

European Union and Democracy must deliver

The world is living an extreme event that threatens the health and the economic well-being of the entire population. Large portions of people in some regions are mandated to stay at home. The challenge is to maintain the production of essential goods and services and that they reach hospitals, households, and firms in time. Countering the health crisis is at the core of recovery from the economic crisis. In-depth knowledge of input-output linkages and logistics will be a crucial planning tool. Big datasets must be collected and used to monitor the real-time evolution of the economy and identify bottlenecks in the economic chain. Income support should be given to those who will lose a significant part of their income. Reducing uncertainty about the future solvency of businesses will be crucial to secure the supply of essential goods and services. A large-scale emergency program requires massive emergency funding. In the face of extraordinary circumstances, the European Central Bank must be allowed to finance such a program. The EU must act now to prevent the suffering of the people and to save itself and the democratic values it stands for.

1. The covid-19 pandemic is an extreme event that may come to threaten the survival of the European Union and democratic regimes in its member countries. The pandemic combines tremendous threats to both the health and the economic well-being of the entire population. The EU must act now to prevent human suffering from reaching levels unseen in Europe since World War II, and to save the democratic values it stands for.
2. From an economic point of view, the novelty of this crisis is that, due to risk of contagion, industries whose production requires people physically close to each other are subject to severe restrictions. The nature of modern decentralized economies makes them extremely vulnerable to the shutdown of entire sectors of activity. This means that countering the health crisis is at the core of recovery from the economic crisis.
3. The disruption caused by the covid-19 pandemic affects demand and supply simultaneously, with negative feedback effects. However, the essential feature of this disruption is its magnitude: entire populations in some regions or countries are mandated to stay at home. If workers do not show up for work, firms do will not produce; if buyers are unable or unwilling to place orders, production in firms in the supply chain will suffer. As a consequence, defaults on nominal obligations will rise and spread like wildfire along the economic and financial chain. Firms will be unable to pay their suppliers and workers, to repay loans and to meet tax and social security obligations. If

firms do not produce, income is not generated. Households will be unable to pay the rent or the mortgage, the credit card balance, the children's school, taxes, etc. All this may soon become true for an unusually large fraction of the economy - "soon" may mean a few weeks.

4. To understand the likely magnitude of this crisis, note that if the majority of the people are forced to stay at home, there is a massive fall in the effective number of workers. Some countries are already facing this. Other countries will follow. Even at the peak of the last international financial crisis, the fall in the effective number of workers was not comparable. This means that the fall in economic activity will be much more significant now. A crisis of this proportion is not a standard crisis that can be overcome by lowering interest rates, extending loans, or launching public works programs, especially given the already very high levels of debt in many of the most affected countries. Much bolder measures are required.
5. **On the real side**, a significant loss of output is inevitable, given the stay-at-home requirement. On this front, the challenge is to ensure the production of the goods and services that are essential in the current situation and to ensure that the output reaches the desired user - hospitals, households, and firms, in time. For example, the provision of protective equipment to those that remain at work is a priority, as is the provision of medical equipment, namely testing kits. Allocation of additional resources to research medical solutions is key, and the international coordination of efforts in this area is essential.
6. In-depth knowledge of input-output linkages and logistics will be a crucial planning tool. A large part of economic activity now occurs along international value chains. Therefore, actions aimed at ensuring the functioning of the industrial and commercial chain must take place not only at the national but also at the European or even global level. It is fundamental to identify resources that can be readily available to better respond to the current crisis. Furthermore, one must evaluate the distribution of people and firms across the economic and geographic spectrum. It is crucial to identify those that are hit the most. Currently available data, both gathered by public administrative institutions, as well as by entities in the private sector, must be collected and used to monitor in real-time the evolution of the economy and identify bottlenecks in the economic chain that may be impeding or slowing down the production of essential goods. Availability of a diverse array of big data sets, combined with powerful data exploration tools, is of utmost importance to provide solid foundations and sound guidance to policies.
7. **On the nominal side of the economy**, income support should be given to those who will lose a significant part of their income in the coming weeks or months. Direct support of nominal income of households is essential to ensure the access to essential goods.

8. Making financing available to firms is necessary to ensure that a financial crisis does not compound the real crisis and further increases strains on society, possibly to dangerous levels. Standard credit contracts are not adequate: to maintain confidence and make firm owners choose to keep their firms open, the impact of the additional credit on their liabilities must be very minimal. Taming uncertainty about the future solvency of businesses will also be necessary to guarantee that the supply of essential goods and services is not interrupted.
9. A large-scale emergency program requires massive emergency funding. Countries must have the guarantee of being able to run one-off deficits without having another sovereign debt crisis. To save its banking industry, Ireland ran a budget deficit of 32% of GDP in 2010. In the current health crisis, the Government must finance workers (e.g., the ones at home that lost their income), must finance firms directly and indirectly (e.g., by not collecting taxes), and, of course, must equip hospitals. It is difficult to predict the magnitude of those needs, but it is likely that the current crisis may require an intervention of extraordinary magnitude. Extraordinary measures to be able to finance the emergency must be made possible, if necessary, by amending the EU legislation. To reduce moral hazard, financing could be linked to drops in tax revenues and an increase in expenses directly related to direct treatment and containment efforts.
10. In this highly uncertain context, we believe that something very close to monetary financing of the fiscal deficit (possibly in all but name) is a necessary part of the solution. In the face of extraordinary circumstances, the European Central Bank must be allowed to finance such a program. One possibility is that the ECB does so under the form of loans with extremely long maturities (more than 50 years) and very low interest rates, possibly zero, and certainly with deferred and very slowly increasing repayments. Drastic measures, such as sending “helicopter money” to sectors of the population and firms, or the creation of Eurobonds or European Safe-Bonds, should be given proper consideration by the political authorities and the European Central Bank.
11. Expectations can adjust very quickly. Public authorities must act in a way that makes economic agents understand that, despite the difficult times ahead, the situation is under control. A large-scale intervention program tackling the issues described above must be announced as soon as possible.
12. The EU must seize this opportunity to demonstrate that it has at its heart the interest of the people. In a highly integrated union, national and uncoordinated responses will not be effective. The EU must not standby while the crisis unfolds. A vigorous and united response must be expressed by the main EU institutions, showing that they will do whatever it takes to defend the human, social, economic and political integrity of the EU. These are genuinely exceptional times and will be much more so if the EU does not

help its member countries take the decisive steps to fight the pandemic and contain its consequences. The cost of acting now will be much lower than the cost of acting tomorrow. We do not want to be the sleepwalkers of the XXI century.

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