Open letter to the European Council

Brussels, March 26th, 2020

Dear members of the European Council,

In a previous open letter of last week, we urged our Ministers of Finance to deliver a genuine and far-reaching common EU policy to respond to the new crisis. Two Eurogroup meetings later we can only deeply regret that our governments are once again repeating some of the mistakes made over the last ten years and reopening the divisions and wounds left by the previous crisis.

We find ourselves in exceptional circumstances. This European Council must take definitive action to support all citizens in the European Union. The pandemic will massively, and without exception, impact the economies of all countries. The forthcoming severe economic downturn will imply the closure of untold number of businesses, and the loss of millions of jobs in 2020. The time for European solidarity is now and no one should be left behind. The lack of a common and ambitious answer will put the European project once again at risk

As we pointed out in our previous letter, the already announced economic measures by the ECB, the Commission, the EIB, as well as by Member States represent necessary steps. However, we stressed that beyond these emergency measures, a longer perspective has to be endorsed as soon as possible.

Even if the ECB stands ready to purchase several euro area GDP points of sovereign debt during 2020 and even if the Commission and the ECOFIN implement the escape clauses of the Stability and Growth Pact (SGP), such measures are temporary in nature and cannot remedy by themselves the trouble that comes ahead. The old reflex of leaving Member States to deal by themselves with second round effects will remind us of the dire consequences of our incomplete Economic and Monetary Union.

At the crucial juncture in which we find ourselves, we can just call the EU heads of governments to take a deep breath and look towards the dramatics consequences that a lack of common and resolved action may entail.

From Tuesday's Eurogroup meeting we understand that there is broad support to consider a Pandemic crisis support safeguard based on an existing ESM precautionary instrument, such as the Enhanced Conditions Credit Line (ECCL). There seems however to be a disagreement on some of its key modalities such as of the conditionalities attached to such instrument. In our view, the ECCL should in no way be attached to austerity related conditions as such a punitive approach would be economically self-defeating and ethically deplorable. Moreover, such credit line should be made available to all euro area Member States on equal conditions to avoid any related stigma.

If such instrument is deployed without any related austerity measures and without stigma, it can only be a short-term measure that requires a longer-term complement as regards common debt instruments. One feasible and urgent measure is to mandate an EU Institution to issue long-term common euro area bonds. One possibility would be to use, and even to increase, the 410 billion EUR available as ESM firepower Such common bonds should aim at financing the future oriented investments that will be required to re-boost and reorient our economy once the first round effects are absorbed. Such a sharing of risks requires at the same time a bold step forward towards a common democratic governance of the Eurozone.

Equally, heads of state should give Green light for additional funding for the European Investment Bank (EIB). Guarantees from the EU budget and from member states as well as a capital increase for the EIB can enable our development bank to stabilize in particular SMEs of struggling member states.

As we pointed out in our previous letter, the economic challenge that represents the Coronavirus outbreak has also to be seen as an opportunity to undertake in the context of the EU Green deal an urgent reorientation of the EU economy as the current crisis reveals the fragility of a carbon-intensive system built on highly interconnected and specialised global supply chains. Such common debt instrument would provide ammunition for funding such needed reorientation and support the building of a capital markets union.

In the meantime, the Commission and the ECOFIN have to clarify that the SGP escape clause will be implemented for the time required to deal with first and second round effects of the current crisis and in any case beyond one year. There is also a strong need for a legal revision of the EU economic governance framework in order to provide for a genuinely counter-cyclical framework.

Finally, there is a need to put forward legislative and non-legislative measures at EU level to attach conditions to the unprecedented corporate bailout that is being implemented across the EU only ten years after governments committed to end bailouts. As taxpayers are once again asked to backstop the whole economy, they have to be the first in line when there is an upside. Different measures such as, inter alia, issuance of preferred shares with warrants, dividend restrictions, temporary bans of shares buybacks, conditions in terms of employment and real economy targets in exchange of such support, as well as meaningful conditionality attached to state aid and regulatory stimulus should be adopted without delay.

With kind regards,

Damien Carême, Karima Delli, Bas Eickhout, Sven Giegold, Claude Gruffat, Henrike Hahn, Stasys Jakeliūnas, Philippe Lamberts, Ville Niinistö, Mikuláš Peksa, Kira Peter-Hansen and Ernest Urtasun.

Greens/EFA members of the Economic and Monetary Affairs Committee in the European Parliament.