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Hindsight is 2020

A Comparative Case Study of the European Union's Macroeconomic Crisis Management of The Sovereign Debt Crisis and the Covid-19 Crisis

Master's thesis in European Studies
Supervisor: Prof. Michael J. Geary
May 2022

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NTNU
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Abstract

This thesis provides a comprehensive analysis of the European Union's macroeconomic responses to the Sovereign Debt Crisis and the Covid-19 crisis; two highly similar crises with significantly different responses. It aims at identifying the explanatory factors behind the diverging responses. The thesis is a comparative case study applying the most similar systems design to examine the European Economic Recovery Plan, the EU-IMF Programmes, and the Next Generation EU. The thesis draws on both qualitative and quantitative data, primary and secondary sources when analysing the responses, hence isolating the factors that diverge between the crises. This forms the basis for two research questions: (1) How far has the economic and monetary thinking changed in the European Union from the Sovereign Debt Crisis to the Covid-19 crisis?; and (2) How can the differences in the European Union's monetary and fiscal thinking vis-à-vis the two crises be explained? To address the research questions, a foundation of macroeconomic thinking during crises is provided based on austerity, and Keynesianism, the two most frequently used responses.

The thesis concludes that the economic and monetary thinking has changed significantly between the crises, from austerity during the Sovereign Debt Crisis to Keynesianism during the Covid-19 crisis. Moreover, these differences can be explained by a set of three factors: (1) Germany's position on common debt and collective responses; (2) whether the crisis is asymmetrical or symmetrical, and caused by endogenous or exogenous factors; and (3) the EU's expertise in providing financial assistance, based on lessons from former crises.

Sammendrag

Denne oppgaven er en omfattende analyse av den Europeiske Unions makroøkonomiske responser til Finanskrisen og Koronakrisen; to svært like kriser med vidt forskjellige responser. Den ønsker å identifisere forklaringsfaktorene som forårsaket de forskjellige responsene. Oppgaven er en komparativ casestudie som anvender most similar systems design for å undersøke the European Economic Recovery Plan, the EU-IMF Programmes, og the Next Generation EU. Oppgaven tar utgangspunkt i både kvantitative og kvalitative data, samt primær og sekundærkilder for å analysere de ulike responsene og dermed isolere faktorene som er forskjellig mellom krisene. Dette danner grunnlaget for to forskningsspørsmål: (1) Hvor mye har den økonomiske og monetære tenkingen endret seg i den Europeiske Union fra Finanskrisen til Koronakrisen?; og (2) Hvordan kan endringer i den finansielle og monetære tenkingen mellom de to krisene forklares? For å besvare disse spørsmålene danner oppgaven et grunnlag for makroøkonomisk tenkning basert på austerity, og Keynesianism, de to mest anvendte responsene til økonomiske kriser.

Oppgaven konkluderer med at den økonomiske og monetære tenkingen har forandret seg betraktelig mellom krisene, fra austerity under Finanskrisen til Keynesianism under Koronakrisen. Disse kan forklares av tre faktorer: (1) Tysklands holdninger til felles gjeld og felles respons; (2) om krisen er symmetrisk eller asymmetrisk, og forårsaket av endogene er eksogene faktorer; og (3) EUs kunnskap om å håndtere finansiell assistanse, basert på lærdom fra tidligere kriser.

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While writing this master thesis in many ways has been a one-woman job, there are several who deserve a shout-out for their contribution to the finished product.

First and foremost, I would like to express my sincere gratitude and thanks to my supervisor Michael J. Geary for constructive feedback, helpful advice, and encouragement throughout the entire writing process. Your guidance has helped me constantly improve my thesis, resulting in a product I am satisfied with and proud to present.

I would also like to thank the interviewees who found time in their busy schedules to participate in this project. Having the opportunity to interview someone who works closely with, what I consider, the most exciting field of the European Union has been greatly motivational and has further increased my interest. Your insights have provided a greater understanding of how the EU responds to economic crises and has been of great help to my thesis.

It is also reasonable to assume that the process of writing this thesis would have been a lot harder and a lot less fun without my fellow classmates in the study hall. Thank you for all the fruitful discussions about our MA projects, Eurovision, and everything in-between. The years at European Studies would not have been the same without you.

Last but not least, I would like to thank my family for their support throughout the years and for encouraging me always to form my own opinions and make my own choices. Since family extends beyond blood, my final shoutout goes to my flatmates (and oldest friends) Eline and Eira for putting up with me and the thesis-brain this semester and for always sharing a good laugh.

Synnøve Stølen

Trondheim, May 15th 2022

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List of Abbreviations

CoE	Council of the European Union
DG	Directorate-General
EC	European Commission
ECB	European Central Bank
ECFIN	DG Economic and Financial Affairs
EERP	European Economic Recovery Plan
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilisation Mechanism
EMU	Economic and Monetary Union
EP	European Parliament
ESM	European Stability Mechanism
EU	European Union
EUCO	European Council
IMF	International Monetary Fund
MEP	Member of European Parliament
NGEU	Next Generation EU
RRF	Recovery and Resilience Facility

List of Figures, Charts and Graphs

1. Introduction

> 'The first lesson came by way of the financial crisis. Before the crisis, some saw a trade-off between effective financial regulation and an innovative financial sector that supported growth. That notion was shattered very quickly when the financial crisis plunged us into a deep recession. Europe learnt the lesson. This meant that, when the pandemic hit, (…) instead of being a source of instability, banks could be mobilised to enhance our response to the pandemic.'
>
> – Christine Lagarde, President of the European Central Bank (2 June 2021)

27 May 2020 marked a historic day in European economic and monetary cooperation. For the first time, the European Union (EU) decided to initiate joint debt that would be borrowed from financial markets to fund the Union's recovery from the Covid-19 pandemic. A total of €750 billion would finance the recovery through grants and loans under the recovery plan named Next Generation EU (NGEU). This recovery plan was in stark contrast to the recovery strategy chosen during the Sovereign Debt Crisis a decade earlier when recovery packages and bailouts were given as loans to individual countries. This left some member states in massive debt on top of the debt acquired from the crash itself.

While financial unrest began in 2007, the onset of the global financial crisis occurred when the American investment bank Lehman Brothers collapsed and went bankrupt in 2008. At that point, the economic situation in the EU was very different from the turmoil experienced in the American economy. The EU economy was perceived to be the strongest it had ever been and was thought to be among the most prominent and most robust in the world (Welch, 2011). However, the euphoria caused by the performance of the EU economy blinded politicians and policymakers to the realities in the Union. With the introduction of the Euro in 1999, many of the risks associated with borrowing were reduced, and some were eliminated (P. R. Krugman, Obstfeld, & Melitz, 2018, p. 705). This resulted in massive intra-bank lending in the Union due to low-interest rates from the European Central Bank (ECB), leading Europeans to borrow more than they could afford.

When the financial crisis hit European shores in 2008, the economies of several member states were already rigged for disaster with high private and public debt, housing bubbles in several countries and overreliance on the real-estate sector both for employment and taxes due to the bubble. The financial crisis eventually turned into a sovereign debt crisis with rising unemployment, a decline in gross domestic product (GDP), and a currency in crisis (Stiglitz, 2017, p. 3). In the early days of the crisis, it became evident that some of the member states were worse off than others. The peripheral member states, Ireland, Spain, Portugal, and Greece, also referred to as the PIGS, along with Cyprus, experienced the most severe crashes.

The EU's initial response to the crisis was the €200 billion European Economic Recovery Plan (EERP). The plan was ambitious and aimed at stimulating demand, boosting consumer confidence, lessening the human cost of the crisis, preparing Europe to take advantage when growth returned and speeding up the shift towards a low carbon economy (European Commission, 2008). However, the plan was not enough to counter the economic downturn in the Union. When a new government took office in Greece in late 2009, they announced that the financial situation in the country was far worse than first feared, with a fiscal deficit of 12.7% of GDP and public debt amounting to more than 100% of GDP (P. R. Krugman et al., 2018, p. 709). The situation in Greece caused unrest in the markets, giving birth to the Eurozone crisis, and its severity called for an immediate response from the EU.

In May 2010, Greece became the first country to receive assistance from the EU and the International Monetary Fund (IMF) through a €110 billion EU-IMF bailout programme. Six months later, Ireland entered a similar programme, followed by Portugal in May 2011, before Greece received its second bailout in March 2012, Spain in July the same year and Cyprus in April 2013 (Baldwin & Wyplosz, 2015, p. 487). The EU-IMF Programmes imposed strict austerity measures to cut public finances and bring the economies back to health. Out of the five countries that received the EU-IMF bailouts, Ireland was the only country where the programme was perceived a success. Its economy returned to growth within the 3-year programme period and was hence able to exit the programme. For the other programme countries, the bailouts were less efficient and less successful, and the burden of the austerity measures lingered on for years.

In 2019, a decade after the Sovereign Debt Crisis unfolded, the EU economy was the strongest since the crisis began: the average GDP for the whole EU was back at pre-crisis levels, and unemployment plummeted (Eurostat, 2022c; The World Bank, 2022a). At the end of 2019, worry began to spread worldwide as experts believed a pandemic was rising. A few months into the new decade, the Covid-19 virus wreaked havoc with a medical disaster causing health sectors to break down and economies to shatter. Once again, the EU faced the worst economic decline and turbulence since the Great Depression in the 1930s.

With the former crisis fresh in mind, EU policymakers knew that they had to react differently this time if they were to prevent further recession. This time the crisis was more symmetric. Unlike the Sovereign Debt Crisis, a minority of countries could not be blamed for the negative economic effects they experienced as they were not caused by previous economic neglect. In the beginning, the crisis divided Europe. Closed internal borders, export blocks on medical equipment and a Union paralysed and unable to act led critics to state that European solidarity was gone (Hall, Johnson, & Arnold, 2020; Peel, Milne, & Shotter, 2020). Despite the nationalistic beginning of the crisis response, the EU managed to re-open the internal borders, bringing Europe back together. In late May 2020, a powerful, common economic rescue package was announced.

€750 billion through the NGEU recovery plan would help restart the EU economy after the economic downturn caused by the pandemic. For the first time in history, the Union would borrow from the financial markets and initiate joint debt. The plan caused internal disputes over how the recovery plan was distributed between loans and grants. In the initial outline for the program from the European Commission (EC), €500 billion were to be given as grants, while the remaining €250 billion were as loans. However, this did not sit well with the 'Frugal four' (The Netherlands, Austria, Denmark and Sweden), who feared this would pave the way for a transfer union (Christoffersen, 2020). After months of debates following the plan's launch and 'four days and nights' of negotiations in July 2020, the European Council (EUCO) reached an agreement on NGEU on 21 July 2020. The grants were reduced to €390 billion, and the amount for loans increased to €360 billion (European Council, 2020). This redistribution was a clear result of the opposition from the 'Frugal' states. Nevertheless, the agreement on the deal displayed a stronger willingness to find collective solutions to this shock, contrary to the crisis a decade earlier.

NGEU aims at massive public and private investments at the European level to ensure that the Union will be on the path to a sustainable and resilient recovery, which will create jobs and repair the immediate damage caused by the pandemic while at the same time supporting the EU's green and digital priorities (European Council, 2020, p. 2). While NGEU shares some of the aims of EERP, it is more targeted and has significantly more economic firepower than the initial response to the Sovereign Debt Crisis. Despite several of the factors leading up to and causing the crises, as well as their effects, being similar, the contrast between their responses could hardly have been greater. Which factors caused the EU to choose such different approaches to relatively similar economic downturns? This dissertation seeks to identify these factors to answer the two research questions:

(1) How far has the economic and monetary thinking changed in the European Union from the Sovereign Debt Crisis to the Covid-19 crisis?
(2) How can the differences in the European Union’s monetary and fiscal thinking vis-à-vis the two crises be explained?

In the thesis, economic, monetary, and fiscal thinking will be referred to as macroeconomic thinking. Macroeconomic thinking is highly influenced by the ideological stance of economists, how this affects the models they use to predict outcomes of economic and fiscal policies, and how this impacts their advice to policymakers (Saint-Paul, 2012). Like other scholarly fields, economics has various theories, or ideologies, that each provide different solutions to similar problems. Consequently, based on the economic ideology they belong to, different economists will affect the macroeconomic thinking following that theory. While ideologies play an essential role, macroeconomic thinking is also history-dependent (Sargent, 2008). Hence, what is perceived as a good economic model for the current situation is determined by the ideology and success of previously perceived ‘good models’. Therefore, macroeconomic thinking will change over time, based both on the current economists' ideological stance and the current ‘best’ economic models. Understanding the macroeconomic thinking behind the different responses and what influenced it can help explain why the responses differ. This thesis will mainly be concerned with the macroeconomic thinking in the EU institutions in charge of the crisis responses. However, it will also include the dominating narratives in the IMF when they were involved in the response and how this affected the thinking in the EU.

Examining the macroeconomic thinking behind the crises can provide insight to understand why the responses are so dissimilar. In the existing scholarly literature on the EU’s management of economic crises, few asses it through the lens of macroeconomic thinking. Considering that the responses assessed represent two different schools of thought in economics, understanding the macroeconomic thinking behind them and how/why it changed between the crises can help identify which factors affect the EU’s crisis management. When writing this thesis, Europe is faced with yet another crisis that can have economic consequences for the EU. While Russia’s war on Ukraine is a very different crisis than the ones studied in this thesis, some of its findings on EU crisis management will likely have relevance beyond the field of economics.

1.1. Literature review

The financial earthquake that hit the world and EU economy in 2008 has resulted in a great deal of scholarly interest from various disciplines since it sent turmoil through markets over a decade ago. However, this literature review will primarily be concerned with literature that explores similar research questions on the two economic rescue programmes, the EERP and the EU-IMF Programmes. The Covid-19 crisis is a recent crisis, hence literature on the economic response is more limited. Nonetheless, literature on the NGEU is constantly expanding. Several articles and scholars compare the current response to the Sovereign Debt Crisis and explore similar research questions to this thesis when comparing them. There are several angles and types of literature to include when studying literature on crisis responses and determinants of different responses. However, this review will focus on literature concerning the economic aspect, especially the Sovereign Debt Crisis, since this is the thesis's primary focus and starting point.

European Economic Recovery Plan

The initial response when the financial turmoil from the United States (US) hit European markets in 2008 was the EERP, which was announced by the EC on 25 November 2008, amounting to €200 billion (Jackson, 2009). This response has been subject to extensive research, analysis, and critique since its implementation in December 2008 (Efenhoff, 2009; Soroceanu & LupaŞcu, 2011; Welch, 2011; Whitley, 2010). However, due to the programme being short-lived and replaced by more extensive responses, the literature is somewhat limited. The literature on the EERP is mainly concerned with its contents and how the EU should act for the plan to succeed.

Some of the first academic works assessing the EERP is Efenhoff (2009). It identifies the EU's ability to work together as a unit to be the crucial factor for the EERP to be successful and counter the economic recession in the EU. Arguing that the Member States and the EU institutions can 'take action to restore consumer and business confidence, to restart lending and stimulate investment in our economies, creating jobs and helping the unemployed to find new jobs. The [EERP] (…) is designed to create a basis for rapid agreement between the Member States and get Europe's economy moving again' (Efenhoff, 2009, p. 23). He also addresses some of the economic thinking behind the plan, which was to have a coordinated European response relying on a stimulus package to inject purchase power into the economy.

Similar to Efenhoff (2009), Whitley (2010; see also Bogdan, 2011) provides a comprehensive review of the plan. In his book, Whitley discusses the EERP offering a systematic overview of the components in the plan. While the chapter on EERP is mainly concerned with the plan's contents, Whitley (2010) also offers some insight into what is needed to succeed. He makes the same argument as Efenhoff (2009) that if the European Institutions can act together, they can take action, which will contribute to the recovery of all sectors of the economy heavily affected by the crises. This thesis will build on Efenhoff and Whitley's claim that a coordinated response could rebuild market confidence, increasing investments and consumption to restore growth. Nevertheless, it will claim that the EU was unsuccessful in doing so, resulting instead in a continued economic decline.

Early literature on the EERP suggests that many were hopeful that the plan could successfully counter the economic decline. However, this view changed after a few years, when the plan and the initial EU response to the crisis began receiving more criticism. Welch (2011) provides a thorough overview of the EU's initial response to the crisis, highlighting that a common belief during the early days of the crisis, when the turmoil still mainly affected the US economy, was that the EU economy was so strong that it would not experience the same turbulence. Hence, the initial response was too little too late and could not counter the economic downturn. She also emphasises that there was a concern that the EERP was too focused on short-term fixes and neglected the long-term goals of the EU economy (Welch, 2011). Welch does not explicitly address the macroeconomic thinking in the EU at the time. However, her argument on the misconceptions of the economic situation before the crisis indicates how the policymakers were thinking of the EU economy and its capacity to withstand financial shocks elsewhere in international markets.

Soroceanu and LupaŞcu (2011) put the EERP under the loop of sound public finances when assessing the programme's pitfalls in their article. By outlining the principles of sound economic and financial policy, they compare these to the content of the EERP, finding that a comprehensive strategy, including fiscal reforms, was needed to revitalise the European economies after the financial crash. This argument follows one of the Economic and

Monetary Union's (EMU) critiques: it does not have a fiscal union complementing the economic and monetary policies (see, e.g., Baldwin & Giavazzi, 2015; Yurtsever, 2011). This thesis will to a great extent agree with the arguments made by Welch and Sorocenau and LupaŞcu when examining the EERP and its success. It will claim that the plan was too ambitious and not targeted enough to tackle the economic downturn in the Union. It will also confirm that the 'utopian' view of the EU's economic situation was an important factor behind the plan's failure.

EU-IMF Programmes

While the EERP provided a broad approach for the European recovery, the EU-IMF Programmes given to Greece, Ireland, Portugal, Spain, and Cyprus were more extensive and targeted at the countries and sectors most severely hit by the crisis. The EU-IMF Programmes provided to the crisis-ridden peripheral EU countries were, at the time, by far the most extensive economic rescue programmes in the history of international financial assistance. Compared to the EERP, the EU-IMF assistance to Greece alone amounted to more than €270 billion. Hence, the programmes have generated a substantial amount of research.

Pisani-Ferry, Sapir, and Wolff (2013) provide an early assessment of the first three EU-IMF programmes. The authors found that even after only three years, it had already become evident which economies were best equipped to handle and bounce back from the economic shock. They conclude that Ireland was on its way to exiting the programme after the projected three-year programme period and could be considered successful. The Portuguese economy had structural weaknesses and was fragile to new shocks. Nevertheless, the programme still had the potential to be a success. However, the Greek programme was deemed unsuccessful, partially due to the late response. The authors suggest that debt restructuring, instead of austerity measures, would have been preferable for Greece (Pisani-Ferry, Sapir, & Wolff, 2013, p. 93). They also argue that the programmes had some success in the three countries, especially with the fast shrinking of deficits. Nevertheless, it was highly unsuccessful in handling unemployment in the programme countries, especially for the sectors that had an artificial expansion during the boom years, like the construction sector, which suffered after the housing bubbles burst. Their arguments will to a great extent, be confirmed in this thesis. It will, however, be more critical of the success of the programmes and how the macroeconomic thinking at the time was at fault for the struggles of austerity.

The undemocratic turn of the crisis response became evident when the EC, ECB, and IMF, also known as The Troika, emerged, shifting more power towards the technocrats. This shift in governance is the subject of Ruser (2015), who assesses how the financial crisis forced the policymakers to shift their focus from pleasing the people to fixing the markets. He argues that the European economic governance during the Sovereign Debt Crisis and the financial rescue programmes from the Troika, consisting of three technocratic institutions, put pressure on national governments to follow the agenda set by the EU technocrats to: 'calm the markets and restore the functioning of the financial system' (Ruser, 2015, p. 90). This argument follows the critique from Joseph Stiglitz (2017), Professor of Economics and winner of the Nobel Prize in Economics. In his book *The Euro, and its Threat to the Future of Europe*, he argues that the programmes were not primarily given to save the countries' economies but to save the European banks who have lent them money (Stiglitz, 2017, p. 206; see also Orphanides, 2015). Contrary to Ruser's (2015) arguments, Steinbach (2019) challenges the views of scholars who have argued that the EU's economic governance has taken an undemocratic move. He argues that there has been a shift from economic to political accountability. The debtor states are no longer held accountable to the markets, but to the EU institutions and other states, particularly the creditor states. This thesis will greatly agree with the arguments from Ruser and Stiglitz that the technocracy of the EU-IMF Programmes strongly influenced the macroeconomic thinking toward an austerity-based response.

Several studies have been conducted on the different EU-IMF Programmes; some of the more comprehensive analyses are Orphanides (2015) and Kyriakidis (2016) on Greece, Fitzgerald (2014) and Barrett (2011) for Ireland, Moury and Freire (2013) on Portugal, and Cohen, Guillamón, Lapsley, and Robbins (2015) who provides an overview of the austerity measures from the EU-IMF Programmes in Greece, Spain, and Ireland. The events which led up to the EU-IMF Programmes for Greece are outlined and analysed in Kyriakidis (2016), which gives a thorough overview of the Greek economic situation between 2009-2016. Orphanides (2015) claims that the EU-IMF bailout in Greece was the 'original sin' and the cause of the Euro area crisis. This is because the programme paved the way for the wealthier member states to 'exploit' Greece as it was mainly concerned with protecting the political and financial interests of other EU countries. Barrett (2011) provides an initial analysis of the EU-IMF Programme in Ireland, it's content and why it was needed. He argues that the programme would allow Ireland to implement much needed economic and political reforms to deal with the underlying causes of the crisis: the banking system and the financial system. The year after Ireland exited their EU-IMF Programme, Fitzgerald (2014) provided an empirical analysis of how the Irish economy had recovered. He found that the tradeable sector led the recovery and that the Irish success was partially due to the programme having achievable fiscal targets. Moury and Freire (2013) is one of few articles that examines the EU-IMF programme in Portugal exhaustively by investigating the causes behind the bailout and its consequences. They argue that contrary to popular belief in Portugal, the programme's policies were not rigid top-down measures imposed on helpless governments, as the governments have used this as a window of opportunity to impose otherwise unpopular reforms. The austerity measures from the Troika in Greece, Ireland and Spain are subject to analysis by Cohen et al. (2015). They found that the fiscal conservatism of EU-IMF Programmes had adverse effects on the economies as governments had to cut their spending. Cohen et al. (2015) also suggest that the austerity measures had several negative social impacts, like unemployment, migration of skilled workers, collapse in property markets, failing banks and social discontent.

This thesis will to a great extent, agree with the argument made by Ruser (2015) on how the EU-IMF bailouts mark a technocratic turn in European governance. It also supports the arguments of Pisani-Ferry et al. (2013), Orphanides (2015), Fitzgerald (2014), Barrett (2011), Moury and Freire (2013) and Cohen et al. (2015) in terms of the social effects of the programmes and which countries can be considered successful. While supporting the findings of others, this thesis will be more concerned with the macroeconomic thinking behind the different plans. It will focus on which factors led to these specific responses being chosen.

Next Generation EU

The economic effects of the Covid-19 pandemic forced the EU to do something they had never done before: initiate joint debt to finance the recovery from the recession caused by the virus. While the NGEU plan only came about a year and a half before this dissertation was written, the uniqueness of the EU's response to this crisis has already resulted in a meaningful amount of literature on the topic. This section will focus on the literature on the contents of the plan, the actors involved in the policymaking and literature comparing it to previous economic crisis responses (see Costa Cabral, 2021; de la Porte & Jensen, 2021; Fuest, 2021; Ladi & Tsarouhas, 2020; Wolff & Ladi, 2020).

The evolution of borrowing in the European Union is the puzzle addressed by Costa Cabral (2021) from a purely national model through stages of hybrid borrowing and eventually to a European model. She argues that NGEU is a European Hybrid model where either European or national tax resources finance the borrowing. It also has mostly a European risk premium, contrary to responses during the Sovereign Debt crisis when borrowing was a job for the nation-state. Costa Cabral also emphasises that Next Generation EU fully recognises the EC's borrowing capacity as a way to finance the Union's expenses.

A discourse analysis of the public debate on EU crisis management leading up to the finalisation of the NGEU in 2020 is performed by Miró (2021). He seeks to identify the main arguments and legitimation strategies used in the debate. Arguing that there is a clear North-South divide in the arguments, where the Northern states expressed a principle-based opposition to a form of 'debt-union'. The Southern states emphasised the symmetrical nature of the crisis and the need for a common European response as the export-led economies of Northern Europe were dependent on the Southern markets (Miró, 2021, pp. 8-10). Miró finds that the factor which enabled a common response during this crisis, unlike the Sovereign Debt Crisis, was the changed position of Germany, who argued for a strengthening of European cooperation, in stark contrast to their position during the former crisis. However, unlike Costa Cabral (2021), Miró (2021, p. 16) argues that NGEU can not be viewed as a stepping stone for future European fiscal solutions, as politicians have clearly stated that the NGEU is a one-time response to a unique economic situation. There is also little willingness among some of the most prominent member states to continue towards a fiscal union. This thesis will to a great extent, agree with, and build, on the arguments of Miró, recognising that the position of Germany was crucial for the responses during both crises. It will provide a different argument than Costa Cabral and Miró on future financing, arguing that this will depend on several factors, most notably the nature of future crises.

Ladi and Tsarouhas (2020) draw on policy learning theories when they assess the opportunities Covid-19 has provided the EU with, in terms of economic governance. They argue that the Covid-19 crisis is a critical juncture for the EU. In contrast to the Sovereign Debt Crisis, the union has taken a bold decision with the adaptation of NGEU that represents a shift in the governance of the EMU. Whether it is a permanent shift is still uncertain. Ladi and Tsarouhas (2020, p. 1053) also recognise that common debt was a 'no-go' area during the last economic crisis. Their findings are clear evidence that there has been a change in macroeconomic thinking in the Union, especially when it comes to responding to crises.

Wolff and Ladi (2020) perform a similar study to this dissertation by comparing the Covid-19 responses to former crises, particularly the Sovereign Debt Crisis. Drawing on the concepts of inter-crisis learning, they argue that the Covid-19 pandemic proves that the EU has higher adaptability to respond to crises than before, and that the EU's capacity to react has been more rapid during this crisis compared to previous (Wolff & Ladi, 2020, p. 1026). Contrary to the Sovereign Debt Crisis, when technocrats were in charge, political leaders, like Angela Merkel, German Chancellor, and Emanuel Macron, French President, took initiative and responsibility for the response. Unlike the findings of Welch (2011) and Ruser (2015) for the Sovereign Debt Crisis, Wolff and Ladi (2020) argues that during the Covid-19 crisis, the EU has reacted swiftly, and political leaders have taken charge, displaying that inter-crisis learning has occurred. To a great extent, this thesis will support the arguments by Ladi and Tsarouhas and Wolff and Ladi that there have been significant changes to the way the EU responds to economic crises, much of which is a result of lessons from former crises.

How NGEU came about is subject to analysis by de la Porte and Jensen (2021). As the plan breaks with the EU norms of no common debt issuance and significant redistribution among the member states, it caused internal disagreement between the EU countries. They identify two groupings among the member states on opposing fronts about the NGEU: The Franco-German alliance, who endorsed a response financed by common det and the 'Frugal four' who wanted strict conditions for the grants (de la Porte & Jensen, 2021, p. 392). Two additional groups contributed to the conflict: the Polish-Hungarian who challenged the Union's commitment to the Rule of Law, and the Spanish-Italian front, who were mainly concerned with ensuring that grants became an instrument, not just loans. They find that while the countries agreed on the plan, there will continue to be clashes about it, especially concerning the conditions for the allocation of grants. The changing position of Germany vis-à-vis the Sovereign Debt Crisis appears to be one of the reasons behind the different macroeconomic responses and likely one of the explanations for the different responses. Germany's position will also be identified as a crucial factor behind the changed responses from the Sovereign Debt Crisis in this thesis. It will also draw on the opposition from the 'Frugal Four' as an influential factor behind the distribution between grants and loans in NGEU.

Fuest (2021) discusses the financial flows implied by the NGEU and the economic justification behind the plan, assessing the effects of the plan. He finds that, while the money from the programme will not be spent before the worst of the crisis is over, it will contribute to financial stability by creating market expectations. Second, the fund will redistribute among the member states based on GDP per capita, ensuring a just distribution. Third, it will increase the importance of political priorities at the European level, like the green and digital transformation of the economy. Last, NGEU does not give the union the right to continue financing with debt. Hence much of the critique is misguided. His findings suggest that while there has been a change in the macroeconomic thinking behind the crisis response, it is unlikely that this change will continue beyond economic crises. This thesis will agree with several of these arguments, the most prominent being the one concerning the effects. This thesis finds that NGEU boosted the EU economy before it began distributing the loans and grants, implying that it caused increased trust in the markets, hence increasing spending and investments.

This dissertation will to a great extent, agree with the arguments made by Wolff and Ladi (2020), also drawing on the concept of inter-crisis learning. It will also draw on the arguments made by Costa Cabral (2021), Ladi and Tsarouhas (2020), de la Porte and Jensen (2021), Fuest (2021) and Miró (2021). While several of these articles draw lines between the two crises, few or none have done a comprehensive comparative study of the responses to the two crises. Moreover, none have explicitly examined these three programmes together, the macroeconomic thinking behind them, and how and why the EU's responses to the crises differ. This study will contribute to filling this gap in the literature by performing a comprehensive comparative case study, drawing on both qualitative and quantitative data to analyse the responses, how and why they have changed, and if there has been a change in the macroeconomic thinking behind them. It also aims at identifying the factors which have contributed and caused, the EU to choose such different approaches to two crises that are very similar.

1.2. Methodology

This dissertation will be conducted as a comparative case study of the responses to the two crises. Case studies provide the opportunity to explore a small number of cases in detail. The comparative approach makes it possible to examine several cases to identify the factors that make the cases similar or set them apart. A case study uses predetermined indicators defining what and who is included and excluded in the selection. Its primary goal is to generate knowledge about the case in question (Tjora, 2017, p. 41). The selection for the two cases will include the EU member states, 28 countries during the Sovereign Debt Crisis and 27 countries, the United Kingdom is excluded, during the Covid-19 crisis for the period 2006-2021. Both crises are unique cases as they were both, at the time of their onset, the worst economic crisis since the Great Depression. While unique cases, they have several similarities in terms of how they affected the EU's economy. Hence comparing them will help identify the factors which set them apart and result in the different responses.

This dissertation will apply the most similar systems design (MSSD) when comparing the two cases. MSSD is a theoretically strong methodology, and was first described by John Stuart Mill (1884, pp. 255-256; see also Mills, Durepos, & Wiebe, 2010) as 'the method of difference'. The phenomenon under investigation can only occur in one out of two cases. These cases have every circumstance in common except one, this factor is the cause of the different outcomes. When applying the MSSD method, two systems or cases with a high degree of similarity are compared. This method aims to identify the intersystem differences, which are the explanatory variables for the different outcomes of the systems (Przeworski & Teune, 1970). When choosing the cases to compare, their number of common characteristics required is maximal, and the number of different characteristics should be minimal (Przeworski & Teune, 1970, p. 33). The economic effects of the Sovereign Debt Crisis and the Covid-19 economic crisis on the EU economy were the same, considering GDP, public debt, and employment. Despite their similarities, the crises had very different responses. By applying the MSSD, it is possible to identify factors that are different vis-à-vis the two crises and hence understand why the responses were diverse.

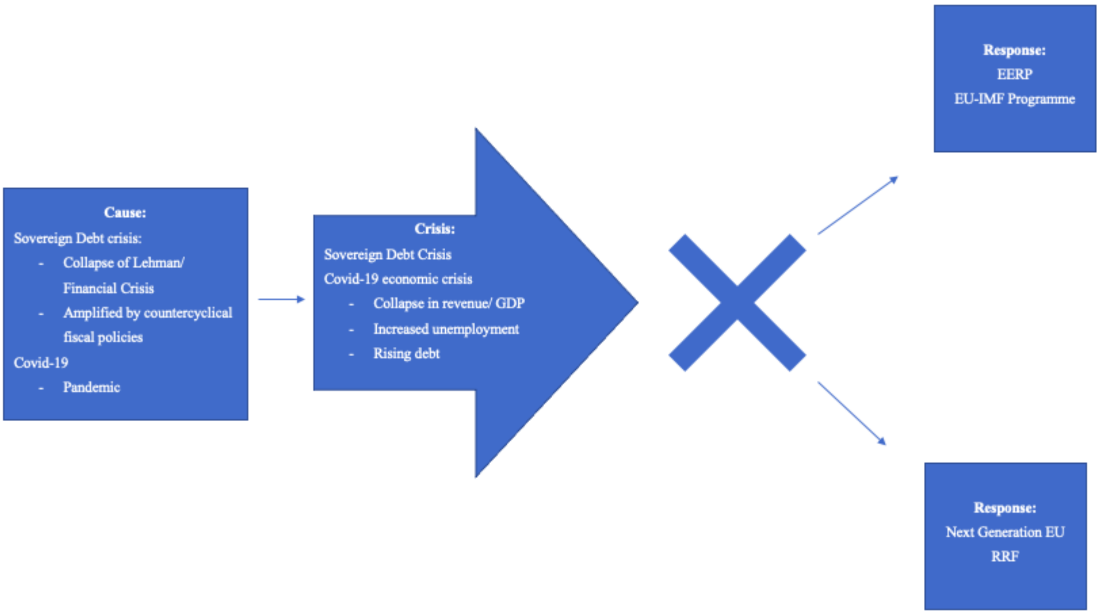


Figure 1: Overview of the elements of the crisis response chain, Sovereign Debt Crisis, and Covid-19

Figure 1 provides a graphic representation of the evolution of the two crises, from the causes to the different responses. By applying the MSSD, this thesis aims at identifying the "X" to explain why the EU's responses to the crises differ. To determine the similarities and differences between the two crises, various data will be explored. Initially, the three economic variables (1) GDP, (2) public debt (debt-to GDP ratio), and (3) unemployment will be presented for the member states for each crisis. These are good indicators of the economic situation in a country and will illustrate the trends and how divergence and convergence in the Union developed during the two crises. Additionally, suppose there are huge variations between the values in these variables for the two crises. In that case, they can then explain why the EU's responses to the two crises have been different.

The methodological approach is of a more inductive than deductive nature, as it aims at exploring, discovering, and detecting empirical phenomena rather than proving a theory (Jebb, Parrigon, & Woo, 2017; Tjora, 2017). Thus, it will explore a vast amount of data to detect the 'X' variable(s). While economic indicators are helpful when assessing the economic situation in the EU during the crisis, it is unlikely that the quantitative data alone will be able to explain the differences between the two crises, and the different responses. Hence, the thesis will be an empirical analysis examining quantitative and qualitative data to address the research questions. Qualitative data will complement and expand on the quantitative economic data to provide a broader and more comprehensive picture of the situation in Europe leading up to, during and after the crises. Here a range of primary sources will be examined, from official EU documents, speeches, parliamentary debates, press releases, newspaper articles and opinion pieces, and secondary sources in the form of academic articles and books. Additionally, four semi-structured elite interviews have been conducted. These give room for reflections and adjustments during the interview, contrary to structured interviews (Berry, 2002; Tjora, 2017). The interviews will provide data that other sources are missing, particularly concerning the NGEU which is a relatively recent programme, hence reducing the amount of available data. When selecting the interviewees, the focus was on quality, not quantity, hence, the interviewees selected are few, but this is justified by their high-level positions and expertise. The interviewees have been strategically selected based on their academic and professional backgrounds as EU officials and economists working in various institutions of the EU. They were all given the option to remain anonymous, which two wanted to. Hence, in accordance with their wishes, little information will be provided about their background and position in the EU apart from what they have agreed with the author to be known. Two of the interviewees work in the Directorate-General (DG) for Economic and Financial Affairs (ECFIN) in the EC. The third interviewee is a Council of the European Union (CoE) Official, and the last is an EU official.

The interviews offer insight into the interviewee's personal views and experiences, which provides a unique understanding of the policy process behind the responses. For the interviews, an interview guide of roughly 25 questions was used. The initial questions were broad and focused on the evolution of macroeconomic thinking in the EU over the past 30 years. Then followed a section on the Sovereign Debt Crisis, the macroeconomic thinking behind the EERP and the EU-IMF Programmes, factors, institutions, countries, and individuals who were central in the process leading up to the different responses. Similar questions were asked for the macroeconomic response to the Covid-19 crisis. Additionally, the interviewees were asked to reflect upon why the responses to the two crises were so different. The interviews were conducted between 11 February 2022 to 10 April 2022. Three of the interviews were conducted using Microsoft Teams and Zoom, these were recorded and transcribed. Interview four was a written interview where the questions were sent to the interviewee by e-mail, who responded to them in writing via e-mail. The views expressed by the interviewees are their personal views and opinions. They should not be taken as the views of their respective Institutions, Units, the EU, or anyone else working with them. The interviewees should also not be held accountable for the author's interpretation and analysis of their views, these belong to the author alone.

The conceptual framework for the thesis consists of three main concepts: (1) Inter-crisis learning, (2) economic stability and (3) financial stability. All three concepts are essential for addressing the research questions. This because macroeconomic thinking is often aimed at achieving economic and financial stability, and lessons from the Sovereign Debt crisis likely affected the response to the Covid-19 crisis and the macroeconomic thinking behind it. To assess how and if, inter-crisis learning has occurred in the EU, it is essential to draw on financial and economic stability since they determine how the Union will respond to economic shocks. Hence, analysing the different measures to achieve economic and financial stability vis-à-vis the two crises will help determine if inter-crisis learning has occurred.

Similar to Wolff and Ladi's (2020) article on the EU's changing responses to crises, this thesis will also build upon the concept of inter-crisis learning. Inter-crisis learning can be defined as learning from one crisis to prepare for another, hence the collective identification and embedding of practices and behaviours that improve crisis responses (Moynihan, 2009, p. 189; Stern, 1997; Wolff & Ladi, 2020, p. 1031). This can also happen during a crisis, then referred to as intra-crisis learning. However, this is far less likely, as found by Stern (1997, p. 82); it is often impossible to evaluate which changes have been made to improve the crisis response until the next crisis occurs. For this dissertation, inter-crisis learning will refer to the process between the Sovereign Debt Crisis and the Covid-19 crisis, how the results and outcomes of the crisis response to the former have affected the choices and macroeconomic thinking during the latter.

At the core of macroeconomics is the desire to achieve economic and financial stability to avoid fluctuations in the economy (see Baldwin & Wyplosz, 2015; Holden, 2016). Hence, the macroeconomic thinking among policymakers will aim at accomplishing this, either through expansionary or contractionary policies. According to Allen and Wood (2006), financial stability can simply be defined as ' a state of affairs in which episodes of instability are unlikely to occur'. More extensively, financial stability is essential for a functioning economy and can be defined by well-functioning markets, the efficient functioning of the financial institutions and system, e.g. the Central Bank, and asset prices that are not removed from fundamental values (Allen & Wood, 2006; Nelson & Perli, 2007). A stable financial system will also be able to withstand fluctuations. Financial stability ensures that the central bank can function properly and regulate the money supply in the market, ensuring stable prices and avoiding inflation. Economic and monetary policies can also ensure financial stability (Nelson & Perli, 2007, p. 343). This is achieved by adjusting the interest rates so that they respond to the market's needs. However, for the central bank to be able to carry out its functions, and adjust interest rates, a certain level of financial stability is required. Consequently, monetary policies can not create financial stability in a situation of complete instability.

Economic stability, or cyclical stability, refers to a situation where the monetary and fiscal conditions in a country or state are steady and promotes growth, welfare, and prosperity (see Holden, 2016, pp. 289-292). Friedman (1948) outlines four conditions for economic stability: (1) a sound monetary system with an independent central bank that has monopoly on the creation of money; (2) balanced government expenditures on goods and services; (3) a predetermined programme for government transfer expenditures to prevent over expenditure on certain public goods and services; and (4) a tax system that has its primary source of revenue from personal income tax (Friedman, 1948, pp. 247-249). Economic stability is often achieved by following a counter-cyclical monetary policy, together with a counter-cyclical fiscal policy: increasing taxes and interest rates and reducing public expenditure during an economic expansion, and vice versa during an economic contraction.

The structure of the thesis will follow a chronological order of the responses. The first chapter will examine the two most common responses to financial and economic crises: Keynesianism and Austerity. Here the two types of responses will be explored, providing some examples of when they have been applied, and analysed to identify their advantages and disadvantages. The chapter argues that Keynesianism is a more effective response to recessions, as it boosts demand faster. Regardless, it also acknowledged that applying Keynesianism is not always possible, often due to high debt. Hence austerity might be the only possible response. The second chapter will examine and analyse the Sovereign Debt Crisis's responses, the EERP and the EU-IMF Programmes. Exploring official documents, speeches, press releases, parliamentary debates, newspaper articles and opinion pieces, together with quantitative economic data, this chapter will provide a comprehensive analysis of the EERP and the EU-IMF Programmes, their content, the process leading up to them, the thinking behind them and the most central actors involved. The chapter will also include relevant extractions from the interviews with EU officials. It follows two main arguments: First, misconceptions about the condition of the EU economy led policymakers to choose a response and follow a macroeconomic thinking, that was not in line with the actual situation in the economy, resulting in the EERP being an insufficient response. Second, the thinking behind the EU-IMF Programmes was highly influenced by the macroeconomic narrative in the IMF; that austerity was the best solution to such crises. Furthermore, that divergence between the member states highly influenced the response, and proponents of austerity underestimated the negative effect it would have on the labour market and private consumption.

Chapter 3 examines the economic Covid-19 crisis and the EU's response, NGEU and in extension the Recovery and Resilience Facility (RRF). To analyse the process leading up to the finalisation of the NGEU official documents, speeches, press releases, newspaper articles and opinion pieces, together with quantitative economic data, will be examined. To complement the lack of available data on this crisis response, data from the interviews will be included to gain a greater insight into the process, why the EU applied this response and who the most central and important actors were. This chapter argues that the response to the Covid-19 crisis, and the macroeconomic thinking behind it, was a result of several factors: (1) symmetrical negative changes in economic indicators; (2) political willingness to have a strong common response, both from the national level and the EU level; (3) and the wish to not repeat the mistakes of the past. Additionally, that NGEU is strongly influenced by Keynesian ideas, suggesting that there has been a shift away from austerity in the macroeconomic thinking since the former crisis.

Drawing on the data presented in the second and third chapters, the differences between the two responses will be explored and analysed in chapter 4. This chapter compares the two crises to determine which factors contributed to the change from the Sovereign Debt Crisis to the Covid-19 crisis. Hence, identifying the 'X' in the crisis response chain outlined in figure 1. Based on the data and evidence presented in previous chapters this comparison will be focused on three factors that were significant for the responses and changed from the Sovereign Debt Crisis to the Covid-19 crisis: (1) The position of Germany; (2) the nature of the crisis; (3) and inter-crisis learning.

The final chapter summarises the central arguments of the thesis before concluding that the economic and monetary thinking has changed significantly from the Sovereign Debt Crisis to the Covid-19 crisis. Furthermore, that the different macroeconomic thinking during the two crises represents two opposing responses to crises in economic theory. Moreover, these differences can be explained by a set of three factors: (1) Germany's position on common debt and common responses; (2) whether the crisis is asymmetrical or symmetrical, and caused by endogenous or exogenous factors; and (3) the EU's expertise in providing financial assistance, based on lessons from former crises.

2. Macroeconomic thinking during crises

There are many ways to respond to economic and financial crises, however, the two lines of macroeconomic thinking and responses used most frequently during such crises are Keynesianism and Austerity (Stiglitz, 2017). The idea behind Keynesianism is to save money when economics are good, for instance during an economic expansion, this includes increased taxes and interest rates and reduced government spending. Hence, countries will have room for fiscal manoeuvre when the economic cycles turn to help counter economic recessions by reducing taxes, lowering interest rates, and increasing public spending, following a counter-cyclical logic (Keynes, 1936). Austerity on the other hand is mostly applied following an economic recession when policies have been procyclical and a country has little to no room for fiscal manoeuvre. It became the dominating macroeconomic policy in several countries after the Global Financial Crisis (Calcagno, 2012). When austerity measures are implemented during an economic and/or financial crisis, public spending is reduced, and taxes are increased as measures to counter public deficits and reduce government debt. Hence, the EU's response to the Sovereign Debt Crisis is an example of the austerity response and Covid-19 is an example following the principles of Keynes.

This chapter will examine the two different responses in detail, providing examples of when the two responses have been applied and which response is suitable for different types of economies and economic situations. It will be argued that evidence from the Sovereign Debt Crisis suggests that Keynesianism is a more effective response when the economy, particularly the global economy, is in deep recession since it provides tools to boost demand faster. However, following Keynesianism is not always a possibility, especially if a country or an economy has run a massive deficit and debt prior to the crisis and is unable to increase public spending, hence austerity might be the only possible response.

2.1. Austerity

Austerity or fiscal consolidation is not an economic theory on its own but is part of the Neoliberalist economic theory, or agenda (Ostry, Loungani, & Furceri, 2016). When economists talk about austerity or fiscal consolidation, the refer to a form of 'voluntary deflation to restore competitiveness, which is best achieved by cutting the state's budget, debts, and deficits' (Blyth, 2013, p. 2). Hence, countries that are forced to adopt austerity measures have often followed a pro-cyclical fiscal policy, spending money during an economic expansion and thus being required to save money during a recession. During the period of the Global Financial Crisis, austerity became the dominating response to address unsustainable levels of public debt, particularly in the western world (Clarke & Newman, 2012). Reduction of public debt, to prevent economic collapse, has been the main aim of austerity measures. However, research has also found that these measures can have an expansionary effect on the economy while reducing public spending. Guajardo, Leigh, and Pescatori (2011) argue that austerity can help economies bounce back from recession despite cuts in public spending and increased taxes, through a phenomenon called 'expansionary fiscal contraction', or 'expansionary austerity'. The idea of expansionary fiscal contraction emerged from experiences in countries such as Denmark and Ireland in the 1980s, where the economy was growing despite economic contractions (Konzelmann, 2014, p. 717). Expansionary austerity makes use of central mechanisms in international markets: trust and confidence. If the market is confident that an economy will fail investors will cancel their investments, hence making it a self-fulfilling prophecy or a self-enforcing mechanism, and vice-versa if the markets believe an economy will perform well investments increases (Beckert, 2005; Semmler, 2013). Thus, imposing austerity measures send signals to the markets that the government is willing to interfere to restore economic stability and growth, providing a stable environment for investments and restoring confidence among investors. Alesina and Ardagna (2010) found the positive economic effects of austerity in their study of the impact of taxes versus government spending as tools in fiscal adjustment and stimuli during an economic recession. They found that while increasing public spending would increase demand, it was less effective than reducing taxes. However, there was little evidence to support the claim that public deficit and debt would be reduced due to a rapid return to growth (Alesina & Ardagna, 2010, p. 62). Moreover, this suggests that reducing deficits through fiscal consolidation could prove beneficial for debt sustainability in the long term, since there is no guarantee that increased economic activity will contribute to reducing debt. Hence, it is reasonable to argue that austerity can help countries out of an economic recession as it will not contribute to an increase in public debt or deficit. Instead, austerity can help boost long-term confidence in the economy for households and investors. Furthermore, it can incentivise investments and private consumption, even short-term.

Those who advocate for austerity often do so based on the assumption that the multiplier in an economy is less than 1 (Semmler, 2013). The multiplier defines the total effect of a reduction, or increase, of government tax or spending by one unit; the impact on GDP growth if government spending is reduced or increased by 1 (Baldwin & Wyplosz, 2015, p. 496; Semmler, 2013, p. 885). Hence, if the multiplier is less than one, the negative effect of austerity on GDP would be relatively weak, which would justify implementing them as it contributed to reducing debt. However, if the multiplier is larger than 1, for example, 1.5, the effect of austerity is strong, reducing GDP growth significantly for each unit public spending decreases. According to Deleidi, Iafrate, and Levrero (2021), the models behind the macroeconomic thinking during the Sovereign Debt Crisis estimated the multiplier to be less than 1, resulting in the adaptation of austerity policies. While models provide a useful tool to predict the effects of certain policies, an overreliance on them can be harmful. Estimating the effect on real GDP growth is difficult in real-time, hence the predicted multiplier can be wrong. Consequently, relying too much on these models can result in the wrong policies being implemented.

For many EU countries, austerity was the only possible response to the economic downturn as their economies could not afford an expansionary fiscal policy to counter the recession. During the period of the Sovereign Debt Crisis, the dominating macroeconomic view in some of the world's largest economic and monetary institutions was that cutting spending and increasing taxes was the only way out of the recession. The IMF argued that: 'austerity would be painful but necessary' for European economies (The Economist, 2012). This view was shared by Jean-Claude Trichet, ECB President between 2003-2011, who in June 2010 emphasised the positive effect austerity would have on confidence in the EU economy (Trichet, 2010). Since fiscal expansion seemed like a 'no-go' option for the peripheral states, a market-led recovery became the most feasible option. At the time, confidence in the EU economy was low, resulting in lower investments and consumption. Consequently, by improving the finances of the peripheral states confidence could be rebuilt, resulting in increased economic activity and GDP growth due to more investments and consumption. While some of the largest economic powers in the global world argued for austerity as a necessity during the Sovereign Debt Crisis, some economists claimed that austerity had never worked and that the macroeconomic programmes were doomed to fail, weakening the European economies further (Stiglitz, 2017, pp. 95, 185). At the time of the Sovereign Debt Crisis, macroeconomic thinking in the EU was dominated by the austerity narrative, mainly due to the arrival of the IMF. Moreover, high debt levels in some member states left EU policymakers with few choices to rebuild trust in EU markets without increasing debt further.

The conflicting ideas between economic institutions and economists led countries to implement different responses to the crisis. The US decided to 'spend their way' out of the recession, while European countries, particularly the peripheral EU member states, were forced into austerity. Several of these countries were spending money during the economic boom in the years between the introduction of the Euro and the crisis. This led them to run up unsustainable levels of public debt by lowering taxes and increasing public spending instead of reducing the public debt when the economy was thriving (Baldwin & Giavazzi, 2015). High public debt and loss of confidence in the EU markets left policymakers with no choice but to impose strict austerity in countries such as Greece, Ireland, Spain, and Portugal to prevent a full-fledged collapse and help restore trust in the market. From 2013 the aggregated average EU GDP began its steady increase and recovery with increased confidence from the markets, giving reason to believe that austerity had worked. However, for the countries who suffered through the measures, GDP was still slumping. Ireland was the exception due to increasing exports, together with Spain who also managed to return to GDP growth, while the economies of Portugal and Greece still struggle (The World Bank, 2022a, 2022c). This questions austerity's effectiveness, particularly the 'expansionary fiscal contraction' effect. Moreover, the success of austerity is likely determined by a variety of factors, hence making it a success in some countries and a failure in others.

While austerity, in some cases, can result in economic growth through increased investments due to improved trust in the economy, it is also likely that reductions in public spending and higher taxes will increase unemployment and private debt, while reducing private consumption. The EU-IMF Programme in Ireland is a good example of how austerity can boost the economy while at the same time providing challenges for the country's citizens. The Irish people were forced to endure higher taxes to finance the restructuring of the banking sector while also having to repay their massive mortgages acquired during the boom-years (see, e.g., Stølen, 2020). Hence, the population felt little of the Irish economic success in their personal economy, and private consumption remained low years after the programme ended. A study by Alesina, Barbiero, Favero, Giavazzi, and Paradisi (2015) found that the austerity-led recovery from the Sovereign Debt Crisis was more costly for economies than recoveries during previous economic downturns. This was due to the complex economic situation under which the austerity was imposed during: first, they began at the end of the financial crisis, or Sovereign Debt Crisis; second, markets were still experiencing a credit crunch due to the tightening of lending conditions during the crisis; last, several countries implemented fiscal contractions at the same time. Thus, it is reasonable to argue that, while austerity provides tools for economies that are unable to spend their way out of recession and can in some cases encourage private investments through restored trust, the Sovereign Debt Crisis proved that it is not effective when the global economy is suffering. Moreover, some economies were in an economic slump that was difficult to cut and tax their way out of, resulting in a worsened situation due to austerity measures.

2.2. Keynesianism

John Maynard Keynes can, in many ways, be viewed as the creator of Macroeconomics which was born during one of history's worst economic downturns (Wolf, 2018). During the Great Depression, Keynes published his book *The General Theory of Employment, Interest and Money,* where he criticised the logic of classical economics, arguing that: 'The outstanding faults of the economic society in which we live are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes' (Keynes, 1936, p. 372). Keynes opted for an economy where the government played a more prominent role than the free market supporters wanted, who claimed that his book 'was a leftist tract, a call for big government and high taxes' (P. Krugman, 2018, p. xxvi). However, Keynes' suggestions would result in minimal government interference and ensure that demand was effective and adequate, hence helping markets function. Economies following the Keynesian theory have had great success as they had much shorter downturns and significantly longer booms than economies that do not follow the Keynesian ideas. Joseph Stiglitz (2017, p. 64) argued that the failure of the PIGS economies was a direct result of them not applying the Keynesian ideas. Hence, some of them suffered an economic recession which lasted for over a decade.

Keynes argued for a new way of looking at economics and demand, claiming that involuntary unemployment results from an overall lack of demand, leading the economies to suffer. Moreover, the automatic 'stabilisers' in the economy that corrects shortfalls in demand are too slow and ineffective. He also argued that government intervention to increase demand could quickly counter rising unemployment. Furthermore, policies that only focus on expanding the money supply would not be enough to encourage the private sector to spend more. Hence government spending is needed (Keynes, 1936; P. Krugman, 2018, p. xxviii). Another aspect of the Keynesian approach that contributes to boosting the economy, addressed by Shaikh (2013), is the positive effect increased public spending has on employment; for example expenditures on social care and infrastructure have a strong potential for creating jobs.

Before the economic turmoil of 2008, many modern economists believed that Keynesianism was a thing of the past (P. Krugman, 2018, p. xxiv). While governments tried to follow Keynes's theory by increasing government spending to boost demand and kickstart the economy, many feared that this would result in massive indebtedness since they had run up public debt during the previous economic expansion; hence they were forced to turn to austerity measures. However, in the aftermath of the crisis, long-dormant debates about fiscal policies chosen during financial crises and economic recession resurfaced (Clift, 2019). This was assessed by Clift (2019), who analysed the changing economic ideas of the IMF following the Global Financial Crisis, arguing that they turned more towards Keynesian ideas in their fiscal modelling. Hence, it can be argued that the failures of austerity responses during the Sovereign Debt Crisis sparked a change of economic ideas in line with the theory of Keynes. This was reported in *The Economist* a year after the Global Financial Crisis erupted. It claimed that several economists now had begun arguing for an overhaul of economic policies in the spirit of the Keynesian ideas (The Economist, 2009). Hence, when the harmful effects of fiscal policies followed in the years and decades before the crisis were felt after the crash, together with the ineffectiveness of austerity, it changed the macroeconomic thinking for future economic crises.

Since Keynes's theory was a response to the economic turmoil of the Great Depression and has gained relevance during times when financial crises have occurred, it can be argued that it is, in fact a crises-response. However, as observed during the Sovereign Debt Crisis, to apply the principles of Keynes during an economic recession, a country would also have to follow a countercyclical monetary and fiscal policy during economic expansions so they could afford the deficit of increased public spending. An example of how effective Keynesian economics can be, is Norway. The government plays a vital role in the Norwegian economy, mainly by adjusting public expenditure. During economic expansions the government reduces public spending and increases the tax rates, to avoid an overheating of the economy. When the economic cycle turns, taxes are reduced, and public spending increased to boost economic activity. The Central bank also follows similar principles for the interest rates, increasing it during economic expansions and lowering it during contractions. Hence, the Government and the Central bank contribute to stabilising the economy through counter-cyclical policies, much of which is enabled by the Norwegian Oil fund. During the Sovereign Debt Crisis, the Norwegian economy suffered a minor drop in GDP in 2008/2009. However, the economic trend changed already in 2010, and in 2011 GDP surpassed pre-crisis levels (The World Bank, 2022b). Another example is the US, who issued a $152 billion stimulus package during the global financial crisis to counter the decline in demand and boost the economy (Levine, 2008). Similar to the trends in the Norwegian economy, the US economy also returned to growth in 2010, surpassing pre-crisis levels in 2012 (The World Bank, 2022d). However, the EU's economy did not see a speedy recovery, and austerity measures made matters worse as one crisis followed the other, making the EU's recovery five years slower than those of other economies in the West (Wolf, 2018). Compared to Norway and the US, EU countries can only use fiscal policies to counter fluctuations as the ECB has authority over the monetary policy for all countries in the Eurozone. Considering that the effects of fiscal measures are slower than those of monetary policies, the recovery in the EU would naturally be less rapid, especially in the member states where the ECB's interest rates did not comply with the economic situation.

While the relevance of Keynes has varied over the years, and his theory has received massive critique since it was first published, there is strong evidence to support the claim that Keynesian economics is an effective tool to help economies recover from crises. This became evident during the Sovereign Debt Crisis, where countries who followed Keynesianism in their recovery policy saw their economies return to growth rapidly, compared to countries who were forced to adopt austerity measures, like several EU countries. While the EU tried to follow Keynesianism through the EERP at the beginning of the Sovereign Debt Crisis, they were later forced to implement austerity, like the EU-IMF Programmes, slowing down recovery. However, during the economic recovery from the Covid-19 crisis, the EU has implemented a Keynesian approach through the NGEU and the RRF, suggesting that inter-crisis learning has occurred from the Sovereign Debt Crisis to the Covid-19 crisis.

3. The first crisis is always the worst

Economic imbalances are nothing new; in a global market economy, they occur every so often when companies and sectors experience declines in demand. However, the turbulence that followed when the American investment bank Lehman Brothers collapsed in September 2008 was unlike anything the world had experienced since the Great Depression (The Economist, 2008). While the crisis began in the American real-estate sector, it quickly emerged into a full-fledged global financial crisis, starting an almost decade-long period of economic turbulence and stagnation in Europe. The crisis in the EU promptly evolved into a sovereign debt crisis as the reckless lending and borrowing in the years before the crisis caught up with European governments, banks, and citizens. Actions were required, and over the duration of the Sovereign Debt Crisis, the Union implemented several plans and rescue programmes to counter the recession in the economy. This chapter will examine two of these, the EERP, a fiscal stimulus and the initial response to the crisis, and the EU-IMF Programmes, which were bailout programmes based on austerity measures for the countries that struggled the most with recession and debt. The first section will examine and analyse the EERP, the actors behind the deal, how it came about, its contents, and the plan's success. It will argue that misconceptions about the condition of the EU economy led policymakers to implement a response and follow macroeconomic thinking that was not in line with the actual situation in the economy, resulting in an insufficient response. Then follows a section on the EU-IMF Programmes, it will analyse the programmes for the five countries which received them, the actors behind them, the macroeconomic thinking behind and how certain actors influenced it. It will also examine what the programmes achieved, and some of the criticism the thinking behind it, and the macroeconomic narrative at the time has received. It will argue that the IMF's macroeconomic narrative highly influenced the thinking behind the plan, which was that austerity was the best solution to such crises, that divergence between the member states significantly affected the response, and that the proponents of austerity underestimated the negative effect it would have on the labour market and private consumption.

3.1. 'The Time to Act is Now'

The belief that Europe could avoid the effects of the turmoil in the US economy was quickly shattered in the fall of 2008 with the collapse of Lehman Brothers. After months of denial, the EU and its member states finally acknowledged that their economies also were in recession (Thornhill, 2008). In October 2008, the first step toward a common European response was made when Nicolas Sarkozy, French President, sent a letter to the leaders of the Union's largest economies (Germany, Italy, and the United Kingdom). In this letter, Sarkozy said that an 'intense effort of European co-ordination was needed to tackle the fiscal shock' (Thornhill, 2008). This initiative did not sit well with other member states, whose economies also suffered the harmful effects of the recession and felt excluded from the process (Chang, 2009). Despite aiming at creating a collective response, the initiative sparked conflict. It is reasonable to assume that the miscontent was rooted in concerns that the joint response would only take into consideration the situation in the larger economies, leaving other member states to pay for a response that did not help their own economies. Nevertheless, a few weeks after, the EC launched a common EU response to counter the economic recession.

On 26 November 2008, two months after the collapse of Lehman Brothers, the EERP worth €200 billion (1.5% of EU GDP) was presented with enthusiasm by Jose Manuel Barroso, President of the EC, under the motto 'The time to act is now' (Barroso, 2008; Soroceanu

& LupaŞcu, 2011). The plan aimed at strengthening the platform for joint action in the EU, which would 'contain the scale of the downturn and stimulate demand and confidence, saving hundreds of thousands of jobs and keeping large and small businesses at work while waiting for growth to return' (Barroso, 2008). Hopes were that the EERP would provide the EU with a coordinated short-term budgetary impulse to demand and reinforce competitiveness and potential growth. Of the €200 billion, member states would contribute €170 billion, equivalent to 1.5% of their national GDP. At the same time, the EU and the European Investment Bank would finance the remaining €30 billion, and the stimulus was intended as an addition to the automatic fiscal stabilisers in the national budgets (Barroso, 2008; Jackson, 2009; van Riet, 2010). Despite the logic of Keynes being regarded as 'an approach of the past', the EERP had several aspects in common with the Keynesian approach to economic downturns. Moreover, if it managed to help the automatic stabilisers in the economy, the EERP had the potential and tools to boost European economies back to growth.

The plan had four strategic aims to help counter the recession: (1) stimulate demand and boost consumer confidence; (2) lessen the human cost of the economic downturn, particularly concerning the labour market; (3) prepare Europe to take advantage when growth returns; and (4) speed up the shift towards a low carbon economy (European Commission, 2008). It was ambitious, and it was clear that the EU wanted a counter-cyclical approach while following the principles of the Lisbon strategy to create 'the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and better social cohesion' (Chang, 2009, p. 145). The optimism and enthusiasm for the plan were justified; if the EERP succeeded, it would prevent the EU economy from entering recession. It would also prepare the Union for the transition towards a greener economy. However, given the modest amount of financing the plan involved, it might not be sufficient to counter such a dramatic downturn. Moreover, the plan was financed by national budgets, hence the pooling of resources to the EU level could potentially weaken national finances and the member states' recoveries.

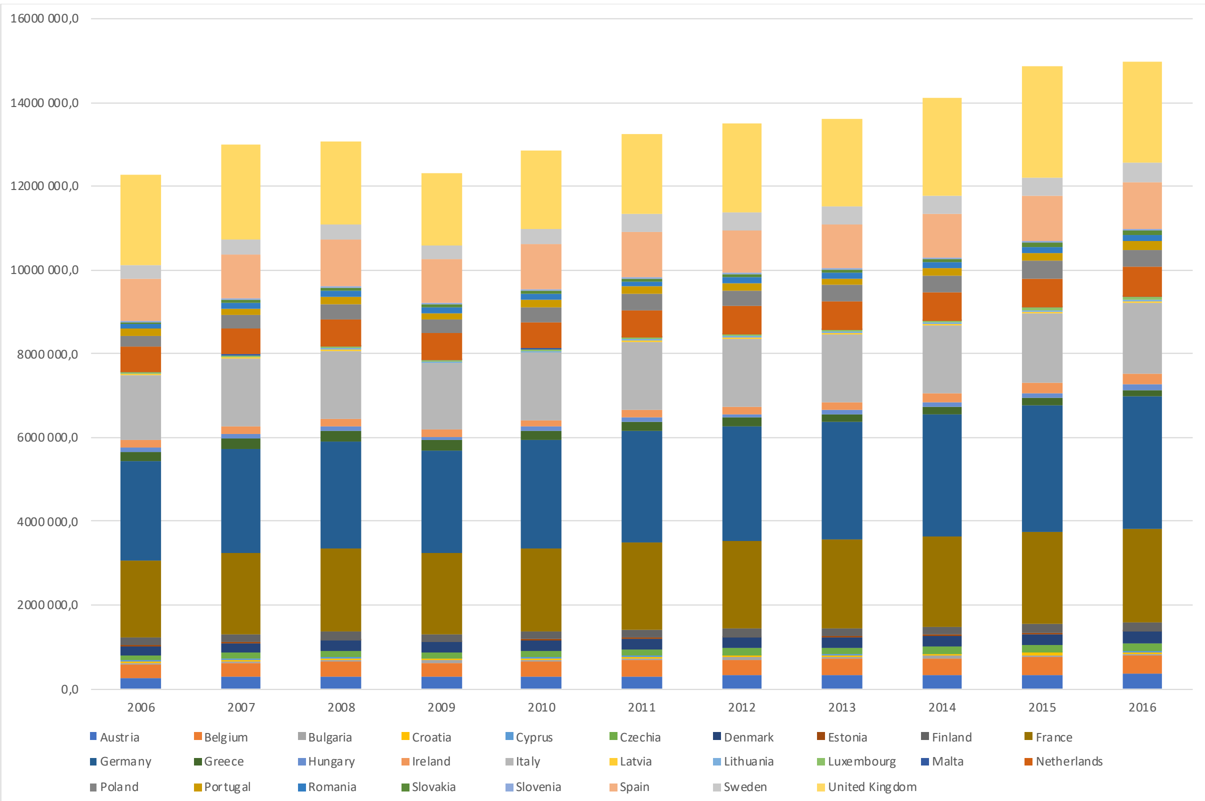
During the early stages of the crisis, the macroeconomic thinking in the EU and the US was quite similar. According to a statement from the interviews, the initial stimulus plans were much alike 'And they were affected by the consensus at the time; that you needed to have some kind of fiscal stimulus to help monetary policy stabilise the economy and save the banks' (Interviewee A, 2022). This consensus is in line with the logic of Keynes, and is similar to the arguments made by Efenhoff (2009), who also identified the need for a fiscal stimulus to counter the economic recession as the macroeconomic narrative behind the EERP. The fiscal injections were intended to increase the purchasing power, hence stimulating demand, and increasing the confidence in the EU economy. Moreover, this would bring economic growth through increased private consumption and investments. If successful, the fiscal injection would further increase the effects of monetary measures, as increased confidence in the economy leads to higher consumption and investments, further amplified by low interest rates.

While optimism was high in the EU during the launch of the EERP, there were also concerns about the economic situation in the following year. The economic forecasts for 2009 predicted that, at worst, if no actions were taken, there would be risks of contractions and little to no growth in the EU economy (European Commission, 2008). The task at hand for the EERP was massive, and if it failed the consequences would be disastrous. Lacking growth was not the only issue the Eurozone was facing. Banks had become an instability through massive intra-bank lending after the introduction of the Euro, and confidence in the economy was stooping because of the economic uncertainty in the union.

Consequently, if the EU could not rebuild trust in their markets and regain confidence in their banking system, investments and demand would soon disappear, making it a self-fulfilling prophecy.

Before the crisis the EU economy was thriving, with increased growth each year across all 28 member states until the crisis hit in late 2008. Chart 1 displays the trends in aggregated GDP for all 28 member states of the EU between 2006-2016. Despite the efforts taken under the EERP, the predictions for the EU economy became a reality in 2009 when GDP fell drastically and was back at, or below, 2006 levels. However, even if the recession occurred in all countries across the union, there was a clear divergence in the degree to which they were affected by the downturn and how long it lasted. For the larger economies, such as Germany, France, the United Kingdom, and Italy, GDP quickly returned to growth after a downturn in 2009; Spain was the exception as their decline continued until 2013/2014 before the trend changed (Eurostat, 2022a). The situation was different for the smaller economies in the periphery, like Greece, Ireland, Portugal, and Cyprus, several of which had seen their economies flourish on the back of the credit boom in the early 2000s. This was also the case for Spain, who suffered the consequences when its housing bubble burst like Ireland's. When the recession hit Europe, these economies were rigged for disaster with unsustainable public finances and high public and private debt (Oakley, Hope, & Atkins, 2009). Despite the efforts of the EERP, the EU economies suffered a significant decline from 2008 to 2009, indicating that the programme was unsuccessful in achieving its aims and goals, and resulted in more debt for the member states.

Chart 1: GDP at market prices, 2006-2016



Trends in aggregated GDP at market prices, in current prices million €, for 28 EU member states. Source Eurostat (2022a)

The failed response of the EERP was rooted in a misconception that the EU economy would be strong enough to weather the storm with minor intervention. However, the plan turned out to be 'too little too late', and the economic situation in the periphery was more severe than anyone could have imagined (Welch, 2011). One of the interviewees also expressed this view: 'Nobody thought that a country where the GDP only represents a fraction of the GDP in the Euro area could create any considerable issue. (…). Basically, nobody considered [that] these were different times. [When integration started] in the 90s there was prosperity, there was growth. So nobody thought what could happen' (Interviewee B, 2022). Hence, it can be assumed that the miscalculations based on the perceived macroeconomic situation and narrative at the time of the crisis led to the EU responding after the crisis began gaining a foothold in European economies with a response that was not strong enough to counter the recession that followed. Arguably, had the EU been more realistic about the economic situation, they could have applied a more effective and targeted response, reducing the recession that followed after the EERP somewhat.

While there was a dominating narrative in the EU that the economy would be able to bounce back with the EERP, there were also critical voices within the Union. Poul Nyrup Rasmussen, Member of the European Parliament (MEP), expressed in a parliamentary debate on 11 March 2009 that: 'What I said to the president of the Commission a couple of months ago was "Please do not oversell what the [EUCO] decided in December 2008. Please do not paint too rosy a picture of Europe." However, that is exactly what you are doing' (Rasmussen, 2009). The statement by Rasmussen illustrates the issues with the EERP and the macroeconomic thinking in the EU; policymakers perceived the economy to be better than it was, leading them to believe that the recovery plan would be sufficient to prevent an economic downturn. This was, however, not the case. When the new Greek government took office in the fall of 2009, it was revealed that their public debt was worse than feared, surpassing 100% of GDP (P. R. Krugman et al., 2018). The severity of the Greek economic situation became a reality check for EU policymakers and imposing stricter and more extensive measures was inevitable. Moreover, the EU institutions had not been able to convince the markets that the Union was taking sufficient steps to counter the downturn. Had the Union managed this, increased investments could have helped counter the recession. However, the continued decline suggests that they were unsuccessful.

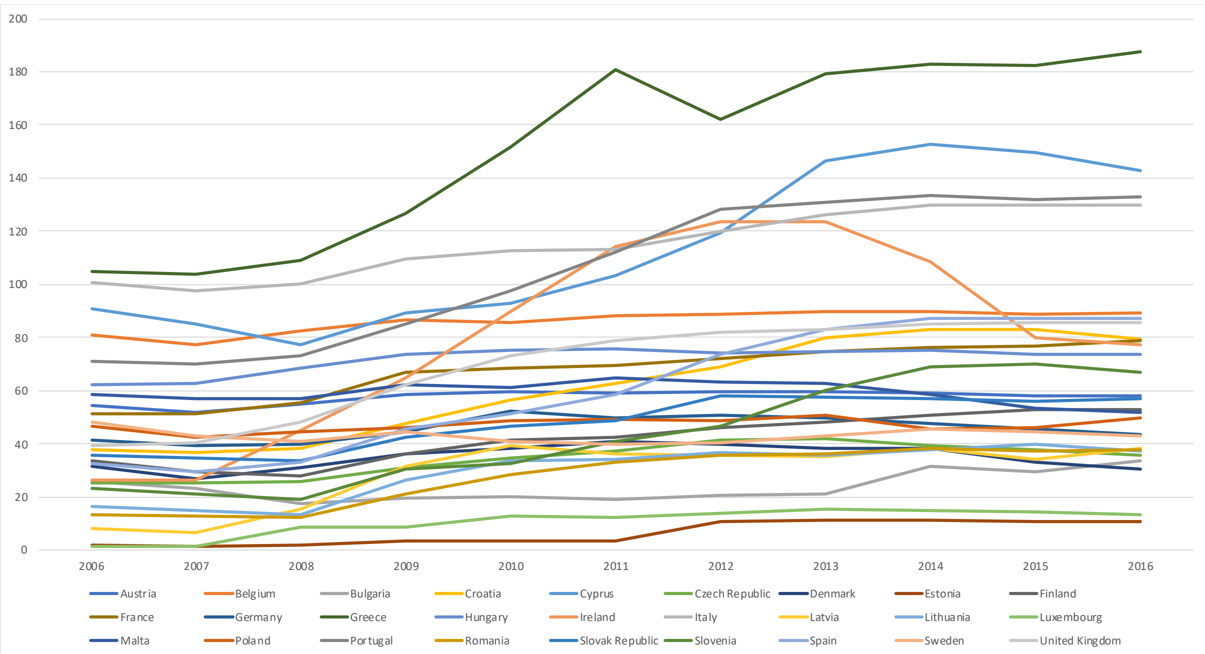
The EERP was a failure. It had not only been unable to prevent the economic downturn in 2009, but the increased spending together with the automatic stabilisers in the national budgets was greater than the countries' room for fiscal manoeuvre. This caused budget deficits and rising debt in all countries while also missing out on the goal on transformation towards a carbon-neutral economy (European Central Bank, 2015; Welch, 2011). This failure marked a change in macroeconomic thinking. Again, economists and policymakers left the ideas of Keynes behind, arguing that there were high degrees of uncertainty in terms of the effectiveness of increased public spending to stabilise the economy (Kirchner, Cimadomo, & Hauptmeier, 2010). A common response to the crisis was no longer possible as divergences between the member states' economies became more evident when the economic activity slowed down and the debt some countries had acquired in the boom years caught up with them. The optimism from November 2008 was gone; left was a divided EU in desperate need of help and credibility to rebuild its economy.

3.2 Divergence, austerity, and technocracy

After the failure of the EERP, another common European response to the economic shock seemed impossible. Confidence in the EU economy was low, and divergence between the large and small, centre and peripheral member states surfaced as the economy went into recession (Barber, 2009; The Economist, 2010b). The EU did not have to tools to handle the crisis on its own, and the IMF was brought in to help restructure and rebuild the peripheral economies struggling with their debt and public finances. On 2 May 2010, Greece became the first EU country to receive assistance from the Troika, a bailout worth €110 billion (European Commission DG ECFIN, 2010). The entry of the IMF marked the beginning of a different macroeconomic thinking during the Sovereign Debt Crisis; austerity was the only way out of the crisis.

When the Global Financial Crisis came to Europe, it became known as the Sovereign Debt Crisis. Before the crisis, several countries had acquired high public debt, which increased further when national measures to counter the shock were implemented. Graph 1 illustrates the trends in central government debt for the 28 EU member states from 2006 to 2016. Some states like Greece, Cyprus, Ireland, Italy, and Portugal experienced a massive increase in debt, surpassing 100% of GDP when the crisis hit. Other member states saw some increase in their debt, however, it was far less and more stable than that in the peripheral states (International Monetary Fund, 2021). The divergence between the EU countries in terms of the debt they had acquired during the boom years became evident when the crisis began, and they were unable to continue running a deficit as the economic activity slowed down. When the mismanagement of public finances before the crash in some countries became known, the sentiment among member states changed. 'It all started [with the Greek crisis]. Everybody was furious. I can still remember that everybody was really furious because at the time, markets were going crazy, and they were speculating. Every day we asked, "Where are the spreads today? What is going to happen today? Which country is next?"' (Interviewee B, 2022). This suggests that, as the crisis unfolded, solidarity declined. This led the EU away from a common response and justified imposing austerity in the countries where previous economic misconduct amplified the recession. Divergence was a significant factor behind the changing response two years into the crisis. Different measures were needed for the various situations in the member states, and solidarity among the EU members was crumbling.

Graph 1: Central Government Debt, 2006-2016



Trends in central Government Debt as a percentage of GDP for 28 EU member states. Source: International Monetary Fund (2021).

The main actors behind this response were Germany, who had the lead, France, the EC, the ECB and the IMF (Interviewee D, 2022). The failure of EERP was evidence that the EU were not capable of handling the crisis on its own. To deal with the troubles in Greece, the IMF was brought in (Cotterill, 2010). At the time, the IMF was a prominent actor in helping countries where public finances were in distress and was hence the natural choice for external expertise. '[It was necessary to bring in the IMF] for credibility reasons. The IMF had huge amounts of experience in providing assistance, and the EU did not, so we did not have the expertise. And I think if you look at the way the programmes were constructed over the years, it was very much the IMF in the lead at the beginning' (Interviewee C, 2022). In the interviews with the three EU officials from the EC and the CoE, they all emphasised that bringing in the IMF was to provide expertise the EU did not have and increase the credibility of the response. Furthermore, the arrival of the IMF brought about expertise and credibility and a change in the macroeconomic thinking away from the Keynesian ideas. Arguably, had the expertise in providing financial assistance been present in the EU, it would not have been necessary to bring in the IMF. Moreover, if the EU had more competence on the issue before the crisis, they could have shaped a better initial response, possibly avoiding the failures of the EERP.

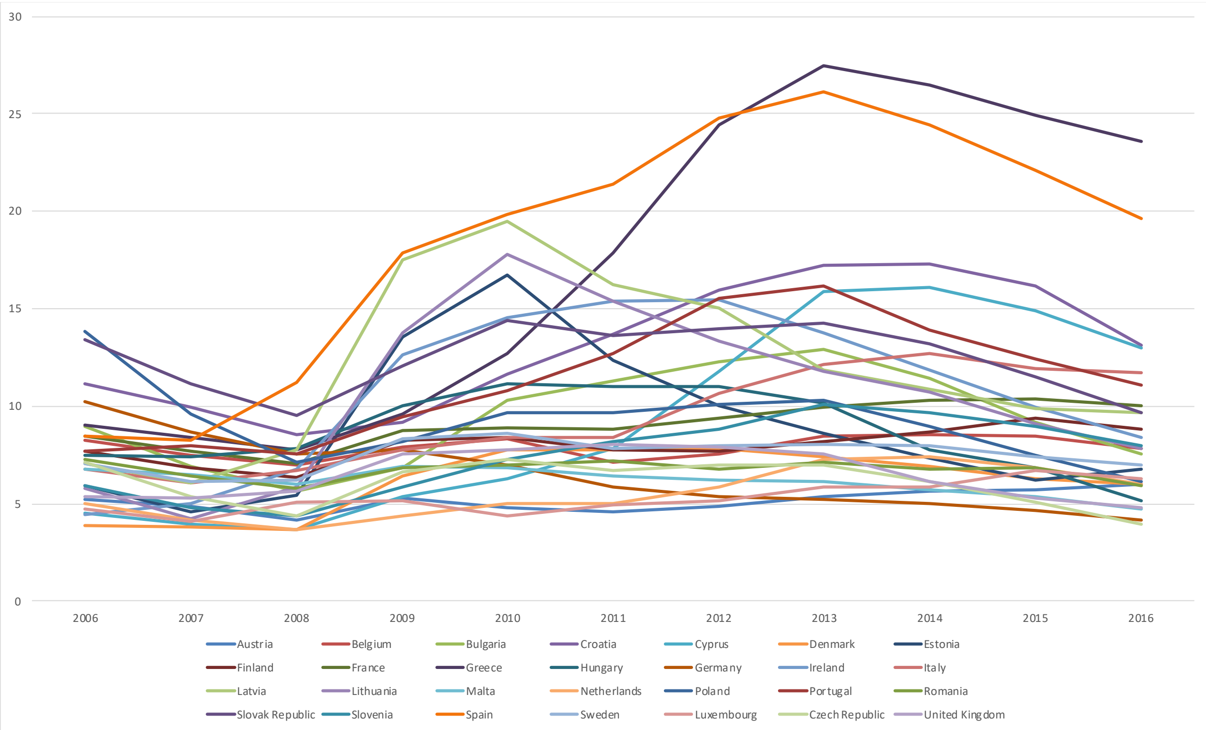
The shift away from fiscal stimuli was not surprising as the IMF has been one of the greatest proponents of austerity policies (Deleidi et al., 2021). Behind this macroeconomic thinking were the economic models used to estimate the multiplier. The justification of austerity measures was based on the multiplier being smaller than 1, limiting the negative effect on economic activity. During the early years of the crisis, the multiplier was estimated to be 0.5% on average in advanced economies, similar to the estimate for the year before the crisis (Blanchard & Leigh, 2013). This shaped the macroeconomic thinking behind the EU-IMF Programmes provided to several EU countries; austerity would help reduce deficits and debt while not leading economic activity to decline in the process and possibly initiating expansionary fiscal contractions. Nevertheless, the firm reliance on models to predict the multiplier did not account for the difficulties in correctly estimating the multiplier for real GDP growth. Hence, the justification for austerity measures could be based on wrongful model calculations.

The different EU-IMF Programmes all aimed at restoring market confidence and maintaining financial stability. They also included individual specifications targeted at the problems of each economy. For Greece, the medium-term objective of the programme was to improve competitiveness and achieve economic growth through a more investment and export-led growth model. The overarching objective was to restore the country's credibility for private investors (European Commission DG ECFIN, 2010). Public finances in Greece were fragile due to high debt, hence a market-led recovery was desired, and needed, if economic stability was to be restored. While the government was to blame for the crisis in Greece, a reckless and unchecked banking sector was the cause of the financial instability in Ireland (Donovan & Murphy, 2013). In the Irish case, the government proposed a plan which became the foundation of the country's EU-IMF Programme with a key objective to 'restore financial market confidence in the Irish economy's banking sector and the sovereign' (European Commission DG ECFIN, 2011a). At the time, Ireland's economy was the picture of economic instability as their economy had relied significantly on the housing sector for tax revenue, investments, and employment. Arguably, without a significant downsizing of the banking sector, Ireland would have difficulties achieving economic and financial stability. Portugal faced weak GDP and productivity growth in the decade before the crisis, negatively affecting the economy's competitiveness, and high external debt caused financial unrest (European Commission DG ECFIN, 2011b). Hence, the Portuguese programme aimed at stabilising the financial sector to prevent further problems with the banks leading to economic instability while also imposing reforms on several sectors with a particular focus on the labour market (Reis, 2015). Reforming the labour market would increase Portugal's competitiveness, this because the cost of labour in a production would be reduced, hence making it more attractive to produce goods and services in Portugal. Moreover, this would increase investments and consumption due to lower unit prices, thus leading to GDP growth. To provide financial assistance and keep an overview of the programmes in Ireland, Portugal and Greece, the European Financial Stabilisation Mechanism (EFSM) was created, the forerunner of the European Stability Mechanism (ESM), together with the temporary crisis solution mechanism, the European Financial Stability Facility (EFSF) (European Commission, n.d.; European Stability Mechanism, n.d.). Since the EU did not have any form of fiscal capacity, despite providing financial assistance, it was necessary to establish these institutions as the EU-IMF aid was deployed. Furthermore, these instruments could also be used if EU countries should need financial assistance in the future.

Like Ireland, Spain also experienced a housing bubble fuelled by extensive lending from Spanish banks, leading to stress on financial markets when the bubble burst and limited markets access for Spanish banks (Toyer, 2012). The main objective became to increase the long-term resilience of the whole banking sector, which would restore market access for the Spanish banks (European Commission DG ECFIN, 2012). Without access to markets, the Spanish central bank could not carry out its functions, hence causing financial instability. This would again negatively affect confidence in the Spanish economy, reducing investments and consumption. Hence, a drastic overhaul of the sector was needed. Cyprus received a minor amount of EU-IMF aid. Their programme was worth €10 billion and set out to deal with the country's internal and external macroeconomic imbalances through extensive downsizing and restructuring of the banking sector (European Commission DG ECFIN, 2013). While less severe, Cyprus had similar problems to Ireland and Spain, and hence also needed to restructure its banking sector to achieve economic stability and attract investments. The peripheral member states struggled with financial and economic instability. Hence, the macroeconomic thinking behind the EU-IMF Programmes targeted the issues causing the instability, thus rebuilding economic and financial stability. While caused by imbalances in different sectors, they were all met with fiscal consolidation to prevent further increases in public debt and ensure that the countries could repay the lenders who had bailed them out through the EU-IMF Programmes. Arguably, the EU-IMF bailouts appeared to be more concerned with the signals it sent to markets about the EU's ability to act and save the Euro rather than supporting the economies in the programme countries. Furthermore, this could have negatively affected the effectiveness of the programmes, hence prolonging the recession in the programme countries.

The sole focus on reducing debt and calming the markets, resulted in the programmes focusing less on the human cost of the austerity measures. When Keynes (1936) proposed his theory during the Great Depression, one of his arguments for increased Government spending was its expansionary effect on employment. However, during the Sovereign Debt Crisis many believed that expansionary fiscal contraction could provide more jobs as markets regained trust and confidence in the peripheral economies. Moreover, if the countries whose labour market suffered from low competitiveness could follow through on their reforms, more jobs could be created. Graph 2 displays the trends in unemployment for the member states of the Union from a few years before the Sovereign Debt Crisis until 2016, when most countries had exited their EU-IMF programmes. Similar to the trends in government debt, there is significant divergence between the member states regarding how their labour force was affected by the crisis. Most Northern and central states experienced a minor increase when the crisis hit in 2008/09. However, it quickly stabilised and started to decline after a couple of years, and Germany recorded lower unemployment in 2011 than it had two years before the crisis (The World Bank, 2022e). The situation was very different for the peripheral states, particularly in Spain and Greece, who recorded record-high unemployment after the crisis began (Cohen et al., 2015). It is also reasonable to assume that the rapid increase for Greece after 2011 could be a consequence of the austerity measures, as reductions in government spending will lead to fewer jobs. Arguably, this divergence resulted in few countries feeling the need to create EU policies to resolve the problems in other countries when their own labour markets experienced few effects of the crisis.

Graph 2: Unemployment rate, 2006-2016



Trends in total unemployment (% of labour force) (national estimate) for 28 EU member states. Source: The World Bank (2022e).

Solidarity, or rather the lack of solidarity, was also a contributing factor behind this response. As emphasised by one of the interviewees, the situation in Greece sparked anger among many, both at the political level and among European citizens (Auer, 2014; Habermas, 2013). According to one view, a common Keynesian-type of fiscal response would have been possible during the Sovereign Debt Crisis. Still, at the time, there were not political and cultural preconditions as the prevailing doctrine was 'put your house in order' and 'do not interfere with market-led adjustment' (Interviewee D, 2022). In particular, Germany was reluctant to provide too much aid to the PIGS, specifically Greece where the government's financial misconduct caused the crisis (The Economist, 2010a). Nevertheless, economists have later argued that a restructuring of Greece's debt would have been more effective in solving their problems (see, Pisani-Ferry et al., 2013; Stiglitz, 2017). Despite the inadequate effects of austerity in Greece, there was little political will to find another solution. This implies that other factors than just the economic ones determined which response the EU implemented. The turn towards austerity was hence a combination of lacking solidarity with the states in the periphery due to their policies in the boom years, and the belief that the market could resolve the crisis on its own when confidence was restored.

The success of the programmes varied significantly between the five programme countries. However, it is also important to note that while the programme brought back aggregated economic growth in several of the countries, some sectors struggled years after the programmes ended. Ireland is often considered the greatest success, exiting its programme after three years. During that time their banking sector had been reduced to sustainability together with public finances. In 2014 the Irish economy was the fastest-growing among the EU countries (European Commission DG ECFIN, 2015). Nevertheless, the Irish population struggled due to increased taxes and high mortgages acquired during the boom years, making private consumption a drag on the economy several years after the programme ended (Stølen, 2020). Hence, the Programme in Ireland can be viewed as a macroeconomic success, but less so when considering the microeconomics.

Portugal also succeeded with their programme, being able to exit early and achieving its primary objective which was to restore confidence and regain access to financial markets (European Commission DG ECFIN, 2016b). The Portuguese programme also boosted private consumption through successful labour market reforms, resulting in falling unemployment from 2013, as seen in graph 2 (European Commission, 2014; Reis, 2015). However, other reforms were not pursued as vigorously, leaving some problem areas, like the financial sector, unresolved, possibly causing problems in the medium and long term (European Commission DG ECFIN, 2016b). With issues in the financial sector lingering on in Portugal, they would be more at risk if similar economic shocks happened. Moreover, this raises the question if it was wise to let Portugal exit the programme early as unachieved reforms could cause future problems.

The Spanish banking sector underwent massive reforms and was able to achieve the programme objectives quickly, improving the overall solvency, profitability and financing costs of the banking system (European Commission DG ECFIN, 2016a). Towards the end of 2014, the Spanish economy improved further, exceeding the Euro Area average GDP growth, further improvements in the labour market, financial conditions, and confidence in the economy (European Commission, 2015). Despite the success, Spain faced problems with unemployment after the programme (Cohen et al., 2015). Moreover, this could cause similar problems to Ireland, where private consumption brought down growth, hence making the recovery less successful. In Cyprus, the programme was highly influential, stabilising the financial sector, restoring fiscal sustainability, and implementing structural reforms. However, it was less successful in changing the banks' business models fundamentally (European Commission DG ECFIN, 2019). Furthermore, this could cause problems and weaken financial and economic stability in the future, leaving the economy vulnerable to future shocks to their financial sector.

After two bailout programmes over almost a decade, Greece exited the EU-IMF Programme in late 2018, experiencing a period of stable GDP growth that was expected to continue and increase the following year (European Commission DG ECFIN, 2018). Despite Greece being able to exit its programme, it had not been able to achieve its objectives similar to the other programme countries. While most economic indicators were predicted to improve in the years after their exit, there were still risks, challenges and heavy financial surveillance ahead (European Commission DG ECFIN, 2018). Moreover, as argued, a different solution for resolving the debt would likely have improved the outcome for Greece. Hence, it appears that policymakers were, in fact more concerned with saving the banks Greece was indebted to than the Greek economy. The programmes did not bring success to all, and while economies blossomed at the macro-level, the micro-level struggles drowned in the success of the export-led recoveries. Arguably, the sole focus on success, and lacking recognition of the struggles caused by the programmes, resulted in increasing critique of austerity and fiscal consolidation as a means to tackle economic downturns.

The programmes were highly unpopular among the people of the countries that had to endure fiscal consolidation (Plumer, 2012). The critique also began to rise among economic scholars who criticised the macroeconomic thinking and the models estimating the effects of the austerity measures. According to Mittnik and Semmler (2012) and Blanchard and Leigh (2014), the Troika had been overly optimistic when estimating the effects of austerity on growth and unemployment, hence ignoring the impact of the multiplier should it be larger than estimated. It is also important to note that the effects of fiscal policies are different during an economic boom than in a recession, as the multiplier effect is stronger during a downturn thus the wrong policies can create a strong contractionary effect when growth is already declining (Mittnik & Semmler, 2012; Semmler, 2013). This effect is easily illustrated with private consumption; with taxes increased and reduced government spending, individuals have less disposable income leading to lower private consumption, the most significant contribution to GDP, hence further reducing GDP and growth (Begg, Vernasca, Fischer, & Dornbusch, 2014; Holden, 2016). The macroeconomic thinking behind the EU-IMF Programmes relied heavily on economic models to predict the short-term effects of austerity measures. However, several studies have found that correctly estimating the multiplier is difficult (see Blanchard & Leigh, 2013, 2014; Deleidi et al., 2021; Górnicka, Kamps, Koester, & Leiner-Killinger, 2020). While austerity might have been the only possible solution, it is not given that it was the right one. The unreliability of models to predict the multiplier suggests that the justification for implementing austerity was faulty. This led to macroeconomic thinking that resulted in an ineffective response for the peripheral countries, which weakened the economies further for some of the states.

With three technocratic institutions, the Troika, behind the programmes, the lack of transparency and accountability towards the people, found in institutions such as the European Parliament (EP), affected the macroeconomic thinking and the response to the crisis. The EP was also one of the foremost critics of the programmes, despite there being internal disagreements on what was the best policy out of the recession (European Parliament, 2013a). Before a hearing in the EP's economic committee on 5 November 2013, Sharon Bowles, British MEP and Chair of the economic committee, stated that the: 'Troika's overall response to the crisis has lacked transparency and at times credibility' (European Parliament, 2013b). Consequently, policies were forced onto countries and their citizens without the process and the justification behind measures being known to those outside the Troika. The EP was harsh in the report from this hearing, criticising 'the sometimes over-optimistic assumptions made by the Troika, especially as far as growth and unemployment are concerned(…) and the economic and social impact of adjustment' (European Parliament, 2013c). Thus, the EP appears to put much of the blame on the Troika for the struggles European citizens faced under the austerity measures. Similar to the arguments made by Ruser (2015), the reliance on technocratic institutions led to a response being primarily concerned with calming the markets and saving the banks and financial institutions instead of helping the people. Technocratic institutions might have an easier time making 'unpopular' decisions, like austerity, since they are not held accountable to the people the same way Parliaments are. However, there can be such a thing as too much technocracy resulting in a narrow way of thinking in terms of response, especially considering that many economists believed that the only way to save these economies was by reducing debt, increasing taxes, and cutting public spending.

Joseph Stiglitz (2017, p. 185) claims that 'Austerity has *never* worked'. Despite history providing evidence of continued failures with austerity, Germany and the IMF were strong proponents of fiscal consolidation. Germany's economic success was born from the 'sound money' approach and its conservative view on debt (Bulmer, 2022). Being a global expert in providing financial assistance, the IMF had seen significant effects of austerity prior to the Global Financial Crisis, i.e., the successful restructuring of Argentina's debt in the mid-2000s (The Economist, 2005). With two powerful economic actors favouring austerity at the time of the crisis, failures of the past and warnings from economists of other economic traditions appears to have had little impact on the response. Nevertheless, over the course of the Sovereign Debt Crisis and the EU-IMF Programmes, the critique of austerity increased, and more economists shared in on the statement of Stiglitz (Elliot, 2016). One of them was Robert Boyer (2012), who argued that austerity would fail in most countries due to what he referred to as the 'Four fallacies of contemporary austerity policies': (1) false belief that the crisis was caused by public spending; (2) expansionary fiscal contractions neglects the short-term negative effect on domestic demand; (3) one size does not fit all, what works in Germany will not work in Greece or Portugal; and (4) spill-overs between countries might cause inefficient and politically risky policies. Arguably, many of the struggles the peripheral countries faced under the austerity programmes were in line with Boyer's arguments. Moreover, while the programme did not fail everywhere, these misconceptions could have caused wrongful austerity measures being imposed, prolonging the downturn in some countries. When the effects of austerity in Europe became visible, it did not only spark critique, but it also affected the macroeconomic thinking, even in the IMF. In 2016, Jonathan Ostry, Prakash Loungani, and Davide Furceri from the IMF research department published an article arguing that the inequalities caused by austerity should leave policymakers more open to other responses to economic downturns. They also point to the change in the IMF over the past years, where their leading economists have moved more toward a Keynesian approach and was no longer the greatest proponent of austerity (Ostry et al., 2016). After the failure of a fiscal stimuli response at the beginning of the Sovereign Debt Crisis, austerity was seen as the only solution. Nevertheless, towards the end of the crisis, the thinking had changed, and fewer believed that this type of response should be the first choice when countering economic downturns in the future.

The austerity policies in the EU-IMF Programmes can be deemed a partial success, especially for some programme countries. However, the programmes received massive critique as they led to increased inequality, and negatively affected economic growth and employment in the short term. They also appeared to be more concerned with saving the banks that had lent the money than the economies in the peripheral member states. Europe made it out of the crisis, and slowly but surely, the EU economies began to grow. With the recovery of the global economy, GDP exceeded pre-crisis levels. With renewed macroeconomic thinking and valuable and hard-won experiences in handling economic crisis, the EU could finally leave the Sovereign Debt Crisis behind at the end of the 2010s, entering the new decade with a new Commission and renewed optimism for the European project.

4. Europe’s Moment

The aggregated EU economy was finally out of the slump caused by the Sovereign Debt Crisis when markets again began to experience distress in early 2020. Following the results of its June 2016 referendum, The United Kingdom left the Union on 1 February 2020 after a long period of tough negotiations. Britain’s exit was the picture of how increased populism after the Sovereign Debt Crisis, and the Migration Crisis, could threaten the Union, and many politicians feared a domino-effect. It was believed that Brexit was the greatest crisis the EU would have to face in the 2020s. However, that was before the Covid-19 virus made its way to European shores. The Covid-19 pandemic firstly began wreaking havoc in Italy, bringing their health system to the brink of collapse. EU countries stopped exports of medical equipment, particularly personal protective equipment, effectively vanquishing European solidarity. To contain the spread of the virus, countries sealed their borders, people were forced to limit social contact and stay home, effectively shutting down the aviation and hospitality sectors. Confidence plummeted throughout the global economy, and once again, the EU was faced with the worst economic decline since the Great Depression (Zumbrun, 2020). After a turbulent start, the Union restored solidarity, lifted export restrictions, and provided cross-border medical help to countries where the health sector was crumbling.

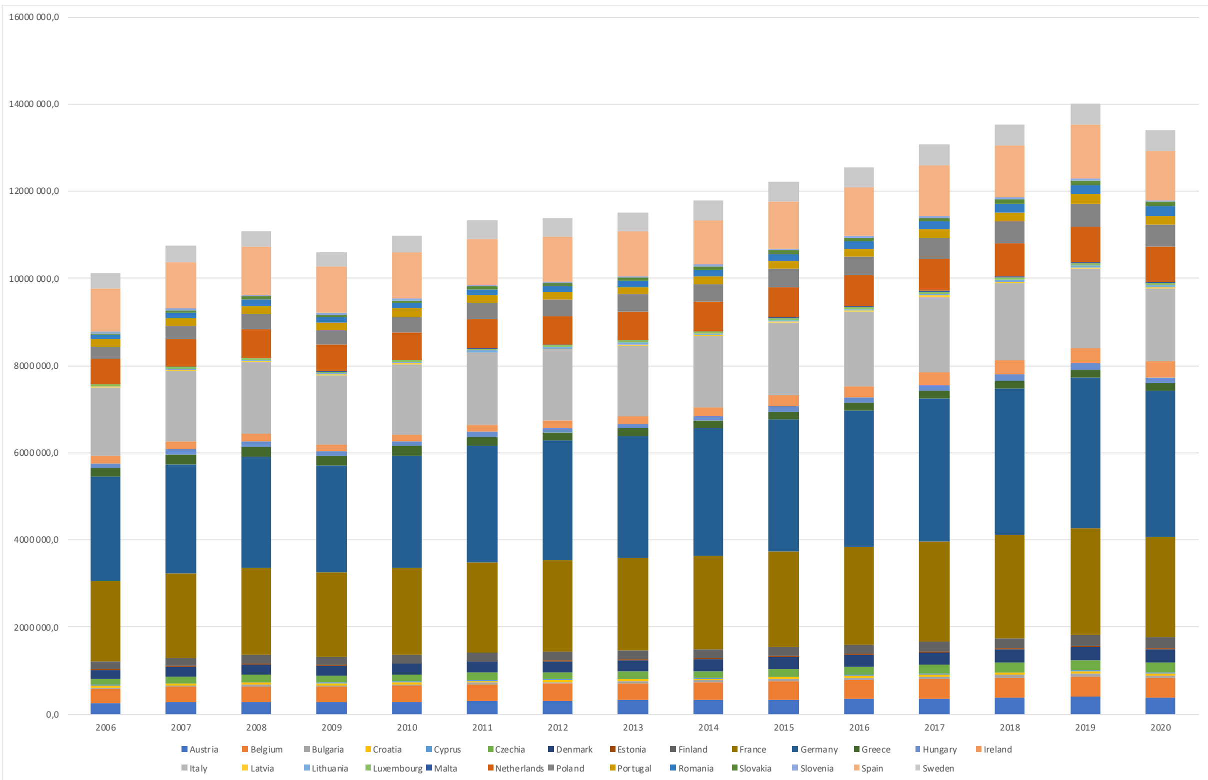
Returning to austerity measures seemed unlikely since countries who struggled through fiscal consolidation had barely recovered, and still struggled with high debt. A different response was needed. In May, France and Germany proposed that the EU could initiate joint debt, instead of the member states themselves acquiring the deficit the way they did during the former crisis. Shortly after, on 27 May, the EC launched a proposal for a robust common response, where the EU would borrow on the markets to finance the recovery. This was ‘Europe’s moment’ (von der Leyen, 2020a). After tough negotiations over the distribution of loans and grants, the EU members agreed on the NGEU, worth €750 billion, on 21 July. This marked a radical change from the responses implemented during the Sovereign Debt Crisis, and a return to the Keynesian thinking. This chapter will examine and analyse the NGEU, its contents, the actors and macroeconomic thinking behind the recovery plan, and the factors that affected the response. It will argue that the response, and the macroeconomic thinking behind it, was a result of several factors: (1) symmetrical negative changes in economic indicators; (2) political willingness to have a solid common response, both from the national level and the EU level; and (3) the wish not to repeat the mistakes of the past. The chapter will also argue that NGEU is strongly influenced by Keynesian ideas, suggesting that there has been a shift away from austerity in macroeconomic thinking since the former crisis.

4.1. ‘We must act in a European way’

When the Covid-19 virus spread across Europe, the economic outlooks were depressing. The ECB’s Economic Bulletin from May 2020 stated that: ‘The euro area is facing an economic contraction of a magnitude and speed that are unprecedented in peacetime’ (European Central Bank, 2020a). The ECB also predicted that GDP could fall between 5% and 12% during the year and that ‘the extent of the contraction and the recovery will depend crucially on the duration and the success of the containment measures’ (European Central Bank, 2020a). While the ECB kept its interest rates low, and the member states increased their spending to boost economic activity, a greater effort was needed to bring back growth (European Central Bank, 2020b). As seen during the Sovereign Debt Crisis, monetary measures alone would not be enough to counter the recession. A strong, common European response was required to counter the shock, and mistakes from the past could not be repeated if the Union wanted to come out stronger on the other side.

Chart 2 displays the trends in aggregated GDP for the EU member states. Before the onset of the Covid-19 crisis, the aggregated economy of the EU countries was the strongest and greatest it had ever been. With international markets under stress, exports plummeted, and domestic demand weakened, causing the economy to decline (World Trade Organization, 2020). The strong contraction caused by the pandemic brought the aggregated EU GDP back to 2017 levels over a few months and was felt equally in every member state (European Central Bank, 2020b; Eurostat, 2022a). In the first two quarters of 2020 the aggregated average GDP for the 27 member states declined 16% (authors calculations) compared to the last quarter of 2019 (Eurostat, 2022b). The symmetry of the shock across the Union made a joint response the most reasonable choice. That was also the message from Christine Lagarde, President of the ECB: 'Faced with a common shock, it was appropriate for Europe to deploy its collective weight through its common institutions to ensure that all members could react to the crisis adequately' (Lagarde, 2020). With the negative economic effects of the pandemic being felt just as well in Germany as in Italy and Greece, the will amongst policymakers to find a solid common European response was strong.

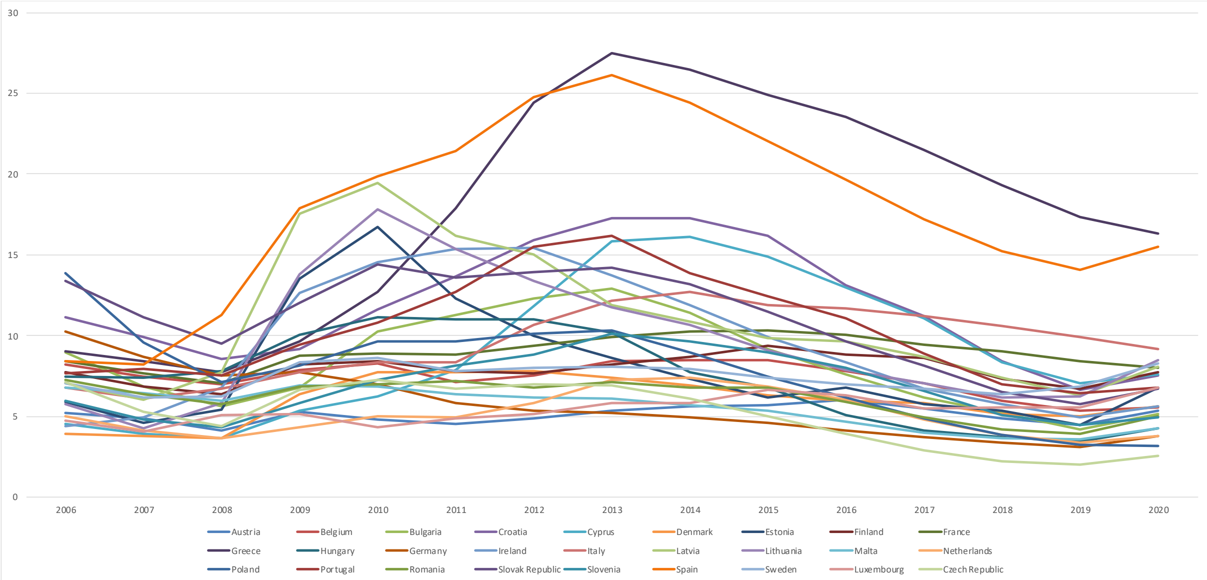
Chart 2: GDP at market prices, 2006-2020



Trends in aggregated GDP at market prices, in current prices million €, for 27 EU member states. Source Eurostat (2022a)

With the pandemic forcing several sectors into lockdown, the labour market felt the effect of the pandemic significantly, as seen in graph 3. In 2019 the member states experienced the lowest unemployment in over a decade, and several countries recorded unemployment below 5% (The World Bank, 2022e). Measures implemented to contain the spread of the virus led to several sectors of the labour market being temporarily shut down, such as restaurants and bars, tourism and travel, the cultural sector, and other hospitality industries, sending the labour market into a slump of contraction (European Central Bank, 2020b). Contrary to the former crisis, the effect on unemployment was symmetrical across the Union during the Covid-19 crisis, as the same sectors would be affected in all countries. The increased unemployment was primarily an effect of the covid-reducing measures. Hence, it was essential to ensure the survival of these sectors while also creating policies that could help their recovery once the measures were lifted. Moreover, this made a return to austerity less possible as those measures would likely increase unemployment further.

Graph 3: Unemployment rate, 2006-2020



Trends in total unemployment (% of labour force) (national estimate) for 27 EU member states. Source: The World Bank (2022e).

The ECB was the first actor to call for a common European response, which also included a fiscal element. As emphasised in the Keynesian theory, the best way to counter economic downturns is through a combination of countercyclical monetary and fiscal policies (Keynes, 1936). This was also the message from the ECB in March 2020, when the Governing Council felt it could not respond effectively to the crisis through monetary measures, and that fiscal actions were needed to increase trust and encourage borrowing and spending (Jones, 2021). The pandemic's effects on markets resulted in lost trust and confidence from both citizens and investors. This could not be solved by monetary policy alone as people and investors still would be reluctant to increase their spending, considering that many lost their jobs and various sectors 'went out of business' during the lockdown. By applying a combination of monetary and fiscal policies, policymakers would signal that they wanted to help the economy and 'share the risk' in uncertain times.

With the realisation that monetary policy alone would not be sufficient to counter the downturn, the scene was set for 'Europe's moment'. The idea of issuing joint debt to finance the fiscal response was initially proposed by the Southern members of the Union, who wanted the fiscal stimuli to be given as grants. Still, with great opposition from the 'Frugal Four', this solution seemed unlikely (Miró, 2021). The 'Frugal Four', together with Germany, wanted the governments who needed financial assistance to seek it through the ESM; however, the Sothern states were reluctant to rely on the ESM for support (Jones, 2021). The ESM only provided loans and was unpopular among the countries that advocated for a response with grants, since several of them already had high debt. As the crisis unfolded, Germany changed its position towards a response financed by joint debt, and together with France, they took the first step towards such a response. 'We must act, we must act in a European way so that we get out of the crisis well and strengthened' was the message from Angela Merkel, after talks with Emmanuel Macron when they launched the proposal of a common response to the economic downturn financed through joint debt (Nienaber & Escritt, 2020). With the struggles of the Sovereign Debt Crisis fresh in mind, EU policymakers were determined to find a better and more effective solution to the economic downturn. 'The Franco-German initiative advocated an ambitious €500 billion reconstruction fund that would have provided the worst-hit sectors and countries with EU budget funds to be exclusively used via grants' (Interviewee D, 2022). This represents a huge shift for Germany and their macroeconomic thinking and paved the way for NGEU. A week after the Franco-German initiative, Ursula von der Leyen, President of the EC, presented a proposal for a similar response worth €750 Billion, where €250 billion was to be provided as loans, to please the 'Frugal Four' (Christoffersen, 2020; von der Leyen, 2020a). Despite Germany changing its position on joint debt, the 'Frugal Four' maintained their view during both crises. Hence, it can be argued that Germany's position on common debt issuance was more significant and influential than that of the 'Frugal Four'. This was a significant leap for the Union in responding to crises, which also suggests that Keynesian ideas once again dominated the macroeconomic thinking in times of economic crises.

After 'four days and nights' of negotiations in the EUCO, Europe's recovery plan was presented on 21 July 2020. The EC would use its strong credit rating to borrow €750 billion from the financial markets, the loans would be repaid through future EU budgets between 2028-2058 (European Commission, 2020; European Council, 2020). While the EC's original proposal aimed at 2/3 of the recovery package being grants, the final proposal stated that €360 billion should be distributed as loans and the remaining €390 as grants, of which 70% would be channelled through the RRF (European Council, 2020, p. 3). The final distribution between loans and grants was likely influenced by the 'Frugal Four', who favoured loans over grants. Despite opposition from Northern countries, a majority of NGEU would still be distributed as grants. Thus, also considering the wishes of the Sothern member states, something that did not seem possible during the former crisis when their national fiscal policies were to blame for the crisis.

4.2. Repair and prepare

While the initiative for a common response came from the member states, there were also other important actors behind the recovery plan. The EC and the ECB played a critical role behind the NGEU response, partially because of their presidents' political past. During the Sovereign Debt Crisis von der Leyen served as minister in Merkel's government and Lagarde as French Minister of finance and later president of the IMF (Ladi & Tsarouhas, 2020; Wolff & Ladi, 2020). Hence, they could apply lessons and observations they made during the Sovereign Debt Crisis when shaping the Covid-19 response. In a speech from 2021, Lagarde reflected upon how her former roles provided her with a different perspective on the Sovereign Debt Crisis than those working in the EU at the time, particularly concerning the shortcomings of the Monetary union (Lagarde, 2021). Hence, it is reasonable to assume that they used their experiences from that crisis when creating the response to the Covid-19 crisis; one of these being the rise of populism. After the Sovereign Debt Crisis, populism began to rise in several EU member states. This was partially a reaction to the austerity programmes, and many viewed the crisis as evidence that globalisation 'had gone too far' (Algan, Guriev, Papaioannou, & Passari, 2017). Increased populism took place in many EU countries after the economic crash, as the crisis caused miscontent with politicians. In debtor countries, left-wing populism was the most common, arguing that the EU lacked solidarity. In creditor countries the populists came from the far-right wing, stating that their countries had to pay for others' mistakes. For Greece, the worst-hit country, both right-wing and left-wing populism increased as they suffered through austerity programmes (Halikiopoulou, 2020). According to one view, the political fear of another rise in populism and the anti-EU agenda contributed to the chosen response to the Covid-19 crisis (Interviewee C, 2022). Hence, the Covid-19 response became an opportunity to strengthen Europe, and counter populism. With Britain's exit taking place right before the pandemic, it is reasonable to argue that policymakers were particularly mindful of how the response could affect populism in the Union. Experiences and lessons from the former crisis, together with political fear that an unpopular and inadequate response could cause another rise in populism, were important factors influencing the macroeconomic thinking behind NGEU.

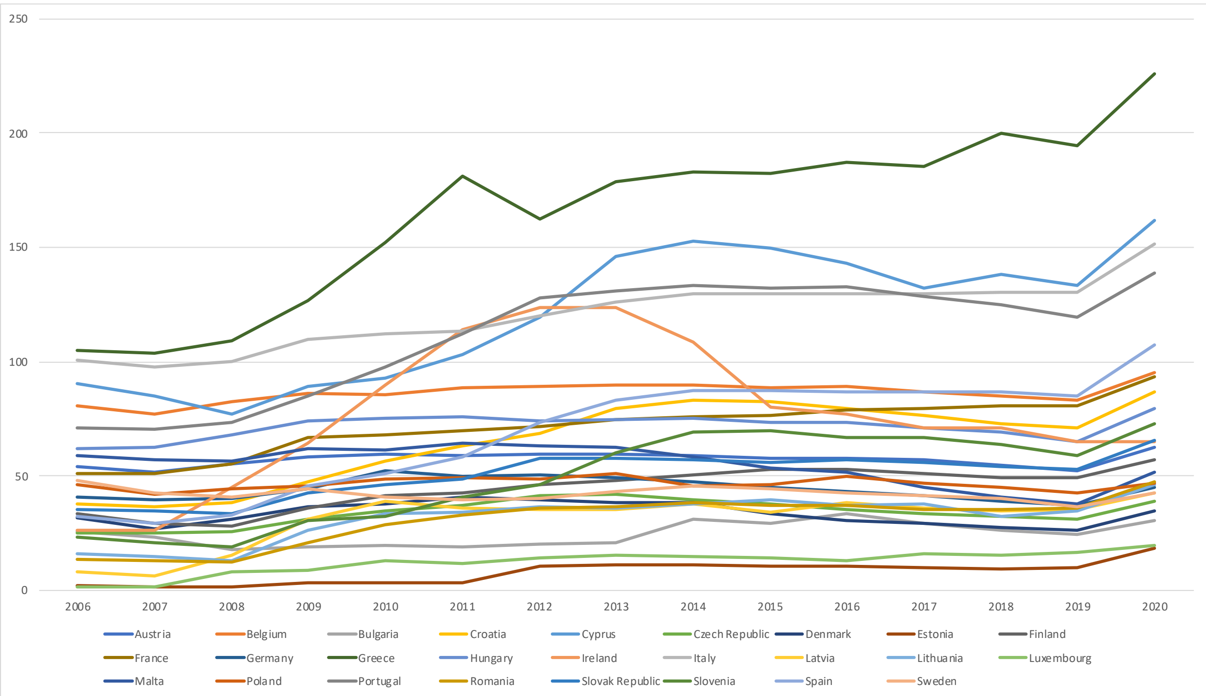
While two of the Troika's institutions played a significant role in realising NGEU, the IMF did not contribute to the crisis response this time. Even during the Sovereign Debt Crisis, the IMF was less involved towards the end of the crisis than when Greece received its first bailout programme. According to one of the interviewees, it was clear from the outline and contents of the programmes that the IMF had the lead in the beginning. As the EU built more expertise in providing assistance towards the end of the crisis, they could take the lead (Interviewee C, 2022). With the expertise in providing assistance now present at the EU level, there was no need for other actors, such as the IMF, to come in and help the Union with their response. The absence of the IMF in the Covid-19 response demonstrates that the EU learned several lessons from the last crisis, which helped improve their response to the Covid-19 crisis.

NGEU was not just created to help the EU economy recover from the immediate effects of the pandemic but also to 'guide and build a more sustainable, resilient and fairer Europe for the next generation' (European Commission, 2020). Before the Covid-19 pandemic, Europe was faced with another dual challenge: the green and digital transition. In one of the interviews, it was emphasised that the pandemic became a window of opportunity to address several challenges: 'We were already thinking about the need for huge investments to address other challenges, meaning that the conditions were there to put in a big response that essentially, sought to overcome the economic impact of the pandemic, but also deliver the kind of change that we need in other areas' (Interviewee C, 2022). Hence, the goal was to rebuild the economy after the pandemic in a way that would address current and near-future challenges. Nevertheless, this gives reason to question if the pandemic, and its economic shock, had occurred at a time without other challenges it could have been more difficult to create this type of response, due to less political will.

To counter the decline in the national economies, member states increased their spending, leading to increased debt, as seen in graph 4. Like unemployment and GDP, this effect was highly symmetrical across the Union, justifying a common response to the shock while also increasing solidarity among the member states (European Commission, 2020; Interviewee C, 2022; Interviewee D, 2022). According to Lagarde, a majority of the recovery fund needed to be distributed as loans 'As the full scale of the crisis became clearer, Europe went a step further by recognising that loans would not be sufficient for the worst-afflicted countries, since they would only increase public debt levels further' (Lagarde, 2020). This suggests that contrary to the Sovereign Debt Crisis, the sentiment on dealing with troubled finances had changed significantly. Countries in need would not be burdened with more debt, which they would later have to repay with strict economic and fiscal contractions. Instead, they could focus on a swift recovery whose financing would not be a drag on growth in the foreseeable future. The macroeconomic thinking behind the distribution between loans and grants thus appears to be highly influenced by the level of public debt across the Union. However, it was kept at a level that less indebted member states could agree to, particularly the 'Frugal Four'.

There is much about the NGEU, which suggests that the Keynesian ideas influenced EU policy makers' macroeconomic thinking. Another aspect implying this is the proposed repayment plan for the joint debt. Repayment of the debt will happen over future EU budgets and will likely be financed through schemes and taxes, such as a digital tax and taxation on emissions and pollution (European Commission, 2020, p. 4). The decision to wait until the next EU long-term budget to start repayments suggests that policymakers want to wait until the economy is fully recovered before implementing measures that can have a contractionary effect. This can be viewed as a result of Keynesian thinking, as Keynes' theory was based on contractionary measures during economic expansions to save, or repay, money for when the economic cycles turned.

Graph 4: Central Government Debt, 2006-2020



Trends in central Government Debt as a percentage of GDP for 27 EU member states. Source: International Monetary Fund (2021).

While it is difficult to determine the success of NGEU when this thesis is written, economic indicators from the late quarters of 2020 and 2021 already suggest that the EU economy is recovering (Eurostat, 2022b). The distributions of the recovery funds through the RRF began in 2021. They will continue until the end of 2022, ensuring that most of the money will be invested rapidly after the economic shock occurred (European Council, 2020). However, what seems to have been more effective at bringing back economic growth than the funds themselves, is the effect the decision to implement a solid common European response has had on the markets. This was addressed by Fabio Panetta, Member of the Executive Board of the ECB, in a speech on 6 April 2022: 'Through its allocation key, NGEU supports growth in those EU Member States hardest hit by the pandemic and with below-average GDP per capita in particular. (…). And by stabilising markets, it has supported a faster-than-expected recovery for all Member States' (Panetta, 2022). The increased trust in the markets, both from investors and the people, caused by the adaptation of NGEU so far appears to have achieved what programmes during the Sovereign Debt Crisis aimed at: restoring confidence in the EU economy. However, this time the debt burden has not been left on the member states and its citizens.

NGEU marks a radical change in the EU's responses to economic crises (The Economist, 2021). The macroeconomic thinking behind the decision to initiate joint debt to finance the recovery was influenced by several factors: (1) falling GDP, rising unemployment, increasing public debt; (2) great political willingness, both at the national and EU level, to find a common response to the crisis; (3) and the wish not to repeat past mistakes. Austerity measures had become a thing of the past, and once again, policymakers turned to Keynesian ideas when shaping the response to the pandemic.

5. Changing the management of crises

The EU chose widely different responses to the two economic crises over the last decade and a half, despite the crises having highly similar effects on the aggregated EU economy. What led the EU to choose such different approaches to the crises? This chapter will compare the two crises to determine which factors contributed to the change from the Sovereign Debt Crisis to the Covid-19 crisis, hence identifying the 'X'. Based on data and evidence presented in previous chapters, this comparison will be focused on three significant factors for the responses that changed from the Sovereign Debt Crisis to the Covid-19 crisis: (1) The position of Germany; (2) the nature of the crisis; and (3) inter-crisis learning. The chapter will compare and analyse the crises through the lens of these factors to discuss how they affected the chosen responses during each crisis, providing three main arguments; first, that the changing response was, to a great extent, a result of Germany changing its position from being an opponent to becoming a proponent of a joint response financed by common debt; second, the symmetry of the Covid-19 crisis made it easier for policymakers to agree on a common response, both due to higher solidarity and similar economic effects in all countries; third, lessons and hindsight from the Sovereign Debt Crisis prepared the EU and its policymakers for the next crisis, resulting in a different and more effective response to the Covid-19 crisis. While these factors are different, they are interconnected and affect one other, i.e., Germany's position was affected by the symmetry of the crisis and fear that populism would increase similarly to the aftermath of the Sovereign Debt Crisis if the response failed.

5.1. The importance of Germany

Despite being one of the driving forces behind the EMU, Germany rejected proposals for common debt issuance in the Union prior to the Covid-19 crisis (The Economist, 2021). The German macroeconomic thinking has been highly influenced by the so-called 'sound money' approach, which offers a conservative view on debt, as high public debt can result in policies that weakens public finances and the currency (Bulmer, 2022). This was part of the reason why Germany, together with the IMF, was one of the proponents of austerity as a means to save the economies in the peripheral member states, which would ensure the survival of their banks and repayments of the bailout loans (Stiglitz, 2017). Together with the 'Frugal Four', Germany took the lead on the stand against a 'transfer union', with Merkel arguing that: 'the euro could be "damaged" if Greece did not deal with its debt crisis' (The Economist, 2010a). For Germany it was crucial to save the Euro to ensure that their economy could function properly, and not be harmed by the crisis in Greece. Considering that Germany is referred to as the 'Economic powerhouse' of Europe, much of the EU's economic policies, and EMU, have been inspired by German ideals. Moreover, this also led to Germany gaining significant influence on the management of the Sovereign Debt Crisis. Arguably, this resulted in an austerity-based response that better suited Germany's economic situation during the crisis than the situation in the countries where the programmes were imposed.

Nevertheless, the strong German influence on the response to the Sovereign Debt Crisis has not been without critique (see, e.g., Ritschl, 2015; Tyson, 2012). Boyer (2012) argued that one of the failures of austerity was that it assumed that the crisis-ridden countries would be able to recreate the economic success of Germany by implementing similar policies to help achieve economic and financial stability. As there was still significant divergence between the EU economies during the Sovereign Debt Crisis, it was difficult for countries such as Portugal and Greece to achieve the same success as Germany since their economies did not have the same success in manufacturing and trade (Boyer, 2012; Bulmer, 2022). Regardless of the critique the austerity measures received, the EU followed the German-led austerity approach. However, while there is evidence to argue that the response was, to some extent, a result of German influence, that does not exclude other explanatory factors. At the time, few other responses seemed feasible; the response needed to restore confidence in the EU economy, resolve the situation in peripheral countries without those countries running up more debt than needed, and not burden the other economies more than necessary. Consequently, the EU was left with few choices apart from austerity. Thus, it can be assumed that the response was a combination of the two: few other feasible options and Germany's push for an austerity-based response.

While Germany was hesitant to support a collective response at the beginning of the pandemic, they ended up endorsing a common response financed by joint debt. According to Miró (2021, p. 9), the most common argument used by German politicians before the agreement on NGEU was the need to 'defend and strengthen Europe'. A similar view was found by de la Porte and Jensen (2021), who also emphasize the Franco-German fear that right-wing populism would rise again if the response caused dissatisfaction with the EU; this was also a view expressed in one of the interviews (Interviewee C, 2022). After the Sovereign Debt Crisis, both right- and left-wing populism increased significantly across Europe, claiming that the EU either did too much or too little to resolve the crisis. The rise of populism also caused headaches for Merkel and Macron in Germany and France. They saw this crisis as an opportunity to strengthen European unity against populism, avoiding another Brexit. In doing so, Merkel and Macron could also secure their positions vis-à-vis populist parties and politicians in their respective countries, ensuring their own political 'survival'. Hence, NGEU became a way for politicians, particularly in Germany and France, to strengthen Europe while at the same time avoiding fuelling the anti-European populism with a response that would worsen the economies of the member states and their citizens.

Compared to the Sovereign Debt Crisis, the importance of Germany has become even more evident during the Covid-19 crisis. It can be argued that the catalyst for the NGEU was Germany's changed position on the issuance of joint debt to finance the recovery. Arguably, other large economies in the EU, such as France and Italy, played a significant role during both crises and were essential for the decision to create an initial common European response to the Sovereign Debt Crisis (Chang, 2009, p. 97). While France had a crucial role in the creation and realisation of NGEU, there is reason to argue that without the support of Germany, it would have been difficult to realise a fiscal response financed through joint debt. During the Sovereign Debt Crisis, France and Germany strongly disagreed on how much the EU should do to help the crisis-ridden countries; France wanted the EU, and particularly the ECB, to intervene more and help resolve the massive debt in some countries, Germany opposed this, saying that economic reforms were the only way to restore market confidence (Bohn & de Jong, 2011; Vinocur & Mackenzie, 2011). Also, considering that France has taken the lead among the Sothern member states' position on fiscal responses from the EU during both crises, their view has not changed between the two crises (Interviewee A, 2022; Miró, 2021). Consequently, their position does not explain why the EU chose different responses to the crises. Similarly, the 'Frugal Four' also maintained their position during both crises. Despite the 'Frugal' states being able to influence the distribution of loans vis-à-vis grants in NGEU, they initially opted for financial aid through ESM, but without the support of Germany, this option was quickly discarded. Hence it can be argued that without the changed position of Germany, NGEU might not have happened at all, or it would have been a very different type of programme with more similarities to the Sovereign Debt Crisis responses.

From being the opponent of joint debt/ Eurobonds to being the proponent and driving force behind a recovery package financed through joint debt, Germany's changing position became a game-changer for the EU's response to economic crises (Bulmer, 2022; Ladi & Tsarouhas, 2020). Their changing position also suggests that there has been a change in the macroeconomic thinking among the German policymakers; from focusing primarily on maintaining domestic economic and financial stability, and saving the Euro, to being concerned with the economic and financial stability of the whole EU. Similar to the macroeconomic thinking in the IMF, which had turned to the Keynesian ideas when realising that they had miscalculated the negative effect of austerity, German policymakers no longer opted for fiscal consolidation when resolving the economic downturn and the debt caused by the pandemic (Blanchard & Leigh, 2013; Bulmer, 2022). Moreover, it is reasonable to assume that, given Germany's influence on EU economic policy, the change in German macroeconomic thinking and position on joint debt was an important factor enabling a different response to the Covid-19 crisis. At the beginning of the pandemic, Germany was still hesitant towards a recovery financed by joint debt, during which a recovery through ESM seemed most likely, despite opposition from Sothern states. This changed when Germany joined forces with France to endorse a common European response that later would become NGEU. Regardless of Germany's changed position, the 'Frugal Four' maintained their opposition to joint debt. Therefore, it is reasonable to claim that Germany's changed position towards joint debt was the facilitator of NGEU, as other prominent countries maintained their position on the issue during both crises.

5.2. Solidarity in symmetry

Together with the position of Germany, the nature of the crises also influenced the responses. While the Sovereign Debt Crisis and the Covid-19 crisis were highly similar when looking at the effect on the aggregated EU economy (decline in GDP, rising unemployment and increased public debt), the degree to which the countries felt these effects varied significantly. This asymmetry was, in many cases, caused by domestic factors which amplified the economic recession, like unsustainable public debt, low competitiveness, housing bobbles, credit booms and private debt (P. R. Krugman et al., 2018, pp. 704-710). As examined in the chapter on the Sovereign Debt Crisis, these factors were primarily present in the peripheral states and why their economies suffered more than those who had more stable economic conditions before the crisis.

As seen in the second chapter, all member states experienced a worsening in the three economic indicators when the crisis began in Europe (Eurostat, 2022a; International Monetary Fund, 2021; The World Bank, 2022e). However, due to the procyclical policies adopted in the years leading up to the crisis, the adverse effects of the shock were amplified in the peripheral states (Baldwin & Giavazzi, 2015). The fragile public finances and loss of trust in the markets made it more difficult for these countries to finance their recoveries, and some countries even lost access to financial markets. Without national control of the currency, they were also unable to adopt a countercyclical monetary policy or devalue their currency, to boost exports, investments, and economic growth. These factors caused an asymmetry within the Eurozone, further complicating the crisis.

The asymmetry strongly affected the macroeconomic thinking behind the response. European solidarity depends on the nature of the crisis; symmetrical versus asymmetrical and exogenous versus endogenous. When crises are symmetrical and caused by exogenous factors, solidarity with other EU countries increases, vice versa will an asymmetrical shock caused by endogenous factors lead to less solidarity (Cicchi, Genschel, Hamerijck, & Nasr, 2020; Ferrara & Kriesi, 2021). Consequently, there would be less solidarity during the Sovereign Debt Crisis than during the Covid-19 crisis. According to one view, the narrative at the time of the Sovereign Debt Crisis was that each country had to put their own house in order and pay for their own financial and economic 'faults' (Interviewee D, 2022). The view that it was the crisis-ridden countries' own fault that they suffered more from the Sovereign Debt Crisis resulted in lower solidarity within the Union, particularly in Germany, where people were dissatisfied with paying Greece's debt when their economy was doing relatively well (Fernandes & Rubio, 2012). Hence, the narrative that endogenous factors in some economies caused the asymmetry of the crisis weakened solidarity among member states. Moreover, with low solidarity, it became difficult for policymakers to justify a common response towards their citizens. Consequently, this developed less political will to find common solutions, which resulted in a response based on austerity.

However, in the aftermath of the Sovereign Debt Crisis, many voices have questioned this narrative. They argued that it was the faulty design of the Eurozone itself, enabling extensive intra-bank lending without macroeconomic and banking regulations, rather than policies in some member states, that caused the asymmetrical crisis. Critics also claimed that preserving their self-interest was more important for some countries than acknowledging that structural weaknesses could have caused the crisis (see, e.g., Boyer, 2012; Fernandes & Rubio, 2012; Orphanides, 2015; Stiglitz, 2017; Talani, 2015). One of these is the lack of a banking union, or at least more surveillance of the financial and banking sector. This could have restricted the massive borrowing in countries like Ireland and Spain, preventing their housing bubbles and banking crises. Had policymakers been more willing to acknowledge the shortcomings of the Eurozone as a contributing factor to the crisis, it is reasonable to assume that the response could have been different due to higher solidarity.

The divergence that occurred between the EU economies as the economic turmoil unfolded was an essential factor behind the response, even when considering only the financial perspective. According to a report from the EC DG ECFIN published a year into the crisis, it would not have been possible for the EU to continue with an EERP-like approach. This is because the EU economies' needs were very different, justifying a more differentiated approach to handling the crisis (European Commission DG ECFIN, 2009). Implementing the same measures in Greece and Germany would likely worsen the economic situation for both. Greece would not have received enough assistance to deal with the downturn, and Germany would have received too much, overheating their economy, and reducing competitiveness. Hence, in the absence of national monetary policy, the austerity programmes became a necessary evil to deal with the economic problems in the peripheral member states through fiscal policies. Nevertheless, there could have been other ways to differentiate the response, but due to lacking political will, these were out of the picture.

When comparing the economic variables from the two crises, it becomes evident that while the Sovereign Debt Crisis negatively impacted all economies, the Covid-19 crisis caused a more symmetrical shock. The nature of the shock significantly influenced the response and the thinking behind it, according to a view expressed in one of the interviews: 'We are going to do a European-wide response, and I think that was validated by the fact that Covid is a completely exogenous [shock]. It had nothing to do with past behaviour or policies' (Interviewee A, 2022). Policymakers were determined to find European-wide solutions, and the nature of the crisis made the justification for it easier. As mentioned above, solidarity with other countries is stronger when the shock is caused by exogenous factors rather than a crisis caused by their economic policies. Hence, it was easier for policymakers to justify a strong collective response to the Covid-19 crisis, contrary to the

Sovereign Debt Crisis. Evidence suggests that solidarity within the union was stronger during the Covid-19 crisis (Katsanidou, Reinl, & Eder, 2022). Even the 'Frugal Four' stated early on that: 'It is in the interest of all to restore growth to Member State's economies as soon as possible. This calls for European solidarity and a common recovery strategy' (Jones, 2021). Arguably, the symmetry of the crisis made it easier for all member states to support a collective response, even those opposed to issuing joint debt. It can be argued that the southern member states were hit by the pandemic slightly harder, this was not due to past mistakes, but rather the pandemic's effect on sectors such as tourism, which contributes significantly to their economies. With the crisis not being the fault of past fiscal policies in some countries, but a pandemic, a variable that none could control, individual countries could not be blamed for the economic situation they were in. Contrary to the Sovereign Debt Crisis, which was caused partially by exogenous factors and amplified by endogenous factors, the Covid-19 crisis was neither caused nor amplified by elements in the member state's economies, hence strengthening the case for solidarity.

When assessing the economic variables from chapter 3, the same trend can be observed in all member states, contrary to the variables in chapter 2, where there is significant divergence in the trends between member states (International Monetary Fund, 2021; The World Bank, 2022e). The symmetry of the shock called for a symmetrical response, not just based on solidarity but also to reach economic and financial stability. As stated by Panetta: 'The case for common European economic action in response to the coronavirus crisis has been presented as a call for solidarity. As noble as the motivation may be, it's not the only reason for governments to act together. A strong, symmetric fiscal response that offsets the economic damage from the pandemic is in the economic interests of all countries in the Eurozone' (Panetta, 2020). This implies that the nature of the crisis determines which responses are possible to achieve for the EU. Moreover, it meant that the economic situation is at least equally important to other factors like solidarity when shaping the response. Arguably, had the Covid-19 crisis been an asymmetric shock like the Sovereign Debt Crisis, a common response like NGEU would be less likely. Hence, the macroeconomic thinking behind the NGEU was likely influenced by the symmetry of the shock, making it easier for policymakers to justify a common European response. This strengthened the case for a Keynesian approach to counter the downturn since fiscal stimuli are more feasible and validated when the shock and its effects are similar for all.

While the two crises had similarities in their effects on the aggregated EU economy, there were also differences that affected macroeconomic thinking. Exogenous factors from the American economy triggered the Sovereign Debt Crisis, but endogenous factors amplified the shock in some member states. Covid-19 was an exogenous shock, increasing solidarity between the member states. Unlike the Sovereign Debt Crisis, the downturn could not be blamed on individual member states based on their past behaviour, making it easier for policymakers to agree on a common response. Covid-19 also had a more symmetrical effect throughout the economies in the EU, whilst the Sovereign Debt Crisis affected some countries more than others, hence making a symmetrical response the interest of all EU countries (Panetta, 2020). It is reasonable to assume that if the Covid-19 shock had been asymmetrical, like the Sovereign Debt Crisis, the EU might not have chosen a common response like the NGEU, as it would be more difficult for member states to agree, due to lacking solidarity and relevance of a symmetrical response to an asymmetrical shock.

5.3. Learning from the past

It is almost, always easier to understand how policies could have been improved in hindsight. The EU's struggles when managing the Sovereign Debt Crisis provided them with valuable lessons for the next crisis. Hence, inter-crisis learning is one of the strongest explanatory factors behind the different responses vis-à-vis the two crises. This view was expressed by all interviewees and has also been identified as a crucial factor behind the change in response by high-level EU officials (Interviewee A, 2022; Interviewee B, 2022; Interviewee C, 2022; Interviewee D, 2022; Lagarde, 2020, 2021; Panetta, 2022; von der Leyen, 2020a). For instance, in a blog post from July 2020, Lagarde asked: 'Why has the response been better than before? Learning the lessons of the past, Europe has moved towards a new model for dealing with crises: one based around strategic autonomy policy coordination and the Union method' (Lagarde, 2020). The EU made several 'mistakes' during the Sovereign Debt Crisis and implemented measures that did not account for the effect they would have on the total Eurozone economy. As seen in previous chapters, these 'mistakes' resulted in a period where GDP growth stagnated. Consequently, if the EU wanted its economy to emerge from the Covid-19 slump more rapidly, it had to avoid repeating past errors. By drawing on lessons from the past crisis, the EU created a response that increased trust from markets in its economy while not worsening the financial situation in the member states.

Before the Sovereign Debt Crisis, Europe had not experienced an economic downturn of such magnitude since the Great Depression. Despite massive changes to Europe's political and economic landscape, it was this crisis policymakers chose to learn from when shaping their response. The EU, particularly the EC, was determined to not repeat the mistakes from the 1930s and wanted the measures to be swift, sweeping, and effectively respond to the current crisis (Welch, 2011, pp. 483-484). However, they failed, and instead of improving the response from the Great Depression, Paul Krugman (2012) argued that the EU instead had managed to replicate the economics and depression of that crisis. Despite evidence suggesting that the EU aimed at drawing on lessons from the past, Jacques Delors, former EC President, argued that: 'In the urgency of the moment, the lessons of the past have often been overlooked. Yet they can help us to better understand the issues involved in this crisis and to come up with suitable responses to it' (Fernandes & Rubio, 2012). This implies that while the EU tried to draw on lessons from the past, some critical considerations were excluded from the process. Furthermore, this resulted in the repetition of past mistakes, preventing a rapid recovery, weakening the economy with austerity, and stagnation of GDP growth for the aggregated EU economy. Nonetheless, it is worth noting that this was not the case for all, i.e., Ireland's economy thrived after it exited the EU-IMF Programme due to a successful export-led recovery. Moreover, the relevance of lessons from the Great Depression can also be questioned since Europe had undergone significant changes since then, such as creating the EU and the Euro, making these measures less applicable to the Sovereign Debt Crisis.

The slow and painful recovery of the peripheral EU economies led many policymakers to question austerity as an effective response to economic downturns. As stated by Panetta: 'The euro area adopted a flawed policy mix, (…) fiscal policies – after intervening for a short space of time to support the economy – procyclical turned towards fiscal consolidation, mainly through uncoordinated interventions inconsistent with the fiscal stance that would have been appropriate at European level. Between 2011 and 2013, procyclical fiscal consolidation triggered contractionary forces that turned out to be self-defeating also in terms of debt sustainability' (Panetta, 2022). In hindsight, EU policymakers have recognised that the austerity response limited growth, making the crisis last longer in the EU than in other parts of the world. After the crisis, even the IMF, who had been one of austerities greatest proponents, began implementing more Keynesian ideas and recognised that for some economies, particularly advanced economies with fiscal space, there were other ways to respond to economic recession (Clift, 2019; Ostry et al., 2016). Hence, the lessons from the Sovereign Debt Crisis were not just learned in the EU and resulted in a shift in macroeconomic thinking for the IMF as well, from thinking that austerity was the only answer to finding other solutions that better supported growth in the short term. Moreover, the hindsight provided from the Sovereign Debt Crisis helped the EU understand how to improve their responses when a similar shock occurred.

While it is easy to argue that NGEU indicates that the EU has learned several lessons from the struggles during the EU-IMF Programmes, there is also reason to argue that it is evidence of learning from the EERP. The EERP was a short-lived programme which achieved few of its objectives; however, it has several similarities with the NGEU plan. Both plans were fiscal stimuli to help counter the immediate downturn of the crises, and they contained aims of transforming the EU economy into a greener and more resilient one (European Commission, 2008; von der Leyen, 2020b). However, the plans differ significantly in terms of financing. EERP amounted to €200 billion, where €170 billion was financed by the member states and the remaining €30 billion by the European Investment bank (Barroso, 2008; Jackson, 2009). The €750 billion NGEU fund would be borrowed by the EC on the financial markets and become a part of the EU budget, '[investing] in both short-term recovery and long-term prosperity' (European Council, 2020; von der Leyen, 2021). Arguably, this change suggests that the EU learned that the funding for EERP was too little and ineffective when it was financed through the member states' budgets. Moreover, the EERP reduced national budgets, possibly affecting member states' recovery. Hence, when creating the NGEU, the EU chose a different form of funding, resulting in a more robust response that could achieve its objectives and facilitate the necessary transitions for the EU economy.

One of the few areas where the EU has little jurisdiction is in the health sector; here the member states are in charge. Hence, the EU appeared paralysed at the beginning of the pandemic, with closed borders, export restrictions, and falling solidarity. After a slow start, the Union managed to act together and create a solid common response to the shock. The arguments made by Efenhoff (2009) and Whitley (2010) that the EU institutions needed to act together for the EERP to be an adequate response, were one of the crucial lessons from the Sovereign Debt Crisis. This is particularly important for responding to economic shocks, because of the signals this sends to markets and the effect it has on confidence. According to a speech given by Lagarde on the lessons from the past: 'The lesson was also that, in times of crisis, the most important signal for policymakers is their determination to act' (Lagarde, 2021). During the Sovereign Debt Crisis, the member states became more reluctant to act together, mainly due to the asymmetry of the shock. This resulted in an inadequate response which did not send signals to the markets that the EU was determined to resolve the crisis. Hence, leaders of the EU and its member states needed to display a determination to solve the Covid-19 shock rapidly. Through NGEU they managed this, resulting in a swift response that counteracted the downturn.

A lesson from the Sovereign Debt Crisis, which significantly influenced the macroeconomic thinking towards Keynesianism, was the realisation that demand would increase more effectively when monetary and fiscal policy supported one another. During the era of austerity and the following years, the ECB adopted an expansionary monetary policy with low interest rates (Trading Economics, 2022). In the same period, many member states implemented contractionary fiscal policies, resulting in unfavourable environments for investments to support growth (Lagarde, 2019). The need for a harmonisation between fiscal and monetary policy has also been addressed by Lagarde as a crucial factor behind successful responses to recessions: 'When inflation is low and interest rates fall towards zero, the optimal policy mix changes. Monetary policy becomes more effective in lifting demand when fiscal policy reinforces it. [When the pandemic hit] fiscal policies had to step in to offset lost private sector income, because monetary policy could not target the sectors most in need of help' (Lagarde, 2021). This supports a view from the interviews that the macroeconomic narrative was that if fiscal and monetary policies were mutually supportive, the real economy could be stabilised, inflation lifted towards its target more effectively, and lower costs in terms of debt, something model simulations also predicted (Interviewee D, 2022). In hindsight, the flawed policy mix from the former crisis helped policymakers realise that different policies were needed to resolve the Covid-19 economic crisis. Thus, a combination of low-interest rates and NGEU became the result, based on lessons from the Sovereign Debt Crisis.

Could the EU have chosen this type of response without the lessons from the Sovereign Debt Crisis? One view suggests that the EU would most likely have acted very differently during the pandemic if the Sovereign Debt Crisis had not occurred, as crucial lessons that have shaped the NGEU response would not have been learned (Interviewee D, 2022). Before the Sovereign Debt Crisis, the EU had little experience dealing with economic shocks; hence, the whole crisis became a learning process (Interviewee C, 2022). Over the course of the crisis, the EU managed to build expertise in providing financial assistance, i.e., the creation of EFSF, EFSM and the ESM, which were mechanisms that could be activated when member states needed assistance. The ESM was initially suggested, by the 'Frugal Four' and Germany, as a possible way to deal with the pandemic's economic downturn (Jones, 2021). Nevertheless, as the pandemic unfolded, policymakers became aware that a stronger and more coordinated response was needed to counter this shock. While the EU did not implement any of the tools created after the Sovereign Debt Crisis, it is apparent that the mechanisms in NGEU were created from the lessons and expertise learned from the past crisis and response. Furthermore, there is reason to claim that without hindsight from the Sovereign Debt Crisis the response to the Covid-19 crisis would have been very different.

With the expertise gained from the Sovereign Debt Crisis, the EU did not have to rely on other actors and was able to take ownership of the response itself. According to Lagarde, the 'externalisation' during the former crisis significantly affected the response: 'The response to the Sovereign Debt Crisis mainly took place outside the EU's institutional framework, which helped facilitate agreement but also brought a "last resort" logic to collective decision. The decision to place NGEU within the EU budget, however, broke with these constraints and sent a different signal about solidarity' (Lagarde, 2020). While the involvement of the IMF and Troika made it easier to reach an agreement on the response, it also 'side-lined' the Union, particularly the member states. This resulted in austerity programmes that countries felt little ownership of, making it more difficult to succeed with the reforms. Ireland was the exception since it was the architect behind its own programme (Interviewee C, 2022). Arguably, Ireland's success with its EU-IMF Programme can be viewed as a result of it taking ownership of the programme from the very beginning, making it easier for Irish policymakers to impose the needed reforms. The lack of ownership made imposing the needed reforms more difficult for other countries that received EU-IMF programmes. Furthermore, these countries' less successful outcomes could be caused by lacking ownership and political will to go through with the reforms.

Moreover, when the response to Covid-19 was shaped, the EU appears to have learned that responses are more effective when the member states take ownership and contribute to shaping the response. NGEU then became a response that accounted for the situations in different countries, and since it was a product of mutual negotiation between the member states, they would feel ownership of it, likely ensuring a more successful outcome.

This comparison has identified three main factors that were different during the crises and appeared to have been crucial for the chosen responses: (1) Germany's position; (2) the nature of the crisis; and (3) lessons from the past. How the EU responds to and manages economic crises has changed significantly over the past decade and a half, from a nationalistic approach to the Union method, but what does this imply for future crises? Predicting the future is impossible, and nor is it the aim of this thesis. Nevertheless, some assumptions can be made about the determinants of responses based on the findings and what they mean for the EU moving forward. How the EU responds to a crisis will depend upon the nature of the crisis. Given the responses to the crises, the EU now has various crisis management tools that can be used to shape an appropriate response. While the Union responded to the Covid-19 crisis as a unit, that does not necessarily mean that an NGEU type of approach will be the default response for the next crisis. If the next crisis is more asymmetrical, the ESM might be a more appropriate response or even involvement of the IMF. Lessons from the Covid-19 crisis will also likely influence future responses, together with those from the Sovereign Debt Crisis. For future crises, the EU has a range of response tools to choose from; the response they choose will likely depend on political will to find collective solutions, the nature of the crisis and the EU's expertise on handling that type of crisis.

6. Conclusions: How to manage a crisis

The starting point of this thesis was rooted in a wish of gaining greater insight into how the EU responds to economic and financial crises, based on the different responses to the Sovereign Debt Crisis and the Covid-19 crisis. These crises have a high degree of similarity, but the EU's responses to them differ significantly. Hence, this thesis wanted to examine how these differences could be explained. To do this, a comparative case study of the two crises was conducted, applying the most similar systems design. This methodology is theoretically strong and helps identify variables that are different between the cases being examined. An extensive number of primary and secondary sources, together with, both quantitative and qualitative data has been analysed to identify the differences between the crises. The quantitative material focused on the three economic variables (1) GDP, (2) public debt, and (3) unemployment to examine their trends and the nature of the crisis. Qualitative data including four semi-structured interviews, official EU documents, speeches, press releases, parliamentary debates, newspaper articles and opinion pieces, together with scholarly literature has complemented the quantitative variables to explore other explanatory factors. The thesis has been focused on the macroeconomic thinking behind the different responses of the two crises to answer two research questions:

(1) How far has the economic and monetary thinking changed in the European Union from the Sovereign Debt Crisis to the Covid-19 crisis?
(2) How can the differences in the European Union's monetary and fiscal thinking vis-à-vis the two crises be explained?

To understand the macroeconomic thinking behind the responses and crisis management, the thesis laid down a foundation based on the two most frequently used responses to economic crisis: austerity and Keynesianism. Both are strongly rooted in economic theory, austerity through the Neoliberalist theory and Keynesianism through John Maynard Keynes' The General *Theory of Employment, Interest, and Money*. The two represents opposing ways to address crisis: austerity follows contractionary fiscal policies, while Keynesianism applies expansionary fiscal policies. Based on this foundation, the EU's responses to the Sovereign Debt Crisis and the Covid-19 crisis have been analysed through the lens of macroeconomic thinking.

The thesis has followed a chronological order from the onset of the Sovereign Debt Crisis in 2008 to the Covid-19 pandemic, considering the three recovery plans: the EERP, EU-IMF Programmes and NGEU, and has been built around several arguments. First, misconceptions about the condition of the EU economy led policymakers to choose a response and follow macroeconomic thinking that was not in line with the actual situation in the economy, resulting in the EERP being an insufficient response. Second, the thinking behind the plan was highly influenced by the IMF's macroeconomic narrative; that austerity was the best solution to such crises. Also, that divergence between the member states significantly affected the response, and that the proponents of austerity underestimated the negative effect it would have on the labour market and private consumption. Third, the response to the Covid-19 crisis, and the macroeconomic thinking behind it, was a result of several factors: symmetrical negative changes in economic indicators, political willingness to have a robust common response, both from the national level and the EU level, and the wish not to repeat the mistakes of the past. Moreover, that NGEU is strongly influenced by Keynesian ideas, suggesting that there has been a shift away from austerity in the macroeconomic thinking since the former crisis.

Three explanatory factors were identified as the reasons behind the different responses to the crises: (1) the position of Germany; (2) the nature of the crisis; and (3) lessons learned. First, Germany opposed a common response to the Sovereign Debt Crisis and advocated for an austerity-based response to the countries hardest hit by the crisis. Nevertheless, when the response to the Covid-19 crisis was in the making, Germany changed their position and joined forces with France to propose a common response financed by joint EU debt. Hence, Germany's changed position became a catalyst for NGEU, a response that likely would not have happened without their support. Second, the Sovereign Debt Crisis had asymmetrical effects throughout Europe, making it difficult for policymakers to agree on the best response to benefit the EU economy and their national economies. Moreover, solidarity was also reduced, as some economies were hit harder due to their economic policies prior to the crisis. Contrary, Covid-19 was a completely exogenous shock, making the case for solidarity stronger since the downturn could not be blamed on past behaviour. Furthermore, the shock from the pandemic was more symmetrical, affecting all economies similar, making it easier for policymakers to agree on policies that could benefit all economies. Third, before the Sovereign Debt Crisis, the EU and Euro zone had not faced an economic downturn of such magnitude. While the shock had similarities to the Great Depression, the EU and the Euro did not exist yet, making preconditions for the responses very different. Hence, the EU had little to compare with when creating its response and did not have the tools to handle such a crisis. During that crisis, institutions such as the EFSM, EFSF, and ESM were created to be deployed in similar situations. Moreover, when Covid-19 shook European economies, the EU could draw on the lessons from the Sovereign Debt Crisis to shape its response to this shock. With the Sovereign Debt Crisis fresh in mind, policymakers could avoid making the same mistakes again. Instead, they adopted a strong common fiscal response, which boosted the economy and increased trust from the markets.

Based on these findings, some conclusions can be drawn to answer the research questions. First, the economic and monetary thinking in the EU has changed significantly from the Sovereign Debt Crisis to the Covid-19 crisis. During the Sovereign Debt Crisis, the macroeconomic thinking can be viewed in two phases. The first phase was the EERP, where the EU thought that a fiscal stimulus was what the economy needed to counter and bounce back from the economic downturn, much in line with the ideas of Keynesianism. However, the EERP did not manage to counter the economic downturn and resulted instead in increased debt for the member states, as the recession deepened. Moreover, it became evident with the EERP's failure that the EU lacked expertise in handling economic shocks and providing financial assistance. The second phase was strongly influenced by the IMF's entry, who introduced their macroeconomic thinking in the EU. Furthermore, Germany endorsed a differentiated response where the countries with the most severe struggles would impose austerity to resolve their problems. The EU-IMF Programmes marked a shift towards austerity in the macroeconomic thinking, imposing contractionary fiscal policies in some countries, the opposite of the thinking at the beginning of the crisis. Moreover, the asymmetry of the crisis reduced solidarity and made it difficult to find collective solutions. Nevertheless, when the next crisis occurred, the thinking changed again. After a turbulent and nationalistic start to the management of the Covid-19 crisis, the member states managed to shape a collective response. Germany and France took the lead and endorsed a joint response financed by shared debt. Based on lessons from the former crisis, a strong fiscal stimulus was created to counter the economic recession of the pandemic, and help Europe prepare for future challenges. Furthermore, with the NGEU, macroeconomic thinking in the EU was once again in line with Keynesian ideas. However, contrary to the

EERP, NGEU was financed through joint debt, not by the member states' budgets. Additionally, the symmetry of the Covid-19 crisis resulted in higher solidarity and made it easier for policymakers to find collective solutions to the downturn. Hence, it can be concluded that the economic and monetary thinking has changed significantly from the Sovereign Debt Crisis to the Covid-19 crisis. Furthermore, the different macroeconomic thinking during the two crises represents two opposing responses to crises in economic theory, austerity during the Sovereign Debt Crisis and Keynesianism during the Covid-19 crisis. Second, these differences can be explained by three factors: (1) Germany's position on joint debt and a common response; (2) whether the crisis is asymmetrical or symmetrical and caused by endogenous or exogenous factors; and (3) the EU's expertise in providing financial assistance, based on lessons from former crises. Together the differences in these three variables and in the macroeconomic thinking resulted in the different responses to the two crises.

This analysis has applied a strong methodology and analytical/conceptual framework, and the findings have solid empirical basis. However, this does not exclude the possibility of the analysis being influenced by the author's personal biases regarding economic theory/policy and the EU. Moreover, despite these findings having great explanatory power of how the EU responds to, and manages, economic and financial crisis, the findings of this thesis do not exclude other possible explanations. Hence, further studies on the subject could apply different data and methodology or follow a less economic approach to examine other factors that determined the different responses.

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Appendix

Interview Guide

This interview guide is a roadmap for the semi-structured interviews which will be conducted with EU-politicians for my MA dissertation on the EU's macroeconomic responses to the Sovereign Debt Crisis and the Covid-19 crisis. Before the interview begins, the respondent is again informed of how the data will be used, stored, and deleted once the project is done, their possibility to remain anonymous should they wish to, and how to proceed should they wish to have the data deleted sooner or withdraw from the project.

Macroeconomics in the EU

1. How would you briefly describe the evolution of macroeconomic thinking in the European Union, from its creation up until today?
2. What do you think caused this evolution? (Here it is possible to as follow-up questions about specific events and institutions/people who were significant for the development)
3. How would you describe the macroeconomics, or economic and monetary integration, in the EU today?

The Sovereign Debt Crisis

1. How would you describe the dominating macroeconomic thinking/narrative in the EU for the period around the Sovereign Debt Crisis?
2. How would you describe the EUs response to the sovereign debt crisis, and the macroeconomic thinking behind it? Considering the member states, how influential would you say they were for the chosen response, and who was the most influential? (Consider also groupings of Member states)
3. Why do you think the Union chose this response?
4. Who would you identify as the actors behind the EUs response?
    - (If respondent gives a brief answer, follow-up questions on institutions, politicians and other policy actors can be asked)
5. How, and in which way, would you say each of these actors contributed to shaping the EUs response?
6. Which of the actors played the most significant role in the creation of the response? (The aim of this question is to get the respondent to reflect around which type of actors, especially the technocrats vs. the democratic institutions, and how this could have shaped the response from the EU)
7. The European Economic Recovery Plan was the initial response, how would you describe this response?

8. Who would you identify as the actors behind this plan?
9. Would such a plan be sufficient to counter the economic downturn of the Sovereign Debt Crisis?
   - (If respondent gives a simple yes/no, ask for them to elaborate)
10. If anything, what could have been done different for the initial response to the crisis to be more effective?
11. A few years after the European Economic Recovery Plan the EU-IMF Programmes were given to the countries hardest hit by the crisis, how would you describe this response?
   - And how is it different from the initial response to the crisis?
   - Has there been a change in macroeconomic thinking from the EERP to the EU-IMF?
12. Who would you identify as the main actors behind this response?
   - (If respondent brings up other actors than for the EERP, ask the respondent why that might be)
   - Considering the member states, how influential would you say they were for the chosen response, and who was the most influential? (Consider also groupings of Member states)
13. Would you say that the EU-IMF Programmes were successful in countering the negative economic effects of the crisis? Why/why not?
14. If anything, what could have been done different with the EU-IMF Programmes?
15. Could the Union have chosen a different response? If so, what could have been different?

The Covid-19 Crisis

1. How would you describe the dominating macroeconomic thinking/ narrative in the EU today?
1. Has it changed/evolved over the past decade? And if so, what do you believe contributed/ caused this change/evolution?
2. How would you describe the EUs macroeconomic response to the Covid-19 crisis, and the macroeconomic thinking behind it?
3. Why do you think the Union chose this response?
4. Who would you identify as the actors behind the EUs response?
   - (If respondent gives a brief answer, follow-up questions on institutions, politicians and other policy actors can be asked)
5. How, and in which way, would you say each of these actors contributed to shaping the EUs response?

6. Which of the actors played the most significant role in the creation of the response? (The aim of this question is to get the respondent to reflect around which type of actors, especially the technocrats vs. the democratic institutions, and how this could have shaped the response from the EU.)
   - Considering the member states, how influential would you say they were for the chosen response, and who was the most influential? (Consider also groupings of Member states)
7. Possible to follow up with questions concerning the difference in actors from the responses during the Sovereign Debt Crisis, and why there has been a change in actors.
8. How would you characterize the economic Covid-19 crisis, compared to the Sovereign Debt crisis? What were the main differences between the crises?
9. Next Generation EU, or the Recovery and Resilience Facility marks a radical change in response to economic crisis from the Sovereign debt crisis. How would you describe this change, and what do you think caused it? (The aim of this question if to get the respondent to reflect upon whether it is the nature of the crisis, the involved actors, or a change in the EUs macroeconomic "thinking" that has caused the change)
10. Why do you think the EU chose such a different response to this crisis, compared to the Sovereign Debt Crisis?
11. It might be difficult to predict, but how successful do you think the macroeconomic response to the Covid-19 crisis will be?
12. Which of the responses do you believe to have the best components to counter an economic shock/downturn like the two crises? And is there anything you would change about it to make it more effective?
13. Lastly, is there anything you would like to add?

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