NEXT GENERATION EU:

AN ECONOMIC RESPONSE BUILT BETWEEN POLITICAL TENSIONS

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Abstract

The health crisis caused by the Covid-19 pandemic simultaneously triggered a financial crisis in European Union member countries, forcing them to seek a common solution within the European Union. This article intends to describe the different kinds of problems faced, as well as the divergences between individual countries' approaches to the pandemic crises. Specifically, differences about the constitution of the Next Generation EU, among countries, their respective political leaders, and other institutional actors, in the different negotiating arenas.

The study is supported by a qualitative content analysis that describes the different phases resulting from the previous European integration crisis and the way in which the European Union handled the COVID-19 crisis.

The difficulties surrounding the establishment of the Next Generation EU in 2020 revealed political similarities with previous financial crises, namely the sovereign debt crisis and the Eurozone crisis.

The results of this paper demonstrate European Union's susceptibility to political crises when faced with financial crises, revealing different levels of inconsistencies in the process of European integration.

Introduction

The first cases of the COVID-19 pandemic were registered in the European Union (EU) in January 2020 (ECDC 2020),[1] in France. Although affecting all countries, the pandemic would not have the same consequences in all Member States. The context of the COVID-19 pandemic revealed a new moment of political turmoil, with immediate expressions in the legal, health and border control areas, with strong repercussions in the economic plan throughout the year.

In the legal and health areas, in the face of a public health crisis and the spread of the pandemic, it was expected that the Treaty on the Functioning of the European Union (TFEU)[2] would quickly come into operation, particularly in the provision of "solidarity" between states. The TFEU is a legal-political piece containing a "solidarity clause", according to which, "The Union and its Member States shall act jointly in a spirit of solidarity if a Member State is the object of a terrorist attack or the victim of a natural or man-made disaster". But that was not the case, as EU Member States, such as Italy, sent several EU requests for assistance to the EU's Common Emergency Information and Communication System without getting answers. According to Janez Lenarcic, European Commissioner responsible for crisis management, this situation "meant that not only Italy is not prepared […] Nobody is prepared […] The lack of response to the Italian request was not so much a lack of solidarity. It was a lack of equipment."[3] Health

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[1] "Timeline of ECDC's response to COVID-19." European Center for Disease Prevention and Control, accessed 13 February, 2021, https://www.ecdc.europa.eu/en/covid-19/timeline-ecdc-response

[2] "Treaty on the Functioning of the European Union", EUR-Lex, accessed February 13, 2021, https://eur-lex.europa.eu/eli/treaty/tfeu_2012/oj

[3] Daniel Boffey, Celine Shoen, Ben Stockton and Laura Margottini. "Revealed: Italy's call for urgent help was ignored as coronavirus swept through Europe." *The Guardian*, July 15, 2020,

Commissioner, Stella Kyriakides, appealed to EU Health Ministers, “I ask you all today to commit to us all working together, openly and transparently, in a spirit of solidarity to ensure a coherent political response”[4].

Throughout March, Member States unilaterally started to close their borders, totally or partially, in a spirit of self-preservation and domestic crisis management[5]. In response to this escalation, the President of the European Commission, Ursula von der Leyen, stated that “A crisis without borders cannot be resolved by putting barriers between us. And yet, this is exactly the first reflex that many European countries had. This simply makes no sense.”[6]

In this context, the health crisis quickly turned into an economic crisis, aggravated by successive lockdowns to prevent the spread of contagion. Overcoming the economic crisis would require intervention by the EU institutions and solidarity between Member States. The existence of economic asymmetries within the EU, between core and peripheral countries, is recognized.[7] Throughout the economic crisis that began in March, this was revealed not only in terms of the response capacity of health systems, but also in the capacity of States to provide support to their economies, with the

https://www.theguardian.com/world/2020/jul/15/revealed-the-inside-story-of-europes-divided-coronavirus-response

[4] “Remarks of Commissioner Stella Kyriakides at the Extraordinary EPSCO Health Council on COVID-19”, European Commission, Accessed February 13, 2021, https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_20_410

[5] BBC, “Coronavirus: Germany latest country to close borders”, *BBC News*, March 16, 2020. https://www.bbc.com/news/world-europe-51905129,

[6] “Speech by President von der Leyen at the European Parliament Plenary on the European coordinated response to the COVID-19 outbreak”, European Commission, accessed February 13, 2021. https://ec.europa.eu/commission/presscorner/detail/en/speech_20_532

[7] Giuseppe Celi, Dario Guarascio and Annamaria Simonazzi. “A fragile and divided European Union meets Covid-19: further disintegration or ‘Hamiltonian moment’?. *J. Ind. Bus. Econ.* 47, (2020): 411–424 https://doi.org/10.1007/s40812-020-00165-8

inherent risk of deepening existing inequalities, and of allowing wealthy countries to gain more advantages in the context of the common market.[8]

The history of the EU's political economy had already exposed difficulties in converging different interests during the financial crises of 2008 and the following years, which jeopardized the very continuity of the European integration project.[9] What are the similarities between the negotiating blocs of that time and their respective economic agendas and the several negotiation arenas around the constitution of the Next Generation EU? How was this financial instrument shaped, and what divergences and obstacles had to be overcome? In answering these questions we will review the year 2020 and its key moments.

(Des)integration, A Room Full of Mirrors?

The EU integration process has been framed, throughout its historical process, by successive moments when it faced difficulties (Hooghe and Marks 2019).[10] Without limiting ourselves to just the most recent years and decades, when these difficulties seem to be increasingly constant and visible (of which the process that culminated in Brexit is particularly relevant), or to periods characterized by apparent stagnation. Especially because, as advocated by Awesti (2009) regarding the apparent moments of stagnation, such as the alleged "Eurosclerosis" throughout the 70s, "it is false to claim that the experience of the EC during the 1970s was one of stagnation. The

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[8] Ibid.

[9] Andrew Glencross, "The Eurozone Crisis as a Challenge to Democracy and Integration in Europe", *Orbis*, Volume 58, Issue 1 (Winter 2014): 55-68. https://doi.org/10.1016/j.orbis.2013.11.003

[10] Lisbet Hooghe and Gary Marks, "Grand theories of European integration in the twenty-first century", *Journal of European Public Policy*, 26 no.8(2019): 1113–1133. https://doi.org/10.1080/13501763.2019.1569711

integration project continued; it was simply that it continued out of the public eye."[11]

According to Hooghe and Marks,[12] the EU has faced four moments of visible crisis since 2008, namely: the Eurocrisis, the migratory crisis, Brexit and the so-called illiberalism. These authors embody these different moments of crisis based on three theories - neofunctionalism, intergovernmentalism and postfunctionalism. Based on these three theories, the analysis focuses on the options of the main political actors, which are their institutional arenas of intervention, when and how the European states and institutions dialogue. For these authors, the EU's recent past shows a growing increase in the moments of divergence and crisis of the integration process, with the shortening of the latency period between moments of crisis.[13]

Tamás Szemlér advocates that "it is the perception of the real challenges is what drives the integration process forward", consequently, "without significant challenge, the mission of the integration process may become unclear to all or some Member States".[14] According to Szemlér, among these challenges are "insufficient social and territorial cohesion, mass immigration, negative demographic development, questionable competitive practices and the lack of a real strategy regarding many problems in the EU's neighbourhood". In the face of this background, European integration does not occur harmoniously in the Member States. In the same vein, from these different dynamics, European policies must assume their differences,

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[11] Anil Awesti, "The myth of eurosclerosis: european integration in the 1970s". *L'Europe En Formation*, no. 353–354(2009/3-4): 50. https://doi.org/doi:10.3917/eufor.353.0039

[12] Lisbet Hooghe and Gary Marks, "Grand theories of European integration in the twenty-first century", *Journal of European Public Policy*, 26 no.8(2019): 1113–1133. https://doi.org/10.1080/13501763.2019.1569711

[13] Ibid.

[14] Tamás Szemlér, "Challenges to European Integration: Missions and Instruments". *Politics in Central Europe*, 14 no.1 (2018): 77. https://doi.org/10.2478/pce-2018-0004

assigning different responses to difficulties, avoiding that the "integration process were ended solely for the sake of the unrealistic goal of preserving (an already non-existent) uniformity".[15] Katinka Barysch, of the Centre for European Reform, seems to sum up this idea in the strong phrase: "governments rule, two-speed Europe, size matters".[16]

In 2008, in the face of the collapse of several banking institutions in the USA, such as the famous Lehman Brothers, European banking was exposed to the crisis generated in the USA. The Eurozone crisis was a consequence of the 2008 financial subprime crisis, questioning the future viability of the monetary union.[17] This financial crisis spawned a crisis in the banking system, which continued to widen as a national sovereign debt crisis as states sought liquidity to save their banking systems. It should be remembered that monetary union did not imply banking union,[18] giving meaning to Charles Goodhart's expression "banks are international in life, but national in their death".[19] Similarly, Sander et al. highlight several phases in this process, namely "positive experiences with the Euro prior to 2008 reduced the impact of cultural differences. However, cultural borders have clearly resurged during the financial crisis and contributed to a reconfiguration of the geography of international banking in Europe."[20]

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[15] Tamás Szemlér, "Challenges to European Integration: Missions and Instruments. *Politics in Central Europe*", 14 no.1 (2018): 78. https://doi.org/10.2478/pce-2018-0004

[16] Katinka Barysh, "A New Reality for European Union." accessed February 13, 2021 https://www.cfr.org/report/new-reality-european-union.

[17] Andrew Glencross, "The Eurozone Crisis as a Challenge to Democracy and Integration in Europe", *Orbis*, Volume 58, Issue 1 (Winter 2014): 55-68. https://doi.org/10.1016/j.orbis.2013.11.003

[18] Ibid.

[19] Charles Goodhart, "Procyclicality and Financial Regulation", *Banco de España Revista de Estabilidad Financiera*, vol 16(2009): 11-20

[20] Harald Sandar, Stefanie Kleimeier and Sylvia Heuchemer. "The resurgence of cultural borders during the financial crisis: The changing geography of Eurozone cross-border depositing" *Journal of Financial Stability*, Volume 24, (June 2016): 12-26 https://doi.org/10.1016/j.jfs.2016.04.003

During the Eurozone crisis period, the countries of the South (and Ireland) became debtors of the system, in the sovereign debt market, while the countries of the North became creditors of that system. The crisis resulted, as mentioned, in essence from a lack of liquidity, which forced some to ask for financial support from others.[21] Thus, the countries of the North allowed this financial flow to continue to flow. But with the blame for the crisis only on debtors, austerity measures were imposed by creditors to guarantee their full payment.[22] Among these austerity measures were tax increases, cuts in social measures or public investment. However, in this apparent North-South relationship, or core-periphery, the European institutions did not have a secondary role in resolving the crisis. The European Commission accepted to take the side of the creditor countries, putting pressure on the debtor countries to take harsh austerity measures when it could have promoted its protection.[23]

For Glencross, a precedent was set in the history of the political economy of the EU; it had never played a more relevant role in matters of the internal sphere of the Member States, as in matters of tax or public spending. Other doubts were raised about solutions to the sovereign debt crisis, "thus, highlights not just problems of democratic legitimacy for introducing reform but also fault lines in economic and political solidarity".[24]

[21] Paul De Grauwe, "The legacy of the Eurozone crisis and how to overcome it", *Journal of Empirical Finance*, (December 2016): 147-155. https://doi.org/10.1016/j.jempfin.2016.01.015

[22] Giuseppe Celi, Dario Guarascio and Annamaria Simonazzi. "A fragile and divided European Union meets Covid-19: further disintegration or 'Hamiltonian moment'?. *J. Ind. Bus. Econ.* 47, (2020): 411–424 https://doi.org/10.1007/s40812-020-00165-8

[23] De Grauwe, "The legacy of the Eurozone crisis and how to overcome it." 5

[24] Andrew Glencross, "The Eurozone Crisis as a Challenge to Democracy and Integration in Europe", *Orbis*, Volume 58, Issue 1 (Winter 2014): 55-68. https://doi.org/10.1016/j.orbis.2013.11.003

The impacts of the austerity measures were significant for the Southern economies, not only for the public image of the EU and its institutions, but mainly for its economic and social consequences.

In creditor countries, the population doubted the merit of giving bailouts, with debtor countries being blamed for the situation in which they found themselves, namely for their management of their public accounts. On the other hand, in the debtor countries of the South, street protests expressed their anger at the imposed austerity measures, with the support of European institutions, personified in the figure of German Chancellor Angela Merkel.[25]

The social and economic choices of austerity measures had a strong impact on debtor countries, as in the increase in unemployment, prompting public opinion to question the legitimacy for the imposition of such measures, while the promised European convergence became increasingly more distant.[26] In this context, "Eurosceptic" political movements and political parties from ideological extremes have gained increasing political prominence due to their opposition to austerity programs and bailouts. *Syriza*, in Greece, and *Podemos*, in Spain, on the one hand, and the True Finns or Danish People's party on the other.[27]

The growing political turmoil in the Member States was calling into question the sphere of competence and internal democracy in the EU. In few moments of European integration had the policies of the EU and its institutions been so scrutinized and criticized by the citizens. In the context of the financial crisis and austerity measures, the content of EU policies and

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[25] Ibid.
[26] Ibid.
[27] Anuar Sucar Diaz Ceballos, "Crisis of the euro-zone: structural faults and contractionary policies", *Economía UNAM*, Volume 12, no 35, (2015): 45-68. https://doi.org/10.1016/j.eunam.2015.09.003

their overlap with national competences began to be questioned by citizens, which generated a political destabilization between national representations and the European integration project. According to Glencross, "It is the spread of EU competences, reaching a new height with top-down socio-economic reforms linked to Eurozone bailouts, that has increased the salience of the integration dimension in national politics."[28]

On the other hand, the role of the EU and its institutions has, in a way, strengthened authority and protected national governments in imposing austerity measures. This transnational economic governance reinforced not only the role of the strongest countries in the Eurozone, but also strengthened the capacity of national governments to impose measures.[29] In other words, without the transnational nature in the imposition of harsh austerity measures, national governments alone would hardly be able to confront and impose such measures on their national public opinions.

Simultaneously, this political context witnessed the rise of so-called "illiberal regimes" within the borders of the EU, as for democratically elected regimes that go beyond their constitutional limits, and often curtail the rights and freedoms of their citizens.[30] In response to such actions, the EU already opened procedures against countries like Poland and Hungary, to contain and penalize measures that undermine the independence of the judiciary or the rule of law.[31]

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[28] Glencross, "The Eurozone Crisis as a Challenge to Democracy and Integration in Europe."

[29] Christopher J. Bickerton, "Crisis in the Eurozone: Transnational governance and power in European integration", *Political Geography*, Volume 30, no 8 (November 2011): 415-416 https://doi.org/10.1016/j.polgeo.2011.03.004

[30] Fareed Zakaria, "The Rise of Illiberal Democracy", Foreign Affairs, Volume 76, no 6 (November-December 1997): 22-43 https://doi.org/10.2307/20048274

[31] "Hungary and Poland: Parliament to assess progress of Article 7 proceedings"", European Parliament, accessed 23 September, 2021, https://www.europarl.europa.eu/news/en/agenda/briefing/2020-01-13/4/hungary-and-poland-parliament-to-assess-progress-of-article-7-proceedings

As was seen later in Brexit and in Hungary and Poland, economic and social problems, even at EU level, would have internal consequences in the speeches and political actions of national leaders to their constituencies.

If transnationalism could facilitate the adoption of measures by governments, it could have a second consequence of returning to nationalism, through the exhibition by the national political leaders of their political domination over the EU institutions, with the rejection of some measures without political or popular support, as indicated by Glencross: "With national tensions rising in response to the Eurozone crisis, there is a very real threat of a retreat to a purely national definition of democratic legitimacy".[32] The nationalist pressure, frequent in Eurosceptic movements, close to populism, with successive references to taxpayer's money and in the spirit of the so-called frugality, internally pressured politicians to take measures towards protectionism and unilateralism.[33] The political landscape among national leaders, in this bipolarity of interests and loyalties, is summarized according to Bickerton "The EU today is made up not of nation-states but *member states*: a distinctive social form where the loyalties and affinities of national leaders are as much with their colleagues in Brussels as with their own domestic populations back home."[34]

Throughout 2020, the Covid-19 pandemic crisis forced the EU to build mechanisms and solutions for the economic and financial problems generated. Regarding the creation of these solutions, different points of view

[32] Glencross, "The Eurozone Crisis as a Challenge to Democracy and Integration in Europe."
[33] Giuseppe Celi, Dario Guarascio and Annamaria Simonazzi. "A fragile and divided European Union meets Covid-19: further disintegration or 'Hamiltonian moment'?. *J. Ind. Bus. Econ.* 47, (2020): 411–424 https://doi.org/10.1007/s40812-020-00165-8
[34] Christopher J. Bickerton, "Crisis in the Eurozone: Transnational governance and power in European integration", *Political Geography*, Volume 30, no 8 (November 2011): 415-416 https://doi.org/10.1016/j.polgeo.2011.03.004

have emerged in the existing literature, regarding the signs of vitality of the integration process and the effectiveness of its measures.

On the one hand, there are authors who consider that the divisions between Member States, namely between the so-called frugal - Netherlands, Sweden, Denmark and Austria - and the countries in more difficult situations, have led to a situation of paralysis in the European institutions, with the exception of the European Central Bank. Even though a scenario of disintegration is not expected due to the economic interdependence between Member States and the high costs that this process would have.[35]

Still for these authors, the Next Generation EU, built in parallel to the negotiations for the Multiannual Financial Framework 2021-2027 (MFF), known as to its financial scale and requirements, also raises several doubts about its effectiveness in response to the crisis. It does not appear to be large enough and is lagging behind a crisis that has been developing for a long time, with its implementation depending on the agreement of slow political mechanisms.[36] Simultaneously, more and more voices are heard defending the protectionism of national economies.

On the other hand, some authors consider that the European institutions understood the emergency resulting from the pandemic as an existential threat to the EU, demonstrating a strong reactive capacity, accelerating decision-making – including in pre-crisis matters – as a result of the lessons learned from previous crises and adaptation to a permanent emergency mode, a new 'normal' in their institutions[37]. In this sense, there was an increasing

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[35] Celi, Guarascio and Simonazzi, "A fragile and divided European Union meets Covid-19: further disintegration or 'Hamiltonian moment'?.

[36] Ibid.

[37] Sarah Wolff and Stella Ladi, "European Union Responses to the Covid-19 Pandemic: adaptability in times of Permanent Emergency", *Journal of European Integration*, Volume 42, (2020): 1025-1040 https://doi.org/10.1080/07036337.2020.1853120

politicization of decision-making (with less intervention by technocrats) and with strong political involvement of leaders such as Merkel and Macron. Thus, the EU has shown greater resilience to crises, new aspects of interdependence, better capacity for cooperation and even renewed commitment between Member States and the integration process.[38]

The succession of crises has promoted the creation of negative scenarios and doubts about the future of the European Union, and both recent currents of thought around the EU's response to the Covid-19 crisis recognize the relevance of its response in the development of the integration process, without advancing with more prognoses about possible future developments. According to Zielonka, "the problem is that EU experts have written a lot about the rise of the EU, but virtually nothing about its possible downfall,"[39] that is, there is insufficient analytical effort on the causes and consequences of disintegration. According to Rosamond, this effort would be relevant "not only as a means of prediction but also as a way of shedding light on dynamics in the present".[40]

Methodology

The analysis that was presented was carried out by collecting data, information and statements reproduced from different news agencies, certified and official websites of the institutions of the European Union (EU), newspapers and other media of reference in the areas of Economics and Politics, on an international scale, with reliable information regarding the various topics related to the pandemic Covid-19 and successive crises, presented throughout this analysis.

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[38] Ibid.

[39] Zielonka, Jan. Is the EU doomed?, Cambridge: Polity Press, 2014.

[40] Ben Rosamond, "Brexit and the problem of European disintegration". *Journal of Contemporary European Research*, 12(4), (2016): 864–871.

The research for the bibliographic review presented in the previous section, tried to have the widest possible variety of sources, including different analytical perspectives. In order to achieve a more panoramic and multidisciplinary angle on the theme, from reliable sources, such as bibliography and existing scientific articles, published between 1997 and 2020. In this regard, recent literature on the impact of Covid-19 on the EU's political, economic and financial relations has been included. The review of secondary sources focused on information of Anglo-Saxon origin, which limited the presentation of other perspectives.

The search for all information related with Next Generation EU and the impact of the Covid-19 pandemic was carried out throughout 2020. In this article, one printed book, 21 from institutional websites, 16 scientific articles and 31 media news are cited as selected sources.

EU Take the Action

On 12 March, 2020, in view of the imminent need for financial aid to the Member States most affected by the pandemic, particularly Italy, Christine Lagarde, President of the European Central Bank (ECB), refused action by the ECB with the strength of "whatever is needed", warning that it was not the ECB's responsibility to stop the virus.[41] These statements produced immediate economic effects, such as increasing interest rates on Italian public debt, the sinking of stock markets, and raising Italian hopelessness and cholera against its isolation[42], forcing the European

[41] Philip Inman, "Christine Lagarde under fire for ECB coronavirus response". *The Guardian*. March 12, 2020, https://www.theguardian.com/world/2020/mar/12/ecb-announces-plan-to-help-eurozone-banks-withstand-coronavirus

[42] Reuters. "Euro zone bond yelds rise as ECB seeks damage control", *Reuters*, March 13, 2020, https://www.reuters.com/article/us-eurozone-bonds-idUKKBN2101MR

Commission President, Von der Leyen to declare , "We will do whatever is necessary to support the Europeans and the European economy."[43]

Polls throughout the EU revealed citizens' discontent in the face of the lack of responses from European institutions,[44] the so-called Euroscepticism seemed to be growing. The European integration process has been carried out for decades through successive transfers of sovereignty, decision-making powers and political instruments from the Member States, including financial ones. Thus, in face of the economic and financial crisis arising from the impact of the Covid-19 pandemic, it was natural that the Union Member States sought to find answers to the crisis where they could be found: in the EU and its institutions.

This context of health emergency was associated with significant downturns in economic activity, the predictable serious economic recession, increased public spending, and with the first expressions of rising Euroscepticism in Member States. Then, between March and April, the European institutions initiated a first set of measures to protect the economies, reflecting concerns with the public and private sectors, the maintenance of employment and the increased costs of the actions taken to combat the pandemic. In their terms and conditions, these measures demonstrated a different approach to emerging problems as opposed to the controversial solutions from the sovereign debt crisis. Thus, it became possible to operationalize some assistance to Member States, preventing

[43] Jack Ewing, Melissa Eddy and Liz Alderman, "Europe Pledges Billions in Economic Aid in Rare Sign of Unity", *The New York Times*, March 13, 2020, https://www.nytimes.com/2020/03/13/business/europe-germany-coronavirus.html,

[44] Alice Tidey, "COVID-19 has 'weakened' the case for the EU, say Germans, French and Italians," *Euronews*, May 27, 2020, https://www.euronews.com/2020/05/26/covid-19-has-weakened-the-case-for-the-eu-say-germans-french-and-italians

higher rising yields on sovereign bonds in a context of sharp falls in national GDP.

These measures include the Pandemic Emergency Purchase Program (PEPP) of the European Central Bank, an asset purchase program of private and public sector securities to counter the serious risks to the monetary policy transmission mechanism and the outlook for the euro area posed by the outbreak of the Covid-19, through favorable financing conditions, with an overall envelope of 750 billion euros[45]*;* the Support to mitigate Unemployment Risks in an Emergency (SURE), which would make available up to €100 billion in loans to face increases in public expenditure on employment protection, based on a voluntary system of State guarantees[46]*;* the European Stability Mechanism established a Pandemic Crisis Support Instrument available to euro area countries, to be used in health services in the Covid-19 context, under favorable conditions and without relevant constraints[47]*,* and finally the lifting of the "General Escape clause" under the Stability of Growth Pact (SGP), allowing the temporary removal of some requirements and allowing the States to pursue the necessary budgetary policies to fight the crisis, maintaining their regulatory framework.[48]

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[45] "ECB announces €750 billion Pandemic Emergency Purchase Programme (PEPP)", European Central Bank, accessed June 22, 2021. https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200318_1~3949d6f266.en.html

[46] "The European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE)", European Commission, accessed June 22, 2021. https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/financial-assistance-eu/funding-mechanisms-and-facilities/sure_en

[47] "ESM's role in the European response", European Stability Mechanism, accessed June 22, 2021 https://www.esm.europa.eu/content/europe-response-corona-crisis

[48] "Statement of EU ministers of finance on the Stability and Growth Pact in light of the COVID-19 crisis", European Council, accessed 22 June, 2021 https://www.consilium.europa.eu/en/press/press-releases/2020/03/23/statement-of-eu-ministers-of-finance-on-the-stability-and-growth-pact-in-light-of-the-covid-19-crisis/

On 26 March, 2020, the European Parliament approved an initial aid of 37 billion euros, reallocating that amount from unspent structural funds and other co-financing.[49] This would also be one of the first moments of the financial response to which the EU would be called in the context of Covid-19.

The first reference to a "Recovery Plan" is known institutionally in early April, 2020, at the end of an informal council of finance ministers in the Eurozone (the so-called Eurogroup), about an "emergency support instrument" that could provide 2.7 billion euros in EU Budget resources for the health systems most damaged by the pandemic. By this time, the so-called "coronabonds", that is, the issue of joint public debt, seemed already out of the question. In what could be a relief for many, given the supranational political constraints that could be imposed with an instrument of this nature, as happened in the Eurozone crisis in 2010.[50]

Rising Up Tensions

The tension between Member States escalated dangerously at the suggestion of the Netherlands Minister of Finance to investigate Spain, because Spain didn´t had a budgetary margin to respond to its crisis. In response, the Portuguese Prime Minister, António Costa considered "That statement is repugnant in the framework of the European Union. And that's exactly the right expression for it: repugnant, [...] No one has any more time to hear Dutch finance ministers as we heard in 2008, 2009, 2010 and so

[49] "Coronavirus: Parliament approves €37 billion crisis response", European Parliament, accessed February 13, 2021 https://www.europarl.europa.eu/news/en/headlines/economy/20200323STO75617/covid-19-parliament-approves-EU37-billion-crisis-response.

[50] "Proposal for a Council Regulation on the activation of emergency support in respect of the COVID-19 outbreak", European Commission, accessed February 13, 2020.

forth."[51] Costa resurrected the memory of the sovereign debt and Eurozone crises, with their respective divisions and accusations.

Just three days after the Eurogroup meeting, Spanish Prime Minister Pedro Sánchez sounded an alert, publishing a demanding article in 10 newspapers across the European Union: "Europe is at stake [...] The circumstances are exceptional and call for unwavering positions: either we rise to this challenge or we will fail as a union. We have reached a critical juncture at which even the most fervently pro-European countries and governments, as is Spain's case, need real proof of commitment". But Sanchez went even further, doubting the future credibility of the integration project, if solidarity did not reveal itself now, "Solidarity between Europeans is a key principle of the Union treaties. And it is demonstrated in times like this. Without solidarity, there will be no cohesion; without cohesion, there will be disaffection and then the credibility of the European project will be seriously damaged."[52]

Sanchez's article is particularly explicit in its reference to the concept of solidarity. This is a fundamental principle of the EU, which cements the political and moral commitment between Member States that share values and rights but also, in a fair way, mutual assistance and cooperation duties in crisis contexts. The relevance of this concept is established by its mention in several treaties, explicitly in matters as relevant as "economic, social and territorial cohesion" (article nº 3/3 of the Treaty of the European Union)[53]

[51] Naomi O'Leary, "Fierce backlash to Dutch hard line on eurobonds", *The Irish Times*, March 31, 2020, https://www.irishtimes.com/business/economy/fierce-backlash-to-dutch-hard-line-on-eurobonds-1.4217157.

[52] Pedro Sanchez, "Europe's future is at stake in this war against coronavirus", *The Guardian*. April 5, 2020, https://www.theguardian.com/world/commentisfree/2020/apr/05/europes-future-is-at-stake-in-this-war-against-coronavirus.

[53] "Treaty of the European Union", EUR-Lex, accessed June 23, 2021, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A12012M%2FTXT.

with the respective operationalization over the years by policies as the "structural funds" or implicitly, for example, in the field of "civil protection" (Article nº196/1 of the Treaty on Functioning of the European Union)[54]. We might add that it is this understanding of the concept that also allowed the quick implementation of measures to stabilize the economic situation and control damage across the Union from March to April 2020.[55]

On 23 April, the European Council meeting renamed the "Recovery Plan" to "Recovery Fund", but was still inconclusive on its contents. Namely on matters as relevant as amounts, deadlines or constraints, with the possibility of cuts in the future EU budget hanging in the air. And it should be remembered that the EU budget had recently lost a major contributor with UK's departure. From that meeting of the European Council, the divide on whether the Recovery Fund would be composed mainly of grants or loans had echoed abroad, with the ministers of countries such as the Netherlands, Sweden or Denmark more opposed to a model that privileged grants on loans. German Angela Merkel, the influential chancellor of the EU's largest economy, kept her opinion for a later time.[56]

[54] "Treaty on the Functioning of the European Union", EUR-Lex, accessed June 23, 2021, https://eur-lex.europa.eu/eli/treaty/tfeu_2012/oj.

[55] Yves Bertoncini, "European solidarity in times of crisis: a legacy to be deepened in the face of Covid-19." accessed June 23, 2021, https://www.robert-schuman.eu/en/european-issues/0555-european-solidarity-in-times-of-crisis-a-legacy-to-be-deepened-in-the-face-of-covid-19.

[56] "Statement by President von der Leyen at the joint press conference with President Michel, following the EU Leaders' videoconference on coronavirus of 23 April", European Commission, accessed February 13, 2021, https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_20_733.

Angela Merkel and Emmanuel Macron, on 18 May, sought a balance between the different positions in the European Council, proposing a value of 500 billion euros, reimbursable from cuts in future EU Budgets.[57]

On May 27, the European Commissioner for the Economy publicly presented the European Commission's proposal, through the Multiannual Financial Framework 2021-2027, for the Recovery Fund,[58] made up of 500 billion euros, on non-repayable grants, in addition to 250 billion in loans with this funding obtained through the issuance of debt by the Commission. In this context of joint response between the Recovery Fund and the Multiannual Financial Framework, it is important to remember that in February 2020, national leaders had failed to reach an agreement on the Multiannual Financial Framework 2021-2027, so they now presented a proposal for both problems.[59] However, the solution presented neglected to answer several questions, such as the duration of the loans required to finance this Fund and the terms for its allocation. To this added the doubt about how the so-called frugal countries would react. And their reaction would not take long.

In the Netherlands, the magazine "Elsevier Weekblad" highlighted, "Not one cent more for Southern Europe!"[60] with a provocative illustration generating controversy among public opinion in Southern countries. At the same time the Austrian Minister of Finance, Gernot Blummel, opposed the

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[57] Daniel Boffey, "Merkel and Macron propose €500bn EU rescue fund", *The Guardian*, May 18, 2020, https://www.theguardian.com/world/2020/may/18/merkel-and-macron-propose-500bn-eu-rescue-fund.

[58] "Europe's moment: Repair and prepare for the next generation", European Commission, accessed January 14, 202, https://ec.europa.eu/commission/presscorner/detail/en/ip_20_940.

[59] Joanna Gill and Darren McCaffrey. "EU announces financial 'firepower' up to 1.85 trillion with 750 billion for COVID recovery", *Euronews*. May 27, 2020, https://www.euronews.com/2020/05/27/eu-commission-set-to-unveil-trillion-euro-coronavirus-recovery-plan.

[60] Elsevier Weekblad. "Geen stuiver extra naar Zuid-Europa", *Elsevier Weekblad*. May 28, 2020, https://www.ewmagazine.nl/economie/achtergrond/2020/05/geen-stuiver-extra-naar-zuid-europa-207225w/.

model chosen by the European Commission, considering "the burden that it puts on the Austrian taxpayer would be simply too big. That's why we need renewed talks, in which we're ready to participate" (Euroactiv 2020).[61] Other countries were also actively opposed, in addition to the Netherlands and Austria, namely Denmark and Sweden.

The opposition from the frugal countries to the European Commission's proposal was not unpredictable. In fact, since the negotiations for the Multiannual Financial Framework 2021-2027 there was a clear disagreement on the amount of their financial transfers to the EU. These countries are used to be net contributors for the budget, in other words, they contribute more than they receive back.[62] From the start of the negotiations they wanted to limit the EU budget to 1% (and keeping the rebate mechanism for themselves) as they consider that a bigger budget would increase their contribution up to intolerable levels for their public opinion and taxpayers.[63] Now this same rationality applied also to the recovery fund.

On 19 June, the meeting of Heads of State briefly reaffirmed positions on the Recovery Fund and the Multiannual Financial Framework 2021-2027. According to the President of the European Council, Charles Michel, "on different topics we observe that it is necessary to continue to discuss […] we don't underestimate the difficulties" (European Council 2020b).[64] In other

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[61] Euroactiv. "Austria opposes current EU rescue, wants changes". *Euroactiv*, June 1, 2020, https://www.euractiv.com/section/economy-jobs/news/austria-opposes-current-eu-rescue-wants-changes/.

[62] Tamara Kovacevic, "EU budget: Who pays most in and who gets most back?". *BBC*, May 28, 2019, https://www.bbc.com/news/uk-politics-48256318.

[63] Jennifer Rankin and Daniel Boffey, "Tensions mount between EU members ahead of budget talks", *The Guardian*, February 19, 2020, https://www.theguardian.com/world/2020/feb/19/tensions-mount-between-eu-members-ahead-of-budget-talks.

[64] "Remarks by President Charles Michel following the video conference of the members of the European Council", European Council, accessed February 13, 2021, https://www.consilium.europa.eu/en/press/press-releases/2020/06/19/remarks-by-president-

words, and decoding these declarations, the divergences persisted without news regarding the amounts, the dispute over the proportion between subsidies and loans, or even about the different circumstances and distribution criteria.

Another issue that caused disagreement was related with the execution time of the Recovery Fund and the Multiannual Financial Framework. If countries from the South, such as France, Spain or Portugal, hardest hit by the crisis, wanted a quick agreement, so that the release of funds could begin as early as January 2021, the Prime Minister of the Netherlands, Mark Rutte, did not feel this urgency. According to him "I don't think we need this crazy hurry."[65]

Rutte's position was not an absolute surprise, as a text signed by the heads of state of Austria, Denmark, the Netherlands and Sweden, had already defended "We fully support the creation of a time-limited emergency recovery fund". Even confronting the Franco-German position, already supported by other Member States, they reaffirmed their preference for loans instead of subsidies, "We believe that when we borrow money together in the EU, the fundamentally sound way to use that money is convert it into loans for those who really need them, on the best possible terms."[66]

The visible opposition of the Netherlands, repeating the formula of imposing austerity measures on the countries of the South, had a new episode when Mark Rutte could not resist making new considerations, about the

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charles-michel-after-video-conference-of-the-members-of-the-european-council-19-june-2020/.

[65] Reuters, "Dutch PM Rutte: no necessity to reach European recovery fund deal at July meeting", *Reuters.* July 3 2020, https://www.reuters.com/article/us-eu-recovery-rutte/dutch-pm-rutte-no-necessity-to-reach-european-recovery-fund-deal-at-july-meeting-idUSKBN2441SE.

[66] Stefan Lofven "´Frugal four' warn pandemic spending must be responsible", *Financial Times*, June 16, 2020, https://www.ft.com/content/7c47fa9d-6d54-4bde-a1da-2c407a52e471

growing imbalances between Member States because of the pandemic and their respective economic crisis, which are open for various interpretations: "Of course, there's a risk this will happen if the countries that have saved enough for a rainy day manage to get out of the crisis, while those that don't have a rainy day fund cannot [get out of the crisis]."[67]

For Rutte, other constraints should be discussed about the implementation of the Recovery Fund, even beyond the strict financial and economic spectrum, weighing already on "structural reforms" to be carried out in the subscribing countries. As in the solutions found for the crisis in the Eurozone and the sovereign debts, "solidarity is not only helping those countries, but also that the countries do everything they can to reform things such as [the] pension system, labour market, taxation and fighting the informal economy. So that these countries become competitive as well."[68]

The Next Generation EU is Born but More Questions will Arise

After several days of intense negotiations, on 21 July, Member States reached an agreement, finding a joint solution for the Recovery Fund and the Multiannual Financial Framework 2021-2027. By this time the European Commission was already forecasting an economic contraction of 8.7%.[69] The fund was named "Next Generation EU" and closed at 750 billion euros, divided between 390 billion euros in non-refundable transfers and 360 billion euros in loans. The final agreement resembled a victory for the frugal, who achieved, among other things, an extension of the mechanism to counter their contributions to the EU budget, a decrease in the MFF value, a cut of around

[67] Politico, "EU leaders' video summit: As it happened", *Politico*, June 18, 2020, https://www.politico.eu/article/eu-summit-recovery-plan-mff-live-blog/.
[68] Ibid.
[69] "Summer 2020 Economic Forecast: An even deeper recession with wider divergences", European Commission, accessed February 13, 2021. https://ec.europa.eu/commission/presscorner/detail/en/ip_20_1269.

20% in the share of grants and that the payment of the amounts was conditioned to the national recovery plans evaluated by the European Commission, thus limiting the autonomy of the Member States.[70]

Meanwhile, the political crisis surrounding the Next Generation EU and the Multiannual Financial Framework saw new chapters that did not bode well for its easy closure. Over several months there was an impasse in the negotiations between the European Parliament and the Council, regarding the joint solution reached, in which, as described above, the reciprocal dependence between Next Generation EU and the Multiannual Financial Framework could endanger the entire negotiation process.

The negotiation victory achieved in July by the "frugal" group, with the reduction of its contributions to the Union's budget, through the enlargement of the rebate mechanism, and even with the increase of the contribution of other Member States (some particularly affected by the health and economic crisis), included their objective of reducing the Multiannual Financial Framework 2021-2027. Consequently, and in order to avoid further budgetary constraints in the short term, in relevant areas such as cohesion or in agriculture, cuts in other equally relevant areas were anticipated, such as Science, Research or Health. Thus, in an exercise of political and budgetary equilibrium, the Next generation EU could serve as a buffer for these cuts. However, as the amounts of subsidies used under this will later be discounted to Member States, in the amount of their transfers receivable from the Community budget, in practice, these grants are similar to loans, preventing the future maintenance of this illusion. This in case no new EU-specific

[70] "A recovery plan for Europe", European Council, accessed February 13, 2021, https://www.consilium.europa.eu/en/policies/eu-recovery-plan/.

revenue arises that could cover that budgetary space, protecting Member States from filling that gap with cuts in their future transfers.

If this impasse was not enough, other problems and divergences were added. For the European Union to borrow the 750 billion euros that make up the Next Generation EU, it would have to make a statement on its own resources that would allow it to increase the limit on the EU's own revenues, which did not seem easy.

The declaration of own resources to carry out the entire process remained blocked for two reasons. The first, essentially of a procedural nature, refers to its necessary unanimous approval, first by all governments, and later by all national parliaments (which will always be unpredictable), and the second due to the provisions of the document that condition its possible approval in the European Parliament (only after it can go for approval in the national parliaments), which remained at an impasse.

The Illiberals and the Final Agreement

Once again, and as the Commission only found a joint solution to unlock the Next Generation EU with the Multiannual Financial Framework 2021-2027, now there were countries that rejected some Multiannual Financial Framework 2021-2027 matters, thus making both documents unfeasible. Namely Hungary and Poland, specifically opposing matters related to the rule of law (referring to violations of the rule of law, such as the judicial system or press freedom).[71] And on the other hand, taking advantage of the opportunity, again the frugal countries, threatened that an

[71] Maia De La Baume, Hans Von Der Burchard and David Herszenhorn, "Poland joins Hungary in threatening to block EU´s budget and coronavirus recovery plan", *Politico,* September 18, 2021, https://www.politico.eu/article/poland-joins-hungary-in-threat-to-block-eus-landmark-budget-and-recovery-package/.

eventual yield to the claims of Hungary and Poland, would imply themselves rejecting the Multiannual Financial Framework 2021-2027.[72]

Still other problems arose, namely about new sources of income and financing or about the payment of interest (with this amount allocated inside or outside the community budget). The impasse that occurred could eventually require an increase in EU revenues, and so there remained, among others, a possible question: which national government would be willing to commit to new European taxes (even if in another name) to their national parliaments and public opinion, suggesting and supporting new and larger financial contributions to the EU?

On 10 November the Council and the EU Parliament, through their representatives, and after weeks of negotiations, announced an agreement on the Multiannual Financial Framework 2021-2027 and the Next Generation EU. Over the months between August and November, the political crisis played out in the European Parliament, on the Multiannual Financial Framework, which only then reached an agreement with the Council. Parliament reached most of its goals: a targeted reinforcement of EU programs, including Horizon Europe, EU4Health and Erasmus+, by 15 billion euros through additional means (€12.5 billion euros) and reallocations (2.5 billion euros) in the course of the next financial period, while respecting the expenditure ceilings set out in the European Council conclusions of 17-21 July; more flexibility to allow the EU to respond to unforeseen needs; greater involvement of the budgetary authority in the oversight of revenue under Next Generation EU; higher ambition on biodiversity and strengthened

[72] Jan Strupczewski, "Hungary, Poland block 2021-2027 EU budget, recovery package", *Reuters*, November 16, 2020, https://www.reuters.com/article/us-eu-budget/hungary-poland-block-2021-2027-eu-budget-recovery-package-idUSKBN27W1W8.

monitoring of biodiversity, climate and gender-related spending; an indicative roadmap towards the introduction of new own resources.[73]

The agreement reached, in essence, corresponds to the European Parliament's ambitions, particularly regarding the European Health, Education and Research programs, with an increase in its budget made possible by the diversion of funds relating to fines imposed on competition laws - previously distributed among Member States (Bayer 2020a). It was interesting that hours after the announcement of the agreement, the parties, on their respective websites, announced different amounts. For the European Parliament, the figure would be "16 billion euros for key programs,"[74] while on the Council website the announced value was "15 billion."[75] Admittedly, this difference was due to a different interpretation of the inclusion of a reserve of one billion euros in funds "that can be allocated flexibly according to future needs."[76]

Still, and as the agreement was only between representatives, final approval by the European Parliament and the European Council was still lacking, and this body would have to approve it unanimously. However,

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[73] "Next multiannual financial framework and recovery package: Council presidency reaches political agreement with the European Parliament", European Council, accessed February 13, 2021, https://www.consilium.europa.eu/en/press/press-releases/2020/11/10/next-multiannual-financial-framework-and-recovery-package-council-presidency-reaches-political-agreement-with-the-european-parliament/

[74] "Compromise on long-term EU budget: EP obtains €16 billion more for key programmes", European Parliament, accessed 13 February, 2021, https://www.europarl.europa.eu/news/en/press-room/20201106IPR91014/compromise-on-long-term-eu-budget-ep-obtains-EU16-billion-more-for-key-programmes.

[75] "Next multiannual financial framework and recovery package: Council presidency reaches political agreement with the European Parliament", European Council, accessed February 13, 2021. https://www.consilium.europa.eu/en/press/press-releases/2020/11/10/next-multiannual-financial-framework-and-recovery-package-council-presidency-reaches-political-agreement-with-the-european-parliament/

[76] Lili Bayer, "Council and Parliament reach deal on EU budget", *Politico*, November 10, 2020, https://www.politico.eu/article/council-and-parliament-reach-deal-on-eu-budget/.

Hungarian Prime Minister Viktor Orbán upheld the threat of blocking the Budget, and consequently Next Generation EU, if the mechanism that associated it to the rule of law persisted, thereby limiting his access to funds. To which Romanian Siegried Mursan, Vice-President of the European People's Party, replied, "The budget, the Recovery Fund, new revenues and the rule of law conditionality are one package for us [...] Parliament will ratify today's deal only if Member States stick to all parts of the agreement."[77]

European Commission President Ursula von der Leyen, in her election to the Commission, had been supported by Budapest and Warsaw, and was known for her softness in relation to the issues facing Hungary and Poland. Quite unlike the severity of Katarina Barley, the Vice-President of the European Parliament, and former German Minister of Justice, who considered "If we don't link the huge amount of money we are distributing now to the rule of law, how will we ever do it again? [...] These governments only want one thing from the EU and that is money. This is the moment to grab them."[78]

On 16 November, transforming threats into actions, in a meeting of ambassadors in the EU, for reasons related to the rule of law, Hungary and Poland blocked the Community Budget and the decision about the declaration of own resources that would permit the financing of Next Generation EU. The EU suffered an impasse in November for not having resolved the issue of the rule of law at the July summit. According to the Hungarian Minister of Justice, Judit Varga, "There is no clear objective criteria or clear definition of

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[77] Jan Strupczewski, "EU parliament, governments reach deal on EU 2021-2027 budget", *Reuters*, November 11, 2020, https://www.reuters.com/article/eu-budget/eu-parliament-governments-reach-deal-on-eu-2021-2027-budget-idUSKBN27R06W.

[78] Ben Hall, "EU must seize the moment to defend rule of law", *Financial Times*, October 1, 2020, https://www.ft.com/content/c888d73b-e6d0-496d-ba7b-37992427afc7.

principles of the rule of law, so you cannot use it as a tool for [a] concrete sanctioning mechanism", also his Polish counterpart, Zbigniew Ziobro, considered, "This is an issue that will determine if Poland is a sovereign subject in the EU community, or it will be politically and institutionally enslaved."[79] Days later, in support of Poland and Hungary, the Slovenian Prime Minister, Janez Jansa, sent a letter addressed to Charles Michel, where he stated that "discretionary mechanisms that are not based on independent judgement but on politically motivated criteria cannot be called "the Rule of Law"."[80]

After the European Council of 19 November, Charles Michel stated that "The European Union's magic is its ability to find solutions even when one believes it's impossible."[81] New efforts would be needed to unblock the situation, whose discussion would continue in the hands of Angela Merkel, and with a new episode scheduled for December 10 and 11. Meanwhile, on November 26, the leaders of Hungary and Poland presented a joint statement in which they supported each other, "We have decided to align our positions on these issues. Neither Poland, nor Hungary will accept any proposal that is deemed unacceptable by the other."[82]

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[79] David Herszenhorn and Lili Bayer, "EU in crisis over Hungary and Polands €1.8T hol-up", *Politico*, November 16, 2020, https://www.politico.eu/article/eu-in-crisis-over-hungary-poland-budget-hold-up/.

[80] "Letter of PM Janez Jansa to the PEUCO Charles Michel". Janez Janse, accessed February 13, 2021. https://www.gov.si/assets/PV/November-2020/Letter-of-PM-Janez-Jansa-to-the-PEUCO-Charles-Michel.pdf.

[81] Stefan Grobe, "Europe's week: Turnoil, trade and transatlantic relations", *Euronews*, November 23, 2020, https://www.euronews.com/2020/11/20/europe-s-week-turmoil-trade-and-transatlantic-relations.

[82] Hans Burchard, "Hungary and Poland escalate budget fight over rule of law", *Politico*, November 26, 2020, https://www.politico.eu/article/poland-hungary-budget-democracy-rule-law-orban-morawiecki-merkel/.

On December 2, the President of the European Commission hardened her position and a solution with only 25 countries, excluding Hungary and Poland was already being considered.[83]

On December 10, the divisions and the consequent impasse, due to the rule of law issue, were finally overcome[84], through the delay in the implementation of a mechanism that linked the distribution of European money to the respective for the rule of law criteria. Thus the EU temporarily suspended the threat to Hungary and Poland of loss of funds due to disregard for the rule of law, in an agreement that allowed both sides to celebrate victory.[85] Slovenian Prime Minister Janez Jansa described the agreement as "not good, not bad. As good as possible", as a "typical EU compromise,"[86] while Angela Merkel said it was a "great relief". Hungarian Prime Minister Viktor Orbán appeared among the EU's saviors, stating that "we could say modestly, of course, that we saved the unity of the union."[87]

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[83] Maia De La Baume and Hans Von Der Burchard. "Von der Leyen threatens EU recovery fund without Hungary and Poland", December 2, 2020, https://www.politico.eu/article/the-commission-proposes-eu-recovery-without-hungary-and-poland/.

[84] Lili Bayer "EU leaders back deal to end budget blockade by Hungary and Poland", *Politico*, December 10, 2020, https://www.politico.eu/article/deal-reached-to-unblock-eu-budget-and-recovery-fund/

[85] Lili Bayer, "EU budget plan lets Hungary, Poland off the rule-of-law hook (for now)", *Politico*, December 9, 2020, https://www.politico.eu/article/eu-budget-plan-lets-hungary-poland-off-the-rule-of-law-hook-for-now/?utm_source=POLITICO.EU&utm_campaign=08adb875f0-EMAIL_CAMPAIGN_2020_12_10_06_16&utm_medium=email&utm_term=0_10959edeb5-08adb875f0-190067569.

[86] Lili Bayer, "EU leaders back deal to end budget blockade by Hungary and Poland, Politico", December 10, 2020, https://www.politico.eu/article/deal-reached-to-unblock-eu-budget-and-recovery-fund/.

[87] Alice Tidey and Lauren Chadwick. "EU agrees €1.8 tr budget – but what brought Hungary & Poland onboard?", *Euronews*, December 11, 2020, https://www.euronews.com/2020/12/10/eu-s-1-8-trillion-budget-approved-after-hungary-and-poland-had-earlier-blocked-it.

Conclusion

This article sought to chronologically present the key moments in the construction of the EU's economic response to the crisis triggered by the COVID-19 pandemic, as well as, the main characteristics, incidences and political consequences of the previous divisions around the sovereign debt crisis and in Eurozone. We start by asking questions related to the most divisive issues in successive moments of crisis, namely which negotiating blocs tend to be formed, their different interests, and which new and divergent political elements are present between moments of crisis.

The recent past of the EU's Political Economy, from 2008 to the present, shows that economic crises within the EU, but not only, easily develop into political crises. In these crises, the formation of national blocs of interests is a trend phenomenon, and, in pursuing solutions to the crises, the common programmatic objectives and the European values of solidarity and cohesion seem to be easily downgraded.

Throughout 2020, the COVID-19 pandemic had multiple impacts in the EU, on the relationship between its institutions and the Member States and internally between them. There were consequences on the health systems of the EU, exposing the inability to articulate a solidarity-based response between countries in emergencies, as well as a tendency towards solutions decided in the strictly internal field of the Member States, as in the unilateral border closures in March. Thus, in this process of increasing unilateralism, it is not surprising that matters of an economic and financial nature were not safe from discord, and that the process of creating Next Generation EU, alongside the negotiations of the Multiannual Financial Framework 2021-2027, revealed several weaknesses in the European integration process. Previous difficulties surrounding the sovereign debt crisis and the Eurozone had already exposed consistent divergences of opinions and interests. At the time, overcoming these divergences required long negotiations, marked by reciprocal accusations, between North and South countries and their respective public opinions. The Eurosceptic movements and the populist and ideologically more extreme parties and movements emerged reinforced from these moments.

The EU encompasses a number of countries with significant historical, political and economic idiosyncrasies, which give the Union a heterogeneity that can result in both an advantage and a disadvantage, particularly in economic and financial matters. Progressively aware of this heterogeneity of interests, authors like Szemler, try to protect the continuity of the integration process from the "unrealism" of "uniformity,"[88] with the acceptance of different solutions to problems.

Between April and December 2020, the disagreements over Next Generation EU were evident. There were signs and statements by political leaders that threatened the continuation of the European integration process. In summary, on the one hand, there were calls for solidarity (such as the call for joint issuance of so-called coronabonds), on the other, calls for structural reforms (as Prime Minister Mark Rutte did for the labour market in the countries of the South). The amount of each countries' contribution to the Community budget (and its reduction) and the proportions of grants and loans in the composition of the Recovery Fund were notoriously divisive matters.

After overcoming a barrier of difficulties and demands placed by the so-called frugal countries, and not only, a new problem arose in relation to the application of the "rule of law" mechanism to the so-called illiberal

[88] Tamás Szemlér, "Challenges to European Integration: Missions and Instruments". *Politics in Central Europe*, 14 no.1 (2018): 77. https://doi.org/10.2478/pce-2018-0004.

countries, endangering the previous negotiation process which already involved a joint solution for Next Generation EU and Multiannual Financial Framework 2021-2027, also entangled in inconclusive negotiations for some years.

The different political and economic agendas were reconciled in December 2020 with a final agreement. However, the speed of response to an unprecedented crisis, and its effectiveness, divides the existing literature. On the one side, there are those who argue that the response was late and with an amount that will prove ineffective for the dimension of the ongoing crisis, and on the other, those who believe not only in its effectiveness, but that the EU is politically strengthened of this process, with signs of renewed commitment to the integration project and growing interdependence between Member States.

However, events of divergence and negotiating stress were registered, and both the postponement of the mechanism for implementing the rule of law principle and economic rivalries between central and peripheral countries, are likely to announce new episodes of crisis, in some way jeopardizing the sustainability of the European integration project. Although most catastrophic analyses on the continuity of European integration, until today have been largely unreasonable, except for the Brexit process.

Regardless of past policy options during the sovereign debt crisis and the turmoil of negotiations throughout 2020, there are signs of European solidarity in the solutions found in the Covid-19 context. We can highlight the first measures like the PEPP, the SURE, the ESM with reduced conditionality or the lifting of the “general escape clause” under the SGP, as well as the set of relevant programmatic options from Next Generation EU. In this program, the proportion between grants and loans and the criteria for their distribution will tend to contribute to the reduction of economic asymmetries between Member States[89] benefiting the countries of the South and East of the Union,[90] without austerity impositions. In this way, the Next Generation EU program sought to respond to the need of European solidarity through its redistributive role, strengthening economic and social cohesion in the Union. We might add that the rapid and effective operationalization of this program as well as its implementation by Member States are challenges that still need to be overcome.[91]

In conclusion, the future of the European integration project, will depend on its ability to surpass the successive waves of tensions and divergences. The big question will be whether their ability to adapt to an apparent permanent state of political emergency will be sufficient to surmount differences, allowing the integration process to prevail.

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[89] Sebastian Watzka and Gary Andrew Watt, "The Macroeconomic effect of the EU Recovery and Resilience Facility A preliminary assessment", *IMK Policy Brief*, 98: 1-16

[90] Cinzia Alcidi and Daniel Gros, "Next Generation EU: A Large Common Response to the COVID-19 Crisis", *Intereconomics*, 55(4), 202-203, DOI:10.1007/s10272-020-0900-6.

[91] Zsvolt Darvas, "Next Generation EU: 75% of grants will have to wait until 2023'", *Bruegel Blog*, accessed June 23, 2021 https://www.bruegel.org/2020/06/three-quarters-of-next-generation-eu-payments-will-have-to-wait-until-2023/.

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