

Foreword

The coronavirus crisis has led to a severe economic downturn and threatened the health and the economic existence of many people and has thus led to unprecedented challenges for policy makers and governments at national and international levels.

The crisis is fraught with uncertainty and no clear conclusions can be drawn about how long it will last and how the virus will evolve and continue to spread. For some, the coronavirus has a worse impact on some segments of the population than on others. Women, for example, are more likely to stay at home to take care of their children, and professionals in certain sectors have been unable to work since March. The European Union has launched the Next Generation EU (NGEU) support program to address some of these challenges and strengthen solidarity between member states.

This year's EEAG report on the European economy explores how to prevent the erosion of capital caused by the crisis. In particular, **Chapter 2** investigates the importance of investing in public and social capital for future prosperity and inclusion. This chapter takes up a number of issues discussed in previous EEAG reports that have been significantly exacerbated by the crisis, such as taxes on consumption and land to share the burden of coronavirus debt, or youth welfare in the social function through climate-friendly policies. This chapter also examines the sustainability of the large debts taken on during the crisis, which depends on growth and adequate investment.

Chapter 3 turns to human capital and education in particular. Income losses have occurred at all levels of education, but again have been particularly detrimental to some groups of the population, such as those at the lower end of the skills distribution. The chapter examines how the coronavirus crisis has affected education and lifelong learning and what should and should not be done. It makes recommendations regarding how policy can help offset the negative impact of the coronavirus crisis on human capital in the European Union.

Chapter 4 examines the central importance of business investment for the economic recovery as well as long-term growth and productivity. Recessions are usually accompanied by constrained investment, and there is widespread concern that private investment in innovation will remain low after the crisis. This chapter therefore looks at business investment before and during the coronavirus crisis and identifies key aspects for increasing future investment in the medium and long term.

As in previous years' reports, **Chapter 1** provides an in-depth analysis of the economic situation of the European Union and the world, as well as forecasts where possible—the latter is particularly difficult during the coronavirus crisis, since time horizons are short and uncertain, and measures change as the virus evolves. In the first half of 2020, global gross domestic product (GDP) fell by almost 10 percent, but economic production picked up sharply during summer 2020. However, the GDP was still more than 2 percent below pre-crisis levels in advanced economies in the third quarter and then the second wave hit. This chapter specifically looks at regional differences, which were fairly pronounced in the different countries.

The European Economic Advisory Group at CESifo, which is collectively responsible for all parts of the report, consists of seven economists from seven countries. This year the Group is chaired by Harold James (Princeton University). The other members are Torben M. Andersen (Aarhus University), Giuseppe Bertola (University of Turin), Cecilia García-Peñalosa (Aix-Marseille University), Jan-Egbert Sturm (KOF Swiss Economic Institute, ETH Zurich), Branko Urošević (School of Computing, Union University) and me (ifo Institute and Ludwig-Maximilians-University Munich). I would like to express my gratitude for the valuable assistance provided by the scholars and staff at CES and ifo who helped to prepare this report. This year's participants were Clara Albrecht and Tanja Stitteneder (assistants to the group), Christian Grimme (economic forecast), Christiane Nowack, Christoph Zeiner, Jasmin La Marca (graphics), Katharina Pichler and Elisabeth Will (typesetting), and Ines Gross (cover).

Clemens Fuest
 President ifo Institute and CESifo Group
 Professor of Economics and Public Finance Ludwig-Maximilians-University Munich
 Munich, February 2021