Coronavirus will deepen EU s economic divisions

German foreign policy experts, economists, and even an EU Commissioner are all warning that Brussels inadequate Coronavirus relief measures could widen the EU s the north-south economic divide still further, threatening the EU s political project.

This is an edited version of a report by the German foreign policy portal ***German-foreign-policy.com****. The original report, including full references, can be viewed here.*

The Coronavirus crisis is reinforcing pre-existing social and economic inequality in several ways. Studies have shown that lower paid workers are at a higher risk of becoming infected: they are disproportionately working in system relevant jobs, such as in hospitals and supermarkets, that continue to function throughout the lockdown. Well-paid jobs can often be continued while working from home, whereas millions of low-wage workers often engaged in manual labour only receive payment for short-time work or unemployment compensation, suffering severe losses. This widens and aggravates socioeconomic divides.

The crisis is also fostering an unequal development within the EU. This is demonstrated by a comparison of Germany and France. Already in the first quarter of 2020, French GDP sank by 5.8 percent   significantly more than Germany, where the slump was calculated at between 2 and 3 percent. France s lockdown is more stringent than Germany s, and is scheduled to last for longer. Economists are therefore expecting an even more serious economic slump in France for the second quarter   possibly up to 25 percent. Italy will probably also fall still further behind.

The eurozone s growing economic gap will likely be widened still further by the specific nature of the EU s Coronavirus relief measures. Academic economists have pointed out that recapitalisation with government funding will be substantial in fiscally strong European countries, especially in Germany, while governments in fiscally stressed countries like Italy will not be in the same position to do so.

Post-crisis, the analysis continues, companies from countries such as Italy will face competition from stronger foreign rivals, strengthened by massive state aid. This will increase the imbalance within the EU. Thanks to state support, companies could emerge (relatively) stronger from the crisis, and be in a position to take over weaker European competitors, the authors conclude. They speak of the end of the European dream.

Such forecasts are also being made by German think tanks. Shahin Vallée of the Alfred von Oppenheim Center for European Policy Studies at the German Council on Foreign Relations (DGAP) points out that the crisis-induced lifting of EU restrictions on state aid will primarily benefit companies in those countries with the strongest balance sheets. This is planting the seed of profound divergence between member states, warns Vallée.

Moreover, the ability to support households or the unemployed will be potentially much higher in Germany than, for example, in Italy or Spain. The fact that Berlin has only been prepared to agree to EU relief for member states under the condition of the recipient submitting to strict political control threatens to put Europe through a socially and politically destructive restructuring process, warns Vallée. It plants the seeds of economic enfeeblement and political bitterness. If Berlin and Brussels should refuse a change of course, the political project of the EU will have lost its soul.