Club of Three webinar – 18 June
Meeting summary

In June, the Club of Three held a webinar on the theme “Navigating Europe’s economy out of lockdown: what levers, what risks, what opportunities?”. Economic considerations, and more specifically how to manage the major recession triggered by the coronavirus pandemic, were beginning to take centre stage as countries around the world emerged slowly from a long period of confinement.

The main task for European countries was to minimise the impact on their economies by limiting the number of business bankruptcies and keeping the unemployment rate as low as possible. This was a particularly difficult exercise due to the high degree of uncertainty surrounding current forecasts. Much would depend on whether fears of a Covid resurgence in the autumn materialise.

The discussion that took place on 18 June, chaired by Club of Three Chairman Michael Maclay, was led by three speakers: Paul Achleitner (Chairman of Deutsche Bank); Laurence Boone (OECD Chief Economist); and Lord Turner (British economist and Chairman of the Energy Transitions Commission). Over 40 senior figures from business and the policy field in France, Germany and the UK took part in it.

The latest OECD forecast released on 10 June provided a sombre assessment of what the world could expect in the coming months. The Paris-based organisation predicted that world GDP would contract by 6-7.5% this year, and in the Eurozone area GDP could drop by up to 11.5%.

In Europe, the pandemic was going to further deepen divergences between EU member states. By the end of 2021, GDP per capita in Spain would be more than 35% below that of Germany, and about 30% in Italy.

Confidence was going to play a key role in the economy recovery period, and the fact that some European governments had handled the health crisis relatively well gave reasons for optimism about their ability to steer their countries out of recession.

The very large size of the aid packages swiftly adopted at national and EU levels, as well as European Central Bank (ECB) intervention, also represented considerable levers. The expectation was that more public support would be needed soon, as the economic recovery anticipated for (in) 2021 would still leave GDP level 10% below that of 2019. However, the next rescue effort would likely be targeted at specific areas of the economy. The Covid-19 impact on face-to-face sectors such as real estate, food services, and arts and entertainment was set to linger.

One of the risks of such bailouts for businesses was a shift towards state capitalism. The experience of the financial sector following the 2008 crisis had shown that, once sanctioned, government involvement in corporate affairs was hard to reverse.

Rather than being a game changer, Covid-19 would lead to an acceleration of ongoing structural changes, especially digitalisation. As Lord Turner noted, the need to maintain social distance in the workplace and to monitor employers' health was going to increase labour costs relative to the cost of robots. This was likely to prompt some businesses to bring forward automation plans.

Intensifying digitalisation was seen as a potential risk to major employment basins such as the hospitality sector which had so far largely compensated jobs lost to automation in manufacturing. But there were also opportunities for deep transformation of our societies. Unlike in past decades when people had to live relatively close to where jobs were based, digitalisation and the growing acceptability of remote working post-Covid mean that work was now more likely to relocate according to where people want to live. For Paul Achleitner, focusing on quality of life could give Europe a competitive advantage.

At the macroeconomic level, Europe was entering a period of increased 'japanification' with sustained and structurally low interest rates and quasi permanent quantitative easing measures by the ECB. Governments could look forward to borrowing money very cheaply, making large public deficits fairly affordable. The new environment shaped by Covid-19 presented a major opportunity for the energy transition. More than ever, this was the right time to take advantage of low capital costs by unleashing very high investment in the electrification of the transport system and development of battery technologies. And it was important not to lose sight of the social divisions that had been highlighted during the pandemic. Five years from now, Europe will need to show it had learnt from the crisis the right lessons about innovation and social justice.