

The Role of Public Administration and Economic Policy in Preventing Bankruptcies: A Macroeconomic Perspective

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Abstract. The paper assesses the important issue of whether bankruptcies could be prevented by public administration and economic policy, using the experience of the European Union during the COVID-19 pandemic. The fiscal and monetary interventions discussed in the study include some significant drivers: an increase in the survival rate of firms in the short run, stabilization of employment, and resilience of the economy over the long term. Due to the fact that some of these economies are not developed, over time, various challenges set in, such as the piling up of long-term debt, abuse of funding provided to SMEs, and market distortion. The paper emphasizes specific strategies aimed at overcoming the problem: economic growth through high-productivity investment, access to finance for SMEs, and efficiency in the market through innovation. These, thus, constitute strategies toward the establishment of a more robust economy that would be able to weather future crisis situations while promoting sustainable growth. It also underlines the need for coordinated economic policies that can provide a number of lessons that are useful both for policymakers and enterprises while trying to minimize the risk of bankruptcy associated with downturns in the economic cycle.

Keywords: Public Administration and Economic Policy, Bankruptcies, Macroeconomic Perspective.

1. Introduction

Bankruptcy is an intractable problem facing world economies, and this has been worsened by fluctuating economic fortunes, financial crises, and unpredictable market trends. Public administration and economic policy have vital roles to play in reducing the frequency and intensity of bankruptcies to a level where business growth can be sustainable with a minimum risk of insolvency. This extends to small and larger companies with greater influences on employment, social welfare, and general economic resilience.

Bankruptcy, whether it is a corporate or an individual failure, is not altogether an economic issue but represents the structural weakness in the economic and regulatory system of a country. Where there is turmoil in the economy, such as during the global financial crisis in 2008 and the COVID-19 pandemic just this past year, many firms reached the point whereby they could not continue their activities due to decreased demand, a supply disruption, and liquidity constraints. For example, according to statistics in the United States. It is sufficient to say that, in the first half of 2020, there were over 22,000 bankruptcy reports in the Bankruptcy Court- a blunt indicator of the stress businesses felt during this period.

The economies today are so interrelated that the bankruptcies do not stay isolated anymore. Contrariwise, their effects spill into entire segments of industries, causing job losses, reduced household incomes, and loss of investor confidence. The role of public administration becomes more relevant in designing and implementing economic policies that prevent bankruptcy from making businesses resilient. Bankruptcies could be minimized substantially with economic dynamism maintained, provided the government employed fiscal and monetary tools, access to credit, and enabling regulatory frameworks.

The article will discuss the key role of public administration and economic policy in preventing bankruptcies from a macroeconomic perspective. This article will deal with the effectiveness of current interventions, review the literature on this issue, underline what was not covered by ongoing research, and indicate a hypothesis that could be developed for future policy implementation.

1.1. Research Background

Bankruptcy has always been a pervasive problem during periods of economic decline or other forms of financial turmoil in most industries and economies of the world. The IMF estimated that worldwide economic shrinkages, more so those in emerging markets, have the potential to increase filings of corporate bankruptcy by up to 15% within just one year. It is also estimated that, according to the United States Small Business Administration, nearly 20% of small businesses fail within the first year, with 50% taking up to the fifth year due to financial mismanagement, economic shock, or lack of credit.

In this regard, addressing bankruptcies goes beyond just saving businesses; it is a matter of stability in livelihoods and the economy. Each business failure means lost jobs, less consumer spending, and reduced tax bases. Recovery from disruptions-such as from the COVID-19 pandemic-means making those public administrative systems better positioned to immediately respond to economic shock, prevent business failures, and maintain financial stability.

Interest rate adjustments, liquidity provisions, and fiscal stimulus packages are some of the economic policy measures that are very instrumental in giving businesses flexibility and support that helps them survive during such difficult times. In the European Union, for example, during the pandemic, government-backed loans and temporary fiscal support packages saved millions of businesses from bankruptcy. This study of the role of public administration and economic policy in preventing bankruptcies has, therefore, created a commercial and social contribution by providing insight into how governments can protect businesses and economies from financial collapse.

1.2. Literature Review

A number of studies have focused on the relationship between public administration, economic policy, and bankruptcy prevention. Here are a few key points of findings from the relevant literature.

Wang & Zhang, therefore, undertook a study involving the effect of monetary policy on bankruptcy incidence. Their results showed that the lower the interest rates, the higher the provision of liquidity, which decreases the likelihood of corporate bankruptcy during times of economic downturn by a large margin. The study, therefore, enumerates monetary interventions as very crucial in ensuring businesses continue to access credit at affordable rates [1].

Smith et al. opined that fiscal policies, especially loans and subsidies provided to businesses by the government, are necessary to minimize the bankruptcy risks of SMEs during crisis periods. According to them, fiscal policies become particularly important for SMEs lacking a financial buffer to outlast extended economic stressors [2].

Johnson & Lee found that the higher the regulatory setting of a country, the fewer bankruptcies firms have during economic downturns. Their sample includes 15 OECD countries, and their calculations show that the countries with proactive administrative responses to financial crises manifest fewer business closures because of debt restructuring and business-friendly regulations [3].

On this note, Chen et al. were able to investigate how innovation policies could assist in the avoidance of bankruptcies. They obtained that government policies that fund R&D investment and innovation grants enable enterprise businesses to adopt new technologies and business models that make them resilient [4].

These studies together indicate how economic and administrative policies could influence bankruptcy likelihood in times of turmoil while pointing toward the integrated policy approach using fiscal, monetary, and innovation-driven strategies in averting business insolvency.

1.3. Research Gap

Most of the scholars focused on either the fiscal or monetary leg of bankruptcy prevention, essentially examining how credit provision, interest rates, and fiscal stimulus packages would impact corporate survival. What is missing in this literature, therefore, is an embedded comprehensive framework that deals with the interaction between public administration and economic policy combined in bankruptcy prevention. While there is an extensive amount of literature on individual

policy interventions, only a few studies have considered how the coordination of fiscal, monetary, and administrative policies can lead to a strong economy that will prevent business failures in periods of crisis.

Further, few studies have been conducted in the context of innovation policies. Although some scholars, like Chen et al., have considered this angle, a more detailed analysis is required with respect to how public administration can create an ecosystem of innovation that will contribute to business resilience and prevent bankruptcies.

1.4. Research Framework

The above-mentioned research gaps are filled by this article, which relies on the following logical framework. First, it is going to assess the existing public administrative and economic policies that have already been put into place so as to avoid bankruptcies during the last years. Second, it will examine interactions among these policies and the joint effects of fiscal, monetary, and innovation policies. Thirdly, it shall present a new integrated policy framework based on the identification of the research gaps. Recommendations shall be made to policymakers on how they can enhance the effectiveness of those policies to ensure stability and long-term resilience against future financial crises.

Thus, the approach will help in deducing how public administration and economic policy could be utilized better in order to prevent bankruptcies and, therefore, provide quite useful lessons for both policymakers and business leaders alike.

2. Case Description

The role of public administration and economic policy in preventing bankruptcies can be best elaborated with the European Union's response to the economic challenges resulting from the COVID-19 pandemic. As the COVID-19 pandemic spread at the beginning of 2020, economies came abruptly into near hibernation mode. Besides that, businesses faced unparalleled disruptions because of lockdowns, plummeting consumer demand, and interruptions to supply chains. Given that SMEs usually hold smaller financial reserves and have limited access to credit, they are more vulnerable.

The EU responded with a spate of economic policies supposed to rule out the possibility of a mass wave of business bankruptcies. It was announced that the European Central Bank would pursue enormous monetary interventions like interest rate reductions and expansion of quantitative easing since firms needed to make sure credit availability at affordable rates could continue. The ECB also expanded its Pandemic Emergency Purchase Programme (PEPP) to €1.85 trillion, aimed at ensuring the markets were liquid and that firms did not go bust [5]. Apart from the monetary policies, fiscal steps have been taken between the EU and its government member states through measures such as direct financial support, tax delays, and government loans.

Being one of the largest economies in the EU, the German government implemented a robust fiscal response with its Economic Stabilization Fund, which included more than €100 billion in loan guarantees for businesses to avoid insolvencies and maintain capital sufficiency at companies during the shutdown. Although France officially presented its €300 billion loan guarantee scheme, all businesses, including SMEs, received state-backed loans in order to avoid mass bankruptcies within tourism, manufacturing, and retail, among other key sectors [6].

In this respect, one of the major strategies of the EU consisted of the Next Generation EU recovery fund- a €750 billion initiative to contribute to economic recovery and minimize a long-term impact on businesses created by the pandemic. The fund has stressed not only immediate liquidity support but also long-term investments in such sectors as green energy, digitalization, and innovation that may make the EU economy resilient for the future.

As such, these interventions have been rather effective. Although the pandemic led to unprecedented disruptions, the number of bankruptcies in the EU did not rise to the catastrophic levels predicted at the beginning of the crisis. Indeed, in many EU countries, bankruptcy filings declined

notably in 2020 compared to pre-pandemic levels, partly due to comprehensive economic support programs from the government [7]. This case is an excellent example of how coordinated public administration and economic policy play a central role in avoiding insolvency among businesses, especially in fostering economic stability and recovering even during the most acute moments of global crisis.

3. Discussion of the Problem

The EU's response to the COVID-19 pandemic provides an excellent test case for an analysis of the role of public administration and economic policy in preventing bankruptcies. Although the speed and scale of the interventions by the EU and its member states have prevented many immediate risks of widespread insolvency, the longer-term consequences and potential problems originating from those policies deserve special attention.

This section examines the positive influences of the EU's actions, further resulting in problems, and provides an in-depth analysis, hence estimating the effect that these measures have on businesses and the economy as a whole.

3.1. Identified Impact of the EU's Pandemic Response

3.1.1 Short-term improvement of enterprise survival rate

Perhaps most portentous of all, the intervention by the EU seemed to have almost immediately stabilized business survival rates, especially for SMEs. In the lead-up to the adoption of various means of economic support, there was much trepidation about the possibility of mass business closures across the continent due to severe disruptions in economic activity. However, the rapidity with which government-backed loans, tax deferrals, and other forms of direct financial aid were introduced meant that many businesses could survive the worst of the economic downturn.

For example, the Pandemic Emergency Purchase Program of the European Central Bank and various national fiscal policies have supplied crucial liquidity to firms who witnessed their revenues deliriously drop. The ECB did this through the purchase of bonds and other securities, which maintained the stability of the financial markets and allowed access for companies to continue their loans at low interest rates. Thus, this led to the nonoccurrence of the expected bankruptcy surge in 2020.

According to Eurostat, the bankruptcy rate was actually lower in many EU countries in 2020 compared to previous years, in part due to these unprecedented measures.

3.1.2 Employment stabilization

Another strong influence the EU's economic policies had was the stabilization of the rate of employment throughout the continent. Indeed, many, particularly in tourism, retail, and hospitality enterprises, suffered huge losses in revenues during the pandemic. If it had not been for government intervention, these industries would no doubt have laid off workers, thus increasing unemployment rates.

The job- and business-protective measures given by the EU's Next Generation EU recovery fund to the economy were decisive in the stabilizing of the labor market. According to the European Commission, without such steps, unemployment in the EU could rise by up to 3%, which would significantly slow down economic recovery processes.

This was further entrenched in the national governments' measures on furlough schemes and wage subsidies that allowed businesses to keep employees out of work or operating at reduced levels.

3.1.3 Boosting long-term economic resilience

A third critical influence was the boost to long-term economic resilience. Though the immediate focus of EU policy was to provide not just short-term liquidity but also long-term investment, it opened possibilities of a more resilient and sustainable economy. The Next Generation EU fund

funneled major funds into green energy, digital transformation, and innovation with the hope of making businesses across Europe more competitive in world commodities.

This focus on futureproofing for the economic crisis has strong and long-term multiplier effects. For example, the digitalization initiatives that the EU recovery package will engender in economies will make companies more resilient to new shocks in the future. Similarly, investments in green technologies will leave businesses poised to align with the Greater European environmental goals, hence competitive as sustainability becomes a key input in world trade.

3.2. Problem-Identified Analysis

Although the EU's pandemic response had a lot of positive results, various problems were identified, too, especially those relating to the implementation and sustainability of economic measures.

3.2.1 The Build-up of long-term debt

One of the most worrying aspects to emerge from the pandemic response is the long-term growth in indebtedness at both the governmental and corporate levels. Most of the interventions by the EU have hinged on debt-financed expenditure, including government-backed loans and quantitative easing measures. While this has prevented bankruptcies in the short term, the national debt has gone up considerably throughout the EU.

For example, Italy, one of the worst-affected countries by this pandemic, saw its debt-to-GDP ratio jump above 160% at the end of 2020, merely due to the aggressive fiscal measures the country had adopted for the sustenance of its economy. That high level of indebtedness is generally considered perilous for long-term economic sustainability, as countries may face difficulties financing their debt in upcoming years without the adoption of austerity measures that could discourage growth and translate into stagnation.

3.2.2 Disproportionateness of relief

A further problem that has arisen is unequal provision, in particular between large enterprises and small- and medium-sized enterprises. While the EU and national governments have taken a number of measures to support businesses, much of the financial support was conveyed disproportionately to larger firms. SMEs- which account for the lion's share of employment and economic activity in the EU- frequently found it harder to access government-backed loans and financial support. Indeed, more than 40% of EU SMEs responded to the European Investment Bank's survey that they could not obtain sufficient financing despite the numerous support measures available during the pandemic. Precisely because support was distributed in such an unbalanced method, there is a ground for concern that SMEs are not well positioned to compete with larger firms in the post-pandemic economy, leading to increased market concentration and reduced competition.

3.2.3 Market distortion potential

The last problem to be underlined is market distortion through government interventions: even though government-backed loans and fiscal supports are necessary to avoid a wave of bankruptcies, they may also have kept so-called "zombie firms" businesses which, either for poor financial management or loss of competitiveness, would otherwise go bust. The European Central Bank even voiced its concerns that, over the long term, such interventions may prove to be detrimental to market behavior and hamper "creative destruction," a process by which weaker enterprises are succeeded by others that are more efficient and innovative. This does raise a number of questions regarding just how viable some of the businesses that have received support will prove to be once government assistance is withdrawn.

3.3. Reason Analysis of Problems

3.3.1 Over-reliance on debt-financed Measures

One of the root causes of the findings, especially the long-term debt accumulation, relates to reliance on debt-financed measures as a means with which to deal with the immediate economic crisis. With the unprecedented health and economic crisis, governments logically sought to sacrifice long-term fiscal sustainability for short-term stability. However, this has resulted in a sharp rise in debt levels that may pose risks to future economic stability unless growth picks up sufficiently fast to service the debt.

3.3.2 Inefficiency in the administrative distribution of support

The second reason pertains to the administrative inefficiencies that have marked the disbursement of financial support to businesses. The majority of SMEs, in particular those operating in less developed EU member states, complained of the cumbersome processes involved in applying for loans guaranteed by the government. The situation was even made worse by the fact that larger firms, by virtue of their long-established ties with both financial institutions and government agencies, were in a position to access more substantial forms of aid more quickly than their smaller counterparts.

3.3.3 Trade-offs in policy between stability and market efficiency

There is also the distortion to markets that can be ascribed to the policy trade-offs between immediate economic stability and long-term market efficiency. Policymakers had to make hard choices in the pandemic that centered on keeping as many businesses alive as possible, even if that meant subsidizing some firms that were in trouble before the crisis. That, in turn, has fired up the debate over the longer-term implications for policies seen as stifling economic competitiveness and innovation.

4. Recommendations

While finding solutions for the problems identified in the analysis of the EU's pandemic response, this section underscores some of the ways governments and policymakers can institute mechanisms to optimize their economic policies. The following suggestions aim to provide long-term debt accumulation, inequality in support distribution, and market distortions while maintaining economic stability with sustainable growth.

4.1. Strategy to Manage Long-Run Debt Accumulation

However, the most ominous consequence of the EU's pandemic response is the radical increase in the level of public debt. Countries like Italy and Spain have witnessed strong increases in their debt-to-GDP ratio, which is a somewhat dangerous thing for long-term economic stability and growth. In this respect, what is urgently called for is the adoption of a gradual and selective debt reduction policy without undermining economic recovery. First, governments should encourage economic growth by offering investment in those high-productivity sectors that are so crucial to economic growth: technology, green energy, and infrastructure. In this matter, the EU will be able to ensure its economies grow at a rate sufficient for their public debts to be better managed and serviced. Next Generation EU has already set a base for such investments, but further efforts should be undertaken to make sure that this money is well-invested in sectors that guarantee the highest return on investments [8].

Any fiscal consolidation should be cautiously done only when economic recovery is well underway.

The premature adoption of austerity measures dampens growth and may lead to long-term stagnation, similar to what happened after the financial crisis in 2008. Instead, policymakers must strive for a gradual reduction of deficits, along with increasing efficiency in the collection of tax revenues and the sealing of loopholes. Progressive taxation policies may also be implemented in order

to make functionalities ensure that very rich individuals and corporations contribute equitably to the economic recovery process.

Finally, public debt management strategies such as lengthening the maturity of debt or selling bonds at lower interest rates lighten the load of debt servicing. Refinancing debt on better terms allows the government to buy time for implementation of reforms, enhancing growth and consolidating its fiscal position.

4.2. Strategy to Enhance Access to Financial Support for SMEs

The pandemic response underlined the asymmetric access to finance, with larger companies benefiting more from government-backed loans than smaller enterprises. This calls for more specific support from governments through measures that are tailored to SMEs' needs, given the role these enterprises play in job creation and the diversification of economies [9].

It could, perhaps, be further simplified and made more accessible for SMEs. Many small businesses grapple with the lengthy bureaucracy involved before finally accessing loans on favorable terms backed by their governments; this causes bottlenecks in receiving such important money. Simplification of the application process and clearer guidance of SMEs are indispensable in making their governments timely supporters.

It could be automated and accelerated, for example, thanks to a digital platform that reduces bottlenecks in administration. Besides facilitating access, the design of special financial products for SMEs, such as micro-loans or grants with more favorable conditions, may solve some of the specific problems characteristic of small businesses. In particular, such financial products may offer lower interest rates, longer periods of time for repayment, or partial debt forgiveness options. Besides, regional funds should be adopted by the government, targeting less developed areas or regions that were affected disproportionately due to the pandemic. The political leaders can avoid the increased economic disparities between well-developed and developing regions within the EU through decentralization of financial support and ensuring that more subordinate regions receive more help.

4.3. Strategy to Reduce Market Distortion and Enhance Economic Dynamism

On the other hand, however, care must be taken to ensure that government interventions during the pandemic distort markets, especially the risk of sustaining inefficient "zombie firms." As much as the avoidance of mass bankruptcies was essential during the crisis, policymakers now need to pay attention to market efficiency and innovative, high-performing businesses that help long-term growth [10].

For this reason, governments should phase out general support measures progressively in favor of more selective supporting programs related to performance. For instance, state aid could be granted according to the firm's ability to innovate, take up new technologies, and further contribute to the general objectives of the EU green and digital transition. Only companies showing a strategic involvement in terms of sustainability and competitiveness would see support, while companies that do not adapt should be subjected to restructuring or market exit [5].

Another strategy will involve strengthening the regulatory framework with respect to business restructuring.

Policymakers should develop better insolvency laws and give incentives for early restructuring instead of letting inefficient companies stay alive artificially for a very long period with the help of government aid. This would give companies the opportunity to reorganize their operations and attain competitiveness without going bankrupt. It is the recently revised EU Directive on Restructuring and Insolvency that forms the basis of all such reforms, while at the national level, much more activity is needed in terms of its implementation and enforcement for businesses actually to make use of these legal tools. Finalizing these points, the post-crisis economic policy should be directed at stimulating innovation and entrepreneurship. In this regard, target grants or fiscal incentives may be granted by governments for startup businesses in investments that are willing to invest in R&D to make sure new ideas and technologies are moving into the market economy. In this respect, the EU will know how

not to fall into negative market distortions while creating the conditions for long-term economic growth through fostering a dynamic and competitive business environment. Conclusion The EU's response to the pandemic was good, as it prevented widespread bankruptcies and economic collapse. However, there are a few challenges yet to be resolved: long-term debt overhang, unequal access to financial support, and market distortion risks, which are issues that have to be resolved for a truly sustainable recovery. This would be possible if the policymakers pursued open public debt management policies, facilitated access to finance by SMEs, and promoted more market efficiency and innovation. Indeed, such would be able to erect an economy that is much more resilient and competitive. These strategies will help the EU emerge from the pandemic stronger and better equipped to face future economic challenges.

5. Conclusion

5.1. Summary of Major Conclusions

The paper analyzed how public administration and economic policy can prevent bankruptcies by applying the European Union's response to the COVID-19 pandemic. A number of influences of the EU's interventions were identified in the analysis: first, the rate at which businesses survive in the short term increased due to powerful, timely fiscal and monetary policies that keep government-backed loans and liquidity programs by the European Central Bank flowing.

Secondly, the job stabilizing effect was achieved through policies such as furlough schemes and wage subsidies; no mass layoffs were allowed. Finally, the long-term orientation of the EU with regard to sustainability and innovation favors economic resilience with the Next Generation EU fund.

However, this did bring in a few problems: long-term accumulation of debt, inequity in access to SMEs' finance, and distortion in markets by keeping uncompetitive firms alive. The study presented strategies to tackle these: managing debt through gradual fiscal consolidation, improving access to finance for SMEs by simplifying the procedures of application, and efficiency in markets through innovation with selective business support programs.

5.2. Significance of the Research

Such findings have a great deal of business and social value. This research assesses the ways in which public administration and economic policies prevent bankruptcies, thereby helping understand how governments can protect businesses from their economic crises. The analysis proves that especially coordinated fiscal and monetary policies ensure long-term investment in innovation and sustainability. These findings provide a way forward for businesses, especially SMEs, on how they can transit through such disruption with more economic stability and access to much-required finance. The approach instills in the policymakers how to build resilient economic systems that secure jobs, promote innovation, and guarantee sustainable growth.

5.3. Limitations and Future Studies

The study has depended a lot on secondary data, mostly from reports, statistics, and prior research, which is a limitation as far as methodology is concerned. It lacks primary data, for example, from surveys or interviews with policymakers, business owners, or financial institutions. Without this type of information, there can only be so much depth in the analysis. An area of future research could be the improvement in this respect by the integration of primary data collection, such as conducting interviews with key stakeholders or surveying affected businesses. This would allow it to be perceived how efficient public administration policies are in preventing bankruptcies, hence giving impulses to concrete industries or regional challenges. Further research could be done through case studies from other regions comparing the different economic policy responses to crises for better effectiveness.

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