# The influence –and weakness– of Spain's European policy in the face of the pandemic: from a diagnostic to proposals and recommendations

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## Theme[1]

This paper analyses the position of Spain in the EU's management of the present health and economic crisis.

## Summary

The coronavirus represents a major challenge for the EU and its Member States, with Spain among the countries that will be hardest hit. The crisis has struck when the country is extremely fragile but also at a time when it aspires to play a proactive and leading role in Brussels. This paper provides an initial diagnostic of the political and economic position of Spain in the context of developments in the EU in March and April 2020. It also sets out ideas to minimise the many risks on the horizon and take advantage of the opportunities also created by the situation. It aims to help identify the supranational response most closely aligned with Spain's national interest, taking into account a number of issues: how to address the management of the disease and the re-establishment of mobility at the European level; the crucial economic decisions for financing reconstruction (the European Stability Mechanism, coronabonds, perpetual debt and the European budget) and the specific allocation of funds (digital agenda, decarbonisation, inclusion and unemployment); the institutional and national alliances and narratives to support the measures; and the best way to connect this complex negotiation to domestic politics, given Spain's young and polarised parliament and the risk of weakening pro-European sentiment.

## Analysis

The coronavirus presents an enormous challenge for the European integration process. While all Member States are severely affected in health and economic terms, in some countries, including Spain, the effects of the disease and the consequences of confinement on employment or the outlook for the recovery and the sustainability of

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public finances are particularly severe. In light of the many risks, it is crucial to develop a negotiating strategy that takes these dangers into account, identifies pragmatic objectives and lives up to expectations of a constructive relationship between Spain and the EU, both internally and at the European level.

## A symmetric shock with asymmetric consequences

National health systems in almost all Member States, particularly in countries like Italy, Spain, France and the Benelux states, were unprepared for a pandemic of this scale. Hospitals have been placed under strain, there have been problems with medical supplies (largely outsourced to China), the lack of own technology has been thrown into sharp relief and we have seen instances where alert and crisis-management systems have failed. In these challenging circumstances, the EU's role, which, in the area of health, is limited to providing support, has been marred by its slowness to react and lack of coordination, above all at the start of the crisis. Furthermore, the individual management of confinement or restrictions on mobility by Member States (applied by practically all countries) has affected the Schengen area, one of the most iconic aspects of European integration.

The economic challenge, this time an area in which the EU institutions have competence (the eurozone, the single market and the policy agenda until at least 2024), is equally daunting. In terms of Spain, while the country has shown some weakness in the area of health (due to the extremely high numbers of cases and deaths in both absolute and relative terms), its position is especially delicate as regards the impending recession. There are a number of reasons for this, including the role of tourism in the country's economy, the high level of unemployment and lack of permanent jobs in the run-up to the crisis (which suggests a severe social impact), and the country's high level of debt, which creates an obstacle to providing stimulus and makes European financial support vital.

The political consequences of this set of circumstances are also significant. The EU's role in managing the health and economic dimensions of the crisis has been politicised in Spain, an aspect that is both positive, since it can be seen as a sign of maturity, and negative, since it shows the ever-fragile legitimacy of the integration process. The risk of reputational harm is a two-way street, threatening the image of the EU in certain countries (such as Italy and Spain) and these countries in the EU, should the idea that the pandemic has been particularly poorly managed or that the unsustainable fiscal policy in recent years has left countries limited room for manoeuvre take root. Yet the prevailing rhetoric is now more balanced than in 2010 and the reputations of countries such as the Netherlands, which runs the risk of being perceived as being recalcitrant in its response, is also now at stake. All this means that Spain is not on solid ground, given the distrust between creditor and debtor Member States. There is a further element of tension, since the crisis has a significant and direct impact on Italy, a founding State of the EU, its third-largest economy and whose public is wearying of the pro-EU consensus that has lasted since the 1990s.

## Spanish interests in the area of health and mobility

As noted above, largely as a result of its powers, the EU has not played a significant role in the management of the pandemic itself. The Commission's response was initially limited to pushing back against harmful national decisions to restrict exports of medical supplies between Member States, minimising the effect of restrictions of the free movement of people on the free movement of goods as much as possible and promoting research initiatives for a vaccine and cure for the disease. Nonetheless, the added value of a common response in terms of supplies (joint procurement of medical material in what is now a highly competitive market in which buyers' economies of scale are important), the storage of stock and even production (facilitating standards to allow the repurposing of industrial production lines in Europe) has become clear.

Going forward, Spain must ensure the EU learns from this episode and is willing to apply the lessons in time for a second wave of COVID-19 in the autumn or to other pandemics in the future. This includes strengthening information systems and support for national health responses, building up strategic reserves of medical equipment, promoting the repatriation of some industries in this area on European soil and ensuring a more coherent reaction in the areas of security and the movement of people and goods. In the short term, however, it will be important to coordinate the exit strategies of the 27 Member States, even if this does not occur simultaneously. The existence of a European system of standardised certifications (immunity or, where applicable, a vaccine), which will make it possible to re-establish movement between countries for work or tourism, is essential to the Spanish model of production. The secure storage of sensitive data (for both the public and the authorities) and the associated requirement to develop EU digital apps and 'clouds' is another key aspect.

All these pan-European measures will have profound social and economic consequences for Spain in areas such as its national health system, science, innovation, industry and also the security system (eg, risks related to bioterrorism and critical infrastructure). The country must pay close attention to their design and remember that many EU decisions on industrial, scientific and technology policy in the wake of the crisis will have winners and losers (or, perhaps more accurately, some Member States will win more than others).

## Spanish interests in the economic response

The economic policies adopted by the EU will be important when it comes to reducing the economic impact of the pandemic and taking advantage of the crisis as an opportunity to build a more integrated EU, with a more robust monetary union, which has always been among Spain's key priorities. After some initial delay, the EU has managed to provide a reasonably satisfactory response in terms of monetary policy and has begun to outline its fiscal response.

The ECB has committed to the Pandemic Emergency Purchase Programme (PEPP), which will see it buy as much public and corporate debt as necessary on the secondary market to prevent the recession evolving into a financial and debt crisis in countries with weaker fiscal positions due to higher risk premiums. It has even lifted the limits on the percentages of debt of each country it can hold on its balance sheet and the types of collateral it accepts in its financial liquidity programmes. In facing this crisis, the fact that States explicitly have a lender of last resort and that it has taken just a week to decide on measures that took two years during the Euro crisis of 2010-12, is highly positive. Had this not been the case, it would have been necessary to reconsider the mandate of the ECB. Indeed, this may still be required if other countries embark on large-scale monetary financing (direct purchase of public debt by central banks on the primary or secondary markets) and the eurozone does not. There is also the risk that, if the situation persists, institutions such as Germany's Federal Constitutional Court, will challenge the legality of the programme. Similarly, the key to the success of PEPP (and any subsequent extensions) lies in investor expectations as other measures in the fiscal area are approved (otherwise, risk premiums could rise).

In terms of fiscal policy, it is necessary to distinguish between an initial urgent package and the design of a more ambitious recovery plan, currently being drawn up by the Commission under the mandate of the European Council of 23 April. The urgent decisions adopted by the eurogroup on 9 April can be divided into three types of measures: (1) a new precautionary credit line for the ESM of €240 billion (up to 2% of the GDP of each country), which can be used to cover health costs derived from the pandemic, subject to limited conditionality that is still being negotiated; (2) a line of credit of €100 billion under the Support to mitigate Unemployment Risks in an Emergency (SURE) programme to finance part of the salaries of workers who must remain in confinement; and (3) guarantees and other financing from the European Investment Bank (EIB), with €200 billion for European companies. This strong provisional agreement provides a package of coordinated measures, available from 1 June and may be of considerable economic and political use. Its adoption was enough to change the tone of the public in Member States of the south, who began to see the EU more as part of the solution and not the problem. However, it is important to note that this support is in the form of loans (not joint spending) and the majority of the fiscal burden will remain with the individual countries, meaning it is not fully satisfactory to highly indebted states.

Since the start of March, Spain, France and Italy, alongside Belgium, Slovenia, Greece, Ireland, Luxembourg and Portugal, have been arguing for a response based on eurobonds, which would avoid increasing existing national debt and would not mean having to accept politically unacceptable conditionality (particularly relevant in the case of Italy). However, the idea of issuing shared sovereign debt, even as time-limited eurobonds or coronabonds, is equally unpalatable to Germany and the Netherlands, Madrid has been working hard to find common ground. On 19 April the Spanish government presented 'Spain's non-paper on a European recovery strategy', outlining provisions to create a recovery fund of up to €1.5 trillion. The fund would not be financed by eurobonds but by perpetual debt issued by the Commission as part of a revised Multiannual Financial Framework (MFF) and the establishment of new European taxes. The money would be spent from 1 January 2021 onwards to address the economic impact of the coronavirus in each Member State. The idea has drawn praise from the international financial press and nobody denied its coherence in terms of clearly defining its objectives and how to achieve them. All in all, it was a good example of a proactive attitude, able to exert influence at the right moment in time.

Although the Spanish proposal was not endorsed at the European Council on 23 April, the Council tasked the Commission with drawing up a plan with a similar price tag in the first three weeks of May, which will include extremely long-term loans (a format more closely aligned with German interests than the zero-coupon perpetual bonds proposed by Spain) and increases to North-South transfers through the EU budgets. The decision has certain federalising potential, since funds from the plan will not be channelled through an intergovernmental organisation like the ESM but through the Commission itself, and the value of the MFF will increase from 1.2% of EU GDP to 2% (although not from direct contributions but from guarantees). The balance between transfers to the most-affected states and loans to the private sector, as well as the associated investment objectives and targets, have yet to be determined. There are also proposals for the fund to directly acquire stakes in the companies of Member States that need to be fully or partly nationalised, responding to the debate on the extent to which different countries can support businesses facing difficulties, due to their fiscal circumstances, now that limits on state aid have been temporarily lifted. If this initiative serves as a federalising impulse for the creation of 'European champions', it could be of interest. However, Spain must pay close attention to the small print to ensure its businesses receive sufficient funds and their headquarters do not end up transferred to other Member States.

Regardless of whether the Commission's proposal is satisfactory to Spain and even though it will help make debt more sustainable and represents a strong starting point in political terms, it is important not to overestimate the potential of its impact on the management of the crisis in the aftermath of the pandemic. While the battle over eurobonds (or coronabonds) has not been won, both due to deeply-rooted legal objections and because the idea did not fully coincide with the interests of Spain, France and Italy, the ECB's unconditional support and the prospect of permanently increasing the European budget represent significant progress.

Nonetheless, Spain must continue to insist that the European recovery plan does not allow the crisis to exacerbate divergences between countries and regions along a North-South divide and that it truly embodies the ideas of a 'Europe that protects' and a 'social Europe', side-lined over the last decade and increasingly demanded by its citizens. The country should aspire for the recovery fund to support the transformation of its economy, based on the principles of digitalisation, sustainability, inclusion and the fight against inequality. These objectives must also be supported by a major political consensus at the national level and ensuring Spain has projects ready in these areas to receive financing when funds become available.

The crisis also provides an opportunity to adopt a firmer stance against European tax-havens like the Netherlands, Ireland and Luxembourg. If the ideal outcome of making fiscal decisions by qualified majority voting in the area of tax –which should be the aspiration of Spain and is expressly stated in its non-paper of 19 April– is not achieved, there should be the possibility of strengthened cooperation, excluding countries that fail to cooperate. On this issue, Germany sides with Spain, Italy and France, and Ireland is in debt due to the solidarity shown by the EU during Brexit.

Spain must also position itself in the debate on the effects of the crisis on action to address climate change. Alongside 12 other Member States, Spain explicitly supports the part of the economic stimulus for reconstruction being channelled through the European Green Deal. Member States opposed to quick progress on decarbonisation should not use the coronavirus as an excuse. Moreover, Mediterranean countries like Spain could benefit from and contribute to Europe's climate neutrality in 2050. If there are Member States that do not believe in this strategy, they should renounce this stimulus. All Europeans would win through measures allowing Spain to capitalise on its potential for renewable energy in the medium term by strengthening its electricity links with France and the cooperation mechanisms for the exchange of renewable energy.

Another area where stimulus should be focused is the social sphere. The weakest members of society will be most affected by the economic fallout of the pandemic and recovery will require a rebuilding of the working class, which has been severely impacted by the Great Recession and the revolution heralded by new technology. This means forging a new European social contract with a fair generational component to ensure young people are not the worst affected, as was the case in 2008-13. Access to education (an area in which the EU does not have direct powers), both at the start of and throughout one's working life, based on public–private cooperation is another area that should be studied. It is also time to temporarily trial a basic or minimum income (this need not necessarily be universal) at the European level, as well as temporary European unemployment insurance for job losses caused by the crisis. The SURE programme, mentioned above, is a step in the right direction, although it only covers people who are in employment. In general, regaining the idea of a 'social Europe' and linking it to the idea of European citizenship, which Spain helped develop, would be a positive outcome.

As a pro-European country, Spain must continue to encourage the debate on fiscal and political union, which will mean showing a willingness to trade sovereignty (in fiscal, labour and other public policy areas) for permanent joint European spending. It should be for other countries to pay the price if they do not wish to move forward with the required integration.

## The political narrative

The result of the general election that took place in Spain in April 2019 initially appeared to favour the idea that the country could play a greater role in the new European political cycle. This objective would be achieved by taking advantage of a number of favourable circumstances: economic recovery, strong pro-European sentiment and the vacuum left by Brexit. However, a year further on, it is fair to say that this desire has not been fulfilled. While some progress has been made, with Spanish parties increasing their influence in the European Parliament, alongside the de-escalation of the Catalan conflict and the appointment of a Spaniard to one of Europe's top jobs, the long period without a stable government, the fragile coalition that was eventually formed and internal political polarisation in the country have shown Spain to be weaker than originally thought, significantly shrinking the window of opportunity. The coronavirus has reduced this space further. If Spain squanders this momentum, it will be the fifth time in 20 years that both internal and external desires to play a more proactive and influential role in the EU have failed to bear fruit. This was the case during the final years of the Aznar presidency (in the context of the Iraq conflict and the estrangement of the Franco-German axis). It was also the case with the two terms of Rodríguez Zapatero (due to the failure of the European Constitution and then the economic crisis). Finally, it was the case with Rajoy (whose ambitions were frustrated by the pro-independence movement). If a country promises five times to strengthen its leadership in Europe but fails to do so as a result of causes both within and beyond its control, its reputation is clearly tarnished.

However, it is not just about ensuring Spain's objectives in Europe are not frustrated. The converse also holds: in the domestic arena, it is important to avoid resentment taking root among the public as a result of believing the solution to the pandemic, in terms of both health and the economy, is the responsibility of an EU that is unable to step up to the mark. If we can no longer benefit from the relative economic improvement, which so far has been an objective benefit for the country, damaging the clear pro-European sentiment that persists among the Spanish public would clearly be an act of self-harm.

Despite the challenges presented by the crisis, it also creates opportunities for Spanish interests, not least in terms of the country's ability to exert its weight as the EU's fourth Member State, both in institutional and economic terms and intellectually. Spain has ranked among the five most important countries (which make up 70% of GDP of the EU 27) in the debates in the eurogroup and the European Council, as well as in the press, the business sector and among experts. More assertive and with greater cohesion than a decade ago, as well as being more aligned with the Commission and with the benefit of certain sympathy from Germany and even the Netherlands, the South, which in contrast to 2010, now includes France, has achieved a more balanced negotiating position. Moreover, Madrid has also been able to avoid unnecessary open conflict with Berlin and the Hague while persisting on the issue of eurobonds. Moreover, it has restored communication with Rome, showing that if Spain is to occupy fourth place, its interests are not served by a weak partner in third (note, however, that this relationship must be handled with caution to avoid importing foreign and dangerous Eurosceptic debates). Other coalitions have also emerged, grouped around issues such as the rule of law and climate change, which have softened the North-South divide and allowed Spain to show its clear pro-European sentiment (notwithstanding that these alliances portend future turbulence along the East-West axis, which will also need to be managed).

Regardless, when it comes to the strategy and priorities of Spain's action in the context of the EU response to the coronavirus, we must recall that the its European policy is about much more than the coordinated formulation and effective defence of the country's positions in supranational decision-making. While this aspect is undeniably important, the relationship between Spain and the EU is politically much richer and more delicate. It also plays a fundamental domestic role by providing coherence and authority for the country's programme of internal reforms to build a more competitive, innovative, sustainable, secure and internationalised country. In doing so, it provides a valuable example of consensus on the content of national policies implemented to achieve these objectives. The growing scarcity of such consensuses makes it all the more valuable, given the confrontational and ultimately polarised nature of Spanish democracy.

Any strategy for European policy in times of crisis must take into account the need to address these two aspects simultaneously. This means maximising influence (or minimising weakness) on the European agenda, while promoting the idea that this agenda is not foreign or imposed but is based on the joint leadership of a project that belongs to the country and is shared by the vast majority of the Spanish public.

Just like the sovereign debt crisis, the COVID-19 crisis shows that not all roads to integration are positive for Spain. The national position must be more clearly defined to proactively guide behaviour in Brussels. The care taken by Spain to emphasise avoiding a more unequal EU and a weakening of the single market ('*all rules and financing by the MFF should ensure that the cohesion and convergence objectives, as well as a level playing field for companies and states within the Single Market, are reinforced*') instead of grounding its ambitions in solidarity in its proposal for the recovery was a smart move. However, having identified how to embody the national interest in specific policies, the challenge, as was the case with the design of the cohesion funds in the 1990s, lies in being able to accommodate them in the larger EU agenda. As the COVID-19 crisis has shown once again, this means avoiding introspection and ensuring anticipation replaces Spain's preference for a more reactive approach. It also requires effective communication with the Commission and the Parliament, intellectual complicity in the Brussels universe of ideas and political empathy from and towards countries more inclined to support states they believe to be willing to trade solidarity for stability and/or a genuine willingness to share sovereignty. This is precisely where the national interest lies, although there is no reason why it should fully coincide –and indeed it does not– with France, Italy or Portugal.

However, as well as being able to translate the national interest into a European context, Spain must also be able to translate the European interest into its national politics, allowing it to feed back into its national interest. In the 1980s and 1990s the economic requirements of the accession criteria, single market reform and convergence criteria all supported a modernisation agenda and openness that would otherwise have been undermined by internal cracks. In the context of the post-coronavirus reconstruction, a more integrated Europe, which pays serious attention to competitiveness, environmental sustainability, innovation, social protection and fiscal stability, can once again strengthen the steering capacity of a state seeking to renew its model of production and governance. There is no need to reject EU support in doing so with a debate that is too narrowly focused on conditionality (and, once again, alien to our political reality). Spain benefited from the ESM in 2012 in the recovery of part of its banking sector and the experience was neither humiliating nor negative. The crucial point is that any conditions for accessing more financing (whether through the budget, the ESM, the ECB or joint debt at some point in the future) are not imposed and do not go against the country's definition of its national interests. Spain is a country with significant weaknesses in the areas of education, technology, employment, inequality, renewable energy and even institutional design. Many of these weaknesses were consistently and jointly identified with the Commission in successive European Semesters. It would be pointless to ignore the EU's potential –as clearly demonstrated by the virtuous relationship between 1986 and 2001– to provide the incentives for the reforms required to make progress in these areas.

## Conclusion

The coronavirus represents a major challenge for the EU and its Member States, with Spain among the countries likely to be hardest hit. The first and biggest strategic danger posed by the crisis threatens not only Spain but the integration process itself, since the crisis is simultaneously affecting its three most iconic achievements: the single market, the European monetary union and the Schengen area. Spain's membership of the EU is so important that it is often confused with the ambitions of the country itself, such that supporting the solidity of the process (whose resilience is not without limits) is itself a priority. However, we must remember that the EU has been forged in crises and there is also an opportunity to strengthen integration. The definition of Spain's overall position in Brussels should weigh up both these aspects, with an ambitious pro-European attitude that accommodates the country's national interests as part of the broader European context. This is true of both the health response (and the re-establishment of mobility) and the complex economic response. It should be translated into specific proposals formed alongside with the European political narrative taking shape in Brussels and other European capitals but also at home.

The task must be carried out simultaneously at both the supranational and internal levels. It is imperative for Spain's EU position on the coronavirus to reflect a project with broad political and social support. This means strengthening communication between the government and the opposition at this critical juncture (taking advantage of the fact that the Spanish Socialist Workers' Party, the People's Party and Citizens are all part of the same coalition in the European Parliament). It is also the time to negotiate and present a major sociopolitical consensus on the same scale as the Moncloa Pacts of 1977, with the involvement of civil society (businesses and unions). However, the key issue is the public. The current widespread weakening of political legitimacy, the signs of a recession and the climate of internal polarisation (with radical parties) must not be allowed to tarnish the EU's image in Spain. Recent weeks have shown that, despite the problems created by the crisis, the country can find space to make progress and find support for its interests. This room for manoeuvre is increased by playing a more proactive role in Europe and eschewing the politics of resentment.