Health and Economic Responses to the COVID-19 Crisis in the EU

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doi: 10.12681/rp.30759

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1. Introduction

On March 11, 2020, the World Health Organization (WHO) characterized the outbreak of the COVID-19 virus, which had started in China in late 2019, as a pandemic (WHO 2020). In the two years that followed, the world has experienced a health crisis of a magnitude not seen since the Spanish flu epidemic in the early 20th century; by the end of May 2022 more than 527 million COVID-19 infections and more than 6.2 million deaths related to COVID-19, had been recorded.

Beyond its devastating humanitarian toll, the pandemic has also had a profound impact on the economy. This did not come as a surprise. The health and economic aspects of an epidemic are intimately related; isolation of infected people to contain dispersion of the virus leads to the disruption of economic activity; increased uncertainty in the face of the economic downturn encourages precautionary saving on the part of consumers and scaling down of business operations on the part of producers, which intensify further the recession (Gourinchas 2020). Things get even worse as the effort of governments to “flatten” the epidemic curve through the imposition of “social distancing measures” leads inevitably to a worsening of the economic impact of the crisis. In such circumstances, authorities need to also “flatten the curve” of the recession by introducing countercyclical economic policies and “shield packages” (Baldwin 2020).

For the European Union (EU) and its member states this dual, health and economic, challenge came at a bad time. The European economy had been gradually recovering from the global financial and eurozone debt crises which had left a legacy of economic problems in many countries, principal among them high levels of public debt. At the same time, the reforms in European economic governance promoted during and in the aftermath of the crises, focused on strength-
ening national fiscal discipline and surveillance. Calls for supranational fiscal capacity and the creation of a European safe asset had not progressed. Thus, the EU continued to lack common fiscal and/or debt instruments to cope with a future crisis. Moreover, in countries that underwent economic adjustment, either through the implementation of formal bailout programmes or due to market pressure, public expenditure had been substantially reduced in many policy areas (Di Mascio and Natalini 2015; Randma-Liiv and Kickert 2016), including in public health (Thompson et al. 2015). Under these circumstances and given that healthcare has always remained in the hands of national governments, with EU having limited competence over this policy area (Brook and Geyer 2020), EU prospects when the pandemic broke out seemed bleak.

Concern over EU's ability to handle the crisis climaxed during the early weeks of the pandemic, as Europe rapidly became its epicenter, with the number of cases and deaths rising fast, particularly in Italy and then Spain, two countries that had been heavily affected by the previous economic crises. The initial reactions increased uncertainty further and fueled speculation of a new deep crisis in Europe, as coordination was poor and national strategies prevailed, often carrying a distinct beggar-thy-neighbor flavour (Renda and Castro 2020).

In health, several countries sought to address the escalating crisis by imposing border closures and travel restrictions and tried to retain key resources for fighting the pandemic, such as medical material and protective equipment, through export bans (Brooks and Geyer 2020). Such practices not only delayed a more effective and coordinated response against the virus, but also threatened the integrity of the single market. Coordination at the EU level was also poor as the European Centre for Disease Control and Prevention (ECDC) was late in acknowledging the true dimensions of the crisis due to the slow and inadequate flow of information by the member-states, while the Health Security Committee (HSC), the EU’s principal coordination mechanism, was slow to react due to member states’ irregular and poorly prepared input (Beaussier and Cabane 2020).

In the economy as well, things did not start well. The measures initially announced by the European Commission and the European Investment Bank (EIB) were well below 100 billion euros, less than 0.5 per cent of the EU’s GDP, which compared poorly to the United States’ 1.2 trillion dollars fiscal intervention during the same period. Unavoidably, the response was bolder at the national level; the activation of the general escape clause was an unprecedented but necessary move, as lacking EU funding, national governments had to undertake major direct fiscal interventions and liquidity supporting measures, which combined, surpassed on average 20 per cent of member states’ GDP (Centeno 2020). Progress on a supranational solution seemed again to hit an impasse, as on the
26th of March Germany and its allies rejected the request of nine European leaders, representing among others, the vulnerable countries of the South, for a ‘common debt instrument’. The decision was followed by a spat between the Portuguese Prime Minister and the Dutch finance minister. The divide between the South and the “frugal North” had once again come to the fore. The drama climaxed as the Eurogroup, assigned by the European Council to come up with new proposals, failed to do so at its meeting on 7 April.

Fortunately, on the monetary policy front, the European Central Bank (ECB) took advantage of its independent status and reacted rapidly. Initially, it added 120 billion euros to its existing Asset Purchasing Programme (APP) to support the prices of assets (including sovereign bonds). At the same time, it launched a new emergency refinancing operation to provide liquidity to the banking sector and expanded the volume of an already scheduled refinancing operation, adding 1 trillion euros of available funds at extremely low (negative) rates. The ECB’s major move came on 18 March with the announcement of a 750 billion euros Pandemic Emergency Purchase Programme (PEPP) with increased flexibility in terms of asset class, maturity and country limits. The PEPP had a strong positive effect on the bond yields of southern member states in the secondary markets, providing some relief against mounting pressures. The volume of the PEPP was later extended to 1.850 trillion euros and its duration extended until early 2022. By the end of 2021 the ECB had 1.6 trillion euros worth of assets on its balance sheet.

Under the increasing pressure of the crisis, cooperation among member states gradually improved and the European institutions seized the momentum to push for a bolder and more active handling of the crisis. With the exception of Sweden, governments seemed to adopt a common virus suppression strategy and realized the need for better coordination to improve its effectiveness (Alemanno 2020a). From late March, the European Commission released a series of guidelines and recommendations to coordinate the actions of the member states, proceed with collective procurement of necessary material and plan the next steps, including an “exit strategy” from the strict lockdown measures in view of the summer season. At the same time, the ECDC and the SCH begun operating much more efficiently (Brooks and Geyer 2020).

On the fiscal front, progress was also recorded, as a compromise was finally reached at the Eurogroup on 9 April. It was based on a multi-pronged response which included SURE, a 100 billion euros mechanism organized by the European Commission to mitigate the impact of the crisis on the labour market, funded by debt issued by the EU based on state guarantees; a 200 billion euros scheme run by European Investment Bank (EIB) for the provision of private sector loans
by the financial system, also based on state guarantees, and a new 240 billion euros (2% of the member states’ GDP as of end-2019) credit line from the European Stability Mechanism (ESM) to support domestic financing of direct and indirect healthcare, cure and prevention-related costs due to COVID-19.

While important, the agreement was clearly not enough in terms of size, particularly in view of the very negative growth projections at the time. The breakthrough came when Germany shifted its position; on the 18th of May, Germany and France proposed the creation of a 500 billion euros fund, to be disbursed in the form of grants. Based on the Franco-German plan, the European Commission presented a week later the Next Generation EU scheme, which called for a 750 billion euros recovery instrument, of which 500 billion euros in the form of grants and 250 billion euros as loans (European Commission 2020a). According to the proposal, these funds would be sourced by the European Commission on behalf of the EU, in the markets, based on state guarantees for an increased ‘headroom’, i.e., the difference between the ‘Own Resources’ ceiling of the EU budget and the actual spending agreed in the budget negotiations. In particular, the Commission proposed to increase the own resources of the European budget, using a combination of different policies, such as the introduction of a ‘digital tax’ for large companies, the implementation of the ‘carbon border adjustment mechanism’ included in the Commission’s Green Deal, as well as the extension of the European emissions trading scheme. The repayment of the bonds was proposed to start after 2027 and be completed by 2058.

Following two months of intense behind-the-scenes talks between the proponents of the plan and the so-called ‘frugal four’, and an arduous five-day negotiation, the European Council finally reached an agreement on the Next Generation EU on the 21st of July. Despite its shortcomings (principal among them a substantial reduction of the share of grants to 390 billion euros), the agreement endorsed all the major components of the Commission’s proposal. The agreed plan introduced several new and ambitious elements that broke new ground, making it, potentially, a catalyst for further European integration. On the other hand, beyond its limitations, the plan, as has repeatedly been stressed by representatives of the group of fiscally conservative countries, is an ad hoc, temporary, and extraordinary strategy to deal with an emergency.

In the area of health too, more ambitious steps were gradually taken, from the EU4Health public health programme to strengthen European health systems, to the EU vaccines strategy, which ensured the equitable provision of vaccines against COVID-19 for all member-states irrespective of size or fiscal capacity (Katsikas and Fasianos 2021), to the European Commission’s proposal for a European Health Union (European Commission 2020b), aspects of which,
like a new European Health Emergency Preparedness and Response Authority (HERA) and the European Health Data Space, are already being implemented.

This brief overview shows that despite problems reminiscent of past failures in the early stages of the pandemic, soon -very soon compared to past crises- the EU and its member states were able, not only to coordinate in order to provide effective policy responses, but also to modify and extend the mandate of existing institutions and establish new ones, broadening and deepening European integration in several policy areas. Academic scholarship has already started inquiring into these institutional and policy shifts and their impact on European integration (Wolff and Ladi 2020; Alemanno 2020b; Jones et al. 2021). A host of questions has been raised. Has the pandemic been a critical juncture for European integration? How did the experience of previous crises affect the handling of the pandemic? Is the EU more prepared now to handle future crises? Has the pandemic intensified or moderated the trend towards politicization in policy making at the national and European levels? Has EU’s handling of the crisis remedied the damaged trust of European citizens after the previous economic crises? Are the institutional changes introduced incomplete, and if so, is their ‘incompleteness’ paving the way for the next crisis?

The objective of this special issue is to examine different aspects of EU’s reaction to the health and economic challenges of the pandemic. The findings will hopefully contribute to a growing literature analyzing its dynamics and impact on EU integration.

2. Outline of the special issue

The special issue comprises four research articles. The first two, by Chantzaras and Yfantopoulos and Papadonikolaki and Souliotis respectively, focus primarily (but not exclusively) on the health aspects of the pandemic crisis in the EU, while the next two articles by Andreou and Kolliopoulos, focus more on economic and governance aspects of the EU’s reaction to the pandemic.

More specifically, the article by Chantzaras and Yfantopoulos examines the evolution of the COVID-19 pandemic in the EU and contrasts the virus’ impact in terms of infections and deaths with the governments’ policy reactions, with an emphasis on Southern Europe. Starting from the premise that beyond humanitarian consequences, health crises also have significant economic implications both for countries as a whole and for different socio-economic groups, the authors try to relate the stringency of governments’ reactions to the economic impact of the pandemic in terms of GDP lost. Chantzaras and Yfantopoulos review statistical data that show differentiations between countries in the EU in general,
but also among south European countries in particular, especially after the first and second waves of the pandemic. Reviewing the impact of the crisis in terms of GDP, the authors note that the UK and the countries of Southern Europe were worst hit. Next, the authors review data from the Oxford COVID-19 Government Response Tracker to assess the policy reactions of 30 European governments in 2020. The data show that the south European countries and Ireland had the higher scores in terms of stringency of the measures employed to contain the pandemic. Moreover, most of them (with the exception of Italy), accompanied the highly restrictive measures -which impact negatively the economy- with economic support measures. Interestingly, the correlation analysis that they perform, shows little connection between the different indicators of government response and the course of the pandemic in terms of infection and death rates. This finding, according to the authors, indicates that the policy responses were not primarily dictated by the actual course of the pandemic. South European countries in particular, which imposed the most restrictive measures and sustained the biggest GDP losses, may have chosen this approach to ensure the containment of the virus, fearing that failure to do so would lead to a collapse of their already fragile health systems.

The article by Papadonikolaki and Souliotis provides an overview of the health strategies employed by different EU member-states vis-à-vis the pandemic, as well as a discussion of EU’s main initiatives on both the health and economic dimensions. Noting the adverse legacy of the global financial and eurozone debt crises on many EU member states, the authors point to the different levels of preparedness for a health emergency across the EU. They proceed to review and categorize the different health strategies of the EU member states, with a focus on the early stages of the pandemic. In this context, they identify three basic strategies, assigning different countries in the respective categories. The first strategy, adopted by the Nordic and Baltic countries was characterized by a rapid, but not too stringent response, coupled with strong communication and economic support elements. The second strategy followed mainly by the UK and Sweden, was a strategy of “herd immunity”, which entailed few restrictive measures and mild recommendations. Finally, a third group of countries introduced restrictive measures early on, including lockdowns. However, some of them (e.g., Italy, Spain and France) did so only after experiencing dramatic increases in mortality rates and high pressure in their health systems, while others (e.g., Germany and Greece) did so before reaching high infection and mortality rates. Focusing at the regional level, the limited competency of the EU in matters of health policy and the rapid pace of the pandemic’s expansion, led some member states to adopt beggar-thy-neighbor measures in the early
stages of the pandemic with a view to ensuring adequate supply of medicinal and pharmaceutical material. That was a threat to the EU’s cohesion, but fortunately one that was quickly addressed. Lessons and institutional capabilities inherited from previous health crises like SARS and H1N1, allowed better cooperation, while the European Commission assumed a very active role early on. As the authors note, the crisis pushed European integration a step further, with the agreement on NGEU, but also with the establishment of new funding programmes and institutions in healthcare, opening the way for more regional integration in this crucial policy area.

The next article, by George Andreou, shifts the focus of the analysis from the health policy aspects of the pandemic to the financial, strategic and operational aspects of EU’s reaction. More specifically, Andreou’s article examines the new “integrated” budget of the EU, which comprises both the Multiannual Financial Framework (MFF) 2021-27 and the new Next Generation EU mechanism introduced to address the consequences of the pandemic. Given that the Next Generation EU and particularly the Resilience and Recovery Facility (RRF), its core instrument both in terms of policy orientation and funding means, have been hailed as a major step towards increased European solidarity, Andreou examines how these new facilities have affected the cohesion policy, EU’s traditional solidarity tool. The author offers a critical overview of the evolution of EU’s cohesion policy from its inception in the 1980s until the last programmatic period (2014-2020) before the pandemic. He documents significant changes in both the objectives and means of cohesion policy, particularly after 2006. These changes have altered the redistributive orientation of cohesion policy, by reducing its financing and linking it increasingly with other EU goals, such as those laid out in the Lisbon and EU 2020 strategies (which include increased competitiveness and smart, sustainable and inclusive growth) and to the exigencies of EU’s broader economic governance, through coordination mechanisms such the European Semester and increased conditionalities. According to Andreou, the new integrated EU budget of the pandemic, continues and intensifies the previous trend. In fact, the author argues, the RRF represents a radical re-interpretation of the cohesion concept in the EU, as for the first time a facility is introduced in the name of solidarity, which however serves to fund a number of other sectoral policies and strategic goals, like the digital and green transitions, health and economic resilience and policies for the next generation. At the same time, the new mechanism is placed and operates alongside the “old” cohesion policy structure. Given the differences in their operational procedures and their objectives this has effectively created a dual structure which produces a heterogeneous and potential incoherent “cohesion and resilience policy space”.

The article by Kolliopoulos deals with a different aspect of the NGEU project. In particular, the author examines legitimacy aspects of the operation of the RRF. Kolliopoulos notes that during the eurozone debt crisis bailout agreements had been accompanied by strict external conditionality. The bailout conditionality put emphasis on technical aspects of policies to produce desired outcomes, and neglected more political aspects, undermining thus the legitimacy of the EU. While the RRF, also includes certain conditionality parameters, its conditionality is characterized as “light” compared to that of the eurozone crisis, as it is based on countries’ own recovery and resilience plans, developed domestically. In principle, this could be an opportunity to improve the legitimacy of the EU, through the involvement of domestic stakeholders in the drafting of the National Recovery and Resilience Plans (NRRPs). To determine whether this opportunity has been exploited, the author reviews four available reports by European organizations, which conducted surveys on public and stakeholder involvement in the drafting of NRRPs. The conclusion of this tentative ‘meta-analysis’ shows that on the whole, public consultation (covering civil society organizations, regional and local governments and the public at large) during the drafting of the NRRPs was limited and that the latter was often characterized by lack of transparency and publicly available information. This situation seems to have undermined public confidence in the merit of the NRRPs, and in some countries, mistrust and confrontation over the distribution of the funds degenerated into full blown political crises. As a result, Kolliopoulos asserts that a significant opportunity was missed to remedy some of the damage done to EU’s legitimacy during the previous crisis.

3. European integration from crisis to crisis

The findings described in the brief overview of the articles relate to several of the issues raised by the literature. The article by Papadonikolaki and Souliotis raises the issue of the previous crisis’ legacy and its impact on the preparedness of the different national health systems to deal with the crisis. The strict conditionality imposed on many countries during the economic crisis of the previous decade -with an emphasis on fiscal consolidation- undermined the capacity of their healthcare systems, affecting, at least to some extent, their strategy against the coronavirus. As the article by Chantzaras and Yfantopoulos shows, this may have imposed unnecessarily high costs to the economy and society as some countries sought to take more restrictive measures as a precautionary strategy to deflect pressure from their healthcare system.

On the other hand, it is also clear that the experience of previous crises improved the reaction at the regional level. This is most evident in the ECB’s rea-
tion; the ECB seized very quickly on its previous experience with unconventional monetary policy and implemented sizable new programmes which gave European governments and businesses significant breathing room at the beginning of the crisis. This and other examples, clearly point to shifts in policy as a result of lessons learnt from the previous crisis (Ladi and Tsarouchas 2020). Moreover, it seems that lessons were learned from previous health crises as well, such as the SARS and H1N1 outbreaks; institutional innovations introduced in their wake, such as the ECDC and SCH were leveraged in the pandemic crisis and gradually their role and their resources increased.

This would seem to verify Jean-Monnet’s oft-quoted assertion that European integration will progress through its reaction to the crises it will face. While certainly true to some extent, there is a need for caution here, as crises are not the only way forward for the EU, while they may not necessarily lead to integration deepening (Jones et al. 2021). In the case of the pandemic, it is clear that some of the initiatives undertaken are temporary, others permanent but minor, while others are more substantial and carry the potential for paradigmatic change, that is, change, which alters the objectives and rationale of the institutions affected. Andreou’s article in particular, demonstrates that even important elements of the most radical initiative undertaken during the pandemic, the Next Generation EU, follow a path dependent course, and instead of revising, actually reinforce previous trends. This, as Andreou notes, has led to an expanded but incoherent policy space, which may prove problematic in the future, along the lines of a “failing forward” explanation (Jones et al. 2021).

On the other hand, not all changes need to follow such a pattern; it is evident for example, that certain aspects of the Next Generation EU, like those related to the changes in EU’s own resources and the budget, are more likely to become permanent and may have profound effects on future steps of European integration (Katsikas 2021). This is because, the nature of the shock this time, more exogenous, symmetrical and related to a humanitarian crisis, led to different preferences for its solution while different people were involved in the negotiations (Rhodes 2021). External shocks are not all the same, and preferences over solutions in previous crises, may not be replicated in future crises, as EU’s recent reaction to the Russian invasion of Ukraine clearly demonstrates.4

Another interesting point related to the duration of this crisis’ legacy, is raised in the article by Kolliopoulos. The way the eurozone debt crisis was handled undermined trust in the EU in many countries; this deficit in trust remained even after the end of the crisis (Verney and Katsikas 2020). Kolliopoulos argues that the involvement of domestic stakeholders could moderate this damage and increase the legitimacy of the EU going forward. The apparent failure to do so, is a missed opportunity whose impact will be felt in the future. On the other hand, it cannot
be denied that EU’s legitimacy received a boost during the pandemic crisis due to the way its economic consequences were dealt with. The size of the financing of the Next Generation EU scheme and its characteristics - distributing a substantial part in the form of grants and sourcing it through the issue of common debt - represent a clear signal of European solidarity, while programmes like SURE, helped shield the European labour markets from the worst outcomes. Overall, the recession in 2020, despite its size did not have the same adverse economic and social impact of the previous crisis and recovery in 2021 was swift and strong.

A final note about the role of technocracy and the politicization of policy making. While as Schmidt (2020) notes, there was politicization of the crisis at the top in the early stages of the pandemic, reminiscent of certain moments in the previous crisis, technocracy clearly took over in this crisis, as scientists and public health experts dictated the policy agenda and the policy tools to be used. Still, it is interesting to note the finding by Chantzaras and Yfantopoulos that there seems to be no correlation between the course of the pandemic in terms of infection and death rates and the restrictiveness of the measures undertaken by the authorities. While this is very likely, to some extent, due to the different preparedness state of national healthcare systems, as noted above, this lack of correlation coincides with Alemanno’s (2020) argument about policy emulation after a point, i.e., the fact that countries converged on a risk-averse epidemic suppression strategy, despite the fact that there was little robust knowledge on this issue and there was still a lot of uncertainty surrounding the scientific data. This argument has obvious implications for evidence-based policy making in circumstances of increased uncertainty and alludes to subtle, unacknowledged political aspects of technocracy.

All in all, the articles in this special issue provide further evidence of the complex and multifaceted nature of crises and the challenges they raise for regional integration. As the EU is already facing another major crisis, while COVID-19 continues to be present, it is imperative to draw policy-relevant lessons from such experiences.

Notes

1. An equally important measure was the relaxation of state-aid rules, which allowed governments to help ailing businesses.
2. On the 16th on December 2021 the ECB decided to end the programme by the end of March 2022 due to the strong recovery of the European economy and the rising inflation pressures. In March 2022 the ECB announced its decision to also conclude its previous asset buying programme, APP, in the third quarter of the year, as inflation pressures increased substantially due to the war in Ukraine.
3. The ‘frugal four’ are: Austria, Denmark, the Netherlands, and Sweden. Shortly after the announcement of the Franco-German proposal they circulated their own counterproposal, which insisted on loans instead of grants, accompanied by conditionality, and explicitly rejected debt mutualization. During the European Council negotiations, the ‘frugals’ became five, as Finland joined their position.

4. In the Russian invasion in Ukraine crisis, we observe a different pattern, where the initial reaction of the EU strong, but it gradually shows signs of weakening as the economic and therefore political costs of previous and new sanctions rise and domestic support for the measures may start to wane.

**References**


