FINAL PROJECT

Bachelor's Degree in **Business Administration and Management**

Title: THE GREAT RECESSION AND THE COVID-19 PANDEMIC: COMPARING ECONOMIC POLICIES IN THE EUROPEAN UNION WITH A FOCUS ON SPAIN

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ABSTRACT

This project focuses in analysing the last two devastating crises the European Union and Spain have suffered in the last fifteen years. On one hand, the financial recession back in 2010, which caused a new paradigm in the Spanish banking system, as well as it warned banks and investment funds worldwide, with a special impact in Europe. On the other hand, the pandemic originated in China by an unkown virus called COVID-19, expanded quickly towards west, reached Europe and Spain, and collapsed its health systems by the year 2020. This unprecedented situation forced national governments and health authorities to declare a total shutdown of all activity, which eventually caused an economic crisis. Once analysed both situations, the objective of this thesis is to compare the response European and Spanish authorities adopted in order to manage them, observe their differences (if any), and analyse the consequences derived from both managements. Finally, a conclusion is drawn and differences in the management of each crisis are highlighted, with a special emphasis in the evolution that took place between the first one and the second one, having the latter a more modern and social perspective, and eventually achieving its goals.

KEY WORDS: *COVID-19, Economic Crisis, European Central Bank, European Union, Financial Sector, Public Policies, Financial Recession, Spain*

RESUMEN

Este proyecto se centra en analizar las dos últimas y más devastadoras crisis que la Unión Europea y España en concreto, han sufrido en los últimos quince años. Por un lado, la recesión financiera de 2010 que provocó un nuevo paradigma en el sistema bancario español, puso las alertas a los bancos y fondos de inversión de todo el mundo, con una especial incidencia en Europa. Por otro lado, la pandemia generada por el COVID-19, un virus desconocido que se originó en China y se expandió rápidamente hacia el oeste, llevaba al límite los sistemas sanitarios de toda Europa y España en el 2020. Esta situación desconocida obligó a los gobiernos centrales y autoridades sanitarias a parar por completo cualquier actividad, lo que originó en poco tiempo una crisis económica como nunca se había visto. Una vez analizadas ambas situaciones, el objetivo de la tesis es comparar la respuesta que tuvieron las autoridades europeas y españolas para su gestión, observar sus diferencias, si las hay, y analizar las consecuencias que se derivaron de estas gestiones. Seguidamente, se extrae una conclusión en la que se destacan las diferentes formas de gestionar ambas crisis, con un énfasis especial en la evolución que tuvo lugar entre la gestión de la primera y de la segunda. Finalmente, se concluye que esta última ha tenido un enfoque más moderno y social y ha conseguido con el tiempo alcanzar sus objetivos.

PALABRAS CLAVE: *Banco Central Europeo, COVID-19, Crisis Económica, España, Recesión Financiera Políticas Públicas, Sector Financiero, Unión Europea*

I. INTRODUCTION

We are usually told that in capitalist economies, such as ours, economic crises or recessions are cyclical. That is, they are frequent after some years, due to the fundamentals of economics of this system. However, it is not expected to go through two of them in short periods of time, as an economic crisis means years and years of recovery, even though normally, most societies never fully recompose nor restore the levels of life quality they had before the crisis. This is what motivates me to do a research on this topic, as I was a teenager when the 2008 financial recession hit, I was not able to fully understand the reasons of the decisions taken at the time. Years later, when the COVID-19 struck, I was older and already interested in international economics so I could understand how the authorities worked to palliate the effects. I think this is a great opportunity to learn about the differences of both crises.

That being said, most of the people in our current society has actually experienced two economic crises in a very short period of time, if not more. Leaving aside the 1973 oil crisis, the economic recession in 1993 Spain suffered and the dot-com bubble in the early 2000, the financial recession in 2008 and the economic crisis derived from the COVID-19 pandemic have brought a threat to the global economy in such a short period of time.

Specifically, it is worth mentioning those who were born between 1985 and 2000, as youth were hit by these two crises in a very critical time of their lives. A time when, in 2008, those born in 1985 and later were trying to start an independent life away from their parents' home, trying to get a job and to get financial independence.

Therefore, the economic recession of 2008 truncated their future plans, relegating high qualified youth to accept jobs way below their potential and sometimes, even to emigrate to find a job; forcing youth of vulnerable socio-economic background to keep in precarious jobs with very few possibilities of improving their status. By the time they had already started recovering and continuing with their life plans, COVID-19 hit and interrupted once again most of their schemes.

Likewise, other segments of population were also affected by the economic recession, and it is worth to mention the case of those born in 1950 and 1960. As the unemployment increased considerably, those most veterans who lost their job faced a very critical situation in order to find a new job in a scenario in which jobs were highly demanded and the competence was enormous. This segment of population was usually considered "too old to be hired", hence they faced long years of stagnation without a job. On top of that, once the recession would finally be over, they would already be eligible to retire.

Furthermore, a decade later, in 2020, another unusual event which was not predicted by governments, was the strike of the COVID-19 pandemic. A rare scenario which forced authorities to take unprecedented measures in order to reestablish the chaos that was propagating all along Asia, then Europe, and finally America. The COVID-19 pandemic pushed the governments to shut down all activities, including firms, production, industries, etcetera.

It was an immense cease of all activity in order to prevail public health and people's lives. Consequently, global economics would soon feel the impact of such a close down, and once again, many people lost their job and faced an uncertainty scenario. With very few references on how to manage a global pandemic like this one, and with the precedent of an earlier economic disaster that supposed the 2008 recession, people could certainly be worried about the outcome of this new scheme.

Of course, one must acknowledge even though both crises were an economic threat to the welfare state, finally both their outcomes have been very different. Consequently, the scope of analysis of this thesis will be focused in Spain, one of the Member States of the European Union which had a difficult time during the 2008 recession, thus along the whole analysis it will be explained why. However, the situation in this same country was quite different 12 years later, when the COVID-19 struck, also another circumstance that will be studied in order to compare both. Therefore, this is what this thesis wants to focus on:

What differences can be found between the set of public policies implemented in the European Union in the 2008 financial recession and the economic crisis derived from the COVID-19 pandemic in 2020? Which different consequences did both of them imply?

The objectives this research will focus on are to study and compare the public policies that financial authorities and national governments adopted in order to dampen the negative effects both events had on the economic system. Those measures will be unemployment rates, GDP, public expenditure and revenue, public debt, among others.

The methodology followed will be to analyze separately both crises, the 2008 financial recession and the COVID-19 Pandemic, in order to know and understand their context and what did they mean. Afterwards, it will be evaluated the interventions and public policies the authorities in charge implemented in order to solve the issues, and it will also be assessed what did they mean for the population.

Once both events are reviewed, it will be the moment to compare facts and figures and to see the differences of their outcomes. This will be an essential part of this thesis as it will form the basis for the conclusions of the whole research.

Finally, a lot has been researched and published about the 2008 financial recession, and some more is still being written about the COVID-19 Pandemic, due to their economic and social relevance. This is taken in the present thesis as an opportunity to write it, as those authors who have already studied both crises can provide with a professional and deeper view of this topic.

1.1. BASIC CONCEPTS: ECONOMIC SYSTEM AND CAPITALISM

In order to shed some light on how the current economy works worlwide, and to an easier understanding of the following chapters and analysis on this thesis, it is crucial to explain our economic system, its fundamentals and how the globalization has had a key role in the both crises analyzed.

As mentioned before, currently most of our economies in the world function under a capitalist system. However, in the first place, what is an economic system? Likewise, what is capitalism?

"An economic system is a concrete way of organizing activities related to production, distribution and accumulation. Every society has a unique way of creating and providing goods and services, to distribute them or their value among the population, and finally, after consuming one part, to preserve another part and keep generating production in the future." (Palazuelos, 2015: 11).

With this specific definition, it is easy to see how important for a society is to have an economic system that works efficiently for everyone, without leaving major issues aside. An economic system is a transversal one, whose changes, improvements or worsens, affects its whole population, sometimes meaning irreversible transformations. Additionally, both the concepts of production and distribution are key when analyzing an economic system, as they represent the creation of wealth and how it is distributed among population (which most of the time do not have the same resources nor the same purchasing power). Finally, when talking about accumulation, what it refers to is the economic growth a society can experiment, which is crucial in this thesis in order to understand the analysis of the two worst economic crises in the last decades.

On the other hand, the current believe held about capitalism it is due to Adam Smith and David Ricardo, and their pioneer investigations that caused a totally new point of view on how it is faced the objective Economy should follow, as a discipline dedicated to studying the society. These two classic economists were the ones who identified capitalism had its own attributes in the way of creating, distributing and accumulating wealth. And, at the same time, they understood this process was linked to the economic relations established among the diverse social groups. This is why they considered in order to guarantee the continuity of generating accumulation, wealth distribution should benefit those who owned production factors (Palazuelos, 2015: 12).

These contributions by Adam Smith and David Ricardo took place, approximately, in 1776 when Smith published *The Wealth of Nations*, and in 1817 when Ricardo published *On the Principles of Political Economy and Taxation*. From then, the way society functioned and was structured, started to change as they both created the Political Economy, a concept they described as *"the study of the fundamentals which explain the functioning of the capitalist economy."* (Palazuelos, 2015: 12).

However, there would still be a major change in the way capitalism was seen by socio-economic actors of diverse economies, and that would come with the contributions of Karl Marx, some decades later, in mid 19th century. Marx questioned the theory previously published by Smith and Ricardo, and added his own views and analysis, which were also published in a large volume called *The Capital: Critique of Political Economy*, in 1867.

Marx added new proposals more solid in terms of the relation between production, distribution and accumulation of wealth, which allow to explain -and understand- better why capitalism is a cyclical system, as mentioned earlier, and as one can identify with their own experience. Additionally, he centered the analysis in the relations of power between capitalists (who owned the factors of production) and employees (who did not have those factors and who needed to work in order to receive a monetary compensation for living); which he presented as an antagonistic relation.

Furthermore, Marx focused his investigations in the characterization of capitalism as an economic system, which is interesting to consider with the purpose of following correctly this thesis. There are three basic pillars he identified and which are worth mentioning to get a thorough view of capitalism:

- Private property of most of the factors used to produce,
- The commercial character of the production, thus it is produced to be sold in the market eventually, in return of a monetary profit,
- The private appropiation of the production and its profit.

Finally, an idea which was rather avant-garde taking into consideration he published it back in the 19th century, was the acknowledgment that there was, in fact, a dominant position of the owners of the production factors, with respect to their employees.

Thus:

These social relations are the ones which determine the characteristics of the capitalist economic process and the ones that subordinate it to a central objective: to guarantee a wider reproduction of the capital, meaning, a wider accumulation of wealth by the owners of production factors (Palazuelos, 2015: 13).

Subsequently, it is remarkable for the purpose of this thesis the concept of economic power and political power, and its interrelation. When talking about economic power, it is fair to link it to the definition of capitalism and suggest that: "*it is the relation of dominance capital has over labor"* (Palazuelos, 2015: 14). In other words, it would mean the capacity the business owners have, as capital holders, over their employees, who do not own capital. From this point, there can be a series of quotidian situations most citizens have possibly experienced -in any of the two roles described-, that sound familiar to these relation of powers. For instance, when a person finds a new job and is about to sign the contract, that contract would be the expression of power the owners of the business in question have, in order to impose their conditions to this person who needs to work to earn an income. Another example would be when someone -could also be a firm-, asks for a loan in a financial entity, the conditions of the loan approved. These, as examples of current relations of power, end up endorsing most of the theoretical investigations Smith, Ricardo and Marx brought about centuries ago.

At the same time, political power is a different notion as it is centered on the State, which holds the executive power inside a nation, even though both are interrelated. For that, it has the power over the main institutions which represent the other two powers: legislative and judicial. It is also important to note that the State, in most of the countries, has the control over the military force and the police, two key forces in the management of a country (Palazuelos, 2015: 14). In view of the foregoing, in any case, States hold the control and physical force to impose their decisions among their citizens, which includes too, any economic decision that affects the whole population. Therefore, in the end, the State holds both the economic as well as the political power.

In this regard, there is one last topic worth mentioning which has been brought by the investigations of author Naomi Klein, especially during the 2008 great recession, although its impact goes way beyond that single crisis: it could be applied to many devastating events taking place in the world.

"Most New Orleans schools are in ruins," (Milton) Friedman observed, "as are the homes of the children who have attended them. The children are now scattered all over the country. This is a tragedy. It is also an opportunity to radically reform the educational system." (Klein, 2007: 4,5).

This was written by the time hurricane Katrina, back in 2005, destroyed the US of New Orleans, killing more than 1,500 people and afecting more than one hundred thousand people. It damaged houses, schools, highways, oil platforms and refineries, among other infrastructure; and had a very negative impact in New Orleans' population. In order to recover the State from such damage, several options were considered, but what is for sure, is that the way this city was reconstructed, was not at all how was it before the hurricane. Administration at the time, took this situation as an opportunity to make profound changes in the way New Orleans' public system work, in favour of some owners of private capital. The decided to not rebuild as many public school as before; instead, charter schools ("*publicly funded institutions run by private entities according to their own rules" (Klein, 2007: 5*)) were created and implemented in New Orleans. That was, in addition, a permanent reform of the system.

This is only an example of how can capitalism come into play with people's lives and well-being, up to a point where it can, from any given situation, change any system, structure or scheme that has been present in a specific society, for a completely new one in favour of the private capital. This topic will be relevant in order to understand the outcomes of the crises that will be analysed in this thesis, some of the profound changes some societes went through, and the impact some policies had on some European Union's countries.

1.2. THEORETICAL FRAMEWORK

The following theoretical framework will focus on the importance of finance capital, and its center role inside the capitalist economy the European Union and Spain represent. First of all, some definitions are needed:

Finance capital is that money destined to the acquisition of financial assets with the aim of obtaining a monetary profit in return (Palazuelos and Vara, 2015: 169).

Nowadays, there are many different kind of financial instruments, thanks to the new technologies that have rised in the last decades. With the invention of the internet in the early 1980's and its rapid propagation over the capitalist economies all around the world, it has definitely promoted the diversification and extension of the way one can deal with financial instruments. It is also fair to mention that this propagation has created, after four decades, a huge interconnection among all financial agents, and what is more, what once was focused in financing the economy, that is, commercial and productive activities, is now almost entirely focused in generating more money for private owners. Therefore, it can be seen that this gigantic movement of money every day, mostly focuses in making great fortunes, even greater; as most of this money does not enter in the life cycle of the economy, in order to boost production or commercial activities. This is a very relevant aspect needed to understand this thesis. Additionally, another meaningful aspect of the financial capital that must be included is the internationalization of financial assets that has been taking place in the last decades, along the improvements of technology. Society has come to a point where milions of transactions are executed every minute in every place of the world, and furthermore, among diverse international players. The international arena has increased to a relevance that nowadays, it is not possible to consider financial activities without thinking in a whole globalized scene. Naturally, that includes States as well, which are the center point of analysis in this thesis. States are present in the financial markets to gain investments and to better off the situation of their economies, among many other reasons. That is why they operate through the well-known Balance of Payments, a document which registers the international financial movements every country negociates, including all the financial operations (direct investments, loans, portfolio holdings, and so on).

However, this has not always been the case, and it is relevant to mention some historical facts that have had a major impact in the way States manage their international financial operations. Firstly, after the World War I, in 1918, where a a period of speculative financial operations would take place in the Wall Street Stock Exchange in the US, until the Great Crash in October 1929, which had an enormous impact not only in the US economy, but also in the whole world, especially in Europe. Sadly, this would not be the last time a financial crisis in the US would impact Europe negativelly, as it will be analised later in this thesis.

Eventually, some years later, after the World War II, precisely in 1944, the Bretton Woods agreement took place. It was a negotiation among the US, some European countries, Canada, Australia and Japan, that concluded the US dollar would be pegged to the value of gold ($35 an ounce), while the rest of the currencies of these countries would be pegged to the US dollar. It was also agreed the creation of two institutions that would manage this new era of international trade under the new system, which were the International Monetary Fund and the World Bank. However, the Bretton Woods System would end in 1970 with the mandate of US President Richard Nixon, who decided to no longer use this system, a decision that freed countries to choose other ways of exchanging their respectives currencies (Agreement and the Institutions it Created, 2022).

After 1970, there have been a series of events, even though one of the most significant changes to mention is the full mobility capitals have achieved worldwide since then, allowing States to have considerable commercial deficits and counting with the input of external funds. Thanks to the internationalisation of financial markets, as mentioned before, States had more access to get financial investment from investors all over the world: the demand to purchase public debt increased considerably. Before this system, States had traditionally financed themselves through two options: firstly, the request of bank credits to financial institutions, and secondly, the extension of the monetary base of their economies (Palazuelos, 2015: 177-178). Now, this would change forever and would have, as it will be seen, advantages as well as disadvantages, as the financial world became more and more interdependent.

Consequently, "*the current financial globalisation responds to the wide interest in financial capital"* (Palazuelos, 2015: 178), from the principal financial agents (mainly huge operators in the main financial markets like transnational firms or banks, allowing room to others such as diverse currencies or national economies). This globalization would not have been possible without the commitment and approval of the diverse governments who have allowed, over the last decades, the liberalization of financial markets and its large international capital movements, up to a point where, in case of a minor failure in the system, the consequences would be devastating.

More specifically in the European Union, the importance of financial capital was captured when the Union was created, particularly when the Maastricht Treaty was signed in 1993 and the cooperation among Member States was extended. Amidst other new measures, this Treaty laid the groundwork for the creation of the Euro currency, which would enter the markets almost ten years later in 2002. Along this new scheme, the European Union also approved with the Maastricht Treaty, a set of budgetary rules with the aim of maintaining price stability, a controlled inflation and a safe and sound financial situation. These budgetary rules include the Multilateral Surveillance, which requires Member States to acquire a stability programme with a middle-term objective of having equilibrium or surplus in their Balances, as well as a trajectory of how to achieve it. Additionally, this trend should not exceed the debt by 60% of the GDP. Apart from this, there is also the Excessive Deficit Procedure, a programme assessed by the European Council which surveills each Member State deficit, and if that is excessive, it sends a set of recommendations in order to correct it. If this is not adjusted as recommended and the deficit increases, the European Council can impose sanctions and eventually fines, if the deficit is not corrected within the next two years.

As it can be seen, the predominance of finances over the political agenda and priorities is marked by how the budgetary rules in the European Union were created as well as the conditions Member States are subjected to in the Euroarea. This will be a crucial idea to keep in mind in this thesis' next chapters as it will help understand why European authorities and some Member States took a set of particular decisions when it was time to send financial aid to other Member States.

II. THE EUROPEAN UNION

2.1. THE EUROPEAN UNION GOVERNANCE

Being the European Union the world's largest union of countries, it is undeniable that globalisation has had a huge impact in the way Member States coordinate their economies, fiscal policies and any related matter that could affect the whole union. Hence, as the importance of financial capital has already been explained in the previous chapter, it is time to bring this concept to the European Union and how do this conjunction of countries operate regarding finances, and through which instruments.

Therefore, for the purpose of resolving this thesis' main objective, it is key to deepen into two European institutions and one configuration which are decisive to later understand the analysis of the public po- licies that took place in both the Great Recession and the COVID-19 pandemic and eventual economic crisis. These three EU bodies are as follows:

- **European Central Bank** (ECB)
- **European Commission** (EC)
- **Economic and Financial Affairs Council configuration** (ECOFIN)

2.1.1. EUROPEAN CENTRAL BANK

"The purpose of the European Central Bank (ECB) is to maintain monetary stability in the euro area by ensuring low and stable consumer price inflation. Stable prices and low price inflation are considered vital for sustained economic growth as they encourage enterprises to invest and create more jobs — thus raising living standards for Europeans. The ECB is an independent institution and takes its decisions without seeking or taking instructions from governments or other EU institutions." (How The European Union Works, 2012).

The European Central Bank, worth mentioning it was created back in 1999 by the Treaty of Amsterdam, has one very specific and concrete mission. However, one must acknowledge even though it is one job, it comes with some complexity. Being an independent institution, it does not count on national banks nor governments to act, a right that is conferred to this institution by the Member States when they join the EU. The ECB is the responsible of the entire Monetary Policy (an Economic Policy that focuses on managing interest rates and price stability) of the whole EU, which is a great responsibility as it acts as an umbrella institution for the 17 countries which have the Euro as their currency.

On the other hand, the Fiscal Policy, one that, according to many economists should be managed side-by-side with the Monetary Policy, was established to mantain in the power of each Member State when the ECB was created. Hence nowadays, in the EU the Monetary Policy is designed and implemented by the ECB, whereas the Fiscal Policy is independent in each Member State thus, different in each of them.

2.1.2. EUROPEAN COMMISSION

"The Commission is the politically independent institution that represents and upholds the interests of the EU as a whole. In many areas it is the driving force within the EU's institutional system: it proposes legislation, policies and programmes of action and is responsible for implementing the decisions of the

European Parliament and the Council. It also represents the Union to the outside world with the exception of the common foreign and security policy." (How The European Union Works, 2012).

As the definition itself states, the European Commission (EC), created back in 1965, is a politically independent institution, which is a key characteristic very important to keep in mind when analysing the decisions it took in both 2008 and 2020, and the direction it leads society to. The EC is an powerful institution, that has a great capacity of transforming society through initiating policies, a right they have know as "Right of Initiative", meaning they are supposed to start legislation and pass it to the European Parliament and the Council to then be discussed and approved or declined by both of them. Having this right is decisive in times of crisis such as the ones this thesis is focusing on, as, if used right, it can prevent many undesirable situations as it can act fast and efficiently; and what is more, it can lead the Member States to do so, in case there is a difficult situation they cannot solve by themselves, or simply they do not hold the competence to resolve it.

2.1.3. ECOFIN COUNCIL

"The Ecofin Council is made up of the economic and finance ministers from all member states. Relevant European Commissioners also participate in meetings. [...] The Economic and Financial Affairs Council, commonly known as the Ecofin Council, is responsible for:

- *economic policy*
- *taxation matters*
- *financial markets and capital movements*
- *economic relations with countries outside the EU*

It also prepares the EU's annual budget and takes care of the legal and practical aspects of the single currency, the euro. The Ecofin Council:

- *coordinates member states' economic policies*
- *furthers the convergence of their economic performance*
- *monitors their budgetary policies*

It also coordinates EU positions for international meetings, such as the G20, the International Monetary Fund and the World Bank. It is also responsible for the financial aspects of international negotiations on measures to tackle climate change."

Although Ecofin is not a European institution itself, it has a great power among the Member States as their Economic and Finance Ministers gather themlselves in this configuration in order to coordinate the economic policies they need to follow. Its status is a Configuration, which is a body that depends from the Council, along with other nine Configurations, each of them with a particular category and objectives. During the great recession, the Ecofin had a strong role as it met regularly in order to discuss how to overcome the situation, as it will be explained later in this thesis.

2.2. THE EUROPEAN UNION'S POLITICAL SYSTEM

As aforementioned, the European Union is a conjunction of those countries which entered the Union once fulfilled a series of requirements regarding finances, politics, stability, values, among others. This procedure ensures the Member States are, somehow, on the same page when it comes to take decisions which normally, would affect the whole Union. However, the European Union also counts with its own autonomy, as it has been analysed before through its institutions, bodies, agencies, etcetera, meaning it also makes policy. In this chapter the European Union political system will be briefly explained, as it is a key aspect that had a major role in the management of the two crises this thesis is focusing on.

According to Simon Hix and Bjørn Høyland (The Political System of the European Union, 2012: 4,5), there are five principal kinds of politics in the European Union:

1. **Regulatory policies.** They regulate the free trade of the four single markets the EU has: goods, services, people (that is, labor) and capital. It includes a key concept in European integration which is the harmonization of regulations and standards, in order to create a unique market and to facilitate consumers and producers to buy and sell goods and services.
2. **Expenditure policies.** Including the transfer of resources and capital stated in the EU Budget, as well as policies focused on development and cohesion.
3. **Macroeconomic policies.** Inside the European Economic and Monetary Union (EMU), the ECB has the control of these policies as it manages the money supply and the interest rates. On the other hand, the Council works with the exchange rate policy and coordinates employment policies.
4. **Interior policies.** The aim of these policies is to prevail the European Union's citizens' rights, including policies focused on asylum and immigration, police and judicial cooperation. It also manages the provisions for the "EU citizenship".
5. **Foreign policies.** They ensure the EU has a voice in the rest of the world and it is well represented in the international arena. Additionally, they include the external economic relations and foreign affairs that are under the Common Foreign and Security Policy (CFSP), which is under direction of the High Representative of the Union for Foreign Affairs and Security Policy, who is at the same time, Vice-President of the European Commission.

Inside this policy diversification, which helps the European Union in focusing in each of the areas in order to be more effective, as well as to form efficient teams of professional technicians to work, there are also different levels of responsibility. That is, there are some competences that are entirely regulated by the EU, the **Exclusive Competences of the EU** (such as the Single Market and the competence policy), others that are shared between the EU and the Member States, the **Shared Competences** (such as the social and health regulations, gender equality, environment, energy, transport, economic, social and territorial cohesion, among others). In the third place there are the **Coordinated Competences** (Member States coordinate them with the EU in order to prevent such policies to affect other Member States), and finally there are the **Exclusive Competences of the Member States** (any other policy that is not included yet, basically most of them are expenditure and tax policies). In the following Figure it can be seen the separation of powers inside the European Union's institutions:

EXECUTIVE POWER	LEGISLATIVE POWER	JUDICIAL POWER
European Commission: one of its powers is to propose legislations, that then the Council and the European Parliament can adopt or not. It also coordinates the responses the EU gives as a whole, in terms of special situations.	**The Council:** represents the interests of the Member States, through their Ministers of Governments. **European Parliament:** formed by its Members, who are representatives of citizens, thus are voted directly by them every five years.	**European Court of Justice (part of the Court of Justice of the European Union):** it works with the European Law, interpreting it when it must be applied; and also ensures it is correctly implemented among the Member States.

Figure 1: Division of Powers among the European Union Institutions
Source: Own Elaboration

2.3. THE ECONOMIC AND MONETARY UNION

Along with a coordinated policy and political system, the European Union reached a point were it needed to further integrate, in order to make possible all the common policies and objectives that were rising. This was the moment when, in 1993, the Economic and Monetary union was created, a new paradigm that would change the way Member States interconnect among each other with respect to the monetary policy as well as with their currencies.

The Economic and Monetary Union (EMU) was created with the Maastricht Treaty, and it meant an immense step towards a further integration among the Member States, especially in their economies and the global EU economy as a whole. Whilst all 27 Member States currently take part in this union, some countries have taken integration further and have adopted the Euro (a common currency which started back in 2002). Altogether, these countries form the Euroarea or Eurogroup.

This tight economic union also meant an improvement in the coordination of economic policy-making between the Member States, as well as fiscal policies (basically through limiting Government debt and deficit). However, as mentioned before, the monetary policy was transferred to the European Central Bank, who acts independently towards price stability. Therefore, it is fair to mention that within EMU, there is not a single institution responsible for economic policies. Instead, the responsibility is divided between the EU institutions and the Member States (Economy and Finance: What is the EMU?, 2022).

Additionally, this union also meant the creation of rules and supervision of financial institutions within the Euroarea. This supervision and regulations has been possible thanks to the creation of diverse bodies inside the European Union, each of them dedicated to tackle one specific issue. In order to understand the following chapters of this thesis, it is important to explain some of these bodies (Prof. Arturo Pallardó, class notes European Integration, May 2022):

- **Stability and Growth Pact (SGP):** it is a set of rules designed to ensure that countries in the European Union pursue sound public finances and coordinate their fiscal policies. It consists of two main blocks: the preventive arm and the corrective arm.

- **Preventive arm:** to ensure sound budgetary policies over the medium term by setting parameters for Member States' fiscal planning and policies during normal economic times.
- **Corrective arm:** ensures that Member States adopt appropriate policy responses to correct excessive deficits (and/or debts).

According to the Maastrich Treaty, each Member State is supposed to take care of their own debt and/or banking issues, thus, before the Financial Recession in 2008, the SGP was the only common instrument that existed apart from the ECB, in order to surveil and correct public deficits of Member States.

Once the recession was over, Euroarea countries decided it was better to reinforce this surveillance from the European Commission and some measures were taken such as the creation of the two-pack and six-pack measures, and the Fiscal Compact of the Treaty on Stability, Coordination and Governance (Economy and Finance, 2022).

- **European Stability Mechanism (ESM):** its mission is to provide financial assistance to Euroarea countries experiencing or threatened by severe financing problems. However, it is only granted if it is proven necessary by the affected country, in order to safeguard the financial stability of the Euroarea as well as that of the ESM Members (Financial Assistance Instruments, 2022).

2.3.1. THE EUROPEAN UNION'S MONETARY POLICY

As mentioned before, with the creation of the European Central Bank in 1999, the monetary policy was delegated to this institution. Member States then lost some of their autonomy, as they lost control over a policy which constitutes a fundamental basis for every country's economy. But they did that in the expectation of expanding their opportunities by having a much larger economic space, which would facilitate the mobility of goods, services, factors of production, people, labor, and capital. After the creation of the ECB, the single currency Euro entered into force only three years later, in 2002, thus the ECB was prepared to coordinate policies in order to make from the Euro a strong currency worldwide.

It is essencial for the duly understanding of this thesis, to know the ECB has diverse monetary policy measures, which applies according to the economic situation in the present moment (Prof. Arturo Pallardó, class notes European Integration, May 2022):

- **Conventional Monetary Policy:** impacting the amount of money and credits in the banks. For instance, if the economy is slowing down, the ECB would usually lower interest rates to stimulate it, meaning businesses would ask for more loans, households would spend more, etc. They would lower the interest rate until it gets down to 0%.

- **Unconventional Monetary Policy:** once interest rates are 0%, the ECB would change their stra–tegy and apply **Quantitative Easing**, which means they would purchase assets from the private markets. This would allow the ECB to have a greater impact in the economy. As the ECB does not lend money directly to the European citizens, they can help indirectly by buying debt or bonds.

III. THE GREAT RECESSION: WILL EUROPE STAY UNITED?

3.1. HOW IT STARTED: FUNDAMENTAL CHANGES IN FINANCIAL MARKETS

As it has been stated at the very beginning of this thesis, we are fully aware that crises come in a cyclical way and know they are frequent in the capitalist economic systems. This is a good start to locate the great recession of 2010, which actually started years before. It is imperative to talk about a series of economic casualties that took place some years before this recession, which are key to understant the basis of why did the great recession happen in the first place.

At the end of the 20th century, the world experienced a series of events which had had a huge impact in the global order and also in the way societies viewed life. Those events happened mainly in the United States *(from now on US)*, which would also be the country where the Great Recession would start. In 2001 there had been declines in the stock market, as a result of the dotcom bubble, also known as the "New Economy" (Amat, 2021: 34), once the technological companies boosted thanks to the raise of the Internet and the accessibility to computers. Additionally, the credibility of accounting accross the US was put into jeopardy due to some wrongdoings of famous companies such as Waste Management, Enron or Worldcom, among others. Lastly, on the year 2001 there was an unforgettable event which, on top of those already named, would change many processes forever: the September 11 attacks in diverse cities of the US, which consisted in four coordinated terrorist offensives that would cause the death of almost 3,000 people.

This course of events had caused, in the early 21st century, an economic slowdown (specially on stock markets, investment and consumption), which would lead the monetary authorities to take a set of decisions with the objective of reactivating the economy. Firstly, the monetary policy was eased, which brought an increase in banks' money supply, and a consequent decrease in the interest rates (Amat, 2021: 45). Secondly, rating agencies also relaxed their policies in order to make eligible for loans, more people than before, even though those profiles who did not meet the traditional conditions. However, it is worth mentioning a substantial deregulation of the financial market had already started back in the 80's, which was enhanced in the 90's, with reforms that had weakened credit restrictions by then and also relaxed the awareness people and markets had between value and risk. These new policies -more flexible- and the economic situation the US was experiencing back in those years, were the perfect combination for the creation of the subprime mortgages. These new mortgages were called *subprime* because that is exactly what they were: a mortgage which had more precarious conditions than traditional mortgages, that is, *prime* mortgages. Differences between them were as follows:

SUBPRIME MORTGAGE (NEW)	PRIME MORTGAGE (TRADITIONAL)
- Loan was **more than 90%** of the property value - Payments were often **> 55% of the solicitant's income** **- Low Rating** **- High Interest** **- Variable Interest Rates (most of them)**	- Loan was **less than 80%** of the property value - Payments were often **< 30% of the solicitant's income** **- High Rating**

Figure 2: Differences between subprime and prime mortgages
Source: Amat, 2021: 45

What happened when subprime mortgages were created and spread by financial entities is quite obvious: they were extremely popular among the US population. Almost everybody could, finally, afford a home in the US, as conditions to get this mortgage were very lax, after years of financial struggle. It is worth mentioning most of those US citizens who took out subprime mortgages were people with low or no income at all, and some of them had no job, nor any assets. This exponential growth of the sales in the real estate market supposed an increase in the value of properties: around the year 2006, a real estate bubble was beginning to grow.

Furthermore, subprime mortgages were extrapolated to Europe, where countries also performed this financial activity by selling subprime mortgages to those who did not have the sufficient risk requirements in relation to the mortgage they were being granted. Europe had also relaxed conditions imposed for those asking for a loan and important actors such as the Bank of Spain did not perfom correctly their risk assessment. Especially in Spain, the subprime mortgages had had a major role in the financial activity during the years 1999 to 2006 approximately, due to the country's dependence on the construction sector. *"Spain was, in 2007, the OECD country where real estate's prices increased at a higher rate. [...] Spain was building more housing than France, Italy and Germany altogether"* (Ontiveros and Escolar, 2013: 42, 43).

However, how was this scheme supposed to work in the long-term, if applicants were not asked for -almost- any financial stability? Subprime mortgages were created on the premise that real estate's value would keep increasing indefinitely, which years later would be demonstrated as a false statement.

3.2. CONSEQUENCES IN EUROPE: SPECIFIC ANALYSIS IN SPAIN

Such a success in the sales of subprime mortgages, now all over the US and Europe, led to an increase in consumption: the economy was truly overheating. Yet, why did this massive consumption happen? This could be explained by the wealth effect: a theory that suggests when an asset keeps increasing its value, its owner feels wealther and thus, they consum more (Explainer - What does overheating in the economy mean?, 2022). At the same time, inflation started to increase significantly, which resulted in the monetary authorities increasing interest rates in order to cool the economy down.

As stated before, most of the subprime mortgages had variable interest rates, meaning with this increase, subprime mortgages became more expensive immediately, triggering a rapid decrease in the housing prices simultaneously, sector which had been growing annually for the last years. This scenario occurred not only in the US, but also in Europe.

The decline in housing prices kept going during 2007 and 2008, when it was obvious the bubble of the housing sector had finally burst, which meant some investors started selling their assets as the monetary authorities increased interest rates, creating a panick situation where the rest of agents involved in this sector tried to do the same in order to make profit -or avoid losses-, but it was already too late. Housing prices were too low, almost no one wanted to buy those assets as they were literally worthless. It is important to keep in mind this is about the housing sector, a slow one, meaning sellers are reluctant to lower prices, whereas buyers keep waiting for the price to decrease, unwilling to pay what they consider a high price. This was a harsh situation especially in Spain once the bubble burst in 2008, when in some areas of the country, housing sales dropped by more than 45% (Amat, 2021: 57).

Besides sales, Central Banks in Europe were also aware of the harsh situation involving the housing sector, notably in mid 2008 when the European Central Bank's Governor asked banks to inform about the impact the mortgage crisis had on them (Amat, 2021: 57): it was already a reality that the bubble had burst and the consequences were already being noticed by investors and banks. By the time this statement by ECB took place, US banking institution Bear Stearns could not be rescued by the US Government and hence, it had been acquired by the giant financial US company J.P.Morgan Chase; and what is more, the US global financial services company Lehman Brothers had just filed for bankruptcy (Ontiveros and Escolar, 2013: 39). These tragic events took place in the fall 2008, one year later after the financial crisis had started, which was during summer of 2007.

Such failure in the housing sector, especially the high inflation and the raise in variable interest rates, skyrocketed the default rate, making it evident most people could not affort any longer the payments they had compromised to pay for their subprime mortgage, some time before. Subsequently, banks' liquidity risk was being affected negatively: they had a huge amount of non-current assets, which were not suitable to pay for their short-term liabilities. This presented a hazardous situation that could jeopardize not only banks' activity, but also millions of people's savings and investments. It was the case in Spain, a country in which the construction industry got to the point in 2007, where it had more weight in the overall economy, than the tourism sector (Peso de la industria de la construcción en el PIB de España desde 2005 hasta 2020, 2022).

The Spanish economy had an over-reliance in the construction and real estate sectors, as stated before. This is the main reason why in Spain, the impact of the mentioned bubble burst was vaster than in other countries of the European Union, as there had been a unique event: Spain's banking system had not participated in the sale and purchase of toxic financial products (such as subprime mortgages), but it had created a perfect environment which had caused the creation of its own real estate bubble. More than ten years of massive contruction and sales of housing, along with a huge indebtedness of these non-current assets and very low interests in this sector, had converted Spain, in 2007-2008, the country with the highest housing stock (Ontiveros and Escolar, 2013: 43). And that sector was in crisis. Not only in the European Union or the US, but in the whole world.

Furthermore, the profound financial crisis eventually derived in an economic crisis, which undermined the macroeconomics of the countries most affected. In the US and the European Union, which were in the first place, the two most affected when the bubble burst. The effects of the financial crisis were mainly seen in diverse rates and other measures which define the economical state of a nation. One of the first consequences after the financial crisis was the unemployment, a rate which escalated rapidly up to a point which had not been seen in many years. In Spain, a country where, as mentioned, the construction sector had grown massively in the latest years, unemployment was also one of the first rates in escalating once the financial crisis took place. Naturally, this success happened along with the closure of thousands of companies dedicated to the construction sector, which could no longer construct buildings and houses (at that time, the market was almost non-existent), hence had no more economic activity to fulfill their operations as for-profit firms.

Evidently, as unemployment raised in Spain, many people lost their jobs, which led to a disminution in the country's consumption and investment. This drop, mainly in consumption, affected other sectors as most of the people cut out their expenses and could only spend their incomes in those most basic products such as food or clothes. On the other hand, some of those who did lost their job hence did not have an income anymore, could ask for unemployment benefits (if they were eligible), in order to get an income and being able to purchase food and other basic products. Finally, there were other segments of the population who had also lost their job, but at the same time were not eligible to receive the unemployment benefits. Even though population faced diverse situations depending on their socioeconomic background and personal finance situations, the reality was that consumption had decreased overall in Spain, and most of the sectors -other than the construction one, naturally- were starting to notice this drop.

Finally, another monetary measure that was badly hit was the GDP, which at some point in 2008, the GDP in most of the world's countries was negative (Amat, 2021: 69), meaning the global economic growth was going to be negative, that is, there would be a recession in the economy. In Spain, the construction sector weighted more than 12% of the GDP (Amat, 2021: 72), which was an astronomical figure. Being this sector in total cease, Spain's GDP collapsed, meaning the country went into an economic recession. In the years that followed 2008, growth in Spain was not an issue on the politicians' agenda, as they knew very well thinking about growth was being naive. The main concern in 2008 was to keep afloat the economy, and try to slow down unemployment while keeping Spain's welfare state.

3.3. EUROPEAN UNION'S POLICY RESPONSES TOWARDS SPAIN

3.3.1. FIRST STAGE OF THE CRISIS MANAGEMENT (2008-2011)

By 2008, not only the European Union, but the whole Europe, had already noticed, in one way or another, the financial and eventually economic crises derived from the bubble burst of the real estate sector. Even though countries within Europe are very diverse and have divergent fundamentals of economics each of them, what is undeniable is by the time the crisis began, the Euroarea was one of the most affected regions in the world. Many banks (both commercial and investors), had purchased financial derivatives which came from American banks, most of them related to the subprime mortgages. Subsequently, the financial and economic crises had hit the Euro so much, it was beginning to be untrustworthy all over the world for the first time in history, after almost five years of prestige worldwide and growth from its creation back in 2002.

In Spain, the first measure approved by the Government, which then was Socialist, was a Stimulus Plan (PLAN ESPAÑOL PARA EL ESTÍMULO DE LA ECONOMÍA Y EL EMPLEO, 2008) aimed to boost the economy, with a total budget of 10,000 million Euros. The main measures of this Plan were a 400 Euro tax deduction, the elimination of the wealth tax, and the possibility for all families to extend the payment period of their mortgage, without any additional charge. Some months after, it approved a Shock Plan which consisted in 24 economic measures, which would allocate 20,000 million Euros only for SMEs and housing. There were also other measures for companies when accounting for VAT, as well as a 50% bonus for the road transport sector and 75% bonus for urban public transportation. In the Services sector (which accounted for a 70% of the total Spanish' economy), notary and registry fees were reduced by 20%. Some time later, the Government increased up to 100,000 Euros the coverage of the Deposit Guarantee Fund, which was actually the double of what the EU Member States had agreed (which was 50,000 Euro), and which was previously increased only up to 20,000 Euro. This Fund's aim was to guarantee the security of people's deposits, in case the financial institution failed; while preventing banks of

Spain to suffer from dishonest competition from other institutions (REAL DECRETO 1642/2008, de 10 de octubre, por el que se fijan los importes garantizados a que se refiere el Real Decreto 2606/1996, de 20 de diciembre, del Fondo de Garantía de Depósitos de Entidades de Crédito y el Real Decreto 948/2001, de 3 de agosto, sobre sistemas de indemnización de los inversores, 2008).

In September 2008, the European Union and its Member States agreed to create the European Econo-mic Recovery Plan, a measure that had the objective of boosting investment and consumption, as follows:

"The Commission is proposing that, as a matter of urgency, Member States and the EU agree to an immediate budgetary impulse amounting to € 200 billion (1.5% of GDP), to boost demand in full respect of the Stability and Growth Pact." (Communication from the Commission to the European Council: A European Recovery Plan: 2)

By 2009, most of the 27 EU Member States admitted to be in an economic recession. In Spain, the Government approved the 2008-2011 Stability Program. This program already included the new unemployment data, which had been increasing uninterruptedly since the beginning of the crisis. It also included the deficit Spain had reached (from a surplus situation it registered in 2007, to a deficit in 2008 and so on), and finally also the economic recession it was experiencing in 2009. This document was being updated as the situation of the crisis was evolving, in order to keep the measures dully notified. Among very specific measures, the main objective of the Stability Program was as follows:

[...] "three basic pillars: strengthening confidence in the financial system and promoting adequate financing for companies and families; adopting measures aimed at boosting activity and mitigating the negative consequences of the economic evolution on families and companies; and accelerating structural reforms that contribute to improving the resilience of our country's economy and its long-term economic growth. All of the above, of course, within the framework of a firm commitment to the long-term sustainability of public finances."
(Actualización del Programa de Estabilidad - España 2008 - 2011: 6)

One of the main measures the Stability Program introduced was the creation of a Fund for the Acquisition of Financial Assets of credit institutions, which had the objective to foster financing of both individuals and firms. Hence, it would prioritize the purchase of assets with new credit. For this Fund to work, the Government provided 30,000 million Euros, which would be expandable to 50,000 million Euros. This fund had a temporary character, meaning it would be in use just the time it was necessary, in order to help with banks' liquidity, which would be acquired with the purchase of high quality assets from the banks, which would be financed with public debt. (Actualización del Programa de Estabilidad - España 2008 - 2011: 7)

Along with these financial measures, the Government also reduced the deduction it had previously applied of 400 Euro in the personal income tax related to housing; although at the same time, it announced an aid of 2,000 Euro for people to purchase cars, in order to boost the automobiles' sales (Real Decreto 898/2009, de 22 de mayo, por el que se regula la concesión directa de subvenciones para la adquisición de vehículos, Plan 2000 E de apoyo a la renovación del parque de vehículos, 2009). Additionally, Spanish Government created what was called FROB (from its acronym in Spanish), the Fund for Orderly Bank Restructuring, a fund in charge to assist the financial sector in the mergers that were taking place in the country. Many small saving banks known as "Cajas de Ahorro" in Spanish, had serious solvency troubles and were struggling to keep afloat when the crisis hit Spain, hence many of them were either declared in bankruptcy or acquired by bigger financial banks or entities. In 2005, in Spain there were around 300 saving banks, in 2008 the number reduced to 45, and eventually it would drop to only 15 in the whole country (INE), which would mean a restructuring of the Spanish financial sector.

Spanish Government also increased VAT, from 16% to 18%, a measure adopted in a tax reform which affected all the Spanish population in a very direct way: almost all products (except of course of those with reduced or super reduced VAT); and finally removed completely the 400 Euro deduction in the personal income tax regarding housing. In 2009, unemployment in Spain would hit 4.326.500 people, and the unemployment rate would be 18,83% (Encuesta de Población Activa (EPA). Cuarto Trimestre de 2009, 2010).

As it can be seen, 2009 was a year in which the Spanish Government took many measures to try to stop the negative impact the financial and economic crisis was having in the country as much as possible. Besides reforming many sectors, adding bonuses and assisting the banks, the country was also starting to implement cuts in some public policies, in order to decrease public spending. By this time, the European Institutions were already working for the assistance of many EU Member States which had a worse situation and thus needed urgent assistance. In 2008 and 2009, Hungary and Romania asked the EU for assistance in their balance of payments, which was granted by the EU, with the additional help of the IMF, World Bank, EIB and EBRD. Even though the situation in Spain was not looking good, as rating agencies were downgrading Spanish public debt, unemployment was intensifying, consumption and investment were extremely low and GDP was on the decline, the assistance from the EU Institutions would not arrive soon. Following this difficult financial and economic situation, mistrust prevailed within the European countries, creating an skeptical scenario among the Euroarea. How was the situation going to be resolved? How would the European Central Bank and National Governments react? There were many questions European countries (not only Member States of the EU) had at the time, and very few answers.

By 2010, the Spanish Government approved the Austerity Plan 2011-2013, with the objective of saving 50,000 million Euro during this period: public expenses would be reduced by 5,250 million Euro in 2010 and by 10,000 million Euro in 2011.

Its main implemented measures during the mentioned years are as follows:

- *Reduction of 5% in public salaries*
- *Suspension of pension revaluation in 2011*
- *Suspension of the transitional regime for partial retirement*
- *Elimination of retroactivity in dependency benefits*
- *Elimination of the "baby check": a 2,500 Euro aid for those families with a newborn child*
- *Cut in pharmaceutical spending*
- *Reduction of 15% in nominal terms, in expenditures on current goods and services*
- *Application of non-availability agreements to infrastructure investments in 2010 and 2011 and adjustment to consolidation needs in the following two fiscal years. A 25% reduction in other*

investments in the 2011-2013 period

- *500 million reduction in Official Development Assistance in 2011, in addition to the 300 million cut in 2010*
- *Reduction of other expenses of the General State Administration in the volume necessary to make them compatible with the agreed stability objectives* (El Gobierno Aprueba Un Plan De Medidas Extraordinarias Para Reducir El Gasto Público En 15.000 Millones Más En Dos Años, 2010).

These policies, which aimed to create savings equivalent to 2.6% of GDP, were proposed by The Council of the European Union, under a very characteristic way of controlling public sector debt, which is known as austerity. This kind of policy helps bring financial health back to governments only in the short-term, when a state's default risk is out of control (Understanding Austerity, Types of Austerity Measures & Examples, 2021). However, in the middle or long-term, austerity's outcome can be questioned as its cuts in public spending end up reducing the revenue Governments get, which makes it harder to reach an equilibrium between public spending and debt. Apart from the macroeconomic aspects, austerity also implies huge social costs, which are not easily overcome.

At the same time, the European Central Bank enhances the financial market supervision by creating the European Systemic Risk Board (ESRB) which main tasks were:

- *collecting and analysing relevant information to identify systemic risks*
- *issuing warnings where systemic risks are deemed to be significant*
- *issuing recommendations for action in response to the risks identified*
- *monitoring the follow-up of warnings and recommendations*
- *cooperating and coordinating with ESAs and international fora* (European System of Financial Supervision, 2010)

Additionally, the European Union created, temporarily, the European Financial Stability Facility, with a provision of 750.000 million Euros, and which main objective was to calm markets down and to avoid the crisis to all the Eurozone, although it was already too late for that. Even though the reality in the rest of the European Union's countries was not the same as in Spain, the recession was also being noticed around the whole region. Some of the countries with a similar reception of the crisis than Spain were those which had equivalent fundamentals of economics, and those which are located geographically in the periphery of the European continent: the Republic of Ireland, Portugal, Italy or Greece. Other countries such as Denmark, Iceland, Norway and Sweden, were not in the same situation, mainly due to the fact they all have and control their own currencies, meaning they are also in control of both the monetary and fiscal policy. This was a key re-source in order to manage the recession, which helped them dampen its negative effects and to find a suitable outcome to recover their societies while preserving the welfare state. This fact makes clear during these years, belonging to the Euroarea was more of a burden than it was a relief.

A clear example was the tense situation that took place with Greece, a country which needed to be rescued by the EU both in 2010 and later again in 2012. Firstly, Euroarea countries lent 80,000 million Euros and the IMF lent 30,000 million Euros. Even though it was a long-term loan with very low interest, it was money lent under many conditions from its lenders: Greece should reform their fundamental of economics trough macroeconomic measures which were decided by the moneylenders. Greece would then lose their authonomy to decide which policies are more adequate for Greek population as well as how to allocate the resources received. A similar situation also took place in other countries, although each of them had particular conditions, as well as different rescue degrees.

The year after, 2011, was a historic time for Spain as it underwent into many political and social transformations that would change the country for a very long time. Some changes were so profound they have not been reverted yet, after more than ten years of their implementation. Firstly, in order to keep with the strict cut in public expense it had to, as agreed by The Council, the Spanish Government reformed the pensions' system, delaying the retirement age two years (from 65 to 67), and also increased the period of time that would be taken into account when calculating the retirement allowance (from the last 15 years, to the last 25 years worked and quoted). And what was more unusual and extraordinary, the Spanish Government reformed their Constitution for the second time since it was created 33 years ago, in 1978 (the first time had been in 1993 with the Maastricht Treaty), in order to top up the public deficit (Ontiveros and Escolar, 2013: 30). This reform of the Spanish Constitution was a mandatory condition for Spain in order to be eligible to receive the funds for the financial bailout, hence the country would be able to save its banking system. The reform consisted of the replacement in its entirety of the Article 35, for a new text which prioritized the payment of the debt Spain was about to incur (Segunda Reforma Constitucional, 2011).

Such reforms in a short period of time -it had been only three years since the crisis had officially started-, triggered some discontent among Spanish society, whose well-being had been jeopardized. With no perspectives of improvement soon, a social movement started in the capital, the city of Madrid, which resulted in thousands of citizens protesting in the streets during many days. Rapidly, other Spanish cities joined the movement and after weeks of daily demonstrations, the movement earned its own name: "Outraged" (from the direct translation of *Indignados* in Spanish). Government was aware there was tension and discomfort among Spanish citizens, but now the European Union and the rest of the world was aware as well.

At the end of 2011, the Socialist Government, whose mandate was determined to end by March 2012, brought forward the general elections and called for a new Government. Elections took place on November 20th, 2011 and they resulted in the Conservative Party winning the elections with an absolute majority. This Government would manage the period of the crisis that was left, and would keep in power until the year 2018. Hence, at the end of the year, the new Government announced new austerity policies with the aim of a cut in public expenditure by 8,9 billion Euro, in all the ministries of the executive. Simultaneously, the Spanish Treasury Minister announced tax increases on the wealthy, in order to raise about 6 billion Euro (Real Decreto-ley 20/2011, de 30 de diciembre, de medidas urgentes en materia presupuestaria, tributaria y financiera para la corrección del déficit público, 2011).

Besides the approvement of different measures, agencies or policies from the EU Institutions, there were also many proposals from themselves, which needed some time to debate. That is the case of the proposal of a new "Single Rule Book" for banks throughout the EU, which aims were:

"A more resilient European banking sector, a more transparent European banking sector, and a more efficient European banking sector: A Single Rulebook will ensure that institutions do not have to comply with 28 differing sets of rules" (The Single Rulebook, 2022).

Likewise Greece, although in a particular situation as each country has its own structure and banking system, Portugal was also negatively affected by the financial and economic crises, thus in 2011 it asks for the EU to assist its economy as the situation keeps getting worse. Again, the ECB lends Portugal 52,000 million Euro and the IMF lends 26,000 million Euro. A total borrow of 78,000 million Euro destined to restructure the fundamentals of economics of Portugal, according to the decisions the moneylenders considered more appropriate, which was to apply austerity measures.

3.3.2. SECOND STAGE OF THE CRISIS MANAGEMENT (2012-2017)

The year 2012 started with the second Greek bailout in two years, after the first one in 2010. For the whole EU, this was a bad situation as Greece had been a Member State from 1979, but now its economic conditions had worsen so much, the doubt if Greece would keep its membership in the EU was rising rapidly. There were many opinions, both from Greece and from the European Union Institutions, however the second bailout finally took place as it seemed to be, at that moment, the only way of keeping afloat. Although, it is fair to mention most of the Greek population had been negatively affected due to the austerity policies imposed by the moneylenders of the first bailout back in 2010. The excessive cuts in public expenditure had had a negative impact in people's lives, as public policies, public services and general living conditions had worsened.

Furthermore, the year 2012 would be the time in which the European Union would finally create the European Stability Mechanism (ESM), the successor to the temporary European Financial Stability Facility (EFSF) that had been created back in 2010. Now, the EU formalized this body with a permanent character as it was strictly necessary to keep: it was the responsible of the loans that, during the whole financial and economic crises, would be lent to five Member States: Cyprus, Greece, Ireland, Portugal and Spain. A total of 295,000 million Euro. As mentioned before, in order to preserve the strength of the Euro, these countries which had had financial aid from ESM, were obliged to implement reforms to the fundamentals of their economies, to address the weaknesses that led to economic and financial problems. With regard to Spain, the situation with housing and default was so terrible, in the second quarter of 2012 a rate of 532 evictions took place daily.

Up to this point, a very relevant topic which is worth mentioning because it had a significant role in the management of this financial recession in the European Union, and especially in Spain, is the risk premium. This measure shows the difference between the interest each country pays to their investors for their bonds (Ontiveros and Escolar, 2013: 113). In other words, risk premium shows the default risk a country has, with respect to another one. During the financial recession, most of the comparisons were made with respect to the German's risk premium, as it was one of the European economies with less participation in the subprime mortgages and which real estate sector and banking system was less hit by the recession, thus its economy was more solid and its debt less risky. Related to this, in order to finance themselves, countries issue public debt to investors, who receive either in short or long term, the payment done plus an interest rate. However, not all countries offer the same interest rate, and here is the reason why the risk premium had a main role in the financial recession. Those countries which were more reliable, that is, which were more likely to pay investors back, had a lower interest rate; whilst those countries which were less likely to pay investors back, thus had more risk, had to pay a higher interest.

As mentioned before, it is unquestionable that Spain had suffered a particular real estate bubble, in part, due to the high indebtedness of the private sector and the massive investment in that sector, with hardly any diversification. However, the public debt in Spain was way below US's or Japan's: in fact, Spain had a public debt of about 36% of the GDP when the financial recession started (Ontiveros and Escolar, 2013: 128, 134). Nevertheless, the European perception of how Spain was facing the recession was totally different, a fact that created mistrust towards Spain, and what is more, Standard & Poor's (a US rating agency) downgraded Spain's rating by two notches to BBB-, with a negative outlook, (S&P Downgrades Spain to BBB-, 2012) which eventually caused a substantial increase in the Spanish risk premium. In 2012, Spain's risk premium got up to 611 points and Spain's unemployment up to 24,5%, which was declared as the highest in the world. Spain was clearly in a situation that could be described as "in need of liquidity", that is, of money in order to cope with the public expenses it was having, as the revenues were not enough to cover them all. The following Figures explain why the revenues and expenses of Spain were unbalanced due to the financial and economic crises, with a highlight in the evolution of the revenues raised from taxes, which are normally one of the main important accounts for Governments when raising revenue (Sources of Government Revenue in the OECD, 2022):

Total Revenue Raised from Taxes by Spain ***(in million Euro)***					
Year	**Personal Income Tax (PIT)**	**Corporate Taxes**	**Social Security Taxes**	**Property Taxes**	**Consumption Taxes (VAT)**
2005	60,146	35,244	109,067	27,977	57,716
2006	69,445	40,364	118,249	32,285	62,365
2007	79,973	49,362	127,088	32,133	62,743
2008	77,042	30,634	131,976	25,603	52,347
2009	70,134	23,681	128,529	21,722	36,786
2010	73,534	19,680	127,235	22,178	55,318

Figure 3: Evolution of Spanish Government Revenue from Taxes, from 2005 to 2010
Source: Own Elaboration with data from OECD Stat (Details of Tax Revenue - Spain, 2022).

As it can be seen in *Figure 6*, taxes raised by the Spanish Government suffered a drop due to the social situation by the time, especially in years right after the bubble burst, 2008 and 2009. Not only Personal Income Tax decreased, but also Corporate Taxes (as many Spanish companies had to shut down; as well as Social Security Taxes (as many people lost their job, hence they stopped contributing in this matter).

Finally, Property Taxes also decreased as the situation concerning the housing market was so bad, up to the point there was a very big stock of housing available unsold; and Consumption Taxes also declined due to the drastic reduction in consumption as population, in general, had lost purchasing power.

Year	General Spanish Government Revenue *(in % of the GDP)*
2005	39,71
2006	40,56
2007	41,14
2008	36,87
2009	34,95
2010	36,51

Figure 4: Evolution of Spanish Revenue from 2005 to 2010
Source: Own Elaboration with data from OECD Stat (General Government Revenue, 2022).

Therefore, as it is shown in *Figure 4*, the global revenue of the Spanish Government was affected as not only taxes had diminished (even though they use to represent a huge percentage of the total revenue), but also other sources of income such as borrowings, fees and charges, or grants, had all of them been very limited due to the current situation both in Spain and in the rest of the developed countries from the EU and the rest of the world, with whom Spain had had some kind of economic relation before the crisis.

Year	General Spanish Government Expenditure *(in % of the GDP)*
2005	38,48
2006	38,44
2007	39,26
2008	41,44
2009	46,23
2010	46,03

Figure 5: Evolution of Spanish Expenditure from 2005 to 2010
Source: Own Elaboration with data from OECD Stat (General Government Spending, 2022).

Furthermore, expenditure after the crisis had incremented because of the situation at the time, partly because of the same reasons why revenue had gone down: all Social Security benefits from those unemployed supposed a huge expense for the Spanish Government. Also, the fact of collecting less taxes also implied a greater expense for the Government. In *Figure 5* it can be seen how expenditures went up from 2008 to 2009 and kept high in 2010.

Therefore, as Spain needed to finance itself, it had to ask for investors to purchase its public debt, although it was harder every day to find investors willing to invest in Spain, as its default risk was rising rapidly. The situation Spain was facing is known as the sovereign-bank doom loop (Prof. Arturo Pallardó, class notes European Integration, May 2022), a vicious circle in which a country needs financing but the more it needs it, the more expensive it gets.

Eventually, Spain got to a point where, even if any investor would be willing to purchase Spanish high-risk bonds, the interest it would have to pay the investor back (even in the long-term), was so high, it could never afford it. In any case, there was no investor at the time willing to do that, thus Spain was in a very harsh situation, which was already not only economical, but also political.

This was the moment when, in 2012, the Euroarea countries approved a partial bailout consisting of 100,000 million Euro in order to support Spanish financial sector, lent by the ESM. As explained in both the cases of Greece and Portugal, even though each of these countries' situation was different, the money lent was a bailout from the ESM too. And that required Spain to follow strictly the economic measures that were dictated by the European Commission, the European Central Bank and the International Monetary Fund, which were mainly austerity-like policies designed to slow down the growth of public-sector debt as part of the loan agreements.

However, this partial bailout Spain received, had a special characteristic as it was destined to help the private sector, which had taken on too much debt, even though the public finances of the country were sound, as it had had surplus the years right before the crisis. In this regard, it could be said that profits were privatized while debt was nationalised (Ontiveros and Escolar, 2013: 62). The loan, as it was so-called by the Spanish Minister of Economy at the time, would be received by FROB and would be distributed among those banks which requested it. Along with the approval of this credit line, the Eurogroup also applied some conditions to the financial sector, which would need to restructure and change plans, in order for them to be in line with the European Union rules concerning the assistance like this one to banks (Acuerdo de Facilidad de Asistencia Financiera, hecho en Madrid y en Luxemburgo el 29 de noviembre de 2012, y Acuerdo de Trasferencia y Asunción, hecho en Madrid y en Luxemburgo el 29 de noviembre de 2012, 2012).

Apart from this, Conservatives in Spain approved a labor reform, a new scheme that would let firms laying off their employees in a much cheaper and easier way. This reform signified more people would be -and actually was- dismissed in a desperate movement for firms to survive the crisis. Many social demonstrations took place in order to revoke this reform, which were in fact, unsuccessful. This would lead, one year later in 2013, to the increase of unemployment up to 6,2 million people in March, from a total Spanish population of 46,5 million people (EPA de España, 2013 and España - Población, 2013). Additionally, to those unemployed, the Government decreased unemployment subsidy, meaning now all the people who was living thanks to this subsidy, had it cut; implying they would inmediately lose purchasing power and thus, reducing their quality of lives. Again, Conservatives in Spain rose VAT from 18 to 21% (two years before it had already been raised from 16% to 18%, meaning a total increase of a 5% in three years), worsening the decrease in consumption already existing.

On the European level the ECB decided starting to purchase debt from diverse Member States in order to trying to reestablish trust in the markets, as well as to stabilise the financial situation. This operation was allowed by Monetary Transactions programme, which allowed the ECB to buy those bonds. As mentioned before, the European integration meant Member States transferred the total control of the monetary policy to the ECB, meaning in situations like this crisis, all Member States could do was wait until this institution took a direction to follow. It was also the moment when the historical statement from ECB President Mario Draghi took place: *"Within our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough."* (Verbatim of the remarks made by Mario Draghi, 2012).

By 2014, the stability programme to save the financial sector in Spain concluded, with the IMF publishing a well-detailed report explaining the final progress of this financial sector reform, under the loan from the ESM, and under supervision and surveilliance from the European Commission, the European Central Bank and the International Monetary Fund, (Spain: Financial Sector Reform - Final Progress Report, 2014: 9), which details, among many other figures and data, some key measures regarding the bailout to saving banks, as follows:

Measures to Meet Spanish Banks' Capital Shortfall
(Millions of euros)

			Measures Taken to Meet Capital Shortfall 1/						
	Bank name	Oliver Wyman capital shortfall	Injection of public capital 2/	Issuance of new private equity	Capital augmentation through SLEs 3/	Reduction in capital need from transfer of assets to SAREB 4/	Reduction in capital need from sale of assets 4/	Reduction in capital need from revaluation of assets 4/	Other 4/ 5/
Group 1	BFA-Bankia	24,743	17,959	0	6,669	191	0	0	0
	Catalunya Banc	10,825	9,084	0	1,676	188	0	0	0
	Nova Caixa Galicia	7,176	5,425	0	1,959	-276	0	0	0
	Banco de Valencia 6/	3,462	4,500	0	416	208	0	0	0
Group 2	Banco Mare Nostrum 7/	2,208	730	0	425	382	851	0	63
	Liberbank	1,197	124	0	850	145	215	0	0
	CEISS	2,062	604	0	1,433	263	0	0	0
	Caja3	779	407	0	44	228	0	108	0
Group 3	Banco Popular	3,223	0	2,500	0	0	328	85	332
	Ibercaja	225	0	0	0	0	150	0	93
	Total	55,900	38,833	2,500	13,472	1,329	1,544	193	488

Figure 6: Measures to Meet Spanish Banks' Capital Shortfall
Source: Bank of Spain

However, it is the Bank of Spain the one which affirms the total cost of the bailout to the finance sector, which was destined mainly to saving banks, and which went up to 59.959 million Euro at the end of 2015, a 5,9% of 2015's GDP (Informe sobre la crisis financiera y bancaria en España, 2008-2014, 2014: 247).

In the EU, 2014 was the year were the debt peaked up to 92% of the GDP of the Euroarea, forcing the ECB to take a stronger supervision over most of the important banks of these countries. It is also a key year as the presidency of the European Commission started a new era with Juncker as president, who soon launched the Juncker Plan, a series of policies with the aim of investing in the Europe, in order to restore the international investment. One year later, another EU institution, the ECB, started the policy of Quantitative Easing; as mentioned before, it works by the following steps:

1. *The European Central Bank buys bonds from banks*
2. *This increases the price of these bonds and creates money in the banking system*
3. *As a consequence, a wide range of interest rates fall and loans become cheaper*
4. *Businesses and people are able to borrow more and spend less to repay their debts*
5. *As a result, consumption and investment receive a boost*

6. Higher consumption and more investment support economic growth and job creation

7. As prices rise, the ECB achieves an inflation rate of 2% over the medium term. (How quantitative easing works, 2016).

Finally, two years later, in 2017, many of the EU countries started to grow again after one decade since the bubble burst, and they did it in the fastest rate seen in this period. Spain also increased, but at a way slower rate, being the GDP a 3% higher in 2017 than in the year before (PIB de España - Producto Interior Bruto, 2017) and being the unemployment rate also lower than in 2012, even though the total figure in 2017 was of 3,7 million people unemployed, which is quite a large number. Ten years after the bubble burst, Spanish population has not yet recovered the standards of living from before the financial crisis, being some political measures responsible for that, as well as other natural circumstances deeply attached to the capitalist economic system such as inflation, which makes people lose purchasing power in the long term.

To sum up, it was not only the harsh impact of the Great Recession which hit Spain, its figures and rates, and its citizens' well-being, but also the way this recession was managed by the European authorities in charge, as well as some Member States which had much influence over the decisions taken. The elaboration and execution of that financial bailout with such severe conditions, sank Spain in a spiral of debt and public cut which would not let the country progress in many aspects, mostly social, which also needed urgent structural help.

IV. THE COVID-19 PANDEMIC: THE EUROPEAN UNION MANAGEMENT

4.1. UNKNOWN VIRUS TRIGGERS ALERTS

Roughly twelve years after the Great Recession, in 2020, a new situation of crisis would emerge in Europe, and would again hit strongly the Member States including Spain, which would once more need a cooperated response from the European Union and its financial aid mechanisms. By being an Economic and Monetary Union, as well as being ruled by the same founding Treaties, Member States were once again in a position in which they needed to support some Member States, just like in the Great Recession as it has just been analysed.

In December 2019, in the Chinese city of Wuhan, a small group of population started to feel a very similar symptoms, which were related to a kind of pneumonia. However, it was not exactly that disease but a stronger one, an unkown one which was extremely contagious. As it was a new disease, there was no cure for it, hence many people passed away. But there was something crucial that would concern the Chinese authorities as well as the healthcare professional treating those patients in Wuhan: it was the high infection rate this unkown disease was showing. Soon, many more people would become infected not only in Wuhan, but also in nearby Chinese cities. Eventually, in January 2020, Chinese health authorities identified the cause behind this unkown disease: it was a type of coronavirus, which later would be called as SARS-CoV-2 virus, or simply COVID-19. However, it was not until the end of January when the Chinese Government led by Xi Jinping, would finally publicly confirm the infection had a person-to-person transmission; which naturally, rose the alerts of all Chinese health centers and hospitals, and ordered everyone to *"take seriously"* this new virus. By the time, coronavirus had already spread all over China and was also spreading to the rest of the world (Tooze, 2021: 66).

Due to the highly infection rate of COVID-19, Beijing, capital of China, organised rapidly in order to mitigate the impact of the disease, which had been declared as a public health emergency of international concern by WHO, at the end of January. Xi and his Government were able to impose severe restrictions in order to stop the spread as much as possible, even though the first city which had detected the virus, Wuhan, had not warned soon enough to the central authorities about the dangerous situation. In any case, at the end of January of 2020 the Chinese Government ordered the shutdown of the whole country, meaning the principal economic centers such as the one in Shanghai as well as schools and universities from more than 14 Chinese provinces and cities, would be in deadlock for at least two weeks. That represented the 70% of the population of China, a country which portrayed the second biggest economy in the world and the main engine of global growth, had shutdown (Tooze, 2021: 69).

In mid-February, Chinese official figures pointed out the impact of the shutdown over the economic activity was already being noticed, due to hundreds of millions of workers without being able to attend their jobs, firms closed and the production stopped. In Beijing, there was consternation for this situation to be resolved as soon as possible, as Xi trusted China to recover its first position as worldwide producer and supplier. On the contrary, he was aware of the huge impact of the outbreak and also stated that *"it was possible that new crisis would strike a blow to economic and social development"* (Tooze, 2021: 77).

Simultaneously, in other countries of the world and especially in Europe, and also in Spain, people who actually were well aware of the situation going on in China, still saw it as something distant or unreal.

People did not think it would soon impact Europe or the Americas, nor the authorities tried to prepare a prudent scenario, just *if*. This was a true signal that Occident was underestimating the seriousness of the situation, as well as the danger and rapid spread of COVID-19, some people even joked about it and some mocking took place on the Internet regarding the situation. Additionally, authorities in Europe would reaffirm themselves in their historical opposition to China and its policies, criticizing them for being too severe, or even draconian. Little did they know, soon enough they would need to apply similar policies in order to safeguard their own welfare states, economic activities and their citizens.

Despite of reliable international organizations such as the IMF and WHO raising their voices all over the world warning of the quick spread of COVID-19, neither the US nor the EU acted upon those alerts. Already in February 2020, there were nonexistent flight restrictions, including from and to China, hence citizens all over the world were flying from country to country, in thousands of flights per day. It was only a matter of time that COVID-19 would be finally detected to any country outside of China.

By the time, in Europe and in the EU, the political focus was on the process of the United Kingdom's withdrawal its membership from the European Union, also known as Brexit. As it was an unprecedented situation that was not even considered in the creation treaties, it was hoarding the attention of everyone at Brussels, as well as in Europe in general. In the middle of this political crisis, and push and pull from both the UK and the European Commission and other EU Institutions, the first cases of COVID-19 were finally detected in the EU. On January 31st, the first COVID-19 case was noticed in the city of York, UK, who was a Chinese tourist, but this news went unnoticed as media was extremely focused on Brexit. Two weeks later, a man original from Nepal would die from pneumonia in Valencia, Spain, even though the health authorities would not consider it as a COVID-19 death until three weeks later. This person was one of the first deaths by COVID-19 in Europe (Tooze, 2021: 85, 86), along with a German tourist who was visiting La Gomera island, also in Spain.

Nevertheless, it is important to remind that health had never been a primary issue for the EU as a whole, nor even a policy sector in which the EU Institutions had much space. As it has been mentioned in the functioning of the EU, health is a **Shared Competence** between the EU and the Member States, being the latter the ones that, historically, had had the main role when designing policies in this matter. During most of the month of February 2020, the EU almost ignored the situation, in spite of the constant warnings from the IMF's managing director Kristalina Georgieva and WHO's director Tedros Adhanom Ghebreyesus (Tooze, 2021: 86), underrating the gravity of the situation. It was not until the end of February and beginning of March 2020, when significant outbreakes took place in Italy, forcing the local authorities of the Italian region of Lodi to lock down more than 50,000 people (Tooze, 2021: 88).

Meanwhile in Spain, there are 83 COVID-19 cases diagnosed, all over the country, being most of them in direct contact with people from nearby the Italian location when the outbreak took place a few weeks before. It was then confirmed, globalisation was not helping in the matter as the more people travelled, the more the disease was spreading, and it was being hard to control it over the EU. Some days later, on March 10th, there are 1,500 COVID-19 cases confirmed in Spain, and 35 COVID-19 patients had died. Being other Member States in very similar situations -or even worse off- than Spain, the EU started at last to take seriously what some weeks before had considered as a minor issue. The whole EU was being attacked by an invisible enemy, and what is worse, people were dying every day.

4.2. INCIDENCE IN EUROPEAN UNION AND SPAIN

The first step in order to face the health crisis that was eventually having place in all the world, as in March 2020 it had already hit most of Asia and it had well arrived to Europe, was to effectively recognize it. By doing so, it would be way easier to try and mitigate the negative effects it was having on the populations, as China and other Asian countries such as South Korea had already done, quite efficiently. However, in the EU there was a different situation; many diverse countries which geographically are very near one to another, and have been historically very interconnected. The European integration, explained at the beginning of this thesis, had successfully accomplished the free movement of people around its Member States. Even though this supposed a very historical achievement in a diverse as well as unique in the world region of countries such as Europe, and had been proven to be very beneficial for its economies, the year 2020 proved it had also a downside. As all 27 Member States are highly interconnected, the movement of people between them is enormous, and very common, with people even working in one country while living in another. This supposed a challenge for both the European Commission and the EU Institutions, as well as for the Member States to regulate, being furthermore, a totally new scenario which apparently no one had expertise in.

As mentioned, the outbreak from Asia had already burst in most of the countries in Europe, and the cases were growing exponentially every day. That was one of the last straw that led WHO to declare, on March 11th 2020, the official existence of a pandemic, being coronavirus detected in more than 110 countries at the time. This statement had a very slight impact in the Member States governments, which would not start to think about measures on how to mitigate the real health crisis populations were experiencing until some weeks later, even though it was already visible how hospitals and entire health systems were collapsing as most of them were not designed nor equipped to treat so many people at the same time, and what was more, to treat them from a virus which still had no cure.

One of the main aspects to bear in mind when mentioning the consequences of COVID-19 in the EU and in Spain, is to reflect on how and which were the first actions taken by their Governments. Firstly, at the beginning Europe did not have a common policy nor a strategy to follow, the Commission Von der Leyen recommended Member States to dictate policies related to social distancing, shops close downs, people to stop travelling and staying home, among others related, recommended by experts. Secondly, a "war" among Member States started in order to protect their resources as the crisis increased, by implementing protectionism policies such as prohibiting the exports of sanitary equipment like Personal Protective Equipment (PPE), assisted breathing machine as respirators, surgical masks and gloves, among other essential items. Soon, those goods (being most of them limited and without an easy or quick access) became way more valuable than in a normal situation, as they were the key for healthcare professionals to be able to develop their correctly their task: saving lives. France was the first Member State to apply these protectionist policies and soon after Germany did too (Tooze, 2021: 92); this unilateral strategy was the contrary of what the European Commission and some other Member States were trying to accomplish: a united and unanimous response from all the countries, which would finally arrive, but later.

Consequences in the financial markets did not take long in arriving, as in the last week of February, FTSE All-World stock index fell by almost 13%, being this one of the worst weeks ever registered in global stock markets (Tooze, 2021: 89). Some days after, in March, the S&P 500 index would also fall

12.5% (S&P 500 closes out 2020 at record high after a quiet trading day but a year of wild swings, 2020). As the pandemic was moving forward, mistrust was growing among investors all over the world, and that would have, as seen, a negative impact in the financial markets and thus, in the global economy.

At this time and as mentioned, Member States were managing the situation individually, even inside each country there were different policies depending on the region. Hence, it would be fair to say that even local authorities would take their own measures, in the abscence of a common policy from both national and European level. This could be the case of Spain, where the central Government declared an "emergency state" from March 12th, meaning immediate home confinement for all the Spanish population, shutdown of all activities: schools and universities, shops, industries, firms, etcetera. Everything should stop its activity in order to preserve the public health and to try to stop the spread of COVID-19. However, authorities of regions in Spain (known as Autonomous Communities) had some performance space, especially local authorities (at the city level), in order to implement policies which would arrive to every city's needs, which may be ignored by the general rules at the national level. Being this the specific case of Spain, it was not the same reality in other Member States, as each of them had a different reality. Basic differences in key figures such as population, density, health equipment and its professional staff, public and private investment in the healthcare sector, among others, made difficult to apply the exact same measures for all of them. Hence, each Member State, at the first time of the outbreak in March 2020, applied the policy they thought best for their reality at the moment.

Another important consequence derived by COVID-19 pandemic was the worldwide impact of the shutdown of almost all economic activity and production, by April 2020 the International Labor Organization (ILO), stated 81% of the global workforce was under some kind of restriction (Tooze, 2021: 107).

Nevertheless, undoubtedly one of the worst consequence of COVID-19 pandemic was the social emergency, the actual disease striking citizens all over the world, with many of them having died from this disease; families and friends being apart, as well as vulnerable people such as the elderly or the disabled having to struggle with such an unkown highly infectious disease as COVID-19. According to the United Nations, between 2020 and 2021, 3.25 million people died in Europe due to COVID-19 (*Department of Economic and Social Affairs, 2022*).

The plunge of financial markets in the first quarter of 2020 and WHO classifying the situation as a pandemic, seemed to raise awareness and to point out among European countries (Tooze, 2021: 100) and Member States, and especially to EU Institutions, not only a common action, but also a common policy response would be indispensable in order to control the health crisis. As France's Minister of Finance Bruno Le Maire pointed out *"Europe must defend itself, protect itself, be able of face its threats, and unite as a sovereign block to defend its own economic interests, because nobody is going to help us, not even the United States"* (Tooze, 2021: 99). In the end, the EU and Europe understood that if Member States and countries did not work together and all as one, no one would overcome COVID-19. At that point, it was either all of them, or none of them.

4.3. EUROPEAN UNION'S POLICY RESPONSES TOWARDS SPAIN

Once both EU authorities and Member States slowly started considering COVID-19 pandemic as an unprecedented situation that required a rapid and united response, managing the situation was way easier. At least, it would imply for countries to look after each other instead of fighting against each other. Whereas this was great news and a good start for the Eurozone, the reality was that Europe had, in March 2020, "*the world's most dangerous debt"* (Tooze, 2021: 203) which concentrated especially in Italy, being it the country who had faced the most cruel COVID-19 outbreak in Europe. However, as this crisis, this virus, did not understand from international barriers, soon the crisis would also hit hard Italy's neighbour countries such as Spain as explained, and France, which due to their characteristics and high population, suffered more the pandemic. The countries localized to the east of Italy, the impact was simply different, although they also felt it. Italy's debt was destabilizing and authorities needed to act fast in order to recover the trust from the markets, and to keep the stability of the main Italian banks (Tooze, 2021: 204).

One of the first reactions from the EU came from the ECB, short after the US stock market collapsed at the beginning of March 2020, with its director Christine Lagarde announcing financial aid for the EU Member States' national banks with a very low interest rate, as well as a purchase with a value of 120,000 million Euro of Member State's Government bonds, meaning a new monetary policy adapted to the unusual circumstances of COVID-19. At the end of the day, the immediate hit from COVID-19 was to the supply chain, meaning supply was negatively affected by the shutdowns, which at the same time was an uncommon circumstance as it did not affect to the main economic variables such as income, wealth or technology, but it affected people's bodies and the collective of mankind as a whole, meaning social and economic lives were almost totally restricted. Affecting additionally to people's labor and personal lives, to production and reproduction (Tooze, 2021: 115-116). This first monetary policy from the ECB was aimed to estabilise the money supply and to help small businesses which were the main affected in the short-term.

Some days after, the ECB also announced a coordinated action from diverse central banks worlwide, with the aim to enhance the provision of global US dollar liquidity. The other banks were the Bank of England, the Bank of Japan, the Bank of Canada, the Federal Reserve (US), and the Swiss National Bank, which are not only from Europe but from almost all the continents. The action was to lower the pricing on the standing US dollar liquidity swap arrangements, for the purpose of smoothing the functioning of US dollar funding markets.

The next measure from the ECB was designed to purchase public debt, with a budget of 750 billion Euro, under the name Pandemic Emergency Purchase Programme (PEPP) ECB announces 750 billion Euro Pandemic Emergency Purchase Programme (PEPP), 2022), which even though was a huge figure, it would not be enough to cover the economic disaster what the pandemic was generating. This step from the ECB, being it a very conservative institution, was seen by some as kind of a revolutionary act (Tooze, 2021: 207). This measure was very helpful to calming tension in the markets at the moment, hence it was good to save some time. Nevertheless, the situation in Italy and its risk premium, which had skyrocketed by March 2020, was so bad, the EU needed a massive joint response from all the Member States, despite they did not all had the same preassure from COVID-19. In Spain, GDP dropped by 22% during the first half of 2020, however in other countries like the Netherlands and Germany, GDP did not plunge even half (Tooze, 2021: 207).

Meanwhile, the European Commission was also trying to implement policies in order to mitigate the negative impact in Europe as a whole; one of the first ones in March 2020 was *"Ensuring continuous flow of goods across EU via green lanes"*, an advice published for borders to help them keep transporting goods across the EU during those times. Member States would be in charge to designe the internal transports. Additionally, the EC also published guidelines in order to *"Protecting critical European assets and technology"*, showed support to *"Ensuring essential freight keeps moving by air"*, modified its budget by *"Boosting budget for repatriation flights and RescEU stockpile"*, from those EU citizens who had died in another Member State, in order to be repatriated back home. By April 2020, the EC would have repatriated back home more than 500.000 EU citizens. The EC also issued advice in how to "Enabling free movement of critical workers" (Timeline of EU action, 2020).

An EC movement that meant a milestone in the fight against COVID-19, was to *"launch data sharing platform for researchers"*, jointly with other partners they started to facilitate some resources to promote the search and discovery of a possible cure to COVID-19. Additionally the EC approved "127 State aid measures to support businesses and protect livelihoods across Europe during the coronavirus outbreak", which included direct grants, subsidised state guarantees on bank loans, public and private loans with subsidised interest rates, among others. In this regard, the EC also impulsed the RescEU programme, which action consisted to send Spain, Italy and Croatia more batches of sanitary equipment: in this case it was FFP2 masks (the ones more needed due to the situation). Eventually, the Coronavirus Global Response pledging event was launched, an occasion that raised a total of 7.4 billion Euro back in May 2020 which would be destined to research and investment regarding a COVID-19 vaccine, Global Goal: Unite for Our Future | The Concert, 2020), which added 122 million more at the end of the month, thanks to the Horizon 2020 programme.

Apart from the responses from the European Union, in Spain, the Government was also trying to fight the COVID-19 pandemic by controlling all the possible sidewalls: from a reinforcement in the frontline of the public health system by recruiting more health professionals, to financial aid to those who had lost their job, support in the educational system who were facing online scenarios, as well as financial help to small and medium firms and freelancers. In general, one can say the public spending went up quite fast, although there was one account of the budget which really skyrocketed in 2020: that was the public health expenditure. Naturally, the Spanish Government was facing an unusual huge increase in the health activity, which was having in parallel a colossal cost. This is why, in 2020, the Spanish Government budgeted the highest import in the Spanish history for this expense, as it can be seen in *Figure 7*:

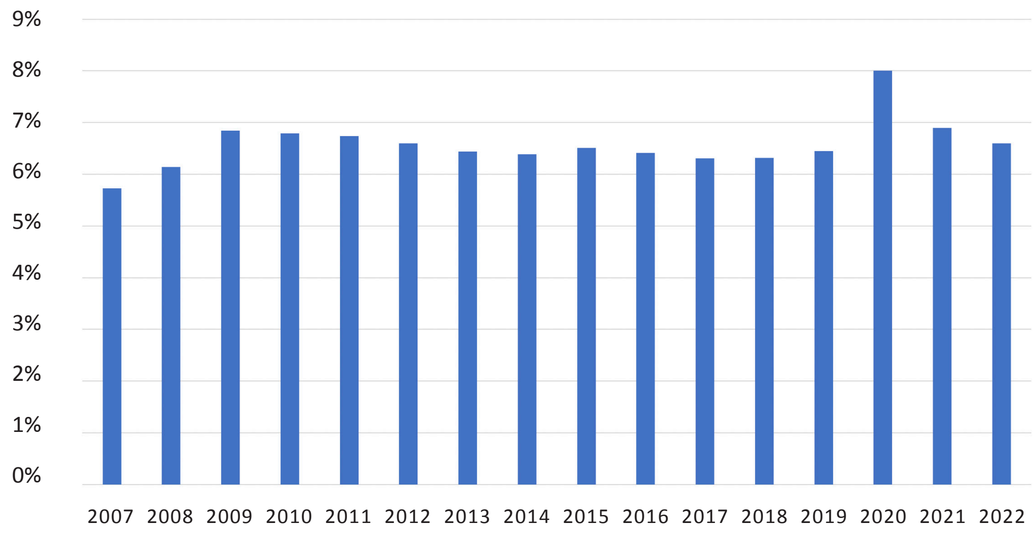

Figure 7: Evolution of public health expenditure in Spain from 2007 to 2022
Source: Own Elaboration with data from INE and La Moncloa

Besides, in the financial sector, the EC also launched a "Banking package to facilitate lending to households and businesses in the EU", a "banking package to help facilitate bank lending to households and businesses throughout the EU", a measure that would be backed by the ECB as the general manager of any monetary policy. Another sector which was extremely deteriorated as its activity had to stop inmediately due to travel retrictions all over Europe, was the tourism sector. For this, in spring 2020, the EC boosted this sector by launching a *"Guidance on safely resuming travel and rebooting Europe's tourism in 2020 and beyond"*, with the purpose of helping Member States' firms belonging to this sector, as well as the Governments themselves when lifting the travelling restrictions (Timeline of EU action, 2020).

These have been a series of measures destined to boost diverse sectors, as well as to help population (not only in Europe but also in vulnerable areas such as the Sahel and Lake Chad region, the Central African Republic, the Great Lakes region in Africa, Eastern Africa, Syria, Yemen, Palestine and Venezuela, as well as the Rohingya, where the EU allocated more than 50 million Euro in humanitarian aid) (Timeline of EU action, 2020). and help get back to normality all of the EU cities and towns which had been in lockdown for months. However, in May 2020, four months after the outbreak in Europe had taken place, the Commission Von der Leyen announced a *Recovery plan for Europe*, which would be called as *Next Generation EU* (Europe's moment: Repair and prepare for the next generation, 2020), which can be described as:

"The coronavirus has shaken Europe and the world to its core, testing healthcare and welfare systems, our societies and economies and our way of living and working together. To protect lives and livelihoods, repair the Single Market, as well as to build a lasting and prosperous recovery, the European Commission is proposing to harness the full potential of the EU budget. Next Generation EU of €750 billion as well as targeted reinforcements to the long-term EU budget for 2021-2027 will bring the total financial firepower of the EU budget to €1.85 trillion." (Europe's moment: Repair and prepare for the next generation, 2020).

With the European Commission President Von der Leyen stating as follows:

"The recovery plan turns the immense challenge we face into an opportunity, not only by supporting the recovery but also by investing in our future: the European Green Deal and digitalization will boost jobs and growth, the resilience of our societies and the health of our environment [...]" (Europe's moment: Repair and prepare for the next generation, 2020).

However, how would Next Generation EU raise money? Firstly, it is important to mention the Commission has a strong credit rating (meaning investors trust the EC when it comes to lending money), which is essential when borrowing money. Using this excellent rating, the EC would borrow 750 million Euro, that would pay back through the next EU budgets (which is important to remind they are elaborated for seven years), being 2058 the maturity year to pay it. Secondly, in order to do so, there was some kind of barrier when borrowing money, an amend was needed, which would be temporary, to increase the headroom up to a 2% (that is, the difference between the Own Resources ceiling of the long-term budget).

As the mentioned borrowing would not have place until one year after, in 2021 and for the EU budget 2021-2027, the Commission thought about amending the current budget (which was 2014-2020), in order to make available some of those borrowings to cover the COVID-19 crisis that was having place back in May 2020, at the very same moment of this proposal. Finally, 11.5 million Euro were available already in 2020 (Europe's moment: Repair and prepare for the next generation, 2020).

How would Next Generation EU spend the money raised? Basically, the plan was divided into three pillars:

1. Support to Member States with investments and reforms:

a) Consisting of a 560 billion Euro fund, to support investment, always keeping in mind the Green Deal, and the green policies adopted from the EU since some years ago, in order to ensure a green transition. From the total, 250 billion Euro would be available in loans for Member States to boost their national economies (however the most part would be dedicated to those more affected by the pandemic). The 310 billion Euro left would be a grant facility.

b) The React-EU initiative would be aid with 55 billion Euro, in order to boost cohesion policies, destined to help those Member States more affected by the pandemic as well as to support youth employment.

c) Another 40 billion Euro would strengthen the Just Transition Fund; in the same direction as the Green Deal, this Fund is aimed to help Member States to accomplish the climate neutrality in the following years, as it has been one of the main objectives of the Commission Von der Leyen.

d) Finally, one of the most vulnerable sectors and geographical areas, which are normally damaged by price fluctuation, climate circumstances, and other unpredictable situations, the European Agricultural Fund for Rural Development would use 15 billion Euro to invest in the needed structural changes in order to foster their activity as well as to apply Green Deal policies.

2. Kick-starting the EU economy by incentivising private investments

a) Firstly, the Solvency Support Instrument would work with the help of a 31 billion Euro budget, in order to help and assist those companies in the sectors, regions and countries most affected by the pandemic. This is one of the NextGenerationEU funds that was available from 2020, being one of the first financial aids that took place within this Recovery Plan from the European Commission.

b) Another 15.3 billion Euro would be destined for the programme InvestEU, which aims to find private investment to finance all projects around the EU.

c) Lastly, an organ would be built inside the InvestEU programme, called Strategic Investment Facility, which would use up to 15 billion Euro while it was expected it would collect up to 150 billion Euro, to foster the resilience of strategic sectors, notably those linked to the green and digital transition.

3. Addressing the lessons of the crisis:

a) In order to prevent a future scenario like this one, where, as health was more of a Member States competence than it was an EU one, the EU Institutions felt quite lost at the beginning as uncertainty was increasing every day. An example of this is what Katie Martin from Financial Times stated at the very initial phases of the pandemics: *"If someone can clearly explain how the easiest ECB policy could fix an economic recession caused by deaths, cancelled flights, shutdown industries and ghost cities, I encourage them to contact us."* (Tooze, 2021: 94). However, the EU Institutions learnt from this, and this is why they addressed this third and last channel of the NextGenerationEU Funds. In the first place, they would create a new health programme called EU4Health, with a total of 9.4 billion Euro, to prepare future health emergencies such as this one.

b) Secondly, the RescEU programme which had assisted Spain, Italy and Croatia, would be impulsed with a help of 2 billion Euro, so it could keep with its mission of providing medical equipment if the Member States needed it.

c) Thirdly, another EU programme called Horizon Europe would receive 94.4 billion Euro, to fund the much needed research in health and other sectors such as green policies, one of the priorities of the EU.

d) Humanitarian aid had also been an action the EU had been developing during the benginning of the crisis, and it would keep doing so even after vaccines were created and distributed. This mission of the EU would receive 16.5 billion for external action and to support EU partners.

e) Finally, other EU programmes would also be supported by the Commission, in order to align them to the future EU budget (2021-2027).

All these proposals from the Commission, however, needed to be approved by the European Council in July 2020 and later ratified by the European Parliament and each of the Member States, for both the EU budget (2021-2027) and the NextGenerationEU programme, to become a reality. At the end of the day, the EU borrowing money from investors and paying it pack before 2058, was not the same as pooling the debt of the whole union? Would all the Member States agree to do that?

Indeed, at the end of March 2020, a nine-country coalition with the presence of Spain, Portugal, Italy and France, among others, had already mentioned the idea of creating some kind of "common debt instrument", in order to finance together a response to end the COVID-19 crisis. However, and as it was quite expected, some other Member States, especially the Netherlands and Germany, would not agree to be responsible of what they considered was the debt of other nations (Tooze, 2021: 207). However, the EU from Brussels did not lose the faith in achieving a united EU willing to recover its energy and to get back to work, especially in terms of the green policies: they needed the EU strong and together. During these north-to-south negotiations, the Netherlands and Germany suggested Italy, the Member State which had accumulated the biggest debt due to the pandemic, to take advantage of the EU mechanisms already existent: those which had been used almost a decade ago to solve the eurocrisis: the Stability Growth Pact (SGP) and the European Stability Mechanism (ESM). This statement not only discouraged Italy, but also other Member States which felt identified as Spain, Portugal or Greece.

At the same time, political pressures from France as well as from its partners from the south, and finally also from the coalition party which shared the Government in Germany, convinced Chancellor Angela Merkel into changing her opinion. Finally, after many negotiations, Germany decided it was time to act together and to face the pandemic all in one, and supported the nine-coalition in order to pool the debt. Although at the beginning, the Netherlands, Austria and other nordic countries were also against the new approach, and negotiations in July took five days, finally they all accepted -or had to-. However, this was only a first compromise, it still needed to be ratified by every Member State and by the European Parliament (Tooze, 2021: 211-212).

Eventually, Spain would receive NextGenerationEU funds due to its condition as Member State of the EU, and it would do so through diverse programmes, as follows:

1. <u>From the mentioned Agricultural Fund for Rural Development and Just Transition Fund</u>, Spain would receive 720 and 450 million Euro respectively.

2. <u>From the Recovery and Resilience Mechanism (RRM)</u>, Spain would receive 140 billion Euro, 60 of which are non-refundable transfers, and it could access to a maximum of 80 billion Euro in loans. This funds would be received in two sections:

   a) The first would be the 70% of non-refundable transfers, which would be pledged by the Commission between 2021 and 2022.

   b) The 30% left would be plegded by the Commission at the end of 2023, and would be able to spend until 2026.

3. <u>From the ReactEU Funds</u>, Spain would receive about 12 billion Euro, in order to destine in the years 2021-2022 following the "Recovery, Transformation and Resilience Plan". These funds will have to be allocated and spend by the Spanish Government in two years (2021 and 2022) (NEXT GENERATION EU, 2020)

As the Spanish Government declared:

"The Government will concentrate the mobilization effort of the more than 70 billion in transfers in the first three years (2021-23), to maximize its impact on the rapid reconstruction of the economy. Subsequently, loans will be requested to complement the financing of ongoing projects." (Plan de Recuperación, Transformación y Resiliencia, 2020: 6)

At this point, one must think, were not there any requirements for Member States to receive such an amount of financial aid, with such good conditions in terms of its characteristic and interest (which was quite low)? Indeed, there were. The Commission's main objectives with its response to the COVID-19 pandemic were four, as follows:

1. <u>To foster economic, social and territorial cohesion of the EU.</u> An EU together is always better than a scenario in which Member States fight over each other and try to boycott each other's policies. Altogether, as it was the main purpose of creating the EU back in the 50's, this region has proven to be way more powerful both in the international arena as well as within its territory.

2. <u>To strengthen resilience and to adjust the capacity of Member States.</u> The EU is stronger if all its Member States are strong. A big inequality between countries does not help in the day-to-day of the EU Institutions and it also undermines the European sentiment, which is the contrary of what the EU as a whole wants to achieve.

3. <u>To mitigate social and economic impact of the pandemic and its crisis.</u> Naturally, after thousands of deaths, social distancing, isolation and uncertainty, the European population, as a whole, needed to close that chapter as soon as possible and to move forward with their lives, in order to overcome what had happened. Obviusly, the economic impact was also very negative, especially to those small-mid firms, which in most of the EU Member States, represent a very high percentage of their GDP.

4. <u>To promote the green and digital transitions.</u> The EU's flag *par excellence*, could not be set apart in a transformation this huge; in order to flourish among the new policies that were going to be created all over the Member States, the Commission wanted to make sure they would be included. (Plan de Recuperación, Transformación y Resiliencia, 2020: 6)

A part from the goals, the Commission also highlighted seven important sectors, as a suggestion for Member States when designing their "Recovery, Transformation and Resilience Plans", as follows:

Sectors Name	Further Explanation
Activation	To start investing in clean and renewable energies, to accelerate the process if it is already existant
Renewal	If existant, improve the efficiency of smart buildings
Charging and refueling	In transportation, to foster the use of clean and renewable energies
Connection	To implement fast Internet connection in all regions (fiber and 5G)
Modernisation	In public administration, regarding the pending digitalisation
Expansion	To increase industrial resources (cloud data), and to invest in sustainable processors for the near future
Professional retraining and further training	To adapt the existent education system to support a real digitalisation, and to foster digital skills among students and staff

Figure 8: Seven Sectors to Invest in, Highlighted by the European Commission
Source: Own Elaboration with data from (Plan de Recuperación, Transformación y Resiliencia, 2020: 8)

Now, Member States should firstly comply with the achievement of these four goals, as well as to allocate the funds in a way their country would take the most advantage of it, focusing on that areas most hit by the pandemic. For that, each Member State would create a "Recovery, Transformation and Resilience Plan" for the years 2021, 2022 and 2023, which would later be evaluated and approved/declined by the Commission. Specifically, the Commission will:

> "assess whether the National Plans contribute to effectively addressing the identified economic challenges and recommendations it has made in the past: whether they contain measures that effectively contribute to the ecological and digital transition; and whether they contribute to strengthening the growth potential, job creation and economic and social resilience of the Member State."
> (Plan de Recuperación, Transformación y Resiliencia, 2020: 7).

In Spain, the "Recovery, Transformation and Resilience Plan" designed by the Government would interconnect four transversal topics:

1. Green Transition
2. Digital Transition
3. Gender Equality
4. Social and Territorial Cohesion

It can easily be identified the Spanish Government was trying to add on its Plan, most of the highlighted policies by the Commission, in order to ensure receiving the Funds pledged. One of these four topics would be completely new in this matter; although Gender Equality was not a requisite from the Commission in order to receive the Funds, the Spanish Government took advantage of the financial aid that would receive in order to add this historical claim from women. Furthermore, the Spanish Plan, would count with the following Leverage Policies in order to restore the country after the COVID-19 pandemic.

Leverage Policy	Further Explanation
(i) Urban and rural agenda	And working on territorial cohesion
(ii) Resilient infrastructures and ecosystems	
(iii) Fair and inclusive energy transition	Including every region in the green process
(iv) 21st century public administration	Adapt old procedures into modern digital ones
(v) Modernization and digitization	Of the industry-services and SME ecosystem, boosting entrepreneurship
(vi) Pact for science and innovation	By strengthening the National Health System
(vii) Education	By adding lifelong learning and capacity building
(viii) New care economy	By adding employment policies
(ix) Boosting the culture	Including the sports industry
(x) Modernization of the tax system	

Figure 9: Ten Leverage Policies proposed by Spanish Government on its Plan
Source: Own Elaboration with data from Plan de Recuperación, Transformación y Resiliencia, 2020: 9.

Within from this general scheme, which was approved by the European Commission on July 16th, 2021, (Plan de recuperación para Europa en España, 2021) and immediately entered into force, it is important to mention that along with the general allocation of the Spanish Government, other economic agents would also have access to the funds. That is the case of local authorities (Autonomous Communities) which would also have a key role when it comes to spending the public funds: they would do so by presenting projects in order to show their plans on how to spend the funds to the central Government.

Additionally, NGOs, civil society and firms are eligible to present projects from their area of expertise, for which they would receive the requested funds. Along with the approval, the Commission also estimated the benefits this policy would mean for each Member State, being for Spain the one showed in *Figure 10.*

Economic Measure ***(in %)***	**2021**	**2022**	**2023**	**2024**
GDP Growth ***(% interannual rate)***	5,5	4,5	1,0	2,0
Inflation (***% interannual rate)***	3,0	8,5	4,8	2,3
Unemployment	14,8	12,7	12,7	12,6
Government Balance ***(% of GDP)***	-6,9	-4,6	-4,3	-3,6
Gross Public Debt ***(% of GDP)***	118,3	114,0	112,5	112,1
Current Account Balance ***(% of GDP)***	1,0	0,9	0,8	1,2

Figure 10: Estimation of Macroeconomic Measures Evolution due to the NextGenerationEU Funds in Spain
Source: Own Elaboration with data from the European Commission

Therefore, by the end of summer of 2021, the Spanish Government started applying the projects it had created in order to move the funds received from the Commission, as well as opening the project competitions needed to diversify the funds among all those economic agents that were asking for them. So far, by end of 2022, there are already some macroeconomic data that can be observed and which shows the effect of implementing these policies. One of them is the employment, in *Figure 11:*

Quarter	**Unemployed** ***(data in thousands of people)***	**Unemployment Rate** ***(in %)***
1st 2020	3,313.0	14.41
2nd 2020	3,368.0	15.33
3rd 2020	3,722.9	16.26
4th 2020	3,719.8	16.13
1st 2021	3,653.9	15.98
2nd 2021	3.543,8	15.26
3rd 2021	3.416,7	14.57
4th 2021	3,103.8	13.33
1st 2022	3.174,7	13.65
2nd 2022	2,919.4	12.48
3rd 2022	2,980.2	12.67
4th 2022	2,881.3	12.24

Figure 11: Employment Evolution through quarters from 2020 to 2022 in Spain
Source: Own Elaboration with data from INE (Encuesta de Población Activa (EPA). Serie histórica, 2022).

This data shows some of the changes the macroeconomic measure of unemployment has suffered since the application of the NextGenerationEU funds in the 3rd quarter of 2021, which was a reduction of 2,65 % from its peak (in the 4th quarter of 2020 until the latest data in the 2nd quarter of 2022). Naturally, many work still needs to be done from the NextGenerationEU funds as at this current moment (end of the year 2022), projects have not been finished nor investments completed neither other actions planned by the Spanish Government. What is for sure, is that Spain, as well as many other Member States, has been able to face the COVID-19 pandemic with optimism, for instance the prediction the Commission estimated about diverse macroeconomic indicators which reveal growth and stability.

The Commission's direction in its policies towards a united EU has been very helpful for those Member States (especially from the south of Europe) which had financial threads during past crisis, who were now encountering a new perspective from both the Commission as well as from the other Member States. Naturally, it was not easy to achieve, many negotiations had to take place and many tense situations happenned when discussing about the Recovery Plans for the EU. Nevertheless, the EU found the formula to overcome COVID-19 as well as to keep -and foster- the growth of Member States, leaving aside the terrible times this pandemic brought to the European citizens and, more than anything else, to the healthcare staff who bravely fought for the lives of millions of people.

To sum up this chapter's analysis, it is fair to affirm it is already glimpsed a slight novelty in the way the European Union and some Member States perceived this crisis with respect to the last one, which happened almost ten years earlier. Conceivably due to the origin or cause of this crisis, which was completely different than the previous one, and so was the perspective when facing it. In this case, and mostly back in 2020 when the hardest part of the pandemic took place worlwide, the worst outcome was the loss of lives Europe had to withstand, while there was still no cure nor vaccine, the health systems were collapsed, and the economic activity was shut down. A true race against the clock put Governments and health authorities in a stressful yet difficult situation, in which each decision could either cost more lives or save them.

V. COMPARING PUBLIC POLICIES IMPLEMENTED DURING THE GREAT RECESSION AND THE COVID-19 PANDEMIC

Once analised both the Great Recession and the COVID-19 pandemic, their contexts, what consequences they meant for European and Spanish populations, and what decisions authorities took, it is time to compare them. To do so, a series of macroeconomic data will be displayed in order to show objective data that can help getting a better idea of which was the real impact of both kind of policies, which could be described somehow as antagonistic.

The scope of evaluation will be the EU Member State of Spain, the country which has been the object of the whole analysis during this thesis. Therefore, to finish the analysis in a reasonable way, macroeconomic data will show the impacts of both policies implemented by the Conservative Spanish Government back in 2012 during the Great Recession, versus the policies implemented by the Socialist Spanish Government back in 2020, in the heart of the COVID-10 pandemic.

Afterwards, the mechanisms will also be compared, especially the two main bodies created at the EU level in order to cope and solve the Great Recession, which were the Stability Growth Pact (SGP) and the European Stability Mechanism (ESM), versus the programme created also at the EU level (by the Commission to be precise), known as the Recovery and Resilience Mechanism (RRM), the biggest one inside the whole NextGenerationEU package.

As a brief introduction to the upcoming macroeconomic data analysis, it is important to explain the first conclusion that can be drawn once the two crises have been analysed, which is an aspect more of the crises itself than authorities' resolutions, but still key to understand why such decisions were taken. An important fact converts the two events in a different kind of crises, and that is both their origin or root: while the Great Recession of 2010 had a predictable factor, as during many years, experts could forecast due to the market behavior, a bubble would be created; the COVID-19 pandemic was a completely unexpected event, which surprised both authorities and citizens, which very little room of maneuver.

The unprecedent factor made the COVID-19 crisis a more difficult situation to manage, as even though there had been epidemics before, none of them had been so deadly and rapidly spread all over the world. This important difference is key to bear in mind when comparing the responses authorities took in order to solve them, being aproximately twelve years apart one from another.

One of the variables which was most affected in both crises, as it has been explained during their analysis, was employment. How did measures taken in the management of both crises contribute to the change (either increment or decrement) of this variable?

In the following chart in *Figure 12*, the whole unemployment in Spain has been calculated by quarters, from the early 2007's until the last quarter of 2022. This way it is very easy to see the ups and downs of this variable.

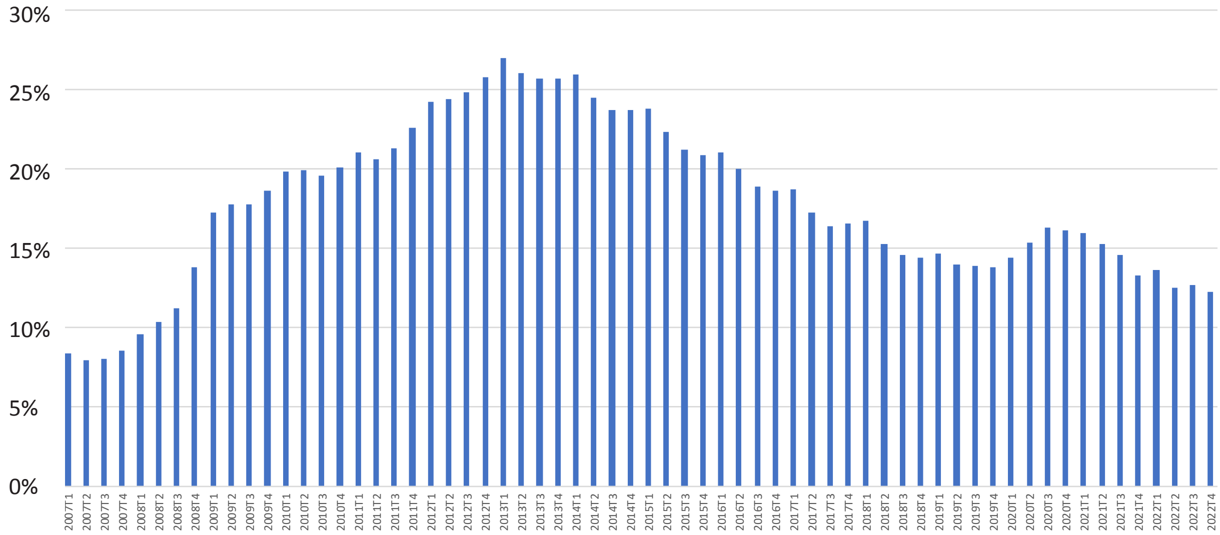

Figure 12: Unemployment evolution through quarters from 2007 to 2022 in Spain
Source: Own Elaboration with data from INE

As it can be seen in the graph, in 2013 unemployment hit its peak, with a 26,94% of people without a job in Spain, which is a very high percentage. This was one of the consequences of the policies carried out by the Spanish Government at the time, which as explained applied a Labor Reform decreasing the cost of dismissal for firms, at the same time that the ESM and SGP forced Spain to apply austerity measures which meant a cut in the public administrations expenditure. On the other hand, when COVID-19 struck in Spain, it provoked an increase in unemployment that made it up to 16,26%, however this rate started decreasing every quarter through 2020, 2021 and 2022, until the 3rd quarter of 2022 (at the current time), in which the unemployment is set at 12,67%. In this crisis, the RRM package and the Recovery Plan by the Spanish Government were implemented, which had an objective of reactivating the employment rate existent before the pandemic.

Secondly, the Spanish GDP growth will be assessed, as follows in *Figure 13*:

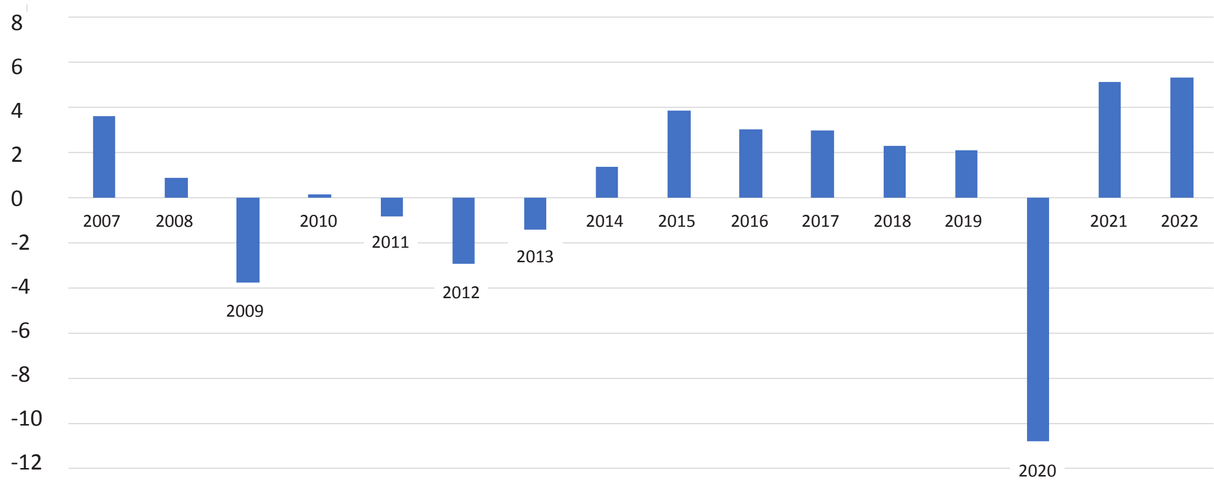

Figure 13: GDP Evolution from 2007 to 2022 in Spain
Source: Own Elaboration with data from the World Bank

Regarding to the Spanish GDP growth, firstly in the year 2007 when the bubble had still not burst, it can be seen the good situation that the country was living, and it is important to remember most of that GDP growth, which went up to 3,65% in that year, was because of the housing sector. However, once the financial recession had already started in 2008, that GDP growth had decreased to 0,88%, and it would pluge in 2009 with a recession of a -3,8%. That meant Spain was not growing, it was in a clear economic contraction. Even though in 2010 there was a slight recovery, which would mean a growth of 0,16% in the GDP, it would still decline in the following three years: 2011 (-0,80%), 2012 (-2,96%) and 2013 (-1,44%). Only in 2014 the country would see a slight GDP increment by 1,38%, a situation which, even though it was still low, the negative outlook had disappear.

On the other hand, when COVID-19 struck Spain it also meant a decrease of -10,82% of GDP, which was an unprecedented contraction due to the huge shut down of almost any economic activity. However, as only 2021 data is available, it can be seen how in less than a year, the economy recovered not only by recovering the negative impact the GDP had experienced in 2020, but also by generating a positive GDP in 2021 which went up to 5,13%. In such a short period of time, the country recovered and more than doubled the GDP back in 2019, prior to the pandemic.

As mentioned, Risk Premium has been a valuable variable during both crises, especially during the Great Recession, due to the high values it took in some years. As follows in *Figure 14*:

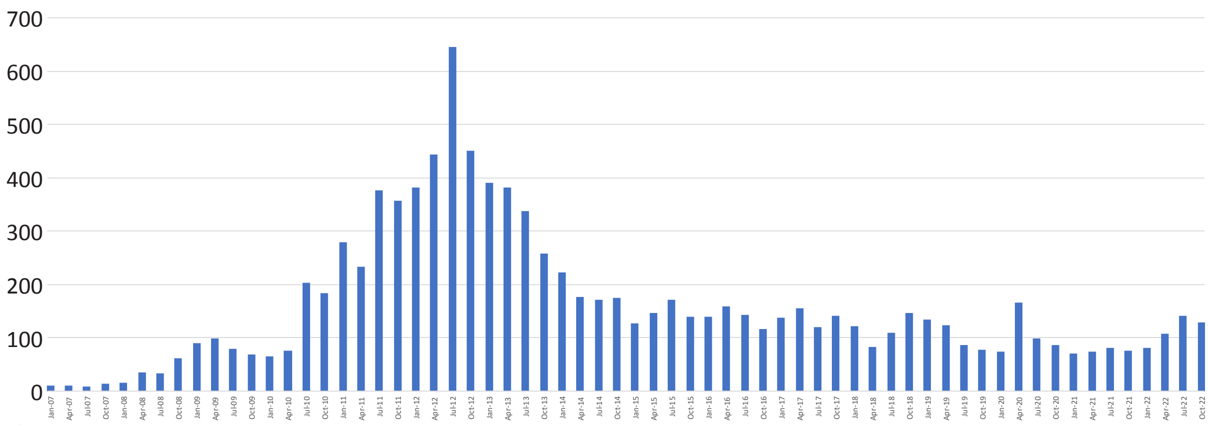

Figure 14: Risk Premium evolution through quarters from 2007 to 2022 in Spain
Source: Own Elaboration with data from Data Expansión

Before the bubble burst in Spain around 2008, Risk Premium was in a very sound figure, meaning Spain had no risk when returning back money to investors, and was considered, in the international markets, as a reliable payer. This good rate in risk premium, which was around 0 or very low numbers, started to grow as the financial bubble was settling down in Europe and in Spain particularly. By the time Spain was starting to feel the initial economic crisis, much earlier than the recession that would follow, the risk premium would start increasing year by year, quite steadily, until its maximum point in June, 2012, when it reached 616 points. A rate that was quite a threat to Spain and meant the country was not eagle to pay back any investors even though it was in desperate need of financing. This skyrocketed risk premium meant Spain was totally out of the international arena when it came to investors, hence it had to find for another solution to finance the huge expenses it was having, as it has been analysed in the corresponding chapter of this thesis.

Now, the Public Deficit in Spain will be analysed, as follows in *Figure 15*:

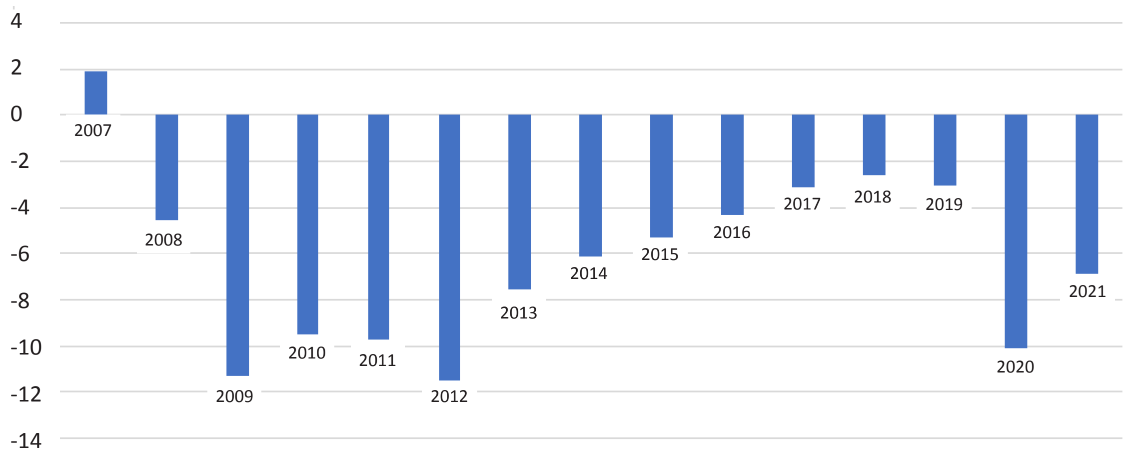

Figure 15: Public Deficit from 2007 to 2021 in Spain
Source: Own Elaboration with data from INE

As it can be observed in *Figure 15*, the deficit in Spain changed drastically from 2007 to 2008, and would also create a pattern that would prevail for more than ten years. After the recession took place, the Spanish economy also suffered a great recession which could not be solved for many years. Public deficit is understood when the difference between the Government's revenue and expendture is negative, as it is the case from the year 2008 until 2021 in Spain. The global Public Deficit is composed by the State's deficit plus the Regional and Local authorities' deficits. After the financial recession, Spain had many more expenditures than revenues, as explained in this thesis, therefore a public deficit was created, which still has not been possible to eliminate. However, it is important to remark the positive trend it was having during the years prior to the COVID-19 pandemic, from year 2013 until 2018, the deficit reduced to less than half. When the pandemic struck Europe and Spain, and due to the political directions Spain took to overcome the situation, explained also in this thesis, the deficit increased again exponentially, and more than doubled. Finally, it is key to highlight the great reduction it has had in one year, from 2020 to 2021.

These macroeconomic variables can help get a better picture of what both crises meant for the Spanish population, on top of the analysis carried out in the past sections. In an objective way, after these charts has been analysed, one can conclude:

- In 2012-2013 unemployment went up, while in 2021-2022 it has decreased
- In 2012-2013 GDP growth plunged, while in 2021-2022 it almost doubled
- In 2012 the risk premium got up to its highest point, beating 611 in June of that year, while in 2020 its maximum was of 166
- In 2012-2013 Public Deficit went down, whereas in 2020-2021, it also decreased but not as much

Up to this point, it is interesting to study why did these variables change in such a different way depending on the crisis, as both of them had a common point: an economic complication needed efficient help from the authorities, not only the national ones in Spain but the European ones as well. As in both of the crises, not only Spain was impacted but also other countries, its European neighbours. As commented before, during the financial recession, two programmes were created by the EU Institutions the ECB and the Commission: the Stability Growth Pact (SGP) and the European Stability Mechanism (ESM). But, what did they imply in practice?

These programmes were created in order to facilitate the transfer of money from the EU level to Spain, and even though the credit that was lent to Spain in order to rescue the financial institutions had a low interest rate, these programmes imposed to Spain the way to follow. That is, there was no room for the Spanish Government to act, to design any plan nor propose which was the better way to use the funds. After all, it was the Spanish banking system the one that had collapsed, Spanish authorities may know better how to solve the crisis, as it was very particular in the case of Spain due to the characteristics of the saving banks in the country. The intransigence factor of these funds, together with the imperative obligation of following exactly the rules dictated by Brussels, made it hard for Spain to overcome the situation, one that, in fact, had not been fully recovered when the COVID-19 struck in 2020. The standards of living and quality of life of Spanish citizens from before the financial recession of 2008 never came back.

On the contrary, when the COVID-19 pandemic arrived back in 2020 and authorities had to act fast in order to save, once again, the European economy, as all the Member States and other neighbour countries were also affected, thing were different. Even though it was a matter of Member States and authorities to agree on which direction to take, finally, as commented before, it was again about an economic disaster which needed a huge financing in order to restore normality. What did the Commission, in this case the most involved European Institution in resolving the problem, propose? Definitely, it was a different way to act, as explained back in the correspondent se-ction. The NextGenerationEu were a package of measures which had a very different tone than SGP and ESM had had almost 12 years before. The Commission was talking big words and expressions such as: *"stronger together", "united in diversity", "support"*. This wording had not been heard back in 2008, the atmosphere back then was way more tense between Member States and EU Insitutions, hence the way the problem was tried to be solved. Within the NextGenerationEU Package it is highlighted the Recovery and Resilience Mechanism, one of the programmes that lent money to the Spanish Government, once again, with a very low interest rate and a long maturity rate. However, the RRM's procedure was the other way around: it was the Spanish Government (and any of those Member States which wanted to request it), the one in charge to design the plan, in order to adjust the spending of the funds in what they thought was best for the Spanish population.

Naturally, the Spanish Government (as well as Regional and Local authorities) had the data and the stories behind people, they knew what was happening in every city and region and how to solve it. Hence, the Recovery Plan of Spain was designed based on these needs, a kind of tailored-made Recovery Plan by Spanish people for Spanish people. In this case, the Commission, the EU level, transferred the decision power of managing the money (a power which is not usually transferred), to the Member States, in this case to Spain. Even though it must be mentioned that, just as authorities did back in 2009 when lending money to Spain, some conditions were imposed, as explained back in the chapter.

However, the essence of these conditions were very distant to those imposed the last time, as now they were related to more social benefits such as the green transition or a fair digital transformation.

VI. CONCLUSION: AN EVOLUTION IN PROBLEM SOLVING

As a result of analysing the two worst crises of the 21st century, both at the European and Spanish level, as well as comparing both their outcomes, economic measures and impact on the citizens, there are some conclusions that can be drawn. To begin with, it is necessary to address the question that was raised at the beginning of this thesis, which aimed to **look for the differences between the public policies implemented in both the 2008 financial recession and the COVID-19 pandemic in 2020. Subsequently, it asked about the consequences both of them implied, if they implied any.**

The way the European Institutions and EU Member States faced the 2008 financial recession will forever be a turning point for European economics and politics. That can be explained by two facts: in the first place, it supposed the first situation aknowledged as a crisis and eventually, a financial recession, that impacted directly the EU Member States' economies and banking systems, since the EU as it is known today was created. The second factor was indeed the spotlight that was made in the still existing differences among EU Member States, despite the great effort of EU Institutions in creating a European identity and in bringing together the diversity of populations within the Union. Before the financial recession, EU Member States had had many differences among themselves when proposing laws, actually legislating or governing the Union, overall. However, those differences had usually been linked to a difference in the roots of the EU: every Member State is unique and has a long-lasting history, which has granted strong identities to all of them over the centuries, making difficult for them to change or adapt to others' approaches, from the time they entered a regional union like the EU. This did not seem to be a real issue during many decades, also because of the fact that integration has been a slow ongoing processs, meaning integration among Member States, as explained in the beginning, did not happen overnight. It is still taking many years for Member States to approach each other, as well as to accept each other's practices and outlooks, so when the financial recession hit the region from the US, each Member State's strong identity looked out for themselves. Therefore, a hostile environment expanded all over the EU, as it was the first time the EU had to face a kind of catastrophe, and what is more, in the financial and banking sector. Hence the contrasting opinions in how to resolve the crisis, as well as the blaming among the diverse politics in terms of public and private finances Member States had applied prior to the crisis.

An undeniable fact concerning the structure of the EU, which also happens in the global arena, is that by the time, some Member States had a higher influence inside the Union than others. This inequality of leadership or reputation made more valuable the voices of the most powerful EU countries (in terms of economic soundness) and the so-called Frugal Four, which claimed for conservative measures to be applied, especially towards those countries most affected by the recession, which happened to be mainly those located in the periphery or south of the continent. This strong division created an unfavorable climate for Member States to dialogue or negotiate how to overcome the hard situation, and eventually, EU Institutions opted to create the two programmes analysed during this thesis, the Stability Growth Pact (SGP) and the European Stability Mechanism (ESM).

Naturally, apart from economic, as it has been analysed through the thesis, there were also social consequences, in terms of European sentiment, for those countries which had to be rescued by these programmes created by the EU. Not only in Spain but also in Member States such as Portugal, Greece or Ireland, their citizens perceived those rescues packages as a kind of punishment for whatsoever their Governments had ruled the years before the recession, or even the political parties that were in power. The EU Institutions and the way the two programmes were carried out in those countries, as explained before, quite in an imperative way from Brussels, created a disappointment for many generations which would be very difficult to overturn.

Spain experienced that exact situation, with many demonstrations against not only the rescue, but also the way it had been imposed and the fact that it was for the banking system, going on every day. Spanish youth of the time who still did not know how the EU works, their values and fights in the political and human rights contexts, grew up seeing and experiencing the austerity measures taken by their institutions. Eventually, this created an anti-European feeling that spread in almost every region of Spain which also generated a huge disillusion for the European project that, many years ago when Spain had joined the Union, had brought joy and hope to almost all the Spanish generations, with a special mention to those previous ones who had experienced the Spanish dictatorship.

Even when the financial recession was considered overcome by Spain, as the SGP and ESM had done their job and the Spanish banking system had recovered and restructured, neither the economic nor the social consequences from it had reversed back to how it was for citizens, Governments or firms before the crisis. The two programmes imposed by Brussels and requested by the Spanish Government at that time, left the country with such profound changes and social transformations that no Government has been able to set aside.

On the contrary, when the COVID-19 pandemic struck, with China as the origin and then eventually arriving to the EU, the scenario would be quite different, in spite of implying an economic crisis as well. Within the EU territory, the virus was first reported in Italy, a country which would receive the impact from the pandemic in the first place, and therefore, there were still any direction nor recommendation from the EU level to follow. Rapidly, Italy's neighbour countries such as France or Spain also felt the impact as cases were increasing day by day, and eventually the whole European countries (not only the Member States, as virus do not understand of international borders), felt the need of a combined response, as it was an issue too big to be solved just by one country or in an individual way. Soon, not only European countries but also EU authorities realised a common response would be necessary, and that was the time when some policies (regarding international travels and transfer of goods and other equipments) started to be coordinated by the EU. This time and only for this matter, Member States did not disrupt the process of acting fast and united from the EU level, as all of the countries needed solutions over the table and they needed them immediately. Somehow, they made it possible to agree in all the details when creating an emergency guidance from the EU level, as it was mentioned before, no country in the EU had experienced a pandemic like this before, with such a fast and extended shut down of all their economies. Therefore, some policies and lines of acting were agreed on the EU level, while many other competences were up to each Member State, as health was, until this pandemic, a matter in which the EU had never been involved, it was a competence of wich Member States were entirely responsible to manage within their national territories.

Nonetheless, in the matter of the economy, old problems returned in the continent as each country had different needs and was living a different reality, even though the problem was common once again for all of them. These old problems were naturally the contrast between Member States, their interests and their preferences in how to act towards the COVID-19 pandemic, when it came to the debt some countries were generating due to the tragic health situation. As mentioned before, even though some countries asked for it (being some of them, the same that had been rescued back in the financial recession), Member States so-called the Frugal Four and other conservative European Governments were not eagle to pool the debt in order to achieve a united response from all the countries, just as they had done previously concerning to pass emergency legislation affecting the whole EU Member States. This situation lead once again to the same prior reflection with respect to Member States' power within the whole Union and how their influence can help them achieve policies and ways of acting that reflect only their own interests, and not the EU's as a whole. Hence, the attempt of some Member States to activate again those two programmes that had been used for the great recession, the Stability Growth Pact (SGP) and the European Stability Mechanism (ESM). With this suggestion, the Frugal Four and some other countries were addressing, once again, those countries most impacted by the pandemic and which were generating a higher debt, to a more vulnerable economic situation and to the direct orders of Brussels after just some years of "overcoming" the financial recession restructure. They were attempting those countries to submit once more to austerity measures, public cuts and a social readjustment, even though most people of those countries were still trying to process and adapt to that when it happened back in 2012 and 2013. Which is the case of Spain, one of the countries which supported the international coalition asking for pooling the debt. This scenario brings up a reflection about the European integration: after how policies and measures from the EU level acted toward the southern Member States, and the tacit consequences generated for instance in Spain regarding the European identity and sentiment, other Member States were still opting for the same outlook once again, not even fifteen years after. For some time it seemed it was going to be an *old problems*, *old solutions* approach, instead of *old problems*, *new solutions*.

In Spain, the Government was looking for the best outcome without having to appeal to a drastic measure such as that of the financial recession, while negotiations were being tense and difficult, probably just as they were back in 2010. Nonetheless, and probably because of the reason of this crisis was completely opposite than the financial recession, some of the most influential Member States decided to support the coalition in order to pool the debt, as analysed during the thesis, which meant a complete new chapter for the international relations between northern and southern Member States. It meant a kind of truce or reconciliation which was very much needed within the European Union, it was a big step and a smart one, that some States took in order to put first the interests of the whole EU, not only their own. And this time they would honor one of the most famous EU's slogans: *stronger together.*

With this decision came the Recovery and Resilience Mechanism (RRM), as explained in the corresponding chapter, which continued this new direction the agreement had achieved: an optimistic and confident way of perceiving the crisis derived from the COVID-19 pandemic. This approach would go beyond policies, loans, funds to spend and Recovery Plans, it would go straight to the citizens, to their vision of the EU and its values. It would reinforce the sentiment of Europe among citizens, as Recovery Plans were presented as a *solution* that had been dialogued between Member States and the Commission, not an imposed policy from Brussels. The Commission's President Ursula von der Leyen presented herself in each of the Member States which had requested the Recovery Plan, an image that showed population the EU was there for them, the Commission had listened to each Member State needs' and was willing to help them. It was finally an approach of *old problems, new solutions.*

To conclude this thesis, one can see the evolution the European Union and its institutions and bodies had from one crisis to another. The Great Recession was managed with old mechanisms that had been created back in the 90's, especially when the European Central Bank was funded and the EU added the two analysed mechanisms: the Stability Growth Pact and the European Stability Mechanism. Both were created in a time in which neoliberalism was extended all throughout Europe, at the end of the 80's and beginning of the 90's, a time in which there was a loss of legitimacy of the Keynesian consensus that had been somehow still present until the oil crisis in the 70's. After this event, socio democracy was radicaly questioned due to the high levels of unemployment, unmet demands from some public policies and a decline in trade union power, among other factors. Undoubtedly, there had been a change of paradigm, in which the right wing regained power in politics particularly in the US and the UK, with President Ronald Reagan and Prime Minister Margaret Thatcher respectively, subsequently causing a scenario more market-oriented that would later influence the whole European Union. This new paradigm and neoliberalism principles in the European Union brought the perfect scheme to create European mechanisms based on these ideals, such as the SGP and the ESM. Hence, these mechanisms would not rely in the State in a hypothetical crisis, they were designed to solve financial distress through austerity, a radical cut in public expenses, among other neoliberal methods. Social consequences, even if they meant a profound transformation for societies, were almost avoided by those ideals, which used to put first the economic needs. As it has been analysed, this was the case when, in 2007-2008, the bubble burst in Spain and in the European Union and authorities had to design a recovery plan for some of the Member States, being one of them Spain. This country faced a financial bailout that had been designed with a neoliberal mindset, executed through neoliberal mechanisms; which indeed did not solve the economic issue in its entirety, and caused a tremendous social cost for Spanish society.

Some years after, when the COVID-19 pandemic struck, the European Union changed its approach when facing the economic crisis some Member States were facing. This time, old mechanisms such as the two described for the Great Recession, even though they were proposed by some Member States, they were finally rejected by authorities. This rejection for the old approach and the search and proposal for a new path to solve a joint economic crisis, already marked a change of mindet in the European institutions, showing this time they were eagle to keep in mind other variables that also suffer in an economic distress period, such as citizens, the third sector and basically any vulnerable collective. European authorities in charge such as the European Central Bank, the ECOFIN, but mostly the European Commission under the Von der Leyen Presidency, were willing to see beyond the economic needs and to move forward a more realistic and social solution, as the NEXT GENERATION package proved to be. Additionally, this also implied a more structural way to solve the COVID-19 situation, which, even though this crisis was not as structural as the Great Recession, it did highlight the weaknesses the European Union had in certain sectors and public policies, being most of them exclusive competences from the Member States such as health, which showed the importance of having a European backup and coordination in these kind of transversal and social issues.

Therefore, after the whole analysis this thesis has brought up, there has been definitely many differences between the way the two crises were managed, especially in the way public policies were designed, focused in and addressed to. It is easy to observe **a significant evolution from the Great Recession back in 2008 until the COVID-19 pandemic in 2020, being the former managed under a neoliberal old approach, and the latter having a modern, more social outlook.**

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ANNEX I - EUROPEAN UNION BRIEF TIMELINE AND FUNDAMENTALS

The European Union (EU) is a supranational union of 27 member states which share their geographical area, the same currency, regulations and directives, a long list of values and interests, among other elements. However, the current situation has not been always like this. The construction of the EU as it is known today is a process that is still ongoing, and that, in fact, will probably never be entirely finished. In order to share some of the history of the European Union construction, and its further integration to the union that it represents today, it is necessary to go back to 1945.

After six years of the destruction, death and global backlog that supposed the World War II (WWII), the European society and Governments were incapable of keeping the political direction they had had the last decades: let's not forget the 20th Century had a terrible beginning when the World War I took place, a dreadful event whose consequences were appaling both socially as well as economically for the Europeans, and which would lead to the World War II. Therefore, once it was over, the disastrous repercussion the WWII left in the continent awakened the European society, who thought the best way to stop fighting among each other was to effectively join forces and create an international agreement, in order to value more what they had in common, rather than their differences.

Consequently, only six years after the end of WWII, in 1951, the European Coal and Steel Community (ECSC) was created, which was an international organization created when Belgium, France, Italy, Luxembourg, Netherlands and -back then- West Germany, signed the Treaty of Paris. This agreement was not only innovative, but also highly successful, so that these countries thought it would be positive to expand these kind of agreement to other areas than coal and steel.

Subsequently later in 1957, the European Economic Community (EEC) and the European Atomic Energy Community (EURATOM) were created too, by signing the Treaty of Rome. As it can be seen, an interest of joining forces in diverse sectors was rising among some countries, however this union would remain only in terms of some goods. It is worth to highlight the importance of the EEC creation, as it was an agreement that would be the basis of the customs union which eventually would help to create a European Single Market, including the capital market and a central banking system.

Eventually, these three agreements (ECSC, EEC and EURATOM) would evolve into the European Communities, which was a complex project to transform the interconnections between the neighbor countries and thus, the lifestyle of Europeans. A new project that would change the lifes of milions of people for good was being born.

The European Communities were created through the Maastricht Treaty (1993), which evolved to what today is known as the Treaty on European Union (TEU). On the other hand, the Treaty of Rome evolved too, becoming the Treaty on the Functioning of the European Union (TFEU). Together, the two laid the foundations to the European Union as it now stands, and this is the reason why they are known, together with the Treaty of Paris, as the Founding Treaties (Chapter 3: What is the European Union, 2022).

However, it is also worth to mention the existance of two other types of treaties which have been extremely important in the creation of the European Union. Firstly, the Amending Treaties:

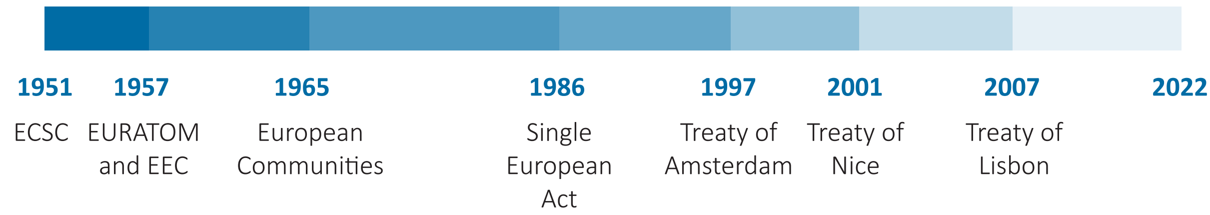

Figure 16: Timeline of the Amending Treaties of the EU
Source: Own Elaboration

Secondly, there are Accession Treaties. To provide some context, it is noteworthy every time a new country joins the EU, an Accession Treaty is created in order to ammend the existant treaties and to add the accession of the new Member State. Hence, the EU currently has seven Accession Treaties that are as follows:

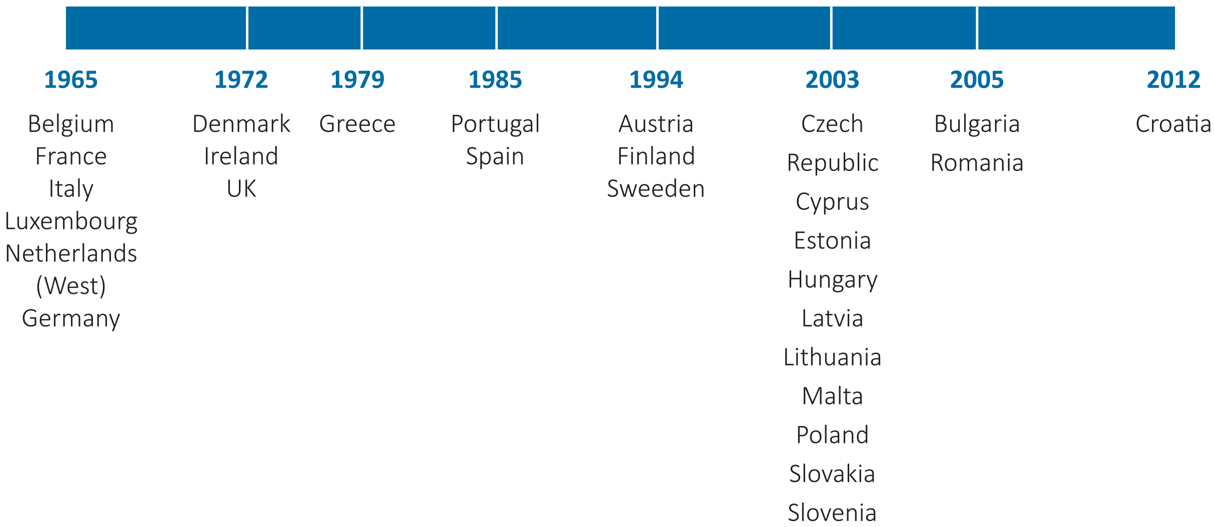

Figure 17: Timeline of the Accession Treaties of the EU
Source: Own Elaboration

To conclude the introduction of how the EU was created, as stated before, the European project is in constant evolution and change, as the society is, so the integration between the Member States has been growing up in the last decades. In the following Figure it can be seen the diverse stages of integration, being a fiscal integration the highest of its forms. Up to now, the EU has reached the monetary union.

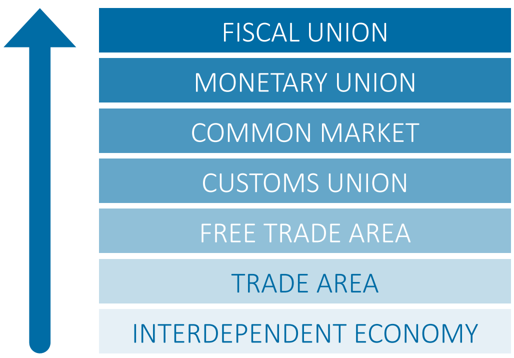

Figure 18: Stages of integration
Source: Own Elaboration with data from Prof. Arturo Pallardó, class notes European Integration, May 2022

However, whenever a country wants to join the EU, it firstly needs to, at some point, choose if entering is more benefitial than it is detrimental for their interests, because there are advantages but also disadvantages. It all depends on what the country is willing to give and to take to and from the European Union as a whole.

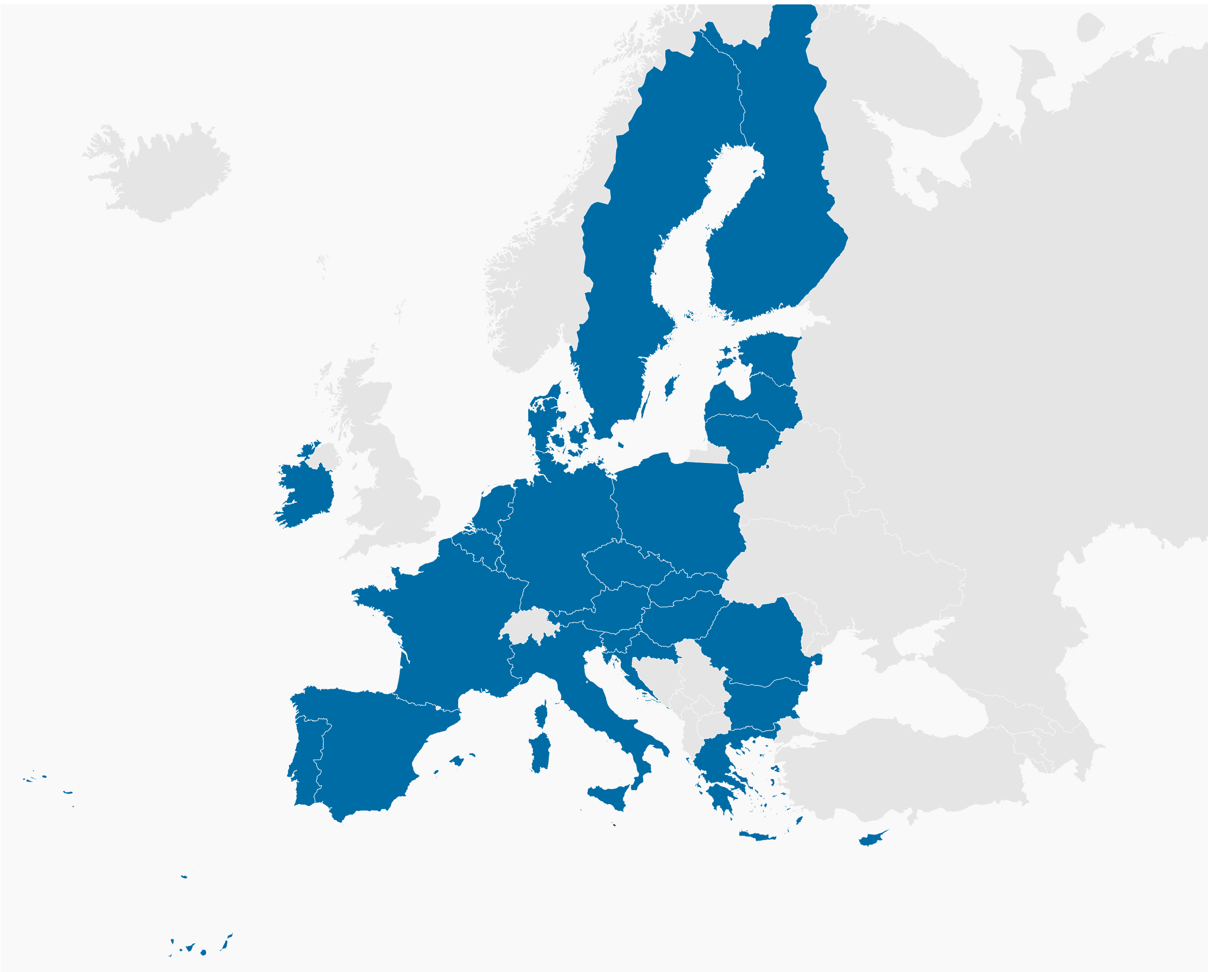

Figure 19: Political Map of the European Union with Member States
Source: Free Vector Maps

ANNEX II - EUROPEAN UNION'S GOVERNANCE

The European Union works based on the rule of law, which means that every decision taken has to be in line with the Treaties that founded it, and, naturally, approved by all the EU Member States. The Treaties are the legal basis of the EU to work and to progress every day, and they are also the documents which detail how the EU works, its legislation and how to approve it, who takes which decisions, its competences, its international relations and affairs, etcetera.

Additionally, it must be noted that politicies can be designed and implemented by two systems, and that both are present and take part in the daily procedures of the EU when it comes to implementing legislation and policies. Those are:

- **Supranationalism:** institutions inside the organizations are the ones which have the decision power. For instance, policies concerning regulations, interior affairs, and some expenditure and macroeconomics. In this case, the European Commission usually proposes a new legislation, and the decision power of passing it, is shared between the Council and the Parliament (through the Ordinary Legislative Procedure/Co-Decision Procedure). In this procedure, as the European Parliament has a key role in the acceptance or denial in a legislation, citizens are more represented than in the Intergovernmental procedure, as in the Parliament often take place discussions among the diverse political parties representing all the European population.

- **Intergovernmentalism:** the decision making power is in the hands of the Member States, who act through their representatives in the European institutions. For instance, those regarding external action, most of the expenditure and macroeconomics policies and some of justice and police cooperation, as well as in the Common Foreign and Security Policy, are approved under intergovernmental procedures. In these, the Commission's right of initiative is shared with the EU Member States or confined to specific areas; the European Council, often plays a key role; the European Parliament here has a purely consultative role, and the main character is the Council, which must act by unanimity.

Therefore, the creation of institutions, bodies and other organizations was needed in order to carry out with these rules and working style, and eventually, seven institutions have been created, as follows:

Institution	Acronym
European Parliament	EP
Council of the European Union or The Council	CoEU
European Commission	EC
European Council	EUCO
Court of Justice of the European Union	CJEU
European Central Bank	ECB
European Court of Auditors	ECA

Figure 20: Institutions and its acronyms
Source: Own Elaboration

Apart from the official institutions, there are also Agencies and Other Bodies, as follows:

EU Agencies	**Other Bodies**
Eurogroup	ECOFIN
European Banking Authority	EU Banking Union
Single Resolution Board	Council of Europe
EUROPOL	European Court of Human Rights

Figure 21: EU Agencies and Other Bodies
Source: Own Elaboration