



Partecipazione e Conflitto

<http://siba-ese.unisalento.it/index.php/paco>

ISSN: 1972-7623 (print version)

ISSN: 2035-6609 (electronic version)

PACO, Issue 14(3) 2021: 1274-1296

DOI: 10.1285/i20356609v14i3p1274

Published 15 November 2021

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RESEARCH ARTICLE

Overcoming the limits of EMU through Covid? Next Generation EU against the unaddressed needs for ambitious structural reform

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ABSTRACT:

The article considers the long-standing limits of the Economic and Monetary Union (EMU) through the lenses of Next Generation EU (NGEU) pandemic response evidencing how Covid-19 exacerbated EMU shortcomings are (not) overcome. We evaluate whether NGEU is only a palliative stop-gap fix to structural problems and how for Covid-19 to be considered as a breaking point for EU economic governance permanent ambitious (Treaty) reform is an essential and so far not uncontested step. A qualitative systematic review of weaknesses of EMU and proposed reforms informs a scoreboard evaluation of NGEU. Results confirm that while the symmetric crisis allowed suspending risk-sharing and solidarity vetoes, deep structural asymmetries and unfitness of (intergovernmental) decision-making cannot be addressed through NGEU temporary emergency mechanism. Hence Covid-19 so far cannot be narrated as sparking a revolutionary deviation from the architecture and guiding principle of the supranational fiscal framework. At the same time, the pandemic opened a (short-lived) window of opportunity for completing the EMU, requiring permanent structural institutional (Treaty) reform. A timely finding – grounded in copious extant literature on the EMU – highlighting the high stakes of the ongoing Conference of the future of Europe, whose success can only materialise through an ambitious (federal) agenda.

KEYWORDS: Conference on the Future of Europe, Covid-19, EMU, European Integration, Fiscal Union, NGEU

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1. Introduction:

The analysis assesses the progress and prospects for the Economic and Monetary Union through the lenses of the Covid-19 response. We consider improvements enacted by the crisis-response instrument and evidence the extent to which they fail short of reform needs highlighted within the extant literature. The research analyses how the new Next Generation EU pandemic recovery effort overcomes the Covid-19-exacerbated EMU shortcomings. With the current EU economic governance framework as a reference point, the aim is to identify the progress in terms of the input/output legitimacy of the supranational infrastructure and in turn the remaining gaps and what reforms would be required to fulfil them. Considering recent developments in the context of the broader academic and policy debate on EMU and EU reform, the analysis highlights the impact of the pandemic on prospects for further European integration presenting stakes for the Conference on the Future of Europe (CoFoE) and the long-term developments needed for fiscal policy within the Eurozone.

EMU has been the target of extensive criticism since its introduction and early phases, not subsiding after the two reform waves. Its ability to deliver in ensuring fiscal restraint and providing for stabilisation has been questioned, especially in times of crisis. The reform debate precedes Covid-19 which has further grown its salience and urgency. The pandemic has exacerbated and ulteriorly evidenced the weaknesses of EMU whose key components were quickly shelved as impediments to the crisis response, followed by long and divisive negotiations of emergency measures to fill the gaps of a blatantly unfit EU economic governance framework which in the midst of such a human and economic tragedy further confirm the (intergovernmental) institutional failures. Alike in the Eurozone crisis, the attention of the political elite and public opinion on EMU is heightened. Conversely, the narrative cannot be framed in terms of blame on countries in need given the symmetric nature of the health emergency. Hence the top-down and bottom up pressure for transnational solidarity is unprecedented in parallel with risk sharing measures such as NGEU and SURE.

Rather than coming to the conclusion that the evolutions amounts to a breaking point from the errors of the past, we assess such mainstream claim by leveraging the copious literature on the limits and fundamental shortcomings of EMU and lessons from the Euro. Under the guiding question of the appropriateness of the institutional arrangements and policy instruments in carrying out the stated objectives, a systematic review of SGP weaknesses, encoded through (qualitative) text analysis, inform a scoreboard of indicators capturing input and output legitimacy shortcomings of the fiscal component of EMU. The scoreboard evaluates the pre- and post-Covid EU economic governance performance. The analysis of the proposed reforms compiles a parallel scoreboard of EMU ideal type(s) through SWOT analysis of the envisaged policy alternatives. Benchmarking Next Generation EU against the scoreboard of EMU weaknesses allows to address the research question of the extent to which existing gaps are compensated by the pandemic-lead expansion of the EU joint toolset. From such a perspective, NGEU emerges as far from a resolute revolution per se. While the pandemic offers a window of opportunity unthinkable ahead of the crisis, the results highlight how the woes of EU economic governance are structural and deeply enshrined in the institutional architecture of EMU, constraining national sovereignties and budgets without complementing such void supranationally. NGEU, a temporary addition to such framework which does not alter its essence, appear at most as a stop-gap measures. The policy implication is that – as the demand for permanent stabilisation and solidarity mechanisms has so far emerged as far from consensual – Covid-19 will be a critical juncture for integration only insofar as ambitious structural reforms which cannot disregard Treaty reform follow. A far from trivial challenge for the Conference on the Future of Europe.

2. Literature review

The European Monetary Union (EMU) and the European Union integration process are a unicum in history: for the first time, after two World Wars, Europeans decided to pool their energies and will to build a single space of peace and prosperity. Since the very beginning of the integration process, an “ever closer union”, under explicit federal intentions, was a primary ideal landmark (Schuman, 1950). Certainly, EMU is among the most tangible element of European integration, nevertheless, is far from complete after two major stress-tests: the Sovereign debt crisis and, nowadays, the Covid-19 outbreak.

Such crises undermine trust for the EU. According to Scharpf, input legitimacy needs a strong identity to be fully implemented, traditionally linked with National democracies (Scharpf 1999). Output legitimacy is based on interests and outcomes. That is closer to the strongpoints of the European Union which permits to deliver “policies for the people”, addressing very specific matters, guaranteeing solid responsiveness (Scharpf 1999). The two dimensions, input legitimacy and output legitimacy, in the recent developments of European integration are somehow intertwined: the European Parliament has been largely involved in budgetary matters (Alcidi et al. 2014), but, at the same time, informal mechanisms have been favoured by circumstances in ruling EMU, predominantly after the Sovereign debt crisis (Puetter 2016).

EMU has been governed intensively, by non-formal rules instead of the Treaties itself (Puetter 2016). In particular after the Sovereign debt crisis, informal institutions multiplied. Reasons are twofold: the reluctance to cede or share sovereignty in areas of core state powers and the incompleteness of EMU itself (Louis 2016). As much as the “sanctuary of sovereignty” has been touched, the deliberative intergovernmentalism has been practically implemented for example through the centrality of the Eurogroup (Puetter 2015). Consequences for input legitimacy have been particularly visible throughout Europe.

If in normal times, output legitimacy has been considered sufficient for EMU related decisions, during the crisis such mechanism has been altered. Austerity policies, tough decision towards Greece, the inability (especially before the creation of EFSF and ESM) of EMU to intervene in emergencies and overcome its contradictions (i.e. incompleteness) created an explicit crisis of effectiveness. If legitimacy at European level needs to be measured against the ability to reduce possible conflicts among the actors and guarantee optimal output (Scharpf 1999; Majone 1996), the Greek and the overall sovereign debt crisis demonstrated that such mechanism need to be rebalanced.

Both the Sovereign debt crisis and the Covid-19 pandemic undermined not just the popularity of EMU but of the overall European project. In some countries (even among the founding Member States), Euroscepticism grew and the EU struggled to find a way to be (not just to be perceived as) an effective actor for the citizenry. Beyond the issue of legitimacy multiple concerns have been risen on the shortcomings of the EU economic governance framework especially in the context of the Euro crisis. The original sin of centralised monetary policy and (rule-constrained) decentralised fiscal policy (Heipertz and Verdun 2020; Thirion 2017) ties the hands of a prompt common response in times of need. With the intergovernmental nature of the decision-making process within the economic arena further slowing and hindering a prompt and adequate fiscal response, the Stability and Growth Pact (SGP) is blamed for hampering the recovery from the Great Recession contributing to the onset of the Euro Crisis while furthering core-periphery divergence (Heise 2015; Wyplosz 2017; De Grauwe and Ji 2018; Howarth and Verdun 2020). In the absence of any substantial change to the ineffective, intergovernmental, asymmetric and incomplete nature of EMU, which destabilises national fiscal

sovereignty without a parallel supranational replacement, the weaknesses of the framework survive today through the major policy overhaul in the aftermath of the Euro crisis (De Grauwe and Ji 2018; Jones et al., 2016).

In this context the Euro-crisis offers precious insights for the dynamics of the pandemic crisis-management and their implication for the derived EU response instruments. In parallel with the past, the initial (common) pandemic response occurred through piecemeal small-scale initiatives, on one side, while the most substantial interventions relied at the supranational level on the monetary channel through the Pandemic Emergency Purchase Programme of the ECB and the freeing of national fiscal policies by the invocation of the general escape clause of the SGP (ECB 2020; EUCO 2020a). In this context fits the four month long negotiation resulting in the July political agreement over Next Generation EU (EUCO 2020b) which only after a further four month achieved agreement of a common position within the Council (2020). While the scale and the nature of the instrument are undoubtedly unprecedented, mobilising half of its 750 billions through grants financed by common borrowing (EUCO 2020b), it remains an open question the extent to which NGEU represents a true revolution fixing the woes of EMU or rather a temporary stop-gap measure opening the door for further trouble unless a permanent solution can be fast agreed and put into place.

3. Analytical framework and methodology

On such a basis, the work analyses systematically the extant literature on the EMU and the crisis uncovering the major themes and shortcomings of the governance framework. The objective is to assess the extent to which novel instruments such as NGEU fill the structural problems of EU economic governance. In doing so we test the hypotheses, delineated as follow:

H1 The introduction of NGEU is a palliative fix failing to tackle the entrenched imbalances of EMU

H2 Covid-19 may be considered as a breaking point overcoming EMU shortcomings only if the governance undergoes permanent structural reform

The hypotheses expand a well-established body of literature to the novel case of NGEU. On one side they are grounded on extensive work dedicated to EMU and its failure especially in the context of crisis-management, while on the other of the reform proposals put forward within the literature. On both accounts problems – ahead of their formal identification through the systematic review – appear as deeply ingrained within the governance architecture. From such a perspective, temporary emergency measures can be reasonably expected to hardly represent a systemic solution. Against this backdrop, the collective body of literature on these topics provides the foundation for the data collection as illustrated below.

3.1 Data collection through a systematic review

The key weaknesses of the EMU economic governance highlighted within the literature are identified following the methodological approach of qualitative systematic reviews (Booth 2016). Such an approach allows to mitigate the risk of bias in surveying the field, while at the same time providing event in a qualitative context a clear indication of the prevalence of specific diagnoses of the problems connected with the EU economic governance framework within the literature, as well as regarding the proposed solutions. As such the review acts as the data point for the subsequent analysis at the core of this work assessing the extent to

which NGEU tackles open challenges and is aligned with the optimal course for economic integration highlighted within the field. The protocol for the systematic review is devised in view of such objectives, in line with the standard of the PRISMA guidelines (e.g. Moher et al. 2009; Shamseer et al. 2015) indicating below our approach for all the essential elements of the process (questions, sources, selection, appraisal and synthesis).

Building on our preliminary literature review, the guiding questions for the identification of the search keywords and the selection process in alignment with the research questions of the analysis concern (i) the appropriateness of institutional arrangements and mechanisms for policy objectives; (ii) the framework's performance for input and output legitimacy; (iii) adverse effects caused by EMU and its shortcoming and (iv) proposed policy reforms.

Within the timeframe starting from 2015, the search perimeter is defined by keywords pertaining to EMU and its components (Stability and Growth Pact, Excessive Deficit Procedure; six-pack; two pack; European Semester; Fiscal Compact), as well as the Euro crisis and EMU reform and specific reform proposals (Eurobonds; fiscal union). In addition, alternative wordings and abbreviations are added to the keywords to provide for an inclusive starting reference list. The search is carried out through Scopus, with a preliminary screening of language (limited to English, Italian, French, German and Spanish) and subject areas (excluding, for example, medicine, natural sciences, etc.) in order to eliminate overtly irrelevant entries either because of their content or accessibility.

The process of selection is then carried out by the two authors independently, each taking the role of primary coder for half of the sample, verifying the selection decision for the remaining half. After the initial screening the eligibility is confirmed in light of the relevance for either the broad areas of EMU weaknesses or/and reform proposals, in adherence with the guiding questions identified above. The included records are then coded alike for their initial selection by the authors through qualitative text analysis of the abstract and author keywords, completed by additional inspection of the full-text article when abstract are absent or insufficient in providing clear indication of results. In the coding of the review-tags the number of citations, provided by Scopus, is used as an appraisal criterium (Dixon-Woods et al. 2004) for the inclusion of new tags, taking as well into account the recency of the literature. For what concerns synthesis, the context of the analysis implies that rather than a summary of the systematic review our purpose is to use such output (e.g. keywords associated with the selected literature) as an input for the scoreboard. As a result, the systematic review inform the analysis in two ways: weighting the relevance of given themes through the prevalence of the review-tags and guiding back once such tags have been hierarchically structured in main themes and subcomponents to the original claims of the authors so that their synthesis can outline the weaknesses and the reform proposals put forwards in the literature. The coded selected articles are exported as a bibtext collection from Mendeley, converted into a csv and constitutes the main dataset for the analysis.

3.2 From keywords to scoreboards

Scoreboards have multiplied over the year in the context of EU policies, spanning with those with a long history such as the Internal Market Scoreboard, the DESI (Digital Economy and Society Index) and other of more recent introduction as the EU Justice Scoreboard, that connected with the European Pillar or Social Rights or the one associated with the evaluation of the National Recovery and Resilience Plans. Many rely on the well-codified methodology of composite indicators and can avail themselves of quantitative variables (Nardo

et al. 2008). Even in such context, the strength of the scoreboard relies quite importantly on a sound selection of indicators. In this instance such step is grounded on the systematic literature review and the derived code-tags, which are quantified on the basis of their frequency.

Hence, scoreboard criteria are defined on the basis of the literature-derived review-tags within each arena. The challenge is reducing observations consisting of each tag associated to the selected articles into an effective hierarchy of topics characterising weaknesses and reform proposals. Frequency analysis is the initial step in the process, allowing to identify and structure the key themes. From a scoreboard perspective this serves the purpose of justifying the indicator selection, which is hence linked to the relevance within the field. From the main dataset the coded-tags are extracted. The output is two-fold: a visual representation of the keywords word cloud and a frequency table. Through both we present how often the given coded-tags emerge within the selected articles, an element supporting the choice of the most relevant indicators against which to score NGEU advances and gaps. Code-tags are pre-processed substituting spaces with dashes so that those containing multiple words (e.g. sovereign-debt-crisis) are not erroneously split in the process of the text analysis. No ulterior text cleaning is performed as the corpus consist of keywords deployed by researchers. Hence, keywords exclusion are, for example, not stemmed which would hinder their presentation without any benefit to the analysis. The processed code-tags are then loaded as the corpus generating frequency table indicating how often each code-tag emerges within the corpus and its visual representation in a word cloud.¹

Out of such analysis of the most frequent keywords, the indicators of the scoreboard are devised according to the hierarchical linkages of the concepts of the predominant tags. That is to say that from the organise the top keywords into (i) high-level topics (e.g. austerity) and (ii) main subtopics (e.g. balanced budget rules; Fiscal Compact; Euro-crisis). Finally we connect the sub-topics to the main groupings they are logically linked to within the academic debate. The output is partially divergent across weaknesses and proposals. On weaknesses the output is the systematic classification of their characteristics, against which to score the extent to which they may or may not be mitigated in addressing H1. In addition to their classification a further step is undertaken for EMU reform: the proposals are considered critically through a SWOT analysis in order to highlight the ideal type(s) of governance frameworks and their key characteristics in overcoming current weaknesses. Those characteristics constitute the basis against which to evaluate H2.

The final step of the analysis considers the case of the Covid-19 pandemic and crisis and recovery response, focusing on the unarguably most innovative element in the EU integration toolbox: Next Generation EU. On this account scoring is twofold: against the past and the future. The scoreboard criteria allow for a systematic assessment of the extent to which weaknesses of the current governance framework remain within the new instrument of Next Generation EU (H1). Remaining gaps within the shortcomings of the EMU infrastructure against the ideal type(s) of EU economic integration offer an indication of the essential (structural) ambition for future reform, against which the narrative of Covid-19 and Next Generation EU as a critical juncture may be evaluated (H2).

¹ The word clouds presented in the article are generated through wordclouds.com which allows for straightforward graphical formatting to the desired output. However, the same Corpus is processed in R through the quanteda package with overlapping results.

associated with a rise in inequalities and the endangering of social-cohesion even beyond the period of the Great Recession (e.g. De La Porte and Heins 2015; Angelaki 2016; Perugini 2019). In this context, a concern is raised in relation to the limited scope for social priorities within EMU infrastructure even after the introduction of the European Semester and Social pillar (e.g. Pavolini 2015; Bongardt and Torres 2018; Costamagna 2018; Rasnača and Theodoropoulou 2020). Such dynamics are linked to the bottoming of trust in the European Union and the rise of Euroscepticism (e.g. Bergbauer et al. 2020; Moreira Ramalho 2020; Prosser 2020).

A second major design flaw of the framework lies in its scope and scale resulting in a problematic core-periphery divide and conflict. In this context, the heterogeneous nature of the Member States economies both at the Union and the Eurozone level is uncontested in the literature (e.g. Bongardt and Torres 2018; Cesaroni et al. 2019; Coudert et al. 2020; Terzi 2020). The asymmetries, especially within the Euro area, the failure of convergence and even the rise of divergence as a result of the Euro crisis are a major concern for the long term sustainability of EMU. In this context, fragmentation remains as well as substantial problems in some countries in relation to public debt (e.g. Ferreira 2015; Oeking 2015; Zaghini 2016; Baroncelli 2018; Bassi and Durand 2018; Ederer and Reschenhofer 2018). At the same time the dual nature of the regulatory framework for countries within and outside of the Euro area and the Fiscal Compact creates the scope for differentials in the extent of integration with the EMU. On the instruments side, the lack of effective stabilisers such as in the form of EUBS or other forms of transfers is highlighted as a problematic gap in the light of the emerged divergencies, as well as is the absence of forms of fiscal mutualisation (e.g. De Grauwe et al. 2018; Terzi 2020).

Considering the broad issue of legitimacy four sub-themes emerge. Firstly, in relation to sovereignty, the institutional design limits fiscal sovereignty at the national level binding it to the SGP constraints, without substituting it with a supranational equivalent (Howarth and Verdun 2020). Along this line fits the additional interference with fiscal policy choices at the core of national sovereignty of the European Semester, albeit with limited enforcement mechanisms (e.g. Dawson 2018; Tkalec 2019). One of the key (monetary) instruments in getting through the Euro-crisis, the Out-of-Mandate-Transactions (OMT) together with the Public Sector Purchase Programme (PSPP) commenced in 2015, is another problematic element within the legitimacy stream, a centre of conflicts between national and supranational sovereignty caught in the struggle between national - and in particular the German - constitutional courts and the ECJ (e.g. Lombardo 2015; Mody 2015; Grund and Grle 2016; Pennesi 2016; Snell 2016; Tridimas and Xanthoulis 2016; Occhino 2017; Bröhmer 2019; Menéndez 2019; Van Der Sluis 2019). An additional critical element regards the (intergovernmental) nature of the decision-making process and the parallel political divisions (e.g. Fabbrini 2016; Maris and Sklias 2016; Martínez Alarcón and Lagos Rodríguez 2017; Dawson 2018; Tkalec 2019; Wasserfallen et al. 2019; Schild 2020). Within the arena of democracy, parliamentary-oversight emerges as a weak point in multiple contexts, both at the supranational level and at that of national parliaments (e.g. Auel and Höing 2015; Maatsch 2016; Lord 2017; De Wilde and Raunio 2018; Fromage 2018; Fromage and van den Brink 2018; Tesche 2019; Dawson and Maricut-Akbik 2020; Fernández and de Vidales 2020; Genovese and Schneider 2020; Piattoni 2020). The democratic deficit is especially problematic within extra-treaty instruments and institutions such the EFSF and ESM together with the Eurogroup (e.g. De Witte 2015; Fabbrini 2016; Louis 2016; Gocaj and Meunier 2016; Tesche 2019; Abels 2020).

The final stream of weaknesses relates to the incompleteness of EMU. The limits of the unbalanced monetary-fiscal design and lack of effective crisis-management instruments emerged fully in the heat of the

Great Recession and Euro crisis (e.g. Andor, 2017; Donnelly 2018; Ederer and Reschenhofer 2018; Foglia et al. 2018). In this context the ECB proved essential in faring the crisis highlighting the problematic monetary-dominance within the EMU together with the lack of appropriate fiscal instruments (e.g. Van Der Heijden et al. 2018; Constâncio 2020). The absence of fiscal integration through cross-country transfers allowing for risk sharing and stabilisation is argued to be a major drawback of the institutional framework. In this context, some form of fiscal federalism is highlighted as a necessity to overcome incompleteness through a common sizeable (Eurozone) budget and debt (e.g. Bibow 2016; Louis 2016; Lionello 2017; Mathieu and Sterdyniak 2019; Schooller 2020; Terzi 2020).

4.2 Reform proposals: the ideal type(s) of EU economic governance

A parallel methodological approach yields 78 review-tags relating to EMU reform, depicted according to their relative frequencies in Figure 2 below. Three broad typologies of keywords can be distinguished. Firstly, several authors call for the establishment of a Fiscal, Social and Political Union, in that respective ranking of frequency. The remaining entries fit into two groups: general necessary characteristics of the reformed EMU and specific measure proposals. Among the latter, four measures are proposed, in this order of frequency: Eurobonds, EUBS, an Eurozone budget and the establishment of an EU finance minister. A SWOT analysis allows for a comparative appraisal of the four options, pinpointing both communal ideal elements and trade-offs. A brief overview of strengths, weaknesses, opportunities and threats of the four policy instruments is outlined in Table 1.

Among the general characteristics of a well-functioning EMU, the most common element highlighted is some level of federal institutional organisation, allowing for effective stabilisation and convergence, through transfers, risk-sharing mechanisms and more in general transnational solidarity. This elements addressed the completion of EMU and the rebalancing of the original sin of its fiscal-monetary asymmetries, creating the instruments to foster convergence rather than core-periphery divergence over time within the framework of an effective decision-making not hindered by intergovernmental dynamics and falling under full parliamentary scrutiny, thus in a position to perform well both in terms of input and output legitimacy. Those characteristics are to a varied extent embedded in all of the four proposed measures assessed through the SWAT analysis and can offer general guidance in what the ideal type(s) of EU economic governance should entail. As such, as necessary conditions for a well-functioning EMU over time, they offer a broad benchmark against which to assess progress and outstanding gaps of Next Generation EU along with the need to enact further ambitious structural reforms.

4.3 Does Next Generation EU overcome the EMU shortcomings?

The lessons from the Euro crisis suggest that the austerity paradigm, the intergovernmental decision-making in the context of politically divisive choices and diverging national interests, together with the lack of effective tools for crisis-management, stabilisation and common fiscal intervention contributed to a worsening of the outcomes of the Great Recession and ensuing sovereign debt crisis. The largely unchanged EMU architecture after the 2011 reforms to the EU economic governance framework, as evidenced from the persistent weaknesses emerged from the literature review covering the post-crisis years does not fare well for the crisis-readiness of the Union. At the same time, the first line of defence for the European economies fell once again on the ECB shoulders with the initial Pandemic Emergency Purchase Programme (PEPP) of 750 billion euros expanded by further 600 millions as of July (ECB).

Table 1 - SWOT analysis of policy instruments for EMU reform

	<i>Strenghts</i>	<i>Weaknesses</i>	<i>Opportunities</i>	<i>Threats</i>
Eurobonds ²	Fiscal coordination Fiscal accommodation Business-cycle stabilisation Investment\growth enhancing Risk-sharing	Legitimacy Accountability Debt mutualisation	Rebalancing core-periphery divide Address pre-existing debt unbalances	Aversion to risk-sharing Political feasibility Moral hazard
EUBS ³	Fiscal transfers Automatic stabilisers Fiscal crisis management Asymmetric shocks	Governance Financing Resources Legitimacy	Rebalancing core-periphery divide Alleviate national budget impact of crises Popular support Feasible without Treaty change	Aversion to risk-sharing Political feasibility Moral hazard
Eurozone budget ⁴	Adjustment mechanism for asymmetric shocks Investment and growth enhancing Risk-sharing Legitimacy and scope for parliamentary oversight	Most limiting to national fiscal policies Requires extensive institutional overhaul	Convergence Accountability and limitation of moral hazard Institution building	Requires Treaty change Aversion to risk-sharing Political feasibility
Finance Minister ⁵	Common funding of future investment Growth enhancing Legitimacy and scope for parliamentary oversight	Bind to pre-existing unbalances Excludes mutualisation	No transfer union Rebalancing core-periphery divide Institution building	Requires Treaty change Convergence failure

Source: Own elaboration

Figure 2 - Wordcloud of EMU weaknesses review-tags.

Source: own development



² Sources: Pisani-Ferry 2016; Corsetti et al. 2019; Nicoli 2019; Hodson 2020

³ Sources: Hebous and Weichenrieder 2016; Davis et al. 2017; Farvaque and Huart 2018; Moyen et al. 2019

⁴ Sources: Bibow 2016; Louis 2016; Lionello 2017; Mathieu and Sterdyniak 2019; Schooller 2020; Terzi 2020

⁵ Sources: Bibow 2016; Louis 2016; Mathieu and Sterdyniak 2019

EMU, long overdue for governance revision, entered the pandemic crisis in precarious shape and with substantial political division on the outlook for European integration ahead of the postponed Conference on the future of Europe. The initial EU response was - as expected - partial, limited and divisive, in the absence of the appropriate policy instrument requiring alike in the Euro-crisis emergency tools to fare the unprecedented shock to European economies and societies. Absent a substantial common fiscal power, the only initial path was to free national budgetary powers from the restraints of the Pact with the invocation of the general escape clause, together with the temporary weakening of the state aid regulation (C/2020/1863; EUCO 2020). Given the heavy legacy of the Great Recession leaving the Southern Member States with further weakened economies and capabilities of intervention – even in key arenas such as health – a primarily national response raises problematic concerns. Such countries, in parallel more heavily impacted by the first wave of the pandemic, had limited fiscal spaces to respond, under the sword of Damocles of high public debts, nevertheless further skyrocketing as a result of Covid-19 stimulus packages. If the monetary intervention, alike in the heat of the Eurozone crisis, eased some of the pressure and provided a protective umbrella, it is undeniable that countries in the core and periphery faced the pandemic under very different circumstances and abilities for autonomous intervention.

From such a perspective, common action at the European level appears as an essential need in mitigating such deeply entrenched divergent paths and support a balanced and inclusive reconstruction. This is an especially strong argument for common borrowing, which allows to further support weaker Member States while lessening the burden of the recovery on their balance sheets, in the context of a disaster-like event such as the pandemic. Together with SURE, Next Generation EU, not immune from fierce intergovernmental contestation regarding its nature and scale, represents an innovative breaking point with respect to the status quo. Setting aside initially their temporary nature, it remains to be seen the extent to which NGEU fully or partially overcomes the weaknesses driving the main criticism to EMU along the four literature-driven dimensions of the scoreboard.

(i) Austerity. At face value, one may consider NGEU as breaking away from the fiscal restraint prioritisation within EMU, especially given the invocation of the general escape clause. The discourse has in part shifted, not only in political circles – notably in the accommodating position of Germany – but also within the supranational institutions. That is especially the case for the Commission, traditionally one of the strong advocate for discipline and austerity, fully on board with solidarity driven common action. The 750 billion plan, 672.5 of which foreseen through the Recovery and Resilience Facility (RFF), represents undoubtedly an unprecedented joint EU level firepower in support of the Member States (Council 2020). At the same time, the outcome was not uncontested, taking a multitude of six summits from March to July even under increasing pressure to deliver and deteriorating public support in the most affected Member States (Bremer and Genschel 2020). In this context the political debate on the nature of the Recovery Plan remained divisive and contested. The hawks led by Netherlands long dragged their feet against any form of risk-sharing and transnational solidarity opposing any form of grants and favouring instruments such as the ESM (Fabbrini 2020). That is to say that compromise was far from straightforward even in the face of a symmetric exogenous crisis and a dramatic tragedy shaking the continent where hardly any blame could be assigned to the worst hit countries (Botta et al. 2020; Sabat et al. 2020). The compromise resulted nonetheless in a watering down of the Commission proposal enhancing the role of loans compared to grants. A cheaper route to financing additional debt loans do not go in the direction of lifting the reconstruction from the burden and constraints of the legacy of precarious public finances. Nor they fully respond to the need for transnational solidarity, finding moreover in the initial phase of the implementation of the NRRPs, alike for access to the pandemic line of the MES,

quite limited appetite from the Member States, with only Italy in its initial plan leveraging the loans within the RFF. The underlying political divide within the Member States is thus alive and well and the lost battle of NGEU may further motivate the frugal countries war against transnational solidarity hindering any transition toward permanent risk-sharing mechanism in the context of the Conference on the future of Europe.

(ii) Core-periphery. The Covid-19 pandemic has exacerbated the core-periphery divide. The austerity weakened healthcare system in the worst hit southern countries struggled to keep up with the pandemic crisis (Ceron et al. 2020). At the same time, the initial national delegated response put in a particularly tough spot the same subgroup of Member States, with a more limited fiscal capacity to tackle the crisis and recovery, further increasing the divergence between core and periphery (Ceron et al. 2020; Schularick et al. 2020). In this context, Next Generation EU attempts to rebalance the game as the allocation key is based on pre-2020 unemployment levels and GDP loss during the pandemic (EUCO 2020b). The sharp gap between the frontrunners in the domestic recovery efforts - and especially Germany - and periphery countries such as Italy and Spain calls into questions whether the temporary measures of NGEU will be sufficient to reverse the long standing trend (Ceron et al. 2020). Such a pattern indeed is far from an extraordinary circumstance created by the pandemic but rather a deep structural cleavage ingrained in the mechanism of EMU based heavily on risk-reduction and fiscal discipline. The framework to these days remains unchanged with NGEU a temporary side-act of EU economic governance. Hence any permanent solution to unbalances would require a likewise structural long-term mechanism for solidarity, for which as highlighted above a consensus has far from emerged so far (e.g. Howarth and Quaglia 2021; Howarth and Schild 2021; Schoeller and Karlsson 2021).

(iii) Legitimacy. Some of the key critical aspects within this domain refer to the absence to a supranational compensation to the national limitation to fiscal sovereignty, the lack of output legitimacy derived from the ineffective intergovernmental decision-making and the lacking input legitimacy in view of non far-reaching involvement of national and especially EU level parliamentary oversight within several aspects of the EU economic governance. Little is changed within the domain through NGEU. Short of Treaty changes the underlying fiscal-monetary asymmetries remain unscathed (De Grauwe 2018; Rossolillo 2018). Rather, the introduction of minimal common fiscal space, although temporary and purposed for the pandemic recovery may further strain the unfit intergovernmental EMU architecture (Jones et al. 2016; Ceron et al. 2020; Fabbrini 2020; Landais 2020). Additionally, if the European Parliament does play a role in the establishment of the Recovery and Resilience Facility (2020/014(COD)), the same is not the case when it comes to the Council-centric approval of National Recovery and Resilience Plans (NRRPs) within NGEU (EUCO 2020b). Moreover, building on the pre-existing toothless process of the Semester while warranting to the Commission and Council sharp conditionality within the context of the NRRPs enhance the power of scrutiny at the EU level far into the future as the disbursement of NGEU are scheduled to peak only in 2024. The implication is a dangerous outlook for national budgetary dynamics if at the end of the immediate aftermath of the pandemic the course deviating from austerity is reversed, in the context of heightened debts especially in the periphery.

(iv) Completeness. Has the monetary dominance and lack of appropriate stabilisation and solidarity mechanisms within EMU been overcome? The Covid-19 crisis proved the inadequacy of the EU budgetary instruments not only in their scale but also for flexibility and timing (Fabbrini 2020). The monetary channel remains the only immediate response at the supranational level even after the deployment of NGEU, which will see its initial implementation with the negotiation of the NRRPs over a year after the outbreak and with further delays concentrating disbursement far from in the immediate post-pandemic reconstruction. Nevertheless, an undeniable first seed is advanced with NGEU in relation to a common fiscal capacity. Nearly half of RFF is allocated to grants amounting to 312.5 billions, introducing the consequent additional innovation

a large-scale common borrowing at the EU level (Council 2020). However, the temporary nature of NGEU, a key condition for the political feasibility of the measure, falls short of the introduction of an adequately sized permanent fiscal capacity (Galli et al. 2020).

Both during the sovereign debt crisis and the pandemic, Member States have been the forefront towards hurdles created by such difficult contingencies. Nation states with their democratic and fully legitimate institutions, policy and decision-remain the cornerstone of political order even within the EU, albeit the failures to provide effective answers (e.g. in the Euro crisis) have shaken the credibility and trust of both levels of governments (Morgan & Orloff, 2016; Jacobsson et al. 2015; King & Le Galés, 2017; Jackson, 2007). Indeed, the supranational character of the EMU, and transnational nature of the pandemic require appropriate supranational responses. As often happened during the history of the EU (Rapone, 2004), crises determined leaps forward in the integration process. NGEU does not yet constitute such leap but rather better aligns with in-crisis piecemeal solutions we have witnessed in the past (Howarth and Quaglia 2021).

4.4 Evaluating the gaps of Next Generation EU against the EMU ideal type(s)

A necessary condition for the ideal type(s) of EU economic governance emerged earlier in the section revolves around the institutional dimension. Departing from the instruments and rule-based approach of the SGP, what EMU needs is a fully fledged institutional framework performing well in terms of legitimacy and accountability. Reforms falling short of such institutional improvements can only partially overcome the weaknesses of the current framework towards a well-functioning and sustainable EMU. The common trait of reform proposals satisfying the legitimacy criteria is Treaty reform, without which substantial progress cannot occur within this domain. For the distribution of fiscal powers to shift away from the national level without an overt rethinking of the governance architecture but rather through indirect constraints of the supranational surveillance framework is a rehashing of the same problematic approach. That is the case of NGEU integrated into the Semester, strengthening the hand of the EU level against national budget through the conditionality associated with the NRRPs. As such Next Generation EU falls well short of the EMU ideal type(s) within this domain, suggesting further reform will be needed down the line.

A second question relates to whether the measure does enough for long term convergence. Firstly, while broad joint priorities such as investment towards a digital and green recovery are foreseen by NGEU (EUCO 2020b), the measure is quite far from a fully-fledged common economic policy with the sensitivity and flexibility required for quick adjustment to the cycle and emerging challenges. Rather, in continuity with the overarching philosophy of the SGP fiscal choices largely remain in the hands of the Member States through the NRRPs subject to EU level (Council) approval. In addition, the pandemic worsened core-periphery divergence through initial national responses (Ceron et al. 2021), its if not reversal at least effective mitigation through NGEU is far from a given. At the same times, if there is some consensus at the institutional level and among the big Member States of the need to support weaker and worst hit Southern economies, the NRRPs primary focus on investment and growth – albeit with the focus on a green and digital recovery, complemented to some extent by social concerns – along with their conditionality on structural reforms are largely in continuity with the past.

A linked final multifaceted dimension in which NGEU performance aligns is risk-sharing, stabilisation and (transnational) solidarity at the scale needed to face the current crisis and serve the needs of the EMU. Negotiations have shown how there is limited appetite for transnational solidarity, especially in countries long opposed to any form of risk-sharing and transfers. Their favoured approach remains risk-mitigation, objecting to grants in favour of the ESM, echoing the Euro crisis. Such diffidence remained within the international political debate even in the face of the tragedy that run havoc through the European economies and societies (Bremer and Genschel 2020). Even in frugal countries public opinion may temporarily be open to support

some form of solidarity in the wake of a natural disaster like pandemic crisis, to some extent joining the public outrage from southern countries at the initial utter refusal of any form of support to the worst hit Member States by the political leaders from countries such as the Netherlands (Bremer and Genschel 2020). However, solidarity support only applies to the (exogenous) crisis-driven temporary measures, politically feasible exactly because of such characteristics, while the same openness does not extend even to public debt contracted as a direct result of the Covid-19 pandemic (Bremer and Genschel 2020). The derived post-crisis outlook appears quite dire along with the solidarity achievements of the NGEU if one considers that the little over 300 billions of grants barely exceed one half of the national recovery spending of Germany (Ceron et al. 2020). Also, along this dimension the achievements of NGEU – in the context of an unmatched favourable political context for transnational solidarity – is far from ideal, structural or permanent.

5. Discussion of results

The systematic review covering over 2000 articles devoted to EMU within the last five years uncovered broad consensus on the incomplete and precarious nature the architecture and the consequent dire need to complete the EU economic governance infrastructure toward a fiscal, political or social union of sorts. Agreement stops in moving onto how to fix EMU, together with the optimal direction of the future European integration, with divergent opinion on the details of the underlying causes of failure in terms of input and output legitimacy and how to overcome them. Within this framework the failure of EU economic governance in managing the euro crisis is uncontested, with the lack of crisis-management and quick responsive (fiscal) instruments extending to the Covid-19 pandemic. After the storm of 2020, monetary dominance remains a key feature of EMU, with the ECB just as essential as in the Euro crisis in allowing for a swift and large-scale defence and support of the Member States and their economies. However, absent an appropriate fiscal response, monetary intervention with Quantitative Easing or now with the PEPP is only a short-term palliative buying some extra time for an adequate (political) solution (Cafaro 2020). The state of the EU economic governance coming into the pandemic crisis is a testament to how the space warranted by the ECB shield was wasted away without addressing the institutional weaknesses and original design flaws. A parallel may connect the PEPP commenced by the ECB in March (ECB 2020) with the month-long delays in negotiations toward NGEU even in the midst of the worst tragedy for the old continent since the end of WWII.

The unprecedented scale of the crisis further exacerbated and brought to the centre stage the weaknesses of EMU, subjecting the framework to a second brutal (pandemic) crash test, whose outcome is yet to fully unfold. A governance framework and the legacy of austerity with well-established diverging implication for the core and periphery of the Eurozone constituted a fragility in the pandemic bound to further exacerbate gaps across the Member States (Camous and Claeys 2020; Celi et al. 2020). Even at this preliminary stage, however, results confirm H1 showing how the pandemic response toolset of NGEU still presents many of the pre-existing weaknesses in terms of lack of support for social-cohesion, core periphery divergence and more in general lack of effective solidarity and risk sharing, while also limited in the input and output legitimacy. The strains of the Covid-induced recession is only bound to accentuate such problems evidencing the need for further integration. EMU own resources anti-cyclical tools emerged as a priority and inescapable necessity in supporting Eurozone Member States economies. Covid-19 – and the crisis linked tolerance for solidarity – opens a window of opportunity for the much needed structural reforms, which in confirming H2 would however require a deep and ambitious permanent rethinking of EMU architecture.

The results of the analysis indicate that NGEU retains across the (score)board much of the weaknesses of EMU. The reality continues to fall substantially short of the ideal for EU economic governance, in light of the temporary nature of the measures and its embedding within the current (lacking) institutional framework whose substantial improvement would require Treaty reform. In this context, locating the analysis within the academic EMU reform debate indicates we are from fully-fledged (federal) integration. Such leap cannot take place within the framework of intergovernmental decision-making, which does not offers an appropriate setting for mitigating divergent national interests into common European priorities (De Grauwe 2018; Booth et al. 2020). Priorities that must be in the position to (quickly) spur into action through an own-resources-founded joint fiscal space fully legitimised by parliamentary oversight (Booth et al. 2020; Rossolillo 2018). Nothing short of that would likely prove adequate in fostering the common EU action required to address the challenge of the pandemic reconstruction effort (Bachtrögler-Unger 2020).

As evidenced by a lack of consensus even within the academic debate on the way forward, the question remains of how to get to such outcome, given that the political feasibility of the much less ambitious temporary measures under Next Generation EU – in the midst of a global pandemic – have been far from straightforward and uncontested. At the same time, the negotiation process, harder than ever in recent history, revealed how vetoes could not prevent willing Member States making necessary improvements to EMU governance. The tolerance for a continuation of austerity driven approaches is limited in the renewed context. So was the outrage at the attempts to block even pandemic solidarity. Unlike in the Euro crisis, no national blame can be assigned to the heavy costs of the outbreak, hence strongly backing on the economic level and facilitating the political feasibility of risk-sharing. Indeed, the Next Generation EU package determined a once-in-lifetime opportunity to strengthen EMU. However, the window of opportunity of such symmetrical existential crisis will fast close, with the fading of any facilitation of moves toward structural European solidarity (Landais, 2020). Under such premises findings contribute the urgency of taking stock of the true (limited and temporary) progress of NGEU, which so far rather than an overarching paradigm shift represent a temporary emergency stop-gap which does not address the unescapable needs for further structural and permanent integration. The urgency is further reinforced by the current political context and the ongoing debate on the future of integration in the Context of the Conference of the Future of Europe bound to carve a deep mark in the prognosis for the EMU for many years to come.

Against such a backdrop, a divisive debate has likewise emerged in the evaluation of pandemic EU responses as a Hamiltonian moment renegeing on past austerity-driven mismanagement (e.g. Benjamin 2020; Ladi and Tsarouhas 2020; Schmidt 2020; Wolff and Ladi 2020) or rather deriving comparisons with the failing-forward process characterising the Eurocrisis (e.g. Ceron et al. 2020, 2021; Lionello 2020; Jones et al. 2021, Howarth and Schild 2021; Howarth and Quaglia 2021). In this context, some have gone as far as arguing for the superiority of EU (limited) competences in practice in terms of effective pandemic management even against the benchmark of a fully-fledged federation such as the US (Rhodes 2021). Results, building on a systematic benchmarking against the extant literature and derived limits of the current governance framework, support caution in a resolute evaluation of the innovations introduced through NGEU.

6. Conclusions

The Pandemic and the challenge of the recovery hard pressed the Member States toward enhancing the deeply lacking current European economic governance framework. Such dramatic premises of unprecedented human and economic cost created the conditions for suspending vetoes and allowing for some risk-sharing and

transnational solidarity unimaginable before the Covid-19 outbreak. Nevertheless, the analysis evidences that the long awaited comprehensive reforms to bring EMU out of the impasse of its incomplete design are largely yet to come. The urgency of reforms is reinforced by the pandemic: improving legitimacy and effectiveness of EMU is time sensitive to fully cope with the existential challenge of the recovery equipping the Eurozone with the necessary common (budgetary) tools to invest in rebuilding European economies. Only if the window of opportunity of the pandemic is effectively exploited into fully-fledged structural treaty reform will we be in the right to consider Covid-19 as a turning point in the history of EMU.

In this context, the analysis contributes to the academic debate on the overall and (lacking) crisis-readiness fitness of EMU. The findings map the pandemic response-lead progress of Next Generation EU uncovering how fundamental asymmetries and deep design flaws cannot be addressed through a temporary marginal emergency mechanism. In parallel, findings highlight implications of Covid-19 for EU economic governance evidencing weaknesses and further reform needs. The analytical approach allows manifesting how Next Generation EU emergency measures fail to address structural asymmetries and shortcomings of EMU, calling for far reaching institutional (and Treaty) reform. With insurmountable gaps toward the ideal type of economic governance unavoidable under the current institutional framework within which NGEU is collocated, permanent structural rethinking of EMU infrastructure is the only way out of permanent crisis to which intergovernmental minimal compromise solutions can barely put a dent (Jones et al. 2016).

NGEU negotiations paralleled the inner nature of the EU diplomatic context. Ongoing cleavages within the EU Member States evidence they do not align on values for key policies and, probably, for integration prospects. That has happened for other conflictual issues - e.g. Migration; Sovereign Debt Crisis (King & Le Gales 2017; Jacquot and Vitale 2014). Nevertheless, the political salience, the German Semester, the role of the European Commission and the pivotal willingness provided by the 'big four' (Spain, Germany, Italy and France) supported the creation of a new financial instrument. Regardless, path-breaking away from the past – e.g. of austerity driven policies – while facilitated by the top-down and bottom-up pressure of the crisis is, however, still limited in time and scope. The temporariness of NGEU within and unchanged architecture determines, more than ever, the impelling necessity for Treaty reform, providing formal EU institutions, legitimacy and effectiveness, alike for fiscal power within Nation-States. Only such a reform could determine effective solidarity mechanisms within the EU, overcoming current imbalances, assigning accountable competences in key supranational policies (Rossolillo, 2010). At the same time, the political sustainability of such prospects is at best unclear. Indeed, the appetite of the country whose position had been deemed crucial for the compromise leading to NGEU – Germany – for a permanent 'transfer union' is limited. Conversely many have highlighted the crisis-driven contextual nature of the positioning of the country, which does not amount to a permanent shift in preferences toward integration (e.g. De La Porte and Jensen 2021; Howarth and Schild 2021; Schoeller and Karlsson 2021). Divisions are confirmed by the ongoing debate on the future of the SGP, at the core of key distortions within EMU, while at the same time far less of an ambitious and controversial element compared to the development of a solidarity-based fully-fledged federal fiscal union.

Against this background, recent innovation-defined pathway of Next Generation EU – setting the direction of further integration while evidencing the limited progress achieved even under the utmost pressure to deliver – provides insights on the reform gaps yet to be filled and the political challenges undermining their feasibility. In doing so the analysis evidences the high stakes of the ongoing Conference of the future of Europe: to call the Covid-19 induce evolution a success would require an ambitious (federal) agenda extending well beyond NGEU. The stakes are further raised by the severity of the latest existential crisis of the and the unprecedented

challenge of enacting convergence against the legacy of the pandemic, exacerbating the core-periphery divide fuelled by the Eurocrisis (Ceron et al. 2021). Beyond policy implications, conclusions contribute to the spurring debate on the assessment of the EU Covid-19 response and governance evolution. Specifically, while recognising the steps forwards at the basis of revolutionary claims surrounding NGEU (e.g. Ladi and Tsarouhas 2020; Wolff and Ladi 2020; Schmidt 2020; Rhodes, 2021), findings support a cautious-to-negative assessment of the emergency driven measures (e.g. Ceron et al. 2020, 2021; Lionello 2020; Howarth and Quaglia 2021) in the absence of further overarching reform of EU economic governance. Institutional shortcomings, incomplete solutions and detrimental intergovernmental mechanism and divisions highlighted have been attributed to the EU common fiscal response (e.g. Ceron et al. 2020, 2021; Lionello 2020; De La Porte and Jenssen 2021; Howarth and Quaglia 2021). The score boarding – in line with such positions – provides a systematic linkage between the limits of NGEU deeply ingrained in the structure of EMU as well-established with half a decade of literature of the topic. An exercise of extensive value against the pressure of the reform of the SGP in the context of the expiration of the general escape clause, which absent institutional rethinking would end the cease fire of the current governance framework against national fiscal and social policies, as Member States continue to struggling with exiting the pandemic crisis.

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Acknowledgments

We warmly thank the editor and two anonymous referees for their thoughtful comments and precious feedback on the manuscript.

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