A European recovery fund?

Last week at the video Council of Ministers the EU began to consider the Commission proposal for a E750 bn Recovery fund. This had developed from a joint Franco German idea. The EU would borrow money, and spend it on grants and loans, with more emphasis on the deficit countries that took the worst hit from the pandemic.

In the hands of the Commission this has become a way of borrowing at EU level against the security of the revenues in the next 7 year cycle of annual budgets. The money would start to be borrowed next year,continuing over a three year period and gradually dispensed as a kind of addition to the budget. So it will not be a fast acting recovery fund which is needed this year and the first part of next. It also implies there will need to be some disbursements to the richer states as well as the most needy. The plan was to spend two thirds of it as grants and one third as loans.

So far the Netherlands, Austria, Sweden and Denmark have said No. It needs unanimity to pass. They disagree with the idea of grants and especially with the idea of pooled borrowing where they will be partly responsible for repaying these debts. So far their governments have decided to speak for the voters. According to polls there are large majorities against common borrowing in these countries.

The Council and Commission have decided to return to this in July, hoping there might then be some give in these positions . Federalists see Covid as an opportunity for a major breakthrough to a bigger budget and some transfers from rich to poor, as in a single country. The danger is if they push too far in this direction they may give more encouragement to populist forces in several countries.

It is also interesting to see at the same time member states who say they want more integration rapidly moving to more state aids and more national restrictions on commerce and movement. The single market the EU claims to love is under pressure to allow national champions, national resilience policies and more barriers at borders.