

[SUMMARY]

The European Union's Response to the Covid-19 Crisis: Balancing Conflicting, Contradicting Perspectives¹⁾

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I. Covid-19 and European Variety

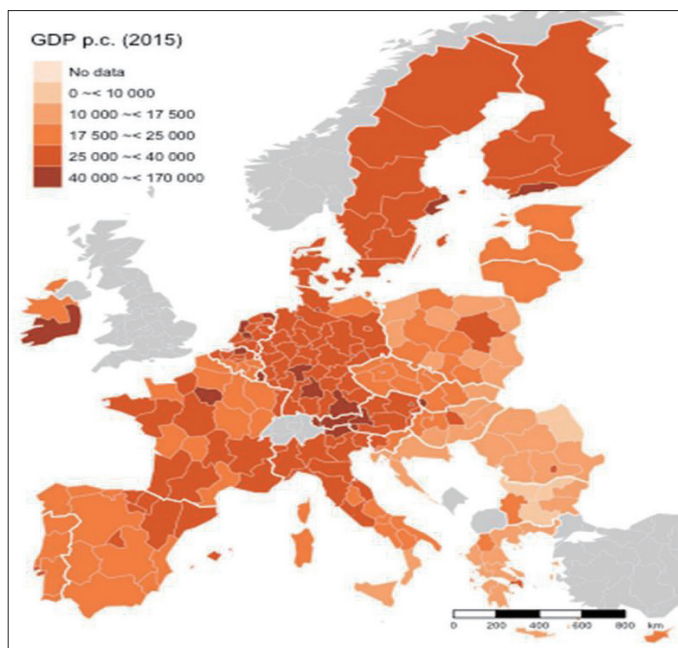
The Covid-19 crisis hit member states of Europe’s Union sequentially. First dramatic news came from Bergamo in Northern Italy. Subsequently, and inexorably, the whole continent was concerned by the pandemic. Initially, responses were barely coordinated. Travel in the passport-free Schengen area was restricted. Also, for workers, used to cross - for decades physically inexistent - borders, e.g., between the Saar (Germany) and the Loraine (France) regions, commuting became a challenge, if not infeasible. Worse, conflicts arose between member states about access to masks. Nationalism raised its ugly head.

Member states were also hit differentially, at least initially. This meant with the severity of the blow differing, substantially different needs to respond. Moreover, capacities to react - for instance, availability of ICUs - differed. This reflected a variety of policy priorities across member states, obviously, infrastructural background conditions not amenable to change overnight.

Rather rapidly, however, the EU’s member states got back into a cooperative and coordinating mode. Not without the typical bickering along the stereo-typical cleavage lines: North-South/East-West. On balance, though, outcomes have been comparatively reassuring for the European project. This is pretty much in line with the European Union’s historical evolution, including intermittent hitches (Kotz & Maier, 2017).

In this brief note we will sketch three points: the diversity of the EU’s member states - in terms of economic background conditions, cultures as well as preferences. Then, we will describe how and why the European level came into play when the Covid-19 crisis was managed. Subsequently, we will highlight two important EU policy initiatives - vaccine procurement and the EU-wide economic stabilization response, i.e., the so-called Next Generation EU initiative. And, in concluding, we will allude to other domains where EU members will have to cooperate, that is, where public goods have an EU dimension.

Figure 1: GDP per capita in purchasing power adjusted form at NUTS 2 (essentially, provincial) level



Graph from (Beck & Kotz, 2018); see also (World Bank, 2019).

II. European diversity and its policy consequences

Per capita income varies substantially across the European Union. In fact, it varies also strongly within nation states, i.e., at the level of regions or provinces and counties.

This could have meant that access to medication or a potential vaccine would be contingent on income. In other words, the poorer regions standing behind in line, if getting a hand on treatments at all.

Diversity is also evident from a macro-economic perspective. Budgetary positions, labor market conditions as well as interest rates, an overall indicator (see Figure 2), capture these differences²⁾.

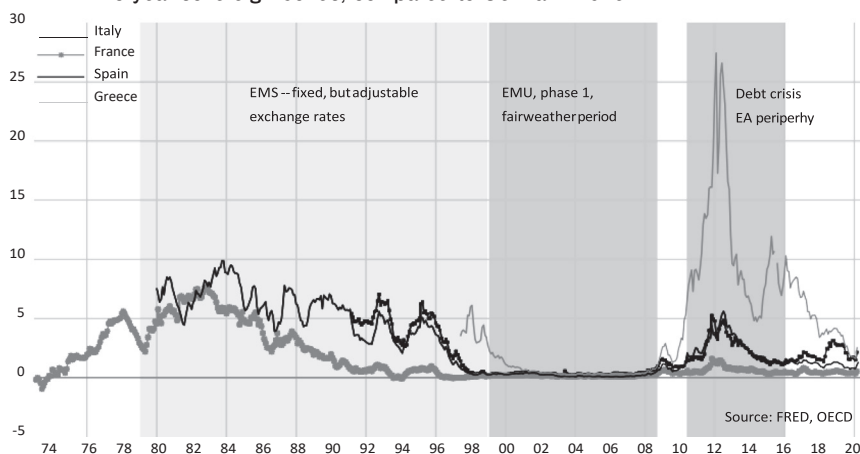
Finally, as in particular the late Alberto Alesina has demonstrated (in a number of publications and with various co-authors) differences in national cultures prevail. They come with substantial variety in national policy preferences (e.g., Alesina, Tabellini, & Trebbi, 2017). Such differences also correlate with often considerable institutional idiosyncrasies. Think, for example, of the various approaches of facing the potential rise in unemployment, as result of the

combined and massive demand and supply shock which the pandemic amounted to. Germany, for instance, as an immediate reaction to the Covid-19 shock, made use of its well-established Kurzarbeit scheme. This institution allows for cushioning a shock to employment by reducing the input of labor hours while largely compensating for income losses. Funding is shared between public sector budgets and the employment insurance scheme, co-financed by employers and employees.

The scheme - in addition to worktime accounts, the behavior of 'social partners,' i.e., unions and employers' associations etc. - had proven remarkably successful in the wake of the Great Financial Crisis (Möller, 2010). At the time as well as during the Euro-crisis from 2011 onwards, comparable mechanisms were unavailable in most EU member states. But now they are. In the wake of the Covid pandemic, the EU has established the "European instrument for temporary Support to mitigate Unemployment Risks in an Emergency," or, for short, the SURE program. It has disbursed more than €90 bn to 19 member states in order to mitigate the unemployment fall-out of the crisis.

Still, differences in assessment, background conditions and means to mitigate the effects of the crisis existed. This showed especially in the large

Figure 2: Sovereign spreads
10 year sovereign bonds, compared to German "Bund"



Spread between respective sovereign and German Bund for selected European countries between the end of the Bretton-Woods-System, the European Monetary System (with exchange rate risk), the first ("quiet") and the second ("troubled") phase of European Monetary Union (with default and redenomination risk).

variations in discretionary stabilizing fiscal policy measures. The immediate fiscal impulse in Germany amounted to 8.3% of 2019 GDP, in the case of Italy it was 3.4% and in Portugal 2.5% (see Anderson, 2020).

Monetary policy is, of course, Europeanized, at least for the case of the 19 member states of Europe's Economic and Monetary Union. Nonetheless, the ECB's pandemic emergency measures are transmitted differently, contingent on the respective national background conditions (financial systems, behavior of labor markets). As a result, since summer of 2021, the ECB implements its asset purchasing programs more flexibly, meaning it deviates from the capital key (share of the EMU member states in the capital of the ECB) when buying eligible assets.

III. Pandemic Containment - A European Public Good

In order to gauge why international coordination of macroeconomic policies was so difficult, Richard Cooper³⁾ asked how this cooperation came about in public health. What he pondered about was: "Is there something about international cooperation that makes it peculiar difficult? (Cooper, 2001)

In this immensely interesting contribution, Dick Cooper used the case of international efforts at containing infectious diseases since this was an example of cross-border leakages and linkages where cooperation would make obvious sense. He stressed as necessary conditions for joint efforts: a common, shared diagnosis, an agreement about which instruments should be used to achieve the common objective and the capacity to commit to reliably contribute to the common effort, i.e., not to renege on promises (not to re-calibrate, re-optimize - not to free-ride).

Containing a pandemic is, quasi by definition, a global public good. But as things stood, the proclivity to get first in line prevailed. International cooperation was not up to par, not by far. While the world was very lucky to invent effective vaccines so swiftly, they could not be produced at sufficient

scale. Hence, the run on the scarce treatment. The EU, charged with the procurement, fell behind and was strongly criticized. But while the EU exported 50% of its vaccines, the U.S. as well as the UK exported nothing. As a result, they were (for a while) ahead in vaccinating their citizens.

IV. Two EU measures: Provision of Vaccine and NextGenEU

Tables have turned since. The EU commission has bought and allocates vaccines on a per capita basis across its member states. In principle, per capita income should not count.

However, the issue in terms of uneven distribution (in Europe) is not access. Vaccination rates do diverge dramatically apparently for two reasons. This has to do with distrust in public policies, fanned by conspiracy theories. But it also correlates with household income and access to proper information (Guetta-Jeanreneaud & Mariniello, 2021).

The second EU-wide initiative to contain the pandemic's detrimental effects concerns the Next Generation EU program (Verwey, 2020). Building on a Franco-German proposal, this program is now to be implemented. The EU commission had approved until mid-July 16 recovery plans submitted by member state governments. The objective of the Recovery and Resilience Facility is to support structural adjustments in member state economies, with an emphasis on addressing climate change (green transition) and the challenges arising from digitalization. Largest beneficiaries will be Italy and Spain who account for almost 50% of the overall envelope of €750 bn (in 2018 prices).

This initiative comes with at least two important aspects which merit highlighting: To fund the program, the EU issues debt, jointly and severally underwritten by member states, to be paid back over three decades. Until only very recently, a unanimous interpretation of the Treaty on the Function of the EU (Art. 310) was that the EU was simply prohibited from borrowing to finance its expenditures. So, this is a first, and some

hope that it will not be an emergency measure only.

Secondly, €390 bn will be provided in the form of grants, hence not adding to debt in the receiving member states. This transfer is palpably welcome, given that numerous member states have rather fragile debt positions. While the EU has enacted place-based regional support policies (cohesion and structural programs) for a long time, this is another very substantial first: Transfers from the richer to the poorer EU member states - initial steps towards the much-maligned transfer union?

V. EU - looking forward

Spillovers, interlinkages, the reach of cross-border externalities mean that there should be benefits in cooperating. Structural interdependence, as Dick Cooper argued, means that the best response has to account for what partners will do.

Such European provision of collective goods makes sense for "policies and initiatives whose value to the citizens are higher when conducted at EU rather than at national level" (Fuest & Pisani-Ferry, 2019). Clemens Fuest and Jean Pisani-Ferry list 8 policy domains where, in their view, Europeanization would be beneficial.

To conclude, we just raise one of them: All issues having to do with climate change are, ultimately, global. But even to organize agreement between EU member states is a complicated venture. Complications arise from different diagnoses and assessment, asymmetric distribution of means to respond and diverging views on which tools to deploy, with what intensity - over which period of time, how fast.

Still, the EU seems to give reason for hope. Here, nations appear better able to agree.

Notes

- 1) Based on a presentation at the Joint Freiburg-Nagoya Project Group Programme 2018-21 *How Traditions of Economic Thinking Shape Economic Policies* Online-Workshop, April 14, 2021; I am

indebted to Günter Beck, Oliver Landmann and Charlie Maier for many discussions on issues around European integration.

- 2) On such differences between Italy and Germany, see my brief note (Kotz, 2021) from where I also borrow the graph showing the trajectory of spreads since the mid-1970s.
- 3) Richard Cooper, an enormously learned and erudite scholar, understood himself as a social scientist. He passed away in December of 2020.

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