Social and Economic Consequences of COVID-19

The original full study considers the consequences of measures aimed at countering the effects of COVID-19, in particular the Temporary Framework for State aid, EU Digital COVID Certificates and other measures implemented by EU Member States. The study examines the consequences of the measures on industry, small and medium-sized enterprises (SMEs) and focuses on the cultural and creative industries. Consequences for workers and working practices are also considered, and lessons learnt identified.

Background

The first cases of COVID-19 were reported in Wuhan, China, in December 2019. In mid-February 2020, the first COVID-19 deaths were reported in Europe. The pandemic spread rapidly thereafter, leading to governments shutting down public spaces, closing national borders, banning physical gatherings and implementing lockdowns. To counter the adverse economic impacts of these restrictions, a range of measures was implemented.

The study is set against the backdrop of a growing body of literature on the COVID-19 pandemic and its socio-economic effects. Notably, the report by the High-Level Group on post-COVID economic and social challenges (convened by the Commissioner for Economy, Paolo Gentiloni), A New Era for Europe, published in March 2022, took stock of the socio-economic impact of the pandemic and provided strategic reflections on the emerging and future challenges for the EU.

Key findings

Member States were unprepared for the unprecedented nature, scale and magnitude of the crisis. Difficult decisions had to be made quickly to curb the spread of the pandemic and protect the health of citizens while simultaneously supporting the economy to avoid large-scale economic collapse. This resulted in a series of restrictions on the one hand and support measures involving financial and fiscal aid instruments on the other.

The EU played a key role in co-ordinating the response to the pandemic. EU response was also crucial in the recovery from the pandemic as it generated consensus from Member States on the need for the common approach adopted in the NextGenerationEU recovery package.

The design and implementation of the Temporary Framework measures to support the economy were effective in contributing to avoiding large-scale bankruptcies and excessive unemployment. Overall, the approval of Temporary Framework notifications was carried out efficiently by the Commission, and disbursement at national and regional level was timely and effective.

The EU Digital COVID Certificate (EUDCC) was introduced to facilitate safe and free movement within the EU. It was the least restrictive method for facilitating safe cross-border movement during the pandemic. As of 31 October 2022, Member States had issued more than 2.2 billion EU Digital COVID Certificates. However, the approach to the vaccines accepted by Member States has been inconsistent, creating some confusion.
The economic impact of the pandemic has been uneven across Member States. EU industries were heavily affected, although the extent to which they were affected varied substantially. Most affected were industries where personal contact was a key element (e.g. tourism, retail, cultural industries). The sharpest fall in EU output came in the second quarter of 2020. The EU economy as a whole returned to its pre-pandemic level in the third quarter of 2021.

SMEs were particularly affected by the restrictions intended to contain the pandemic. Most disruption was caused by increased late payments and supply chain issues leading to shortages of materials, goods and services. Among SMEs, micro-enterprises (who constitute some 93.3% of all enterprises in the non-financial business sector (NFBS) in the EU) were most affected, suggesting that smaller enterprises could not adapt as readily, or access the same levels of public support, as larger ones.

The undertakings in the cultural and creative industries (CCI) most immediately and directly impacted were those dependent on the close physical proximity of people such as the delivery of festivals, concerts, live performances, etc., and their supply chains. In addition, there were impacts on bookshops, museums, cinemas, etc. On the other hand, CCI businesses such as the video game and streaming industry saw their turnover grow.

In the labour market, frontline workers were more subject to income loss, job insecurity and serious health and safety risks. A large rise in unemployment was mitigated due to the use of job protection schemes but did not prevent negative impacts on vulnerable socio-economic groups such as those with low levels of education, youth, foreign-born people (migrants), ethnic minorities and women. Impacts on the self-employed varied widely.

The crisis was a powerful catalyst for digitalisation and the transformation of working practices, bringing about a range of opportunities and challenges for workers and businesses.

In conclusion, the measures adopted succeeded in averting a large-scale collapse of unprecedented proportions in the EU economy and society. From a social point of view, the measures adopted succeeded in protecting household incomes by protecting employment and addressing challenges of the self-employed. The crisis revealed that there are vulnerable groups of workers not adequately covered by social security nets. In some instances, there have been improvements in working conditions as a result of issues brought to the fore during the pandemic. Indirect consequences of measures have contributed to a mismatch of the labour supply and demand in some sectors.

From an economic perspective, there is a wide variation in the effect of measures on sectors in the economy. At the end of 2021, there was still a good deal of catching up to do in some of the hardest hit sectors compared to pre-pandemic levels. The massive financial support provided to industry has created an overhang of bankruptcies that did not occur. This has implications for the management of industrial policy: how to design a soft landing for industry that will ensure continued competitive sustainable future innovation and growth.

Key lessons identified include the need for greater co-ordination, evaluations of instruments such as the Temporary Framework and the EUDCC, the need to act to protect fragile groups of workers and to be better prepared for future catastrophic events such as COVID-19, whether natural or man-made. These lessons should not be overlooked as a result of having to deal with new, urgent issues.


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