

Foreword

The coronavirus crisis has shaped economic policy in a way that differs from the policies that prevailed before the crisis, bringing to the fore political challenges such as climate change, technological change, aging, and inequality, but also possible de-globalization. Governments around the world have taken drastic measures to protect the economy and support households, jobs, and businesses. This has also led to a rethinking of the debate about the role of government. Some believe that governments should continue to take a more active role in the post-pandemic period. Others argue that the situation is so special and different that it has no implications for the future of government. Still others object that the weaknesses and inadequacies of government responses to the pandemic reflect the limited effectiveness of the public sector in general.

This year's EEAG Report on the European Economy takes a broader perspective to relate the current situation to economic and political developments since the 1970s and to examine whether and how the role of governments will change after the Covid-19 crisis. **Chapter 2** reviews the stagflation episode of the 1970s and in the disinflation, international integration, and market liberalization developments of the 1980s and 1990s. The chapter examines three principal areas of policy change or reorientation: the search for an answer to inflation, the deregulation of labor markets, and attempts to limit the growth of government expenditure and of government debt.

Chapter 3 explores the period between the Global Financial Crisis and the Covid-19 pandemic, which was mainly characterized by a new rise of populism. The chapter outlines what was perceived as the downside of the economic effects of market liberalization – increased inequality and instability – and how these were associated with the rise of populism.

Chapter 4 investigates the future role of governments. The Covid-19 crisis has sparked a debate not only about how to revive the economy after the pandemic, but also about the need to rethink economic policy to address policy challenges such as climate change, aging, technological developments, and inequality. Much of the debate centers on whether more or less government intervention in the economy is needed.

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. Despite increasing immunization of the population, the more infectious new Omicron variant has triggered a new wave in large parts of the world. The associated uncertainty, consumer reticence, labor shortages, and existing problems in international supply chains will determine the development of the global economy this year and imply that economic activity will be noticeably subdued this winter.

The European Economic Advisory Group at CESifo, which is collectively responsible for all parts of the report, consists of six economists from six countries. This year the Group is chaired by Torben M. Andersen (Aarhus University). The other members are Giuseppe Bertola (University of Turin), Cecilia García-Peñalosa (Aix-Marseille University), Harold James (Princeton University), Jan-Egbert Sturm (KOF Swiss Economic Institute, ETH Zurich), and me, Clemens Fuest (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), KOF Swiss Economic Institute (economic forecast), Christiane Nowack, Christoph Zeiner, and Jasmin La Marca (graphics), Katharina Pichler and Elisabeth Will (typesetting), and Ines Gross (cover).

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 Ludwig-Maximilians-University Munich
 Munich, March 2022