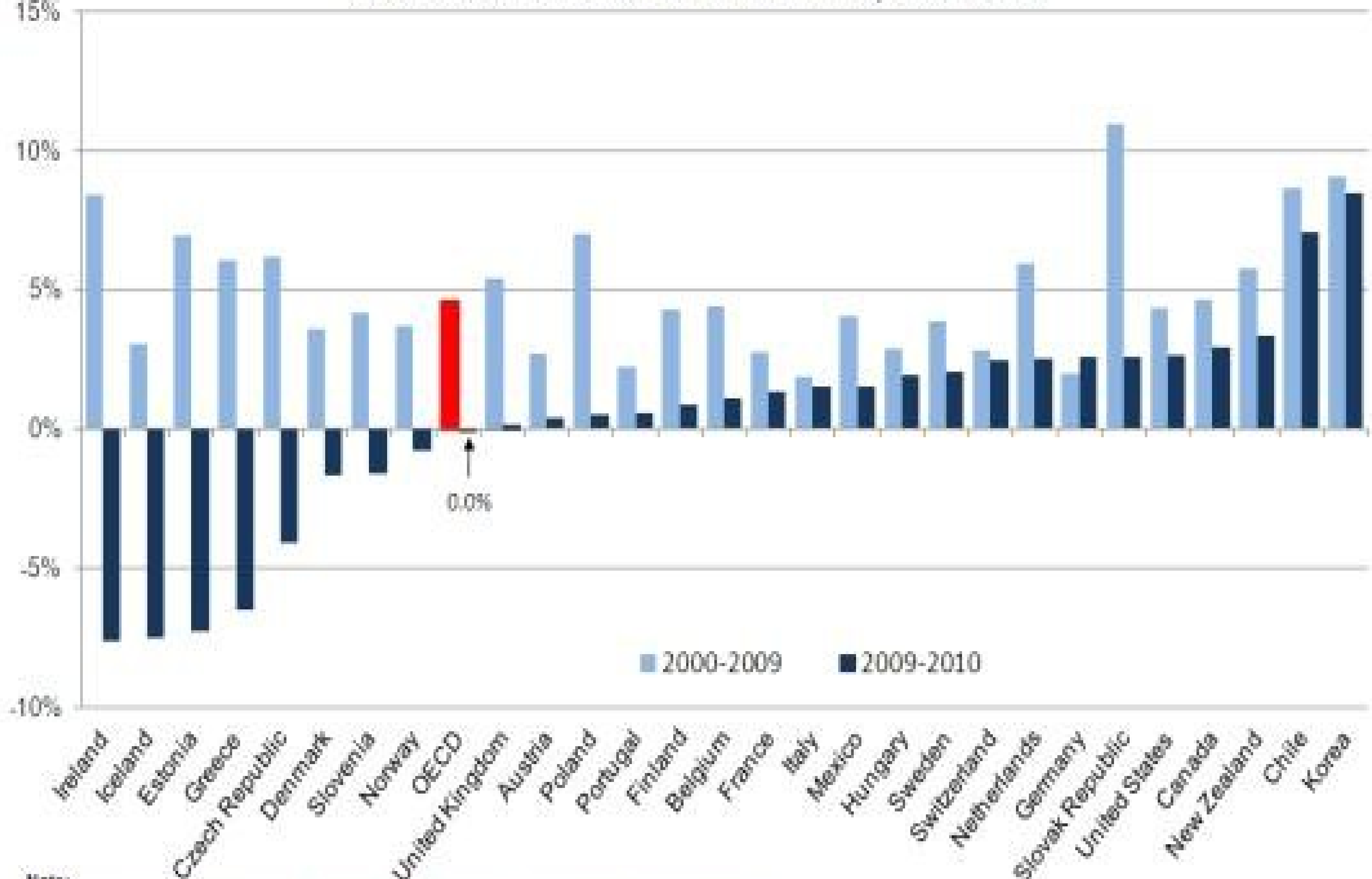


Figure 2. Average annual growth in health spending across OECD countries in real terms, 2000-2010



Note:
Growth rates for 2009/10 are not available for Australia, Japan, Luxembourg, Israel, Spain and Turkey.
Growth rates for Chile calculated using the Consumer Price Index (CPI).

Source: OECD *Health Data 2012*

Hospital beds available per 1,000 inhabitants

Data : OECD and World Bank

	1980	2018
France	11	6.0 21,000 Covid deaths
Germany	10.4 (1990)	8.0 5,300 Covid deaths
United Kingdom	6	2.5 18,000 Covid deaths
Italy	9.6	3.2 25,000 Covid deaths

Where to next?

This reminds me of the 1929 Wall Street Crash and the Great Depression. In 1932 the American people had a choice between a Hoover 'Austerity Plan', or Rooseveld's 'New Deal' . Fortunately, they chose the latter. After the 2008 Sub-primes crisis, many politicians called for a New Green Deal for Europe. We got a German-led austerity plan.

To quote from the European political party DiEM25:

"DiEM25’s prediction that Europe would either be democratised or disintegrate is more relevant than ever: that is why our reaction to the COVID-19 crisis has been to say clearly and unequivocally to Europe: Unify or Die."

Without wanting to over-politicise the issue, I have not found a better simple solution than that suggested by DiEM25's 3-plan:

- ***1. Issue €1 trillion ECB Eurobonds***
- ***2. Inject a €2,000 European Solidarity Cash Payment***
- ***3. Introduce a European Green Recovery and Investment Programme.***

If we allow the unelected, undemocratic and secretive Eurogroup to decide what happens, then the EU is probably going to fail, as once more the Covid19 Shock will lead to more austerity, greater inequality, and greater intra-Eurozone predation and debt control.

If only, like the Americans in 1932, the EU would allow us to choose our destiny!

- ***Dr David Rees. Video commentary available on Reesonomics.eu. European Economics / lesson 14***