Proceedings of ICGPSH 2024 Workshop: Industry 5 and Society 5 – A Study from The Global Politics and Socio-Humanity Perspective
DOI: 10.54254/2753-7048/79/2025.LC19630

Implications from Modern European Economic Events on Current Policy Responses in the Post-COVID Era

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Abstract: This paper is essential in mitigating post-COVID economic downturn within Europe and seeking ways of recovery. It aims to analyze the economic events of both highlights and recessions throughout European history, evaluate the policies being implemented and their effects, and combine them to cope with current economic strike caused by COVID-19 pandemic. Specifically, this article first pays attention to the duality of the Golden Age, highlighting the hidden flaw behind those miraculous successes. Then, it goes on to analyze the causes and consequences of economic crises and recessions such as the Global Financial Crisis (GFC) and the euro debt crisis. It also investigates what policies were effective in handling those crises and fostering recoveries. Further, it reviews the current post-COVID economic downturn and evaluates to what extent the current policies contribute to impeding the decline and promoting economic restoration. Eventually, it provides several recommendations such as distributing financial subsidy more fairly and offering support to exporters to ensure stability and facilitate recoveries.

Keywords: Golden Age, economic crisis and recessions, post-COVID era.

1. Introduction

Since the end of World War II (WWII), the European economy has undergone several recoveries and recessions, with both significant successful growths and severe economic crises. On the one hand, highlights such as the Golden Age right after the WWII sustained an incredible circa-three-decade (1948-1973) economic growth with almost no fluctuation. On the other hand, major recessions such as the Great Financial Crisis (GFC) in 2008-2009, the Euro debt crisis in 2010-2012, and the ongoing post-COVID economic downturn also indicate that the economic situation keeps varying and is unstable. Furthermore, the European economy is also a critical contributor to global economic growth and plays an essential role in affecting international economic trends. Therefore, based on Europe's comprehensive and unique historical and political background, it is of significant value in analyzing both European economic successes and crises, and thereby, contributing solutions to tackling the ongoing downward trend of not only Europe but also the globe as a whole.

Past literature in this field has respectively analyzed the causes and consequences of the aforementioned European economic events in detail, combined with policy-making, internal movements among countries, and external global interventions. For economic upswings, such as the Golden Age, it has been concluded that policymakers by that time were able to extract and reflect on experiences during wartime and thus, made beneficial decisions that produced impressive outcomes

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[1]. There were also historians revealing the fundamental nature of the Golden Age that the rapid economic growth was just a result of keeping labor's wages low and maintaining industrial peace, which is unbeneficial for the long-term interests [2]. As an extension to the previous study, it is just disequilibrium that contributed to the "unusual" economic growth [3]. In terms of economic downturns and crises Europe has struggled with, historians and economists have also analyzed the causes and provided feasible solutions. Taking the Euro debt crisis as an example, in late 2009, anxieties regarding the sustainability of Greek public debt escalated due to major revisions to its fiscal statistics, leading to a regional-scale economic crisis across Europe [4]. The aftermath of the crisis such as a general depreciation in the euro and a rise of awareness in global risk aversion all indicate that a regional crisis might leave huge impacts on global economic development and influence currency [5].

However, little literature is concentrating on today's (post-COVID era) European economic trend as well as detecting the potential existence of economic crises. According to the World Bank, the European Union's (EU's) economic growth has been notably unstable over the past two decades, with extreme fluctuations over the past five years. Today's world is experiencing an ever-fast changing situation, for instance, wars, the Brexit, and immigration issues within European countries. This paper aims to reflect on past economic successes and failures in Europe by combining different literatures' perspectives, expand lessons Europe has learned from those experiences to a global point of view, and attempt to provide some solutions to prevent nowadays' potential global economic crisis.

2. Duality of the Golden Age

The Golden Age, a three-decade (1948-1973) economic flourishing and stable period within Europe, is often described as a miracle in terms of how it performed an incredibly high rate of economic recovery after WWII. On the one hand, the Golden Age's "miracles" benefit not only short-term economic growth but also other social and political successes in the long term. Specifically, during the period, the increase in Gross Domestic Product (GDP) of Western Europe reached a pace more than twice faster than other regions as shown in Table 1 [1]. Moreover, inflation rates also became more stable, and by the end of the period, only one-fifth of the population was still suffering from serious economic hardship [6, 7]. On the other hand, economists and historians have also reviewed and reconsidered the real reason hidden behind growing GDP trends and how these obscure faults accumulated and eventually led to the end of the Golden Age, as well as the following economic crisis.

Table 1: Annual growth of GDP per capita (in 1990 dollars) in the twentieth century.

Period	Europe	Latin America	Asia
1990-92	1.9	1.7	1.7
1900-13	1.1	2.2	0.7
1913-50	0.9	1.5	0
1950-73	4.1	2.6	3.6
1950-92	1.8	0.6	3.5

2.1. Golden Age's Catalysts

The Golden Age cannot appear without any causes, and there must be evidence showing specific factors that catalyzed the appearance and sustain of it.

First of all, European people and leaders' desire for a better future largely determines the existence of Golden Age. Bestowed by the postwar historical context, Golden Age carries significant meanings to European people who have long been hoping for a better and a more peaceful future. Leaders and

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rulers of the world started rebuilding their countries by primarily focusing on their economic recoveries. One major motivation for Europe, especially Western Europe before the collapse of the Soviet Union, to rapidly gain economic growth is to catch up with the US and look for more future opportunities. Europe's desire to become economically strong enough to support its military and technological development, increase goods production, and not be stuck again in the situation they experienced during WWII previously, has played a crucial role in catalyzing economic growth [8].

Secondly, innovation in technologies, combined with a suitable policy environment, has contributed greatly to economic growth as well by boosting production and manufacturing efficiency. From 1950 to 1973, considerable demand increased in several industries such as air traveling, agriculture, and manufacturing, indicating that postwar society urgently requires technological innovation to deal with a dramatic increase in demand for goods [9]. Thus, the long-term benefits of technological innovation allowed this "miracle" to continue for circus three decades.

2.2. Economic Decline

Although the Golden Age has long been considered an economic success in terms of its rapid recovery after severe wartime aftermath, some researchers have casted doubt on what is beneath the surface of such stably growing GDP.

To begin with, the end of the war frees a lot of soldiers from compulsory military service and therefore conveys a lot of free labor to society. Among these free workers, a main portion of them chose to work in agriculture. The burst of labor into agriculture did enhance the production of agricultural commodities; however, in the long term, farmers could not continue their high production as the natural resources decreased over time. Thus, their wages tended to get lower and lower and consequently led to economic stagnation, also known as economic slowdown, in the 1970s. In a nutshell, though the overall GDP of European countries seems to manifest a positive rise, ordinary labor's wages and their life quality do not seem to align with this rise [3].

Further, Temin suggests that the phenomenon of disequilibrium misallocation plays a big part in camouflaging the successes of Golden Age [3]. The term disequilibrium, according to Corporate Finance Institute (CFI), refers to an unbalance of supply and demand in a market-based economy. Taking workers' wage demand as an instance, they may initially be satisfied with relatively low wages, but as long as they could not suffer from a long period decreasing rate of wages anymore, their demand for wages would increase. This also perfectly explains why an economic crisis, as discussed in the next section of this paper, appears right after the end of Golden Age [3].

3. Economic Crises and Recoveries

Apart from the economic successes and highlights Europe has gained from Golden Age's rapid postwar recoveries, it has also experienced severe economic crises. This section delves into some iconic economic recessions happened in Europe, analyzes its key causes as well as impacts, and investigates what European policy makers responded to cope with these crises.

3.1. Recessions

Giving a glimpse at modern European economic development history, two of the most major crises on the timeline are the GFC and the euro debt crisis, which both have led to significant economic recessions.

The GFC is strongly related to Europe as European banks were heavily involved in global financial markets. Therefore, even though the financial flaws originated in the US, they quickly spread from American financial institutions to European counterparts, eventually leading to an international crisis [10]. Specifically, linking back to the aforementioned economic decline after the Golden Age,

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economists argue that the occurrence of the GFC is just a long-term impact of a series of cumulative financial flaws and deregulation processes initiated back in the late 1970s, focusing on both the institutional determinants such as failures in terms of theoretical design and practical implementation of bank policy and techno-economic factors such as lack of attention on production efficiency [11-13]. The GFC left significant financial losses worldwide, especially the US and Europe, numerically up to trillions of dollars. Moreover, the crisis's effects exceeded beyond the financial markets; it had also led to an increasing unemployment rate as well as poverty among ordinary people. As a result, protesters called for urgent reform in financial and economic policy in governance. In summary, Europe, as a main victim of the GFC, had experienced a grievous strike of its economic system and policies, leading to recessions affecting both the state and the citizens.

Coming on the heels of the GFC, the euro debt crisis, took place in 2010-2012, concentrates more on Europe itself. In general, this crisis originally faced an issue of banking solvency, then sovereign debt problems, and ultimately led to instability of the Eurozone and a threat to the currency euro [14]. Beginning in 2007, the establishment of the European Monetary Union (EMU) contains 17 countries across Europe that adopted euro as their universal currency. Although the growth rate of this currency fluctuated in 2002-2007, the performance of euro has been quite lackluster. Combined with the underlying problems within the EMU, many of the southern European countries like Greece and Ireland, due to their current-account deficits, kept borrowing from northern European countries such as Germany and the UK, resulting in a cumulative debt increase for those southern European countries and contribute to the disparities among different states [15]. As a consequence, some "Southern" countries, particularly Greece, Spain, and Portugal, have suffered deeply from increasing unemployment rates and debt pressure on the government; they have also struggled to maintain the so-called "European" standards for social and economic welfare [14].

3.2. Recoveries

Still concentrating on these two major crises in Europe, both the governments and the protesters tried to solve the problems and improve the situation. However, there were also resistance forces against the policy revolution. One of the largest resistance forces is that people who have benefited from the entrenched unbelievably huge interests they gained under the previous "flawed" system, mainly composed of conventional politicians who hold strong power, rejected and resisted reforms. They have, by all means, tried to impede new policies and modifications. Fortunately, protesters who have been suffocating from the negative consequences brought by those crises almost counteracted and even propelled the reform process [10]. However, how did Europe actually implement its reforms? Taking Europe's response to the euro debt crisis as an instance, its answers include structural reforms; greater coordination of economic, fiscal, and financial policies; and a "compact for growth and jobs". Structural reforms are long-term processes that are essential to re-boost the public sector and motivate businesses. Unlike the US, Europe also lacks a center that is capable of making emergent politically and financially powerful in making crucial decisions. To cope with the social consequences of the crisis, it is indispensable to add more job opportunities and to sustain a healthy business environment [16].

4. Policy Implications on Current Situation

As the World Bank states, the COVID-19 pandemic caused "the largest economic shock that the world has experienced in decades." Consequently, a large population of the globe has fallen into poverty and reduction in investments boosts, and international trades are also impeded [17]. This section aims to analyze how significantly the pandemic influenced European economy and evaluate the current policies published by European governments.

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4.1. Post-COVID Impacts on European Economy

Apart from the general decline of European economic trend, another major impact caused by the pandemic is the economic disparities among European countries. In Europe, especially in EU countries, disparities between different economic entities are significantly enlarged after the pandemic. Analysis on GDP disparities during the epidemic has recorded that Poland has the highest GDP among EU with an amount of 492.8 billion euro per year, while Czech Republic, which has the lowest annual GDP, only has 204.06 billion euro per year. These large gaps between different countries are also shown in terms of unemployment rate, export and import amount, etc. [18]. These disparities magnify the economic imbalances between different EU members, and therefore, further impedes Europe's process of regional integration.

4.2. Evaluation on Current Policies and Recommendations

In order to cope with the potential economic damage and the enlargement of disparities brought by the pandemic, governments of different European countries implemented particular policies. Despite policies vary from country to country, EU as a regional political and economic union, also responded to alleviate COVID's negative consequences. For instance, EU has distributed its union budget to subsidize small and medium enterprises, and therefore, attempts to provide more job opportunities and mitigate the surging unemployment rate as a result of lockdown during pandemic [19]. However, this action has also raised concerns regarding how much fiscal support should EU distribute to different countries. In fact, unequally subsidizing and allocating union budget might enlarge the disparities between those countries' economic situations, which is unbeneficial to Europe's balanced economic growth in general.

Therefore, based on evaluation of current policies, conventional methods might not effectively solve the unpredictable economic strike impacted by the pandemic, in consideration of the integration trend in Europe and other time-specific factors. European governments can consider the following policies to further mitigate the issue. First of all, the budget EU allocated to enterprises did help many of them survive from the economic strike and did decrease the unemployment rate eventually. However, EU has to pay more attention on the distribution of its budget by assessing different countries' economic situation and to what extent the COVID-19 pandemic impacted on their economies, evaluate which of the countries need more financial aid, and predict whether the subsidy expands economic disparities. Secondly, governments can also provide financial support for exporters. Exporters play a crucial role in balancing domestic and international markets, especially during special period. They are also essential in maintaining the supply chain of critical goods, adapting to disruptions such as lockdowns.

5. Conclusion

At present, the European economic situation seems to decline gradually due to the impacts of COVID-19 pandemic, leading to profound thoughts about the history of economic prosperity and economic crises. This paper has delved into the evolution of neoteric and modern European economy history, analyzed the causes and consequences of the Golden Age, the GFC, and the euro debt crisis, evaluated current post-COVID era's economic downturn and policies made to cope with the decline, and provided some recommendations on how to minimize the negative impacts of the pandemic and boost economic recovery. In terms of historical analysis, this article points out the duality of the Golden Age, emphasizing the concealed flaws behind seeming highlights. This paper also evaluates European economic recessions and how the government responded to them to stimulate and promote recoveries. By reviewing multiple works of literature and investigating historical patterns and policy responses, the paper suggests that, in order to foster European economic recovery and prosperity and to

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strengthen the economic stability within EU, the European countries' governments or EU can distribute fiscal resources more fairly to mitigate disparities between different countries and provide financial and political support to exporters.

However, this study also has some limitations. The analysis largely depends on historical data and existing literature, and only picks some of the most representative countries in Europe, which may not fully capture recent economic dynamics and the various policies' impacts across different nations. Thus, future studies should focus on longitudinal analysis incorporating up-to-date economic data and policies. Also, more research can be done in terms of how non-European countries and international stakeholders leave impacts on shaping Europe's economic fluctuations.

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