

Chapter 1

COVID-19 Crisis and EU Economic Policy: How Previous Recessionary Fiscal Adjustment Measures Left Their Mark on the EU Economy?

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ABSTRACT

The corona crisis hit the European countries under great differentiation. The South European countries have not yet fully recovered from the previous systemic crisis of 2008. The COVID-19 crisis affected initially employment giving rise to one more deep global recession due to a supply shock. Despite of the fact that this crisis has a larger geographical scale, the structural differences among the EU economies, the uneven negative effects of the crisis of 2008, as well as different coping policies intensify the economic divergence. The chapter aims to detect the effects of fiscal consolidation measures/economic adjustments taken at EU level, under the 2008 economic crisis, to the impending economic crisis caused by the COVID-19 pandemic. By defining COVID-19-effect economic indexes and also using cross-section OLS estimation in EU 27 countries, the authors try to detect whether the previous economic adjustments taken at EU level did affect the COVID-19 economy, especially in the countries under fiscal policy surveillance after the crisis of 2008.

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INTRODUCTION

Similarly, to other pandemics, such as Spanish influenza, SARS etc., countries had to deal with in the past, the Covid-19 disease affected economies worldwide, causing depression in almost every developed country. Global demand, foreign trade, supply chains and other areas of global economy have been affected by the Covid-19 pandemic, while governments had to implement precautionary public health measures, practically stopping economic activity. Although it began as a health crisis, very quickly turned into an economic crisis, surpassing all other crises in terms of short, medium, and long-term risks as well as the need for applying immediate measures and policies (Schmidt, 2020).

Marc-Olivier Strauss-Kahn (2020) claims that “*History doesn’t repeat itself; it stutters*” and in his article compares the Covid-19 crisis and the financial crisis of 2008, as the two recent ones that drove the world in great depression. Starting from the similarities, Strauss-Kahn detects three: 1. the uncertainty the two crises created, defined as a non-quantifiable risk, 2. the extent of initial financial and economic collapses and 3. the massive governments’ reactions. Concerning the differences, he points out: 1. the speed and expected shape of the recession, 2. the inadequate level of countries’ coordination, 3. the processes used for the economies to be activated again and 4. the reaction margins public authorities had.

Centering in on the European Union, one could tell that it is coping with the deepest economic recession in its history. The Covid-19 crisis hits the countries under great differentiation, in a time when, mainly the South European countries, have not yet fully recovered by the previous 2008 global financial crisis.

The landscape of the European Union during the post-2008 period is characterized by spatial heterogeneity (Landesmann 2015, 2020), making it difficult to make a clear South – North divide for the financial crisis’ impacts. Concerning the GDP per capita, Greece, Cyprus, Slovenia, Italy, and Spain made the worst performance, while Poland and Slovakia marked an increase. Spain, Ireland, Greece, Croatia, Bulgaria, Italy, Slovenia, Portugal, and the Baltic countries, excluding Estonia, were among the ones showing great increase in unemployment rates. On the other hand, in Germany, Poland, Austria, Finland and Belgium the unemployment rate marked a decrease (Cuadrado-Roura et al., 2016; Crescenzi et al., 2016). The recession that the Union suffered during the post-2008 period, led to high social exclusion and poverty rates almost everywhere. Though, the increase was greater in Ireland, Greece, and Spain and lower in Belgium, Germany, Hungary, Luxembourg, the Netherlands and the UK (Agnello et al., 2016). Summarizing, the main characteristic of this crisis is the fact that it brought to the surface the regional and urban differences in the EU in terms of growth, wealth, inflation rates and productivity and the regions and cities ability to adapt to turbulences and challenges (Cuadrado-Roura et al., 2016). Most importantly, after the crisis the debt position differences among the different EU member countries instead of being confronted, on the contrary appear to become deeper. This unevenly developed EU economy was hit by the Covid-19 crisis (Landesmann 2020).

In contrast with 2008 financial crisis’ “tools”, such as cutting interest rates, injections of money into the financial system and fiscal stimulus packages, the Covid-19 crisis “weapons” were continuous and long-term lockdowns and restrictive measures to control the spread of the pandemic (Verick et al., 2021). The sectors most affected due to the lockdowns were accommodation and food service activities, real estate, business and administrative activities, manufacturing, and wholesale and retail trade (ILO 2020b). The result was great working hour losses and unemployment. According to ILO estimates for 2020, the global working hour losses reached 8.8% (equivalent to 225 million full time jobs), while global unemployment in 2020 increased by 114 million (the low- and middle-income countries experienced a

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