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What Europe and the US Could Learn From the Covid Crisis

Karl Aiginger
Policy Crossover Center: Vienna-Europe, Vienna, Austria
University of Economics and Business, Vienna, Austria

ABSTRACT

The European Economy is underperforming in the Covid Crisis, as it did in the Financial Crisis. If economic strength is measured by growth of GDP, Europe's recovery in 2021 will be two percentage points below the loss in 2020, while the US will enjoy a net gain of 2 percentage points in these two crisis years. To the benefit of Europe, the paper finds that fatal causalities relative to population due to Covid were lower in Europe, and we therefore conclude that Europe chose a different tradeoff between economic and health goals. We report differences in fiscal and monetary response, but also in structural policy, governance and the political process in the two regions. Decisions in the US, once a problem has been recognized as important, are quicker; more resources can be shifted, even if the public debt is already very high. Finally, we screen performance for sustainability and life expectancy, which shows advantages for Europe that could be extended in the recovery programs.

Keywords: crisis management, performance of Europe and the US, sustainability goals

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DISAPPOINTING PERFORMANCE OF THE EUROPEAN ECONOMY[1]

We are experiencing a dual crisis, both a health crisis and an economic recession, with some calling it the deepest crisis since World War II. Current forecasts tell us is that cumulative GDP in 2020/21 will rise worldwide by 2.5% (2020 -3%, 2021 +6.0%) [8]. The depth of the recession will be very different: China will once again leap forward through combined growth of 11% in these two years (Table 1). The US is predicted to grow by 6.4% (or more, if Biden´s $1.9 billion package goes into effect soon) after a decline of 3.5%. The EU will at best grow by 4.4% this year after a decline of 6.1% in 2020. This gives a net loss of 2 percentage points in Europe and a net gain of 3 percentage points in the US [7].

This replicates the experience of the Financial Crisis: continued, albeit subdued, growth in China, a quick return to growth in the US, and losses in Europe to be recovered slowly after the crisis. To take a broader view, Europe's successful process of catching up with the US in labor productivity has been stalled in the last three decades, in part due to missed ICT chances, and

[1] Europe is understood – if not otherwise mentioned – to mean the EU 27. Most reported tendencies would be similar taking geographical Europe, the EU 28 or the Eurozone into account.

in part due to its performance in two crises. Europe is even falling behind insofar as the per capita income gap relative to the US is widening.

Table 1. Real GDP.

	2009	2010	**2009-2010**	2020	2021	**2020-2021**
	%-change					
World	-0.1	5.4	**5.3**	-3.5	5.5	**1.8**
EU 27	-4.2	2.1	**-2.2**	-6.3	3.8	**-2.7**
United Kingdom	-4.2	2.0	**-2.4**	-10.0	4.5	**-6.0**
USA	-2.5	2.6	**0.0**	-3.4	5.1	**1.5**
China	9.4	10.6	**21.0**	2.3	8.1	**10.6**

Source: IMF, World Economic Outlook.

The better economic development in the US is a surprise, given the starting position of the US and Europe at the outset of both crises. The Financial Crisis (called Great Recession in the US) was caused by asset-based securities sold by US banks to Europe. These were based on irresponsible credit evaluations by banks and special agencies, which were repackaged, rated by friends, and sold to European banks eager to match US profits. Many had to be rescued by taxpayer's money, while paying penalties to the US, in order to enable their subsidiaries to continue their activities in the US.

The US economy expanded in the first year after the crisis (2010), almost as quickly as it had shrunk, while Europe experienced a deeper loss in 2009 and a meagre recovery in the following year (-4.2%, +2.1). The rebound was further weakened by the Euro crisis, so that the GDP of the EU surpassed the pre-crisis level only shortly before the next crisis occurred, while the US output was 10% higher than at the start of the Financial Crisis; and China had made a big leap of about 50% over the same period.

In the Covid Crisis, Europe again looked to be in a better position at the outset. The health impact was quickly acknowledged, and lockdowns started early, reducing mobility and demanding that individuals exercise control. In contrast, in the US the president mocked the "China Virus", claiming it was no worse than a "flu", recommended drinking disinfectant liquids, and declined to wear a mask. The European health system, with nearly total coverage of the population and fair access for low-income residents and migrants looked prepared. Europe had also taken important steps towards creating a Banking Union; the Euro was stable, and more and more countries had pegged their currencies to it. Interest rates were close to zero and their spread across countries had been reduced. However, the drop in GDP was then once again stronger in Europe. Fatal casualties were lower in Europe, with 138 deaths per 100,000 population reported in the EU27 compared to 166 in the US.[2] The US reacted later and with a higher preference for continuing economic activity, accepting a higher death toll (and one that disproportionately affected lower income and minority populations).

However, efforts to produce a vaccine were quicker and stronger in the US. As early as April 2020, "Operation Warp Speed" was allocated a financial budget of 15 bn $; it was agreed

[2] Up to the first quarter of 2021, the death toll was 198 per 100,000 in Britain [6].

between the US government and industry to select the most promising projects among 120 proposals for vaccines, and fast track approval procedures were guaranteed. The Commission reserved little more than 1 bn €, and as vaccines became available from various consortia, appropriation by EMA (EMEA) had the same excellent quality, but due to existing rules it also took a longer time for approval. After appropriation, questions were raised as to whether member countries or the Commission should order vaccines, how intensively the Commission should fight for a low price, and whether vaccines should be distributed according to population, preferences or needs in clusters.[3] Actual vaccination did not start later in Europe, but the speed of inoculations is now much lower in Europe, while in the US vaccinations have become accessible in the pharmacies in supermarkets. To be fair, we must admit that the EU continued its open market policy and exported 77 million doses, while keeping 75; in contrast, the US used all 153 million "at home".[4] None were sold to Europe and very few to poorer countries.

The performance of **the labor market** replicated the priority of flexibility in the US relative to that of security in Europe. Unemployment doubled in the US in the first year, starting at low levels and reaching double digit rates in some months, but then also dropped quickly, reaching 8% for the full year 2020, and it is expected to drop to 6% in 2021 even before the Biden plan has an impact. In Europe, unemployment rates have increased in both years and will also do so in 2021, by approximately 8%, and will be higher than in the US. Employment decreased by more than 6% in the US and is expected to recover by 2%. In Europe it decreased a little bit in both years (-2%, -0.2%), bolstered by short work-time subsidies (furlough payments). In the US, the employment rate is declining, and people are leaving the labor market, discouraged by stagnant wages over decades (but in the short run taking advantage of an unemployment bonus (Table 2 and Table 3).[5]

Table 2. Unemployment rate.

	2008	2009	2010	**2008-2010**	2019	2020	2021	**2019-2021**
	As %			**Change in %-points**	As %			**Change in %-points**
EU 27	7.2	9.1	9.8	**2.6**	6.7	7.7	8.6	**1.9**
United Kingdom	5.7	7.6	7.8	**2.1**	3.8	5.1	7.3	**3.5**
USA	5.8	9.3	9.6	**3.8**	3.7	7.9	6.2	**2.5**
China	4.2	4.3	4.1	**-0.1**	3.6	3.8	3.6	**0.0**

Source: AMECO, IMF.

[3] And we have to acknowledge that the responsibility of the European Union for health questions is limited; these remain a national competence in the European Treatise.

[4] Daniel Gros CEP 2021.

[5] Labor force participation rates (LFPR) have been declining for several decades in the US. If we calculate a shadow unemployment rate accounting for lower LFPRs, this amounts to 13% compared to the official estimate of 6%. In addition, the number of people unemployed for more than 6 months has grown rapidly, as has the number accepting part-time or gig (non-contract) employment.

Table 3. Employment, total economy.

	2008	2009	2010	**2009-2010**	2019	2020	2021	**2020-2021**
	%-change							
EU 27	1.0	-1.7	-0.8	**-2.5**	1.0	-1.9	-0.2	**-2.1**
United Kingdom	0.8	-1.6	0.3	**-1.4**	1.1	-0.9	-1.7	**-2.6**
USA	-0.9	-4.1	-0.7	**-4.8**	1.1	-6.3	2.1	**-4.3**

Source: AMECO.

TRADITIONAL FISCAL AND MONETARY POLICY CANNOT EXPLAIN THE TOTAL DIFFERENCE

Monetary policy reacted to the Financial Crisis as early as 2008 in the US, while in the Eurozone the key interest rates declined at the end of 2009. Here, it was necessary to circumvent existing barriers between monetary and fiscal policy; in the US, rules allowed the Fed to include output and unemployment in their basic assessment, while the statutes of the ECB prioritize fighting inflation. In Europe, "rescue shields" had to be constructed, since European countries (including the Euro members Ireland and Greece) became unable to finance existing debt on the financial markets. Looking at the balance sheet of the ECB and the Fed, both reacted with similar intensity. Balance sheets tripled between 2008 and 2012, however, later in the Eurozone.[6] In the Covid Crisis, Europe had had zero interest rates for over a decade at the outset, while the US had stepwise increased them after 2016 and then lowered them to small positive numbers. The balance sheets of the central banks, in 2020 amounting to five times that of 2008 in both regions, increased further, again with some lead and a higher dynamic in the US.

Fiscal deficits in the Financial Crisis increased faster in the US from 4% to 13% of GDP (2007 vs 2009), and in the EU from 0.5% to 6%, giving a stimulus of 9 percentage points vs. 5.5 percentage points.

During the Covid Crisis, up to the end of 2020 there was no difference in the fiscal impulse, deficits increased by 9 percentage points in both the US and the EU.[7] In the US, the increase was on top of a higher debt level, but this does not establish a difference in the demand stimulus and cannot be seen as the cause of the quicker recovery. What may be a difference is that in Europe ailing firms were subsidized while in the US, the unemployment benefit was increased (with a higher payment first, which then declined quickly). Cutting profit taxes may have provided some psychological stimulus and stabilized the stock market. And the first stimulus of 2% of GDP was enacted in April 2020, at a time when Europe was discussing its new medium-term budget, and fiscal policy in the member countries were restricted by the fiscal pact (which was then temporarily waived) and thus concentrated on automatic stabilizers (Table 4 and Table 5).

The difference may widen if Biden´s additional 1.9 bn $ package starts to work; this would be a stimulus of a potential 10 points of GDP, even if the part that focuses on rebuilding the ailing

[6] The Quantitative Easing Program was increased in the first week of March by 120 bn €, then in different steps up to December 2021 by 1850 bn €, see Pekanov 2021.

[7] Reports of a quick and huge fiscal impulse in the US as early as March 2020 are correct (the parliament approved 2 billion $ on March 27th), but this must be compared to combined programs of member countries and the EU-level [4].

infrastructure will be effective at best in late 2022. The other part spent for direct income support will have a faster impact. Europe has fixed a Resilience and Recovery Facility (RRF) of 750 bn €, which is smaller 750€ (900 bn $) both in absolute terms and relative to GDP.[8] It focuses on ecological projects and digitalization[9] and may have a growth impact of up to 10% in countries with low growth and high unemployment, such as Italy, Spain, and Greece. But final approval of the programs by the Commission needs time; money will be raised on the European level starting in summer. The effect on the early recovery will be low, the largest effect is expected for 2024 or 2025, so that the expected structural improvements will be spread over four to five years. No money should be used for projects already started or that have been on the agenda for a long time.

Table 4. Budget deficit as percent of GDP.

	2008	2009	2010	**2008-2010**	2019	2020	2021	**2019-2021**
	As % of GDP			**Change in %-points**	As % of GDP			**Change in %-points**
EU 27	-2.0	-6.0	-6.0	**-4.0**	-0.5	-8.4	-6.1	**-5.6**
United Kingdom	-5.1	-10.0	-9.2	**-4.1**	-2.3	-13.4	-9.0	**-6.7**
USA	-7.4	-13.1	-12.4	**-5.1**	-7.2	-15.3	-6.9	**0.2**
China	0.0	-1.8	-0.4	**-0.3**	-6.3	-11.9	-11.8	**-5.5**

Source: AMECO, IMF.

Table 5. Public debt as percent of GDP.

	2008	2009	2010	**2008-2010**	2019	2020	2021	**2019-2021**
	As % of GDP			**Change in %-points**	As % of GDP			**Change in %-points**
EU 27	64.9	75.7	80.7	**15.7**	79.2	93.9	94.6	**15.3**
United Kingdom	49.4	63.3	74.4	**25.0**	85.4	104.4	111.0	**25.6**
USA	73.7	86.7	95.4	**21.7**	108.7	127.9	128.7	**20.0**
China	27.2	34.6	33.9	**6.8**	52.6	61.7	66.5	**13.9**

Source: AMECO, IMF.

We conclude that there are differences between Europe and the US: the US invested quickly in vaccinations and also in income maintenance after the severeness of the dual crisis became evident. Expansive monetary and fiscal policy was feasible, even if the administration was still reluctant to acknowledge the full health impact and the public debt was much higher than in

[8] 750 bn €, could also be called 0,75 bn €, and remind of the usual difference of using the term "billions" in European and Anglo Saxion terminology.

[9] No money should be used for projects already started or that have been on the agenda for long time. This accelerated structural change and needed reforms but delay the impact on effective demand.

Europe. Now, incomes are maintained by temporary subsidies and vaccinations are available in pharmacies in shopping malls. There are important differences in the speed of the decision-making process; executive orders in the US circumvent complicated processes, while in Europe the consensus of 27 independent member states in two or three institutions is necessary, and sometimes additionally approval by national parliaments (which may be slow due to pending decisions of National Supreme Courts). The US administration, in times of crisis, pushes aside principles and upper limits for public debt, and it provides large transfers to unemployed people and consumers, in addition to supporting firms relocating resources to develop vaccines. Emergency appropriations of vaccines are possible.[10] In the tradeoff between health and the economy, the US gives the economy the priority over health and equality, and it prioritizes its national goals over multilateralism [1] [2] [3].

SEVEN STRUCTURAL REASONS

However, let us search for reasons other than macroeconomies which may explain the better performance and quicker reaction of the US compared to that of Europe [1] [2] [3]. We offer 7 hypotheses.

Technology lead: In the Lisbon agenda Europe set the goal of becoming "the most competitive region in the world", but as this did not work the EU 2020 strategy allowed to adjust the 3% goals to national preferences (and monitor the adherence in the European Semester). Yet the European R&D ratio is still just over 2% of GDP, while it is more than 3% in the US. Europe is now surpassed by China at least in terms of quantitative effort, and if we look at the China 2050 strategy also in terms of focusing on important sectors. The US dominates the league of top universities, with science parks and innovation hubs surrounding them.

Psychology: US citizens always look at chances and how to succeed; Europeans deplore problems and low support. When asked about their life satisfaction, US citizens report being happy more often than would be supported by hard indicators. Problems must be solved, if necessary, by their government, firms are strong "if supported by a government"; this slogan is used by Biden and sounds softer than "America first". Globalization is determined by US-shaped rules, and if there is a problem firms will go to courts and be supported by the US government.

Motivation by change: Life is a continuous process of change, and this understood as a chance in the US, even if the opportunities depend on the region or school district you are born in and the income of your parents. People can work far away from their birthplace, if necessary, and occupations may change during life. In Europe schools are specialized and you must decide early which type of school you attend; apprenticeships, trade licenses and job descriptions are narrow. Lifelong jobs are preferred, and people vote for political parties promising protection against change. Insider vs. outsider problems exist; the employed workforce enjoys high wages, even if others would work at lower wages. Consequently, the cost of change is high in Europe if a job is lost. In the past two decades, migration rates in the US have fallen but the labor market is still more flexible than in most EU countries.

Reserve currency: The dollar remains the main reserve currency despite the inroads of the Euro and the attempts of China to substitute it with the Renminbi. This allows unlimited US

[10] This holds, even if the Evangelists oppose vaccinations and access for blacks remains more difficult.

debt, not just in a crisis, they also have not to be corrected soon after a crisis. Even the partial lockout of administration (as the domestic limits set by US parliament were reached) was short and did not hurt the economy. Transactions are worldwide priced in dollar, even if the US is not involved, most stock markets denote prices in dollars, reducing transaction costs for US firms.

Nationalistic divides: The US does not have a homogenous population; it grows through immigration. In several states, non-whites are close to becoming the majority of the population, and more than half of the children have parents with an immigrant background. Migration has long been seen as an advantage in both conservative and progressive states (Texas and California). The US takes the opportunity to invite (and offers quick work permits to) the best students from India and China to start their careers in the US and start firms. The top brains do not choose Europe as a destination and, if they do, they are confronted with hurdles if they want to work or create firms and become top managers. Blue cards rarely exist in European countries. Populist parties stress the disadvantage of European decisions and clandestinely or openly call their country to leave the union by nationalistic or populistic parties persist. In several member countries like Italy, Hungary, and Poland they are competing for or already dominating the government. Nationalist (nativist) trends are also evident in the US; immigration is seen as a threat, but it has been viewed in that light for a much longer time in Europe.

Delays in vaccination: Long appropriation procedures and the question of whether old people, those with past health problems or "essential" workers should get them first have dominated the discussion in Europe. The shortcomings of the Commission as well as those of the national governments have been highlighted, with a mutual accusation of inefficiency. The US started later, but at a higher speed, and it was able to circumvent many of the problems revealed in Europe. Lockdowns and limits to travel were restricted to hotspots; the decline of GDP was lower and the recovery quicker. Decisions take longer in Europe; if a goal gets the highest priority in the US, executive orders allow quick decisions, and all principles can be waived for the time needed.

Speed vs. direction

The explanations offered in the last section are a work in progress, partly supported by data or literature. They may be supplemented with other hypotheses.[11] Some, but not all, of the advantages of the US have been mentioned, and these could be taken as suggestions for how to improve the European Model. Such ideas include the acceleration of decisions and the quick and bold shifting of resources, if a problem is assessed as important ("klotzen nicht kleckern"). At the same time, other features of the US model should not be copied, such as the exploitation of fossil resources at all costs and delaying strategies against global warming. The US aims to

[11] For the US differences in the sectoral composition and in the performance of the housing market may be mentioned. In the Great Recession while the initial impact was centered on the financial sectors, it quickly spread to all parts of the economy. In the case of the COVID impact, it was concentrated in four vulnerable sectors (resources, especially oil and gas), trade and transportation and further leisure and hospitality (hotels and restaurant). In the latter case, this had a pronounced concentration on low-income jobs. The housing market suffered very badly in the 2008-2010 period; there was a huge increase in foreclosures and liquidity (loans) essentially dried up. In the current period, save for April 2020, the market has boomed with continuous increases in sales and prices. The biggest problem now is shortage of supply; in Chicago, the current inventory is only enough for 1.5 months at current sales rates. In 2010, it was 14-18 months.

maximize GDP or supporting profitable multinational firms, while Europe is changing to a broader set of goals and taking the lead in many goals set by Sustainable Development Indicators (poverty reduction, clean energy; Table 6, Table 7 and Table 8).

Table 6. Human development index (HDI) and life expectancy (at birth).

	Inequality-adjusted HDI			Income shares held by the poorest 40%	Life expectancy (at birth)		
	2010	2019	**2010-2019**	2019	2000	2018	**2000-2018**
	Index		**Difference**	As %	Years		**Change in years**
World	53.4	58.7	**5.3**	17.6	68	73	**5**
EU 27	78.6	82.3	**3.6**	20.7	76	80	**4**
United Kingdom	82.4	85.6	**3.2**	19.0	78	81	**3**
USA	81.2	80.8	**-0.4**	15.4	77	79	**2**
China	53.8	63.9	**10.1**	17.2	71	77	**6**

Source: UNDP, Human Development Report Office 2020; World Bank.

Table 7. Energy and emission intensity.

	GDP (2015, PPP) per total energy supply			GDP (2015, constant) per greenhouse gases			GDP per nitrogen oxides (NOx)		
	2000	2019	**2000/2019**	2000	2018	**2000/2018**	2000	2018	**2000/2018**
	1,000 USD per toe		**%-change**	1,000 USD per kg		**%-change**	1,000 USD per kg		**%-change**
EU 28[1])	7.52	10.32	**1.7**	3.57	5.59	**2.5**	1.14	2.54	**4.6**
USA	6.05	9.06	**2.2**	2.40	3.97	**2.8**	0.62	1.80	**6.1**
China	4.56	7.64	**2.7**	0.89	1.40	**2.6**	.	.	**.**

Source: IEA, OECD. [1]) OECD Europe concerning NOx.

Table 8. Sustainable Development Goals (SDG) 2020.

	SDG Total		Poverty (SDG 1)		Equality and reduction (SDG 5, 10)		Ecological sustainability (SDG 6, 7, 11-15)	
	Index	Rank	Index	Rank	Index	Rank	Index	Rank
World	66.3	.	70.1	.	65.2	.	70.0	.
EU 27[1])	78.6	19	99.1	38	83.2	29	76.7	42
United Kingdom	79.8	13	99.7	21	85.2	20	75.9	51
USA	76.4	32	98.9	45	73.8	56	71.8	92
China	73.9	49	98.0	55	77.3	45	71.7	93

Source: Sachs, J., et al., *The Sustainable Development Goals and COVID-19. Sustainable Development Report 2020*, Cambridge: Cambridge University Press, 2020. [1]) Average of member countries.

What is evident is that the catching up process of Europe in GDP per capita, which has been visible after WWII, has stopped. We have documented as two stylized facts that the US rebounded earlier and stronger both in the Financial Crisis and the COVID Crisis, if measured by per capita growth. But this is not the whole story: income growth is correlated with many societal goals, but in the long run broader sustainability goals and life expectancy should be used as indicators on progress and a successful rebound. And life expectancy continues to increase in Europe, while it is stagnating or decreasing in the US, due to rising obesity, opioids, homicides and the misuse of weapons, as are racial prejudices and poverty in a rich society [5] [9].

Optimists can therefore argue that Europe might be on the road to a better socio-economic and sustainable society, even if this priority of ecological and social goals is no matter of course and there are road blocks. The way out of the dual crisis not only depends on the speed of recovery but also the direction of measures and programs. Fewer carbon emissions, more recycling and sharing, the empowerment of young people, migrants, and neighbors to fight for a society different from the efficient US model could be part of this approach. Meanwhile, China is striving to become the first socialist superpower, if needed through reeducation camps, the enlargement of territory and the grabbing of resources, while setting up logistic centers through hidden financing and powerful strings.

Returning to the comparison of the US and Europe, Europe experiences a deeper economic crisis and expects a weak recovery relative to the US, if measured by GDP and GDP/capita. The unemployment rate will be higher in 2021 and employment has been cushioned by furlough schemes. If inoculations can be accelerated, the death toll by Covid in Europe will be lower, which reveals a higher prioritization of health over economic growth. The long-run impact on society and well-being will be decided in the recovery programs. Lower GDP growth limit the scope for programs in the EU, while that of the US is larger due to its role of reserve currency and the absence of restrictive fiscal pacts. Europe can increase its recovery potential by jointly raising debts, using the € as a transaction currency, and waiving fiscal pacts until full recovery had started. And it can increase its already larger contribution of growth to welfare, sustainability, the bolstering of innovation, public sector reforms and cooperation with neighbors.

All regions can and should improve their societies in learning from this pandemic; the question is which strategy for ending the crisis and stimulating the rebound will increase well-being and mitigate climate change as well as military conflicts.

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