

The economic and social consequences of covid-19

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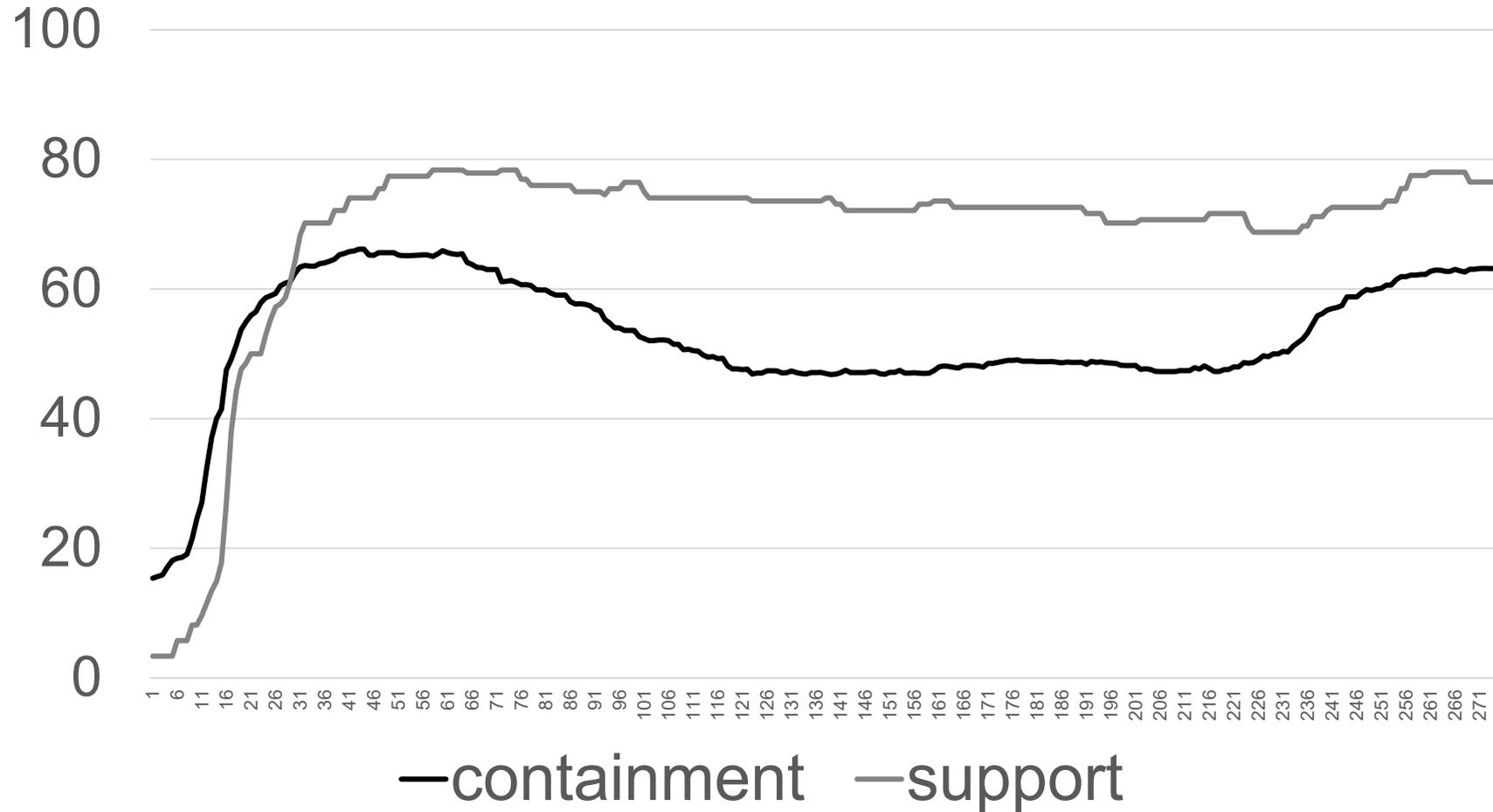
Overview

Chapter finished start September, plenty to update,
Covers first measures, economic & social
consequences, EU initiatives,

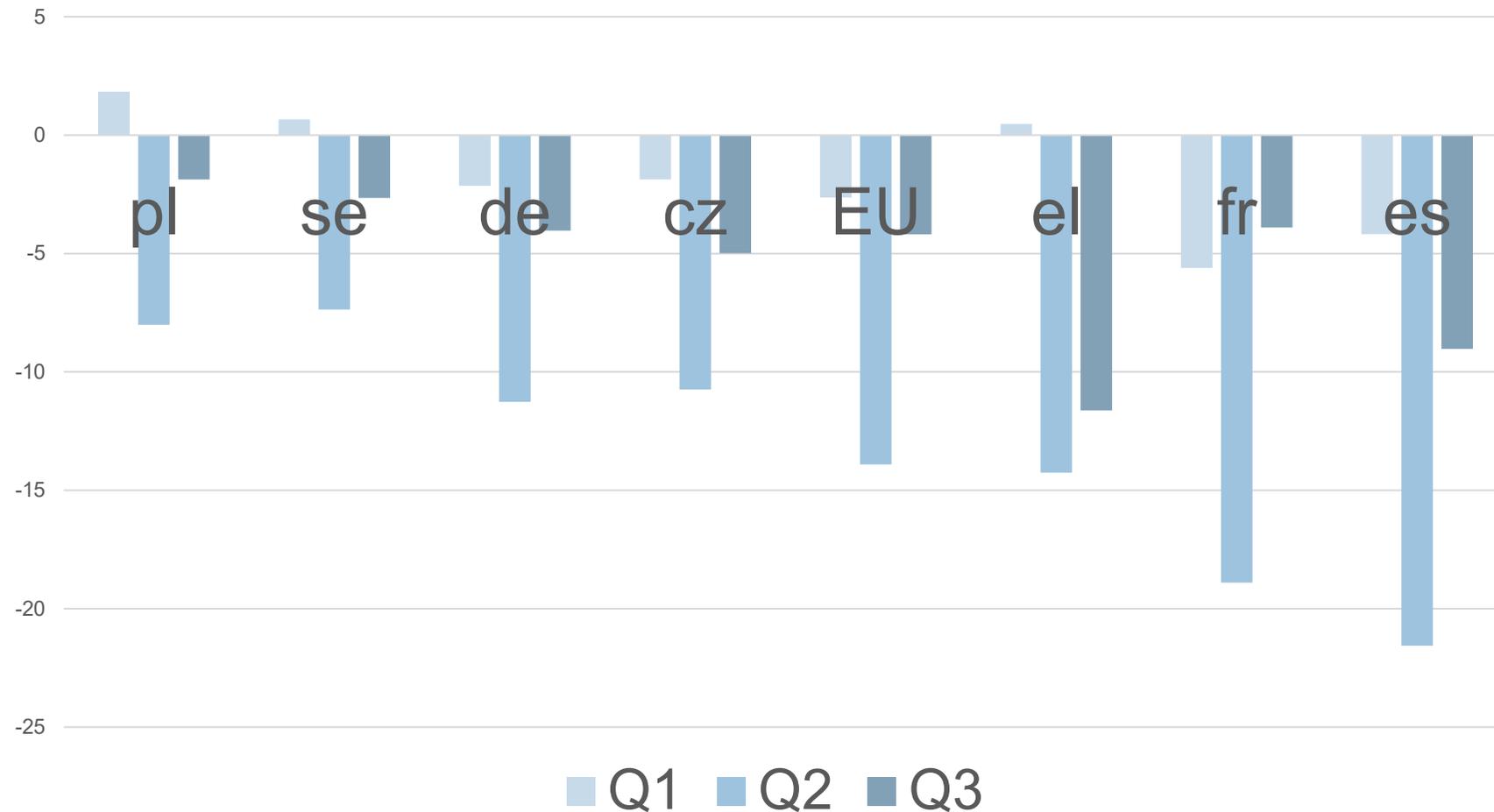
First measures = 'do whatever it takes', strict
lockdown measures and then economic support
measures to preserve firms and jobs and to prevent
social catastrophe, hope for V-shape,

From April, varying between countries, relaxing
containment, minimum 1 July, rising from mid-Oct,
Use Blavatnik index (imprecise), EU average.

EU average 1.3-29.11.2020



GDP, 2020/2019, quarterly



The economic cost

GDP, varies between countries, not that bad? If full recovery in last quarter – only 5% fall! A bit worse!

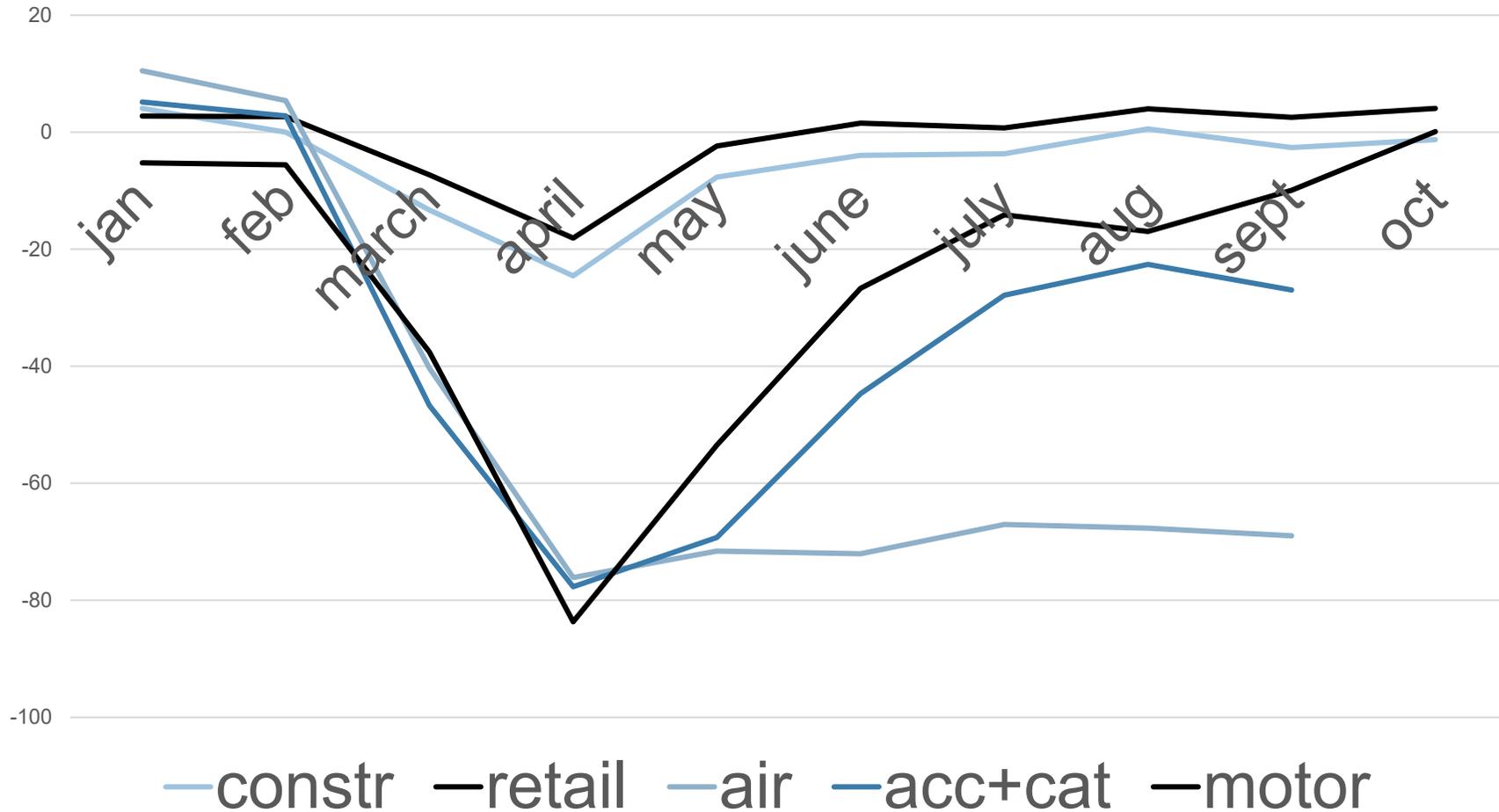
They thought we had learned to live with the virus?!

Reservations to GDP indicator; boosted by new health activities, not reduced if public sector workers still paid, does not show work without pay,

So same level of GDP – not same economic structure and not the same level of welfare,

Follow sectors, helps explain country differences.

EU sectors, output 2020/2019



Social costs

Eurostat shows – unemployed stable, ‘small’ drop in employment (3rd ¼ biggest bg; 3.8%, es; 3.7%), but;

- Support not universal, not all income, time limited, worse in lower-income countries, delayed 2021?
- Eurofound survey (July), 37% less hours; 8% had become unemployed (es; 16%, se; 3%)
- Home working, 34%, bias for country from type of work (74% tertiary educ, Eurofound)
- Some – working less/more; some – hardship/money to spend later.

State budget costs

Can follow measures announced (IMF), but not precise on spending,

Announcements suggest (often) 5% of GDP + automatic stabilisers (5% for best) + guarantees for credits (24% of GDP for Germany),

Likely 2020 deficits, % GDP (2019); fr -11.3 (-3.0), de -5 (+1.5), cz -7 (+0.3), pl -10.5 (-0.7). Some predict surpluses for 2021, but fr -8.5 and de -7,

Danger of debt crisis? Greece Debt/GDP 205%?

ECB, eased debt fear, could finance spending?

EU-level response

- EU budget, 1% of GDP, much less than members, very hard to get agreement to spend more, to transfer, to share liability, but costless to relax rules
- of Stability and Growth Pact (but for how long, and what will follow?),
 - of competition policy, to allow state aid, approvals to 17 Dec, incl guarantees, over 5% of GDP (will this help mostly the richest? highest fr 13.6%, but lowest also higher-incomes).

'Recovery and resilience'

Could the EU use collective financial strength to raise finance for member states? History of strong opposition, but weakened by seriousness of threat, 'recovery and resilience facility', compromise, agreed July 2020, incl grants to member states for recovery, spend by end 2026, 2.4% of GDP (=regional and cohesion policy 2014-2020), Formula shows (likely) over 10% of GDP hv, bg, el, How will it be used? Can it be used usefully? Will it set a precedent?

Conclusion

V-shape? Still unclear when and how this all ends.
Danger of intensifying inequalities/divergences.
Once it does end, will the measures taken by EU,
and in MS, be an aberration, followed by renewed
austerity, or a precedent?