

From Crisis to Recovery: The EU Response to the Covid Crisis

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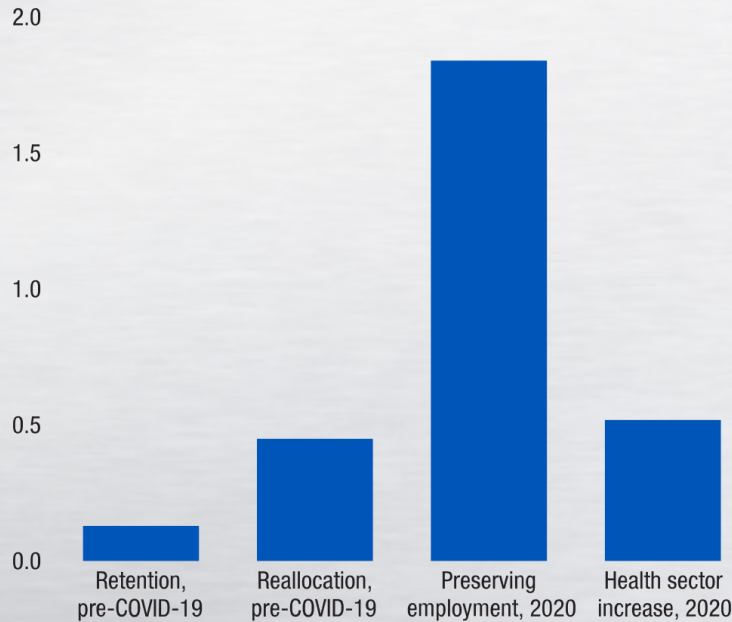
The Covid Shock: Whatever it Takes

- An atypical crisis: demand-cum-supply shock
- Most of the emergency response was put in place by countries (repeat after me, we are *not* the United States of Europe)
- Massive fiscal effort to:
 - Scale up health care capacity
 - Keep the economy alive when in lockdown
 - Sustain incomes (job retention schemes, unemployment benefits etc)
 - Provide firms with liquidity (guarantees, loans, deferral of payments, subsidies)
- The EU acted as a facilitator
 - ECB: PEPP
 - Commission:
 - Suspension clause of SGP
 - Softer state aid rules
 - Financial assistance (e.g. SURE, Pandemic ESM, etc)

Unprecedented support for labour markets

Figure 3.9. Public Spending on Retention and Reallocation Policies: Before COVID-19 and Response to COVID-19
(Percent of GDP)

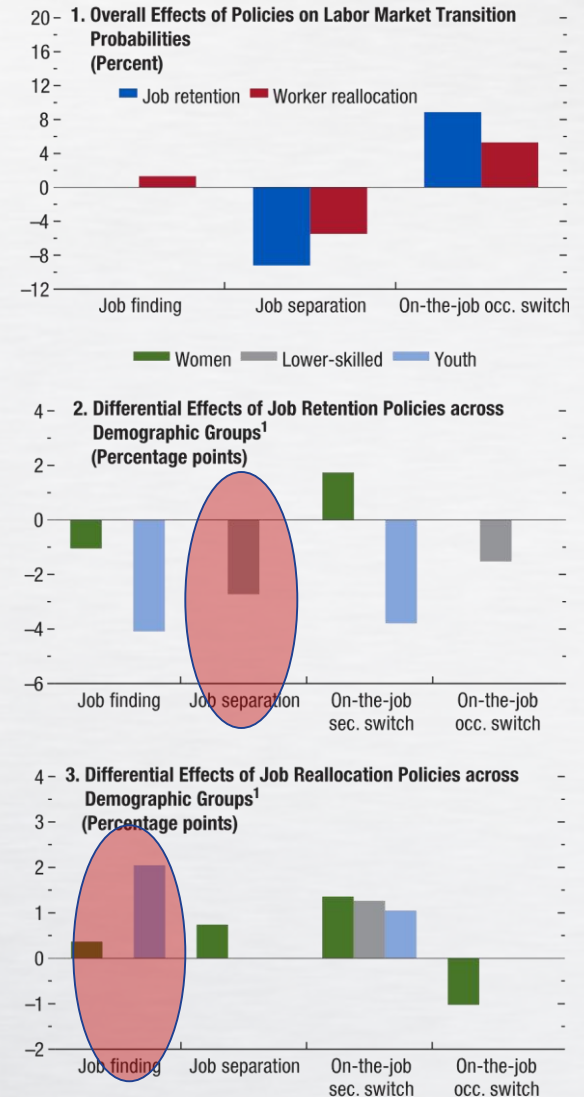
Average public spending to preserve employment after the COVID-19 shock is dramatically larger than job retention spending in the past. The rise in health sector spending alone is on par with average spending on reallocation in the past.



Sources: IMF, COVID-19 Policy Tracker; Organisation for Economic Co-operation and Development; and IMF staff calculations.
Note: Bars show the average public spending on the indicated area as a share of GDP. See Online Annex 1 for further details.

Figure 3.10. Effects of Job Retention and Worker Reallocation Policies

Job retention and worker reallocation policies can help mitigate adverse shocks and improve labor market functioning.



Sources: EU Labour Force Survey; EU Statistics on Income and Living Conditions; Integrated Public Use Microdata Series, Current Population Survey; and IMF staff calculations.

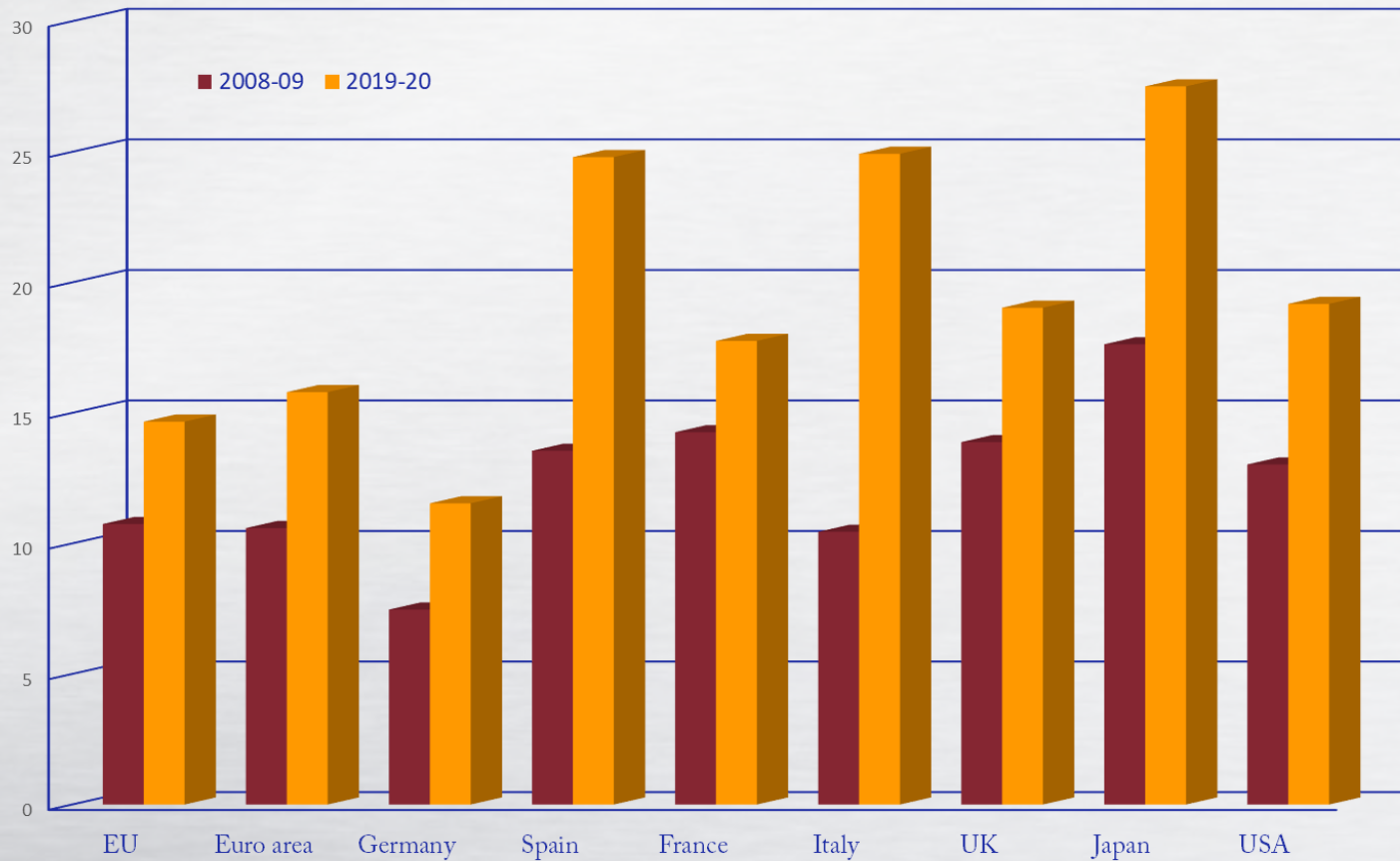
Note: Panel 1 shows the percent change in the indicated transition probability (relative to its average value) associated with a 1 percentage

Labour market support: the case of France

- April 2020 “Activité partielle” (job retention scheme)
 - 70% of gross wage paid by the government. Extended to services
 - (Partially) renewed until June 2021
 - Total cost, €27bn (1.3% of GDP). In December 2.4mln workers still covered
 - The advantages of job retention schemes: No need to explain to this crowd!
- Cut social contributions for firms
- Labour markets and the *Plan de relance*
 - €100bn in 2 years (40% financed by *Next Generation EU*)
 - Mostly public investment and incentives for private investment
 - Measures for labour markets:
 - Youth training (€9bn)
 - Long run “activité partielle” and retraining (€7.6bn)
 - Training (€1bn) and social inclusion (€0.32bn)

A costly dam...

Change in Public debt as % of GDP



Source: European Commission AMECO

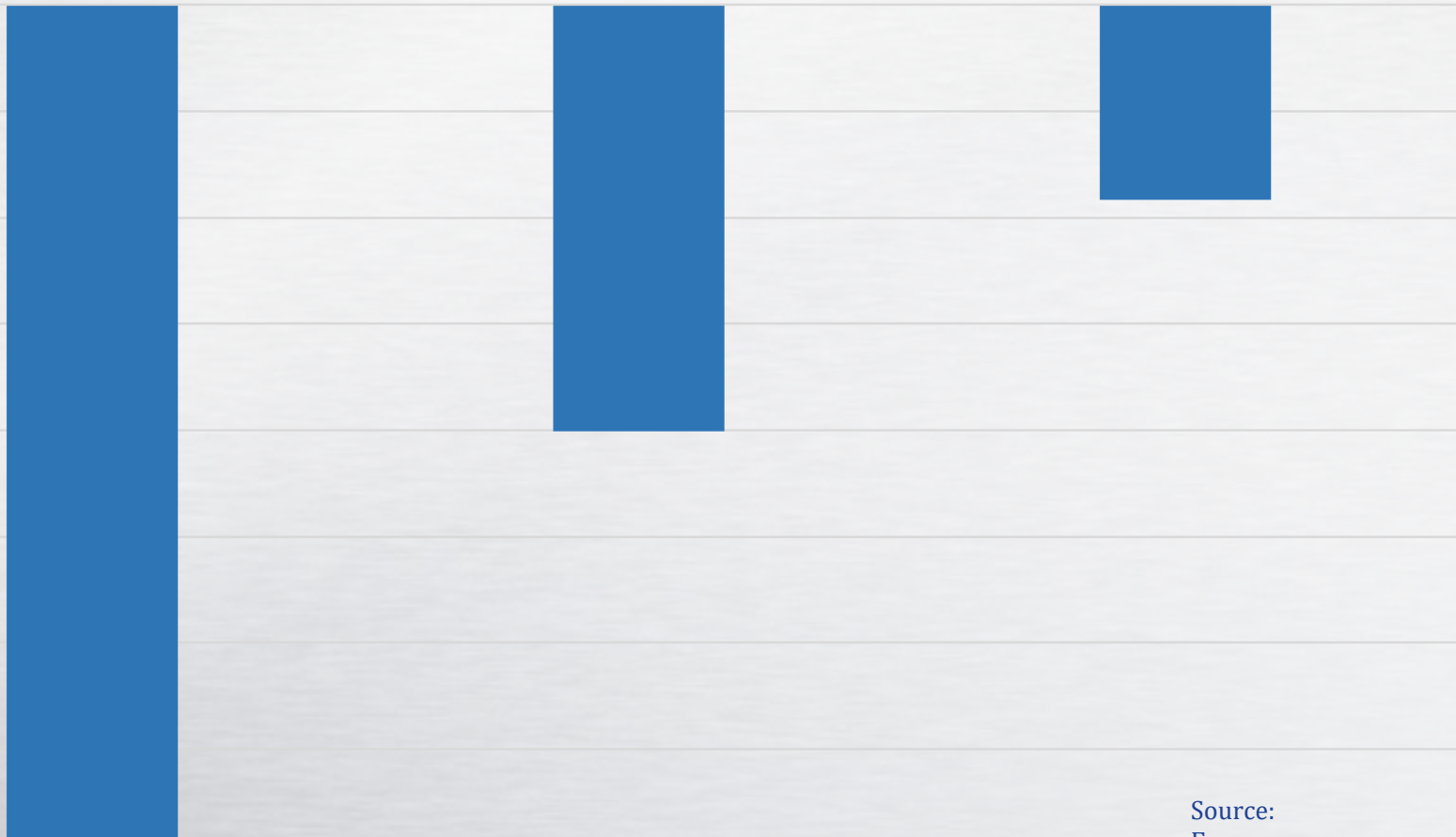
...but also quite a successful one: Eurozone

% Change 2019-2020

Real GDP

Gross wages and salaries

Employment



Source:
European
Commission
Ameco Database

The medium run: Recovery and structural transformation

- The challenges ahead
 - Restart growth
 - Jump on a (socially, environmentally) sustainable growth path
 - Manage the debt legacy
- These are tasks beyond individual countries' possibilities

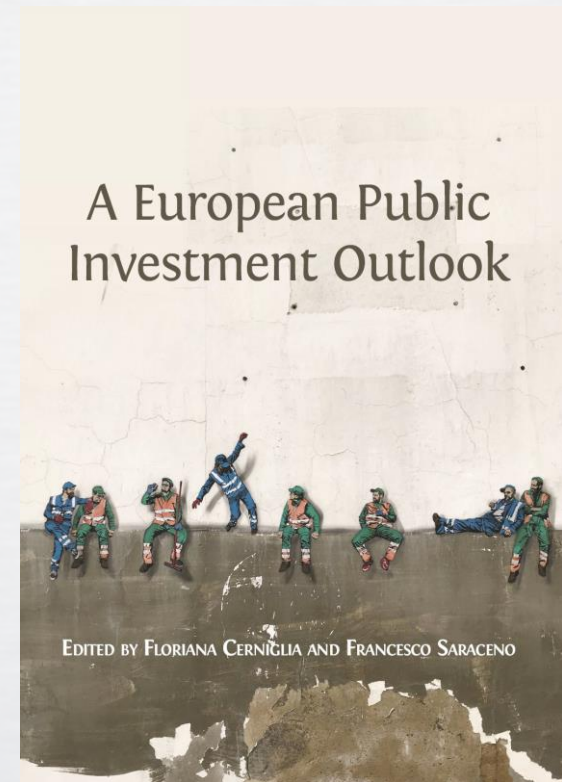
Investing for the Recovery: Next Generation EU

- Large borrowing by the Commission (€ 750bn).
 - Distributed to countries in grants (€390bn) and loans (€360bn)
 - Repaid in 2028-2058
 - A complement to the MFF (€1050bn)
- Main instrument, Recovery and Resilience Facility (€672.5bn)
- Three priorities
 - Ecological transition
 - Digitalization
 - Cohesion
- Climate action is the main item
 - 37% of National Recovery and Resilience plans investment
 - Just transition Fund, created for investments in low-carbon energy. (€10bn)

Public Investment at the Centre of the

Stage, F. and F. Saraceno (eds) (2020) *A European Public Investment Outlook*. Cambridge: Open Book Publishers.

- **A broad (tangible and intangible) definition of public capital**
- Public Investment in EU declined from 2008 to 2016. Infrastructure: -25%
- Fiscal consolidation identified as the main driver of the drop
- The German case
 - Severe deterioration of public capital stock since 2000
 - Demographic change, decarbonization and digitalization → Additional investment needs
 - Sector by sector analysis leads to the estimation of €450bn over the next decade.



A Preview: Out on December 1st!

Part I - Outlook

1. Public investment in the pandemic – Europe at a glance (*A. Brasili, A. Kolev, D. Revoltella, J. Schanz*)
2. From fiscal consolidation to the *Plan de relance*: investment trends in France (*M. Plane, F. Saraceno*)
3. Public investment in Germany: much more needs to be done (*Katja Rietzler, Andrew Watt*)
4. Relaunching public investment in Italy (*Giovanni Barbieri, Floriana Cerniglia*)
5. Public investment in Poland (*Adam Czerniak, Sebastian Plóciennik*)
6. Trends and patterns in public investment in Spain: An update (*Jose Villaverde, Adolfo Maza*)

Part II – Challenges

7. Crowding In-Out of Public Investment (*Luigi Durand, Raphael Espinoza, William Gbohoui and Mouhamadou Sy*)
8. Investing in Health (*Pierre Yves Geoffard*)
9. Education, human capital and social cohesion (*Lieve Frasen, Romano Prodi, Edoardo Reviglio*)
10. Covid-19 and the corporate digital divide (*Desirée Ruckert, Reinhilde Veugelers, Antilia Virginia, Christoph Weiss*)
11. EU Investment in Energy Supply for Europe (*Carlo Jaeger, Diana Mangalagiu*)
12. Environmental Impact Evaluation of a European High Speed Railway Network along the ‘European Silk Road’ (*Mario Holzner, Katharina Weber, Muhammad Usman Zahid, Maximilian Zangl*)
13. Cohesion Policy and Public Investment in the EU (*Giuseppe Coco, Raffaele Lagravinese*)

EDITED BY FLORIANA CERNIGLIA, FRANCESCO SARACENO,
AND ANDREW WATT



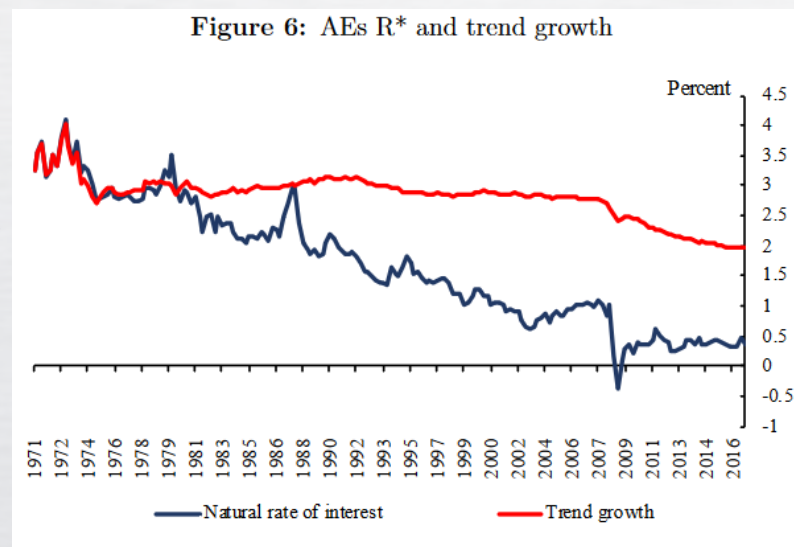
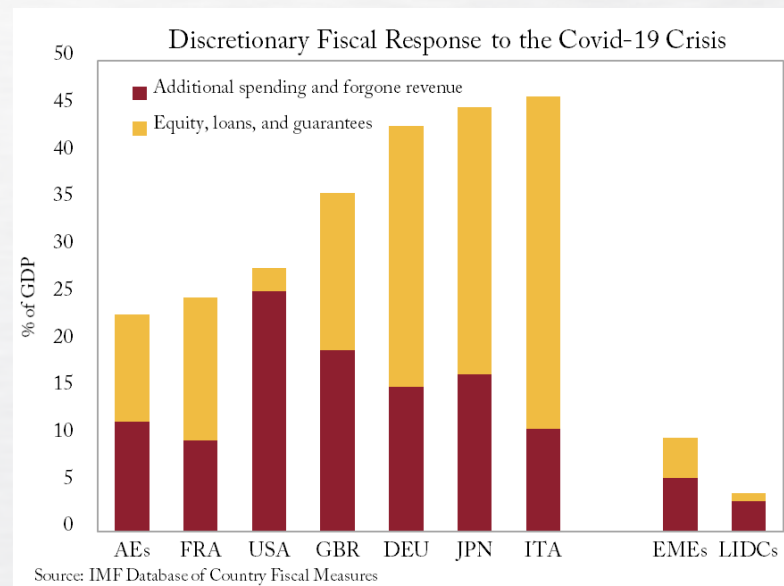
THE GREAT RESET

2021 European Public Investment Outlook

Some concluding remarks

- The US vs the EU: beware of comparisons
 - Different institutions play an important role: Automatic stabilization does not make the headlines, but it counts!
 - Fiscal space is an issue for most of the world economy

- Massive fiscal effort. Who will pay?
If all goes well, nobody!
 - Secular stagnation and low interest rates
 - Chronic excess private savings requires chronic government negative savings
 - Investment creates debt but also capital
 - The key to debt sustainability is credibility



Source: Lukasz and Summers 2019



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