Opinion **The FT View**

EU recovery fund should endure beyond the crisis

There is a powerful argument for making the facility permanent

THE EDITORIAL BOARD

ECB staff have suggested the EU recovery fund should become a permanent deficit facility for stabilisation in deep crises © Geert Vanden/Bloomberg

The editorial board YESTERDAY

The ink on a landmark EU agreement to establish a €750bn recovery fund is barely dry. Many of the details are still to be worked out. Member states are at loggerheads over safeguards to ensure governments spend the money well and protect the rule of law. The European parliament wants more money for education and research. New EU taxes to help pay back hundreds of billions of euros in commonly-issued debt remain a distant prospect. It will be months before any money is paid out. But its strongest supporters have already banked the recovery fund as a historic breakthrough and are now looking at the next building blocks of fiscal union to underpin the euro.

In a research note last week, European Central Bank staff said the recovery fund would bring sizeable financial support for the countries worst hit by the pandemic and economic shock. They also suggested the fund, supposedly an emergency one-off, should become a permanent deficit facility for macroeconomic stabilisation in deep crises. Yannis Stournaras, a member of the ECB's governing council, was more explicit. It should not be a one-off, he argued, but "the beginning of a more co-ordinated and systemic policy response to a serious external symmetric shock with asymmetric disinflationary consequences". With the zeal of the convert, Germany's finance minister Olaf Scholz says the recovery fund is only the beginning of fiscal union. If the EU is going to complete its banking union, strengthening financial stability and improving the flow of credit to businesses and households, it will need to broach the question of risk-sharing and fiscal backstops.

Talk of next steps might seem presumptuous given the difficulty of fine-tuning an outline deal struck by EU leaders in July. National governments have to design spending programmes that will support recovery, increase potential growth and foster low-carbon technologies in addition to existing expenditure commitments. Then they have to spend the money well and expeditiously. For some that will be a tall order.

There is a powerful argument for having a permanent facility to help weaker countries through deep crises. The IMF made the case back in 2018, as did Mario Draghi, then ECB president. But the recovery fund can also serve a larger purpose by fulfilling the need for a more co-ordinated fiscal stance to complement monetary policy. By helping to finance medium-term recovery measures the fund ensures governments have the space for immediate crisis support. By channelling resources to growth-enhancing reforms and investment, the fund could also help countries improve their debt sustainability.

Brussels swiftly suspended the EU's fiscal rules to allow governments to fight the pandemic and cushion the economy. At some point next year, it will have to decide whether to reintroduce them. Paris last week weighed in, saying the rules belonged to a different age when a 60 per cent debt-to-GDP ratio was a more realistic aim and economies were less in need of public investment. It should replace them with more productive, less procyclical goals.

Europe must avoid a premature fiscal tightening, which could choke off a recovery. Germany cast aside its debt and deficit rules with commendable speed to fight the crisis, but, with a federal election looming next year, conservative voices are clamouring for their return. Calls for EU fiscal discipline may soon follow. But, as Fabio Panetta, an ECB executive board member said last week, monetary and fiscal policies must remain complementary — and the support they provide may be needed for a long time.