14 Ideas for after Corona

DEZERNAT ZUKUNFT

About **AfterCorona**

AfterCorona was launched by Dezernat Zukunft as a forum for thinking about long term, strategic challenges and opportunities in the context of the Corona crisis, particularly in the areas of fiscal, monetary, and economic policy. Starting in April 2020, around thirty thinkers from inside and outside academia met in four digital workshops to identify impasses and develop proposals to address them. The results are collected in this document.

Due to the collaborative nature of the process, this document is a collective endeavour, signed in the name of all participants. Each participant agrees with the broad thrust of this collection, but this should not be taken as agreement with every individual proposal.

The purpose of this document is to serve as a prompt for discussion and we hope that it will be read in this spirit. Following this publication, AfterCorona will continue into a second phase. This will centre on further discussing these proposals and elaborating a subset into full policy papers. We appreciate feedback and welcome suggestions: if you are interested in participating or following this process, please visit www.ideasaftercorona.de for further information.

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List of Proposals

Preface

Corona was not an unpredictable crisis. Experts have warned of global pandemics for years. And yet, our competitive, flexible, and internationally-integrated economies proved unprepared and brittle in the face of the disease. Like a sudden storm, it revealed the many cracks and crises that had accumulated in our social fabric.

In light of this, a "back to before" is unacceptable. Climate change is on the horizon, its early impacts are here. Blacks swans can happen at any time. Foundations of trust and legitimacy, undermined by persistent and grave injustices, have been eroded down to dangerous levels in many societies. After Corona, change is necessary.

The purpose of this project is to envision and discuss proposals for this change: proposals that go beyond crisis fighting and conventional recovery measures; that target the underlying fragilities laid bare by the crisis; and that are specific enough to provide a foundation for productive public discussion. Given the expertise and experience of this group, this translated into an ambitious economic policy agenda, focused in particular on fiscal and monetary policy in Europe, but mindful that this is only a part of a larger, global agenda.

Three broad thrusts structure this agenda. First, a set of proposals for democratising central banking. Corona has reiterated one of the central lessons of 2008: central banks have become the cockpits of our economies. They underpin states' financial capacities and backstop both finance and production. Their influence is pervasive in moments of crisis as well as in normal times. But while their capacity to act swiftly and decisively is a core component of economic resilience, in democratic societies this amount of power cannot be left unaccountable. To ensure the lasting legitimacy of, and trust in, our central banks, the first set of proposals therefore outlines options for strengthening democratic oversight and accountability, while preserving operational independence.

Second, a set of proposals centering on the idea of a capable state. Corona has shown that the details of state administrative capacities matter: what states cannot see or cannot count, they struggle to act on, both during a crisis and in normal times. This set of proposals therefore seeks to update and augment state capacity, both to ensure that responses to future crises can be swift, effective, and fair, and to ensure that our states are able and trusted to govern in line with our democratically expressed will.

A third set of proposals revolves around the idea of a resilient society. It is illusory to think that all future shocks and crises can be averted. In addition to striving to prevent future crises, we must therefore strengthen our capacities to face, absorb, and rebound from those that strike us. This means systematically reducing leverage in our financial system; ensuring that all households have strong enough incomes to accumulate reserves; reducing market- and import-dependence for the production, stockpiling, and distribution of essential goods and services; and creating an economy that builds rather than corrodes trust and legitimacy.

One overarching theme connects all proposals: the desire to outline, briefly but concretely, a macro-financial architecture that shifts fiscal and monetary power from technocratic and private financial actors to public and democratically legitimized ones. Institutionally centred on the idea of fiscal-monetary cooperation, this vision is guided by resilience, not merely efficiency; oriented towards sustainability, not short-term maximisation; and seeks to deepen and extend democracy without sacrificing prosperity. But these proposals can only be the beginning of a wider discussion. To face the time after Corona with confidence, we will need to reorient and integrate our thinking on nature and society, on justice, trust and legitimacy, on economics, politics, and state administration. We hope this collection contributes to that task.

Neutral policies are not fair policies

The focus of this collection is on reorienting macro-financial policies towards resilience, sustainability, and democracy. But as recent events have made clear: no justice, no peace. In the long- and not-so-long run, therefore, only a just society can be resilient, sustainable, and democratic. Before turning to particular proposals, we therefore want to highlight that neutral policies after Corona are not fair policies. The pandemic has highlighted and exacerbated a number of inequities that require urgent addressing, both in the post-COVID recovery packages and, most importantly, in the structural changes that come after Corona.

First, the wealth gap is widening in the US due to the coronavirus pandemic. Given its asymmetric impact across sectors and classes, the current recession could wipe out ten years of progress in wealth and income inequality, according to Brookings. This is not based on projections alone: while between March and May 30 million US Americans filed for unemployment, the S&P 500 increased by 23%. These stock market gains add to the 1,130 percent of increases of U.S. billionaire wealth from 1990 to 2020. While data for Europe cannot conclusively be assessed yet, a similar pattern looks likely to hold.

Second, COVID-19 disproportionately affects people of color. Dr. Marcella Nunez-Smith, director of the Equity Research and Innovation Center at the Yale School of Medicine, highlights pre-pandemic intersectional and structural inequalities that increase ethnic minority infection rates and mortality. Once again, the situation in Europe is difficult to assess at this time and may vary from place to place, but in Europe, too, ethnic minorities appear to be disproportionately hit.

Third, Corona has reinforced gender inequality. Lockdowns have pushed women back into traditional roles at home, with more women than men shouldering the additional burdens of homeschooling, cooking, and caring. Domestic violence, disproportionately affecting women and girls, has increased globally, with the UN Population Fund projecting a 20% increase in violence for each three months of lockdown in all 193 UN member states.

Fourth, COVID-19 has a heavy impact on children. The heightened stress and proximity of lockdowns has likely led to a rise in violence against children. However, because authorities fail to provide adequate data — reinforcing the importance of building state capacity, one of the key messages of this collection — the severity of this trend cannot be assessed yet. Further, nearly 1.2 billion schoolchildren are affected by school closures, bringing separation from peer groups and lags in learning. UNICEF warns that pre-existing inequalities in access to tools and technology may deepen the global learning crisis for the most disadvantaged in particular.

Fifth, the impacts of the coronavirus pandemic vary strongly by geography, partly because travel patterns, density, and climate conditions vary by geography, and partly because state capacity — capable of dramatically lowering infection and death rates — varies too. In addition, travel bans prevent those caught in disproportionately affected or weak regions or states from leaving, while migrants face increasingly long processing times with reception conditions worsening in refugee centres.

These examples give but a highly incomplete sketch of the unequal impact of COVID-19, in particular because they treat as separate dimensions and features that often overlap and intersect: women from ethnic minorities, or children who are also migrants, are likely to be hit even harder than women or children in general. However, what the examples make clear is that a class-, race-, gender-, age-, or place-blind approach cannot do justice in the wake of this pandemic. After Corona, neutral policies are not fair policies — just as they were not before.

Strengthening the Secondary Mandate

Swift interventions by the European Central Bank (ECB) have stemmed market pressures and credit crunches throughout the early period of the current crisis. However, monetary policy is wielded with little regard to the social and ecological crises Europe and the world are facing. The statutory independence of the ECB notwithstanding: it is within the powers of the political authorities of the Euro Area to define the "general economic policies in the Union" that constitute the ECB's secondary objective. No concerted effort has yet been made to establish clear priorities for the ECB under its secondary objective. Spelling out the content of the ECB's secondary objective can go a long way towards democratizing central banking.

The Euro Area could institute an open and regularly recurring process at the highest political level to specify these "general economic policies in the Union" that the ECB is, according to Art. 127 of the Treaty on the Functioning of the European Union, required to support. Art. 11 TFEU already requires the Union's policies to integrate environmental protection. Further specifying what such protection involves in relation to the full portfolio of central bank - which is considerably broader than monetary policy proper - is thus in line with the spirit of the Treaties.

While this is a general-purpose proposal, one way to specify the secondary mandate would be to require the ECB to support a European Investment Authority (EIA). Specifically, this would imply that the ECB modifies its collateral framework so as to insulate EIA bonds from pressure by private market actors such as rating agencies and investors. This does not require primary market purchases; the maintenance of an interest rate ceiling on the secondary market suffices.

Furthermore, the ECB should abandon the myth of market neutrality and orient monetary policy implementation so as to support sustainable investments. It can do so by greening its asset purchases and existing asset holdings, by institutionalizing green-support factors, and, once the European Commission's Sustainable Finance taxonomy is expanded to include a brown list, by adding brown-penalizing factors.

This proposal links to Democratically Embedded Central Banking, Redefining Price Stability, and European Investment Authority.

Redefining Price Stability

COVID-induced uncertainty in money and capital markets has led to large-scale central bank interventions in these markets. While quantitative and qualitative changes have been made to particular tools, by and large central banks have "followed the 2008 playbook". However, these tools have contributed to increased leverage throughout the system, and have either caused further climate risks and entrenched inequality, or are insensitive to these issues.

One way of addressing these problems without treaty change starts from the following observation: The Maastricht Treaty mandates the European Central Bank to achieve price stability throughout the Eurozone; but defining what this means in practice is left to the central bank itself. Currently, the ECB has defined this as an annual increase in the Harmonized Index of Consumer Prices (HICP) of close to but slightly below 2%. In order to help prevent austerity, allow for 'brown' inflation, and fight income inequality, the ECB could substantially alter its definition of 'price stability'.

Besides taxes, growth and debt monetisation, moderately higher inflation is an available option to reduce the post-Covid public debt burden. While wealth taxes, better tax enforcement, and a limited amount of debt monetisation are feasible and reasonable options, it would be naive to assume that such policies will be enacted and implemented on a sufficient scale and at sufficient speed. Moreover, using an average inflation target may increase long run prosperity without endangering long term price stability, by preventing premature rates increases like in 2011.

Further, in its current version, the HICP does not consider the carbon footprint of products. In light of the desirability of higher prices for 'brown' consumer goods and services (e.g. petrol, air travel, or meat), 'greening' the HICP would be one way to take the bite out of the price stability mandate, while at the same time making it more consistent with the ECB's secondary objective.

To strengthen household balance sheets, and thus increase their resilience in the face of future shocks, a shift from consumer price inflation targeting towards wage bill flooring can also be contemplated, in line with similar proposals advanced in the US.

This proposal links to Strengthening the Secondary Mandate and Democratically Embedded Central Banking.

Boosting Monetary Policy Capacity

State-backed emergency lending schemes have been among the most important tools for supporting small and medium enterprises during the Corona crisis. Examples include PPP in the US, CBILS in the UK, KfW-guaranteed loans in Germany, or BPI-guaranteed loans in France. However, even though most states quickly moved to guarantee 100% of eligible loans, banks often remained hesitant to extend new credit.

Similar problems of non-lending in the aftermath of 2008 were addressed through Targeted Longer-Term Refinancing Operations (TLTROs) in the Eurozone and the Funding for Lending Scheme (FLS) in the UK: through these programmes the transmission of new cash to banks was conditioned on banks demonstrating new and relevant lending. This approach was effective, but it continues to rely on banks as the (inevitably fallible) transmission mechanism for monetary policy stimulus. As a result, it failed to prevent similar issues in March and April 2020.

An additional solution which could be adopted after Corona could take the following form. The ECB and other central banks could offer every interested citizen, resident, firm, and unit of government (e.g. municipalities) a simple deposit account, functioning exactly like ordinary bank accounts at commercial banks. Privacy concerns could be addressed through appropriate design and data storage choices. Together with an app and debit cards to allow payments and transfers directly to and from these accounts, this would constitute a step towards the creation of universally accessible central bank digital currency (CBDC).

In a crisis, this infrastructure could be used to inject funds directly to firms and households, without relying on banks as intermediaries. While this infrastructure would not allow for the direct provision of loans by the central bank to firms and households — a different and technically more demanding task — it could be used for emergency purchasing power support at short notice. Conversely, when monetary policy is tightened, interest rates on these accounts could be increased to encourage saving over consumption, without any risk of higher interest rates not being transmitted to savers.

Besides improving the transmission of monetary policy, this proposal would increase the stability and resilience of the payment system: households and non-financial firms would no longer have to rely on commercial banks as guardians and ferrymen of their liquid assets. In future crises similar to COVID or the 2008 financial crisis, large parts of the payment system would then be insulated.

Democratically Embedded Central Banking

During the immediate Corona crisis, the European Central Bank was able to act quickly and decisively to stabilise financial markets, including those for government bonds. Its formal independence from democratic decision-making made its response faster than any other EU institution. However, monetary policy is inherently political, with important distributional and power-political consequences, as the German Constitutional Court's recent ruling in the Weiss case made clear. It is problematic, then, that the ECB is not accountable to any elected or otherwise directly democratically legitimised body.

After Corona, three measures could be introduced, via treaty change, to close this democratic deficit without diminishing the operational and technical expertise that the ECB has built in recent decades.

First, the ECB's mandate could be given an automatic 10-year sunset clause. Written mandates are crucial for squaring operational independence with democratic legitimacy. But times change, economies undergo transformations, and written mandates are subject to shifting interpretation. As a result, a certain drift and divergence over time is natural between the mandate that is de facto in force, and the mandate that the central bank's sovereign, the people, would like to see. Currently, a change to the written mandate requires consent from 68 distinct political bodies, among them all EMU member states, so that no gap will be closed if it benefits just one of these bodies. A sunset clause would prevent this hold-up and offer the opportunity to deliberate once a decade whether the existing mandate is still the desired one.

Second, it is not just the goals of monetary policy — codified in the ECB's mandate — that are political, but also its instruments. Since the policy toolkit, including operational targets and specifications of how they are achieved, is more malleable, this could be reviewed on a five-year schedule. As the central bank needs to retain the possibility to act swiftly during a crisis, it could continue to introduce new tools as it sees fit. However, new instruments could start life with a sunset clause, expiring 2 years after their first introduction unless ratified within that period.

Third, both mandate and toolkit revisions must be conducted by a body. To this end, a Euro-Parliament could be created, elected or selected by sortition, either from among the demos at large or from among member state parliamentarians. This parliament, supported by specialist staff to provide expert input, would substitute for the Eurogroup, appoint the ECB governing council, and conduct the 5- and 10-year revisions of the ECB mandate and toolkit. It could also take the Eurogroup's place in deciding on intergovernmental agreements, memoranda, treaties, bailouts, and bail-ins. To ensure that a Euro-Parliament represents all Europeans, sortition and/or quotas could be used in selecting its members.

The overarching thrust of this proposal is a macro-financial Eurozone architecture that shifts fiscal and monetary power from technocratic and private financial actors to public, democratically legitimized actors at the national and European level. As such, it connects to nearly all other proposals.

European Investment Authority

After Corona, large-scale investment will be necessary to transition the European economy towards sustainability and resilience. How can we ensure that this investment takes place effectively, at the required scale, and with sufficient democratic oversight?

To these ends, a dedicated entity could be created: a European Investment Agency (EIA). Its mission would be to plan, finance, and oversee the reconfiguration of European communications, energy, food, and transport networks for sustainability and resilience, as well as to support onshoring efforts in pharmaceuticals, personal protective equipment (PPE) production, and other strategic value chains. The EIA would be staffed by planning and legal experts familiar with national planning legislation, engineers with relevant specializations, and infrastructure finance experts.

The EIA could be integrated with national and regional planning bodies, which could either be existing structures, such as transport and energy ministries, or newly created Transition and Resilience Councils (TRCs). These could be elected or selected by sortition from the relevant electorates, paying close attention to fair representation by gender, race, and other relevant dimensions. To ensure a productive balance between coherence and decentralisation, the EIA could plan and majority-finance continental-scale projects itself, while at the same time ensuring that national and regional projects drawn up by the TRCs nest into overarching strategic plans drawn up jointly by the EIA and the TRCs. To further embed democratic voice and accountability, the EIA could be overseen by the European Parliament, or by a dedicated supervisory body with members drawn from the TRCs or national parliaments. Financing could be secured through issuing bonds backed by the ECB, through general tax revenue, and, where appropriate, through revenues from projects. On political grounds, a financing structure akin to the US Highway Trust Fund can also be envisaged.

Besides driving the necessary resilience and sustainability investments after Corona, the EIA would also serve to create and maintain strong state capacity in infrastructure and supply chains, in preparation for crises or other future developments necessitating major reconfigurations in these areas. In addition, to ensure that public investment after Corona is not just sufficiently resilience- and sustainability-oriented (as well as macroeconomically sufficient), but also fair and just, priority should be given to projects that reduce wealth-, income-, prestige-, and power-inequalities, in particular between men and women and between ethnic majorities and minorities.

This proposal links to Strengthening the Secondary Mandate, Onshoring Key Industries, and a Sustainability and Prosperity Pact as part of the wider institutional architecture an EIA would be embedded in. It also links to Updating National Accounting to evaluate EIA projects and programmes, and to assess where investment is most urgently needed.

Restoring the Tax Base

Through profit shifting, tax evasion, and tax avoidance, corporations and high-net-worth individuals conceal significant parts of their income and wealth. This impairs the tax base and inhibits the capacity of states to levy fair and effective taxes. Though recognised before COVID, this problem has become more urgent in the context of the pandemic. When public health requires shared sacrifice and all parts of society must assume fiscal responsibility, clear visibility of and access to the full tax base is essential for good public policy.

A number of administrative measures could be taken to this end, including:

- implementing the Common Consolidated Corporate Tax Base in Europe, to achieve clarity on the profits and income streams that are eligible for taxation;
- creating a European beneficial ownership registry, to prevent strategies of separating access from ownership; and,
- a critical, fiscal-monetary coordinated investigation into the nexus of tax planning and offshore money creation in Luxemburg and other inner-European tax havens.
- Further, since both law and accounting frameworks are always incomplete and evolving, finance ministries in general and tax collection agencies in particular could be more adequately staffed, and regulation could be introduced to stop the aggressive creation and marketing of tax-optimisation schemes.

Finally, a structured, dual-track process could be introduced for periodic reviews of the tax base, for example once a decade: one track, led by civil servants, would screen the tax base for erosion and concealment, potentially building on the OECD's Base Erosion and Profit Shifting (BEPS) process. A second track, led by a specially convened citizens' assembly and advised by a strengthened financial civil service, would deliberate over taxes and tax rates and possibly propose changes.

Implementing this proposal would be beneficial for a range of other proposals listed in this document: it would provide the informational and administrative infrastructure for Fair and Effective Wealth Taxation; it would support fiscal-monetary cooperation by allowing for better, more targeted use of fiscal policy to slow down inflation or to prevent deflation; and it could facilitate Reducing Leverage by rendering corporate balance sheets more transparent and, hence, more open to regulation.

Update National Accounting

National accounting systems are the backbone of economic policy making. They express collective value judgements and guide political decision-making. Existing, GDP-based systems were already seen as questionable prior to COVID. Corona has conclusively shown their inadequacy. Besides their blindness to sustainability concerns, they conceal highly variable degrees of economic insecurity and resilience of (i) households, (ii) in essential sectors like care and healthcare, food, and energy, and (iii) of public balance sheets and the macroeconomy. Finally, they fail to align with public perceptions of value.

In response, national accounting systems could be updated in at least five ways. First, the methodology for valuing care work and other essential sectors could be amended via more adequate imputation methods to bring the quantified valuation of these sectors into line with our considered social esteem of them. Second, more detailed and disaggregated data, in particular by gender and ethnicity, should be collected to enable the discussion and implementation of fairer policies after Corona. Third, the production boundary should be identified more clearly as a political question. In particular, and linked to the idea of reducing leverage, finance could be reclassified as an intermediary input — its classification between 1968 and 1993 — so that growth in finance is netted out in the final calculation of GDP, rather than boosting overall GDP levels. Third, proper public balance sheet accounting could be introduced, differentiating between social, financial and commercial assets to render visible both the build-up and the depletion of our collective assets. Fourth, systematic measures of economic insecurity and resilience should be developed both for public and private balance sheets, to have a better understanding not just of current activity levels and asset positions, but also of vulnerabilities and exposure to shocks.

Given the centrality and complexity of national accounting systems, further research and elaboration is required. This could explore a more fundamental rethink of the indicators guiding economic policy, away from the size of economic production and towards more direct measures of ultimate goals, such as resilience, sustainability, and human flourishing. The Stiglitz-Sen-Fitoussi commission, the OECD High-Level Expert Group on the Measurement of Economic Performance and Social Progress, and the UN's Sustainable Development Goals provide starting points for further inquiry.

This proposal links to the European Investment Authority, Strengthening the Secondary Mandate, Onshoring Essential Industries, expanding Universal Basic Services, and the Sustainability and Prosperity Pact as institutions or practices that could draw on revised national accounting systems.

Sustainability and Prosperity Pact

The EU treaties' fiscal rules focus narrowly on avoiding excessive deficits. These regulations reflect a widely-held but flawed view of economic sustainability, which ignores the growth side of debt sustainability, the social and environmental preconditions of stable and longer-term economic prosperity, and the feedback loops from fiscal policy to an economy's potential output. As a result, this framework enforces austerity programs which cut spending on care, public health and education, and thereby exacerbated the current COVID-19 crisis, while depressing potential output and failing to reduce debt levels.

In addition, the current EU fiscal architecture suffers from several institutional shortcomings. Rule enforcement is complex, full of exemptions, and largely isolated from the EU's public sphere. Guidance on directing fiscal policy towards sustainable growth is weak to non-existent. After Corona, the time may hence have come to replace the Stability and Growth Pact. In its stead, member states could agree on a Sustainability and Prosperity Pact, centred on a more multidimensional evaluation of fiscal policy, and more effective coordination between individual member states.

This revised fiscal architecture would promote sound budgetary policies in line with the long-term development of the EU's economic and social capacities. A revised Article 126(2) TFEU would not only focus on (1) budgetary discipline, but list as equally important priorities (2) environmental sustainability, (3) balanced trade, (4) non-predatory taxation policies, and (5) long-term productive investment, including investment in education and care. The revised Article 126 and the rules based on it would continue to be enforced by the Commission with an eye on identifying "gross errors". However, a transparent multidimensional Sustainability and Prosperity scoreboard replaces the Stability and Growth Pact, the Macroeconomic Imbalances Procedure and the European Semester. Well-being indicators, disaggregated by gender, race and other salient dimensions, could replace GDP growth targets as overarching policy goals. The European Parliament could evaluate the resulting Sustainability and Prosperity scores, which would in turn inform the distribution of the EU budget and the application of EU state aid rules. To promote democratic participation, finance ministers could explain their budgetary policies in a televised Eurovision Fiscal Festival.

This proposal links to Valorising Work, Democratising Corporations, Fair and Effective Wealth Taxation, European Investment Authority, and Onshoring Essential Industries, as well as to Updating National Accounting.

Reducing Leverage

The Corona-induced market sell-off in March 2020 reinforced an old lesson: high leverage, and in particular high debt-to-equity ratios, makes for brittle balance sheets. This had become clear in 2008, too, but post-crisis deleveraging measures concentrated on banks, leaving corporate leverage to increase over the last decade.

To increase economy-wide financial resilience, not just banks but all economic agents could be directed towards deleveraging after Corona. Specific measures in this direction include ending the preferential tax treatment of debt over equity and a roll-out of macroprudential regulatory measures to all marketable debt-issuing entities. In practice, this means corporate income taxes would tax profits without deductions of interest and royalties; and maximum leverage ratios and minimum liquidity measures would be set and enforced by the European Securities and Markets Authority. A direct tax on leverage could also be considered, but would require careful elaboration.

By reducing private-sector credit creation, this proposal would reduce aggregate demand. It therefore links closely to proposals like Universal Basic Services or the creation of a European Investment Authority that could inject the otherwise missing demand. Moreover, since the fall in private credit creation would increase the space for non-inflationary monetary creation elsewhere, this proposal could act as a non-tax financing measure for other proposals.

Fair and Effective Wealth Taxation

As societies exit from COVID and the associated economic crisis, two wealth-related problems are likely to emerge. First, high debt may divert public spending into debt servicing costs, away from other and more pressing priorities. This is a one-off problem, the solution to which could involve a one-off levy on net-wealth to lower public sector debt to pre-crisis levels. Comparable levies were adopted by France and Germany in the aftermath of WWII.

Second, the concentration of purchasing power among wealthy households (with low marginal propensities to consume) may be a permanent drag on aggregate demand. This problem is well-known from the aftermath of the Great Financial Crisis and one of the causes of secularly low interest rates. It also has further systemic knock-on effects:

- Low domestic demand pushes governments to rely on net exports to secure high employment at home. As with any beggar-thy-neighbour policy, this solution creates acrimony when adopted by a few, and fails when adopted by all.
- As export-led strategies lead to longer, more intricate supply chains and financial linkages, they render societies more vulnerable to COVID-style shocks.
- Politically, through a variety of causal mechanisms high wealth inequality undermines political equality, which in turn erodes trust in government. This further reduces state and social capacity to respond effectively to disruptions like COVID.
- Aggregate demand imbalances can be addressed through a variety of policies, including non-inflationary money creation. However, since large fortunes tend to earn above-average rates of return, all the above problems are likely to reemerge and amplify over time unless above-average rates of return on large fortunes are counteracted via a wealth tax.

To address these problems, an annual tax on net wealth could be adopted, with a progressive schedule of single-digits tax rates, possibly rising to low double-digits at very high net wealth levels, e.g. above €1 billion. The tax base would consist of all marketable assets, including real estate and financial assets, and could be assessed at the European level to reduce evasion. Since the aim is not to generate revenue, but to ensure that purchasing power is distributed in an economically and politically sustainable way, other taxes on wealth (in particular real estate taxes and potentially inheritance taxes) could be folded into it and abolished.

This proposal is closely linked to Restoring the Tax Base.

Onshoring Essential Industries

During the COVID-19 medical crisis, dependency on imports compounded supply shortages of essential goods like medical equipment, masks, and pharmaceuticals which threatened lives. The web of extended supply chains built up through offshoring and globalization in recent decades proved brittle in the face of a shock.

To reduce this vulnerability, key industries could be deliberately onshored after Corona. This could create a win-win-win scenario: increasing European economic convergence, increasing the resilience of the European economy, and decreasing carbon emissions.

The first step would be for the European Union to establish a taxonomy of key industries, as well as lists of essential medical supplies and equipment for care, education, catastrophe relief, and infrastructure repair and maintenance. Second, EU cohesion funds could be redeployed or expanded to fill any existing gaps that emerge from screening current capacities and stockpiles against the taxonomy of essential goods and industries. High-value-add parts of newly onshored value chains could deliberately be placed in poorer regions, reinforcing economic convergence. Finally, the relocalization of the production of essential goods may boost sustainability by saving on transport emissions.

Tentative estimates by the European Commission (p. 15) put the cost of onshoring five strategic industries at 20bn Euro per year over the short term, indicating that they are not prohibitive.

This proposal links closely to the European Investment Agency, which would contribute to building the state capacity required to implement this. Further, since a reconfiguration of the European industrial landscape of this order would be an inherently political project, it would have to be combined with, and overseen by, appropriate structures of democratic decisions-making, such as a reinforced and reinvented European Parliament.

Universal Basic Services

The Corona crisis has shown the vulnerabilities of market-coordinated, highly differentiated societies: brittle child care arrangements, limited community health capacities, sub-par elderly care, among others. Moreover, it has demonstrated that these vulnerabilities, while to a certain extent shared and universal, fall most heavily on the shoulders of the disadvantaged, and can vary greatly by region.

One approach to address these basic vulnerabilities after Corona is to introduce a greater array of universal basic services, akin to the National Health Service in the UK. By de-linking provision from markets, this renders the services in question more resilient to disruptions in financial markets, household incomes, and other economic shocks.

Since the set of potential basic services is heterogenous — reasonable contenders include child care, elderly care, community health, communications, energy and water supply, public transport, and possibly housing — both agreeing on which services to make universal, and determining how best to provide them, is challenging. An avenue that merits further exploration may be to combine polity-level rights to a certain set of services with local, regional, or national delivery arrangements.

The set of services and their delivery arrangements depend on the technical nature of the service in question and on the homogeneity or heterogeneity of citizen needs and preferences. In both cases, although technical details matter, the scope and delivery decisions are inherently political. A third question that requires further exploration is therefore how to ensure democratic accountability throughout the determination and the delivery of the services in question. Here, a combination of local, regional, national, and possibly supra-national democratic decision and accountability mechanisms, selected via sortition and/or with quotas for gender and race to ensure balance, looks promising.

Given the promising nature of universal basic services, particularly in terms of increasing resilience and social cohesion, combined with the large number of open and challenging questions, this proposal both requires and merits further research.

This proposal links to Reducing Leverage, particularly if housing is included, a European Investment Authority, as a possible co-implementer, and Valorising Work, Democratising Corporations, as a further avenue for democratising control over the division of labour.

Valorising Work, Democratising Corporations

The crisis has shown the enormous importance of human labour — in the care sector, in the provision with food, in testing-and-tracing, etc. — for maintaining our societies. But on a structural level, many of the workers in these sectors, who are disproportionately female and/or come from ethnic minorities, suffer from low pay and insecure working conditions. The appreciation for those who, quite literally, keep us alive, should be translated into better institutional protection of the interests and rights of these workers. While there are ways in which this can and should be done through changes in the legal framework — e.g. higher minimum wages, better protection of migrant workers, etc. — a crucial element is to strengthen the voice of workers in companies.

Worker representation is valuable in itself: it expresses the inherent equality of human beings that is expressed in the Declaration of Human Rights. But it is also valuable from an instrumental perspective: it creates important mechanisms of control and accountability, so that existing legal regulations are actually applied.

Translated into concrete policy proposals at the EU level, the greater valuation of workers after Corona could mean:

1. Creating minimum requirements with regard to worker representation in companies and certain public institutions, e.g. public hospitals, that receive support from states or from the European recovery funds. Minimum requirements could include: work councils, worker representation at board level, and/or a commitment to avoid subcontracting arrangements with companies that do not have the same standards.

2. Aligning company law on EU level to develop a fully bicameral model for publicly traded companies. A bicameral corporation is governed by two chambers, one representing labour and one representing capital, which have to take all important strategic decisions together. This would strengthen the bargaining position of labour and may help reduce economic inequality, thereby boosting households' balance sheets and hence resilience.

3. Giving cooperatives priority in support programs and creating avenues for non-cooperatives to transform themselves into cooperatives. Unlike conventional firms, cooperatives do not generally aim at profit maximisation, or indeed the maximisation of any single KPI. This renders them and the communities they're embedded in more resilient, e.g. via better employment protection in downturns (through cutting hours and pay rather than jobs), and more equal pay structures, boosting vulnerable households' balance sheets. Given their positive externalities, legal counsel and information on starting cooperatives or converting existing firms into them should be made available, e.g. via employment

agencies and in loose parallel to active labour market policies. Subsidies could also be provided to newly founded cooperatives, in line with start-up support in many EU member states.

4. To reduce gender hierarchies in work, financial incentives can be designed to place men and women on a more equal footing, e.g. via the enforcement of equal parental leave months for both partners and the extension of part-time arrangements for parents when both parents reduce work time.

In addition, since the behaviour of large firms affects more than just their workers and shareholders, it may be appropriate to give a wider set of stakeholders a voice. One mechanism for doing so, linked to COVID-related bailouts, would be the following. Where the state holds an equity stake, citizen assemblies could be formed to vote these stakes. These assemblies could be composed, for example, of random samples of residents living near major firm locations as well as consumer representatives.

These proposals link to Universal Basic Services and to Reducing Leverage since worker representation would block leverage-and-extract strategies as used by private equity.

Resilient Global Finance

Since the collapse of the Bretton Woods system, the world economy has been organized around the US dollar. The adverse domestic and international effects of this monetary system include global financial instability, cycles of global leveraging, destabilizing trade imbalances, and elite capture. As the provider of a national currency that is also the international reserve currency, the US faces a constant dilemma between its domestic monetary policy goals and other countries' demand for dollars. Conversely, countries whose economies are dependent on dollars are affected by a monetary policy not of their choosing.

Bifurcated access to dollar liquidity compounds the hierarchy of the international state system and creates a two-track global economy: many Emerging Market Economies have seen local currency bond spreads spike following capital outflows and currency depreciations. In contrast, a select number of currency jurisdictions have standing access to US Federal Reserve dollar liquidity swap lines.

Ultimately, only a new international reserve currency based on a multi-polar monetary architecture will be able to ensure resilient global finance. There are many paths toward this goal. All involve a combination of creative uses of the existing international monetary system and a concerted effort toward moving toward a better international monetary system. A first concrete step would be the countercyclical expansion of the IMF's Special Drawing Rights (SDR) as well as the promotion of SDRs for greater use in trade and commodity pricing. The European Central Bank could also extend a standing, unlimited euro liquidity swap line to the IMF to back SDR issuance. Alternatively, within the G20 process, the European Commission could explore the construction of a multi-polar synthetic currency. Furthermore, trade agreements could be coupled with standing swap facilities between respective central banks.

The most immediate challenge thrown up by the current system will relate to the management of international debts and the prevention of sudden stop scenarios. High income countries should push for legal reform in the international realm to provide better protection against creditor lawsuits and introduce better practices to support countries that find themselves in debt repayment difficulties. The G20 Debt Service Suspension Initiative could be extended to include debt relief and cover private creditors. Finally, targeted capital controls could mitigate money outflows and reduce capital market volatility.

This proposal links to Boosting Monetary Policy Capacity, in the development of a synthetic currency and curbing private leverage and Democratically Embedded Central Banking, in shifting decision making on the international financial architecture from private to public actors.

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