Governance in International Perspective

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Major differences in the conditions for successful COVID-19 crisis management
— SGI findings shed light on states’ COVID-19 crisis vulnerability —

EU and OECD countries vary considerably in terms of their pre-crisis socioeconomic conditions. Their capacity for political reform also varies widely. These differences are likely to grow as the COVID-19 crisis continues.

As is abundantly clear by now, the COVID-19 crisis marks a watershed that will have a lasting impact on the socioeconomic and political development of countries everywhere for years to come.

Given the simultaneous decline in demand and production, the severity of the economic recession currently faced by the world’s advanced industrialized countries is much deeper than that suffered at the height of the 2009 economic and financial crisis. Current forecasts predict 2020 will mark the worst global economic recession since World War II.

The impact of this recession on society is expected to prove much more severe than that of a decade ago, as the current crisis is also fueling a major push for digital transformation and automation, which could rapidly accelerate the structural transformation of economies everywhere (see Petersen and Bluth 2020). In this context, the question of forward-looking labor market and social policies that are able to cushion the impact of such transformative change has not only shifted but acquired greater urgency.

Given the simultaneity of two developments, that is, of a crisis-driven squeeze on fiscal leeway and the pressing need to expedite the transformation of economies toward more sustainable and resource-efficient modes of production, the innovative capacity and sheer strength of economies are no longer the sole focus of attention in a crisis of this nature. The
governance capacity of states to shape society is now also a key issue of growing concern.

For the developing and emerging countries of the world, the COVID-19 crisis comes at what is arguably the worst possible moment in their political and economic development (see Hartmann 2020). But they are not alone in this regard. Many of the industrialized countries surveyed by the Bertelsmann Stiftung’s Sustainable Governance Indicators (SGI) project are also proving to be particularly vulnerable.

As our data shows, the capacity to combine future-oriented policies with equally forward-looking and inclusive governance is where EU and OECD states are drifting further and further apart.

**Sluggish economic growth in recent years**

Economic growth in most advanced industrialized countries had already slowed considerably before the outbreak of the pandemic.

Of all the SGI countries surveyed, Ireland recorded by far the strongest increase in prosperity since 2008, that is, before the economic and financial crisis. It is followed by Poland, Turkey, Lithuania, Malta, Romania, South Korea, Bulgaria, Hungary, Slovakia, Latvia and Estonia. Among the world’s major industrialized countries, the United States and Germany registered the strongest, though nonetheless moderate, GDP per capita growth (see figure).

In contrast, countries such as Norway, Luxembourg, Spain, Switzerland and Austria had seen hardly any appreciable increases in the level of prosperity over the same period. In Italy, Greece, Finland and Cyprus, per capita GDP had yet to return to its 2008 levels by 2019.

The economic recovery that took place in the remaining countries during the years following the economic and financial crisis brought them only moderate increases in their levels of prosperity.

For example, whereas Ireland’s real economic growth averaged 5.3 percent per year for the years 2009 through 2019, Germany’s annual rate averaged just 1.3 percent for the same period (IMF 2020a; Authors’ calculations).

**Green growth once again put on the back burner**

Before the pandemic, very few industrialized countries had already managed to combine increased economic output with advances in conserving natural resources and battling climate change. A significant increase in the efforts of EU and OECD countries is needed if SDG goals 12 (Responsible Consumption and Production), 13 (Climate Action), 14 (Life Below Water) and 15 (Life on Land) are to be achieved (Sachs et al. 2020: 40).

Only the Nordic countries and Switzerland have recently sought to link their increases in prosperity levels more bindingly to a relatively
ambitious reform agenda designed to protect natural resources. In these countries, efforts to set binding cross-sectoral targets followed by evaluations are facilitated by a particularly broad consensus on this issue in policymaking and society (see Armingeon et al. 2020; Pierre et al. 2020). Nonetheless, these countries must also step up their pace of reform if they are to achieve their ambitious targets.

By contrast, Israel, Germany and the United States sacrificed environmental protection efforts for gains in prosperity. Poland, Czechia, South Korea and Turkey also registered a marked decline in efforts to preserve natural resources in the period before the coronavirus outbreak (see figure).

Many countries have little fiscal leeway to sustainably contain the crisis

An important lesson drawn from the experience with economic rescue packages during the economic and financial crisis of 2009 is that they must be of a certain size (also in terms of duration and scope) if they are to have a stabilizing effect in the long term. In addition, when granting aid payments to industry, the government must manage its risk wisely, for example, by ensuring it receives a share of recipients’ future profits (Mazzucato 2020).

However, high levels of public debt in many countries effectively circumscribe their fiscal leeway in financing longer-term rescue packages to stabilize and sustainably transform an economy.

Before the COVID-19 crisis, smaller countries in particular demonstrated a strong capacity for fiscal consolidation. Ireland, Iceland, Malta, the Netherlands, Czechia and Denmark proved able to close ranks with the top performers in this area. By contrast, among the major industrialized nations, Germany was the only country to substantially reduce its public debt. Other major industrialized countries such as Japan, the European countries along the Mediterranean, the United States, Belgium, France, Canada and the United Kingdom had already abandoned the goal of sustainable fiscal policy before the coronavirus outbreak. Very high levels of public debt in many of these countries were climbing even further just before the COVID-19 crisis hit. In these countries, the stimulus measures needed to weather the crisis will create a back-breaking debt burden for future generations and tie the state’s hands for future actions (see figure).
Much therefore hangs in the balance in terms of the extent to which these countries succeed in implementing financial burden-sharing that is reliable and equitable both across generations and between the public and private sectors. The ability to effectively coordinate fiscal policy across all levels of government will also prove important.

In the United States, for example, ineffective policy coordination within the government was a key factor behind the weak countercyclical impact of the last economic rescue package introduced during the 2009 economic and financial crisis. The country’s lack of formalized policy coordination and the prevalence of fragmented fiscal data have only worsened the growing reliance on discretionary fiscal measures. In addition, the impact of many so-called automatic stabilizers such as Medicaid or unemployment insurance depended heavily on the financial resources of each respective state and the locally defined criteria for access to such means of support. Ultimately, the countercyclical effect largely fizzled out (see Rocco et al. 2020).

**Major differences in technological innovation capacity**

Given the narrowing scope of capacity for fiscal action, the question arises as to how well the various industrialized countries have succeeded in fostering technological innovation and the introduction of new products.

Among the world’s wealthy countries, the gap in innovative capacity between countries such as Sweden and Israel, which take the lead in this regard, and those at the bottom half of the table, is wide.
Outlook: Economic asymmetry increasingly apparent in the crisis

Even before the pandemic, we see clear differences in the broader extant conditions facilitative of a successful economic recovery. We can therefore expect the COVID-19 crisis to highlight once again stark differences in terms of economic performance among the surveyed countries.

In addition, manufacturing is not the only hard-hit sector; unlike previous crises, COVID-19 is dealing a serious blow to the personal services sector. Wholesale and the retail sectors, tourism as well as the arts and entertainment are being hobbled by a near-free-fall in demand (see IMF 2020b). Countries whose economic performance is particularly dependent on these sectors are thus suffering more severe economic downturns.

According to recent IMF estimates, Spain, the United Kingdom, France, Italy, Switzerland and Belgium are at risk of above-average declines in the level of prosperity. By contrast, smaller losses in living standards are forecast for South Korea, Poland, Turkey, Chile, Hungary, Estonia and Mexico (IMF 2020b; Authors' calculations).

As measured by the Gini coefficient of equivalized disposable income, income inequality was already at higher levels in 2019 in 20 countries before the onset of the coronavirus.
Since then, Bulgaria, the United Kingdom and Luxembourg have recorded the strongest increase on this measure. The largest declines were observed in Slovakia, Greece and Cyprus, with inequality in the latter two countries plateauing at a high level in 2013. The countries registering the most narrow income gaps at the end of 2019 were Slovakia, Slovenia and Czechia while Turkey, Mexico and Chile continue to record the widest gaps.

**Little progress and sharp disparities in social policy performance**

The ability to mitigate the negative social impact of the COVID-19 crisis through effective labor market and social policies also varies considerably among the industrialized countries. At the same time, the state of social policy sustainability has shown only marginal improvement (+0.1 points) across all countries on average since 2013, when the impact of the economic and financial crisis had reached its peak.

In 13 states, things have actually deteriorated. The biggest losers in this regard include the United States, the Netherlands and Poland, while the greatest gains can be seen in Turkey, Malta, Greece, Spain and Portugal. However, Turkey and Greece still rank among the bottom third of countries in terms of social policy sustainability. Among the top ten countries, Germany recorded a strong upward trend (7th place).

The top performers on this measure continue to be the Nordic countries and Luxembourg. At the bottom of the spread are the East European countries of Hungary, Romania and Bulgaria, as well as Mexico.

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**Despite growth in employment...**

Prior to the COVID-19 crisis, labor market trends were improving, despite overall sluggish economic growth. A closer look, however, reveals some major differences among the industrialized countries.

Compared with the peak of the negative impact of the financial and economic crisis in 2013, the unemployment rate in 37 countries had fallen, in some cases significantly. In Turkey and Chile, however, unemployment rates had already significantly increased before the coronavirus crisis.

The range in rates of unemployment within the industrialized world remains wide, with Czechia registering only 2.1 percent prior to the crisis and...

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1 2019 or last year for which data is available
Greece, despite its clear gains, recording the worst unemployment rate with an alarming 17.5 percent. Like Greece, the states of Spain, Portugal and Croatia had also made significant headway in reducing unemployment. In contrast, three rather wealthy countries – Sweden, Finland and France – were already marked as weak performers in this regard before the COVID-19 crisis hit.

Germany, however, featuring a labor market that had proved its robustness during the economic and financial crisis, was well-situated on the eve of the outbreak. In addition to having a comprehensive set of instruments at its disposal in the form of active labor market programs, the country makes use of subsidies for short-time work compensation that are effective in keeping employees on the payroll (see Rüb et al. 2020).

Although almost all countries recorded a reduction in youth unemployment before the outbreak, in the so-called crisis countries of Italy, Greece and Spain, youth unemployment had reached alarming levels above 30 percent (Eurostat Online Database).

On a more encouraging note with regard to demographic change, all 41 states surveyed have, since the peak of the negative impact of the economic and financial crisis in 2013, succeeded in integrating larger numbers of older individuals into the labor market. In the period from 2013 to 2019, the Eastern European countries Hungary (+18.8 percentage points), Bulgaria (+17.0 pp), Slovenia (+15.1 pp), Czechia (+15.1 pp) and Lithuania (+15.0 pp) were able to realize the largest increases in the employment of older people. Little progress, on the other hand, can be observed in Turkey (+2.1 pp), which ranks at the bottom by a wide margin with an employment rate among 55-65 year olds of 33.6 percent at the end of 2019. Further efforts are also needed in Greece to improve the integration of older people into the labor market. Although employment in this age segment increased by 7.6 percentage points over the 2013-2019 period, it remains at a low level of 43.2 percent (rank 39).

For example, Iceland, 81.2 percent of older people are in employment (Eurostat Online Database).

We also see grave differences between the states surveyed with regard to job quality prior to the outbreak. For example, the share of low-wage earners varies considerably across the 26 developed countries for which 2018 data are available (see figure). In the Baltic states, as well as Poland, Bulgaria, Romania and Germany, more than 20 percent of employees earn less than two-thirds of the national average for gross hourly earnings. In contrast, Sweden (3.6%), Portugal (4%) and Finland (5%) have the lowest share of low-paid workers. Compared to 2014, the low-wage sector had, by the outbreak in 2020, shrunk in 17 of the 26 states, and expanded in eight. The most significant changes during this period were observed in Portugal and Belgium. However, while the share of low-wage workers in Belgium grew from 3.8 to 13.7 percent:

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Unemployment rates, age group 15-64 years. Source: OECD Online Database. LFS by sex and age: EU28 countries & Eurostat Online Database. Unemployment rates by sex, age and citizenship (%) <30 (15 years) | BertelsmannStiftung

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Although almost all countries recorded a reduction in youth unemployment before the
between 2014 and 2018, Portugal saw a decline from 12.0 to 4.0 percent.

One reason for the decline in Portugal can be seen in the continuous adjustment of the monthly minimum wage observed since 2015 (see Jalali et al. 2020).

Another indicator of precarious employment is the share of involuntary part-time work in total part-time work. Although this share has been reduced in many countries, it has varied enormously, ranging from 4 percent in the United States to nearly 65 percent in Italy and Greece (Eurostat Online Database, OECD Online Database).

...not all groups benefited equally from the upturn

Despite positive trends in the labor market, the at-risk-of-poverty rate, which is the percentage of people whose equivalized disposable income is below the threshold of 50% of the national median equivalized disposable income, was higher in nearly half of the surveyed countries before the COVID-19 crisis ² than at the height of the economic and financial crisis.

This increase shows that not all groups in society have benefited equally from the upturn in labor markets. For example, from 2013 to 2019, Latvia recorded an increase in its employment rate of 65.0 to 72.3 percent while its at-risk-of-poverty rate increased from 12.9 to 16.2 percent over the same period (Eurostat Online Database).

Along with other factors, there are two effects that account for the asynchronous development of poverty and employment rates. First, the flexibilization of labor markets, which can be observed in almost all countries, has led to an increase in atypical employment such as fixed-term work, part-time work, solo self-employment and temporary work. Longer periods spent in these forms of employment are more often associated with a higher risk of poverty for a household over the course of a lifetime.

Second, the rapid pace of technological progress in recent years has exacerbated polarization effects in many countries’ labor markets. For example, the share of jobs for high-skilled and low-skilled workers has continued to grow, while jobs for people with intermediate skills have disappeared (OECD 2019). As a result, there is strong upward pressure placed on the importance of high-level qualifications.

² 2019 or last year for which data is available
How well a social system performs is to a large extent also reflected in the poverty rates of vulnerable groups, such as children or the elderly.

In 15 of the 41 EU and OECD countries surveyed, the risk of poverty for children and young people was, before the pandemic, already at a higher level than that recorded at the height of the social impact of the economic and financial crisis in 2013. The strongest increase was registered in Switzerland, where the percentage of young people at risk of poverty increased from 7.0 to 11.6 percent from 2013 to 2019. Before the onset of the coronavirus crisis, those under 18 were more likely to be at risk of poverty than the general population in nearly three-quarters of the countries surveyed. In 14 states, the risk of poverty for young people was more than 30 percent higher than the poverty level for the general population. There are enormous differences between the countries in this regard: While less than five percent of children and youth in Denmark, Finland and Iceland are at risk of poverty, this is true for more than 20 percent of the same age group in the United States, Chile, Israel, Bulgaria, Turkey and Romania. The greatest improvements made in reducing child poverty since 2013 were recorded in Greece (from 22.3% to 14.3%) and Poland (from 14.5% to 7.5%). One reason for Poland’s success can be seen in its introduction of the Family 500 program in 2016. Since April 1 of that year, families with two or more children have received a family allowance of PLN 500 (€116) for each child (Matthes et al. 2020).

The differences across countries with regard to the poverty risk for older people are even more worrisome. The range on this indicator fell between 1.2 percent in Norway and 43.8 percent in South Korea. Although the old-age poverty rate is higher than that of the total population in “only” 19 of the 41 countries surveyed, 25 states nonetheless show an increase since 2013. This increase is particularly stark in the Baltic states. In Latvia, for example, the at-risk-of-poverty rate among seniors has risen from 6.5 to 33.6 percent since the height of the financial crisis.

The economic downturn following the coronavirus crisis and the associated rise in unemployment will increase the risk of poverty in most EU and OECD countries. This will be true

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3 2019 or last year for which data is available
in particular for young people, as child poverty is closely associated with the employment status of parents (OECD 2020a).

Education: Rising standards, declining quality and significant disparities in access to digital learning opportunities

A key factor in navigating the economic crisis brought on by the pandemic involves ensuring uninterrupted educational progress across the population. Educational attainment heavily influences a person’s opportunities on the labor market and thus also relevant for social inclusion. It is therefore encouraging that 36 states registered a larger number of people with at least upper secondary attainment levels by the end of 2019 than they did in 2013. However, despite this trend, differences between the countries on this indicator remain substantial. While more than 90 percent of 25 to 64 year-olds in the Baltic states, Czechia, Poland, Slovakia, Finland, Canada and the United States have at least an upper secondary level education, this figure remains below 40 percent in Mexico and Turkey, despite the significant improvements observed in both countries (Eurostat Online Database, OECD Online Database).

When it comes to equitable educational opportunities, socioeconomic background continues to heavily influence educational attainment levels in several countries. To make matters worse, the weight of this impact is increasing in 16 states, which is a matter of concern. This impact of socioeconomic background is most severe in Romania, Belgium, Slovakia, France and Hungary (OECD PISA 2018).

The fact that the quality of education has deteriorated in nearly three-quarters of EU and OECD countries – as measured by the latest available PISA results for 2018 – does not bode well for successful crisis management efforts (OECD PISA 2018). The proportion of students who perform poorly in all three of PISA’s core subjects and thus face compromised opportunities for attaining a higher level of education has also increased significantly in the vast majority of countries (see figure). There are also considerable differences between countries on this indicator. While only 4.2 percent of students in Estonia scored poorly in all three PISA subject areas, this is true of nearly one in three youth in Bulgaria and Mexico (see figure).

In Estonia, the number of poorly performing students is low, and variations in terms of performance among students is also narrow. Factors accounting for this strong outcome

| Sustainable Governance Indicators |
|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 1 | Estonia | 3.52 | 3.52 | 3.25 | 3.74 | 3.74 | 3.74 |
| 2 | Canada | 6.16 | 6.16 | 6.15 | 5.94 | 5.94 | 5.94 |
| 3 | Japan | 5.12 | 5.12 | 5.92 | 5.92 | 5.92 | 5.92 |
| 4 | Poland | 5.71 | 5.71 | 5.71 | 8.27 | 8.27 | 8.27 |
| 5 | Finland | 5.55 | 5.55 | 5.35 | 6.27 | 6.27 | 6.27 |
| 6 | Ireland | 6.70 | 6.70 | 6.70 | 6.67 | 6.67 | 6.67 |
| 7 | South Korea | 4.35 | 4.35 | 4.35 | 7.67 | 7.67 | 7.67 |
| 8 | Slovenia | 5.56 | 5.56 | 5.56 | 8.27 | 8.27 | 8.27 |
| 9 | Denmark | 5.33 | 5.33 | 5.33 | 7.43 | 7.43 | 7.43 |
| 11 | Latvia | 8.29 | 8.29 | 8.29 | 10.82 | 10.82 | 10.82 |
| 12 | Spain | 10.27 | 10.27 | 10.27 | 10.33 | 10.33 | 10.33 |
| 13 | Sweden | 8.56 | 8.56 | 8.56 | 10.34 | 10.34 | 10.34 |
| 14 | Czechia | 8.56 | 8.56 | 8.56 | 10.34 | 10.34 | 10.34 |
| 15 | Switzerland | 7.76 | 7.76 | 7.76 | 9.19 | 9.19 | 9.19 |
| 16 | Netherlands | 8.26 | 8.26 | 8.26 | 10.10 | 10.10 | 10.10 |
| 18 | Australia | 9.18 | 9.18 | 9.18 | 11.11 | 11.11 | 11.11 |
| 19 | Norway | 11.00 | 11.00 | 11.00 | 8.93 | 8.93 | 8.93 |
| 20 | Belgium | 11.53 | 11.53 | 11.53 | 12.67 | 12.67 | 12.67 |
| 21 | France | 12.06 | 12.06 | 12.06 | 14.78 | 14.78 | 14.78 |
| 22 | Portugal | 12.56 | 12.56 | 12.56 | 17.74 | 17.74 | 17.74 |
| 23 | United States | 12.22 | 12.22 | 12.22 | 13.56 | 13.56 | 13.56 |
| 25 | Austria | 10.71 | 10.71 | 10.71 | 13.50 | 13.50 | 13.50 |
| 26 | Ireland | 11.04 | 11.04 | 11.04 | 13.18 | 13.18 | 13.18 |
| 27 | Italy | 11.56 | 11.56 | 11.56 | 14.78 | 14.78 | 14.78 |
| 28 | Lithuania | 12.07 | 12.07 | 12.07 | 15.83 | 15.83 | 15.83 |
| 29 | Croatia | 13.21 | 13.21 | 13.21 | 14.91 | 14.91 | 14.91 |
| 30 | Hungary | 13.10 | 13.10 | 13.10 | 18.82 | 18.82 | 18.82 |
| 31 | Slovenia | 18.77 | 18.77 | 18.77 | 20.10 | 20.10 | 20.10 |
| 32 | Turkey | 15.56 | 15.56 | 15.56 | 17.71 | 17.71 | 17.71 |
| 34 | Greece | 15.75 | 15.75 | 15.75 | 20.69 | 20.69 | 20.69 |
| 35 | Israel | 18.00 | 18.00 | 18.00 | 21.68 | 21.68 | 21.68 |
| 37 | Chile | 24.57 | 24.57 | 24.57 | 23.24 | 23.24 | 23.24 |
| 38 | Cyprus | 24.41 | 24.41 | 24.41 | 24.41 | 24.41 | 24.41 |
| 39 | Romania | 24.02 | 24.02 | 24.02 | 24.32 | 24.32 | 24.32 |
| 40 | Bulgaria | 26.97 | 26.97 | 26.97 | 30.15 | 30.15 | 30.15 |
| 41 | Mexico | 30.92 | 30.92 | 30.92 | 31.92 | 31.92 | 31.92 |

Students scoring below the baseline level of proficiency (level 2) on each of the PISA scales (reading, mathematics, and science) Source: OECD/PISA

BertelsmannStiftung
include a high participation rate of children in preschool education (95%), adequately paid educators, and various instruments of social support for students, such as free meals at school and school bus transportation (see Toots et al. 2020).

It is likely that school closures due to the coronavirus crisis will deepen divides in terms of the unequal distribution of educational opportunities among the states. This is in part a function of the fact that the degree to which education systems were prepared to deal with school closures by leveraging digital (distance) learning varied from country to country.

According to the 2018 PISA survey, on average only about half of the students in OECD countries attended a school that featured an effective online learning platform. The range in terms of preparedness on this issue is also enormous. While 90 percent of students in Denmark attend schools with such a platform, this is the case for less than one in four students in Luxembourg and Japan (OECD PISA in Focus 2020).

Access to digital learning varies considerably not only from country to country, but also within individual countries. For example, students at schools in socioeconomically disadvantaged areas are not only less likely to have access to digital learning at school, they are much more likely to lack a quiet place to study, a computer for schoolwork and an internet connection at home (OECD PISA in Focus 2020).

**Outlook**

The economic downturn associated with the COVID-19 crisis has since driven a significant rise in the average unemployment rate among OECD countries. Marking 5.3 percent at the end of 2019, the average unemployment rate is expected to rise to ten percent by the end of 2020, despite the introduction of massive government aid programs. This kind of a labor market crisis will affect in particular atypical workers, especially women and young people, because they generally work in less secure jobs and are heavily represented in those sectors hit hard by the crisis, such as tourism and hospitality (OECD 2020b).

Because atypical and self-employed workers account for up to one-half of all workers in those sectors hit hardest by the pandemic, the risk of poverty among these individuals is growing. They often lack job security and have limited access to unemployment benefits or other forms of government support (OECD 2020b).

States need to do all they can to ensure financial support for those most affected by the crisis while stabilizing their labor markets and making them more resilient. Should they fail to do so, the current employment crisis threatens to grow into a social crisis.

Social turmoil of this kind can fuel the rise of populist leaders and deepen the crisis of liberal democracy, as witnessed in the aftermath of the 2009 economic and financial crisis. 

**Political conditions not conducive to successful crisis management: Democracy under pressure**

The fact that EU and OECD countries are in no way immune to a gradual erosion of democratic standards was clear even before the COVID-19 crisis. No fewer than 24 of the 41 OECD and EU countries assessed in our annual expert survey have undergone at least some form of regression in terms of democratic standards since 2012/2013, when the negative economic and social effects of the economic and financial crisis reached their peak. Particularly in those aspects of democratic activity beyond elections, that is, media freedom, civil rights and political liberties, and judicial review, the scope of such activity in some countries had already been subject to massive restrictions even before the coronavirus outbreak.

In countries like Turkey, Hungary, Mexico, Romania and Poland democratic norms and institutions in areas regarding, for example, a free press and an independent judiciary are flawed. In some of these countries, the medical state of emergency prompted by the COVID-19
crisis was exploited to further erode democratic standards (Hartmann 2020).

In terms of the quality of democratic institutions and processes, three further countries – Bulgaria, Japan and Croatia – were, before the crisis, poised to join the group of states with defective democratic norms and institutions. The underpinnings of democratic institutions and processes in these three countries were eroding even before the outbreak. Japan, for example, no longer featured the effective means to hold the government accountable to its actions. Passing controversial laws such as the State Secrets Act in 2014, the government has severely curtailed reporting freedoms in a media landscape flattened by oligopolistic control. Judicial review in Japan is also weak and its institutions demonstrate bias toward the government. Finally, the Japanese parliament has proved itself less effective in being able to act as a check on government and has rarely demonstrated the capacity to effectively prepare policies or monitor policymaking. According to recent surveys, public trust in the government was therefore already severely compromised before the COVID-19 crisis (Pascha et al. 2020).

Moreover, democratic norms and practices in five countries that number among the long-established democracies – the United States, Iceland, the Netherlands, Australia and Israel – had already come under pressure before the outbreak.

As the recent presidential election in the United States vividly demonstrates, elections themselves are increasingly under attack by authoritarian populists. In addition to the significant restrictions placed on voter registration and strict identification requirements (Quirk et al. 2020), the election itself was overshadowed by incumbent Donald Trump’s efforts to undermine confidence in the legitimacy of the voting process by promoting baseless claims of alleged voter fraud (OSCE ODIHR and OSCE PA 2020).

**Political polarization drives democratic backsliding**

The sharp increase in the political polarization of politics and society is a key driver of the democratic backsliding observed in many countries.

In many parts of the world, political parties and governments committed to the fundamental values of liberal democracy have failed to formulate and implement policies capable of reversing the trend of widening economic gaps while also bridging sociocultural divisions.

As a result, growing numbers of people in societies everywhere feel increasingly disenfranchised and/or alienated from politics. These voters have generally either withdrawn from the democratic process or have turned instead to radical parties or politicians seeking a redress of their (perceived) grievances.

Party systems in many countries that were once dominated by two or three mainstream parties are therefore increasingly fragmented as more and more new parties are elected into the system. At the same time, ideological divisions both between and within parties have widened.

**Disinformation, a powerful weapon for populists**

In addition to these developments, authoritarian populists in many countries have succeeded in their efforts to deliberately deepen political and social divisions. Many governments were in a kind of permanent campaign mode before the COVID-19 crisis, which hobbled efforts to work out viable long-term compromises across party lines.

Disinformation has become a particularly effective weapon of choice among populist leaders, foreign actors such as Russian intelligence, and far-right groups. Social media has been leveraged to challenge democratic values, but also to deliberately foment conflict and chaos.
In this context of intensified political divisions, many governments – even before the crisis – have found it increasingly difficult to reach bipartisan deals and to forge practicable long-term agreements in policymaking.

Our data suggest that in nearly half of the developed countries – 19 out of 41 EU and OECD countries – political polarization had become a major obstacle to policymaking even before the coronavirus outbreak. In Israel, for example, severe polarization brought the government to a complete standstill (see Levi-Faur et al. 2020).

As our data show, a robust democracy and good governance often go hand-in-hand with sustainable policy outcomes (see figures).

This should not come as a surprise. In many respects, forward-looking policymaking depends on ensuring opportunities for democratic participation, proper oversight, civil rights and respect for the rule of law. Policies that prove effective in ensuring these aspects of democracy are essential to securing public trust in government activity over time.

This is particularly true in times of crisis. Without broad public support and trust in the government’s crisis response, even the best ideas will lack the traction needed to gain acceptance in practice. Confidence in the mechanisms and institutions of governance also enables societies to respond more resolutely and appropriately to change during a crisis.

On the eve of the COVID-19 crisis, many states were operating within an adverse set of democratic-legal conditions that were not conducive to forward-looking and courageous crisis management. This applies on the one hand to states such as Turkey, Hungary, Poland and Romania, where dysfunctional traits in the workings of democracy were already manifest. But it also applies to countries such as Bulgaria, Japan, Croatia, Israel, Slovakia, Iceland, the United States, the Netherlands and Australia, whose democratic institutions and processes have more recently come under severe pressure.

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4 A detailed assessment of the impact of partisan polarization on the political process can be found in the country reports, available at: https://www.sgi-network.org/2020/Downloads
In New Zealand, however, we see that the rise of authoritarian populism – with all its negative side effects – is by no means without alternative. In recent years, the country has repeatedly succeeded in forging cross-party compromises and coalitions, most recently between Prime Minister Jacinda Ardern’s Labour Party and the nationalist-populist NZ First party. In 2019, New Zealand became the first industrialized country ever to introduce a so-called well-being budget that funnels more budgetary resources to five priority aspects of well-being and uses indicators to measure the extent to which its goals are achieved (see Hellmann et al. 2020).

Wide variation in policy reform capacity

The state and its ability to govern have traditionally played an important role in crisis management. Key criteria of a government’s capacity to steer developments toward improvement in the face of crisis such as COVID-19 include its ability to assess the risks and socioeconomic impact of the crisis while drawing on this knowledge to quickly formulate and coordinate targeted measures that are then clearly communicated to the public. Implementing these measures while evaluating their impact on an ongoing basis are also relevant criteria.

However, we see here as well an ominous widening of the gap between the top performers in executive capacity (i.e., the Nordic countries and New Zealand) and the bottom half of states surveyed. One exception among the top performers is Australia, whose government has also recently shown a decline in its ability to steer the economy toward improvement.

Prior to the crisis, governments in Poland, the United States, Turkey, Slovakia, Italy, Mexico and Hungary suffered the greatest losses in terms of executive capacity. Along with Cyprus, Romania, Croatia, Bulgaria, Greece, Slovenia, Czechia and Belgium, these countries continue to number among those governments with the weakest capacity for effective governance.
In the context of the COVID-19 crisis, faltering executive capacity has been observed in the extent to which a government has proven able to take expert advice into account during the early stages of policy formulation.

In as many as 17 of the 41 industrialized countries, experts have only rarely been brought into the policy-development phase, and in those cases in which they have been involved, the process has been anything but systematic. This is true of large, industrialized countries such as France, the United States, Italy and Poland (see figure).

In Hungary, the Viktor Orban administration not only shut out the advice of independent experts, but even set up its own party-friendly network of experts and institutions that are primarily tasked with influencing public opinion to benefit the government (Ágh et al. 2020).

Positive trends reflecting the more frequent and systematic involvement of independent experts can be observed in Belgium and Latvia.

The industrialized countries fare even worse when it comes to the extent to which policies and measures are subject to regular evaluation and subsequently adapted. Governments in Belgium, Cyprus, Greece, Iceland, Luxembourg and Turkey have recently simply abandoned efforts to evaluate measures ex post.

Ex-post evaluations are rarely carried out in Slovakia, Romania, Portugal, Poland, Ireland, Hungary, Croatia, Bulgaria, Austria, Italy and the United States. If and when they are conducted in these countries, this rarely leads to any adaptation of the relevant policy measures.

A high standard of ex-post evaluation within the political process is found only in the United Kingdom, Switzerland and Finland (see figure).
A government’s analytical capacity – in terms of its policies and otherwise – is clearly essential to the quality of its crisis response. But its effectiveness in consulting key players in civil society, such as trade unions, employers’ associations, religious leaders, and those representing environmental interests and welfare associations is also just as important. Involving these actors in the process generally ups the quality of a crisis response and helps secure public support for measures introduced, particularly when it comes to implementing them.

Norway and Switzerland are the clear top performers with regard to this SGI criterion. However, even these two flagship countries recorded backsliding in societal consultation prior to the pandemic (see Armingeon et al. 2020; Sverdrup et al. 2020). In 13 industrialized countries, by contrast, this form of inclusive governance was effectively absent in recent years. Civil society groups in Hungary, Turkey, Romania, Poland, Greece, Italy, Croatia, the United States, Slovenia, Slovakia, Portugal, Cyprus and Bulgaria have either not been involved in any way whatsoever or, if they have been consulted, this process has usually been a product of clientelism or some other form of patronage.

Worryingly, governments’ capacity to achieve their own goals has also declined in many countries since 2013. Our experts’ findings show half of the states surveyed performing worse in terms of government effectiveness. In no less than 16 countries, including the United States, Slovakia, Romania, Mexico, Cyprus, Croatia, the UK, Spain, South Korea, Slovenia, Italy, Hungary, Greece, Czechia, Chile and Belgium, the vast majority of government-set targets were not met.
Germany, however, proved able to join the top performers here, which includes Switzerland, Sweden and Latvia (see figure).

When considering those factors relevant to ensuring effective implementation, we see a worrisome state of affairs if we look not only at the issue of self-set goals but also the quality of organizational, procedural and fiscal implementation activity. Our country experts point to no fewer than 27 countries that have taken major steps backward in this regard since 2013.

The implementation capacity of Cyprus, Romania, Croatia, Slovakia, Bulgaria, Greece, Mexico, Slovenia, Hungary, the Netherlands, Turkey, Malta and Italy was weak before the coronavirus crisis.

The gap between the top performers and laggard states on this criterion has widened considerably (see figure).

A look at the strategic capacity of governments to learn from these implementation failures, identify organizational and procedural deficits, and to redress them by reforming the institutional arrangements of governance suggests that the gap between the top performers and laggard states will continue to widen rather than narrow during the COVID-19 crisis (see figure).
Conclusion

The COVID-19 crisis is functioning as a litmus test of wealthier democracies’ future viability in the wake of the 2009 economic and financial crisis.

As shown in this policy brief, the economic and health crises triggered by COVID-19 is hitting many developed countries at a vulnerable juncture on their path toward a more economically and politically sustainable future. For it is precisely on this point – their ability to develop and effectively implement forward-looking economic and social policy solutions – that the EU and OECD countries have begun to drift even further apart from each other.

Many tasks taken up since the economic and financial crisis, such as reducing the deficit, sustainably transforming the economy, and developing social security systems able to keep pace with the effects of digital transformation, remain largely unfinished. Since the economic and financial crisis of 2009, the reform backlog in many policy areas has grown dramatically. It is thus to be expected that the COVID-19 crisis will continue to ruthlessly expose and magnify the differences and shortcomings addressed here.

The fact that the capacity for reform has diminished further in many countries is also distressing. Since the economic and financial crisis, only three (Sweden, Denmark and Canada) of the top ten countries have been able to increase their political and administrative steering capacity, and this only marginally. However, either a standstill or further backsliding in this area was recorded in most, that is 26, of the countries surveyed. And this at a time when crisis management demands such capacity.

OECD and EU states face a particular challenge in proving their ability to protect and deepen liberal democracy’s operational capacity while ensuring and developing civil society’s ability to effectively monitor government actions, particularly in times of crisis. Meeting this challenge will require an unprecedented demonstration of sociopolitical commitment if governments are to ensure that the economic and health crises arising from the COVID-19 crisis do not develop into a perfect storm of social and political turmoil.

Finding viable policy solutions able to bridge the economic and sociocultural divides within society demands that all political and civil society actors committed to the fundamental values of liberal democracy work together in achieving this goal. We also need a shared understanding of democratic norms as well as more effective mechanisms in place to stop anti-democratic efforts to break taboos (Levitsky and Ziblatt 2018).

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The Transformation Index assesses the quality of democracy, market economy and governance in 137 developing and transformation countries on a biennial basis.

The Sustainable Governance Indicators (SGI) assess the policy performance, democratic quality and governance capacity of 41 OECD and EU countries on an annual basis.