Governance lessons from responses to COVID-19

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1. DISAPPOINTING GLOBAL COORDINATION IN RESPONSE TO THE PANDEMIC

The COVID-19 pandemic was unforeseen but not unlikely. In spite of that, prevention and global coordination have been disappointing. Governments' response has been fragmented, poorly coordinated, and hence inefficient, as often happens in cases of international externalities. Disparate health data-gathering and processing methodologies hindered early identification and consistent monitoring and risk assessment, and therefore testing and preparedness. The World Health Organization, relying on nationally provided data, and constrained by the withdrawal of funding from the United States and by geopolitical maneuvering, was not effective in detecting the epidemic, steering cooperation, and building trust.

The United States and other advanced countries did spend significant resources to develop and unroll vaccines with unprecedented speed. But they failed to apply available measures to contain the virus spread both domestically and internationally (Woods and Petherick-2021). More importantly, they have been hoarding vaccines and failing to quickly share them with developing countries, disregarding that new virus variants keep on developing in the meantime and that a longer and more harmful pandemic dwarfs the costs of concerted worldwide affordable vaccination initiatives, like COVAX[1].

[1] COVAX aim is to accelerate the development and manufacture of COVID-19 vaccines, and to guarantee fair and equitable access for every country in the world.

* Spanish versión available at https://euskadi.eus/ekonomiaz

To offset the economic consequences of necessary lockdowns, countries applied economic stimulus according to their own capacity to borrow, accentuating economic divergence and competition distortions. The revamped G20, self-proclaimed the global coordination forum in the wake of the Great Recession, and quite effective then, failed this time to steer effective health or economic packages commensurate with the scale of this challenge, and even with the enlightened self-interest of advanced countries (Bernes, 2020). Consequently, unnecessary lives have been lost, and decades' achievements in poverty reduction and convergence vanished.

Advanced countries did undertake some coordination on monetary policy. The ECB, as central banks in the US and the UK, drawing on the lessons from the Great Recession, responded quickly and forcefully this time around. Their actions prevented the sovereign crises of the past and allowed governments to use fiscal policy in a much stronger fashion. But many developing countries lacked that capacity. The IMF and the World Bank did increase their interventions and funding volumes and global liquidity, and the G20 agreed to allow some developing countries to suspend debt service payments to bilateral official creditors. However, these efforts pale compared with the package of measures agreed in the wake of the much smaller 2008 crisis. Advanced countries have neglected the negative global spillovers from health and economic instability in lower-income countries and the heavy toll on trust in global governance.

2. THE EUROPEAN UNION RESPONSE: STEPS FORWARD BASED ON ENLIGHTENED SELF-INTEREST

Although imperfect, coordination has been much more far-sighted and effective in the EU context. With COVID-19 the EU has adapted existing instruments and tentatively created new ones to cope with health crises and their consequences. Over time, the EU had devised joint instruments as crises demonstrated the superiority of delegated or coordinated action over the default approach of unilateral national management. Thus, when COVID-19 broke out, the EU had a coordination forum for health crisis (the Health Security Committee), a joint entity for surveillance, detection, and risk-assessment of threats to human health (the European Centre for Disease Prevention and Control), an agency to grant medicine authorizations (European Medicines Agency), a joint procurement scheme put in place back in 2009 to face the H1N1 influenza, a civil disaster coordination platform (the Emergency Response Coordination Centre), and a small fund to finance emergency measures (the Emergency Support Instrument). Following the Great Recession, the EU countries also created a lending instrument (the European Stability Mechanism, ESM) for euro area members in balance of payments distress.

These coordination and support instruments proved unsatisfactory or insufficient when COVID-19 erupted. Member States used their differing fiscal capacities to assist their national companies, in ways that distorted competition and accelerated divergences within the EU. Tensions surged as the most hit countries' calls for solidarity met no response. To cope with soaring health-related public spending, the EU released some funding by allowing for some reprogramming of cohesion funds' allocations. Larger ESM loans were made available with fewer strings attached but potential recipients perceived it as carrying a stigma since these loans were created for countries in self-created distress while the cause of this recession could hardly be traced to unsound economic policies.

EU coordination fora did nevertheless succeed in overcoming some of the initial border disruptions and reestablish the single market in medical products and food. Countries also agreed to issue the EU digital COVID certificate, thus facilitating the reopening of travel and tourism. In some cases, countries organized cross-border transfer of patients to alleviate overwhelmed medical facilities. Governments agreed to activate the joint procurement arrangement and let the European Commission organize on their behalf joint purchases of protective material, medicines, ventilators, and later vaccines, to grant equal and affordable access to all.

Proposals are now on the table to reinforce these instruments. One aims at improving the interoperability of health data and assessment systems and infection rates. Another one would be to turn the occasional joint procurement arrangements into a permanent structure (the European Health Emergency Preparedness and Response Authority) that «will provide a permanent structure for risk modelling, global surveillance, technology transfers, manufacturing capacity, supply chain risk mapping, flexible manufacturing capacity and vaccine and medicine research and development» (European Commission, 2021).

This time around, EU governments accepted to try, on a one-off basis, new joint fiscal instruments that had been advocated by scholars and politicians but had always met with staunch resistance from the self-defined «frugal» Member States. Their view was that they would waste taxpayers' money because easy financing would remove the incentives to correct irresponsible policies and inefficiencies in recipient countries. One such new instrument is a timid European unemployment insurance scheme (SURE), now implemented through reinsurance loans.

More ambitious, the European recovery and resilience plan and fund (the Next Generation EU Fund), are unprecedented in using joint debt issuance to finance transfers and loans for investment projects. Its approval marked a turnaround in Germany and other Northern countries' reluctant position towards financing distressed member countries. The European Commission estimates' show the recovery plan is a win-win initiative for all involved (de Lecea, 2020). It will lift GDP growth in the weaker economies by over 4 percent by 2024. Moreover, it will also add 1,25 percent for the higher income countries, more than offsetting the latter´s contribution to reimbursing the EU loans. Its benefits will come mainly through three channels. Keeping the rest of the EU afloat, as global demand deteriorated, mitigated the impact on the Northern European exporting countries. Investing in health, green, and social capital will help jump into a higher, more sustainable, potential growth path, from which all countries will benefit. It will also improve resilience and hence bring benefits to all when a new crisis comes.

3. AN OPPORTUNITY TO IMPROVE MULTILEVEL GOVERNANCE AND PREPARE FOR FUTURE CRISES

The ultimate success of the EU response cannot be taken for granted. Proper implementation to support a quick and sustained recovery will require a proper balance between value for money and speed. More importantly, it will put to a test Member States' multilevel governance. The new EU funding will complement other existing plans and sources of finance, both EU and national, and is likely to add to the administrative burden. The EU will channel funds through central governments, who will be accountable to their peers for meeting deadlines and milestones and for reimbursing the loans. Implementation will instead be decentralized to a large extent since health and regional development falls within the regions´ responsibilities. An appropriate balance and coordination between centralized and decentralized authority will be challenging but crucial. The OECD (OECD, 2021) points to the risks of «atomizing the allocation of the funding in a myriad of small infrastructure projects» and calls for continuous dialogue between multilevel authorities to account for fiscal impact and regional strategic priorities. It also calls for flexibility and experimentation in temporary or permanent multilevel fiscal and financial management tools.

Besides investment plans, the recovery and resilience plans include several overdue structural reforms necessary to jump into a higher, more resilient growth path. These reforms remain outstanding because they touch on specific interest groups or imply readjustments in the apportionment of responsibilities between central and territorial authorities. The pandemic is an opportunity to review territorial strategic priorities. An OECD survey (OECD-CoR, 2020) reveals that in the EU 76% of consulted regional and municipal entities deem that regional development strategies should place more emphasis on access to public goods, including quality public services, in all jurisdictions. The pandemic has also drawn attention to the role of the state in both the economy and society. Several studies highlight how the impact of COVID-19 has been lower in territories where institutions are stronger (Sapir, 2020) and citizens have more trust in government (OECD, 2021). All levels of government will thus have to rise to the occasion and take a longer-term perspective, overcoming the temptation to play short-term zero-sum games.

Unfortunately, the current pandemic is not a one-off event. As a recent report to the G20 by the High-Level Group on Preparedness puts it: «*There is every likeli-*

hood that the next pandemic will come within a decade – arising from a novel influenza strain, another coronavirus, or one of several other dangerous pathogens. Its impact on human health and the global economy could be even more profound than that of COVID-19» (Shanmugaratnam *et al.*, 2021). Moreover, pandemics may come compounded with other hazards such as a climate-change related disaster, cyber, chemical, nuclear, or biological accidents or terrorist attacks, or a financial crisis. COVID-19 must thus be considered a relatively mild case, and the occasion to prepare for more complex ones.

In preparing for that, we have the choice. If we follow the everyone for themselves shortsighted approach taken this time by advanced countries in global governance, we will revisit the waste of human lives and frustration. We will do that with weakened economies, more profound inequalities, and anger amongst countries and within societies.

We can instead follow the EU's cooperative approach, achieving a relatively quick and sustained recovery, making our economies and societies more resilient. We can show our fellow EU citizens and governments that the extraordinary instruments put in place in response to COVID-19 are worth being made permanent, and that it is in everyone's interest to continue anticipating and preparing new instruments to cope with common serious challenges. Furthermore, we can use the investment and reform effort to refine our national multilevel governance frameworks.

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