Conclusions

Europe is undergoing its second recession in the span of 12 years, and one that is even bigger than the previous 'Great Recession'. The attempts to mitigate the risk that Covid-19 poses for public health have seemingly led to the crumbling of a series of taboos and orthodoxies that have been guiding economic policy over the last 40 years. National governments have had to take far-reaching measures limiting highly valued individual liberties and forcing large parts of national economies to grind to a halt. A massive expansion of public support schemes and, ultimately, of the size of the state has taken place and hailed as a welcome development, even a highly recommended one, by the likes of the former governor of the ECB, Mario Draghi (Financial Times 2020a). For the first time in its history, the EU has established a temporary yet sizeable fiscal capacity to help those Member States most harmed by the pandemic, irrespective of their contribution. Central banks have embarked on massive purchases of government bonds to support these efforts, raising questions over whether a monetary financing of public debt should take place in the future to deal with the accumulated debt – and if so, how (see for example, Demertzis et al. 2010, Diessner 2020, DeGrauwe and Diessner 2020). At a more microeconomic level, the principles of healthcare system management have also come under scrutiny, as allocated resources have often not proved sufficient this year to effectively deal with such a rare yet catastrophic event as the current pandemic.

These developments could offer hope that the crisis will indeed result in different ways of managing the economy in general and prevent us from going through what would be another lost decade for parts of the EU by avoiding a repeat of the damaging policies of the 2010s. On the other hand, it is also possible that, as prominent new classical economist Robert Lucas Jr. stated, 'we are all Keynesians in a foxhole'. While the Great Recession was described as the failure of globalised capitalism, raising hopes that a shift in orthodox economic policy would happen as states stepped in to recapitalise financial institutions 'too big to fail', the aftermath of the initial Keynesian stimulus response was the imposition of harsh and counterproductive fiscal austerity policies. Is this time going to be different? And can it be?

The pandemic hit Europe at a time when momentum was building around the policy challenges of engineering a just transition to a carbon-neutral socioeconomic model and of addressing both the opportunities and the threats posed by digitalisation. It was clear that public investment would be necessary for such challenges. Moreover, the experience of the previous crisis had set in motion some policy initiatives, such as the programme for deepening the EMU, including items like the reform of the ESM and the completion of a banking union, and the implementation of the European Pillar of Social Rights (see Theodoropoulou et al. 2019a and Mueller et al. 2019). Both these programmes, which were born at moments of crisis (of public debt and of trust in the EU, respectively), illustrated that while there was a consensus on where Europe needed to reach, there was no consensus on how to get there. The pandemic crisis has thrown into sharp relief the gaps that these policy initiatives aimed to fill, from the need for a better fiscal governance framework and a deeper EMU to the need for a more robust social safety net which could reduce the great divergence of outcomes within and across Member States. Last but not least, both the European Commission and the ECB had initiated review processes for the EU economic governance framework and monetary policy strategy, respectively, with a view to making them fitter for purpose.

The current crisis context provides several windows of opportunity for capitalising on recent policy decisions to bring about changes in the EU which, as well as supporting a faster and more robust recovery, could outlast the current pandemic and form the base for powering green, digital and 'just' transitions.

The current suspension of EU fiscal rules, as well as the ECB's declaration of intent to keep on purchasing assets in the financial markets, mean that national governments should not face difficulties in maintaining their support programmes for workers and firms, even if it means recalibrating them over time to prepare the recipients for making the most of the recovery once economic activity can resume. Taking advantage of the longer than originally expected recession and the spirit of solidarity that has seemingly prevailed across large parts of Europe, the SURE scheme should, if possible, be turned into a permanent automatic mechanism of reinsurance and extended to also cover unemployment benefits. At the labour market level, this would ensure that not only jobs but also valuable job-specific skills are not lost. At the macroeconomic level, this could be a more permanent fiscal capacity for stabilising EU and especially euro area economies in the face of idiosyncratic economic shocks, as well as for lightening the burden of national fiscal policies.

The suspension of the EU fiscal rules, possibly to be extended until 2022, is an opportunity for pushing through a reform of the EU fiscal surveillance framework to address at least some of its shortcomings. Rethinking the operationalisation of the debt fiscal rule to allow Member States whose public debt will be much higher than the reference value of 60% of GDP after the crisis to consolidate their public finances at a more gentle pace, and provided that the recovery is robust, would be sensible, especially given the low interest rates that are likely to prevail for several years (cf. European Fiscal Board 2020). Meanwhile, establishing a golden rule for public investment (which will exempt it from budget deficit calculations) will be necessary in view of the investment needed to engineer a just green transition and the likely economic scars that the current recession is likely to leave (see for example Alvarez et al. 2019).

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Getting the next EU budget and the Next Generation EU instrument across the finish line of ratification will be imperative for creating the foundations for these reforms, for providing real support to national fiscal policies, and for navigating the aftermath of the pandemic. It will also provide the financial means for a transition to a fairer, more sustainable socioeconomic model. The current stalemate with Poland and Hungary raises questions over how to ensure that future windows of opportunity for advancing and consolidating forms of economic solidarity across Member States are not jeopardised, while respecting the political preferences of individual countries.

Finally, the monetary policy strategy of the ECB should be adapted to help meet EU economic policy objectives and to the context of chronically low inflation and interest rates. The issuance of EU social and green bonds in large quantities should ease such shifts.