European Economic Governance: Past Errors and Future Promises

By **Vivien Schmidt**

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The eurozone crisis marked a real failure of European Union policy, which led to mediocre economic performance and the erosion of its political legitimacy among the populations of member states. The crisis caused by the Covid-19 pandemic, on the other hand, after some initial wavering, showed its capacity to respond, in particular by taking on common debt. This fresh start for the EU nonetheless needs to be confirmed both politically and institutionally.

politique étrangère

The responses to the Covid-19 crisis, in which the rules of the Stability and Growth Pact (SGP) were suspended and the European Union (EU) took on significant EU level debt for the purposes of redistributive solidarity, constitute a great leap forward for the EU. They also represent a tacit acknowledgment that the policies put in place in response to the Eurozone crisis, focused on "governing by rules and ruling by numbers", with punitive conditionality for countries in trouble, were not fit for purpose. The question for today is: Will the EU go back to the *status quo ante* of the Eurozone, focused on rules-based, numbers-targeting governance, with limited common EU instruments for investment in the future? Or will it instead move beyond the Eurozone and Covid-19 crisis effectively and democratically, toward more sustainable and equitable growth and prosperity for all Europeans?

Although there are no answers to these questions as yet, we know enough to say that going back to the *status quo ante* would be highly problematic. This article demonstrates this by first discussing the EU's management of the Eurozone crisis and how this affected the economics, politics and governance of the EU, and then contrasts this with the management of the Covid-19 crisis and its impact on EU economics, politics, and governance. The article concludes by pointing to potential obstacles and stumbling blocks to building on the Covid-19 response, and then outlines the governance requisites for a more sustainable and equitable EU economy.

The Eurozone Crisis

In the Eurozone at the outset of the crisis, instead of immediately providing some form of debt forgiveness and instituting the mutual risk-sharing instruments necessary for any fixed-currency zone to work, the EU reinforced the rules of the Stability and Growth Pact (SGP). By mandating austerity and structural reform policies overseen through the European Semester, the Eurozone came to be characterized by "governing by rules and ruling by numbers", with the wrong rules and numbers, which didn't work. This in turn led to what I have called the EU's "crisis of legitimacy", in which doubling down on the procedural rules led to poor economic performance and increasingly toxic politics.[1]

The EU chose the wrong course in 2010 in its response to the Eurozone crisis. Rather than bold initiatives that would quickly resolve the crisis, EU actors doubled down on the rules, claiming that "moral hazard" was the main danger, austerity the answer, with harsh austerity and structural reform for countries in trouble. Because the crisis was perceived as asymmetrical and framed as resulting from public profligacy (based on Greece) rather than private excess (the case of all other countries forced to bail out their banks), the causes were diagnosed as behavioral (member states not following the rules) rather than structural (linked to the euro's design). In consequence, EU leaders saw little need initially to fix the euro or to moderate the effects of the crisis. Instead, they chose to reinforce the rules enshrined in the treaties, based on convergence criteria toward low deficits, debt, and inflation rates. And they agreed to provide loan bailouts for countries under market pressure in exchange for rapid fiscal consolidation and "structural reforms" focused on deregulating labor markets and cutting social welfare costs. These measures did little to solve the underlying problems, and the crisis went on and on.

By late 2012, however, as the crisis slowed following European Central Bank (ECB) President Draghi's famous pledge to "do whatever it takes"

1. V. A. Schmidt, *Europe's Crisis of Legitimacy: Governing by Rules and Ruling by Numbers in the Eurozone*, Oxford: Oxford University Press, 2020.

to save the Euro, which stopped market attacks dead in their tracks, European leaders and officials began to change Eurozone governance slowly and incrementally. They did this by reinterpreting the rules and recalibrating the numbers, albeit mainly "by stealth", without admitting it publicly or even, often, to one another.[2] The Commission became more and more flexible in its application of the rules in the European Semester (such as derogations for Italy and France based on their having primary surpluses), despite continuing its harsh discourse focused on austerity and structural reform. The ECB in the meantime reinterpreted its mandate more and more expansively, even as it claimed to remain true to its Charter, ending up deploying quantitative easing (QE) by 2015, and thereby came ever closer to becoming a lender of last resort (LOLR). Finally, the Council also began to change its tune. Along with innovative instruments of deeper integration such as the Banking Union and the European Stability Mechanism came acceptance of the need for growth "and stability" by 2012; for flexibility "within the stability rules" by 2014; and for investment in 2015.

Things got better as a result. But because EU actors in the first five crisis years largely reinterpreted the rules by stealth, legitimacy remained in question. Fundamental flaws persisted, with suboptimal rules hampering economic growth and feeding populism, as citizens punished mainstream parties while anti-system parties prospered. Even though, by 2015, most EU actors had begun to acknowledge their reinterpretations, and growth began to return across the EU, the damage had been done.[3]

Although between 2015 and 2020 the economic situation across Europe did improve while more was done to "socialize" the European Semester and to make it better adapted to member states' different needs,[4] the austerity budgeting baked into the rules nevertheless entailed that those without the fiscal space could not invest (read Southern Europe) while those with the fiscal space did not invest (Northern Europe). This meant not only that Southern Europe was unable to invest in growth-enhancing areas such as education, health, training, and R&D, let alone infrastructure (physical as much as digital), but that Northern Europe also did not do enough in these areas, or even in greening their economies. Much of

2. V. A. Schmidt, "Reinterpreting the Rules 'by Stealth' in Times of Crisis: The European Central Bank and the European Commission", *West European Politics*, Vol. 39, No. 5, 2016, pp. 1032-1052; V. A. Schmidt, *Europe's Crisis of Legitimacy: Governing by Rules and Ruling by Numbers in the Eurozone*, *op. cit.*
3. V. A. Schmidt, *Europe's Crisis of Legitimacy: Governing by Rules and Ruling by Numbers in the Eurozone*, op. cit.
4. J. Zeitlin and B. Vanhercke, "Socializing the European Semester: EU Social and Economic Policy Coordination in Crisis and Beyond", *Journal of European Public Policy*, Vol. 25, No. 2, 2018, pp. 149-174.

this can be attributed to the debt brake constitutionalized throughout the Eurozone (via the Fiscal Compact) and the obsession with balanced budgets, in particular in Germany, with the "schwarze Null" (black zero). To illustrate the problems for federalized Germany, where the Länder are responsible for university education and local governments for local infrastructure, the rules limited new investment for the poorer (and therefore already more indebted) regions and localities, thereby increasing inequalities among sub-federal units while stunting growth potential.[5]

The Pandemic Response—A New Beginning

Only in 2020 was there a major reversal in policy, as the EU responded to the Covid-19 health pandemic, which was to create an economic shock even greater than that of the sovereign debt crisis. The pandemic crisis response appeared in great contrast to the muddling through of the previous Eurozone crisis, with its hit or miss policies that were mostly incremental and largely unsatisfactory. Rather than the piecemeal (non) solutions of the past, in particular the doubling down on the SGP rules, EU pandemic crisis management, after a short period that seemed to foretell a replay of previous crises, appeared to have engineered a major shift in economics, politics, and governance. The Next Generation EU plan (NGEU), with the Resilience and Recovery Facility that broke the taboo on EU level debt—promising to kick-start sustainable growth throughout the EU by way of the green transition, the digital transformation, and addressing social inequalities—represents a great leap forward in all these domains. But although a game-changer in many ways, whether this constitutes a paradigm shift in the EU's economic governance depends upon what happens next.

Crisis Management

In the first months of the crisis, the response seemed like a *déjà vu* with regard to the Eurozone crisis, as EU actors' hesitations and discordant views had only made matters worse. In the first weeks of the pandemic, EU institutional actors were very slow to respond. The Commission was nowhere; the European Parliament (EP) played no role; the President of the ECB claimed it was not within the ECB's mandate to deal with spreads between German and Italian bonds (which triggered an increase in the spreads for Italian bonds); and member state leaders in the Council failed to act in concert, even as they quickly introduced national policies without EU-level consultation or coordination.

5. A. Roth and G. Wolff, "Understanding (the Lack of) German Public Investment", Bruegel, June 19, 2018, available at: www.bruegel.org.

At the national level, member states' economic policies represented a major reversal of Eurozone budgetary orthodoxy. The member states violated the SGP deficit and debt rules as they provided massive infusions of money to sustain businesses, protect jobs, and support individuals and families. At the same time, their simultaneous closing of national borders without informing neighboring countries or the EU looked like the refugee crisis redux. Moreover, the export bans on medical protective equipment, ventilators, and pharmaceutical supplies appeared to violate the spirit of the single market as well as European solidarity. It seemed like the member states had forgotten that the virus does not respect borders, and that the very interdependence of the Eurozone economy required some form of joint action.

Very quickly, however, EU institutional actors stepped up to the plate, as did the member states. There were symbolic acts, such as patients from Italy and France being transferred to German hospitals. But there were also very important initiatives taken by all institutional actors. To begin with, the Commission immediately suspended the budgetary criteria of the European Semester to allow for unlimited government spending; cleared the way for member states to rescue failing companies by suspending the state aid rules; put into place the European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE), a €100bn to help maintain employment; proposed the creation of an EU-level health authority (EU4Health); and closed the EU's external borders to travelers from outside the EU.

In the meantime, the ECB quickly made up for its initial misstep on the spread between German and Italian bonds by launching the Pandemic Emergency Purchasing Program (PEPP), at an initial €750 billion in March 2020, later increased to €1.85 trillion, to save the euro. This went way beyond its previous 2015 quantitative easing, and came without the *quid-pro-quo* demands for austerity and structural reforms of the Eurozone crisis. Additionally the ECB abandoned the Eurocrisis ratio of bond-buying that had limited its ability to help countries in greatest need, thereby enabling it to better target its bond purchases to those countries potentially under market attack.

Moreover, in the Council, the Franco-German duo made an initial taboo-breaking proposal for a Recovery Fund of €500 billion in grants on May 18, 2020, and then sent that proposal to the Commission for review and further recommendations. The Commission followed quickly on May 27 by upping the ante with the NGEU proposal containing a Resilience and Recovery Facility (RRF) for €750 billion with two-thirds grants and one-third loans to be financed by market-based EU bonds as part of a much larger multi-year EU budget (the Multi-Annual Financial Framework, or MFF) in which the EU would gain its own tax-generated resources. The European Council agreement in July consecrated the RRF with €390 billion in grants, €360 billion in loans, compromising on the generosity of the fund as well as rule of law conditionality to get the package through. Finally, the EP also played an important role in the budget negotiations beginning in October 2020 not only by strengthening the rule of law clause in the compromise but also ensuring more resources, in particular for EU4Health.

Economics

In the economics of the COVID-19 pandemic, the EU's responses with regard to the Economic and Monetary Union (EMU) represent a major break from the past, in particular in contrast to the path-dependent trajectory taken during the Eurozone crisis.[6] The EU took a great leap forward in economic integration by allowing for EU level debt covered by the EU's own resources to pay for EU initiatives for the first time. Notably, these new initiatives were largely focused on fixing the damages incurred by the failures of Eurozone crisis management, as opposed to addressing those resulting from the pandemic. This is evident from the fact that NGEU resources were mainly allocated to countries on the basis of pre-existing economic and political conditions likely to make them more vulnerable to a post-Covid austerity adjustment as well as to Euroskeptic forces.[7]

It is perhaps still too early to say anything much about the economic effects of the pandemic response. But one thing can be certain. Without that response, the EU would have been in dire straits, with the Single Currency under attack, the Single Market in free fall. Moreover, the Eurozone divergences that had been exacerbated by Eurozone crisis management would have only increased, due to countries' differing levels of economic capacity as well as fiscal space. At the inception of the crisis, as member states locked-down in order to stop the spread of the virus, Germany launched a major fiscal stimulus in which it promised state aid that constituted over half of that pledged by all other member states combined (51%, at close to €994.5bn). Contrast this with France's 17% of all aid (€331.5bn), Italy's 15.5% (€302.2bn), the UK's 4% (€78bn), and

6. S. Ladi and D. Tsarouhas, "EU Economic Governance and COVID-19: Policy Learning and Windows of Opportunity", *Journal of European Integration*, Vol. 42, No. 8, 2020.
7. K. Armingeon, C. de la Porte, E. Heins and S. Sacchi, "Voices from the Past: Economic and Political Vulnerabilities in the Making of Next Generation EU", *Comparative European Politics*, 2021

Belgium's 3% (€58.5bn). Had the EU not intervened with the RRF, it would have faced real problems with regard to ensuring a level playing field for the Single Market when Northern Europe could spend massively to prop up jobs and businesses in contrast to Southern Europe, which could provide much lower levels of support, and Central and Eastern European countries even less.

As it is, the Eurozone economy appears to have been recovering well. Growth rates have picked up across member states, with better than expected predictions in cases like Italy, slated for a 6 percent growth rate for 2021—due in large measure to the increased business and market confidence related not just to the boost coming from the RRF but also the Draghi-led coalition government. But much is still to be done. The pandemic itself not only revealed pre-existing major economic disparities in the EU, within as well as between member states, it exacerbated them. Among such disparities have been rising poverty, gender-related inequalities (as women were more likely to have to leave their jobs to care for their children), and youth unemployment (in particular the increase in NEETs, Not in Education, Employment or Training) along with a growing digital divide. This has been both geographic—differentiating between urban and rural settings—and class-related—as poorer students lacked the digital tools as well as the services to enable them to connect to the internet for online learning.

The main question for the EU's economic response to the pandemic going forward is: Is it enough? Although all of this EU level funding constitutes a tremendous boost to the EU's economic capacity to confront the crisis, it appears very small indeed when compared to the United States' (US) initial $1.9 trillion of March 2020 (equivalent of 9% of US Gross domestic product, and thus five times the size of NGEU).[8] Even if national automatic stabilizers in the EU are more robust than in the US, it is clear that economic divergences among member states will persist if not increase. More EU funding on a permanent basis will surely be necessary to ensure a robust economic recovery for all. And for this, rather than seeing such funding as increasing EU debt, consider it for what it really is: investment which can ensure that the EU will grow its way out of debt. The lesson from the Eurozone crisis is that you cannot cut your way out of debt. Investment for sustainable growth is the only way out.

8. J. Stiglitz, "Recovering from the Pandemic: An Appraisal of Lessons Learned", *COVID Response Papers*, Foundation for European Progressive Studies, October 2020; see also K. Armingeon *et.al*., "Voices from the Past: Economic and Political Vulnerabilities in the Making of Next Generation EU", *op. cit.*

Politics

Perceptions at the very initial stage of the pandemic were divided. There were those who saw this crisis, much as in the Eurozone crisis, as an asymmetric shock to be dealt with by the member states in trouble, whereas others felt from the beginning that it was a symmetric shock, and that solidarity was required. Most infamous was the Dutch Finance Minister who blamed the victims, notably Italy, for not investing in its hospitals—an accusation even more egregious once we remember the informal conditionality and SGP rules that had made it impossible for Italy to invest in its health system. Although the Dutch minister was roundly condemned, his comments only fueled the sense in those initially most hard hit by the pandemic that the EU lacked solidarity or even empathy—leading them to ask why were they part of the EU at all. Southern Europeans, and Italy followed by Spain in particular, felt abandoned if not betrayed by the EU and fellow member states in March, April, and May.

The mood seemed to shift only once the Franco-German duo came out publicly recommending a major grant-based recovery fund in mid-May, and the Commission came back quickly with an even larger amount. The change in mood was evidenced not only by member state leaders but also by EU citizens, as trust in national governments and the EU overall increased. At the national level, the Edelman Trust Barometer found an upsurge in trust in government generally, with a 10 percent increase in Germany from January to May 2020 (46% to 56%), with smaller increases in France (45% to 49%). In 2020, A Pew survey similarly found increased trust in national governments, as judged by citizens' approval of their country's response, with a large majority seeing it as good in Spain (54%), France (59%), Belgium (61%), Sweden (71%), Italy (74%), Netherlands (87%), Germany (88%), and Denmark (95%), in contrast to the UK (46%). As for the EU, which at the outset of the crisis had little governing authority in the health domain, highly constraining economic rules, and limited fiscal capacities, trust comes out in general citizen support for enhancing its powers. A Eurobarometer poll carried out between 23 April and 1 May 2020, found that a majority of respondents (57%) were dissatisfied with the solidarity shown between EU member states, while close to two-thirds (69%) wanted the EU to "have more competences to deal with crises such as the Coronavirus pandemic".

This general increase in public trust in national governments and the EU largely continued, despite subsequent ups and downs in public approval, in particular in response to the slow vaccine roll-out and then lockdown measures. Moreover, and perhaps surprisingly, across Europe populism was for the most part held at bay. There is no doubt that anti-system populist parties in many member states decried government elites, mainly blaming them for being too harsh on mask-wearing rules and lockdowns, even as mainstream opposition parties complained that populist governments were too late and lax on lockdown measures. There were also sporadic protest marches against mandates to wear masks, to get vaccinations, and later to use health passes to get into restaurants and theaters or even to places of employment. But the vast majority of Europeans seemed to have accepted the emergency measures to keep people safe. That said, in some European countries with populist governments, their leaders exploited the crisis for their own political purposes, for example, to restrict access to abortions or to limit freedom of the press, as in Hungary and Poland.

Governance

While the negative politicization of Eurozone crisis management largely characterized the initial period of pandemic crisis management, a more positive politicization "at the top" began once France and Germany together proposed the grants-based recovery fund via EU-level bonds. Before this breakthrough, however, the splits in the Council reflected those of the Eurozone crisis, with the "frugal coalition" (made up of Germany, the Netherlands, Austria, Denmark, and Sweden among others) against the "solidarity coalition" (made up of mainly of France and other Southern European, joined by some Central and Eastern European countries).[9] Once Germany shifted sides, however, by joining the solidarity coalition, the stage was set for more positive politicization not only within the Council but also with the Commission, which it empowered to carry out the agreed programs. This more cooperative relationship constituted another reversal of Council patterns typical of the Eurozone and earlier, in which the "new intergovernmentalism" of member state leaders meant that they seemed intent on avoiding empowering the Commission at all costs by establishing administrative bodies outside the control of the Commission, as in the case of the European Stability Mechanism.[10]

The story of how Germany moved from the frugal coalition, of which it was a leader during the Eurozone crisis, to the solidarity coalition championed by France, has yet to be told in full. There are those who

9. S. Fabbrini, "Getting to Next Generation EU: Interstate Coalition Politics and its Outcome in the European Union", American Political Science Association National Meetings, Seattle, October 2, 2021.
10. C. J. Bickerton, D. Hodson and U. Puetter, "The New Intergovernmentalism and the Study of European Integration", in: C. J. Bickerton, D. Hodson and U. Puetter (eds.), *The New Intergovernmentalism*, Oxford: Oxford University Press, 2015.

attribute the switch to German leaders' reconceptualization of their interests, both economic, to ensure the continued functioning of the Eurozone's interdependent economy (in particular as German automotive manufacturers clamored for an Italian rescue to shore up their supply chains in Northern Italy as much as their sales across Europe), and political, especially once polling showed that a majority of their citizens actually were in favor of the creation of EU funds to support countries in need.[11] However, beyond the cognitive shift in interests were norms and values, or even emotions. Merkel's change of heart is arguably similar to her previous switch on migration policy in 2015 and on national nuclear policy. But French policymakers also need to be given a lot of credit for the breakthrough, as they argued persuasively in the name of Europe for solidarity in a health crisis in which all countries were equally at risk of contagion, but some had been hit harder than others and did not have the wherewithal to recover economically without support. The shift itself followed from discursive interactions over a period of months, from late March on, between French President Emmanuel Macron and Chancellor Merkel, backed up by discursive coordination deep into the executive bureaucracies of both countries, as well as with the Commission.[12]

Negative politicization did not entirely disappear, of course. A case in point was the German Constitutional Court's judgment questioning the ECB's actions in terms of quantitative easing (PSPP), which cast a shadow over its pandemic-related monetary policy (PEPP). Needless to say, politicization also continued with the efforts by the frugal coalition to block EU-level grants in favor of providing only loans with conditionality to Southern European countries in need. But there was also the resistance by the "Sovereignty Coalition" consisting of Poland and Hungary and other Central and Eastern European countries to any rule of law conditionality linked to the disbursement of RRF funds.[13] The Council agreement in July 2020 was a compromise in which the frugal coalition failed to scuttle the recovery fund but nonetheless succeeded in altering the ratio of grants to loans at the same time that Poland and Hungary managed to water down the "rule of law" conditionality clause. Notably, however, here the EP, which had had little impact during the first six months of the pandemic, managed during the budget negotiations that began in

11. L. Schramm, "Economic Ideas, Party Politics, or Material Interests? Explaining Germanys Support for the EU Corona Recovery Plan", *Journal of European Public Policy*, 2021.
12. A. Crespy and L. Schramm "Breaking the Budgetary Taboo: German Preference Formation in the EU's Response to Covid-19", European University Institute, January 13, 2021.
13. S. Fabbrini, "Getting to Next Generation EU: Interstate Coalition Politics and its Outcome in the European Union", *op. cit.*

October 2020 to reinsert more robust conditionality into the final agreement, along with more money for EU4Health.

Finally, the Commission not only came through with innovative ideas adopted by the Council. It also overhauled the European Semester in ways that eliminated many of its remaining drawbacks. It is useful to remember that at the inception of the Eurozone crisis in 2010, the Semester was converted from a soft law coordinating mechanism (akin to the "open method of coordination") into a top-down punitive mechanism of control which was then eased (beginning in 2013) by being applied with greater and greater flexibility in order to ensure better performance, accompanied by an increasing focus on addressing social concerns. Today, in light of the pandemic response, the Commission's mission has been transformed. It has largely left behind its roles of enforcer and then moderator in the Eurozone crisis to be the promoter of the new industrial strategy initiatives through the National Resilience and Recovery Plans (NRRPs). These are more bottom-up exercises by member state governments, at the same time that the Commission still exercises oversight via conditionality and makes recommendations for reform. But this "conditionality" is a far cry from what it was during the early phase of the Eurozone crisis, when structural reform meant largely cutting welfare states and deregulating labor markets. It is focused on attacking national economic vulnerabilities and administrative hindrances as well as social "fairness" by addressing inequalities of opportunities as well as of outcomes.

This said, the European Semester remains a highly technocratic exercise that is largely concentrated in the executive branches of national governments in coordination with the Commission. Although for the first NRRPs, the Commission called for member states to "engage as soon as possible in a broad policy dialogue including social partners and all other relevant stakeholders to prepare their national resilience and recovery plans" in order to ensure national ownership,[14] it was understood that such dialogue would be difficult for member states to manage, given the need to ensure speedy action. But it doesn't appear that much has been put into place for the next round, in particular because the 2021 cycle of the Semester did not issue new country-specific reports. As a result, whereas powerful industrial lobbies were likely to have been able to exert influence in the design and adoption of NPPRs, the same is not true of

14. "Stratégie annuelle 2021 pour une croissance durable", European Commission, September 17, 2020, p. 15, available at: ec.europa.eu.

social stakeholders. Nor did the Commission itself seem to have done much to ensure this kind of broad dialogue at the EU level. Although social stakeholders were heard (via online communication), how much they were "listened to", meaning had an impact on practices, remains open to question.[15]

* * *

All in all, the pandemic response was certainly a radical break with the Eurozone crisis response, and a historic achievement, although not a "Hamiltonian moment". The RRF is a temporary fund focused on the pandemic, rather than the fabled "Eurobonds" that many had called for during the Eurozone crisis, let alone the "Coronabonds" France and Southern Europeans had called for in the first month of the pandemic. Moreover, the "governing by rules and ruling by numbers" of the SGP is only suspended, not officially revoked, while the Eurozone still lacks many of the instruments it needs to ensure optimal performance. And the populist revolt that stemmed in large part from citizens' negative reactions to the Eurozone crisis is not over. But the response to the Covid-19 crisis, which reverses some of the Eurozone's worst legitimacy lapses, is at least a very good start!

That said, the EU faces many potential obstacles and stumbling blocks with regard to moving forward. Political divisions remain in the EU Council, in particular between the frugal coalition and the rest. Much will depend going forward upon whether the RRF proves successful in spurring growth while appearing to be effective, efficient, and devoid of corruption. If it fails to deliver on growth, if the extra investment is not used wisely in the main countries targeted (Italy and Spain), or if rule of law issues emerge, with money going to government cronies (Hungary and Poland), enthusiasm will wane, and the likelihood of creating a permanent fund will diminish.

In addition, the austerity hawks are likely to be back once things get back to some kind of new normal. If the rules are not changed, or at least relaxed, the exit from the "escape clause" of the SGP will have deleterious consequences for those countries that still need time to grow their way out of deficits and debt. Without formal changes in the rules, or at least informal agreements on rules reinterpretations, the "austerians" will have legal grounds to take the Commission to court.

15. B. Vanhercke and A. Verdun, "The Recovery and Resilience Facility: Have Social Actors been Sidelined?", *Policy Brief*, AK-Europa, 2021.

This is equally a problem because the restrictive rules and numbers are written in so many different places in the Treaties and legislation—the Fiscal Compact imposed the institution of the debt brake in national constitutions, the Six-Pack and Two-Pack codified not just the numbers on deficit and debt but also the sanctions to be applied.[16] And how does one change the Treaties if even one member state is against, given the unanimity rule on these issues? This can set up almost unsurpassable roadblocks, unless the passerelle clause can be used. But depending upon the issue, this, too, requires unanimity in the case of the Council, absolute majority in the EP.

In large part because of these obstacles and stumbling blocks, the EU needs to think innovatively with regard to the future of Eurozone economic governance, to put in place reforms that promote its stated goals. With regard to ensuring that the EU has sufficient financing to meet its goals, the Commission needs to be able to deploy a permanent fund to invest in the key areas required for sustainable and equitable growth; and member state investments beyond those considered as part of NGEU should not count toward their deficits so long as they are deemed to benefit the next generation, by focusing on areas such as education and training, greening the economy and digitalizing society, as well as improving the physical infrastructure (this is known as the golden rule for public investment). Moreover, the rules-based numbers-targeting of the SGP rules would do best to be eliminated, but if that is not feasible they should be revised as flexible guidelines for differentiated evaluations of member states' economies in place of the SGP.[17] The EU would also do well to open up on-going dialogues between EU institutional actors and all stakeholders on general industrial strategies as well as macroeconomic targets, so as to democratize and legitimize overall economic governance, as a replacement for the numbers-targeting rules.[18] But in addition to all of this, it also needs greater bottom-up decentralization and democratization, which alone could combat the deteriorating politics "at the bottom" in which citizens vote for populists out of frustration for their lack of voice and choice.

Still needed, in other words, is real decentralization of the national planning processes for the NRRPs by extending them downward to the

16. E. Jones, "When and How to Deactivate the SGP General Escape Clause?", Commission de la politique économique, November 2020.
17. See for example O. Blanchard, A. Leandro and J. Zettelmeyer "Redesigning EU Fiscal Rules: From Rules to Standards", *Working Paper*, Peterson Institute for International Economics, February 2021.
18. V. A. Schmidt, "Decentralising and Democratising while Reforming European Economic Governance", *Social Europe Journal*, March 9, 2021, available at: socialeurope.eu.

regional and municipal levels along with real democratization, by opening them fully to the social partners, civil society actors, as well as elected officials. We could imagine here a democratized version of the French "Plan" of the postwar period, which succeeded remarkably well not only because it had clear objectives for targeted funding but also because it brought in the *forces vives* at the regional level, with widespread consultation ensuring common cause along with the circulation of ideas and information[19]. Only by bringing European economic governance closer to the citizens can the EU be sure to build a more sustainable and equitable EU economy.

Key Words
Foreign operations
United States
Europe
NATO

19. V. A. Schmidt, *From State to Market? The Transformation of French Business and Government*, New York and Cambridge: Cambridge University Press, 1996.

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