



# The EU and Covid-19: what we have learned so far

by László Andor

Now that life has returned to the EU institutions and work has started again after the holiday season, it should be highlighted that the summer had not been wasted. Indeed, the European Council adopted critical, innovative and to some extent revolutionary decisions in July to create an effective fiscal capacity against the recession triggered by the Covid-19 pandemic. The main products of this fiscal capacity are the newly conceived anti-crisis fund (Next Generation EU), and the seven-year EU budget (multiannual financial framework, or MFF) to which the first is attached. These decisions have already been duly scrutinised and celebrated. Here I would therefore like to offer some further general observations regarding the effects of the pandemic on the EU.

## CRISES ARE NATIONAL AND RECOVERIES ARE EUROPEAN

The Covid-19 crisis has been another episode showing that practically all emergency and stabilisation mechanisms are located at the national rather than European level. And what is more, this appears to be a rather general flaw in the structure of the European Union, given that in one decade we had to face the consequences of this uneven European construction three times – and each time in a different field.

The first time was with the 2010 financial crisis, the second with the 2015 migration crisis, and the third, most recent, time with the 2020 Covid-19 crisis. All of these crises, however, have succeeded in pushing the EU towards building more emergency and stabilisation capacities, and delivering "de facto solidarity", as the late French foreign minister and

EU founding father Robert Schuman called it. Furthermore, these crises have also exposed the EU's focus as being to allow for free movement. Indeed, this is a central component of the single market. And yet while free movement contributes to shared prosperity in 'normal times', **in 'bad times'**, when economic recessions or other types of crisis hit the bloc, the Member States tend mainly to rely on themselves, or bilateral deals. **Border guards return, the profiles of EU officials diminish, and citizens look to their national leaders.**

Generating recovery from these crises, however, requires renewed EU efforts and creativity, and this time the solution has come in a relatively well coordinated and timely fashion. Although there was some initial hesitation, the counter-cyclical response from the ECB has been swift and decisive, especially compared to the previous crisis. The recession caused by

Covid-19 has nevertheless reignited the debate around the economic architecture of the EU, with a focus, once again, on the possibility of common fiscal capacity. In May 2020, the Commission put forward an ambitious two-tier proposal that was, after modifications, adopted by the heads of state and government in July.

Importantly, the EU level response to the labour market crisis emerged even earlier than the budgetary initiative. Already in March, the Commission had put forward a proposal for the creation of a European instrument for temporary support to mitigate unemployment risks in an emergency – an instrument known also by its acronym SURE. Even if this initiative fell short of delivering common unemployment insurance (or at least a reinsurance), it certainly created an effective tool to support short-time work (STW or Kurzarbeit) schemes in the EU Member States.

Once it was understood that many economic and social activities would have to stop in order to eliminate Covid-19, public attention shifted to the rapid rise in unemployment as one of the highest risk factors of the disease. **What Richard Nixon said 50 years ago suddenly became very true: "we are all Keynesians now".** But allowing public deficits to grow well beyond standard ceilings was not enough and nearly all European governments introduced either STW-schemes, or wage subsidies, or new income protection schemes, or a combination of the three.

Based on the 2020 crisis response, one can detect a significant, if not compelling, contrast between the austerity-focused answer to the past eurozone crisis and the current willingness in the coronavirus recession to engage in counter-cyclical policies, with job as well as income protection. And indeed, in the current crisis, progressives can be bolder than in the past because some of the liberal and conservative forces have also adopted or advocated Keynesian policies. Despite this, the progressive governments' strategies have still shown a good degree of diversity across EU Member States.

#### | DOMINANT PARTIES ARE DIVIDED

The one hundred hours of the July European Council exposed deep divisions in all three dominant political families – but they are not divided in the same way. In a nutshell, **the Social Democrats are divided on economic policy, the Liberals are divided on political strategy, and the European People's Party (EPP) is divided on morality.**

The position of the EPP does not require too much explanation. The European Council was about to include a decision on a serious and effective rule of law mechanism as part of the MFF deal, but in the end the language adopted did not go beyond the usual generalities. And the reason for this is that the EPP is unable to sort out its internal divisions on the rule of law question. Consequently, the moderates from the West and the North (the Angela Merkel types)

always end up protecting the corrupt strongmen (notably Viktor Orbán and Boyko Borissov) who keep using EU money to feed their oligarchies and to cement autocratic regimes.

The liberals are meanwhile united against the authoritarian nationalists, but divided on the political strategy of Europe. Emmanuel Macron, the leading centrist head of state, has been fighting for a quantum leap in European integration ever since his election as French president. But on this question his main adversary is another liberal leader with a strong profile – Mark Rutte. The Dutch prime minister seems to be reviving the British approach, but without the weight of the UK (although he is nevertheless successful in finding allies in other political families). Rutte's July performance went beyond mere frugality, and the Liberals of Europe will have to work hard to overcome this polarisation, as the current crisis is bound to bring new debates on further integration.

The Socialist/Social-Democratic family is fairly homogeneous concerning issues connected with social rights, like welfare policy and industrial relations. However, when it comes to economic policy at the European level, there is indeed polarisation. This was displayed in full in July, when three out of the five 'frugal' prime ministers appeared in Social Democratic colours – all of them from the North. At face value,

this was just monkey business. When benefits were on offer in the form of continuing budget rebates, it would have been a mistake to miss out. The reality, however, is that Nordic Social Democrats are either sceptical about joining the single currency altogether, or simply oppose the judgment that is a near consensus in academia. They thus suggest that the EMU in its current form is not sustainable, and that a monetary union would require a significant amount of risk sharing and fiscal capacity.

While work is clearly needed on the internal divide of the Social Democratic family on economic policy, it should not be forgotten that **it has been progressive governments that have displayed some of the best practices during the Covid-19 crisis.** Denmark, for example, under the leadership of Mette Frederiksen, was especially quick to announce a rescue package based on social dialogue. Her Finnish colleague, Sanna Marin, has meanwhile been active in looking for ways to shorten the working week. And when large sectors of the economy required direct subsidies, the more progressive governments (such as those of Denmark and Spain) stood out with additional conditionality in their exclusion of companies headquartered in tax havens, and also in their banning the distribution of dividends to the shareholders of large companies in receipt of public support.





Spain, still haunted by the memory of its devastating 2009-13 financial crisis, is now applying a completely different approach compared with the previous period when it was all about muddling through. The country is now, therefore, implementing a labour reform oriented towards flexibility as well as aggressive internal devaluation. The centre-left coalition government, led by Pedro Sánchez, has launched an STW scheme with very wide coverage, the so-called ERTE programme. It has also introduced a bold basic income model.

Altogether, the Covid-19 health crisis and the resulting economic recession have provided an opportunity for progressive governments to demonstrate their added value, and this has indeed become widely acknowledged, especially in the cases of countries like Finland, Denmark, or New Zealand. Sensitivity to gender aspects of the crisis has been one of the most important features of these countries' outstanding performance. The key has been to implement policies that ensure the most vulnerable members of society have a safety net on which to rely during the crisis. The key has also been to implement policies that ensure **the restart of the economy is done in a way which is fair and with equal distribution.**

#### THE LOCKDOWN IS ABOUT OUR CIVILISATION

The central element in the anti-coronavirus strategy of European governments has been the enforcement of social (or physical) distancing, and the 'lockdown'. This was at least the case in the first phase of the pandemic, when the spread of the virus had to be brought under control. And in the absence of an effective vaccination, our society has to be prepared for another lockdown (and perhaps another after that). The nature of the various lockdowns can nevertheless differ.

The first lockdown was essentially about saving the health systems of EU Member States by avoiding a sudden rise in coronavirus cases,

which would have been unmanageable by the hospitals. Italy actually came close to this kind of hyper-emergency, in which doctors had to decide who received treatment and who should be left with less chance of surviving. Within a few months, the disease was tamed in Europe and health capacities were restored and adjusted, so that a new phase with fewer restrictions was then allowed. However, the virus is now back on the rise after the summer holidays, and the restrictions are beginning anew, with a fresh round of measures.

The second lockdown, which we are all anticipating for the early autumn period, will be different from the first. What is at stake today is not so much healthcare but the education system, and especially primary education. The forced experiment of everyone turning to online teaching and learning in the spring showed that online educational performance is inferior to that of conventional schooling. **Without an effort to partly restore standard forms of education, the next generations will suffer, and inequalities in knowledge and skills will grow enormously.** For a revival of education, there will have to be a sacrifice elsewhere, and this not only needs to be coordinated but also put to debate.

The point, however, is that healthcare and public education are central parts of our civilisation and the European way of life. Nevertheless, it is not the overall consumption levels that will primarily have to be restored after the pandemic, but the systems that support our social cohesion and enlightened values – with equality in the centre. The EU institutions, which are now committed to protecting and even promoting the *European way of life*, need to play a role in forging consensus around this strategy. European coordination can help establish similar policies and similar practices in social behaviour. This will strengthen the legitimacy of crisis response measures. At the same time, it will also improve our chances of surviving the pandemic and of preserving our European civilisation.

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László Andor, FEPS Secretary General