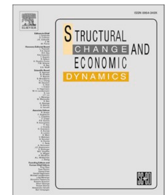
Structural Change and Economic Dynamics 67 (2023) 372–379

Contents lists available at ScienceDirect

Structural Change and Economic Dynamics

journal homepage: www.elsevier.com/locate/strueco



Lessons learned from poor governance: A comparison of the EU strategies for exiting the crises of 2008 and 2020☆

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ARTICLE INFO

JEL Codes:
E60
H50
E51

Keywords:
European recovery strategies
Crises of 2008 & 2020
Paradigm shift in economic policy
Alternative intervention approaches
Permanent stabilisation mechanism

ABSTRACT

This paper analyses the EU's strategy for recovering from the economic and social consequences of the pandemic, of which the NextGenerationEU temporary stimulus package forms part. That strategy is compared to the diametrically opposite approach taken by EU institutions in the crisis of 2008. The most significant elements and economic policy references adopted in the two cases are identified. The paradigm shift in economic policy is evident, and the errors that led to a double dip in European economies in the handling of the earlier crisis have been avoided. In spite of the better discretionary response, it is argued that there is a need for a permanent, amply endowed, well-designed European stabilisation mechanism free from complexes in regard to the mutualisation of debt, so as to simplify procedures and reduce reaction times in the face of further crises.

1. Introduction

NextGenerationEU is a temporary package of measures designed by EU institutions to boost recovery in the wake of the Covid-19 pandemic. It is the biggest stimulus package ever funded via the EU budget (€407.5 billion up to the end of 2026 in grants and €386 billion in loans). This is in addition to the structural funds and other items in the EU budget (almost €1.1 trillion for 2021–27), which have not been cut back to fund this unique instrument of the EU's strategy for exiting the crisis caused by the pandemic.

From the outset (European Commission, 2020a) this package was intended to repair the damage done by the crisis and to prepare a better future for the next generation (hence its name). It is envisaged as helping to bring about a sustainable, resilient, inclusive, fair recovery.

This exceptional, temporary recovery package was presented by the Commission to the European Parliament on 27 May 2020 and approved on 21 July 2020 by the European Council. It must be considered within the broader context of the EU strategy for exiting the crisis sparked by the pandemic. But initially NextGenerationEU envisages non-refundable assistance (not just loans as occurred in the EU's handling of the 2008 crisis). The summit held on 17–21 July 2020 (European Council, 2020) established that the conditions attached to this assistance would be based on the Country-Specific Recommendations of the Council for 2019 and 2020, issued in the context of budgetary supervision for the so-called "European Semester" and not on the imposition of tough adjustments with high social costs (as occurred with the bailout plans in the earlier crisis).

This paper is organised as follows: Section 2 outlines the great legal and political complexity involved in the design and management of the plan, which result in longer response times and thus less effectiveness in the desired impacts. Section 3 compares the EU's exit strategies for the 2008 and 2020 crises, with their respective groundings in economic policy. Section 4 looks at the significance of NextGenerationEu for the *acquis communautaire*. Section 5 makes some concluding remarks.

2. The legal and political complexity of NextGenerationEU

Designing and applying this package has entailed enormous legal and political complexity. The EU's recovery plan requires numerous procedural steps to be completed before beneficiary Member States (MS) can receive funds:

1- The approval of the new budget for the EU by the Parliament (16 December 2020) and its formalisation in Regulation 2020/2093 of the Council (17 December 2020), establishing a multi-annual financial framework for 2021–2027.

☆ Research interests: Globalization and EU integration; Public policies; Social protection systems; Labour market and wage devaluation policy; Industry 4.0; Motor industry; Regional economics.

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https://doi.org/10.1016/j.strueco.2023.09.005
Received 9 August 2023; Accepted 9 September 2023
Available online 11 September 2023
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2- Approval by the Council/European Parliament of the Regulation establishing the *Recovery and Resilience Facility* (Regulation (EU) 2021/241 of 12 February 2021, publishing in the Official Journal of the EU on 18.2.2021).
3- The successive adaptation by the Commission of the new sectoral policies for which Community funding is to be provided.
4- Ratification by all MS of the new *Own Resources Decision*, which temporarily raises the ceiling for own resources to 2% of the EU's GNI, empowers the Commission to seek loans on the capital market in the name of the EU for up to €750 billion at 2018 prices (new net borrowing must cease by the end of 2026 at the latest) and proposes new sources of revenue (a tax on non-recycled plastics, which came into force on 1 January 2021 plus other environmental taxes, a Tobin tax and the digital levy, which are expected to come into force soon). Ratification was not attained until 27 May 2021, with approval by Austria and Poland, just before the deadline of 31 May set for the implementation of the mechanism for the issuance of Eurobonds. There was also another setback: on 26 March Germany filed an appeal with the Constitutional Court which entailed precautionary suspension. The matter was settled on 21 April. The ratified package finally came into force on 1 June 2021.
5- Discussion with the Commission and final approval of the 27 *national recovery and resilience plans*, designed as consistent packages of projects, reforms and investments. Theoretically (according to the regulations), approval should have taken place by 20 April 2021 but half the MS failed to meet that deadline. Portugal, Germany and Greece were the first three MS to submit their respective national reform and investment plans. As of 30 November 2021, 26 MS had done so (with Bulgaria submitting its plan on 15 October), leaving just the Netherlands, where a caretaker government was in place.
6- The Commission has 2 months to give the go-ahead for the national plans (with the possibility of an emergency brake being applied via the Council, as requested by the Dutch government). To obtain approval, plans must obtain at least 7 "A" ratings in the 11 review sections. The EPP, liberal and ultra-conservative groups in the European Parliament attempted to increase the role of the Parliament in scrutinising national recovery plans, but the resolution was watered down and in any event there is no regulatory provision for such action: under the Regulation, the Commission is the decision-making body. The first plans approved were those of Portugal and Spain on 16 June, followed days later by those of Greece, Denmark and Luxembourg. Their approval was ratified at the ECOFIN meeting on 13 July 2021. As of 30 November 2021, 22 plans have been approved, with those of Estonia, Finland and Romania getting the go ahead on 29 October.
7- The issuance of debt by the Commission under a diversified funding strategy, estimated to be worth a total of 806 billion Euros between bond issues (maturing at between 3 and 30 years) and bills at less than 12 months. Syndicated operations are combined with Eurobond issues. This calls for an electronic auction platform (with debt offered to a group of banks as primary operators). 15 June 2021 saw the first syndicated issue of €20 billion in 10-year Eurobonds at 0.086% via 8 banks selected as placement agents (the final order book exceeded €142 billion). The first issue of 5-year bonds (−0.35%) and 30-year bonds (+0.732%) closed successfully on 29 June. In the second half of 2021, long-term bonds are due to be issued to the tune of 80 billion Euros, supplemented by bills with shorter maturity periods. As of 30 November de 2021, 5 syndicated issues and one debt auction have taken place. The rate of issuance envisaged is around €150 billion per annum up to 2026.
8- The preparation of *Operational Agreements* signed with each MS as from the second and successive payments, to confirm compliance with the milestones and goals envisaged in the national plans. This is earmarked aid, so it is conditional on compliance with these commitments, which is assessed every 6 months.
9- Provisional approval by the Commission of the release of successive tranches of aid, subject to ratification by the Council. On 3 December 2021 the Commission approved the granting of the second tranche of €10 billion to Spain, after confirming compliance with the first 52 milestones envisaged in the Spanish plan.
10- Within each MS: To guarantee that funds are correctly implemented and channelled, implementation, monitoring and coordination structures will be created to permit public/private cooperation between different tiers of government and between departments within each administration. In some countries there may be absorption problems

The corollary of these extensive procedures was that the first payouts under REACT took place 13 months after the presentation of the plan (€800 million on 28 June 2021), but by the time the bulk of the aid materialises the economy will have left the worst of the crisis behind: the stimulus package will not have contributed to recovery when it was most needed, and part of the drop in activity and employment could have been avoided if resources had reached MS sooner.

By contrast, in the US and China, for instance, economic recovery packages began to take effect just weeks after their approval and were also far larger. In the EU intergovernmentalism and mistrust amongst countries in the dynamics of integration continue to predominate. Should not urgent, fast-track procedures be set up in the EU to tackle crucial, urgent problems? A well-endowed permanent stability mechanism could simplify procedures and reduce reaction times.

3. Comparison of EU strategies for recovery from the crises of 2008 and 2020

NextGenerationEU forms part of an EU strategy in response to the crisis sparked by the pandemic which is diametrically opposite to that adopted in the crisis of 2008: instead of austerity, the lack of financial solidarity (as a result of the "moral hazard" approach that conditioned the actions of Northern European countries) and the monetary orthodoxy approved in 2010, which shaped a pro-cyclical policy that was denounced by some authors at the time (Bilbao-Ubillos, 2014a,b), the exit strategy for the pandemic crisis has been markedly firm, consistent and anti-cyclical.

Chart 1 compares the EU's strategies in response to the 2008 and 2020 crises, which are then considered in Sections 3.1 and 3.2, respectively.

3.1. Crisis exit strategy implemented in 2008

The EU's strategy for exiting the crisis was drawn up gradually from January 2010 onwards, following initial hesitation and plans that were never implemented to react with fiscal stimulus packages (in November 2008 the Commission adopted the European Economic Recovery Plan and there was talk of strengthening automatic stabilisers (European Communities, 2009, p. 59)), as proposed by the G-20 to tackle the demand crisis. In the early stages of crisis management consideration was given to expansionist fiscal policies as one of the responses required, given the urgency of the economic situation. Lucas Papademos, Vice-President of the ECB, had this to say in May 2009: "*The nature and scope of the crisis has required the concerted and parallel implementation of three types of policy responses: (1) macroeconomic policies to stimulate aggregate demand; (2) the provision of liquidity by central banks to ensure the orderly functioning of money markets, contain spillover effects on the financial system and foster the financing of the economy; and (3) government measures to repair and strengthen bank balance sheets so as to stabilise the banking system and help restore the provision of credit to the economy.*" (Papademos, 2009, p. 3).

	2008 Crisis	2020 Crisis
Monetary policy	-Orthodox policy (up to 2012), with increases & decreases in interest rates and no large-scale purchasing of bonds - Guiding the design of recapitalisation of banks by MS (bank bailouts) - A new regulatory framework with enhanced prudential and supervision policies *(Larosière Report*)	- Temporary emergency purchase programme (fall in interest rates due to debt issuance) - -0.5% deposit facility & 0.25% marginal credit facility
Tax rules (SGP)	Reform of 2011/2013: Reinforced PEC (six-pack, two-pack & fiscal compact) with the possibility of sanctions	-Activation of escape clause on 20 February 2020 -Suspension of tax rules for 2021 & 2022
Recovery plans	Conditional bailout (MoU)	Next Generation EU recovery fund (conditionality embedded in the European Semester)
Orientation of tax policy at MS	Austerity	Encouragement of expansive policies at MS (fiscal policy supports the recovery)
Other specific plans to prevent job losses	No	- SURE programme - Temporary relaxation of regulations governing state aid

Chart 1. Comparison of EU strategies in response to the crises of 2008 and 2020.
Source: Own work.

However, influential voices were soon raised to mark the path to be followed. In October 2009, Von Hagen, Pisani-Ferry & von Weizsäcker (from the Bruegel European think tank) warned as follows: The pursuit of the exit objectives (restoration of budgetary sustainability and macroeconomic stability with non-inflationary growth) "*involves budgetary consolidation, monetary tightening and the withdrawal of guarantees and exceptional liquidity support for banks*" (Von Hagen et al., 2009, p. 3).

The European Council meeting of 25–26 March 2010 set what was ultimately to become the strategy for existing the 2008 crisis: "*The current situation demonstrates the need to strengthen and complement the existing framework to ensure fiscal sustainability in the Euro area and enhance its capacity to act in times of crises. For the future, surveillance of economic and budgetary risks and the instruments for their prevention, including the Excessive Deficit Procedure, must be strengthened. Moreover, we need a robust framework for crisis resolution respecting the principle of Member States' own budgetary responsibility*." (European Council, 2010, p.2).

In other words, a highly orthodox approach was taken, centred politically on Germany (and supported by Finland and the Netherlands, amongst others) and based on calls for stringent austerity programmes for the MS on the periphery (which were hit particularly hard by the financial crisis) and for prudent monetary policy aligned with the letter of the treaties (Bilbao-Ubillos, 2014b).

The main measures adopted were those shown in Chart 1, focused on the following:

- Orthodox monetary policy, with a refusal to resort to the non-conventional policy of quantitative easing applied by the US Federal Reserve, the Bank of England and the Bank of Japan. Indeed, the ECB initially decided to raise interest rates from 4% to 4.25% in July 2008, then after a drop to 1% rates were raised again to 1.25% as from 13 April 2021 with the marginal credit facility rate being raised to 2% and the deposit facility rate to 0.5%. Rates were raised again to 1.5% in July 2011. This exacerbated the fall in aggregate demand. By contrast, rates in the US, which had stood at 5.25% in 2007, were cut sharply in 2008 to 0%, where they remained until 2015. The solvency of financial institutions was monitored, but it was only when Mario Draghi became President (he was appointed on 31 October 2011 and set out a complete reorientation of ECB policy on 26 July 2012) that the ECB changed its approach, with large-scale asset purchase programmes and the advent of a historic cut in interest rates, and risk premiums in periphery MS fell drastically. But the damage had been done, with a downturn and a shrinking economy

across the EU in 2012 and 2013 (there was no such downturn in the UK or the US, for example).

In the field of financial supervision, the Commission approved the Recapitalisation Communication of 5 December 2008 (European Commission, 2008c) guiding the design of recapitalisation of banks by Member States to prevent insolvency at European banks in the midst of the credit crunch.

A new regulatory framework with enhanced prudential and supervision policies was also designed, based on the Larosière Report (European Commission, 2009).

- The adoption of a raft of regulations aimed at fostering budgetary discipline in MS and reinforcing the SGP: First came the "Six-Pack" (so called because it comprised a package of 6 measures), approved in December 2011, which included three regulations on the budgetary supervision framework that tackled prevention (via the European Semester reinforced cooperation instrument, which gave rise to the country-specific recommendations that provided guidance for MS in drawing up the recovery and reform plans under NextGenerationEU), correction of the SGP and sanctions to encourage compliance with it. Secondly there was the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (known as the Fiscal Compact), which was signed on 2 March 2012 and came into force across the Euro area on 1 January 2013. This treaty modulates and supplements the SGP, defines the concept of a balanced budget (a structural deficit not exceeding 0.5% of GDP and a total public-sector deficit of no more than 3%) and obliges the various MS to include this in their respective constitutions. It also establishes that if the provisions of the SGP are not met then sanctions will apply automatically, unless a special majority of 85% of the Council rules otherwise. Thirdly, and finally, the "Two-Pack" (which came into force on 30 May 2013), designs a system for the control of budget projects in MS by the Commission on the one hand (based on the subsequent conditions of the European Financial Stability Mechanism (EFSM)) and supplements the European Semester mechanism on the other.

The austerity policies in the Euro area led to 'adjustment fatigue' because fiscal multipliers were underestimated in a context of recession also characterised by a credit crunch, massive deleveraging in the private sector and near-zero interest rates (Bilbao-Ubillos and Fernández-Sainz, 2014).

- Community financial aid (first via the European Financial Stability Facility (EFSF) and later via the European Financial Stabilisation Mechanism (EFSM)) received by Euro area countries with severe sovereign debt problems was made conditional on their governments applying a strict programme of economic adjustments negotiated with the Commission, the ECB and the IMF. Thus, those countries bailed out with Community funds were obliged to sign a Memorandum of Understanding (MoU) that included, amongst other points, clear commitments to bring in reforms of labour, pension systems, protection against unemployment and their public sectors (including privatisations and wage cuts for public employees). Bail-out plans were implemented for Greece (2010, 2011, 2015), Ireland (2010), Portugal (2011), Spain (2012) and Cyprus (2011, 2013), preceded in each case by the relevant MoU, while Hungary, Latvia and Romania, all 3 of which were outside the Euro at the time (Latvia joined the single currency on 1 January 2014), called for financial aid from international institutions (the IMF, and possible further assistance from the World Bank/EIB/EBRD) and bail-out loans from the EU's Balance of Payments programme. Greece's 3 bail-outs entailed tougher conditions, as did the case of Portugal (Theodoropoulou, 2015). In the words of López Escudero (2015), the level of intrusion into state competences on matters of economic policy was enormous.
- As mentioned above, the EU's orientation in terms of the fiscal policies of MS was based on fiscal sustainability and spending cuts and on the idea of "expansionary austerity", which undervalued the public spending multiplier and fostered growth (via the expansion of private consumer spending and net exports) arising from the mere correction of budgetary imbalances (fiscal consolidation). This expansionary austerity hypothesis was set out by Giavazzi and Pagano (1990) and by Alesina and Perotti (1997), but it was raised to the status of a dogma by Alesina and Ardagna (2010), who leaned towards cutbacks in public spending as a virtuous mechanism for economic growth.
- The response to the 2008 crisis did not include the design of any specific measures or programmes to avoid the drastic losses in output and employment which MS were suffering.

As a whole, all these measures resulted in cross-border spillovers that exacerbated the negative effects of successive fiscal consolidations, which depressed growth in the Euro area (Bilbao-Ubillos and Fernández-Sainz, 2014). Indeed, the Euro area suffered a drop in GDP and employment levels that was not mirrored in countries which took a different approach to managing the crisis.

Foundations of the economic policy adopted in the exit strategy for the 2008 crisis

The failed EU strategy for exiting the 2008 crisis was based on the assumption of specific economic policy reference points:

1- The efficient market hypothesis showed absolute confidence in market mechanisms, the signs of which (as represented by, for instance, the risk premium required on debt markets) were seen as determining the need to apply cutbacks and other initiatives to improve the fundamentals of the economy until the right balance for the potential and nature of each economy was restored (Donges, 2012).

2- Careful efforts to avoid situations of moral hazard, exacerbated by the way in which the Greek crisis was handled, in the sense of not encouraging SM in the Euro area to try to elude the economic consequences of their decisions or failure by transferring them to taxpayers in other countries through solidarity-based bail-outs. Only the pressure of not being bailed out unconditionally would make periphery countries with correct their macroeconomic imbalances voluntarily (Amor, 2011).

3- Maintaining orthodox monetary policy in line with the letter of the treaties signed, which made action by the ECB conditional on strict compliance with inflation targets (without no consideration for trends in employment, as was also the case with the Federal Reserve) and a prohibition on direct government financing. Some ECB directors felt that a firmer, anti-cyclical monetary policy might lead to hyperinflation and thus irreparably undermine the credibility of the organisation. Bundesbank President Jens Weidmann put it this way:

"If central banks can potentially create an unlimited amount of money out of thin air, how can we ensure that money remains sufficiently scarce to preserve its value? Does this ability to create money more or less at will not create the temptation to take advantage of this instrument to create additional leeway short term, even at the risk of highly probable long-term damage?" (Weidmann, 2012, p. 4).

4- Reluctance to use discretionary fiscal policy. As pointed out by Furceri and Mourougane (2009), "*The economic literature, however, does not provide a clear answer as to whether discretionary fiscal policy can successfully stimulate the economy during downturns; […] relatively weak fiscal positions in several OECD economies, together with fiscal constraints in the context of the Stabilisation and Growth Pact in EU countries, are likely to inhibit wide-spread use of discretionary fiscal instruments as a stabilising policy tool during the current downturn, reinforcing the importance of automatic stabilisers*" (Furceri and Mourougane, 2009, p. 37).

5- Attribution of primary responsibility for the Euro crisis to the high public-sector debt built up by many MS as a result of excessively expansionary fiscal policies, when the 2008 credit crunch was actually due to the extraordinary amount of private debt. A widely circulated paper by Reinhart and Rogoff (2010) became the official reference point for these arguments, as it associated high levels of borrowing with economic stagnation. This was a development of the Ricardian equivalence theorem, from which it was deduced that expansionary fiscal policies became less effective in the long run (Rodríguez Ortiz, 2011).
6- The acceptance of the arguments of supply-side economics that structural reforms of institutions and markets and internal devaluation in indebted countries (flexible wage adjustments) would bring about a recovery in investment and employment (Council of the EU, 2012; Bilbao-Ubillos and Fernández-Sainz, 2019).

Most international institutions (IMF, WB, EU) agreed with this strategy for exiting the crisis, but critics also emerged from the outset. In 2009, Romer stated in *Lessons from the Great Depression for Economic Recovery in 2009* that "*small fiscal expansion has only small effects [...], monetary expansion can help to heal an economy even when interest rates are near zero; {...] beware of cutting back on stimulus too soon*" (Romer, 2009, p. 3).

In an analysis of the financial management of the crisis in the USA (monetary policy, random decisions to bail organisations out or not, changes in regulations), Taylor (2009) works in terms of *How Government Actions and Interventions Caused, Prolonged, and Worsened the Financial Crisis*. As regards the fiscal policy implemented in the EU, in June 2010 Mathieu and Sterdyniak (2010) called into question the "*fiscal exit strategy*" adopted when the state of public finances was generally satisfactory in the EU before the crisis. Bilbao-Ubillos (2014a) took that questioning still further.

3.2. Crisis exit strategy implemented in 2020

The strategy adopted by the EU for exiting the crisis sparked by the pandemic is diametrically opposite to the above. In this case the idea is to act quickly and sufficiently in a markedly anti-cyclical manner, based on the following measures:

- Immediate expansionary reaction in monetary policy on the part of the ECB: a temporary "Pandemic Emergency Purchase Programme" (PEPP) was approved with an initial funding endowment of €750 billion (European Central Bank, 2020), later raised to €1850 billion, over and above the purchases of public and private securities which were already taking place. The historic cuts in interest rates introduced between 2014 and 2016 were maintained (an official interest rate of 0%, a deposit facility rate of −0.5% and a marginal credit facility rate of 0.25%) to encourage recovery.
- Activation of the SGP escape clause on 20 March by the Commission (European Commission, 2020c), with subsequent ratification by ECOFIN on 23 March (Council of the European Union, 2020a), to provide some fiscal margin for the responses of MS. On 2 June 2021, based on its spring forecasts, the European Commission (2021a) decided that the conditions were met for continuing to apply the escape clause in 2022 and deactivating it in 2023.
- Drawing up of the European Recovery Plan based on NextGenerationEU, with a hitherto unheard of budget of €407.5 billion for grants and €386 billion for loans between 2021 and 2026.
- An appeal to expansionary fiscal policies in MS from the outset of the crisis given the insufficiency of monetary measures. A major initial cut in debt ratios would entail high social and economic costs and would be counter-productive. The European Commission (2021a, p.8) has repeatedly stated the following as the first measure in its recommendation on the orientation that the European Council should give to the economic policy of the Euro area for 2022–2023: *"Continue to use and coordinate national fiscal policies across Member States to effectively underpin a sustainable and inclusive recovery. Maintain a moderately supportive fiscal stance in 2022 across the Euro area, taking into account national budgets and the funding provided by the Recovery and Resilience Facility."* The second measure proposed is the following: "*Promote policies that tackle aggressive tax planning, tax evasion and tax avoidance to ensure fair and efficient tax systems*".

In its communication of 2 June 2021 the European Commission (2021b) stressed that coordinating national fiscal policies remains crucial in fostering recovery. In that context, the Commission reiterates that the joint fiscal position, taking into account both national budgets and the RRF, should maintain its supportive nature in 2021 and 2022.

The Council of the European Union also repeats in its recommendations of 18 June 2021 on the stability programmes for 2021 submitted by the various MS that it is important "*in 2022 [to] maintain a supportive fiscal stance, including the impulse provided by the Recovery and Resilience Facility, and preserve nationally financed investment. When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. At the same time, enhance investment to boost growth potential.*" (Council of the European Union, 2021a, p. 6)

The Council Recommendation of 13 July 2021 on the economic policy of the Euro area (Council of the European Union, 2021b) repeats the idea that fiscal policies should ensure a policy stance that supports the recovery from the COVID-19 crisis. As the health emergency persists, fiscal policies should be adopted that remain supportive in all Euro area Member States throughout 2021

Moreover, as evidence of its defence of expansionary fiscal policies, in the opinion of the Commission issued in the context of the European Semester (Autumn package) concerning Spain's budget for 2022, the draft national budget submitted by the Spanish government is described as "contractionary": "*In 2022, based on the Commission's forecast and including the information incorporated in Spain's Draft Budgetary Plan, the fiscal stance, including the impulse provided by the Recovery and Resilience Facility, is projected to be contractionary*" (European Commission, 2021c, p. 6). Such an assessment would have been unthinkable in the response to the 2008 crisis.

- Early approval of the SURE programme (**S**upport to mitigate **U**nemployment **R**isks in an **E**mergency) to prevent the destruction of jobs via Regulation (EU) 2020/672 of the Council of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak (Council of the European Union, 2020b). This programme, based on the German *kurzarbeit*, served to fund the furlough measures known as ERTE in Spain. The procedure for allocating funds to each country begins with a proposal by the Commission and is formalised in a subsequent resolution of the Council. The MS which have benefited most from these funds are Italy (€27.438 billion) and Spain (€21.324 billion).
- A time-frame must be adopted for using the flexibility allowed under EU regulations on state aid. Regulations on state aid were temporarily relaxed as from 19 March 2020 to permit aid for businesses in trouble as a result of the crisis sparked by the pandemic (European Commission, 2020b). The European Commission decided on 18 November 2021 to extend this temporary framework on state aid until 30 June 2022.

Foundations of the economic policy adopted in the exit strategy for the 2020 crisis

According to Marco Buti, Head of Cabinet of European Commissioner for Economy Paolo Gentiloni, "*the handling of the Covid-19 crisis has so far been characterised by a largely consensual view on the nature and effects of the crisis implying lower worries of moral hazard, the need to complement the monetary policy response by a centralised fiscal action*" (Buti, 2020, p. 8).

The elements of this strategy are the following:

1- Considering demand-side economics, which were ignored in the response to the 2008 crisis, as a determining factor for the recovery of the economy and employment. Supply-side conditions remain relevant (which is why reforms are included in the national plans of MS along with support for green and digital transitions with the ultimate aim of increasing potential GDP and sustainability), but the idea is to take all steps necessary to avoid a collapse in aggregate demand and the consequent job losses.
2- As a result, confidence is restored in the role of discretionary fiscal policy, with the reconsideration of the scale of public spending multipliers (undervalued in 2008) and the positive influence of investment projects on the level of confidence in business. This is why there are continual appeals to expansionary fiscal policies in MS, supplementing EU funding.
3- Fiscal policy needs to be coordinated with monetary policy, which must be firmly expansionary and anti-cyclical. Indeed, on 16 December 2021 the ECB decided to maintain interest rates and postpone until March 2022 the gradual end of its PEPP large-scale asset purchase programme (in April debt purchases will be reduced from the current €80 billion per month to €40 billion and the PEPP is set to end in October 2022, though in any event reinvestment of PEPP debt as it matures will extend until 2024). On the previous day the Federal Reserve announced its intention to withdraw its own stimuli (*tapering*) and announced 3 rises in interest rates for 2022, on 15 December 2021 the Bank of England slightly increased interest rates (from 0.1% to 0.25%) and the bank of Norway and others did likewise. So this time, by contrast with events in 2008–2012, the ECB has acted more firmly and pro-actively than other central banks, leaning mainly towards adaptive expansion.
4- In spite of the deterioration in levels of deficit and public borrowing, reflecting the operation of automatic stabilisers and the sizeable discretionary fiscal measures put in place to cushion households and firms from the negative impact of the COVID-19 pandemic, the sustainability of public finances is not considered to be a serious problem in the Euro area in the short term, so long as the ECB maintains its expansionist policy (Morron, 2021). The European Commission (2020d) states the following in its forecasts: "*The assessment of public debt sustainability indicates that, notwithstanding risks, the debt position remains sustainable in all Euro area Member States over the medium-term.*"

But this assessment depends on two important assumptions: (i) a return to sustained nominal GDP growth in the coming years; and (ii) the interest rate environment remaining favourable. MS must return to the path of fiscal consolidation once the recovery is consolidated, so as to reduce the weight of debt and gain fiscal room to tackle further crises.

- Flexibility in the application of Community regulations (e.g. on the SGP and state aid) with the ultimate goal of facilitating recovery and preventing business closures and job losses that could exacerbate the short-term context of recession.

4. NextGenerationEU as a landmark in the *acquis communautaire*

The EU's response to the crisis sparked by the pandemic is a landmark in the *acquis communautaire*, because the July 2020 agreement on the NextGenerationEU Recovery Fund authorises the European Commission to borrow up to 750 billion Euros (at 2018 prices) in the name of the European Union. This is a sound precedent for the mutualisation of debt (and risks), a matter which was taboo until a year ago due to the "no bail-out" clause (in Article 125 of the Treaty on the Functioning of the EU[1]), as brandished repeatedly by the *hawks*.

It is true to say that the EFSM issues debt similar to "intergovernmental" eurobonds and that it offers credit to MS, but it does so conditionally and with solidarity limited to the capital of each MS in the institution. The Commission also issued EU SURE bonds for up to €100 billion in the form of social bonds, but with prior guarantees from MS and in the form of loans.

To date Eurobonds had never been issued to fund transfers to MS in line with objective needs not linked to their share in the capital of EU resources. It would be desirable for this recovery fund to become a permanent mechanism for macroeconomic stability (funded with Eurobonds or Community taxes).

It is also true to say that this movement towards the mutualisation of risks has not been symmetric in all Community deliberations. For instance, the proposal to set up a European deposit guarantee fund (the Single Resolution Fund), expressly requested by European supervisory bodies, remains blocked. In other words, it cannot be said that there is clear progress towards federalisation in the EU; rather it seems that fear of a recession even deeper than that of 2008 (with greater uncertainty as to the outcome of the health situation) resulted in a one-off release of the brakes usually applied to plans for the mutualisation of debt and the issuance of Eurobonds.

But the Plan is also a milestone in that it is creates a great opportunity to speed up the transformation of the economy and improve social and territorial cohesion between countries for two reasons:

1 Due to the scale of the funding involved and the criteria for allocation per MS:

The EU recovery plan envisages almost €800 billion in grants and loans. Moreover, "*cross-country allocations show both an insurance element (countries hit harder get more EU funds) and a redistribution element (countries with lower GNI per capita get more EU funds*)" (Darvas, 2020, p.3). These allocations are not limited by the percentage attributable to each country in the capital contributed to European funds but based rather on objective needs in a spirit of redistribution. As such they are a striking innovation in EU policies of financial aid for MS.

Table 1 shows the amounts that each MS will receive only in grants (in addition to loans and spillover effects) expressed in Euros, as a percentage of the total and as a percentage Gross National Income (GNI). In all cases, MS will be required to demonstrate additionality and complementarity for the sums to generate the expected impacts.

1 Because it means that there must be a reflection and prior diagnosis of the economic, social and environmental problems to be tackled by each MS. For instance, the size of the gender, social, digital gaps and the territorial gap within each country must be estimated, as must the bias of the economy towards cities, the weight of solid fuels in the energy mix, the sustainability of mobility dynamics, the need to

[1] The judgement of the European Court of Justice (Full Court) of 27 November 2012 on the EFSM, in reference to a request for a preliminary ruling brought by the Supreme Court of Ireland, concludes that the article in question did not intended to prohibit either the Union or the Member States from granting any form of financial assistance whatever to another Member State.

Table 1
Estimated cross-country allocation of the 'Next Generation EU': gross grant to member states (€ billion, % of the total allocation and % of the 2021 Gross National Income).

MS	€ billion	% total	% 2021 GNI
Italy	85.9	19.8%	5.2%
Spain	80.9	18.7%	7.0%
France	43.2	10.0%	1.8%
Poland	38.2	8.8%	8.1%
Germany	33.8	7.8%	1.0%
Greece	23.2	5.4%	13.5%
Romania	20.1	4.7%	9.6%
Portugal	16	3.7%	8.1%
Bulgaria	9.3	2.2%	16.0%
Czechia	8.9	2.1%	4.7%
Netherlands	8.8	2.0%	1.2%
Hungary	8.5	2.0%	6.7%
Slovakia	8.1	1.9%	9.0%
Belgium	7.6	1.7%	1.6%
Croatia	7.5	1.7%	15.4%
Sweden	5.5	1.3%	1.2%
Austria	4.8	1.1%	1.3%
Finland	3.9	0.9%	1.7%
Lithuania	3.9	0.9%	8.6%
Latvia	2.9	0.7%	9.9%
Denmark	2.8	0.6%	0.9%
Slovenia	2.7	0.6%	5.9%
Ireland	2.4	0.5%	0.9%
Estonia	1.9	0.4%	7.2%
Cyprus	1.5	0.3%	7.6%
Malta	0.4	0.1%	3.2%
Luxembourg	0.3	0.1%	0.7%

Source: Darvas (2020, p. 4).

ensure certain supplies in the value chain (such as chips and semiconductors[2]) and the resilience of health and social services systems.

5. Conclusions

The rapid initial response to the pandemic crisis prepared by the Commission was slowed down by the complexity of passing initiatives with narrow legal frameworks and numerous interim political steps and procedures, reflecting the intergovernmental nature of the process of European integration and the lack of trust between MS.

Even so, NextGenerationEU forms part of a pro-active, ambitious, markedly counter-cyclical EU strategy for exiting the economic and social crisis arising from the pandemic. In this it contrasts sharply with the lukewarm reaction to the crisis of 2008, which was self-inflicted due to the weakness, slowness and pro-cyclical orientation of the Community's response.

The goal of helping bring about a sustainable, resilient, inclusive, fair recovery has prevailed this time over the doctrine-based, political and moral considerations that conditioned the response to the 2008 crisis. However there is a need for urgent, fast-track procedures to be set up in the EU to tackle any further crucial, urgent problems that may arise in the future. A permanent stability mechanism that is well endowed and designed without complexes in regard to the mutualisation of debt could simplify procedures and shorten reaction times.

But over and above this temporary instrument and its resource endowment, the most heavily indebted economies in the EU have already benefited (even more) from the firm, expansionary policy of the ECB, which has enabled them to obtain funding at negative nominal interest rates on bonds maturing at less than 10 years. In the case of Spain, for example, the reduction of the average yield on outstanding debt results in savings averaging close to €40 billion per annum in interest payments between 2020 and 2023. The resources that this releases are hugely important in these times of uncertainty.

[2] On 4 May 2021 the European Commission identified 137 sensitive products in 14 industrial ecosystems for which the EU is "highly dependent" on Asia (and especially on China): "*The Commission will work towards diversifying international supply chains and pursue international partnerships to increase preparedness.*" (European Commission, 2021e, p. 14).

Declaration of Competing Interest

There is no conflict of interest.

Data availability

No data was used for the research described in the article.

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