

COVID-19: Lessons from the ‘euro crisis’

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Credit: Aris Oikonomou / AFP

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The coronavirus is an unprecedented external shock that is challenging the EU and its member states. The crisis is fundamental, posing a dramatic threat to public health and the life of citizens. Everyone is affected by the imposition of restrictive measures aiming to contain the spread of the virus. Efforts to flatten the curve have severely hit our economies and will require unparalleled monetary and fiscal measures by central banks and governments.

The future ‘new normal’ will not be a simple continuation of a weakened version of the *status quo ante*.

We are still at the beginning of the crisis, and the dramatic impact will extend beyond the short term: the future ‘new normal’ will not be a simple continuation of a weakened version of the *status quo ante*.

However, no one can truly predict the progression and ultimate outcome of the COVID-19 crisis. The

exceptional nature of the crisis and the magnitude of the combined (potential) consequences of the health-related, economic, financial, societal, political and geopolitical effects make the current situation different from what Europeans experienced during the 2010-2015 ‘euro crisis’. Nonetheless, some key lessons can be learned and applied from that crisis, not least since there is a similar systemic and persistent effect on Europe’s economies.

First, 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. Second, it is economically and politically wise to act early and forcefully if the EU27 want to get ahead of the curve and pre-empt the crisis from spiralling out of control. The Union should thus (i) jointly set up and finance a common COVID-19 recovery and growth fund; and (ii) agree on and then implement a coordinated European ‘exit management strategy’. Third, EU leaders in all member states must recognise that taking absolutist positions will undermine the search for an effective European strategy to manage and eventually overcome the COVID-19 crisis – disunity, fragmentation and distrust will result in failure.

We stand and fall together

One major lesson from the euro crisis is linked to the high level of interdependence between EU countries and their societies. It clearly demonstrated that developments in individual member states, even in small economies, can have immense repercussions throughout the Union and especially among countries sharing the same currency. In addition, it showed that crises of such magnitude involve negative spillover effects, which ultimately lead to political consequences for the EU as a whole, with populist eurosceptic and nationalistic forces gaining a permanent foothold across the Union.

Unconditional solidarity guided by the principle of enlightened self-interest should be the first instinct underpinning Europe’s response to the crisis.

No country can isolate itself from the severe effects of fundamental crises even if some countries believe that they are better prepared to weather the storm than others. On the contrary, attempts to deal with the COVID-19 crisis individually will backfire as they will increase the risk of the situation spiralling out of control,

with dramatic consequences for everyone. It might sound simplistic, but it is true: the pandemic has proven that we are all in the same boat. Early recognition of our shared responsibility and destiny, which leads to joint and rapid European policy actions, will not only be more effective, it will also help prevent populations from turning against European integration (even further). Belated and timid European policy reactions will lead to an increased alienation between the Union and its citizens, which will be difficult to counter at a later stage and, at the end of the day, undermine the ability of policymakers to reach substantial compromises at the EU level.

Unconditional solidarity guided by the principle of enlightened self-interest should be the first instinct underpinning Europe’s response to the crisis. Those hit strongest by the virus need the unquestioning support of others. While countries have very different means and capabilities, this is clearly not the time for judging the ‘rights’ and ‘wrongs’ of other countries’ behaviour and trajectory. No country was prepared for this crisis, even if some were hit more than others.

In the end, unconditional solidarity is about helping fellow European citizens – which is in the interest of everyone, regardless of the asymmetric consequences of the symmetric external shock that has hit Europe and the world. This also means that the EU and its members must already be preparing and equipping themselves to help other countries around the globe that have been or will

be hit by the virus. Solidarity should not be limited to the Old Continent.

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At the end of the day, the EU and its members will be judged on their collective ability to manage and, ultimately, master the fundamental challenges we are

facing. The EU27 struggled in the early moments of the COVID-19 crisis when every country was overwhelmed and people turned to their national (or even regional) governments to deal with the immediate effects of an unprecedented health crisis. While there is a legitimate reflection on the different competencies, responsibilities and means of the EU or member states, and it is clearly challenging, both technically and politically, to coordinate policy responses collectively under the immediate pressures of the pandemic, the EU will either deliver together or fail together. Citizens, markets, politicians, journalists, and international partners and rivals will make a judgement on whether the EU and its institutions played a positive role or was proven to be irrelevant – or, even worse, a hindrance. If the EU is found wanting, this will undermine its *raison d'être* and legitimacy; nobody will ask whether this was caused by the EU institutions or the member states, individually or collectively.

Act early and forcefully to get ahead of the curve

Another crucial lesson from the euro crisis is that it is economically and politically wise to act early and forcefully if one wants to prevent a deterioration of the crisis. The experience of 2010-2015 shows that responses were often slow, insufficient and occasionally even ill-advised. For a long time, especially in the early phase of the crisis, many policymakers and even experts were in a state of denial. They underestimated the threat and thought incorrectly that the situation was under control when in reality the crisis was spreading throughout the continent. The message that the EU and its main institutions (especially the ECB) would do whatever it takes came very late. Precious time was lost and significant economic, political and societal damage had already been done. This time, we should avoid making similar mistakes.

It is not too late for the EU and its member states to act together more decisively. Some important decisions have been taken. The European Central Bank (ECB) initiated a new temporary Pandemic Emergency Purchase Programme (PEPP) with an envelope of €750 billion lasting until the end of 2020. This is a strong and swift signal that the ECB is ready to do everything necessary within its mandate to help the euro area through this crisis.

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That the EU was able to agree on key elements of a comprehensive fiscal and economic package in reaction to the COVID-19 crisis was another important step. It includes (i) the creation of a temporary instrument to

support national unemployment safety nets (i.e. SURE), as proposed by the European Commission channelling up to €100 billion to the member states facing the greatest pressures; (ii) the scaling up of the European Investment Bank's (EIB) initiatives enabling it to guarantee loans of up to €200 billion, with a focus on small and medium-sized enterprises; and (iii) the establishment of Pandemic Crisis Support through the European Stability Mechanism (ESM), providing a precautionary credit line for the amount of 2% of member states' GDP (i.e. close to €240 billion) to support the domestic financing of direct and indirect healthcare-, cure- and prevention-related costs.

The EU and its members must act forcefully now, anticipating and mitigating worst-case scenarios.

All these measures are necessary and point in the right direction. But they are not enough – more is needed for the EU to get ahead of the curve and the window to do so will be closing soon. This is especially important as the COVID-19 crisis comes with increased uncertainty and significant downside risks. The EU and its members must act forcefully now, anticipating and mitigating worst-case scenarios. As witnessed during the euro crisis, the EU and its members should recognise that the situation will deteriorate further and requires decisive common interventions which should come early, rather than attempt to firefight each step of the way. Hesitating in the early phases of the COVID-19 crisis will worsen not only the current situation but also the longer-term consequences of the pandemic.

Thus, the EU27 should already at this point agree on two additional central pillars of its comprehensive crisis response:

- ▶ As a strong sign of collective solidarity, the Union should **jointly set up and finance a time-limited and targeted common COVID-19 recovery and growth fund**. It should assist especially the member states and regions that have been hit hardest by the crisis and lack the means to safeguard and restart their economies effectively. The establishment of a common stimulus programme is an indispensable core element of the EU's overall fiscal and economic package. It is linked to and will also codetermine the success of other measures and instruments initiated at both the national and European levels (i.e. PEPP, SURE, EIB lending, ESM credit lines). A recovery and growth fund is necessary for the EU to recover from the severe economic shock by creating additional demand once the immediate crisis is (more or less) under control.

The fund should mobilise future-oriented investment and help spread the extraordinary costs of the COVID-19 crisis over time and across different shoulders. Reflecting some of the proposals discussed within the framework of the Eurogroup in preparation of the European Council videoconference on 23 April, financing should rest on a combination of two elements: the emission of a time-limited, one-off issuance of common debt and the use of leveraged financing tools linked to an exceptional time-limited increase of the next Multiannual Financial Framework

(MFF). A combination of these two elements would increase the chances of reaching a compromise at the highest political level.

- ▶ To avoid a patchwork of disconnected national exit strategies, the EU27 should agree on and then implement **a coordinated; comprehensive; gradual; and nationally, regionally or even locally adaptable European 'exit management strategy'**. The existence of such a strategy will enhance predictability beyond national borders and help the EU27 and its highly connected member states move to some sort of 'new normality' collectively and gradually, even if this process will take some time and will be characterised by many ups and downs in different phases of the recovery process.

The strategy must not follow a one-size-fits-all approach over time and space. On the contrary, its implementation should be dynamic and reflect the situation on the ground at the national or subnational levels. Coordination will be essential to also deal with the differential economic impacts that different exit timings will impose on the member states. The Joint European Roadmap towards lifting COVID-19 containment measures, presented on 15 April, provides a promising basis for and good start to the process of a joint 'exit management strategy'. However, the details of the strategy need to be spelled out further, and the gradual implementation of the roadmap will have to be closely coordinated with and among the EU27.

Avoid and overcome absolutist positions

Leaders at both the national and EU levels should recognise that taking absolutist positions will neither contribute to finding a solution nor be politically sustainable, as they will most likely have to go further than originally intended given the magnitude of the crisis and thereby overstep some of their own red lines. They should recognise that decisive common action is indispensable and then work to elaborate, agree and communicate a compromise package. An effective European strategy to manage and eventually overcome the COVID-19 crisis requires a high level of unity – fragmentation and distrust will ultimately end in failure. Substantial breakthroughs will require consensus at the highest political level among the EU27 or Euro-19; and this will only be possible if all countries can demonstrate that they benefit from compromises while national concerns have been taken seriously.

Rather than using stigmatising terminology and returning to futile reactions of the past, what is important now is actual substance and delivery, whatever the instruments called in the end might be. To get there, the EU27 need to have the political courage

to jump over individual political and national shadows and overcome some of the past differences that still undermine the adoption of necessary crisis responses.

Rather than using stigmatising terminology and returning to futile reactions of the past, what is important now is actual substance and delivery, whatever the instruments called in the end might be.

EU institutions have a critical role to play in the process of reaching package deals. The Presidents of the European Commission and European Council must come up with proposals at the highest political level and work in tandem as honest brokers, aiming to bridge

the diverging positions. They have to ensure that they enjoy the trust of all national governments and carry out shuttle diplomacy – or, in this case ‘tele-diplomacy’ – to bring (key) member states on board. Leaving this task to individual national capitals will not work.

The experience of the euro crisis has shown that no country can play to the domestic gallery without significant repercussions for the rest of Europe.

EU institutions and their leaders will only be successful if this process is supported at the member state level actively. The experience of the euro crisis has shown that no country can play to the domestic gallery without significant repercussions for the rest of Europe. National policymakers should be aware that all of Europe is

Time to compromise

So far, the collective performance of the EU and its member states has been insufficient. The impression Europe gave in the initial moments of the COVID-19 crisis was one of fragmentation and disunity. On many occasions, we witnessed a lack of coordination and cooperation as national governments and EU institutions often remained wedded to pre-crisis differences and positions, rather than recognising the unprecedented nature of the current situation and the need to go beyond old recipes.

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In countries hit hardest by the pandemic, there is a widespread sentiment that fellow member states have not been willing to support them. This impression has already played into the hands of populist eurosceptic and nationalist forces, and much will have to be done to prevent this sentiment from having long-lasting effects at both the European and national levels. On the other hand, there have been many instances of demonstrated solidarity across borders, such as the treatment of critically ill patients in other EU countries. Such

listening even when they assume that they are ‘only’ addressing their national audience. The EU might not yet have developed a supranational public space but, especially in times of crisis, there is an inter-national public that follows domestic debates closely in all member states.

Inflammatory and discriminating language, nationalistic chauvinism, historical resentments, judgements of morality as well as expressions of national superiority will undermine necessary compromises, which in turn creates political costs for everybody. National governments and policymakers need to constantly explain the European dimension of today’s crisis to their populations and why acting together across borders is important now more than ever. They should explain why an effective response to the crisis relies on EU cooperation and solidarity guided by the notion of self-interest, which is not only the right approach but will also be far more effective than individual, national initiatives and policy measures. EU leaders will have to present a joint vision that not only deals with the immediate health threat but also provides a sustainable economic recovery based on joint purpose and action.

individual gestures of solidarity are significant, necessary and welcome, but remain insufficient if other decisive steps to counter the COVID-19 crisis are not taken.

Rather than concentrating on one particular instrument, the EU institutions should assemble a convincing package deal that is explicitly supported by member states.

As during the euro crisis, the EU and its members will likely take more decisive collective action, driven by necessity rather than choice. But time is of the essence – waiting too long will not only cause significant collateral damage to the level of cooperation between the EU27 but also undermine the public support for European integration. This will reduce the effectiveness of policy interventions, making it harder to avert, cushion or reverse the negative economic, financial, societal and political impacts of the COVID-19 crisis across the EU.

It is not too late. The EU is capable of collaborating, and there are many possible policy interventions on the table. Rather than concentrating on one particular instrument, the EU institutions should assemble a

convincing package deal that is explicitly supported by member states.

In the euro crisis, the EU and its members did not move fast nor decisively enough – at least until there was no alternative. The Union failed to demonstrate sufficiently that unconditional solidarity remains a core element of EU action. Now, in the COVID-19 crisis, the EU27 must get it right. If the Union and its members do not deliver, the EU might be condemned to irrelevance in the eyes of many, creating a long-term existential threat to European integration. In the end, this would be justified as long as the Union is unable to support all Europeans through this unprecedented fundamental crisis.

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