



The puzzle of post-pandemic recovery, transatlantic relations and European solidarity

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Abstract

Motivation: The coronacrisis has highlighted the fragility of the highly interdependent world economic order. The economic recession following numerous lockdowns weakened the position of the West in the geopolitical arena. Thus economic recovery is a must, though its significance for the US and the EU differs considerably.

Aim: The paper aims to discuss the state and prospects of transatlantic relations in the era of new challenges posed in front of the US and the EU. We have selected two main issues: the incremental rivalry between the US and China, and the solidarity principle within the EU. The departure point for the analysis is the assumption that the tightening of economic cooperation between the US and the EU seems desired, but it might also lead to socioeconomic consequences questioning European solidarity in the long term. We employ the perspective of institutionalist political economy to understand the interplay between actors and the rules they create. We assume thus that actors pursue their goals, but must take various limitations into account. We also refer to the literature on economic policymaking and economic systems.

Results: Under possible regionalization of the world economy after the COVID-19 pandemic, transatlantic relations will be under pressure to generate growth. As far as the US is willing to embrace this imperative, the EU might face the dilemma between struggling for better economic performance and rebuilding solidarity between member countries.

Keywords: national interests; economic growth; economic cooperation; solidarity principle

JEL: F52; P16; I38

1. Introduction

This essay discusses the state of transatlantic relations in the most recent years. We still can't predict how deeply the pandemic will change the world. We know, however, that there will be no return to the pre-pandemic reality. Not only in the sense of civil liberties, but also in the geopolitical dimension. The pandemic has only temporarily slowed down the pace of China's development and rise in power, while its consequences for the Western world may turn out to be much more significant and long-lasting. The presidency of Donald Trump ended an era in relations between partners on both sides of the Atlantic. The Europeans realized that they could not take the US friendship unconditionally, and the Americans acknowledged that their substantial interests now lie in Southeast Asia. At the same time, both the US and the EU faced new geopolitical challenges. The States no longer have any doubts that China has started questioning their leadership and president Biden has started constructing an international coalition that will allow the Western world to maintain its peak position. The authorities of the EU have become aware that European nations are lagging in technological advances and economic growth in comparison to the US and China, and that the internal cohesion within the EU is fragile, which casts a shadow on its prosperous future.

In this paper we attempt to link two important issues determining policies on both sides of the Atlantic, i.e. geopolitical interests of the United States and the solidarity principle of the European Union. At the first glance, there seems to be little connection between these two, but we intend to show that these two may collide, which will heavily influence the post-pandemic order and transatlantic relations. Thus the paper is a critical reflection on selected challenges that the US and the EU are about to face in the nearest future.

The paper is organized as follows. The next section briefly presents the method applied in the paper. The following two sections discuss relevant literature and by doing so sketch the background for the main analysis: section three focuses on the shape of transatlantic relations during Trump's presidency and first few months of Joe Biden at the office, and section four shows the gradual devaluation of the solidarity principle within the EU. Section five concentrates on policy responses that US and EU authorities activated against the recession caused by the COVID-19 pandemic. Section six discusses the possible consequences of post-pandemic recovery for transatlantic relations drawing on geopolitical and structural circumstances. Section seven concludes.

2. Method

In methodological terms, the paper is based on institutional political economy, which allows for an analysis of international relations in terms of rules created and sanctioned by actors. We perceive states as interdependent agents with goals of their own. However, political and social limitations need to be taken

into account while pursuing national interests. Also, the interests of various countries may conflict creating a new environment for decision-making. We also refer to the economic literature on policymaking and structural features of various economic systems.

3. Transatlantic relations after Obama

The presidency of Barack Obama marked the end of the era of neoliberal consensus and political partnership in transatlantic relations. Under his successor Donald Trump the relations between the US and the EU entered a phase of verbal conflicts and diplomatic tensions. Trump pursued the “America First” agenda, which preached the idea that the national interest of the US should determine foreign policy as well as American involvement in trade with foreign partners and multilateral organizations (Dufour & Ducasse, 2020). Thus Trump expressed mistrust toward long-time allies, with whom the United States established post-war institutional order (Langlois, 2018). Even if most of these controversies and declarations were never translated into real policy-making and American diplomats struggled to conceal President’s indiscretion, the atmosphere of cooperation, sharing liberal values, and designing common visions was spoiled. European leaders had to face the previously hard-to-believe possibility that the West might divide into two non-cooperating camps if the US decides to prioritize national interest over the attachment to common values.

Concerning Europe, Trump’s administration focused on three main issues (Dimitrova, 2020). The first was related to the divorce between the UK and the EU. Trump openly supported Brexit even though it could weaken politically both the US and the UK with the former losing its most influential advocate within EU structures and the latter facing unclear status in international relations and economic ties (see Sampson, 2017; Wilson, 2017). Nevertheless, Trump called Brexit a “great victory” of the British nation, which would allow for restoring the true sovereignty of Great Britain. Thus, contrary to all of his predecessors in the post-war period, Trump favored the disintegration of the EU presuming that a divided Europe would suit US interests better than a united and prosperous one.

The second issue referred to NATO and security policy in Europe. From the very beginning of his presidency, Trump was openly critical toward NATO perceiving it as an “obsolete organization” in which the US share of financial burden was disproportionately high in comparison to the contributions of European partners (Kaufman, 2017, p. 263). At one point Trump suggested that the American military umbrella should depend on the financial contributions of particular countries, which could be translated as an expectation that the EU should pay for protection.

The third contestable area was trade relations between the US and the EU. According to Trump, the existing relations were based on “outdated and imbalanced trade agreements”, and as such they were not beneficial for “American

worker”. Also, European partners used “unfair trade practices” which harmed US interests. Trade relations should thus be redefined and renegotiated so that US companies would no longer be disadvantaged doing business with European partners. As a consequence, a temporary return to trade protectionism and waging trade wars (which are “good and easy to win”) was necessary. In effect, in 2018 Trump imposed tariffs on imported steel (25%) and aluminium (10%) and one year later on numerous European food products (including whisky, wine, cheese, and olive oil) as well as on Airbus airplanes (Perrigo, 2019).

Trump’s reluctance to continue trade liberalization with the EU might have been inspired by a longstanding negative trade balance between the US and its European partner. According to Eurostat American deficit in trade in goods amounted to 152.6 billion EUR in 2019 and had been growing steadily since 2009. US surplus in trade in services (55 billion USD in 2018) was too small to balance out this tendency. It was thus hardly surprising that Trump froze negotiations over Transatlantic Trade and Investment Partnership (TTIP) project initiated during Barack Obama’s presidency. Despite the high hopes of economists concerning potential boost in growth, increase in global trade, and creation of new jobs, TTIP was silenced out as it did not fit the mercantilist vision of a zero-sum game in which the US was apparently losing.

Trade relations were not the sole reason to start the argument with the EU. There were many other diplomatic misunderstandings and geopolitical factors that drove the partners away (Brattberg & Whineray, 2020). In Trump’s perspective Europe was not playing as a team with the United States, but was gradually becoming its political and economic rival. Thus, the deepening of European integration was perceived by Trump as a threat to US interests (see Riddervold & Newsome 2019, pp. 509–511). Firstly, the EU managed to act independently in the international arena and it no longer needed the support of the United States. Secondly, the EU countries were able to formulate a single common position on the actions of the US, which indicated greater bargaining power and made it difficult to exploit the potential disharmonies between them. Third, the European Union has become an economic superpower, which has surpassed the US in terms of GDP. In sum, European countries managed to build their geopolitical position and have weakened their dependency on the US. Even if the EU had not turned its back on the US, it was now capable of doing so. It was necessary to forestall this move and take the first step.

Joe Biden’s victory in the presidential election in 2020 has raised hopes for a reset in transatlantic relations. Before taking the office, Biden (2020) declared that “America must lead again” and address global challenges such as climate change, mass migrations, technological disruptions, and “advance of authoritarianism, nationalism, and illiberalism”. He also promised to “renew US democracy and alliances”, including the partnership with European countries. China was no longer a challenger only, but a rival and a partner at the same time.

After four months of Biden's presidency, American commentators show optimism on reaffirming the transatlantic alliance after Trump's thorny period, even though they admit that some tensions still need to be repaired (Brattberg, 2021). In contrast, European partners suggest that Biden's words and actions diverge (Shapiro, 2021). On the one hand, there is no doubt that the general climate of diplomatic talks has deeply improved. On the other hand, Biden seems to be focused on global rivalry with China and European countries realize that they might be used instrumentally in this encounter. An informative example of such realpolitik might be the decision not to sanction the construction of Nord Stream 2 despite the expectations of many European countries. This project will bolster the German economic and political position, but this may be the price Americans are willing to pay for Germany to join an anti-China coalition. Moreover, so far Biden did not lift tariffs on European products imposed by his predecessor and kept traveling restrictions from the Schengen zone in place. He is also trying to seize the moral high ground, which the EU has always used as an important asset in diplomacy (Vela, 2021). In this vein, he openly criticized Chinese persecutions of minorities, put forward an ambitious proposal of world corporate taxation, and started the debate on easing intellectual property rights on COVID-19 vaccines. This way he makes European "soft power" look even softer.

One can hardly observe a U-turn in economic policy either. The 'Buy American' program announced by Biden just a few days after taking the office has an apparent protectionist overtone, just like his other political strategy 'Foreign policy for the middle class'. Trump exploited middle-class anger, whereas Biden seems to have a plan to embrace it and search for remedies bearing in mind that only when America solves its internal problems, it may take the leadership of the liberal democratic West. Biden's initiatives move away from neoliberal tenets, aiming at the welfare of (middle-class) Americans and not GDP growth only (Brands, 2021). That said, there is little chance of returning to the idea of transatlantic free trade agreement pursued by the Obama administration (Brattberg, 2021). For the time being, Biden's economic policies rely more on fiscal and regulatory incentives to promote welfare and boost job openings than on potential gains from transatlantic free trade and investments.

President Joe Biden is pursuing to restore US leadership on the world stage, but a return to Obama-era transatlantic relations now seems to be a pipe dream. Also, the much-awaited reset in relations between the US and the EU may turn out to be a hard nut to crack for Europeans. The world has changed over the last four years and clicking the rewind button is not a viable option. Pessimistically speaking, the Americans might have lost faith in the EU's geopolitical agency (Shapiro, 2021). The US and the EU will praise common values, laud historical ties, and celebrate diplomatic talks, but not necessarily share hard interests. Moreover, the EU realized that there is no guarantee that Trump was just an episode that would not happen again. So it cannot unconditionally assume US friendship. There is no doubt that Biden is not Trump in terms of personal style,

political unpredictability, and disregard for global challenges. But a country's foreign policy is determined by its interests, not by the personality of a political leader. Here Biden may be closer to Trump than we think.

4. The dilemmas of European solidarity principle

It was not only the US outlook on economic and geopolitical priorities that have changed lately, but new issues have opened before the European integration project as well. The EU ceased to be a technocratic project of political elites and specialists or a playing field for governments only, which made an average citizen alienated from top-shelf decisions and processes. In recent years other voices have entered the debate: populist, Eurosceptic, and reluctant to further integration. As Hooghe and Marks wrote (2009; 2019) the “permissive consensus” over European integration turned into “restraining dissensus” as the technocratic issues of unification became politicized and sensitive European issues were exploited by national parties. The discourse has shifted from economic and legal questions to the emphasis on identities, group welfare, and territorial communities. The subject of European solidarity, previously considered by the elites to be fundamental to successful integration, also became an item of political bargaining.

Solidarity, in general, can be defined as “mutual acceptance, cooperation, and support in times of need, which transcend ethnoreligious differences, operate at a societal scale and have civic, democratic and redistributive dimensions” (Banting & Kymlicka, 2017, p. 6). In other words, it is not about verbal support and public declarations in good times, but about crises, when there is a need to rise above particular interests and prejudices. European leaders have often advocated that the virtue of solidarity should never become an empty slogan, but be perceived as a tool for solving vital challenges in times of globalization by pooling the risks together and taking responsibility for our common fate (Sangiovanni, 2013, p. 29). This is the reason why the solidarity principle has entered so many dimensions of EU policies: economic, financial, security, energy, welfare, and many others. Ferrera and Burelli (2019) note that the EU has already reached such a level of political and economic complexity that the lack of solidarity between members only strengthens centrifugal tendencies. Meanwhile, it is the Union's best bond when the decision-making and administrative structures of the EU are struggling to overcome the challenges faced by the organization.

Alas, national interests resulting from economic calculations, political gains or aimed at calming public opinion have repeatedly undermined European solidarity. On the one hand, the EU has dealt with similar crises in the past (Nugent, 2017, 1–18), but on the other hand, one of the key principles has now been challenged in a situation where some countries needed it. For some the EU has divided into those who gain from integration and those who lose, which is at odds with the fundamental values on which the EU was founded. As indicated

by Ciornei & Ross (2021, p. 209), three events in recent years — Eurozone debt crisis 2008–2012, asylum seeker crisis in 2015 and COVID-19 pandemic started in 2020 — have shown that solidarity within the union has its limits, and nation states remain the main players when the national interest is at stake.

The Eurozone debt crisis is a good example of the dispute over EU economic solidarity. Among several scenarios put forward to solve the crisis, the one that shifted the costs of the crisis to the southern countries was followed, causing a long-term economic downturn and internal devaluation (see Frieden & Walter, 2017). Restoring the competitiveness of the South has been expensive and so far not particularly effective, not to mention the fact that the pandemic has nullified much of this effort, highlighting the lack of structural change in the south. Paradoxically, the chosen direction was determined not so much by economic arguments as by moral convictions (debts must be paid back mantra), forcing southern countries into a blind alley. This sparked a wave of disappointment and questions about genuine European solidarity, which lost out to the economic interests of the northern countries (Varoufakis, 2016).

The outbreak of the pandemic at the beginning of 2020 provoked a return to national perspectives, which was manifested, among others, by closing borders, although this did not prevent the virus from spreading. More importantly though, the financing of anti-crisis measures has become an important controversial factor. The countries that suffered the most during the first wave of the pandemic, i.e. France, Italy, and Spain, requested in March 2020 to issue ‘coronabonds’ as a collective debt of the Eurozone. However, several countries (including Germany, the Netherlands, Austria, and Finland) opposed the idea. Another attempt of allocating 110 billion EUR to the hardest-hit countries put forward by Ursula von der Leyen, was opposed by the so-called Frugal Four (Austria, Denmark, the Netherlands, and Sweden) advocating tight fiscal policies and rejecting debt mutualization. It is no wonder that many of the Southern countries were disappointed by this outcome and called European solidarity into question again.

The situation changed in July 2020, when the European Council agreed on the Next Generation EU recovery fund amounting to 750 billion EUR to support economies suffering from pandemics and lockdowns. The package will be financed by the collective debt bonds and fiscal revenues. It is expected to boost jobs, reinforce social and economic resilience, and support green and digital transition in the EU. 390 billion EUR will be available in grants and 360 billion EUR in loans. The biggest beneficiaries of the recovery fund will be the countries of Southern and Central and Eastern Europe, i.e. Italy, Spain, Poland, France, Greece, and Romania. It is worth noting, however, that although solidarity somehow revived, some countries used the possibility of vetoing this financial plan to exploit the issue on national political arenas (Oxford Analytica, 2020). Amazingly, European solidarity became a hostage of the national interests of two countries, which belong to the group of net-recipients of the program.

All the above suggests that EU solidarity is issue-specific rather than identity-specific (Genschel & Jachtenfuchs, 2021, p. 16). Concerning the debt crisis in the Eurozone, the solidarity was on a low level, but when it came to rescuing economies harmed by the pandemic, it was revived. This time the Commission found it necessary to help out those, who had accumulated high debt. General agreement in this matter might have been a result of the fact that northern states have experienced the pandemic too creating the feeling of unity instead of the divergence between creditors and debtors. However, one should note that the agreement on debt mutualization took place despite the lack of fiscal union, which might cause even deeper misunderstandings in the future (Herzog, 2020).

5. Responding to the pandemic: US and the EU on divergent paths?

What countries on both sides of the Atlantic have in common is that the pandemic lasts there much longer than in the place it originated, i.e. South-East Asia. Even though the first cases of COVID-19 were identified in Wuhan, China in December 2020, the disease has been successfully repressed there by March 2021. Since then only a handful of cases is being diagnosed there every day. Harsh measures proved effective and the highest number of cases was noted in summer 2021 in India, Brazil, and Colombia. However, the US and the EU are still struggling with the pandemic and economic consequences of lockdowns. As for China, the pandemic only temporarily slowed its economic expansion. In 2020 Chinese GDP grew by 2.3% and is expected to grow by over 6% in 2021 (BBC, 2021). In these circumstances, the state of transatlantic relations is pivotal for the future of world political leadership.

Economies of both the US and the EU have experienced much deeper recession than China. In 2020 GDP of the former has contracted by 3.5%, whereby in the second quarter it plummeted by a disastrous 31.4% (BEA, 2021). Economic contraction translated into a calamity on the labor market as unemployment escalated from 3.5% to 14.7% between February and April 2020. Many people have not only experienced dismissal, but also loss of health insurance, and faced the threat of eviction (Bauer et al., 2020). In the EU GDP fell by 6.4% in 2020 and unemployment rose from 6.4% in March to 7.8% in August according to Eurostat. Despite the deeper contraction, the EU managed to avoid uncontrolled rise of unemployment. However, in both economies some sectors — mostly those dependent on human contact and interaction (i.e. cultural & creative, aerospace, and apparel) — have not only taken the greatest hits but are still going to experience an extended period of insecurity and risk of another shock (Bauer et al., 2020; de Vet et al., 2021, p. 8). Only a few branches thrived during the recession (digital and health), whereas some managed to recover relatively quickly (construction, chemicals, and food & drink production).

Being aware of the possible consequences of lockdowns, authorities of the US and the EU economies reacted with bold monetary and fiscal policies to mitigate the nuisance as much as possible. On the monetary side, both the US and the Eurozone were limited with a zero-lower bound. ECB's refinancing rates remained on a historic low of 0% since September 2019. Monetary stimulus focused thus on bond-buying program amounting up to 1.85 trillion EUR. With inflation prospects remaining low, credit flow was expected to encourage spending and investment. In the US Fed slashed the interest rate in March 2020 from 1.75% to 0.25%. It has also announced an open-ended bond-buying program for Treasury and mortgage-backed securities as well as corporate bonds to ensure that the credit market runs smoothly. In effect of these measures, both ECB and Fed experienced massive balance sheet growth — by almost 40% and 70% respectively until July 2020 (Imbert, 2021).

Because of the limited potential of monetary policy, much more was expected from fiscal stimuli. In the US a package of measures was implemented under the CARES Act already in March 2020, which injected 2.2 trillion USD into the economy, mostly in the form of one-time payments and temporary unemployment benefits. One year later Joe Biden has signed another stimulus package of 1.9 trillion USD aimed at federal investments in infrastructure and clean energy, but also providing direct payments to low-earning Americans and extending unemployment benefits (Politi, 2021). Both packages constitute an infusion worth 19% of US GDP.

The reaction of the EU authorities was much slower with regard to fiscal stimuli, primarily because of a lack of proper mandate and limited funds. In the beginning it concentrated mostly on coordinating policies aiming at controlling the spread of the virus, provisioning medical equipment, and promoting research on vaccines. Only in April 2020 talks on a recovery fund, described in more detail in the previous section, started. Thus, the burden of responding to the contraction was left to national governments. National programs concentrated mostly on discretionary support providing safety nets on labor markets and supporting the business during lockdowns. By June 2020 1250 fiscal measures were implemented by national states amounting to 3.5 trillion EUR (27% of EU GDP) (de Vet et al., 2021, p. 53). The extent and efficacy of governmental assistance were limited by the country's fiscal space and the structure of the economy. Among the countries with the highest packages in terms of percent of GDP were Germany (43%), Italy (37%), France (23%), and Spain (22%). The modest financial measures launched by the EU were channelled to finance health-related spending under Pandemic Crisis Support and to protect workers and jobs under the SURE scheme (IMF, 2021). The European Commission has also activated the escape clause from the Stability and Growth Pact allowing for more flexibility in national fiscal policies. However, due to time-consuming procedures the most important anti-cyclical measure, i.e. the Next Generation EU recovery fund, has not started as of fall 2021 and is expected to bring first results not earlier than in 2022.

The economic authorities of the US and European countries responded to the recession in line with textbook recommendations focused on stimulating demand. The steps taken were similar, even though slight variations in the design of the aid programs could be observed. What is more important though, is that despite general similarities in tackling the COVID recession, structural and institutional features of both economies might produce various results. Economic literature has long recognized the systemic differences between national economic models. Probably the most influential research on this issue has been done by Hall & Soskice (2001), who introduced the division between liberal (LME) and coordinated (CME) market economies. In this paper, we will equate the US economy with the former and the EU economy with the latter, although we are aware that this might be simplifying for some European economies.

According to this approach, the pre-existing modes of market governance and policy-making influence, among others, the ability of economies to react to stimuli and adapt to changing circumstances. Roughly, one could say that the liberal market economies are more volatile (easier to hire, easier to fire), but they also reallocate labor much faster creating long-term benefits. A strong downturn is usually followed by a fast recovery, but the costs of the adjustment are borne mostly by labor. In contrast, coordinated market economies tend to protect workers and preserve the standard of living, at least in a short time. This approach is sustainable, however, only if a crisis is short-lived. The main disadvantage of this policy is that structural adjustments last much longer and might stunt economic recovery.

During the COVID-19 pandemic, governance responses were largely in line with the findings of the literature. As Fligstein and Vogel (2020) noticed, the fundamental contrast between the US and European¹ approach occurred in the power struggle between capital and labor. The US authorities overtly favored big business, which manifested itself in the reluctance toward lockdowns and preference for the continuation of business activity. US federal package discriminated against long-term job protection and provided only short-time unemployment benefits. The system also left many people uninsured. The rescue funds were allocated through Small Business Administration, which ‘led to inefficiency, inequity, and fraud’ as not all recipients needed it. At the same time, massive liquidity was provided to financial markets and purchases of financial assets fueled stock markets protecting shareholders. European programs, in contrast, were aimed primarily at sustaining spending and employment. Fiscal support was more targeted and run by automatic stabilizers. Also, European public health care services were able to face the virus more effectively in terms of testing and distancing.

Recent economic data seems to confirm the predictions on the nature of recovery (Amaro, 2021; Arnold & Politi, 2021). The US economy is expected to grow by 6.4% in 2021 after contracting by 3.5% the year before. Economic

¹ It should be noted here that Fligstein & Vogel (2020) relate to Germany as the leading reference.

rebound in the Eurozone will be slower (4.4%) after a deeper recession (–6.6%). Although this claim needs detailed studies, the US prevalence might be attributed to prompt fiscal stimuli and faster structural adjustments of the economy. Similar effects are to be observed on the labor market. Despite the sudden upsurge of the rate of unemployment after the outbreak of the pandemic, it managed to fall to 10% already in July 2020, and by September 2021 it has been reduced to 4.8%. The rate of unemployment in the EU is only 1.1 percentage points lower than one year ago (6.7% in September 2021). The epidemic situation is also more promising for the developments in the American labor market. Before summer 2021 almost 45% of the population has already been vaccinated, whereas in the EU only 25% (Our World in Data, 2021). It might allow avoiding another lockdown in the case of future waves of the disease as well as facilitate the functioning of the vulnerable branches of the economy. Also, a higher level of savings in the US amassed during lockdowns allows to predict that the consumption impulse might be more robust than in the EU.

6. Discussion: the predicaments of growth and cooperation

There is no doubt that in the coming years, whether the COVID-19 pandemic is over or not, both transatlantic partners will desperately need growth. Generally, economic growth comes helpful in dealing with the consequences of a recession — it is supportive in stabilizing labor markets, paying off debts, restoring aggregate demand, and calming down social tensions. However, this time the stake seems much higher. For the US economic growth will be crucial for reaffirming its leadership of the West, which includes strengthening its position in the global economic race against China and sustaining the faith in liberal democracy as the leading political system. Moreover, it might also alleviate internal tensions deriving from growing inequalities and falling standard of living for many Americans. For the EU restoring economic growth will be important for two other reasons. First, it will have the potential to ease (at least to some extent) the division between well-performing North and troubled and indebted South either by reestablishing demand for southern production or by developing a surplus that could be redirected to South as transfers or investments. Second, restoring growth should help the EU in keeping up with the technological and structural changes taking place in international markets thus allowing it to compete globally and preserve its geopolitical position.

Many scientists agree that regionalization of the world economy is a distinct possibility in the post-pandemic world (see Enderwick & Buckley, 2020; Wang & Sun, 2021), which brings the question of transatlantic rapprochement after Trump's presidency back on geopolitical agenda. It seems inevitable that China will outcompete the US and the EU in terms of GDP in a few years to come. However, this process could be slowed down by Western states if solid growth is restored. Even though transatlantic alliance has been usually perceived as a community of values, it is clear now that economic relations are no less impor-

tant. The project of Transatlantic Trade and Investment Partnership was shut down by Donald Trump because he perceived the EU as a rival. Today, president Biden sees the EU as an important ally and seeks deeper cooperation. Even if he precludes direct reactivation of TTIP, one should remember that according to the report by the Centre for Economic Policy Research (CEPR, 2013), one of the expected benefits of TTIP was GDP growth increase by 0.5 and 0.4 percentage points annually for the EU and the US respectively. It would also increase disposable income of families by at least 550 EUR each year on both sides of the Atlantic. These numbers are not to be scorned at and it cannot be ruled out that a similar agreement might return under a different name sooner or later.

Yet for the time being a major question is how does the EU fit into US geopolitical strategy? Can the US actually afford the European economy to fall behind after the corona pandemic? As it appears, the American recovery package is much more ambitious than the European (Sandbu, 2021), which might result in the gradual marginalization of the EU in the international arena. Moreover, Biden plans to spend as much as 8.2 trillion USD by 2031 on public investments in infrastructure, education, health service, and energy transformation (Tankersley, 2021). The greatest spending program since II World War is expected to lift US industry and increase American competitiveness on global markets. The challenge of regaining the leadership is taken seriously by president Biden and the scope of New Generation EU seems bleak in comparison, even if planned national investments of EU members are still unknown. Nevertheless, several gestures from president Biden might signalize that the new rapprochement between the US and the EU is already on its way. The main points of the renewal of transatlantic cooperation include ending of ‘artificial trade war’ with the EU initiated by Trump, focus on strengthening cybersecurity and imposing regulations on Big Tech corporations, and designing and implementing environmental regulations fighting climate changes (Brattberg, 2021). The most significant issue is, however, the need to work out a common position on the relations with China. Because in May 2021 the EU has frozen talks with China on the Comprehensive Agreement on Investment, which was being prepared since 2013, it seems that Biden’s diplomacy is bringing the desired results. At the same time, the US and the EU are preparing to announce an agreement on a partnership around trade and technology, which is expected to provide them with stronger footing to promote democratic values and digital standards as well as countervail China’s domination in the tech sector (Scott & Barigazzi, 2021).

Restoration of growth in the EU is crucial for its future, both in terms of internal cohesion and its economic and geopolitical potential. However, growth itself will not solve the dilemmatic issues of the integration. Arguably, it might refuel tensions between member countries. For the last 60 years, the EU has been ‘a unique convergence machine’, which ‘delivered its citizens one of the highest living standards in the world’ (Ridao-Cano & Bodwig 2018, p. 18). However, there are explicit symptoms of growing division in productivity between the states in recent years. Even though total factor productivity

(TFP) has been slowing down almost everywhere in the EU, it was the southern European countries that experienced it most distinctively. Numerous studies have confirmed this tendency. Gopinath et al. (2017) have established that from the beginning of this century southern economies have suffered from increasing productivity losses from capital misallocation and the dispersion in the return to capital despite growing available capital. A similar tendency was not found in northern Europe. Cette et al. (2016) arrived at similar conclusions emphasizing that the productivity slump in the south was not related to the Great Recession. They also showed that since the 1990s countries like the UK, Germany, and France were able to keep up with the technological advances (TFP compared to the US), but southern states (Spain and Italy) kept falling behind. Moreover, only the top leading corporations, which are usually located in northern Europe (mostly in Germany), can spend enough on R&D to keep up with US and Chinese corporate leaders (Veugelers, 2018). Thus, there is no guarantee that positive effects of economic recovery and New Generation EU will be distributed equally among EU members and restore economic convergence between northern and southern European states. The productivity gap suggests otherwise.

The above can critically test the already questioned EU solidarity. If the latter is indeed issue-specific, as has been suggested above, then one can expect that with time a new division might emerge within the EU — of those that manage to keep up with the most innovative and productive economies, and of those that cannot. Taking the US side in global economic rivalry might realign the national interests of individual EU countries even more. It is also worth noticing that as the result of the pandemic it was the economies of southern Europe (i.e. Italy, Greece, Spain, France, and Cyprus) that experienced the highest increase in public debt. Because differences in productivity indicate that southern countries will not keep up with the economic race, the question arises about the support of the elites and public opinion of northern countries for sustaining mutualized debt financing and accepting permanent transfer mechanisms in the long run. Still, governments of the southern countries will insist on financial transfers as this is expected by their societies (Bremer et al., 2020). They will refer to the principle of EU solidarity and the fact that the ‘core’ countries have seen the strongest gains from the Single Market so far (Mion & Ponnattu, 2019).

Europe’s difficult past was overcome thanks to the fact that individual countries were able to rise above their particular interests and saw the merit in building permanent cooperation based on the principle of solidarity. It is, among other things, thanks to adherence to this principle that the Union can be a community of values and not just a single economic area. Indeed, the Eurozone debt crisis and COVID pandemic have shown that the European Union without solidarity triggers centrifugal tendencies. As Wennerström (2020) rightly points out, values (such as solidarity) that cannot be put into practice, whether due to legislative difficulties, ineffective political mechanisms, or opposition from community members, become empty, degenerate, and wither after a while. Just

recently, the residents of the European Union have critically evaluated the effectiveness of the EU institutions in the field of handling the pandemic and vaccine procurement (Dennison & Puglierin, 2021). Their expectations of what the EU should deliver have not been met as they expected more solidarity and cooperation at the European level. It is very difficult to imagine the future of the European Union without the principle of solidarity. Sacrificing or watering it down in the name of national interests or global economic rivalry will be the end of the EU as we know it.

7. Conclusions

In the paper we have suggested that economic growth will be of key importance for both the US and the EU in the coming years. Its significance will not only be economic, but mainly geopolitical, i.e. confirming the strength of the USA and preserving the cohesion of the European Union, which is still far from being fully integrated. The growing role of China and the lessons learned from the pandemic suggest that the period of unbridled globalization is coming to an end and we will witness a return to some form of regionalization that will also bear the hallmarks of rivalry. Hence, transatlantic relations will be under great pressure to generate growth and even higher levels of competitiveness. This seems a key imperative for the US, which aims to confirm its leadership position and is trying to bring back the faith in liberal democratic political system.

The place of the EU in this puzzle is unclear. On the one hand, the US attempts to draw the EU to its side and counts on close cooperation. On the other hand, European technological and economic potential may prove insufficient to effectively compete with China, and the internal problems may overshadow global strategic goals. The economic underperformance of the European Union can already be noticed in slow recovery after the coronacrisis, which should be attributed to the structural features of its economy. Also, differences in the productivity of individual EU countries are no longer a secret; in fact, they are becoming a problem. Political bargaining over past crises showed the priority of national interests over solidarity, which actually might be in line with the need to generate growth, but will also result in growing divergence within the EU.

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