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Covid-19, National responses and NGEU: uniting a divided Europe?

Abstract/Estratto

The tragedy of Covid-19 poses unprecedented challenges for European economies. The lack of effective common crisis-management mechanisms has called into question the fitness of the EU institutional architecture. Early national responses portray a divided and divergent Europe: insurmountable gaps separate fiscal responses (e.g. Germany vs. the periphery). The trends open a window of opportunity for further uniting Europe, while - unaddressed - posing an existential threat for the future of integration. Extraordinary measures (e.g. SURE and NGEU) mark a critical albeit temporary first step towards a common crisis-response firepower. Ahead of the Conference on the Future of Europe the path towards a comprehensive (federal) fix for the EMU is perilous and uncertain while the pandemic reinforces the critical need for ambitious reforms.

Parole chiave/Keywords: COVID-19; EU; NGEU; Coronavirus; Fiscal Policy; Public Policy

Assessing the nature of limits and quality of National Response is essential to interpret and place the National responses to the Covid-19 outbreak and the real impact of the Next Generation EU programme.

It is interesting, indeed, because Pandemic represented an unprecedented exogenous and symmetric crisis with clear asymmetric shocks at level of EU Member States. What has been clear after previous studies is that standing limits of National Fiscal policy, Economic imbalances and diffusion and quality of care have been highlighted by the crisis, put in clear

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evidence the inner limits of National response implemented at National level (Ceron et. Al, 2020; Ceron & Palermo, 2020).

Crystal clear was also the condition made by ongoing EU treaties on Health Policies: the European Union delegated just mere consultation to such matter, it means, that supranational level has no power to enact any measure on Health matters at European Level (Palermo, 2020). Member States have major responsibilities in Disease and control prevention, decided independently with little coordination (especially during first wave) on lockdown policies (Ceron et. Al, 2020), little room has been left on Supranational policy (even ECDC has little role and underfunded compared with American CDC (Jordana, Triviño-Salazar, 2020).

In parallel, the institutional framework of the treaties also fails to provide an adequate mechanism for enacting large-scale emergency support measures in the economic domain. With the exception of the monetary domain, once again entrusting the stability of the Eurozone on the lonely shoulders of the ECB i (ECB 2020), the initial response could only come from the Member States. Nevertheless, at the EU level, several governance mechanisms spanning from the Stability and Growth Pact to the State Aid regulation were suspended or granted exceptions (C/2020/1863; European Council, 2020b) to enable an otherwise strongly tied room of maneuver at the domestic level (Lane 2012). A period of difficult and divisive negotiation on any substantial joint fiscal response followed, with a first partial success with the agreement on the SURE unemployment mechanism scheme in may (ST/7917/2020/INIT).

As we witnessed together after August European Council, after a heated and dramatic negotiation, European leaders achieved an historical agreement, establishing NGEU (European Council, 2020a).

Next Generation EU established a multiple line of European public financing (funded by EU Public bonds) who previews grants and loans in order to commonly answer the ongoing effect of Pandemic both on Economic and Health matters (Ceron et. Al. 2020; Ceron & Palermo, 2020). Together with SURE (European Mechanism to income support) established by the European Commission, both are two first pillars of a supranational common response with clear political value. Nevertheless, it is too early to fully celebrate: NGEU is, actually, a temporary measure. What is needed is a much solid fiscal initiative in order to support European investments in many matters. To do that could be interesting having a fully European budget, starting from the willing Member States in order to enhance much deeper integration and face further challenges.

Among that, certainly, Public health, and more in general, public investments in many matters (Infrastructure, Social Policy, Foreign Policy) could benefit from a solid European fiscal capability. Those are the inner challenges of the Conference for the Future of Europe who has been strongly supported by France, Germany and Italy.

Moreover, as the negotiations showed (European Council, 2020a) the question of common values has been left Poland and Hungary threatened with Veto both NGEU and MFF approval. Later compromise left some questions we tried to answer.

Many other challenges are called up by the Member States level anyway: the legitimacy of the political decisions taken by the Executives during the Covid-19 Outbreak represented, certainly, a bigger matter of discussion in many Member States, including the big four (Dostal, 2020; Ceron et Al., 2020).

Many questioned the legitimacy of such decisions, asking how much transparency has guaranteed to decisional process (e.g. scope and membership of Committees), real power of Parliament to scrutiny decision taken by the Governments during the Pandemic.

Without intention to solve the issue we try to highlight some key lectures and some questions for the upcoming debate on legal and political domain for the future.

The impact of the first wave on the EU Member States

The limited joint crisis management instruments at the EU level determined an overreliance on the national level to address the pandemic. Especially in the early phases of the Covid-19 epidemic, actions of the Member States remained largely uncoordinated, both in terms of the health and economic management of such an unprecedented shock (Ceron et al., 2020). However, the differences in the severity of the spread of Covid-19 across the Member States in the early months of the crisis were compounded by sharp divergences in the arsenal available at national level to face the pandemic. The Southern countries, already entering the crises with weaker economies further debilitated by the legacy of the Great Recession, had the worst of the first wave of the pandemic. Years of austerity measures hindered the preparedness of their health care systems in countries like Italy and Spain, for example, with substantially fewer hospital and intensive care beds compared to Germany (Ceron & Palermo, 2020). Public finances in the South were likewise more fragile entering into 2020, leaving the worst hit Member States with much more limited fiscal space to support their economies through the comparatively harsher restrictions required by the Covid-19 progression.

Under such premises, a nationally delegated response is bound to yield extensive differences both in fiscal choices and overall firepower. An in-depth analysis of the early national responses shows the full extent of the gaps across four of the major economies in the EU (Ceron & Palermo, 2020). The German response dominates at the top of the podium, unparalleled by any other country in the Union (Ceron et al., 2020). The German excellence in terms of economic response clashes against the ranking of the severity of the health crisis across the Member States during the first wave: the countries with earlier and more impactful outbreaks, namely Italy and Spain, put together more modest support packages both in relative and absolute terms (Ceron et al., 2020). At the same time, the worst hit countries were those where more stringent restrictions and closures were enacted, hence carrying the heaviest weight of Covid-19 for their economies (Ceron & Palermo, 2020). The need for state intervention - with countries initially left mostly on their own in facing the crisis - clashed against the available fiscal space, which even in the context of the suspension of the Pact, was far more limited in the southern periphery countries who needed it the most. Limited resources compiled with differences in the economies and labor markets across the Member States (Sabat et al., 2020) affecting the preferential response channels both in terms of cash, deferral and liquidity interventions and in relation to employment measures. The latter, in part reflects labor market conditions such as the predominance of precarious and informal contracts contributing to the policy choice across firing restriction, short-hours, unemployment support and minimum income schemes. The central difference is among preference for short-hours or unemployment, with Italy veering in favor of the first, Spain the second while France and Germany a balance of the two (Ceron et al., 2020). The most striking divergence, however, remains the scale of intervention spanning from the 8.3 percent of GDP in Germany, followed at distance by France (4.4 percent) leaving Spain and Italy (3.7 and 3.4 percent respectively) at the bottom with well below half of the fire power of the top performer (Anderson et al. 2020).

The emerging dynamics are problematic per-se, as the countries in the most dire need of emergency sustenance and stimulus measures are the worst positioned to match the scale of the economic support justified by their restrictions and consequence recessionary dynamics (Ceron et al., 2020) However, the patterns pose a broader challenge for the EMU and the process of EU integration in furthering the core-periphery divergence already harshly negative impacted by the 2008 and Euro crisis. A furthering of economic divisions in the aftermath of a war-like tragedy carrying a similarly long-lasting skyrocketing of public debt

parallelly furthers political divisions over conflicting national interests in the context of a largely intergovernmental decision-making process. The effect of the pandemic on the Member States, if left uncorrected under the governance and instruments available at the onset of the crisis, is bound to increase inequalities across and within the Member States, breed Euroscepticism and nationalism and hinders ambitious progress and compromise on the future of European integration.

The impact of the pandemic on the European Union

The effect of the pandemic on European economies and society further evidenced the unfitness of the current EU institutional framework to face transnational challenges within a highly interdependent continent.

In the context of an already politically divided Europe, the pandemic has already shaped institutional dynamics facilitating compromises under the pressure of the outbreak and unprecedented recession unthinkable just a few months earlier. That is the case with the introduction of the SURE EUBS scheme which albeit temporary comes after years of unresolute negotiation on common unemployment reinsurance as a stabilization mechanism against asymmetric shocks within the Eurozone (e.g. Vandenbroucke 2017; Vandenbroucke et al. 2018; Schmid 2020). Similarly, unprecedented is the complex compromise of NGEU, revolutionary in terms of the scale of common issued debt and redistribution across the Member States put into play overcoming the vetoes of frugal countries captained vocally by the Netherlands. The grant dimension of the agreement additionally opens the way to further integration in the way of new own resources to finance the scheme (Ceron et al., 2020).

Negotiations both before the NGEU package approval and afterwards, with the final decision in recent December European Council, demonstrated how has been difficult to reach an agreement. Neither the Pandemic in the first case moved the “Frugals” to concede further support to most affected countries who represented in many case (especially without a European support) a risk for their Public spending.

In the first case, in August 2020, the NGEU decision, with its own innovative content represented a clear scenario of European Diplomatic scheme. Without the agreement among the big four countries, commitment of Germany (who lead the European Union Council) and great role both as facilitator and *amicus curiae* by the European Commission would not be possible to arrive to such result.

In the latter case, the December negotiations, were been mostly dedicated to the controversy led by Polish and Hungarian Government against the Council and Parliament on

Rule of Law Matters (Ceron & Palermo, 2020). Both of them threatened to veto the MFF 21-27 Budget and NGEU if, among the conditionality, would be placed the full respect of the Rule of Law.

According to the agreement (European Council, 2020) the Council maintained Rule of Law conditionality but demanded to the European Commission to draft out a Regulation to be implemented on European funding at whole.

Indeed, taking for granted being a step ahead and an healthy sign, some considerations need to be made: Europe cannot just be considered as a Market but a *Community of Destiny*, clearly based on common values. Rule of Law not just a central pillar but a fundamental condition to be member of the European Union itself.

The Common European resources a truly immanent demonstration of European solidarity, should represent and follow values of the European Union.

On other hand, at National level an heated debate has flourished in last months. In all 'big four' (Spain, Germany, Italy, France) many questioned the legitimacy of decision-making process developed during last hard months of crisis.

Many decisions, in most of cases, advised by Committees, have been taken rapidly to counter Health and Economic hurdles created by crisis.

Although the interesting debate and its indubious relevance, we should take in consideration the once in a lifetime Coronavirus emergency. Governments and decision-makers had necessity to enact measure to counteract the Virus surge and its economic consequences.

None of the European decision-makers have broken the constitutional framework: Parliaments remained open and operative (the Parliamentary committees everywhere maintained its functions), keeping their scrutiny to the Executive powers throughout the World (Bar-Siman-Tov, 2020).

Nevertheless, should be taken in particular regard the political role of the Executives in such peril, the action in critical times, the nature of Scrutiny power managed by legislatives and limits of external committees in public decisions in such hard times.

Beyond the legitimacy dimension two broad dimensions should limit the enthusiasm regarding the current progress and NGEU. While an impressive first step in the political context preceding the crisis - and unarguably substantially facilitated by the natural disaster-like solidarity evoked by the tragedy of the outbreak with images of columns of army trucks dramatically picturing across the continent the dramatic loss of life in the worst hit Member

States - NGEU makes very little progress in solving the structural issues behind the EMU (Ceron et al., 2020). The most problematic aspect of the governance framework remains the dichotomy between monetary integration and fiscal delegation within the context of the strict limit imposed by the Pact, constraining domestic fiscal policies and in parallel national sovereignty without compensating with an adequate common fiscal instrument (e.g. De Grauwe and Ji, 2018; Rossolillo, 2018). To make matters worse the intergovernmental decision-making process fosters division in an area of divergent national interests pushing towards a vicious cycle of marginal improvement and minimal compromises failing to solve the issues at hand and setting the context for an even worse governance failure to come (Jones et al., 2016). In this context, NGEU fails to be resolute not only because of its temporaneity but also as it is far from the much-needed joint fiscal power - parallel by common legitimate political institutions - lacking in the current infrastructure (Galli et al., 2020)

Given the structural nature of the problem, no marginal solution within the framework of the current treaties amounts to the critically necessary completion of the EMU. The key determinant of the trajectory for the future of European integration can be found in if and how ambitious permanent solutions are to follow. As current progress has been unquestionably facilitated by the pressures of the pandemic, not without divisiveness and delays, it is hardly a given that the natural continuation of NGEU is a permanent mechanism of at least equivalent ambition at the same time tackling the institutional conditions necessary to grant (parliamentary) legitimacy to a fully-fledged (federal) fiscal union, backed by own resources (Ceron et al., 2020). The upcoming months may become a definite moment for the European integration if the Conference on the Future of Europe - delayed by the pandemic - does commence and succeeds in facilitating an ambitious reform programme. Otherwise, in the aftermath of further diverging economic conditions across the Union, the stacking up of public debt for the response and reconstruction and the parallel further distancing of national interests with regards to common debt, the window of opportunity for further integration may soon close (Ceron et al., 2020).

In this context, the emerging threats of vetoes in the context of the MFF negotiation are a reminder of how the implementation phase even of the already agreed measures may be bumpier than the revolutionary rhetoric around NGEU acknowledges. A smooth pathway for National Recovery and Resilience Plans negotiation at the European level and efficient

domestic implementation also represents a precondition for any concrete hope of permanent progress, which may be jeopardized by any failure - especially of the big Member States in the periphery - in a timely and effective use of the common resources. The crucial treaty reforms essential for equipping the Union with the necessary tools to face global challenges such as the pandemic reconstruction or the threat of climate change face thus a minefield in the months ahead. That is the weight of the Conference of the Future of Europe and the implementation of the currently agreed common pandemic response measures, especially for what concerns NGEU.

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