

Newsletter

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Emerging stronger from the pandemic **THE REAL CHALLENGE IS STILL AHEAD**



The conclusions Europe draws from the COVID-19 pandemic may be much more far-reaching than its immediate effects. Never in the history of Europe has the economy been stagnant for so long, nor have governments paid such high amounts in such a short time to keep companies afloat and to

finance the salaries of furloughed workers. How soon, and indeed whether, Europe will be able to regain its former prosperity and compete on an equal footing with the most dynamically developing regions in the world will depend on the priorities we set.

With its opinion SOC/700 on Emerging stronger from the pandemic, the EESC makes the point that it is high time to draw comprehensive conclusions from the pandemic. Of course, the pandemic is still in full swing and it can be difficult to fully determine the extent of the damage and thus reach final conclusions. But it is precisely because the post-pandemic shocks seem to be turning into long-lasting crises that are spreading throughout the whole economy, including the escalating energy crisis, supply chain disruption, labour shortages and, above all, inflation, slowly turning to stagflation, that we should draw up a set of findings and conclusions that would enable us to respond to the new challenges in an ongoing and informed manner. This is also a call to the European Commission, which has so far failed to respond robustly enough to the impending storm.

Future challenges will be, to a large extent, based on the consequences of today's decisions. To give an example, the high level of social expenditure and financial support for businesses has meant relatively low unemployment and bankruptcy rates in Europe. However, these expenditures have also slowed down the natural process of replacing the weaker sectors of the economy with more modern ones. To put it in the economist Joseph Schumpeter's words, the missing "creative destruction" will have an impact on the pace of growth and the recovery of prosperity. By delaying some necessary structural reforms, spending public money on shortfalls in social services, prolonging most assistance programmes and continuing the crisis monetary policy, we are condemning ourselves to a longer process of economic recovery.

The last two quarters of the year may be a cause for optimism. Since restrictions were lifted in spring 2021, we have seen an impressive economic recovery, both in terms of GDP growth and employment. GDP growth forecasts for the whole of 2021 range from 4.7% to 5.4%, which would be an excellent result if not for the low level from which the growth was starting. The mood could also distort our comparison with other large economic areas. However, rapid growth in employment, rising wages and companies opening up to innovative solutions bring hope for a quick recovery in the future. What we must keep in mind, and what the European Commission and national governments must take into consideration in their strategic planning, is the whole range of challenges and risks posed by rapid economic recovery and changing rules on the economic playing field.

What we are worried about today is not unemployment, but rather the lack of people to do the jobs, and the rapidly changing nature of work adds to this challenge. While the new digital economy offers fantastic opportunities, it also reveals the full extent of missing skills. For companies it means that they have to cope with the changing nature of the market and customer habits, which for them means new investments in technology and restructuring existing business models. A challenge that will be especially hard for SMEs to overcome.



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The rise in the number of excess deaths, which is unprecedented in peacetime, and the disruption of day-to-day life mean that the priorities and lifestyles of Europeans are radically changing. Not only the way we work and live, but also what we want from life has a significant impact on the structure of the economy and political pressures. Increasing demands on countries to increase spending on public healthcare and social security will increasingly come into conflict with expectations of economic growth and ensuring a high standard of living.

We are therefore facing a three-fold challenge today. First, repairing national and EU institutions that proved not to be up to the task during the pandemic. Second, carrying out structural reforms that will enable our economies to get back on track as rapidly growing market economies. And third, catching up on the digitalisation of our economy. The closely intertwined processes of the changes ahead of us will now be sources of intense disputes and conflicts within the European Union itself.

The coming years and the decisions we make as national communities and the European Union will determine the shape of future socio-economic governance. What Europe will be like in the coming years, or even decades, will depend to a large extent on what changes Europeans themselves decide to make right now.



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