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Europe's greatest challenge

We are experiencing a global health crisis unprecedented in recent history. The immediate priority must be saving lives: procuring all the resources the health system needs and taking the necessary measures to slow down the spread of the pandemic. In turn, the health crisis and the lockdowns that we are using to fight it have resulted in a deep economic recession that must also be faced resolutely. We have the capacity to manage both crises and lay the foundations for an economic and social recovery.

It is important to keep in mind that we are facing a public health shock that should be temporary if the epidemic is controlled in the near future. The goal of economic policy must be precisely to prevent it from having lasting economic effects, something that would happen if companies go bankrupt, if jobs are permanently destroyed or if companies and families emerge from this situation weakened by a heavy debt burden.

The response must combine policies that satisfy the liquidity needs of companies and families, favor temporary adjustment mechanisms for employment levels, and transfer public resources to companies and families to mitigate income losses. All European governments have already announced different measures in line with these priorities.

There is no doubt that the great fiscal effort implied by all these measures will suppose a significant increase in public debt. Such measures are essential to contain the economic and social impact of the health crisis. In their absence, the recession will be deeper and more protracted and the resulting fiscal costs from it, even higher. Moreover, some of the deterioration in public accounts this year should be reversed automatically with the recovery of economic activity.

These extraordinary times demand a shared fiscal effort by all Eurozone countries. It is not just, or even mainly, a matter of solidarity towards those countries that may end up being most affected. It is the most consistent approach with the fact that we are all members of a single monetary area.

By creating the euro, member countries gave up their monetary sovereignty and thereby gave up the support they could receive from their national central banks as lenders of last resort in exceptional circumstances. Certainly, the European Central Bank has shown its willingness to intervene in public debt markets to avoid an excessive increase in risk premiums, but this is not comparable, for instance, to the unlimited support that the Federal Reserve is providing the United States Treasury.

The Eurozone needs a single fiscal authority that can counter a shock like the one we are experiencing, an authority with the ability to issue a safe asset and that counts on the central bank as a lender of last resort. Indeed, lacking a fiscal union weakens our capacity to respond. This is the right time to take an additional step to strengthen the European Monetary Union and create it. In this regard, the Recovery Fund to be discussed soon by the European Council provides a unique opportunity to consider different options to start moving in the right direction. The stakes are high: the credibility of the European project in the eyes of the world and, most importantly, of its own citizens. ●