

Dirassat & Abhath
The Arabic Journal of Human
and Social Sciences



مجلة دراسات وأبحاث
المجلة العربية في العلوم الإنسانية
والاجتماعية

EISSN: 2253-0363
ISSN : 1112-9751

**The impact of Covid 19 on Europe
And the measures taken**

انعكاسات كوفيد 19 على أوروبا والتدابير المتخذة

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تاريخ القبول: 2024/12/15

تاريخ الاستلام: 2024/09/17

Abstract:

The aim of this studies is to analyze the measures taken at the time by the European Union in relation to the coronavirus epidemic and its economic effects, and reflects on the need for any others measures to meet a fundamental challenge for the European project.

The stakes of this crisis are considerable for the European Union. The economies of the eurozone countries are so interconnected that the destabilisation of one of them would have unbearable effects on the others. This calls for close cooperation between all these countries in order to mitigate the effects of the crisis, share its costs and facilitate a rapid recovery. This cooperation is also essential if citizens are to regain a sense of belonging to the Union after a Great Recession that fuelled anti-European and nationalist sentiment across Europe.

Key words ; Euope, covid19, cooperation, nationalist sentiment

ملخص

تُحلل هذه الدراسة التدابير التي اتخذها الاتحاد الأوروبي فيما يتعلق بوباء فيروس كورونا المستجد وأثاره الاقتصادية، وتتناول الحاجة إلى اتخاذ تدابير جديدة لمواجهة التحدي الأساسي للمشروع الأوروبي.

إن مخاطر هذه الأزمة كبيرة بالنسبة للاتحاد الأوروبي. فاقتصادات دول منطقة اليورو مترابطة لدرجة أن زعزعة استقرار أحدها سيكون له آثار لا تُحتمل على الدول الأخرى. وهذا يستدعي التعاون الوثيق بين جميع هذه البلدان من أجل تخفيف آثار الأزمة وتقاسم تكاليفها وتسهيل التعافي السريع. هذا التعاون

ضروري أيضًا إذا ما أراد المواطنون استعادة الشعور بالانتماء إلى الاتحاد بعد الركود الكبير الذي أجج المشاعر المعادية لأوروبا والمشاعر القومية في جميع أنحاء أوروبا.

الكلمات المفتاحية ؛ أوروبا، كوفيد 19، التعاون، الشعور القومي في جميع أنحاء أوروبا

1. INTRODUCTION

The Covid-19 health crisis has tested the European democracies, economies and societies. How quickly and flexibly Europe are able to react

The speed and flexibility with which Europe is able to react and the determination and sense of responsibility of all of European countries - governments, businesses and individuals - will determine the effectiveness of its health control and the extent of its economic effects in the medium and long term.

The impact of this crisis is expected to be unprecedented. The necessary containment of the contagion is leading governments around the world to adopt extraordinary and unprecedented measures that affect individual freedoms and have a devastating effect on economic activity. And that effect is spreading globally at great speed, given the high degree of interconnectedness of our¹

We already had a similar experience in 2010, during the debt crisis. This time, the speed and nature of the crisis demanded much more rapid and decisive action. This is why, in almost record time for the usual practice of the European club, the Commission, the European Central Bank and the Eurogroup have already taken action and have, moreover, declared their readiness to continue to act if necessary. However, important decisions remain to be taken, notably by the Council of the European Union.

This article reviews and analyses the measures taken so far by the EU and considers what further action could and should be taken. To this end, the first section describes the starting point, the depth of the crisis and the economic rationale for the

economies through significant flows of capital, goods and services. The sharp disruption in economic flows is having consequences around the world. National governments are taking measures to minimise the cost to their countries. But this is not enough. It is also essential to coordinate action at the global level to curb the epidemic in both health and economic terms. On the economic side, it is a matter of preserving, as far as possible, international trade and financial stability.

At the level of the European Monetary Union, cooperation is even more necessary because the economies are much more interdependent. The destabilising effects on the internal market and on the euro, and therefore on each of the Member States, regardless of how they are affected by the initial shock, are potentially so significant that they should encourage the adoption of European solutions.

necessary actions. It then describes the actions taken by the EU institutions to complement the measures taken by Member State governments. Finally, it concludes by outlining the additional actions that may be required.

1. The economic impact of Covid-19 on the EU

The exponential expansion of the epidemic, which threatened to outstrip - as is already the case - the health capacities of most countries, led governments to adopt extraordinary and exceptional measures to slow the rate of contagion. These measures are undoubtedly essential, but they are temporarily restricting rights and freedoms in a way hitherto unimaginable in Western democracies and, along with the fear of

contagion, are having a devastating and inevitable effect on economies. What's more, this effect is spreading rapidly given the high degree of economic openness and interconnectedness of the countries affected.

In simplified terms, we can distinguish at least three negative shocks that act simultaneously and a fourth that extends its effects beyond the immediate phase of the crisis.

- a) A first supply shock, stemming from the epidemic containment measures taken mainly in China, led to a major disruption of global value chains. It disrupted the production of intermediate goods and essential components for major European and North American industries. This effect would have occurred even if the virus had not spread to Europe. As it spreads, the effects increase and are concentrated, above all, in industry.
- b) A second supply shock, resulting from restrictions (or bans, in some cases) on opening to the public imposed on retail outlets, transport, catering and services in general. In addition, restrictions on the free movement of people affect the normal development of activities that can continue to be carried out because they make access to the workplace more difficult. This shock particularly affects the services sector
- c) A shock to demand. The fear of contagion, the uncertainty and the severe measures to contain the population and keep them at home are depressing consumption, directly and immediately affecting the services sector and, in particular,

tourism and related activities. In addition, uncertainty about the duration of the epidemic, the effects of the virus, the measures to be taken and the way out of the crisis is affecting investment, which could jeopardise both present and future business.

- d) In addition to the above, there is a fourth shock, which extends its effects beyond the acute phase of the crisis, associated with the adoption of extraordinary containment measures. This is a shock derived from the impact that the previous three will have on the liquidity and access to finance of the productive fabric, particularly SMEs, given the deterioration in their financial situation due to the drastic, and as yet unpredictable, fall in their revenues. This can also jeopardise their future activity and may even lead to job losses.
- e) It may also jeopardise their future business and even lead to permanent closures, which would trigger a new supply shock. The same applies to consumers who, finding themselves in a situation of unemployment (in principle temporary, but which may become permanent) or seeing their income fall, may have less access to credit, with the resulting demand shock).²

The impact of the shocks described above is likely to be very profound, at least in the short term, and will depend heavily on the duration of the epidemic.

Preventing the crisis from becoming chronic and having medium- and long-term effects will, in turn, depend on the authorities' response to minimise the prolonged economic effects of the extraordinary containment measures on the economic

fabric and on the ability of economies to finance these measures without further market stress.

and the ability of economies to finance these measures without additional market stress.

2. The measures taken by the EU to tackle the crisis

The European Union's response to the Covid-19 pandemic confirms two historical axioms. The first is from the German philosopher Carl Schmitt, who reminds us that 'the state of exception reveals with the greatest clarity the essence of the authority of the State'. The second is by Jean Monnet, who foresaw that 'Europe will be built through crises and will be the sum of the responses to these crises'.³

Between maintaining the prerogatives of the Member States and strengthening European coordination, the Union must strike a balance. We need to look at it from three angles - the response to the health crisis, the response to the economic crisis and the adaptation to the 'next world' - to see how it might evolve.⁴

Faced with the economic shock represented by the containment measures, the European response consisted, in accordance with Carl Schmitt's philosophy, in letting the Member States off the hook. Community rules on state aid were suspended and the general exemption clause of the Stability and Growth Pact - which limits budget deficits and national debt - was activated.

States were thus able to quickly rescue their economies, finance short-time working measures and provide cash aid to companies in difficulty, giving themselves virtually no limits - 'whatever it takes', in the words of President Emmanuel Macron in his speech announcing the first confinement. It was the relaxation of collective disciplines that

initially enabled a response commensurate with a systemic shock.⁵

The crisis could quickly have degenerated into a financial crisis, as it did in 2010 with the eurozone crisis. France's public debt has risen between 2020 and 2021 from 100% to 115% of gross domestic product (GDP), while Italy's has risen from 135% to 155%.⁶ Heterogeneity within the 19 countries of the eurozone has also increased: seven countries now have debt levels approaching or exceeding 120%, while eight remain at 60%, the level defined by the Maastricht Treaty⁷.

The European Union has learned from its mistakes. Very quickly, the European Central Bank (ECB) extended its government bond repurchase programme, acquiring 70% of government bonds, a proportion more or less comparable to that of the United States, Japan and the United Kingdom.

Very quickly too, the budgetary tool took over from the monetary tool: in April 2020, the Ministers of the Economy and Finance agreed on a joint plan of more than 500 billion euros to finance short-time working measures in the Member States and to lend to companies and Member States that request it.

Then, on 18 May, France and Germany proposed to their partners an audacious €750 billion European recovery plan aimed in particular at helping weakened states such as Italy and Spain, two important links in the eurozone. The pandemic has also given a boost to the negotiations on the 2021-2027 multiannual financial framework, which remained deadlocked after several rounds of negotiations at the highest level.

At the end of a marathon four days of face-to-face negotiations in Brussels (17-21 July 2020), the heads of state and government agreed on a financial framework of nearly

1,100 billion euros for the period 2021-2027, coupled with a recovery plan of 750 billion for the period 2021-2023.

The most refractory Member States (Austria, Denmark, Finland, the Netherlands, Sweden), nevertheless obtained a reduction in "grants" (390 billion ultimately) compared to repayable loans (360 billion) and an increase in their discounts, despite the withdrawal of the United Kingdom, which was at the origin of this system of discounts at the time of Margaret Thatcher⁸

These measures appear to be a triple success for the Union.

First, the Union has provided a monetary, financial and budgetary response commensurate with the crisis. The measures taken have helped to safeguard the productive tool, limit unemployment, preserve consumption and facilitate recovery. The GDP of the European Union fell by 6% in 2020 due to the crisis – and that of the eurozone by 7%. However, as soon as the containment measures were lifted, the rebound was rapid and it is possible that the European Union will quickly return to or exceed its pre-crisis level of activity in 2022. Some observers have criticised the inadequacy of the European plan compared to the American plans. But, on the one hand, it is appropriate to add national budgetary efforts to the European plan – which finances only part of the national recovery plans: for France, 40 billion out of 100 billion – and, on the other hand, Angela Merkel's Germany and the Union, more generally, have finally responded – admittedly within a European Union framework – to Emmanuel Macron's proposal to establish a significant budget for the eurozone. The European budget will double, even if this increase is limited to the crisis period (2021-2023)⁹.

Second, the Union is taking new steps in its economic, budgetary and monetary integration. For the first time, it will raise a significant common debt on the markets – this is both a mutualisation of debt, for the "loans" part, and financing through European borrowing of the part of the recovery expenditure paid in the form of "donations". The repayment of the debt must be accompanied by the establishment of new "own resources" – a tax on plastics, a carbon tax, a digital tax, a tax on financial transactions, etc. – which constitutes an important step towards possible "European taxes" and therefore towards the strengthening of political integration.¹⁰

Third, the Union has shown solidarity with the weaker states, avoiding a new sovereign debt crisis and reducing the risk of the crisis being exploited by anti-European populist movements. While some have seen the European recovery plan as a genuine federal leap for Europe, others are concerned about the return of the structural antagonism between the "Latin" countries prioritising spending and recovery, and the "Nordic" countries demanding competitiveness reforms and fiscal consolidation efforts. The truth is probably somewhere in between. There is a ratchet effect in the measures that have been taken, but the locks remain – the limited duration of the recovery plan and the maintenance of unanimity for fiscal and budgetary decisions.

The European Union has therefore responded to the Covid-19 pandemic with a mix of emergency actions and in-depth transformations. Despite what those who see the European project as losing momentum may say, it has shown its great resilience – a term that has been used in global political vocabulary for several years.

While the European Union can sometimes lack responsiveness and must often let the

more agile and efficient national states play their part, it nevertheless exists and defends itself as an area of free movement, an integrated monetary area, an area of solidarity, and a framework for cooperation capable of developing joint actions, including in the field of health, which is nevertheless a primary competence of the Member States. This is a real structural power that has been demonstrated and confirmed during the crisis¹¹.

3. CONCLUSION

After analysing and assessing the measures put in place so far at Union level, the remaining actions, can be divided into three categories, depending on the urgency of their adoption:

- i. The main outstanding action on which a decision needs to be taken is the most politically complex: the creation of an instrument to pool (and minimise) the costs of implementing the measures needed to combat the crisis.

There are many possible designs - inside or, preferably, outside the European safety maintenance ESM, due to its nature and rigidity - the details of which are beyond the scope of this document. However, each of them must meet the following requirements:

- ✓ Be sufficient in size, to be credible. The €500 billion figure that has been talked about, given the existence of the ECB programme, could be sufficient.
- ✓ Not to include any conditionality beyond the requirement that all necessary and reasonable measures be taken to combat the epidemic and its economic consequences.

- ✓ Be temporary and limited to this crisis and the type of spending needed to combat it.
- ✓ It should be a 'loan' of the European rating to Member States with less fiscal space and avoid the stigma of it being used as a 'loan' to the Member States with less fiscal space.

ii. Short-term actions.

These actions must be operational and implemented as soon as possible and, at the latest, when the containment measures begin to be lifted. These actions are as follows :

- ✓ Design a coordinated fiscal stimulus to make the most of the recovery and return demand and activity to pre-crisis levels as quickly as possible.
- ✓ Removal of restrictions on exports of medical equipment to third countries, as long as supplies to European countries can be guaranteed.
- ✓ Designing an exit strategy, in three areas:
 - a) Lifting of containment measures adopted by Member States
 - b) Lifting of derogations introduced in the internal market and State aid.
 - c) A fiscal exit strategy that provides certainty for countries to spend what they need to to mitigate the effects of the crisis. The idea is that in future, for a sufficient period of time, not all spending to combat this crisis will be taken into account for the purposes of the Stability and Growth Pact SGP procedures and that deficit reduction paths will take account of the 'one-off' nature of this part of the spending.

- d) Deficit reduction paths will take account of the 'one-off' nature of this part of the expenditure.

There is no point in reverting to unfulfillable SGP rules, when the deviation is due to an extraordinary

iii. Medium-term actions

The current crisis must lead to prepare ourselves institutionally, socially and economically for the future. Action could be taken in the following areas:

- ✓ The negotiations on the 2021-2027 multiannual financial framework included a more powerful, better-equipped and more integrated tool for dealing with crisis situations, including in the field of health.
- ✓ Revise the institutional framework of the European Union so that it is ready to adopt extraordinary and urgent measures in situations which, like this one, require it. This could require a legal instrument to declare a European 'state of alarm' under which extraordinary measures could be taken, the scope and extent of which would have to be foreseen in advance.
- ✓ Introduce a 'health guarantee clause' in trade agreements signed with third countries, so that countries wishing to trade with the EU are encouraged to review their internal regulations to avoid episodes such as the one experienced.

This crisis has highlighted the importance and potential of telework, which has so far been underdeveloped in the EU, but which also has implications and uses beyond national borders. Work could be carried out to identify the regulatory issues that need to be taken into account

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