A TALE OF TWO CRISES

MASSIMO BORDIGNON, NICOLÒ GATTI,
MASSIMILIANO GAETANO ONORATO
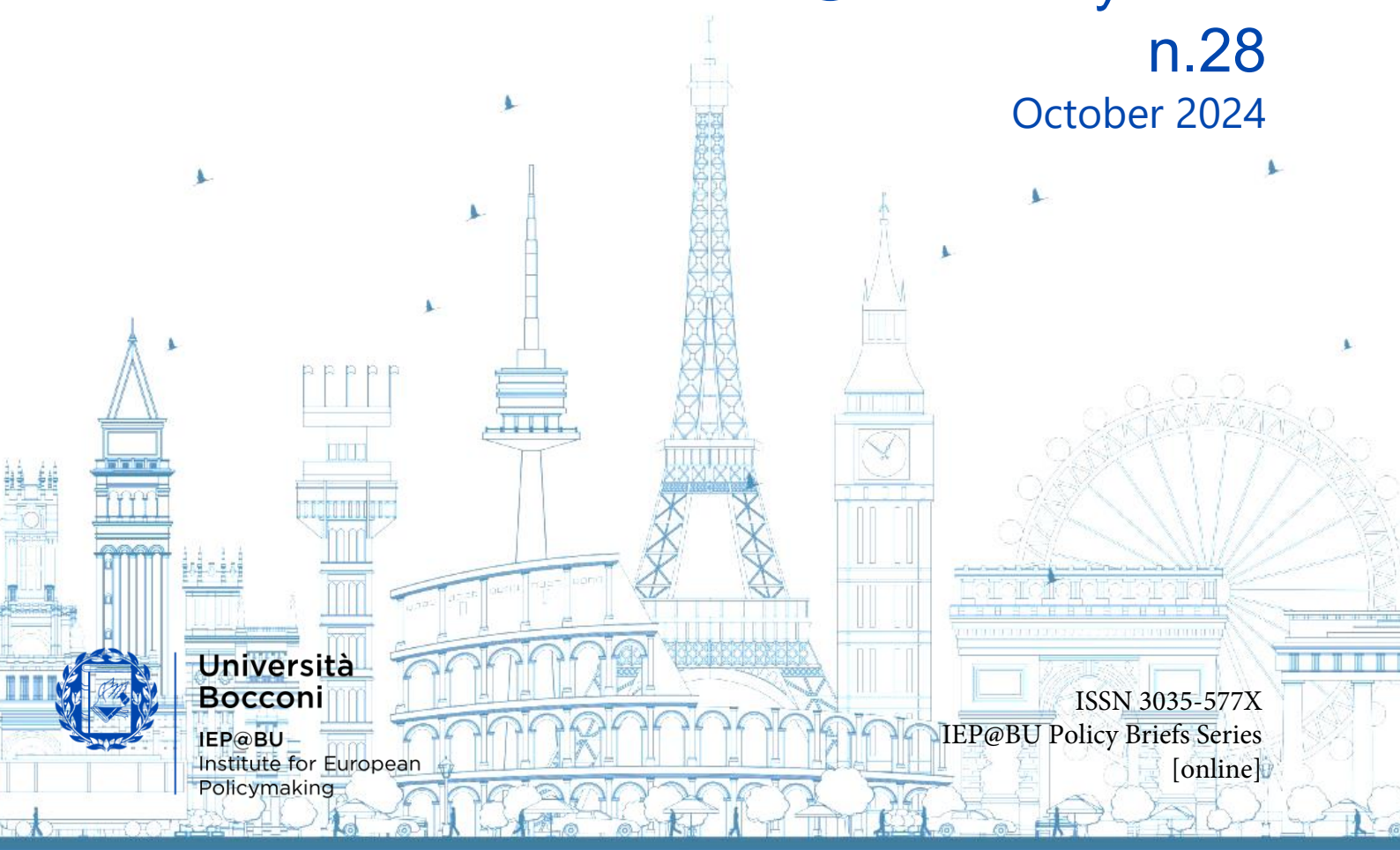
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Introduction[1]

Over the last decades, Eurozone countries have been hit by two large crises that posed serious challenges for the future of the economic and monetary union, requiring massive reforms and policy interventions. First, starting from the Greek insolvency crisis of 2009, the euro area experienced the outbreak of the sovereign debt crisis, which followed the "Great Recession" and disproportionately affected other peripheral countries (Ireland, Italy, Portugal, and Spain). Second, when the long-term consequences of the euro crisis were finally fading away, the Eurozone was also hit by the Covid-19 pandemic.

In a previous empirical study, Bordignon et al. (2023) investigate the short-term impact of the euro crisis, showing that the observed *divergence* in income between core and peripheral countries in the aftermath of the crisis[2] was accompanied by *convergence* in the quality of public services and efficiency of regulation, fostered by the reforms that European authorities required as a condition for financial assistance. On the contrary, there was a sharp divergence in terms of institutional and political variables. Peripheral countries experienced a collapse in the level of trust in political institutions, while the consensus for populist parties began rising in an unprecedented way[3].

In light of this evidence, the present work has a twofold objective. First, we investigate whether economic and political convergence between core and peripheral members of the euro area resumed after the end of the debt crisis. Second, we examine whether and to what extent the subsequent outbreak of the Covid-19 crisis impacted these patterns of convergence and divergence. The focus here is not about the origins and the characteristics of these two crises, already discussed by an extensive literature (e.g., Baldwin and Giavazzi, 2015; Adams-Prassl et al., 2020), but rather on their policy consequences. Specifically, we are interested in studying whether the different policy responses between the debt and Covid crises, due also to their different nature, led to diverse effects on our variables of interest. Differently from the period of the euro crisis, after the beginning of the pandemic Eurozone members coordinated to implement prompt and effective policies to address the emerging economic and social issues (e.g., Capati, 2023).

To start our empirical investigation, Figure 1 shows the evolution of *GDP per capita* in core (Austria, Belgium, Finland, France, Germany, Luxembourg, and the Netherlands) *vs.* peripheral countries in the euro area over the last decades, taking 1990 as the base year. Until the outbreak of the international economic crisis, the two groups of countries exhibited a trend of convergence, with relatively poorer peripheral countries catching up with the higher levels of GDP per capita of core

[1]**Massimo Bordignon**: Università Cattolica del Sacro Cuore; European Fiscal Board; Institute for European Policymaking, Bocconi University (non-resident fellow). **Nicolò Gatti**: Università Cattolica del Sacro Cuore. **Massimiliano Gaetano Onorato:** University of Bologna

[2] An extensive economic literature (e.g., Manasse, 2013; European Central Bank, 2015; Alesina et al., 2017; Campos et al., 2019; Campos and Macchiarelli, 2021) has investigated the evolution of convergence and divergence trends among euro area countries after the establishment of the European *Economic and Monetary Union* (EMU) and, subsequently, after the outbreak of the sovereign debt crisis. These studies shed light on the factors that explain the observed trends of economic, cultural, social, and political convergence or divergence, also questioning whether the Eurozone is actually an optimal currency area.

[3] A large strand of literature (Algan et al., 2017; Dustmann et al., 2017; Guiso et al., 2019; Noury and Roland, 2020) provides a comprehensive analysis of the reasons behind the declining level of citizens' trust in institutions in Europe and the simultaneous rise in the consensus for the increasing number of populist parties.

countries (see Appendix Figure A.1 for more details). However, this trajectory changed dramatically after the economic crisis that began around 2008. During this crisis, and specifically after the subsequent euro area sovereign debt crisis, peripheral countries such as Italy, Greece, Portugal and Spain experienced severe economic downturns. This led to a strong process of divergence from core countries, which persisted for several years. After 2020, also thanks to the massive recovery plans introduced at EU level following the Covid-19 pandemic, peripheral countries began to grow at a faster rate than core countries, triggering a new phase of convergence.
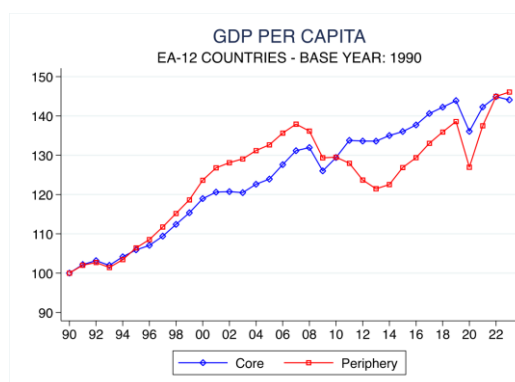

Figure 1 – GDP per capita (1990-2023) – Base Year: 1990

Note: This graph shows the evolution over time of the average value of GDP per capita at PPPs (in 2021 international Dollars) for core and peripheral EA-12 countries. The former group includes Austria, Belgium, Finland, France, Germany, Luxembourg and Netherlands, while the latter group includes Greece, Ireland, Italy, Portugal and Spain. The value of GDP per capita is set equal to 100 in 1990 and the average for the two groups is computed using as weights the population size of each country. Source: World Bank.

The dynamic of *unemployment rates* reported in Appendix Figure A.2 mirrors the evolution of GDP per capita. Panels (a) and (b) document the sharp increase in male and female unemployment rates in peripheral countries after the euro crisis. Patterns of strong divergence from core countries are further documented in panels (c) and (d), which provide evidence of rising average unemployment rates (left axis) and growing dispersion across our sample countries (i.e., standard deviation, right axis). Remarkably, however, the process of convergence that resumed after 2014, in the context of a more accommodating monetary policy from the ECB, was not interrupted or reversed by the Covid-19 pandemic.

In the following analysis, we first study the persistence of the impact of the euro crisis on several economic and political outcomes, investigating the long-run trends of convergence between peripheral and core countries. Despite sizeable spending cuts, our results suggest that there was no decline in the quality and efficiency of public services in peripheral countries after the crisis. However, we report evidence of an increase in both income inequality – driven by a larger income share held by the top 1% of the population – and the share of individuals at risk of poverty, coupled with a progressive decline in citizens' trust in institutions. This effect is further reflected in lower electoral participation and higher support for populist parties, a trend that also spread to core countries.

Moreover, we explore the impact of the subsequent Covid-19 pandemic. We ask whether its effects are comparable to those of the sovereign debt crisis or if coordinated policy measures prevented a deterioration of economic outcomes and citizens' attitudes towards EU institutions. Indeed, we show

that expenditure on public services and related quality outcomes were not affected by this crisis. At the same time, the share of individuals at risk of poverty decreased, although we find evidence of rising inequality due to the falling share of income held by the bottom 50% of the population. Remarkably, we document that, after the pandemic, support for the EU grew more in peripheral countries than in core countries, where, worryingly, we observe a decline in the share of citizens in favor of European integration especially among older individuals in rural areas.

Background: the Euro crisis vs. the Covid-19 crisis

In 2008, all economies worldwide were hit by the *Great Recession*, a global crisis that originated from the housing bubble in the US and led to a deep economic downturn exacerbated by the severe credit constraints that followed the default of some financial institutions.

While still recovering from this recession, peripheral euro countries experienced the outbreak of the *sovereign debt crisis*, driven by serious internal and external imbalances, vulnerabilities in the banking sector and, in a few cases, high levels of public debt. After benefiting for several years from easy access to capital markets at relatively low interest rates due to their Eurozone membership, these countries faced an abrupt interruption of capital inflows, which reversed into capital flight. This "*sudden stop*" led to liquidity shortages and rising borrowing costs, triggering a vicious cycle that resulted in a substantial contraction of their economies (Baldwin et al., 2015), with GDP losses that exceeded 25% in Greece between 2009 and 2013 (see Appendix Figure A.1).

EU policymakers were slow to react collectively, fearing the insurgence of moral hazard phenomena. A solution was found only when it became clear that the survival of the common currency area was at risk, with the introduction in 2012 of the European Stability Mechanism (ESM), which provided financial assistance to peripheral countries in exchange for a macroeconomic stabilization program. At the same time, the European Central Bank announced that, if needed, it would support the peripheral countries that abided by the program (the famous Mario Draghi's *"whatever it takes"* speech). Stricter EU fiscal rules and a new international treaty binding euro countries in the same direction (the "fiscal compact", approved in 2013) were also part of the solution package.

In contrast, the Covid-19 crisis in 2020 was an exogenous health-induced economic shock that affected all EU countries simultaneously due to the strict containment measures introduced to limit the spread of the virus. In this case, the EU policy response was faster, stronger and more coordinated, involving fiscal tools, cheap loans and grants (with programs such as *SURE* and later the *Next Generation EU*), as well as monetary instruments such as the ECB's *Pandemic Emergency Purchase Program* to ease the funding of anti-pandemic national policies and prevent the risk of a credit crunch. The European Commission also took a novel and more incisive role in driving this process, even beyond the boundaries of its competences, for example centralizing the purchase and distribution of the vaccines.

As a result, the post-pandemic recovery was far more rapid than the one following the euro crisis. Figure 2 illustrates this by showing the trends of average per capita GDP (weighted by the population size of each country) in our sample of euro area countries. In this figure, time 0 on the horizontal axis represents the year of the outbreak of each crisis (i.e., 2009 and 2020, respectively) and the value of per capita GDP is set at 100 in the last year prior to each crisis (i.e., at time -1). As shown, the impact of Covid-19 was stronger than that of the financial crisis (average GDP per capita fell by 6.8% in 2020) but short-lived, with GDP per capita rebounding almost completely by 2021 and exceeding the pre-crisis level by 2022. In contrast, the sharp drop in 2009 was followed by a weak

recovery driven by core countries and a further collapse due to the credit downgrades experienced by peripheral countries, with a long period of economic stagnation exacerbated by austerity policies.

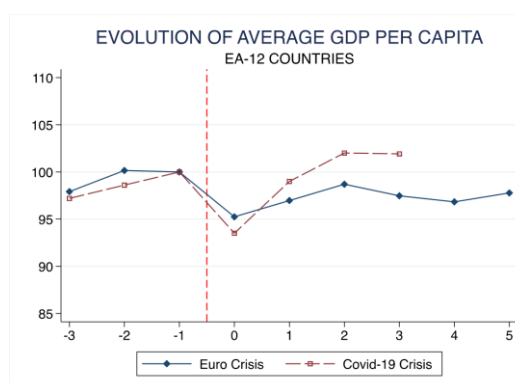EVOLUTION OF AVERAGE GDP PER CAPITA
EA-12 COUNTRIES

Figure 2 – GDP per capita – Euro crisis vs. Covid-19 crisis

Note: This graph compares the evolution over time around the euro crisis and the Covid-19 crisis of the average value of GDP per capita at PPPs (in 2021 international Dollars) for EA-12 countries (Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherland Portugal and Spain). The average is computed using as weights the population size of each country. On the x-axis, time 0 corresponds to year 2009 for the euro crisis and to year 2020 for the Covid-19 crisis. The value of GDP per capita is set equal to 100 in the year before each crisis. Source: World Bank.

Data

Our empirical analysis covers a wide array of country-level *economic*, *institutional*, and *political* variables for EA-12 countries (Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal and Spain) from 2004 to 2023 (or the most recent available year). To examine the overall trends of economic convergence and divergence among these countries in terms of GDP per capita and unemployment rates, we first collect data from the *World Bank* and the *International Labor Organization* (ILO), respectively.

As for expenditure and outcome variables related to public services, we focus on three main sectors, namely, education, health care, and civil justice, using data from the *OECD* and *World Bank* databases. For education, we include government expenditure on education as a percentage of GDP and the share of graduates in the population aged 25-34. For the health care sector, our key variables include public expenditure as a percentage of GDP, the number of hospital beds per 1,000 inhabitants, and the value of life expectancy at birth. For the judicial system, we collected data on the average cost (as a percentage of claims) and length (in days) of trials.

These economic variables are further complemented by data on income inequality obtained from the *World Inequality Database* and the *World Bank*. We focus on the evolution of the shares of (pre-tax) total national income held by the top 1% and the bottom 50% of the population. Additionally, to better capture the evolution of inequality, we also use the Gini index for disposable income and the share of individuals at risk of poverty, collecting information from *Eurostat*.

Turning to *institutional* variables, we leverage data from the *European Social Survey* on citizens'

trust in the national Parliament, national politicians, and the European Parliament. To assess the impact of the Covid-19 crisis – and the policies implemented to address its adverse economic consequences – on citizens' attitudes towards the EU, we examine additional data from *EUPINIONS* surveys, which have been conducted among EU citizens since the second half of 2018.

Finally, we include in our analysis *political* variables related to electoral participation and consensus for populist parties. First, we leverage data on turnout at elections for the national Parliament (measured as the percentage of eligible voters who actually voted) from the *International Institute for Democracy and Electoral Assistance*. Second, we retrieve the share of votes for populist parties at national elections from the *Votes for Populists* database, released by the *Freeman Spogli Institute for International Studies* at *Stanford University*.

Empirical modelling

Following the methodology adopted in our previous study on the "short-term" differential impact of the sovereign debt crisis in the euro area between core and peripheral countries (Bordignon et al., 2023), we rely on a dynamic difference-in-differences empirical strategy and estimate the following model:

$$Y_{it} = \alpha + \sum_{t=2004}^{2019} \beta_t crisis_{it} + \rho_i + \mu_t + \varepsilon_{it} (1)$$

The outcome variable Y_{it} denotes the different economic, institutional, and political variables that capture the functioning of public services, the degree of inequality, the quality of governance, as well as citizens' perceptions and voting behavior in country i and year t, between 2004 and 2019.

The variable $crisis_{it}$ takes value one from 2010 for the peripheral countries affected by the sovereign debt crisis. The omitted year – represented in each event-study graph as time -1 – is 2009, i.e. the last year before the occurrence of the euro crisis. Our coefficients of interest β_ts therefore capture the dynamic effect of the crisis in peripheral vs. core countries in each year t relative to the base year 2009, showing the evolution over time of potential diverging trends.

Our specification includes country fixed effects (ρ_i) to account for time-invariant country-specific features that may affect the outcomes of interest, as well as year dummies (μ_t) that control for aggregate fluctuations that may impact the whole sample of countries at different points in time. Standard errors are clustered at the country level and observations are weighted by population size, thus giving more weight to countries that are likely to have a larger impact on the overall economic, institutional and political dynamics in the Eurozone.

To investigate the impact of the Covid-19 crisis, we estimate the same model, replacing the variable $crisis_{it}$ with a variable that takes value one from 2020 onwards for peripheral countries. In this case, the coefficients measure the effect of the Covid-19 crisis in peripheral vs. core countries relative to the base year 2019.

Results

Figure 3 illustrates the dynamic impact of the euro crisis on public services expenditure in peripheral vs. core countries, reporting the estimates of coefficients β_ts from our event-study model with 90% confidence intervals.
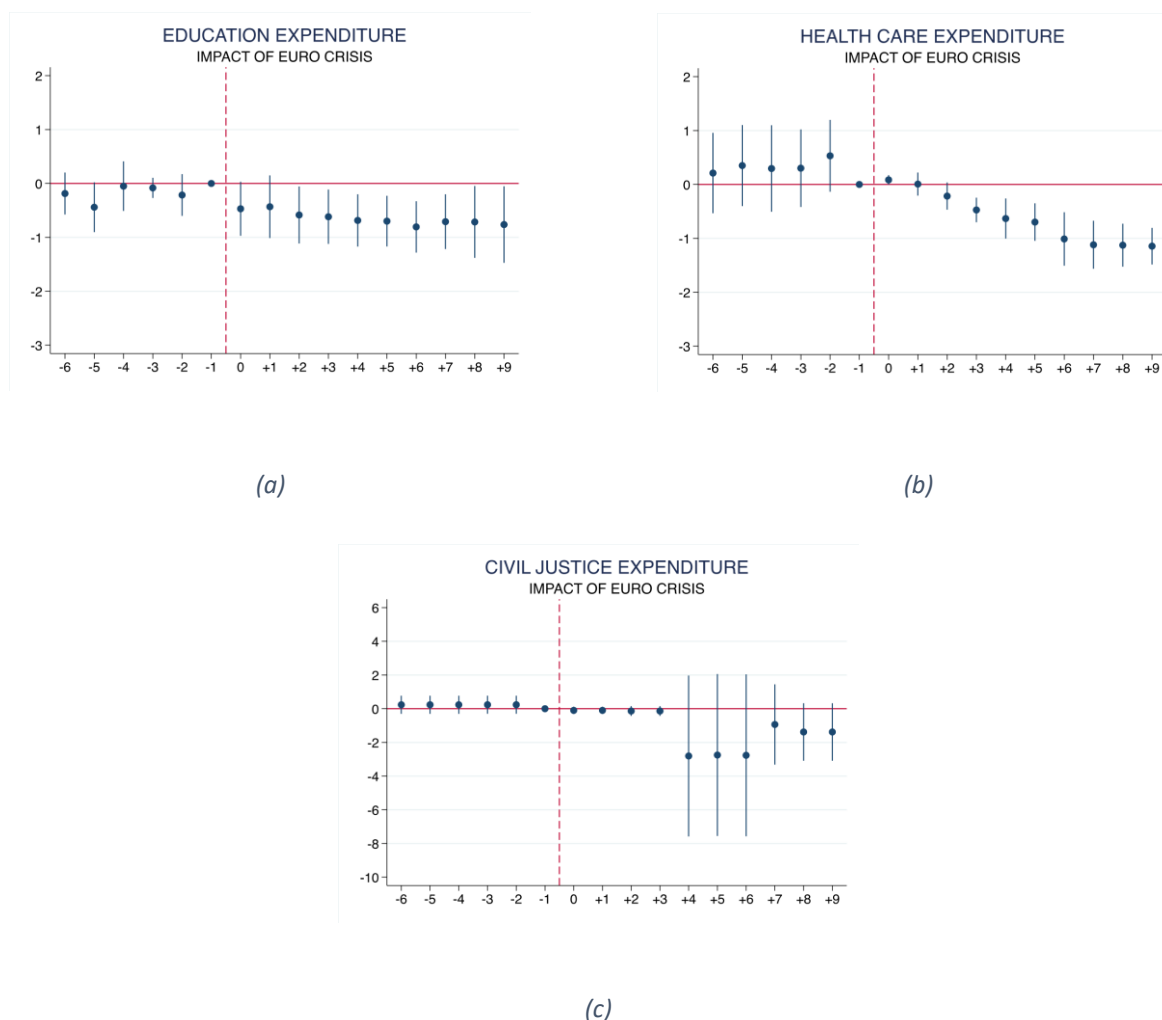

(a)

(b)

(c)

Figure 3 – Expenditure on Public Services – Impact of the Euro crisis (2010)
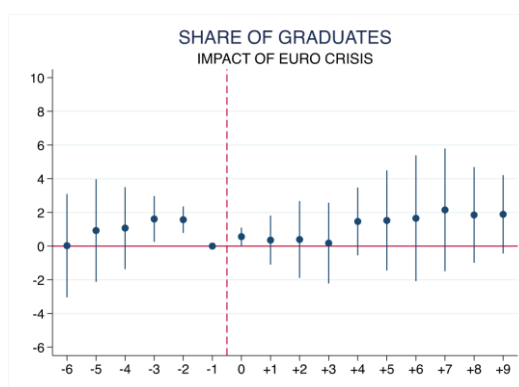
Note: These graphs report the estimates of the event study model (1) for variables on expenditure for public services. In particular, they show estimates of the coefficients $\beta_t s$ (t = 2004, …, 2008, 2010, …, 2019) with the corresponding confidence intervals at the 10% significance level. The year in which the event under consideration (i.e., euro crisis) occurs is denoted by zero on the x-axis and corresponds to year 2010. The reference year is − 1 (namely, 2009). Countries hit by the euro crisis are Greece, Ireland, Italy, Portugal and Spain, whereas the control group includes core EA-12 countries (i.e., Austria, Belgium, Finland, France, Germany, Luxembourg and Netherlands). All specifications include country and year fixed effects. Each observation is weighted for the average population size of the country. Robust standard errors are clustered at the country level. Source: World Bank and OECD data.

Starting with public expenditure on *education*, panel (a) shows evidence of a statistically significant and economically relevant negative effect of the sovereign debt crisis, with a downward trend emerging immediately after its outbreak and leading to a persistent decline in expenditure over the subsequent years. A similar pattern for *health care* expenditure is reported in panel (b), which documents a remarkable decrease in the share of GDP allocated to this sector in peripheral countries hit by the crisis, with a gradual reduction that continued until 2016. In both cases, there is no evidence

of resumed convergence between core and peripheral countries after the euro crisis, as coefficients never return to zero by 2019. Additionally, according to panel (c), a reduction in expenditure also affected the sector of *civil justice* after 2013. All these expenditure effects are likely the result of reforms aimed at improving efficiency that were required as a condition for receiving economic and financial assistance from the EU in program countries and more generally, for the other peripheral countries, a result of the more restrictive fiscal rules introduced at the EU level.

Despite the cuts in expenditure outlined in Figure 3, Figure 4 shows that the overall quality of public services in peripheral countries was not adversely affected by the crisis. Panels (a) and (b) suggest that the *share of graduates* in the population aged 25-34 and the number of *hospital beds* per 1,000 inhabitants did not decrease in countries more severely hit by the crisis relative to core countries. If anything, for both variables an upward trend can be observed in more recent years. At the same time, panel (c) documents a statistically significant increase in *life expectancy at birth* – especially for women – in peripheral countries compared to core countries after the crisis. Finally, panel (d) shows no evidence of an increasing *length of trials*, thus suggesting that the overall efficiency of the judicial system did not deteriorate (and even improved in countries like Italy).
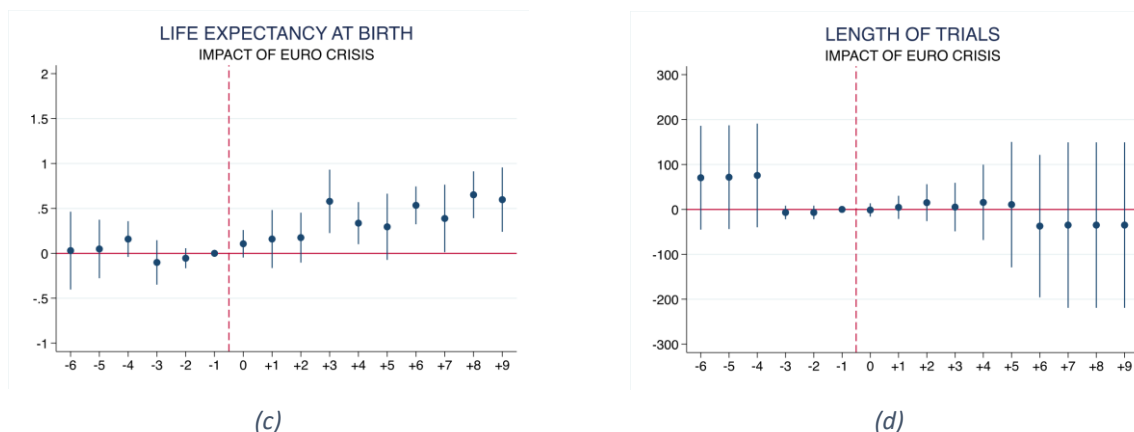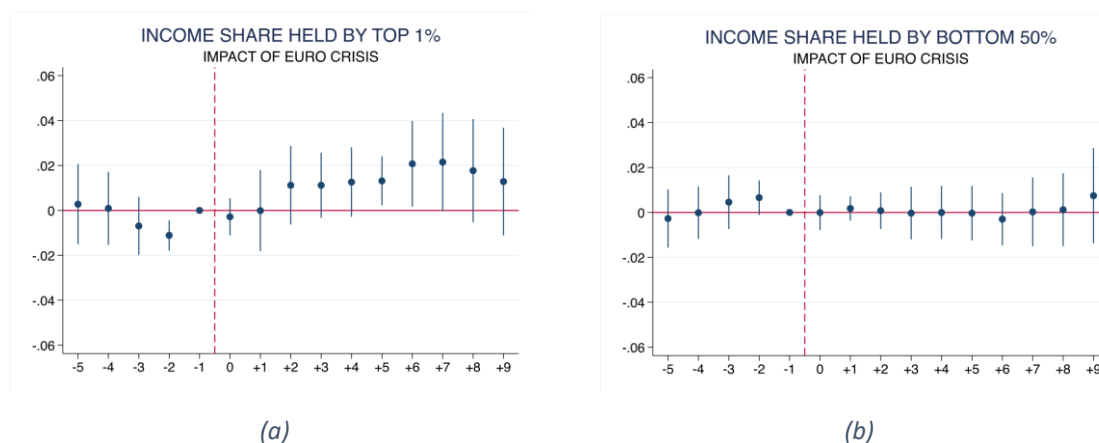

(a)

(b)

(c)

(d)
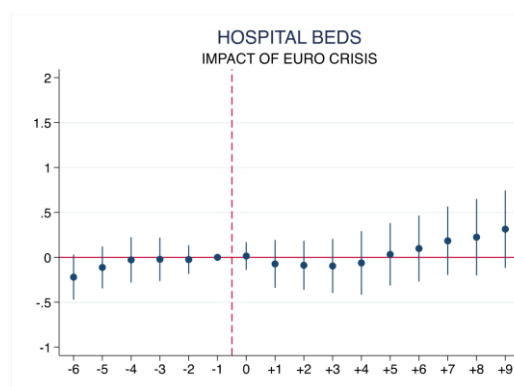
Figure 4 – Supply and Quality of Public Services – Impact of the Euro crisis (2010)

Note: These graphs report the estimates of the event study model (1) for variables on the supply and quality of public services. In particular, they show estimates of the coefficients $\beta_t s$ (t = 2004, …, 2008, 2010, …, 2019) with the corresponding confidence intervals at the 10% significance level. The year in which the event under consideration (i.e., euro crisis) occurs is denoted by zero on the x-axis and corresponds to year 2010. The reference year is − 1 (namely, 2009). Countries hit by the euro crisis are Greece, Ireland, Italy, Portugal and Spain, whereas the control group includes core EA-12 countries (i.e., Austria, Belgium, Finland, France, Germany, Luxembourg and Netherlands). All specifications include country and year fixed effects. Each observation is weighted for the average population size of the country. Robust standard errors are clustered at the country level. Source: World Bank and OECD data.

Regarding the impact of the euro crisis on *income inequality*, panel (a) of Figure 5 shows a rise in the share of pre-tax national income held by the top 1% of the population in peripheral countries. This effect is likely driven by increases in *capital* income for the wealthiest individuals, an interpretation consistent with the absence of any effects on the share of (mainly labor) income held by the bottom 50% of the population, as displayed in panel (b). Additionally, panel (c) documents an increase in the Gini index for disposable income, confirming the trend of growing income inequality in euro countries more severely hit by the crisis. Nevertheless, it is worth noting that the estimated coefficients tend to revert to zero in the long run, suggesting a recovery in the process of convergence with core countries. To complement these results, panel (d) provides evidence of a statistically significant increase in the share of individuals at risk of poverty in peripheral *vs.* core countries, leading in the short run to a trend of divergence.
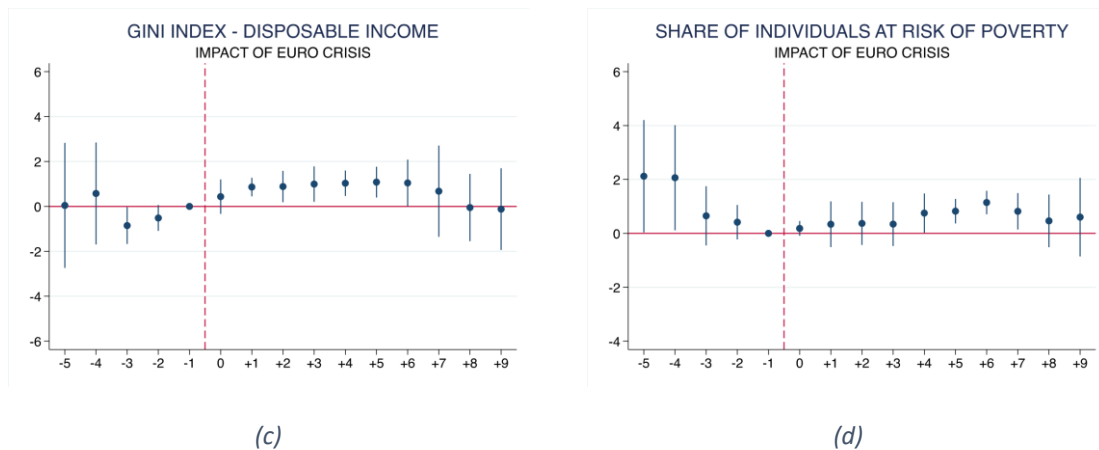

(a)

(b)

(c)

(d)

Figure 5 – Income Inequality and Poverty Risk – Impact of the Euro crisis (2010)

Note: These graphs report the estimates of the event study model (1) for income inequality (i.e., the share of pre-tax national income held by the top 1% and the bottom 50% of the population, as well as the value of Gini index for disposable income) and the share of individuals at risk of poverty. In particular, they show estimates of the coefficients $\beta_t s$ (t = 2005, …, 2008, 2010, …, 2019) with the corresponding confidence intervals at the 10% significance level. The year in which the event under consideration (i.e., euro crisis) occurs is denoted by zero on the x-axis and corresponds to year 2010. The reference year is − 1 (namely, 2009). Countries hit by the euro crisis are Greece, Ireland, Italy, Portugal and Spain, whereas the control group includes core EA-12 countries (i.e., Austria, Belgium, Finland, France, Germany, Luxembourg and Netherlands). All specifications include country and year fixed effects. Each observation is weighted for the average population size of the country. Robust standard errors are clustered at the country level. Source: World Inequality Database and World Bank data.

Figure 6 investigates the impact of the euro crisis on citizens' *trust in institutions*, reporting the coefficients of our dynamic difference-in-differences model for individuals' trust in the *national Parliament*, in *national politicians*, and in the *European Parliament*, considering that data from the European Social Survey are available every two years. The dynamic that emerges from this analysis is rather clear. Panel (a) documents a large and statistically significant decline in the level of citizens' trust in national parliaments immediately after the crisis in peripheral countries more severely affected by the recession. An analogous pattern emerges in panel (b) for trust in national politicians and in panel (c) for the European Parliament. However, the initial stark divergence in trust in both national and supranational institutions between peripheral and core EA-12 countries tends to slightly diminish over time, as indicated by the coefficients of the event-study model that gradually converge towards zero by 2018. It should be noted, though, that this convergence is not due to improvements in the level of trust in peripheral countries but rather to a consistent collapse in trust in core countries such as Germany, France, or Netherlands.
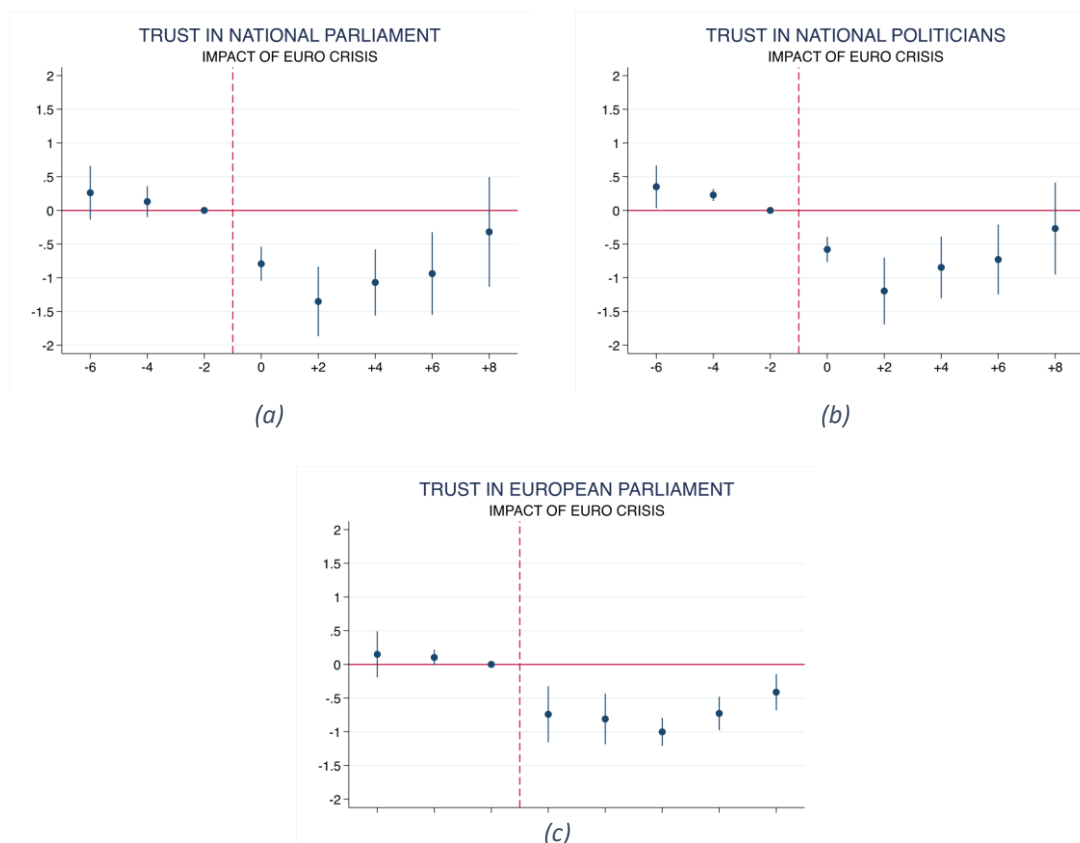
Figure 6 – Trust In Institutions – Impact of the Euro crisis (2010)

Note: These graphs report the estimates of the event study model (1) for trust in institutions. In particular, they show estimates of the coefficients $\beta_t s$ (t = 2004, 2006, 2010, …, 2018) with the corresponding confidence intervals at the 10% significance level. The year in which the event under consideration (i.e., euro crisis) occurs is denoted by zero on the x-axis and corresponds to year 2010. The reference year is − 2 (namely, 2008). Countries hit by the euro crisis are Greece, Ireland, Italy, Portugal and Spain, whereas the control group includes core EA-12 countries (i.e., Austria, Belgium, Finland, France, Germany, Luxembourg and Netherlands). All specifications include country and year fixed effects. Each observation is weighted for the average population size of the country. Robust standard errors are clustered at the country level. Source: European Social Survey data.

Finally, Figure 7 illustrates the impact of the euro crisis on electoral turnout and consensus for populist parties in national elections. Panel (a) shows evidence of a statistically significant reduction in electoral turnout in peripheral EA-12 countries in the years immediately after the outbreak of the crisis. This negative effect seems to weaken over time, as indicated by the larger standard errors in later years, but this is actually due to the decline in electoral turnout also in core countries such as France and Germany. Moreover, panel (b) documents a substantial increase in the share of votes for populist parties in peripheral countries after the crisis. Again, the process of divergence between core and peripheral countries weakens over time as a result of the rising support for populist parties in core countries.

<center>(a)   (b)</center>
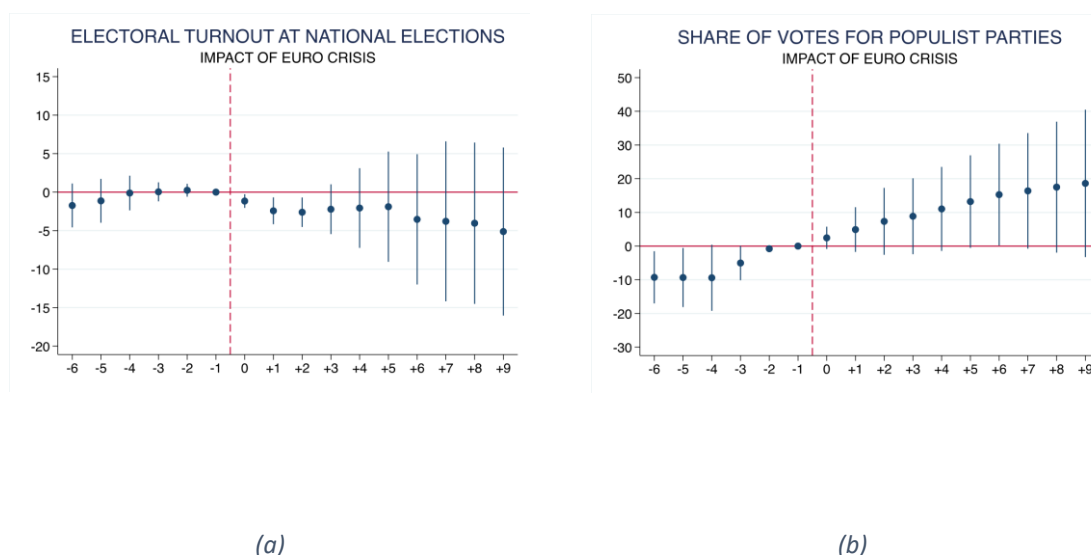
<center>Figure 7 – Electoral Turnout and Support for Populist Parties – Impact of the Euro crisis (2010)</center>

Note: These graphs report the estimates of the event study model (1) for electoral turnout and the share of votes for populist parties. In particular, they show estimates of the coefficients $\beta_t s$ (t = 2004, …, 2008, 2010, …, 2019) with the corresponding confidence intervals at the 10% significance level. The year in which the event under consideration (i.e., euro crisis) occurs is denoted by zero on the x-axis and corresponds to year 2010. The reference year is − 1 (namely, 2009). Countries hit by the euro crisis are Greece, Ireland, Italy, Portugal and Spain, whereas the control group includes core EA-12 countries (i.e., Austria, Belgium, Finland, France, Germany, Luxembourg and Netherlands). All specifications include country and year fixed effects. Each observation is weighted for the average population size of the country. Robust standard errors are clustered at the country level. Source: International Institute for Democracy and Electoral Assistance and Votes for Populists Database (Stanford University).

And after Covid-19?

We conclude our empirical analysis by comparing the effects of the sovereign debt crisis with those of the Covid-19 pandemic. Although the limited availability of data for the post-pandemic period hinders a replication of the analysis conducted for the euro crisis across all economic, institutional, and political variables, some key differences can be outlined.

First, we find that the outbreak of Covid-19 had no effect on expenditure and outcome variables related to public services, except for a decrease in life expectancy caused by the incidence of the disease itself. Differently from the case of the euro crisis, this is likely due to the extensive measures implemented at both national and EU levels to mitigate the economic downturn caused by the restrictive policies meant to limit the spread of the virus.

On the contrary, we find evidence of a sizeable impact of the Covid-related crisis on inequality. Figure 8 shows that the pandemic led to a statistically significant decrease in the share of income held by individuals in the bottom 50% of the distribution in peripheral countries. Differently from the euro crisis (Figure 5), in this case the rising inequality is not driven by a growing share of (capital) income at the top of the distribution, but rather by a drop in the share of (labor) income for people in its lowest part. Nevertheless, we do not observe any increase in the share of individuals exposed to the risk of poverty. If anything, panel (c) documents a reduction in 2020, likely because of the economic measures introduced to deal with the crisis.
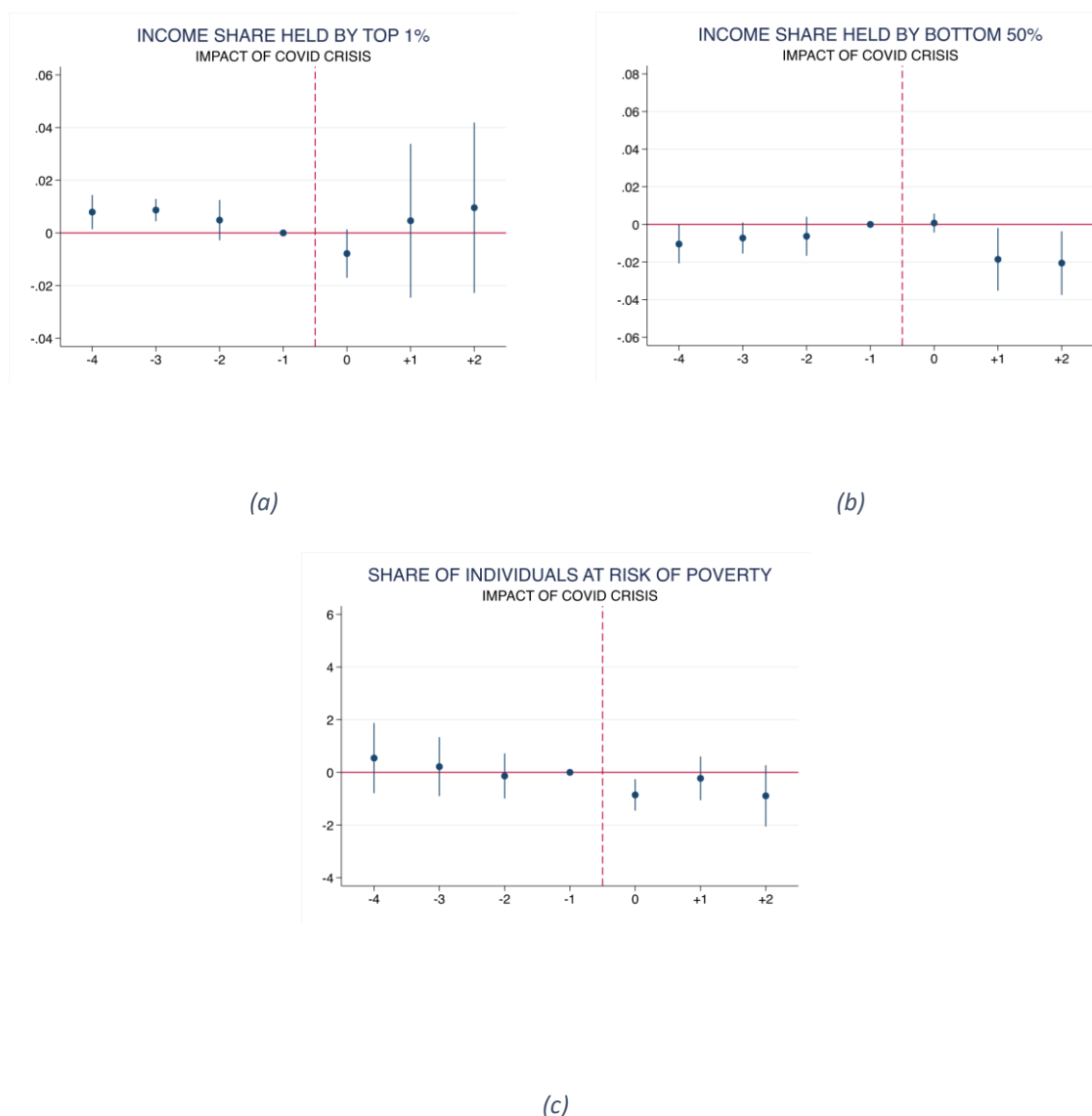
(a)

(b)

(c)

Figure 8 – Income Inequality and Poverty – Impact of the Covid crisis (2020)

Note: These graphs report the estimates of the event study model (1) for the impact of Covid-19 on income inequality and poverty. In particular, they show estimates of the coefficients $\beta_t s$ (t = 2016, …, 2018, 2020, …, 2022) with the corresponding confidence intervals at the 10% significance level. The year in which the event under consideration (i.e., Covid crisis) occurs is denoted by zero on the x-axis and corresponds to year 2020. The reference year is − 1 (namely, 2019). Peripheral countries are Greece, Ireland, Italy, Portugal and Spain, whereas the control group includes core EA-12 countries (i.e., Austria, Belgium, Finland, France, Germany, Luxembourg and Netherlands). All specifications include country and year fixed effects. Each observation is weighted for the average population size of the country. Robust standard errors are clustered at the country level. Source: World Inequality Database and World Bank.

In particular, the effects of the pandemic differ remarkably from those of the euro crisis when considering trust in institutions and citizens' attitudes towards the EU. In Figure 9, we present the coefficients for our event-study model when the dependent variables are biannual data from *Eupinions*. Panel (a) shows that, compared to core countries, peripheral countries experienced an

increase in the share of citizens who would vote to remain in the EU in a potential referendum.[4] Moreover, panel (b) documents that the Covid-19 pandemic did not reduce support for economic and political integration across EU members. Actually, over the past two years, following the outbreak of the war in Ukraine, citizens in peripheral countries have became even more supportive of EU integration. This increased consensus for EU integration is notably driven by young educated citizens, mainly in urban regions. Interestingly, however, the emerging positive gap between core and peripheral countries is also explained by deteriorating attitudes towards the EU among older individuals in rural areas of core countries (see also Bordignon and Gatti, 2024).
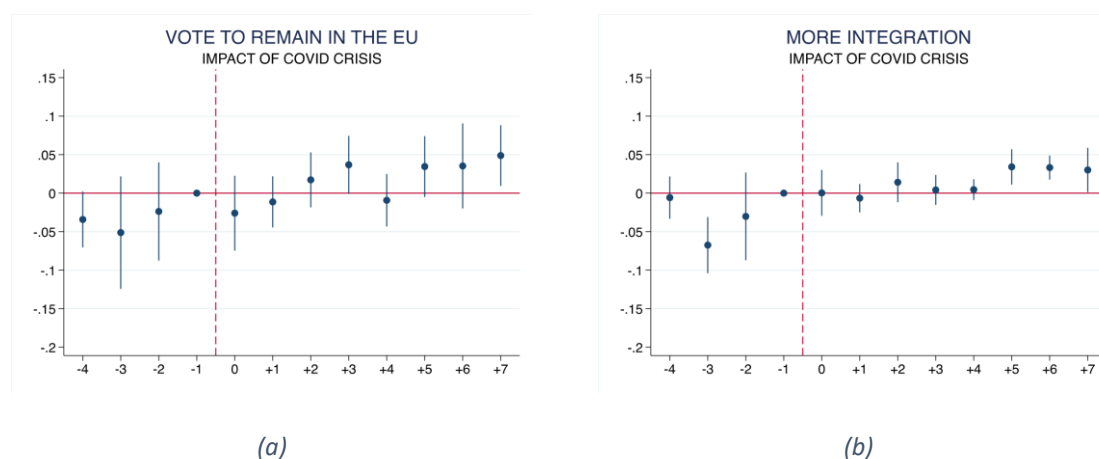

(a) *(b)*

Figure 9 – Citizens' attitudes towards the EU – Impact of the Covid crisis (2020)

Note: These graphs report the estimates of the event study model (1) for the impact of Covid-19 on EU citizens' attitudes towards the European Union. In particular, using biannual data (i.e., two observations per year, starting from the first semester of 2018) they show estimates of the coefficients $\beta_t s$ (t = 1/2018, …, 1/2019,…, 1/2020, …, 2/2023) with the corresponding confidence intervals at the 10% significance level. The first semester of 2020, when the event under consideration (i.e., Covid crisis) occurs is denoted by zero on the x-axis. The reference semester is − 1 (namely, the second half of 2019). Peripheral countries are Greece, Ireland, Italy, Portugal and Spain, whereas the control group includes core EA-12 countries (i.e., Austria, Belgium, Finland, France, Germany, Luxembourg and Netherlands). All specifications include country and semester fixed effects. Each observation is weighted for the average population size of the country. Robust standard errors are clustered at the country level. Source: EUPINIONS data.

Closing Remarks

Building on a previous analysis of the trends of convergence and divergence between peripheral and core EA-12 countries after the euro area sovereign debt crisis (Bordignon et al., 2023), this work investigates the long-term evolution of such differences in economic, institutional, and political outcomes, testing whether a pattern of convergence was finally resumed and comparing the effects

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[4] Note that the null coefficient in semester 4 (i.e., the first semester of year 2022) is explained by the outbreak of the war following the Russian invasion of Ukraine.

of this crisis with those induced by the Covid-19 pandemic.

First, we show that the euro crisis led to a persistent divergence between core and peripheral countries in the amount of expenditure on public services such as education, health care, and civil justice.

However, spending cuts in countries affected by the crisis were not associated to a decline in the quality of these fundamental services, which even broadly improved relative to the core, at least in some sectors. This might explain why a process of per capita income convergence between core and peripheral resumed after 2014 and even accelerated after the pandemic.

At the same time, our results document an increase in income inequality – particularly explained by the rising share of total income held by the richest 1% of the population – and in the exposure to the risk of poverty. Yet, reassuringly, in the long run we observe again convergence between the two groups of countries.

In peripheral countries, the outbreak of the euro crisis was also followed by a sharp decrease in citizens' trust in institutions and participation at elections, combined with rising support for populist parties. The subsequent convergence was due more by collapsing trust and increasing support for populist parties in core countries than to an improvement in peripheral ones.

The effects of Covid-19 were substantially different. The extensive policy measures at both national and EU levels helped mitigate the adverse economic impact of the pandemic, preventing spending cuts and increases in the share of individuals at risk of poverty. As in the case of the euro area sovereign debt crisis, however, also after Covid-19 we report evidence of rising inequality, although driven by a decline in the share of (labor) income held by the bottom 50% of the population rather than by an increase in the share of (capital) income held by the top 1%.

All in all, the combined policies introduced after the pandemic allowed a fast recovery, which was particularly pronounced in the periphery, where a strong process of per capita income convergence with the core resumed. Consistently, we find that the degree of support for the EU and for further integration increased, particularly among young, educated citizens in urban areas of the periphery. Thus, even considering the differences between the two crises, our results stress the importance of effective, coordinated and prompt policy responses in managing large-scale challenges at the EU level. Unfortunately, there is no lack of them.

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Appendix Figures

(a)   (b)
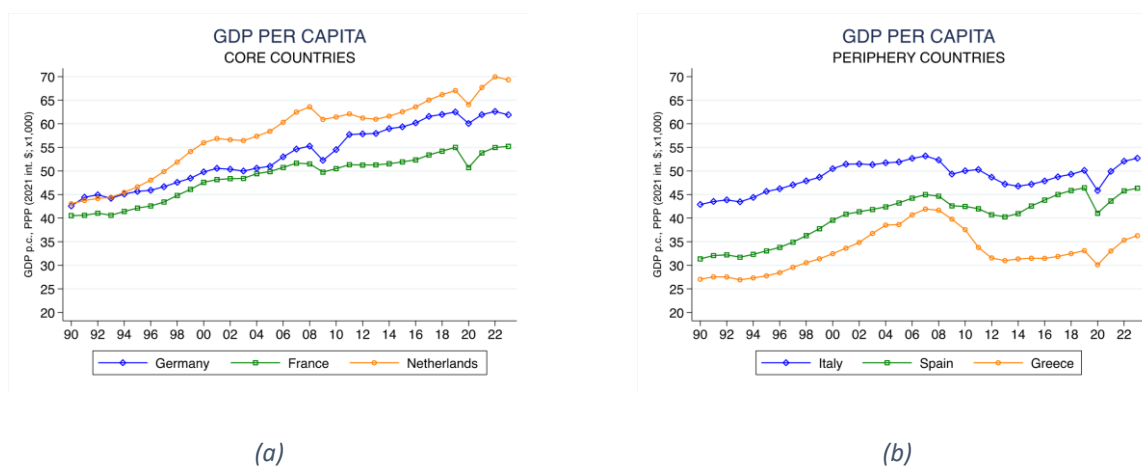
Figure A.1 – GDP per capita (1990-2023)

Note: This graph shows the evolution over time of the value of GDP per capita at PPPs (in 2021 international Dollars) for a sub-group of selected core (Germany, France, and Netherlands) and peripheral (Italy, Spain, and Greece) EA-12 countries. Source: World Bank

(a)   (b)
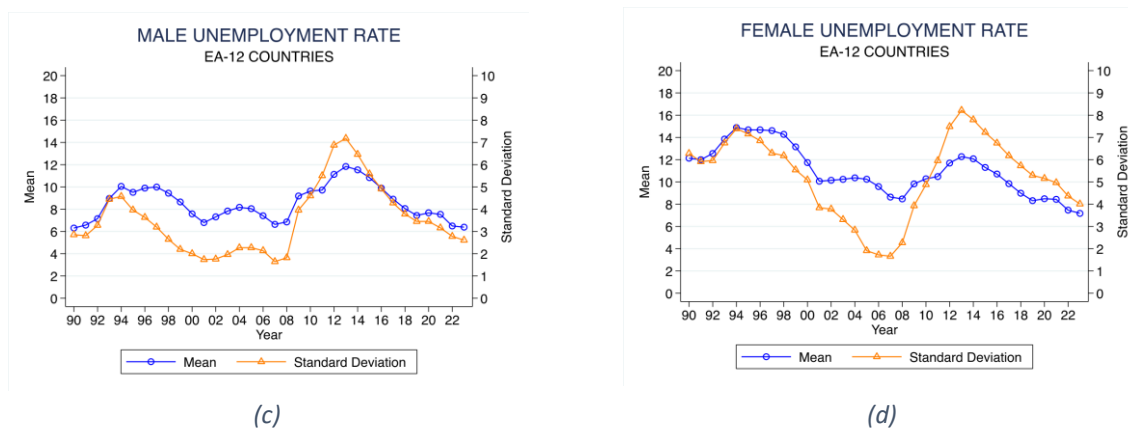
(c)

(d)

Figure A.2 – Male and Female Unemployment Rates (1990-2023)

Note: Panels (a) and (b) of this figure show, respectively, the evolution over time of the average value of male and female unemployment in core and peripheral EA-12 countries. The former group of countries includes Austria, Belgium, Finland, France, Germany, Luxembourg and Netherlands, while the latter group includes Greece, Ireland, Italy, Portugal and Spain. The value of average unemployment for the two groups is computed using as weights the population size of each country. Panels (c) and (d), instead, show the evolution over time of the values of the mean (left axis) and standard deviation (right axis) of male and female unemployment in the group EA-12 countries. Source: ILO.