

“This is the most significant display of public power we’ve seen in a long time”

Take-aways of the second #FlorenceLive conversation about a post-corona world

#FlorenceLive 2 on States vs. Markets, 25 May

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The STG webcast series continued with a discussion on how the Covid-19 crisis affects the balance between states and markets. The hour-long livestreamed debate featured Brigid Laffan (Director of the Robert Schuman Centre at the EUI), Jean Pisani-Ferry (Tommaso Padoa-Schioppa Chair at the EUI and Professor at Sciences Po in Paris and Hertie in Berlin) and Tito Boeri (Professor at Bocconi University and former president of the Italian Social Security Administration), was moderated by George Papaconstantinou (Professor at the STG and former Greek minister of Finance), and addressed the following questions:

- How is the balance between state and market changing with the Covid-19 crisis in the economy and in public attitudes and expectations?
- What will be the effects on people, work and welfare systems?
- What will be the effects on businesses and will there be a revival of industrial strategy, especially in the EU?

10 key take-aways:

Analysis

1. **Return of the state:** States, and the EU, have risen to the challenge of the pandemic, marshalling unprecedented economic and coercive power to stem the pandemic impact on people and businesses. Different pre-existing state capacities and economic positions have led to different outcomes however: the shock and its effects have turned asymmetric. Expertise in service of the state has been rehabilitated due to the necessary involvement of scientists, but fractiously (c.f. the early uncertainties on the usefulness of wearing masks), and thus likely temporarily. The line between evidence-based policy and technocracy is thin, and liable to be politicised.
2. **Too much state?** The swing back to public power is a rebalancing towards the state, as insurer of last resort against disaster, but it is far from clear whether this will benefit international cooperation and organisations; it definitely has not in the short term. There is a risk of falling back into a “dismal scenario” of exacerbated nationalism.

- 3. Updating work:** The crisis has exposed the vulnerability of sections of the labour market now shown to be essential, but also led to a reassessment of what is typically considered low-paid work. There is bound to be labour reallocation, but unevenly across sectors (travel, tourism, restaurants, retail receiving the biggest hit), and its scale is disputed: reallocation may be less severe than feared in the mid-term. “Smart” working and automation will receive further impulse, though these have limits and differentiated effects: working from home has at times increased the burden of labour on women instead of redistributing it. Serious discussion over a universal basic income is resurfacing.
- 4. Compare and contrast:** The EU and its member states’ measures have provided better protection than the US, and at a lesser cost. Within the EU, there is no evident north-south split regarding capacity to deal with the crisis: what matters is trust in a fair and agile state. Some Asian countries have done very well, but at the cost of drastic surveillance measures. Reliance on migrants for essential activities has been thrown into sharp relief as mobility has been curtailed. The intergenerational disparities of the virus and its effects are severe (and have yet to play out in full): older people are more vulnerable to it, whereas it represents a second big hit to younger people after the global financial crisis.
- 5. Integration in the time of coronavirus:** The ECB is *de facto* supporting states while respecting its mandate *de jure* according to the ECJ – but not according to the German Constitutional Court. It remains to be seen how this friction will play out. States have been given wide leeway to support businesses with the suspension of state aid and Stability and Growth Pact rules, but the question now is how to triage them to not waste public money and end up with “zombies”. It is in everyone’s interest to preserve a level playing field and the Single Market; agreeing on the modalities will likely be a battle, but it’s all part of the integration game.

Recommendations

- 1. From efficiency to resilience:** Until now, emphasis has been put on efficiency in most activities: for example, just-in-time logistics or cutting health service capacity that goes unused in normal times. The crisis has revealed a need and spurred a demand for resilience and autonomy. This however should not be a disguise for a retreat behind national borders.
- 2. Big spender I:** Now that contagion has been mostly contained, states can now focus on choosing where their interventions should be targeted. Strengthening health systems is an obvious priority, as well as coordinating them at the EU level. Production of essential healthcare goods could be internalised as a strategic industry, though this will be costly and spark a reorganisation in global value chains. The modalities and endpoint of such a move would however be difficult to predict.

3. **Big spender II:** Quasi-unconditional transfers to people and businesses need to be adjusted and targeted as states move to exit the “freeze” of their economies, but reallocation in the labour market can only work if it is in a functioning state. Until it is, schemes with an emphasis on work should be promoted, such as wage subsidies in targeted sectors.
4. **Who pays the piper, and how?** This is a favourable time to incur debt, thanks to low interest rates, but it cannot be written off by some “magic”. It is likely EU institutions will absorb part of national debt in some way, breaking a long-standing taboo and making a step towards further integration. An EU equity instrument could bypass the acrimonious debate on “debt mutualisation through the back door” as well as a damaging “subsidy war” by member states, but would likely face significant operational difficulties.
5. **Looking ahead:** The next months will be crucial, as the European Commission presents its recovery proposal. Member states should work fast to get to an agreement. There are signs that elicit hope: the Franco-German dynamic is positive, and the German Presidency of the Council later this year will be an opportunity to push forward. Overall, it is likely that we will remain “statist” for a while due to the imperatives of dealing both the current Covid-19 crisis as well as the building climate crisis.

Online reactions: On Facebook a global audience followed the livestream with viewers tuning in from across Europe, from Albania, Brazil, Côte d’Ivoire, to name but a few. Over 60 comments were posted before, during or after the event including several dozen questions addressed to the panel. In total, the video has been viewed 5100 times as of 29 May.

(Re)watch the conversation at stg.eui.eu/events/FlorenceLive