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The EU One Year after the Covid-19 Outbreak: An Italian-German Perspective¹

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The Covid-19 pandemic and its economic and social consequences have radically changed the realities of the 27 member states of the European Union (EU). Following the disorganised reactions at the beginning of the crisis, the EU has since taken an unprecedented step towards cohesion and solidarity with the Next Generation EU (NGEU). However, in order to ensure recovery and resilience, the EU will need to act simultaneously on three levels: End the pandemic in the shortest time possible through mass vaccination, implement structural reforms, and address the challenges of tomorrow, including digitalisation and the fight against climate change. To realise these objectives, citizen engagement and mobilisation is essential, thus giving new urgency to the Conference on the Future of Europe, which should be turned from a consultation process into a tool for the relaunch of the Union post-Covid-19.

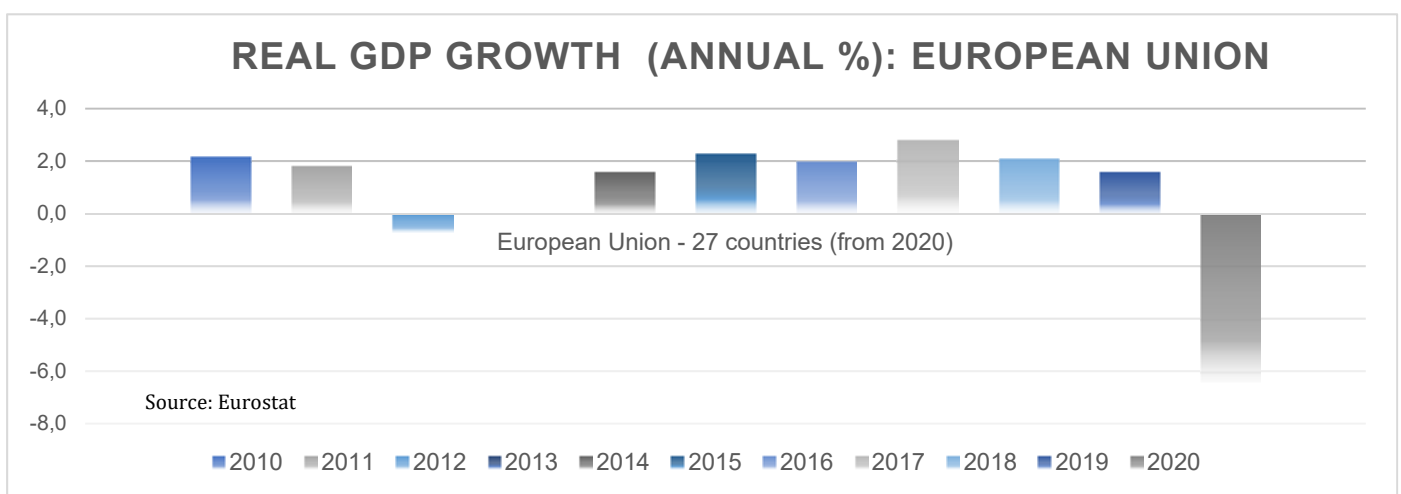
At the beginning of 2020, the EU was preparing for an intense year ahead marked by, among other things, Brexit negotiations, the presidential elections in the United States, and talks over the next seven-year budget of the Union. It was supposed to be a year of great debates. The European Commission announced a review of EU economic governance, and the new head of the European Central Bank (ECB), Christine Lagarde, initiated the first review of the ECB's monetary policy strategy since 2003. There were high expectations, in particular for the second semester and the German presidency of the European Council. Chancellor Angela Merkel was expected to deal with these and other crucial priorities of the European agenda, such as the European Green Deal, shaping Europe's digital future, targets to make the Union carbon-neutral by 2050, the implementation of the New Pact on Migration and Asylum proposed by the European Commission, the enlargement package for the Western Balkans, and the conclusion of seven years of negotiations over a Comprehensive Agreement on Investment with China. The presidency was also supposed to launch a big citizens' engagement and mobilisation exercise – named the Conference on the Future of Europe – in an attempt to listen to the needs and expectations of all Europeans. The outbreak of the

¹ This paper is a follow-up to the 2020 edition of the Italian-German Strategic Forum on Europe, jointly organised by Istituto Affari Internazionali (IAI), Friedrich Ebert Stiftung (FES) Italy and Stiftung Wissenschaft und Politik (SWP). The views expressed in this paper are exclusively those of the authors.

Covid-19 pandemic in the early spring affected the order of priorities in EU policy debate, but it also, critically, gave new urgency to the Conference, which should be turned from a consultation process into a tool for the relaunch of the Union post-Covid-19. The aim of this paper is to look at the current economic and political challenges of the EU from an Italian-German perspective, given the role of both countries in shaping the EU agenda.

1. The economic shock of Covid-19: Fostering recovery in the EU

The Covid-19 pandemic and its economic and social consequences have radically changed the realities of the 27 EU member states, which have collectively suffered 500,000 deaths (and counting) due to Covid-19. Meanwhile, restrictive measures adopted by governments to contain the pandemic have led to a record high contraction of the EU's gross domestic product (GDP) in 2020: 6.4 per cent.²



The economic downturn has affected European economies unevenly. The most affected have been those where the service sector – in particular tourism – plays the largest role in the composition of the GDP, as is the case of the southern European economies. The GDP contraction in Italy in 2020 (8.9 per cent)³ was much more severe than in Germany (5.3 per cent).⁴ The public health and economic crises have heavily affected the threat perceptions of European citizens, who, in the latest Eurobarometer poll, ranked the economic situation, health, and unemployment as their highest concerns.⁵

The first reactions to the Covid-19 outbreak in Europe were disorganised and led to unilateral decisions by member states to close borders and compete for the acquisition of personal protection equipment. Communication on the EU's response to the pandemic by the institutions in Brussels was confusing, making citizens – especially in Italy, which was the

² Eurostat, *Preliminary flash estimate for the fourth quarter of 2020*, 2 February 2021, https://ec.europa.eu/eurostat/documents/portlet_file_entry/2995521/2-02022021-AP-EN.pdf/0e84de9c-0462-6868-df3e-dbaaad9f49f

³ Istat, *Stima preliminare del PIL*, February 2021, https://www.istat.it/it/files//2021/02/FLASH_2020q4.pdf

⁴ Destatis, *Pressemitteilung Nr. 040 vom 29. Januar 2021*, January 2021, https://www.destatis.de/DE/Presse/Pressemitteilungen/2021/01/PD21_040_811.html

⁵ European Commission, *Public opinion in the European Union*, Standard Eurobarometer 93, Summer 2020, <https://ec.europa.eu/commfrontoffice/publicopinion/index.cfm/survey/getsurveydetail/instruments/standard/surveyky/2262>

first country to be hit severely by Covid-19 in Europe – feel abandoned. During the very first phases of the Covid-19 crisis, there was a general sense that Europe had abandoned the Italians, as had happened during the refugee crisis of 2015. In March 2020, 88 per cent of Italians answered “no” to the question of whether the EU was helping.⁶

However, the EU got its act together rather quickly and, in the span of a few weeks, put forward unprecedented measures. The Pandemic Emergency Purchase Programme (PEPP) – the ECB’s €1,850 billion asset purchase programme – coupled with the activation of the general escape clause allowing Eurozone members to exceed limits on deficits, enabled the member states to extensively use public finances to revive economic activity. The unprecedented scale of the monetary policy measures adopted by the ECB has been decisive in reducing the borrowing costs of Eurozone countries. The ECB intends to continue its bond buybacks until at least March 2022, while the maturing principal payments from purchased securities will be reinvested till the end of 2023.⁷ It is likely that the PEPP will be extended.

The Eurogroup have agreed upon a separate package worth up to €540 billion. It includes Pandemic Crisis Support from the European Stability Mechanism (ESM) and temporary Support to mitigate Unemployment Risks in an Emergency (SURE).⁸ Most importantly, EU leaders have signed off on the NGEU, a €750 billion recovery fund, half of which is made up of grants.

1.1 The EU’s response to the pandemic: An Italian-German perspective

As has happened in the past, a substantial step forward in EU cohesion and solidarity was made in connection with a big crisis, which this time affected all EU member states horizontally, even accounting for its asymmetrical impact. Franco-German leadership and the mediation role of Chancellor Merkel were instrumental to overcome the main obstacles and mend the fractures produced by negotiations on the allocation of financial resources between the Mediterranean and “frugal” states, as well as with Hungary and Poland, which were initially opposed to establishing a link between the use of NGEU funds and the rule of law. Italy, for its part, stood next to the French-German couple and with the Mediterranean front, although with limited bargaining power, given its economic and financial troubles.

Some of these interventions marked a change in the EU’s mindset, paving the way for a level of cohesion and solidarity never experienced before. Using the EU budget as collateral for joint debt issuance had happened before, for example in the early stages of the Eurozone debt crisis.⁹ However, the EU has never issued debt on such a scale to finance non-repayable grants. On the German side, support for the NGEU was a paradigm change in the field of budgetary integration, dictated by the unprecedented scale of the pandemic crisis. On the other hand, in line with Berlin’s interests in maintaining the EU-27 (rather than just the Eurozone) as the main format of integration, the NGEU instrument covers all member states and is managed by the European Commission. For Italy, it represented a game changer in addressing the dramatic impact of the pandemic, and it was interpreted as a possible first

⁶ *Sondaggio Dire-Technè*, DiRE, 13 March 2020, <https://www.dire.it/13-03-2020/433531-sondaggio-dire-tecne-in-2-mesi-crolla-la-lega-e-il-pd-dimezza-lo-svantaggio/>

⁷ European Central Bank, *Pandemic emergency purchase programme (PEPP)*, <https://www.ecb.europa.eu/mopo/implement/pepp/html/index.en.html>

⁸ Eurogroup, The president, Summing-up letter, Eurogroup in inclusive format, 7-9 April 2020, Brussels, 17 April 2020, <https://www.consilium.europa.eu/media/43373/20200407-eg-inclusive-summing-up-letter.pdf>

⁹ The European Financial Stabilisation Mechanism (EFSM), an emergency funding instrument created in 2011, used the EU budget as collateral when issuing debt securities.

step towards a permanent mechanism of joint debt issuance at the EU level. The approval of the NGEU by the July 2020 summit helped EU institutions regain the confidence of 56 per cent of Italian citizens, thus almost reaching the pre-Covid share (61 per cent), after a significant fall in April (44 per cent).¹⁰ The political forces in the Italian government all welcomed the new instrument as a historic opportunity for Italy, whereas the opposition parties were divided: Silvio Berlusconi's Forza Italia was positive, Matteo Salvini's Lega sceptical, and Giorgia Meloni's Brothers of Italy critical.

The case of the ESM, which was designed as the Eurozone's main stabilisation instrument, was different. Despite the creation of a new credit facility within the ESM to finance the medical costs in the fight against Covid-19, with little conditionality, this instrument was not used by any Eurozone country. In addition, the use of the ESM raised quite serious concerns and differences of opinion within the coalition led by former Prime Minister Giuseppe Conte, who was in power until January 2021. A main reason why Italy has not yet applied to the bailout fund – amounting to roughly €36 billion for Italy – was the opposition of the 5-Star Movement. The ESM conditionality was seen as the way to impose austerity measures, as was the case during the sovereign debt crisis. On the contrary, the other coalition parties – the centre-left Democratic Party and former Prime Minister Matteo Renzi's Italia Viva – insisted that Italy should apply for cheap ESM loans to bolster the Italian health system. These differences contributed to the decision by Renzi to pull Italia Viva out of the ruling coalition, thereby causing Giuseppe Conte to resign. It remains to be seen whether the new government, headed by former ECB President Mario Draghi, will find an agreement on applying for ESM grants, although now the chance is definitely higher than before. In any case, the pandemic has revealed the ESM's reduced role as a stabilisation tool for the Eurozone.

1.2 The next steps: Between immediate needs and structural reforms

To reduce the impact of the pandemic, active fiscal policies are also needed to cushion the effects of lockdowns, particularly among the most vulnerable groups: young people, women, the less educated, and the unemployed. The possibility of a “lost generation” – young people who, due to educational gaps associated with online education, may in the future face difficulties on the labour market – must be avoided at all costs.¹¹ In particular, these problems affect the labour markets of the countries and regions of southern Europe, which were already affected by huge structural problems before the pandemic. These challenges, and how to combat them, should be at the forefront of discussions on a post-pandemic recovery, especially within the framework of the annual cycle of economic and fiscal policy coordination – the European Semester.

Success of the NGEU would increase the likelihood of the instrument being permanently maintained in the structure of EU finances and the creation of a “safe asset” for the EU, which would increase the stability of the 19-member Eurozone and strengthen the international role of the euro. The common debt issuance could go hand in hand with the elements of conditionality under the European Semester. The implementation of structural reform

¹⁰ Università di Siena e Istituto Affari Internazionali, *Gli italiani e l'Unione europea. Autunno 2020*, November 2020, https://www.iai.it/sites/default/files/laps-iai_2020_ue.pdf

¹¹ “La generazione perduta del Covid: buchi di apprendimento del 30-50%”, *Il Sole 24 Ore*, 11 January 2021, <https://www.ilsole24ore.com/art/la-generazione-perduta-Covid-buchi-apprendimento-30-50percento-AD-KibZCB>

commitments could be joined with common debt issuance.¹² It would contribute to reinforcing the role of the European Commission in EU economic governance.

The Covid-19 pandemic will contribute to a massive increase in the public debt levels of Eurozone member states, yet again very unevenly. It is estimated that German public debt will only increase to around 72 per cent of GDP in 2021. In Italy, on the other hand, the level of public debt will rise from about 135 per cent of GDP in 2019 to about 158 per cent in 2021.¹³ The negative impact of the Covid-19 crisis on public finances will play out in full after some time due to the deterioration of demographics, including a sharp decline in birth rates, which may contribute to an increase in hidden debt, such as costs for health care and pension systems. In the medium term, the debt market in the Eurozone can be effectively stabilised using monetary policy instruments, but it is necessary to think about alternatives that go beyond the actions of the ECB, including common debt instruments as well as an emphasis on pro-development investments and structural reforms.

The EU needs to act simultaneously on three levels to face the challenges of Covid-19. First, it should better tackle the structural problems of the past, which were accentuated by the Eurozone crisis. Second, the EU and the member states should fight to put an end to Covid-19 in the shortest time possible through mass vaccination. Third, the EU should address the challenges of tomorrow, including digitalisation and the fight against climate change, which have huge impacts on economic activity.

2. The Conference on the Future of Europe: Involving EU citizens

The health emergency has exposed many gaps in the European project that affect its ability to respond to citizens' needs. The EU's survival has been ensured, but its resilience to further shocks is linked to major decisions on competences, decision-making rules, and policy priorities. These decisions require not only the political will of leaders and courageous actions by institutions, but also the support of citizens. Closed-door technical discussions in Brussels or statistical data on new economic measures are not enough. The EU needs to conquer the hearts and minds of its people with an ambitious relaunch of integration based on citizens' preferences and needs. A way forward is to use the forthcoming Conference on the Future of Europe to this effect.

The Conference was initially proposed by French President Emmanuel Macron in an open letter to European citizens in March 2019¹⁴ and then officially put forward by the European Commission, led by Ursula von der Leyen.¹⁵ It was scheduled to be launched on 9 May to coincide with the 70th anniversary of the Schuman declaration, and it was to last up to two years. It was supposed to engage the broader public on the debate about the future of Europe through online consultations and citizen gatherings. Its focus was twofold: (1) the main issues in the EU Strategic Agenda 2021–2024, including, among other things, the fight

¹² Paweł Tokarski, *Divergence and diversity in the euro area: The case of Germany, France and Italy*, SWP Research Paper 6/2019, p. 32 (Berlin: Stiftung Wissenschaft und Politik [SWP], May 2019), https://www.swp-berlin.org/fileadmin/contents/products/research_papers/2019RP06_tks.pdf

¹³ International Monetary Fund, *Gross debt position*, https://www.imf.org/external/datamapper/G_XWDG_G01_GDP_PT@FM/ADVEC

¹⁴ Emmanuel Macron, *For European renewal*, 4 March 2019, <https://www.elysee.fr/emmanuel-macron/2019/03/04/for-european-renewal.en>

¹⁵ European Commission, *Shaping the Conference on the Future of Europe*, 22 January 2020, https://ec.europa.eu/commission/presscorner/detail/en/ip_20_89

against climate change, the economy, social fairness and equality, digital transformation, European values, and the EU's voice in the world; and (2) topics specifically related to democratic processes and institutional matters, notably the *Spitzenkandidaten* process and transnational lists for elections to the European Parliament. As for the format, citizens' involvement in regional and national debates was to have been guaranteed both in person and through multi-lingual online platforms.

2.1 The troubled road towards the Conference

However, a few crucial uncertainties in the Conference's conceptualisation hindered the process (beyond, and in addition to, the disruption caused by external events such as Covid-19). Concrete and specific ways to engage Europeans were not clarified in advance. Whereas the European Parliament advocated for the direct involvement of citizens,¹⁶ the Commission and Council insisted on the roles of associations and representatives of civil society. In turn, the Committee of the Regions warned against the excessive centralisation of the process and stressed the role of local authorities.¹⁷

After an initial delay due to the outbreak of the pandemic, the process became hostage to an inter-institutional battle between the European Parliament and the member states about who should chair the Conference. Chancellor Merkel was not able to unlock the process, and it is now up to the Portuguese presidency to find a way to break the impasse. One proposal is to place the Conference under the authority of a Joint Chairmanship, composed of the presidents of the European Parliament, the Council, and the Commission.

Finally, and more importantly, there seems to be no agreement as to what the final outcome of the Conference should be. The European Parliament has spoken in favour of a robust debate, possibly leading to a reform process,¹⁸ whereas the Council has excluded a formal revision of the Treaties, and privileged the consultation aspects.¹⁹

An important question is whether the Conference will occupy a significant place in the European public space and national politics. There are currently many processes in the EU aimed at redesigning policies of great economic and political importance (e.g. monetary policy, fiscal rules, and trade policy) as well as action on the most pressing challenges (social problems, climate change, and digitalisation), which may overshadow discussions on changing the foundations of the EU.

2.2 Shaping the Conference for a post-Covid-19 Europe

The Covid-19 crisis has not only delayed the Conference, it has also completely changed its context. The crisis is exposing the inadequacy of the original agenda and making the implementation of an ambitious reform of the EU architecture an urgent matter. The agenda of the Conference should be broadened to identify the political and institutional reforms needed to guarantee the EU's resilience, its ability to respond to citizens' needs, and how it

¹⁶ European Parliament, *Resolution of 18 June 2020 on the European Parliament's position on the Conference on the Future of Europe*, https://www.europarl.europa.eu/doceo/document/TA-9-2020-0153_EN.html

¹⁷ Committee of the Regions, *Resolution on the Conference on the Future of Europe*, 29 April 2020, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020XR0192&rid=8>

¹⁸ European Parliament, *Resolution of 15 January 2020 on the European Parliament's position on the Conference on the Future of Europe*, https://www.europarl.europa.eu/doceo/document/TA-9-2020-0010_EN.html

¹⁹ Council of the EU, *Council position on the Conference on the Future of Europe*, Brussels, 24 June 2020, <https://www.consilium.europa.eu/media/44679/st09102-en20.pdf>

can play a more active global role. This process might go as far as to consider the transfer of new competences to the Union from the member states – for example in the field of health crisis management – and an expansion of the application of qualified majority voting. It should also look at crucial issues concerning the well-being of European societies and the pact with future generations, thus reflecting on identity and values. However, it should also look at the challenges and opportunities of policies such as social welfare, climate transition, and digital inclusion, without neglecting the international dimensions.

Covid-19 has also affected deeply the daily lives of European citizens, thus questioning the resilience of our societies and the public's trust in democratic institutions. More than ever, there is a need for civic engagement and public activism in order to prompt widespread reflection on the future of Europe and the construction of a renewed Union. The Conference should therefore ensure the broadest possible degree of participation of interested citizens and their elected representatives at all levels – local, regional, national, European – with maximum transparency on the processes through a transnational, integrated debate. The realisation of an EU-wide platform, which should be user-friendly and multilingual, to allow remote participation, as well as bottom-up mobilisation of people and civil society organisations are essential elements to achieve this objective.

EU institutions and political leaders should be ready to face uncomfortable truths regarding citizens' preferences on the direction of the EU project. These preferences could lean towards a federal Union, claims for a reinforcement of intergovernmental coordination, or lead to a differentiated Union in which willing member states go further in the integration process in individual policy sectors.

At the same time, discussions on the further development of the EU in the framework of the Conference should also remind us of the achievements of European integration, such as free trade and the opportunities to study and work in other EU countries. It should also be remembered that the benefits of European integration also depend on political decisions taken at the national level, as the competences for many areas that are crucial for citizens, such as education and social security, lie with the member states. Brexit was a brutal reminder of the direct benefits that participation in the EU's internal market brings to EU citizens.

If a stronger preference for deep reforms entailing revisions of the Treaties emerges, it could not and should not be ignored, and a fully-fledged convention based on the proposals put forward by the citizens should be established. Such an approach would ensure that the Conference represents a real constituent phase. Indeed, it would be a powerful symbol of a new, stronger Union overcoming the present crisis and being prepared to survive future ones. Italy and Germany should play a key role in promoting it and ensuring adequate political and financial investment for this exercise.

3. Conclusions

Never before in the history of European integration have EU citizens and political leaders faced the degree of uncertainty like that which has been brought about by the Covid-19 pandemic. This crisis is an unprecedented event, not only because of the scale of the economic damage, but because it is above all a random event, a natural disaster. Italy was the first to face the pandemic, without a blueprint to tackle it. The Italian government, after

initial hesitations, shifted to the imposition of restrictive measures that were hardly imaginable in peacetime Europe. In a few weeks, Covid-19 infections spread all over the continent, turning into a massive political stress test for the EU, its institutions, and its citizens. Initially, the EU and its member states responded with conflicting communications, an uncoordinated approach, and a lack of solidarity. Once the seriousness of the situation and the need to act in a coordinated way were understood, things changed rapidly. Both EU institutions and national governments convinced themselves of the necessity for extensive fiscal solidarity. Several instruments were put in place: the PEPP, the activation of the “general escape clause” in the EU’s fiscal framework, the SURE mechanism, the possible application of a temporary instrument within the ESM to cover health costs, and eventually the NGEU.

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Unlike the Eurozone crisis, there are neither “blame-game” arguments here nor criticisms of misguided policy decisions. This made it easier to reach an unprecedented agreement to mobilise additional aid, including grants, under the NGEU facility. This instrument, based on the joint issuance of debt, could be the start of a new path for EU fiscal integration. A huge responsibility lies with the member states to spend EU funds properly, that is, in a way that increases the prospects for long-term growth. Even so, the use of the grants and loans made available by the NGEU alone – if not implemented together with structural reforms in some countries – would not be enough for certain member states to recover and ensure resilience this decade.

It is not clear if measures taken in crisis mode will ultimately be turned into stable reforms of the Union’s governance and longer-term policies. However, it is possible that Covid-19 will lead to deeper integration in many other dimensions, including the health care sector. It is not only the speed of recovery from the economic and social crises that will be important, but also the degree of solidarity among EU member states.

One factor testing the cohesion of the EU-27 is how vaccines are being bought and distributed. Last summer, the European Commission persuaded the EU-27 to coordinate their vaccine drives and put the Commission in charge. Although it succeeded in placing most orders together to ensure delivery to all member states, the Commission has regrettably not yet proved itself to be able to meet the challenge of vaccine procurement. Excessive caution, bargaining, and lack of transparency over contracts and prices have unfortunately jeopardised the actions of the Commission during this vaccine challenge.

Debating about the future of the Union while facing the unprecedented health, economic, and social crises provoked by Covid-19 is a challenge, but also an opportunity to pursue further political and economic integration in the EU. An additional element to discussions on the EU’s economic and political future is the political calendar. In the coming months and years, elections will be taking place in major EU countries. German and Italian elections are likely to result in changes of political leadership and preferences concerning the EU’s future.

Against this backdrop, the Conference on the Future of Europe is an important test for the EU and its institutions. It seems to be undisputed that European citizens have to be involved in this process. It is less clear who will be involved and in what way, if its deliberations will be listened to and implemented, or if it will just be a way to consult citizens without moving a step in one direction or another. The path to success and to overcoming various crises in the EU also passes through here. The needle of the scale has not budged; it is now up to Europe to figure out how to move that needle.