DISCUSSION PAPER

EUROPE'S POLITICAL ECONOMY PROGRAMME

23 APRIL 2020

The economic impact of COVID-19 on the EU: From the frying pan into the fire

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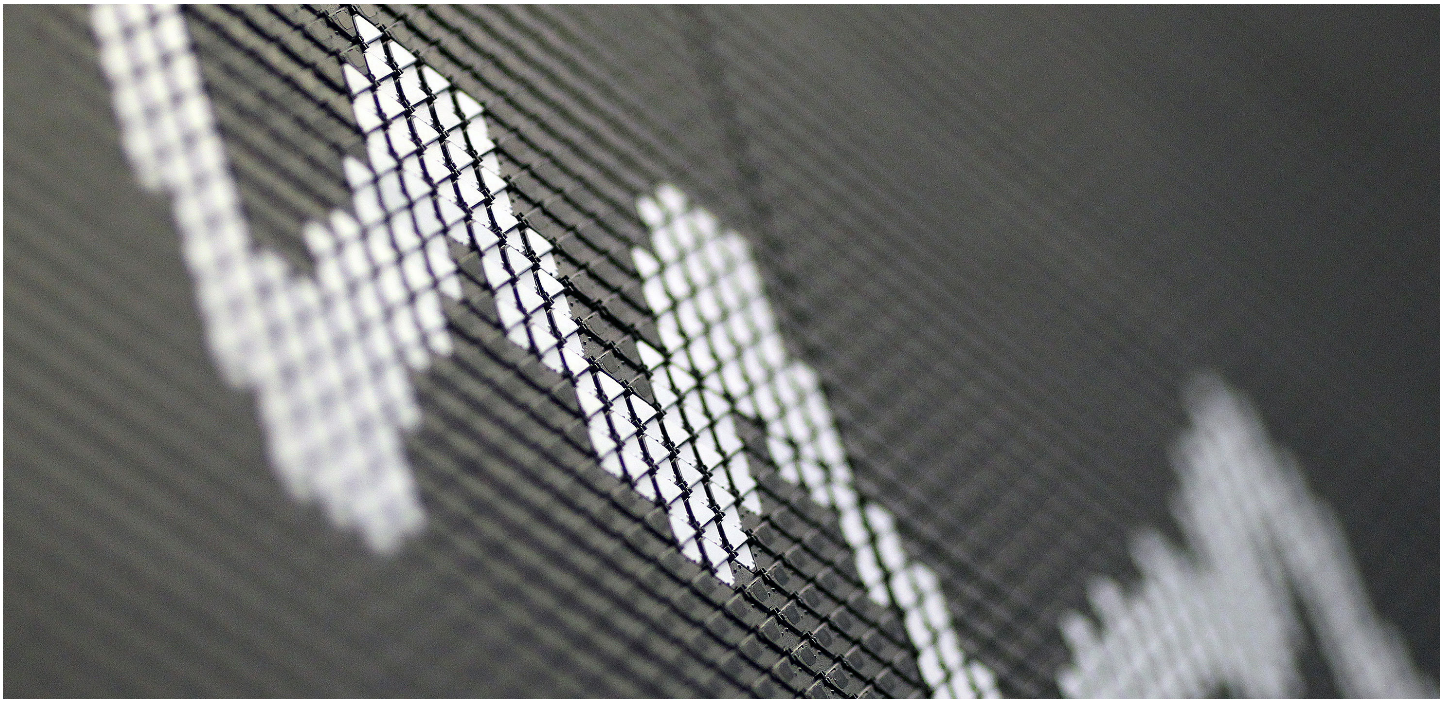

Credit: Daniel ROLAND / AFP

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10 Takeaways

1) It is highly uncertain how the economic crisis that is already hitting the global economy will continue to develop. This matters both in terms of developing a strategy, including an exit strategy from the current period of lockdown; and for policymaking, resulting in greater uncertainty about the effectiveness of potential crisis responses.

2) This crisis will likely be very different from previous economic downturns. There will be at least two phases: a period of lockdown, followed by a rebound; and the subsequent, longer-term recession or even depression. Policies must be targeted to deal with these distinct phases.

3) During the lockdown, it is necessary to provide bridging support to companies and individuals, to enable economic survival until restrictions can be gradually lifted. This will limit the accumulation of liabilities that hinder a reactivation of activities. For the subsequent recession, a continuous stimulus will be needed to foster and sustain recovery.

4) The possibility of a second wave of the pandemic in any territory cannot be excluded. Its likelihood will be increased if restrictions are loosened prematurely, amplifying the negative impact. A precautionary approach thus minimises the potential impact on not only health but also the economy.

5) There will not be a return to the pre-crisis economic environment. There will be structural shifts and permanent changes to levels of demand for particular goods and services. Policies will need to be adjusted to ensure that jobs and economic activity which will not restart post-crisis are not maintained indefinitely. Governments will need to manage permanent reductions in demand.

6) The economic impact of the crisis will vary, depending on different trajectories of the crisis as well as specific vulnerabilities and capacities of governments. Those regions and/or countries able to reopen early on are likely to have an advantage, regaining and, at times, overtaking others in the market.

7) Government action, including coordination across borders and of learning and feedback, will matter. Governments will also be much more involved in many parts of the economy. However, the capacities of governments will also be more limited, given increased levels of debt and the need to support many parts of the economy in the long term. The capacity to act also differs between governments.

8) Global and European interdependence will persist in the post-crisis environment. But European and international supply chains will potentially be disrupted and, at times, permanently altered in the aftermath of the pandemic. To be able to maintain Europe's current living standards in a more restrictive global environment, reliance on each other, including the Single Market, will be crucial.

9) The world's approach to economic development will alter. In some countries, the crisis will generate an impetus towards a more sustainable and socially just society. However, many governments will be tempted to focus on jobs and growth solely, regardless of distributional or environmental impacts. The delineation between the public and private sectors will also become increasingly blurry and approaches to macroeconomic management, monetary policy and the financial sector are likely to change in the post-pandemic phase.

10) The only effective instrument that has been created to deal with cross-border challenges like this pandemic and its aftermath is the European Union. However, it crucially depends on whether Europe will deliver collectively. This will require fast and decisive action, including unconditional and effective solidarity. Old divisions should not be allowed to stand in the way of an effective crisis response.

The key lesson is that at a time when many instincts point to a greater focus on the national level and greater sovereignty and self-reliance, the best answer lies in greater cooperation, at the very least at the European level.

A long and uncertain economic crisis

For the time being, the health impact of the COVID-19 pandemic will, for obvious reasons related to the devastating effects of the virus, continue to be at the forefront of public policy. However, the concerns over its economic impact are already omnipresent, too. One of the great uncertainties of this crisis is the nature of its long-term economic impact. It will most certainly be bad, and almost certainly be worse than the financial and economic crisis of a decade ago, with many referring to the Great Depression of the 1930s.

The International Monetary Fund's current GDP forecast for annual growth in advanced economies in 2020 is a contraction of more than 6%.[1] This might need to be revised downward at it does not fully capture the economic shock experienced everywhere. The economic repercussions of COVID-19 will be felt for quite some time; most certainly in 2021, which is looking to be a very difficult year, but most probably even beyond that.

Uncertainty matters, not only at the individual and corporate levels but also for the design of policy interventions.

The period of enforced economic inactivity in large parts of the EU economy not only impacts revenues, income and employment in the short term but also affects the long-term sustainability of many businesses. For example, many will accumulate debt during the lockdown. Clearly, government policy will mitigate some of this impact, especially in the short term. However, there will inevitably be limits that are also dependent on the length of this inactivity period.

The uncertainty is even greater regarding the period following the gradual exit from the lockdown. The shape of the recovery to hopefully come is indefinite and very dependent on the nature of government intervention. Some countries will be able to cushion the negative trends much more effectively than others, which will increase divergence further.

Uncertainty matters, not only at the individual and corporate levels but also for the design of policy interventions. What instruments will best amplify the expected bounce back at the end of the lockdown? How can we deal with the geographically different trajectories of this health crisis, which will impact on economic recovery, taking into account country-specific economic vulnerabilities? How do we best adapt to (widely anticipated) permanent shifts in demand between different activities and sectors? How will international and European supply chains be affected? How will the EU's long-term policy trajectory towards the Green Deal be affected by the significant cash injections required to address the immediate crisis impacts now? Which orthodoxies will need to be jettisoned, and which ones promoted, to address the systemic nature of this crisis? The answers to these questions depend on a better understanding of what is happening and what will come next.

What kind of crisis and recovery?

There is much discussion and uncertainty on the shape the curve of the economic crisis will take, given the unprecedented nature of the COVID-19 crisis. As illustrated below, some people have stipulated that we might face a V-shaped crisis, with a sharp decline in GDP but a rapid recovery. Others believe a U-shaped crisis is more likely, with a long-term decline (albeit less extreme) and only a gradual recovery. However, what many fear is an L-shape, where a decline is followed by a long-term depression without real recovery (see Figure 1).

The economic effects of the crisis are very uncertain and, in any case, unlikely to precisely follow the trajectories outlined above. There are possibilities of mixed trajectories: the shape of recovery altering over time, or a double dip (i.e. a W-shaped curve).

However, this crisis is likely to be fundamentally different from previous economic downturns. While predicting the economic impact precisely is impossible, the nature of this crisis will probably be unlike any economic crisis of the past. The enforced period of inactivity in countries hit by the pandemic, aimed at flattening the infection curve, led to an almost overnight precipitous fall in economic activity. An increasing number of companies are entering dangerous waters during the lockdown, not least because of the accumulation of liabilities without generating income. The longer that period of inactivity goes on, the more GDP will drop.

This crisis is likely to be fundamentally different from previous economic downturns.

Fig. 1

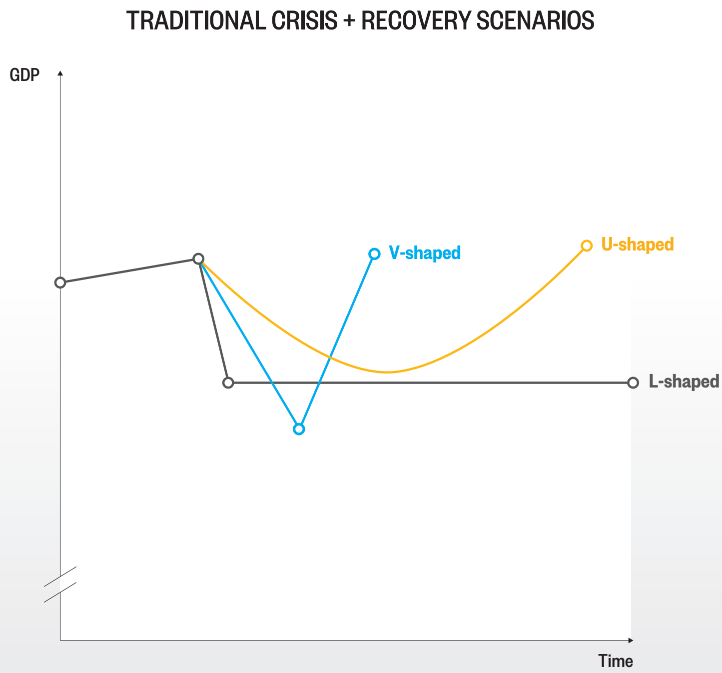
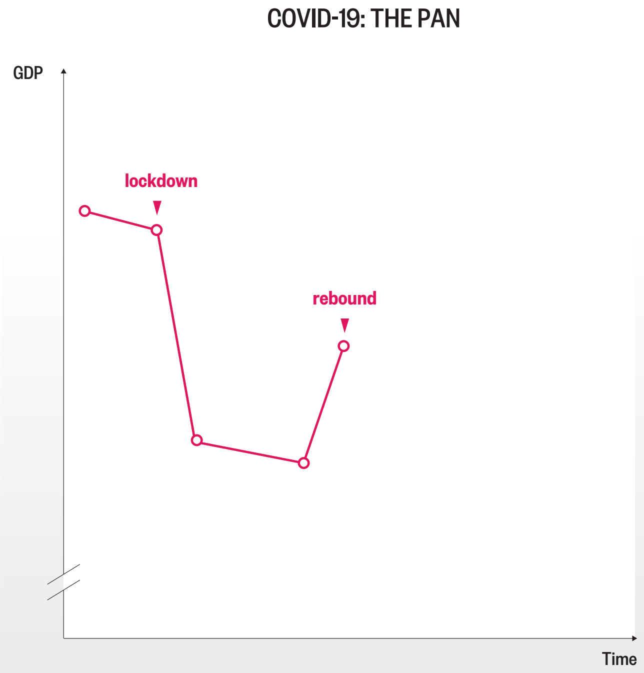


Fig. 2



Post-lockdown, as most people and companies go back to work, a rebound is likely to occur. This will recover some of the lost GDP, but fail to recover it all. Furthermore, the conditions under which the lockdown will be lifted will heavily influence the nature and speed of recovery, not only in absolute terms but also with differences between countries, economic sectors and types of work. The shape of this crisis might well resemble a tilted pan, as illustrated in Figure 2.

What explains this possible trajectory? The shape of the pan – its depth and width, and the size of the rebound – will differ by country, depending on the evolution of the pandemic within national confines and the measures taken. This, in turn, will be dependent on both country-specific capabilities and economic vulnerabilities (e.g. dependence on tourism). When studying annual data, the post-lockdown rebound will not necessarily be visible as there will only be an aggregate, cumulative effect. In addition, the effect is likely to be mixed up with subsequent economic developments, with the rebound potentially creating the false impression of a return to growth.

Caution will need to be taken to analyse the economic effects in greater depth, both over time and in disaggregated localities. The danger is that the situation is misjudged and that specific needs of particular places are overlooked within a too-broad aggregate picture.

Dangers of easing restrictions prematurely

There is a real danger that the end of restrictions will come too soon. If this leads to a second wave of COVID-19 after reactivating economic activity and another phase of lockdown – partial or full –, the negative economic effect is likely to be reinforced. The pan shape will be replicated, albeit at an even lower GDP level than after the initial period of lockdown, resulting in a downwards ratchet effect and an even weaker rebound. Figure 3 illustrates the dangers of lifting restrictive measures too soon.

Again, there are further, possible variations. For example, only a partial lockdown could be necessary, or the second wave could be territorially patchy. Restrictions could be eased over time, in different phases. A second lockdown slump could affect only certain territories within a country if there are different local restrictions. And, in the worst-case scenario, this whole process could stretch over a protracted length of time, with multiple slumps and the possibility of no rebound due to ongoing uncertainty and restrictions.

Fig. 3

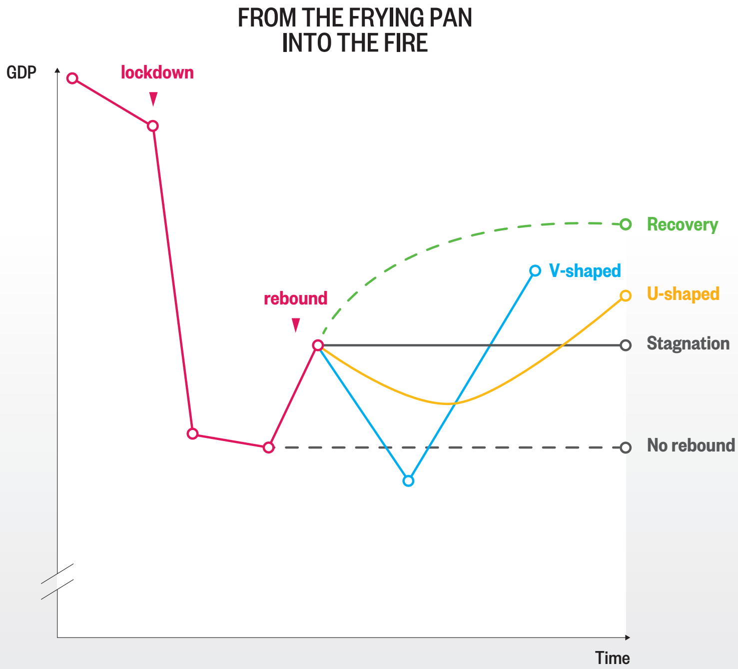
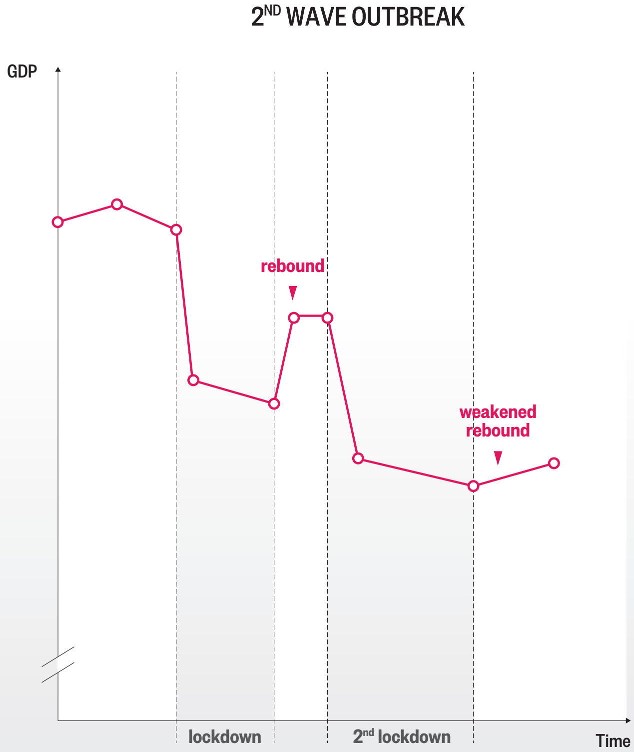


Fig. 4



From the frying pan into the fire

Only after restrictions are relaxed and the consequent rebound has occurred will the full impact of the crisis be felt. In the best of all worlds, the recovery would commence post-rebound, slowly regaining the GDP lost during the acute crisis. More likely, however, is a long-term economic crisis that adds to the economic output lost during the lockdown. As explained above, such a crisis will have different shapes depending on the scenarios. If the lockdown creates too much damage, there might not even be a rebound. Different scenarios are illustrated in Figure 4. Only after this further economic downturn would a slow recovery begin, with the length of time to attain pre-crisis levels of GDP once again being uncertain.

The slump associated with the restrictions itself is thus not the only concern. Arguably, the initial economic downturn is almost a static effect followed by a partial rebound. While government policy can help by ensuring that businesses do not collapse during this period, government and/or EU stimulus action would have the greatest effect in influencing the shape of recovery during the post-restriction phase.

This also implies that a double-dip recession is almost inevitable. The rebound effect is unlikely to last or be sustainable. Governments and economic actors should focus on the long haul, countering the long-term economic downturn and preventing it from becoming a protracted depression, in addition to mitigating the short-term impacts of the lockdown period.

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Returning to the past?

After the lockdown phase – with all its potential ups and downs –, the strength of the rebound will depend on whether and to what extent economic activity can resume. This will critically depend on the demand for particular types of goods and services. While this is hard to predict precisely, it is unlikely that demand will return (quickly or at all) to pre-crisis levels in a number of sectors (e.g. aviation, tourism), creating excess supply. The consequence might be that certain economic activities in locations that promise to have low demand in future, and consequently low growth rates, will not resume. This could, for example, be an issue in places like the UK where the long-term trajectory suggests lower growth rates due to Brexit, or locations dependent on sectors (e.g. tourism) that will remain subdued. Nevertheless, governments are likely to continue supporting such sectors, given that they will have already been supported throughout the lockdown period.

After the lockdown phase, the strength of the rebound will depend on whether and to what extent economic activity can resume.

This can create inefficiencies in public policy if the aim of an intervention is to maintain ongoing activity throughout the lockdown. For example, *Kurzarbeit* programmes effectively retain employees in times of low demand, ready to be 'reactivated' once the worst of the crisis has passed. This worked well for countries like Germany that returned to 'normal' after the 2008 financial and economic crisis, but it might not work as well in the current crisis if the world does not return to pre-COVID-19 crisis patterns. Effectiveness might also differ between countries, for example, if the economic crisis is deeper and/or takes longer.

The world is not going to simply return to the behaviours preceding the crisis.

In addition, there are likely to be significant structural shifts. The world is not going to simply return to the behaviours preceding the crisis – at least, not on the same scale. For the foreseeable future, there will likely be less demand for air travel, while high demand for online shopping will continue. Certain sectors (e.g. health, education) will be prioritised for investment to build capacity for the future, with a greater focus on non-tradeable sectors. Overall, the focus of economies is likely to shift and become more inward-looking, with governments taking a greater role in terms of ownership, stimulus and support. A necessary European industrial strategy will have new demands placed on it, not only adapting the existing set of rules but also coordinating national interventions.

A differentiated impact

The economic impact of the crisis will vary across countries and regions, depending on the pandemic's trajectory, the timing of the lockdown and individual characteristics of national economies. There will be different impacts due to the dominant sectors of the local economy, and the ability of economic activity to continue during the lockdown. Non-essential services involving direct contact (e.g. tourism, hospitality) are particularly affected.

Regions and/or countries that reopen first are likely to have an advantage, regaining and, at times, overtaking others in the market. However, a second wave in these respective regions and/or countries is likely to have a devastating effect, for example, in terms of economic activity returning to sectors like hospitality or tourism. Hence it is in national governments' interests to be extremely cautious when lifting some of their confinement measures.

Regions and/or countries that reopen first are likely to have an advantage, regaining and, at times, overtaking others in the market.

However, path dependency and endowments matter, too. Much of the impact will depend on the starting position of the country or region in question. The weakest among and within countries will (once again) pay a higher price, while the strongest will also suffer but to a much lesser extent. Already vulnerable places and groups of people are likely to be challenged further, even as others start to benefit from a rebooted economy, post-lockdown. The overall resilience of the economy – for example, in terms of the financial sector's strength or the fiscal sustainability of public finances – will play an important role.

Government action matters…

The exact trajectory of each country will critically depend on government action at the national and sub-national levels, in response to the health crisis and its economic repercussions. The EU's collective actions will be decisive, too. Effectively flattening the curve and gaining control over the pandemic are priorities, but the tricky question is deciding what restrictions to lift, and when. The earlier they can be lifted, the better – but only if the health crisis is under control, which implies, among other issues, a greater capacity to test, maintaining social distancing and hygiene, an abundance of masks, and the competence to track and localise outbreaks. As noted above, in the case of a second COVID-19 outbreak due to a premature lifting of restrictions, the economic costs associated with a repeated pan-shaped slump, in addition to health implications, are likely to be even higher. This implies that a precautionary approach is best, including from an economic perspective.

Governments must address their publics' fears and worries in times of high uncertainty and unpredictability.

During the lockdown, the main aim of governments has been to maintain employment and keep businesses viable by providing bridge financing, or easier conditions in terms of taxes or social security payments. The overall aim is to prevent irretrievable damage – economic capacity could be permanently lost if this period is not bridged. For certain sectors and the self-employed, where demand has collapsed completely, these measures will also involve providing additional income, financed through additional government borrowing. However, while this is necessary, it will be insufficient to kickstart the economy once lockdowns are lifted, and will leave many companies and individuals with large liabilities that are unmatched by their assets or income.

It is at the very end of the lockdown period, when economies rebound (to some extent), that there will be a need to provide additional public sector stimulus, including national and EU funds that are predominantly financed by borrowing. Member states and the EU will need to create additional demand through spending and public investment, providing substantive levels of state aid and, in many cases, taking on assets and, even more, liabilities from the private sector in areas like banking and finance, where the crisis could reignite difficulties around bad loans. This not only implies that sufficient funding must still be made available at this point, but also that the type of intervention might well be different from the remedies applied during the lockdown period. It also implies that public sectors must increase their capacity to manage these new economic realities (e.g. skills, management and procurement systems) while being constrained by fiscal pressures.

Governments must also address their publics' fears and worries in times of high uncertainty and unpredictability. If governments do not demonstrate that they can support the necessary turning point, the worst-case scenarios might actually become self-fulfilling prophecies. The right messaging, backed by the necessary actions, will be crucial, but can also lose credibility if citizens do not see a consistent message across borders.

This is a core reason why coordination across borders – especially in the EU – will be crucial, both in terms of dealing with the spillovers and the differing exit trajectories and economic response. Economic coordination is necessary to not only achieve the required scale of intervention but also deal with repercussions on competitive advantage or disadvantage resulting from interventions (e.g. state aid), which affects the level playing field within the Single Market.

The EU should focus on coordinating learning and feedback.

There will need to be a coordinated reduction of economic activity in sectors with excess capacity (e.g. aviation), which will impact the level of job losses across locations. Given the numerous spillover effects, a lack of coordination implies reduced effectiveness of measures within a single EU country and even the negation of actions taken elsewhere. In addition, the EU should focus on coordinating learning and feedback: determining what works and what does not, and learning from countries which emerge from the restrictive measures first, thus helping countries to benefit from each other's experiences.

… but governments will be weaker

While public authorities will need to be more involved and interventionist than in the pre-crisis phase, they will also be fiscally weaker. Governments will run large deficits due to increased spending and reduced tax takes. One of the key questions will be the sustainability of public debt, accumulated at an alarming rate during the crisis, which will add to the already challenging fiscal constraints in many countries. The fiscal space for most (if not all) countries will be limited. Support mechanisms, like the actions of the European Central Bank, are necessary and will reduce the interest burden in the short term. However, Europe might well re-enter a renewed sovereign debt crisis, especially if no effective form of mutualisation of (some) new debt is found.

There will be increased pressure to spend more on social security and public services.

Alongside greater debt and less fiscal space is governments' heightened need to support parts of the economy. There will be increased pressure to spend more on social security and public services (e.g. health, education), which will only increase in the post-crisis environment. This implies making difficult choices regarding, for example, retirement age and pensions. The need to support particular sectors will be ongoing, carrying the risk that companies that are no longer viable (in the longer term) continue to be supported. Much of that support will be focused in areas most hit by the crisis (e.g. transport, tourism). Keeping existing businesses afloat might make it more difficult to achieve longer-term goals of greater sustainability, increased innovation and digitalisation.

In addition, populism, illiberalism and polarisation are likely to persist or re-emerge, challenging democratic principles in Europe and beyond. While governments are enjoying largescale public support at the height of the crisis, the challenging longer-term economic environment might very well result in declining support. Populists already offer seemingly easy solutions and scapegoats (relating to e.g. migration, free movement) in an increasingly complex world, and these might well have greater resonance when in an economic slump. This will be a particular challenge for the EU, with Eurosceptic tendencies potentially increasing across the board and Eurosceptic governments taking power in more member states.

European and global interdependence

While COVID-19 is clearly a global crisis which highlights global interdependences, global cooperation is currently insufficient, and the G7 and G20 mechanisms are not delivering. This is concerning: at the very least, a minimum level of coordination and cooperation would help avoid the worst. The last thing the world needs now is a fully-fledged trade war that increases economic costs and counters rebinding effects. Further economic disruption would not be absorbed in this economic environment, but rather aggravate the economic costs – this also points to an argument to prolong the Brexit transition period.[2]

It is unlikely that globalisation will reverse. In fact, globalisation will have to be a key response and recipe to the inevitable economic crisis.

There is a further external dimension of the response to the pandemic's challenges, both in terms of healthcare and economic development. The crisis will hit developing countries with minimal capacities to address these challenges. Given Europe's commitment to global development objectives and moral responsibilities, as well as the repercussions that would be felt in the EU, there is a need to think proactively about how the EU can help these countries in need from the outset.

As a result of the crisis, global patterns will shift. It is unlikely that globalisation will reverse. In fact, globalisation will have to be a key response and recipe to the inevitable economic crisis. However, it will take a different shape, with many countries likely to emphasise some form of strategic autonomy, particularly in sectors that are seen as essential for the safety of citizens (including but not limited to healthcare). State aid for and state involvement in many sectors will become the norm across different economies, and more countries will attempt to shield strategic sectors from global buy-outs, creating a new dynamic in international trade and investment.

In many countries, the mindset of 'my country first' will strongly (re-)emerge in the aftermath of the health crisis. Suspicions and tensions will continue to characterise global interactions, and the most powerful countries will attempt to redefine their level of control over their relationships with the rest of the world. For smaller countries that are essentially rule-takers and dependent on the functioning of a global multilateral system increasingly under threat, this shifting of global relations will be challenging.

To be able to maintain Europe's current living standards in a more restrictive global environment, reliance on each other will become even more important.

In this context, the EU could potentially have a different role,[3] not as a global superpower but a champion of constructive and international engagement. This will only be possible if EU member states manage to act coherently.

For relatively small, open economies like EU member states, it will be economically essential to remain open and interlinked with the global economy. Nevertheless, European and international supply chains will potentially be disrupted and, at times, permanently altered in the aftermath of the pandemic due to differential trajectories in different parts of Europe and the world. It will be more difficult to move people around freely, and some restrictions along borders are likely to be persistent over time.

This makes the Single Market even more important for the EU and its member states. They are all unable to shape the global environment individually but are reliant on cross-border trade and investment. To be able to maintain Europe's current living standards in a more restrictive global environment, reliance on each other will become even more important. This will be challenging, as asymmetric national crisis recovery measures might well bring the Single Market under pressure, thereby increasing tensions between member states. By contrast, a functioning Single Market necessitates that member states work together more, including in areas where national emphasis still dominates (e.g. industrial policy). Given the level of integration and interdependence already achieved within the Single Market, the EU will not be able to achieve its long-term objectives – namely competitiveness combined with sustainability and strategic autonomy – without a common approach in industrial policy (on e.g. state aid, investment screening).

A new normal?

It is highly unlikely that the world, and Europe more specifically, will return to the economic status quo ante. The depth and nature of the crisis imply that there will be many structural changes, and the world's approach to economic development will alter. These changes can be positive or negative and might differ across countries and regions. It might be that in some countries, the crisis will generate an impetus towards a more sustainable and socially just society. However, many governments will be tempted to focus on jobs and growth solely, regardless of the social or environmental impact.

The crisis is likely to accelerate digitalisation and could, if supported by governments, help foster greater sustainability, including in terms of climate action. This is by no means automatic, however.

There will also be divergence within the EU. The Union will have to manage such tensions while simultaneously encouraging the positive transformations that remain at the heart of EU policy. Climate change and sustainability will still need to be top of the agenda, given the existential threat that remains to life on earth. The digital transformation still offers many opportunities for future growth. The crisis is likely to accelerate digitalisation and could, if supported by governments, help foster greater sustainability, including in terms of climate action. This is by no means automatic, however; it will need to be a conscious and sustained policy choice.

The long-term effects of the crisis will also challenge economic orthodoxies. The delineation between the public and private sectors will become increasingly blurry. In many areas, there is a call to suspend competitive behaviour for now and work on solutions cooperatively (e.g. the development of a vaccine). Such changes are likely to have longer-term repercussions, with governments providing strong, strategic leadership in the future, influencing or directing many private sector decisions. Exceptions to competition rules, state aid, even when clearly distorting the level playing field, and state influence or even ownership will be much more commonplace. This is a particular challenge for the European Union, given the impact this will have across borders, with different countries having very different capabilities.

These changes will challenge the Union. The institutions and mechanisms that it has set up over the decades are based on very different premises.

Approaches to macroeconomic management, monetary policy and the financial sector are also likely to change. Many private sector liabilities will become public liabilities, with the involvement of governments in banking and the financial sector most likely becoming a permanent fixture. Support to companies will be conditioned on a number of factors, allowing governments to adopt a much stronger interventionist approach to market and industry behaviour (e.g. corporate governance, possible 'greening' policies and practices). Many governments will end up with much more private equity than before the crisis. Monetary policy will increasingly be used to tackle 'real economy' challenges proactively. It might well be that our relationship to inflation will change, with a recognition that deflation remains a distinct threat and that a debt crisis is easier to address with a certain level of inflation. And debt will (to a certain extent) be mutualised, reflecting the inevitable interdependence between Europe's economies.

These changes will challenge the Union. The institutions and mechanisms that it has set up over the decades are based on very different premises. Namely, a central bank with a core focus on price stability, a Single Market that aims to eliminate governmental distortions across borders, economic governance that constrains governments and mutual debt, and a commercial policy that is based on maximum openness to the rest of the world. The achievements of this economic approach can and should be preserved but, at the same time, adaptations will be essential for a very different, post-COVID-19 world.

Implications for Europe

The COVID-19 crisis has demonstrated dramatically that we all live in an interdependent world, where inevitable spillover effects cannot be prevented, be it in the health or economic sphere. These large shocks, originating from outside of Europe but affecting us down to the local level, can threaten our way of life, both directly and indirectly. Arguably, at the global level, the only effective instrument that has been created to deal with such cross-border challenges is the European Union. This should be the Union's finest hour – but, crucially, it is dependent on whether it will deliver collectively.

At the global level, the only effective instrument that has been created to deal with such cross-border challenges is the European Union. This should be the Union's finest hour – but, crucially, it is dependent on whether it will deliver collectively.

There is much Europe can, and must, do. It requires fast and decisive action, with a much greater strategic orientation, anticipating developments rather than simply reacting to them. Europe needs a convincing economic package deal that draws on a range of different instruments to be armed with maximum firepower, as well as to put in place a coordinated exit strategy. Politicians must work together, creating mutually reinforcing and confidence-building narratives.[4] Europe will need to come together, coordinating and cooperating, and ensure that there is overarching coherence.

Unconditional and effective solidarity that transcends borders will be needed in Europe to help those most affected: "the EU and its members stand and fall together. No country can isolate itself from the effects of the COVID-19 crisis and unconditional solidarity guided by the principle of enlightened self-interest will have to light the Union's way out of the crisis."[5] This will be necessary in the short term, to deal with the economic slump associated with lockdown restrictions, as well as in the longer-term fiscal stimulus. Some countries are already unable to financially support measures like *Kurzarbeit* for long, thus requiring additional cross-border support to maintain such mechanisms. The SURE (Support to mitigate Unemployment Risks in an Emergency) programme is only a starting point, given that it still relies on additional national debt, albeit at better conditions. Grants and transfers will also be necessary. They could be time-limited and target the immediate crisis response only.

Past rules and frameworks must not stand in the way of effective action. Funding needs to be targeted at the greatest current needs, in specific policies areas like healthcare and in specific territories, rather than be driven by past eligibility and pre-crisis rules. Historical conditionalities for related funds must be minimised, ensuring instead that the money is targeted and spent when and where necessary (i.e. to support core public services).

Old divisions should not be allowed to stand in the way of effective crisis response, for example, regarding an agreement on the next Multiannual Financial Framework. The nature of Europe is compromise; absolutist positions taken by any side in these public debates prevents an effective European response.

Old divisions should not be allowed to stand in the way of effective crisis response.

There will not be a return to normal after the crisis. Economies will change, and countries will be challenged in varying degrees – although all European countries will be affected negatively. Only by sticking together, coordinating and cooperating, and relying on common instruments like the Single Market, can they hope to recover and transform their economies to render them future-proof.

The key lesson is that at a time when many instincts point to a greater focus on the national level and greater sovereignty and self-reliance, the best answer lies in greater cooperation, at the very least at the European level.

[1] *International Monetary Fund*, "IMF DataMapper > Real GDP growth > Annual percent change" (accessed 22 April 2020).

[2] See Zuleeg, Fabian (2020), "The need for a longer transition", Brussels: European Policy Centre.

[3] See Grevi, Giovanni (2020), "Winning the peace against coronavirus", Brussels: European Policy Centre.

[4] Emmanouilidis, Janis A. and Fabian Zuleeg (2020), "COVID-19: Lessons from the 'euro crisis'", Brussels: European Policy Centre.

[5] *Ibid.*, p.3..

NOTES

NOTES

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