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Tackling the COVID-19 crisis: moving forwards towards European integration

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In all likelihood, the COVID-19 will mark a turning point in the European integration process or, at the very least, a significant shift in the trend to date. On initial impressions, there is an extraordinary contrast between the speed and strength of the response to the current crisis and the disappointing and counterproductive reaction in most cases to the financial crisis and Great Recession ten years earlier. We will have to wait, however, to evaluate the significance of the measures taken and the extent to which the reaction to the coronavirus crisis marks a real watershed in the process of European integration. This will essentially depend on two factors: the potential impact that we consider will have been generated by the changes that were already under way as a result of the financial crisis and the Great Recession, and the new measures that may be adopted from now onwards, on top of the actions taken in the first six months, which have turn out towards strengthening the integration process.

The main purpose of this Policy Brief is to analyse the following question in depth: can the EU's response to the COVID-19 crisis represent a qualitative reinforcement of the European integration process? With this aim, the first section gives an overview of the challenges that the EU has had to tackle over the past twenty years and the emergence of certain underlying trends (populism, globalization, questioning the multilateral world order) that have significantly changed the rules of the game in terms of the process of European integration. In the second section, the core part of this Policy Brief, there is an analysis of the European response to the COVID-19 crisis, starting with a recap of the main measures taken. This is followed by a series of evaluations of these measures in order to undertake an in-depth examination of the objective of this brief, namely gauging the importance of the underlying changes that they entail. Lastly, two specific aspects are examined: the relative importance of the national and EU governments in the fiscal support measures; and the matter of solidarity as a foundation for progress towards greater political and fiscal integration. The last section presents a few final brief considerations.

1. The EU (2000-2020): A story of survival in the face of five major challenges

1.1. The challenges

There are times when the events that determine our day-to-day strategy for a fairly reasonable timescale in the future can basically be predicted in terms of their key aspects (although, of course, these predictions may relate to quite conflictive scenarios, such as during the Cold War, for instance). This has not been the case for the EU, which has had to deal with the COVID-19 crisis at a complex historical moment, just as it was emerging from two decades (2000-2020, although it could be argued from 1990 onwards) in which it has had to tackle a number of major challenges, some as a result of circumstances completely beyond its control and others at least partially due to the EU's own decisions (such as monetary union or the enlargement to the Eastern countries).

There have been five key challenges:

i) The creation of the euro and the ECB. On 1st January 1999, the irreversible exchange rate mechanism came into force for the first eleven countries (Greece joined two years later). Three years later, on 1st January 2002, the euro began circulation as the operating currency. After the enlargement of the EU, seven other countries joined the single currency (Slovenia, Malta, Cyprus, Slovakia, Estonia, Latvia and Lithuania) to reach the current figure of nineteen.

ii) The enlargement to incorporate the countries of Eastern Europe on 1st May 2004, when ten countries joined, followed by Bulgaria and Romania in 2007, and Croatia on 1st July 2013. As a result, the EU grew from fifteen to twenty-eight members (dropping to twenty-seven on 31st January 2020 as a result of Brexit).

iii) The shock of the Great Recession and the financial crisis that exploded in September 2008 with the collapse of Lehman Brothers. While most of the world economy hit the peak of the crisis in 2009, in some Eurozone countries, it dragged on for quite a few years longer, due to the mistaken austerity policies adopted and their impact on government debt, and the uncertainty that this triggered with respect to the survival of the single currency itself.

iv) Brexit, which marked the first time that a country opted to leave the EU, with the consequent fears that this would have a domino effect and generate a worrying loss in confidence in the European project.

v) Donald Trump's election as the president of the United States, with his hostile attitude towards the EU, and tensions between the USA and China, which led to significant changes in the international order, previously based on the existence of multilateral institution and the strategic unity and close alliance between the EU and USA.

Each of these events on its own could have severely threatened the continuity of the European project itself. They were essentially survival trials of a degree of complexity and severity that traditional, consolidated states rarely have to face over the long course of their historical evolution. In this case, the EU has had to tackle them all at the same time within a period of just twenty years. Moreover, the EU was far more vulnerable and less cohesive than traditional states, with less resilient, consolidated institutions and a weaker sense of belonging than states tend to have.

1.2. The consequences: the underlying problems faced by the EU when the COVID-19 crisis erupted

These are the main challenges that the EU has had to overcome in the past twenty years and, while it may have stumbled occasionally, the EU has made it through alive (and some may argue stronger), which is a great achievement in itself. However, surviving does not mean it has made it through unscathed or without considerable injuries. In fact, the impact of these challenges and the EU's response to them meant that, at the start of 2020, when the COVID-19 crisis struck, the European Union was dealing with a set of relatively serious underlying problems, including the following four key issues:

i) *Significant vulnerability in the face of the Great Recession and financial crisis*. To date, the EU's monetary union has been incomplete, primarily due to the lack of fiscal union. This had two extremely serious consequences, firstly with respect to the incubation of the Great Recession and, secondly, in terms of difficulties in tackling the crisis. Before the recession hit, the less competitive countries of the Eurozone had accumulated great imbalances (that would never have occurred outside the euro), and the Eurozone was not equipped with the right tools to respond to the crisis. As a result, the recession had a huge impact on certain countries, leading to the adoption of policies that entailed enormous social costs. All in all, we now find ourselves in a position where the EU (and particularly, the Eurozone) is aware that it needs to make significant reforms to be able to tackle new crises with confidence.

ii) *Slowdown in the political integration process*. For various reasons, establishing the single currency and creating the ECB somewhat paradoxically led to a slowdown of the process of political integration, rather than a boost, as was expected and desirable. The failure of the European Constitution in 2005 (after two referendums rejecting it in France and the Netherlands) is symbolic of this slowdown to a certain extent. After taking a step as integrationist as establishing the single currency and having created an unequivocally federal institution (the ECB), rather than moving forward along the path of political and fiscal integration, the EU lost the integrationist momentum that had characterized the previous period, with Delors's presidency of the Commission and the leadership of the Kohl-Mitterrand partnership. The centre of gravity of European political power shifted towards intergovernmental institutions (the Council of the EU and the Eurogroup, primarily) to the detriment of the Commission, in particular, which, in the Durão Barroso era (the decisive period of 2004-2014, in which three huge events coincided: the implementation of monetary union, the enlargement to incorporate the Eastern countries, and the Great Recession) became little more than a faithful servant of the Council. The slowdown in the political integration process was not only a setback for European federalists, but also a serious obstacle in terms of taking the appropriate measures to consolidate the monetary union and execute the expansion to the Eastern Europe countries effectively.

iii) *Emergence of populist, Eurosceptic movements, in many cases xenophobic, in several EU countries*. With differing degrees of intensity and contents, throughout the second decade of this century, in almost all the countries of the EU, movements of this type have gained considerable momentum. The reasons behind this phenomenon vary. In many cases, it is a reaction to the EU's disappointing response to the Great Recession, and even with its direct responsibility for the severity of the crisis for the application of misguided austerity policies. Other reasons include the effects of globalization on a wide range of middle-class sectors, the absence of a really solid sense of being European, and a lack of conviction in the goodwill of the project of European political integration, as well as sentiments of national identity taking root. Whatever the cause, these movements all have two things in common: a lack of enthusiasm, if not outright hostility, towards everything that represents deepening European integration; and mistrust and lack of respect for individual political rights and the basic rules of liberal democracy. This has led to the term 'illiberal democracies' being coined to refer to countries in which these movements are in power, such as Hungary and Poland.

iv) *Confusion and uncertainty with respect to the role of the EU on the world stage, at a time of substantive changes*. The EU has never been a strong international power politically speaking, stereotypically being seen as an economic giant but a political dwarf. All in all, Europe has settled into a certain set of stylistic features involving, on the one hand, proclaiming the need to strengthen coordination in defence, security and foreign policy and, on the other, standing side by side with the USA on the key issues of international policy, confident that it can count on US protection if it ever needs it. The appearance of Trump and growing concern over China's increasing protagonism (not only from the USA) have upset this backdrop. The EU realises that certain key aspects of the rules of the game that define the terrain of international politics have changed, and that, while Biden has revived hopes that harmony and cooperation can be re-established, Europe has to decide what its strategic role should be and significantly reinforce the instruments that will enable it to make its own voice heard among the key players.

1.3. An intrinsic factor: the weaknesses of the European political project

The aforementioned four features characterized the situation of the EU at the end of the last decade, at the point when the COVID-19 crisis came completely out of the blue at the start of 2020. These underlying trends are undoubtedly caused by the dynamics triggered by the five major challenges that the EU has had to tackle, as outlined above. However, these dynamics are the product of complex processes involving a diverse range of forces and successive interconnections at different levels between the challenges themselves and the EU's responses at any given time. Multiple factors come into play in the process that has led us from the initial challenges to the situation characterized by these four features. These factors include three key aspects that can be directly attributed to the European Union itself:

The first factor, as mentioned tangentially earlier, was the *errors in the design of monetary union*. Experience has taught us that, for monetary union to work effectively, the markets (labour, capital, goods and services) have to be strongly integrated, with a high degree of factor mobility to reduce the differences in competitiveness between the regions that make up the monetary union. More importantly, we have learned from experience that monetary union cannot exist without fiscal union, which, in turn, requires political union. The EU launched monetary union without having these other conditions in place and, even more problematically, without a rigorous plan to establish them gradually. As mentioned above, the Great Recession highlighted the great vulnerability that this generated. Sure enough, afterwards, in the decade from 2010 to 2020, steps were taken to structure and institutionalize the EMU (the creation of the ESM, the very tentative advances towards banking union), but these steps were still far from sufficient.

The second factor was the *knock-on effects of the enlargement of the EU to incorporate the Eastern countries*. This expansion was desirable and probably inevitable. The Eastern countries are a vibrant part of Europe and the EU could hardly refuse to welcome them in when they finally moved on from long years of dictatorship. However, the strong core of the EU should have foreseen the extent to which the incorporation of these countries would pose a very considerable obstacle to the project of European political integration. Having just emerged from a long, dark period of national subjugation to another country, these countries could hardly have been expected to enthusiastically embrace a process that involved blurring national identities in order to move towards the creation of a new supranational political reality. Moreover, after decades of suffering the many ravages of state bureaucracy (at a national level and from the Soviet Union), these countries felt a certain fascination for the illusion of the market and capitalism. It was only to be expected that they would flee as fast as they could from any attempt to create new state political structures. Last but not least, it is no way far-fetched to imagine that all or some of these countries were probably more pro-Atlanticist that pro-European. Their top priority was to form part of a military structure that would protect them from the powers to which they had previously been subject, rather than taking part in the creation of a new plurinational political reality. To summarize, the strong core of the EU should have approached the enlargement by designing a far better thought-out and articulated plan than it actually did. The plan should have set out the enlargement, certainly, but also the continuation at probably an accelerated pace of the process of political integration by this core (as Delors was referring to when he said that further enlargement must be accompanied by further deepening).

The third and final factor was the *effects of the intergovernmental approach*. The construction of EU has always been the result of two vectors, or two souls: the intergovernmental vector (driven by the Member States) and the community or 'federal' vector (led by the joint institutions: the Commission, the Parliament, and now the ECB). While it may have been naive to expect monetary union and the creation of the ECB to trigger to an unstoppable march towards a federal Europe, it was not unreasonable to hope that it would lead to a clear step in this direction, rather than pulling the other way, as happened from 2005 onwards. However, bias towards intergovernmental institutions is not without its problems. Just the contrary, it has some very serious counterproductive effects as it incentivizes tensions between countries and erodes the shared sense of belonging. Moreover, it creates a rift between the sphere in which democracy is practised (which is still national) and the sphere in which decisions are made (increasingly at a European level, precisely due to monetary union). The result is that citizens get the impression that the people they have elected are not in charge, and the people in charge have not been elected by them. It should come as no surprise, therefore, that European citizens has become increasingly removed from the two fundamental ideas of the democratic institutions and the European project.

These factors have played a decisive role in the situation described earlier, explaining the vulnerability of the Eurozone's economy before the crisis, the rise of xenophobic populist movements, the slowdown of the political integration process and the turmoil in the face of the new scenario of international politics. The three factors can all be attributed to the EU itself. In other words, it was and is in the EU's power to approach these issues in a different way. The EU's agenda will be shaped by how successfully it manages to do so in the future. On the plus side, it has the will to survive and the capacity for resilience, as it has shown in a number of extremely critical situations, such as in 2012, when the breakdown of the Eurozone seemed inevitable, and in its approach to Brexit, which has served to reinforce the unity of the EU, despite the obvious danger that exactly the opposite would occur. Ultimately, the countries that make up the EU have displayed a firm will to remain together. This is true of both the most powerful members, which may have been tempted to shed the burden of helping those more in need, and the less powerful members, which, despite the huge sacrifices required in many cases to belong to the Eurozone, have shown a strong desire to remain part of it. This is the context within which a new challenge emerged, more severe and dramatic than any of the others, in the form of the crisis of the COVID-19 pandemic.

2. The EU's response to the COVID-19 crisis

2.1. Introduction

The COVID-19 crisis has proven to be an even more serious challenge than the critical tests the EU has faced in the past twenty years. The EU has had to tackle a crisis that it is no exaggeration to call a fight for survival, when it had still not fully overcome its previous challenges. When the pandemic crisis, what was at stake was whether, when faced with a matter of life and death such as this, the Member States of the Union would each just look out for themselves, acting solely in their own interests and competing with other members, sometimes literally to outbid them for vital equipment and medicines, or rather, the fact that there was a common enemy would prevail, which could only be fought effectively together. This fight for survival is clearly very different to the other challenges that the EU has faced, of a very distinct nature and with probably greater power to destroy the future of the European Union unless it is tackled with the essential bold vision and conviction it requires.

2.2. The EU's actions in response to the COVID-19 crisis: an overview

1. After a few initial days of procrastinating and fairly intense debates about the degree of conditionality that should be applied to the support given, the Eurogroup approved a first packet of measures on 9th April 2020 (subsequently approved by the Council of the European Union on 23rd April)[1]. This package was designed to tackle the health emergency and its immediate impact on economic activity and employment. The total volume of the package reached €540 billion, all in the form of loans distributed in three large sections:

a) Loans issued through the European Stability Mechanism (ESM), amounting to €240 billion. For this purpose, a specific credit facility was created (ESM Pandemic Crisis Support, PCS), which could be accessed by the different countries, up to a maximum of 2% of GDP[2]. These loans had a very low interest rate and were only contingent on being used to finance activities directly or indirectly related to the health costs generated by the pandemic. While they are conditional loans as such, the degree of conditioning is far lower than 'traditional' rescue programmes provided by the ESM, which required the prior approval of a memorandum of understanding (strictly establishing measures, usually restricting public spending and making structural reforms) and relatively severe monitoring and supervision mechanisms. However, whether it be due to the supposed stigma of requesting this kind of credit facility (with the ESM evoking ideas of rescue plans) or because of the scarcely favourable margin in terms of the interest rates, the fact is that, at the end of 2020, not a single country had made use of this facility[3].

b) Loans through the European Investment Bank, for the amount of €200 billion, basically designed to help small and medium enterprises, which were particularly affected by the consequences of the pandemic.

c) The SURE Program, with loans amounting to €100 billion, essentially aimed at financing the extraordinary spending on unemployment benefit caused by the COVID-19 crisis. By the end of 2020, 18 countries had taken out these loans, reaching a total amount of €90,300 M[4].

As well as these measures, the package adopted by the Eurogroup and subsequently approved by the Council as part of this initial response to the crisis also contains two types of measures that should be highlighted. Firstly, it stipulates the almost absolute flexibilization of the rules on fiscal discipline and financial correction procedures in the event of excessive deficit. Secondly, it announced the upcoming presentation of an economic recovery plan, which is discussed below. In other words, the underlying idea of this package is to distinguish clearly between the mechanisms intended to repair the immediate damage caused by the pandemic and maintain economic activity, and the mechanisms designed to stimulate a change in the production system, boosting activities that may replace those that are permanently damaged.

2. The second large packet of measures was called Next Generation EU (NGEU), adopted by the Council of the European Union on 21st July 2020. It is a hugely important agreement that may have a very significant influence on the future of the European integration process because of its scale, the fact that a large share of the funds will be issued as direct support (i.e., grants that do not have to be repaid) and the fact that it will be financed by joint debt issuance. As mentioned in the previous point, it should be noted that this project was announced in the April package of measures and that, in a joint briefing of clear political significance[5] on the 18th May, President Macron and Chancellor Merkel presented an initial proposal, that would form the basis of the Commission project, presented soon afterwards on 28th May[6]. This showed the clear political determination to make progress in this respect. The initiative was met with strong opposition from a small group of states[7] and, after a negotiation that led to certain modifications, it was approved by the Council of the European Union. The main characteristics of *Next Generation EU* are as follow[8]:

[1] See Eurogroup (2020).
[2] See Camous-Claeys (2020: 6).
[3] Camous-Claeys (2020: 7).
[4] EC (2020Q).
[5] See Federal Government (Germany) (2020A and 2020B). Also, See Fleming et al. (2020), Fleming-Brunsden (2020), Financial Times (2020).
[6] EC (2020H, 2020Y, 2020K and 2020L).
[7] The so-called 'Frugal Four' (Netherlands, Austria, Denmark and Sweden). See Frugal Four (2020), Heikkilä-Von der Burchard (2020), Brunsden-Fleming (2020).
[8] For more detailed information, see EU (2020A), EC (K, L, N and P).

a) The total amount of the package came to €750 billion, to be spent over the course of the 2021, 2022 and 2023 financial years (although the related payments may go on until 31st December 2026)[9]. The magnitude of the package is huge, if we consider that the EU budget (the Multiannual Financial Framework) for the period 2021-2026 will amount to €1,074,300 million[10]. In other words, in annual terms, between 2021 and 2023, the EU's budget will increase from approximately €150 billion to €400 billion (a 166.7% rise). The resources of the NGEU will be implemented through the EU's budget[11], which gives the European Commission a particularly relevant role in enacting it.

b) These resources will be channelled in the form of grants (€390 billion[12]) and loans (€350 billion). 70% of the grants have to be issued within the first two years, and the remaining 30% in 2023[13]. The distribution between grants and loans has been at the heart of the negotiation between the Member States, from the starting point of the Commission's initial proposal of €500 billion in grants and €250 billion in loans[14]. The conditions offered by the Commission to the states for these loans will be the same as the Commission itself has obtained on the markets (EC, 2020I: 1).

Table 1. NGEU by individual programs (amounts in billion euros)

Programme	Amount
Recovery and Resilience Facility (RRF)	672.5
loans	360.0
grants	312.5
ReactEU	47.5
Horizon Europe	5.0
InvestEU	5.6
Rural Development	7.5
Just Transition Fund (JTF)	10.0
RescEU	1.9
Total	**750.0**

Source: EU (2020A).

c) In fact, the Next Generation EU brand comprises seven programmes[15], of which by far the largest is the Recovery and Resilience Facility (RRF), which accounts for €672.5 billion of the total €750 billion (89.7%) (Tables 1 and 2). The Council's agreement stipulates that the financial support has to be spent on financing public and private investment to drive "a sustainable and resilient recovery", "repair the immediate damage caused by the COVID-19 pandemic" and "support the EU's green and digital priorities"[16]. Subsequent EC documents (2020N and P) have specified the priority flagship areas to which the resources should be allocated.

d) The grants issued within the framework of the NGEU are distributed among the Member States according to three basic criteria: population, inverse GDP per capita compared to the EU average, and the unemployment rate in the last five years for which data is available (2015-2019)[17]. For the grants allocated in 2023, the average unemployment criterion is replaced by real GDP losses in the 2020 and 2021 financial years, as calculated on 30th June 2022[18]. With respect to the €390 billion issued in the form of grants, the main beneficiary countries in terms of the absolute volume of resources are Italy, with €82.96 billion (21.3% of the total) and Spain, with €76.15 billion (19.5%) (Table 4). The final distribution between the countries approved by the Council differs from the Commission's proposal in May. For instance, Spain's percentage of the total rises from 17.7% to 19.5% (Table 3). Nevertheless, considering the (sometimes considerable) variations shown in the available estimates, a degree of caution should be shown with respect to their reliability[19].

[9] EU (2020A: 5, A13).
[10] EU (2020A: 11, 67).
[11] EU (2020A: 1).
[12] Including guarantees equivalent to €5.6 M, all within the Invest EU program. See Darvas (2020B: Table 1).
[13] EU (202A: 5, A15).
[14] See Table 3 and Darvas (2020B and D) for an overview of the changes between the Commission's proposal and the project eventually approved.
[15] See detailed overview of EU (2020A: 5, A14) and Darvas (2020A, B and D).
[16] EU (2020A: 2, A2).
[17] EC (2020I: 1, 2020K: 21). There are additional rules that set limits to prevent the excessive concentration of resources in a single country. See Darvas (2020A, B and D) for a detailed analysis of the distribution criteria.
[18] EU (2020A: 5, A16).
[19] For example, in the two estimates made by Darvas (2020B and 2020D), and Bruegel, in July and November, the data for some countries differ considerably (the grants allocated to Germany fall by €19.41 billion, to France by €6.83 billion, and to Italy by €3.56 billion, Meanwhile, the grants allocated to Spain rise by €4.14 billion and to Portugal, Romania and the Czech Republic by €3.94 billion, €3.27 billion and €3.06 billion, respectively). This latter data is based on the Commission's own estimates (EC, 2020L), so they should be seen as sufficiently reliable.

Table 2. Comparison of the overall envelope for recovery instruments (€ billion at 2018 prices)

	Commission's proposal - 27th May				European Council's Decision - 21st July			
	Grants	Guarantees	Loans	Total	Grants	Guarantees	Loans	Total
2020 Next Generation EU 2021-2024 (NGEU)								
1. Supporting Member States to recover								
1.1 Recovery and Resilience Facility	310.0		250.0		312.5		360.0	
1.2 ReactEU	50.0				47.5			
1.3 European Agricultural Fund for Rural Development	15.0				7.5			
1.4 Just Transition Fund	30.0				10.0			
2. Kick-starting the economy and helping private investment								
2.1 Solvency Support Instrument		26.0				0.0		
2.2 InvestEU		30.3				5.6		
3. Learning the lessons of the crisis								
3.1 EU4Health	7.7					0.0		
3.2 RescEU	2.0				1.9			
3.3 Horizon Europe	13.5				5.0			
3.4 Neighbourhood, Development and International Cooperation (non-EU)		10.5				0.0		
3.5 Humanitarian aid (non-EU)	5.0				0.0			
NGEU Subtotal	**433.2**	**66.8**	**250.0**	**750.0**	**384.4**	**5.6**	**360.0**	**750.0**

Source: Darvas (2020B).

e) In relation to the distribution among the countries of the €360 billion in the form of loans, it is more a matter of speculation than estimates, which would be almost impossible because, in this case, it comes down to the initiative of each of the different countries. The only condition established in the agreement is that the resources received as loans cannot exceed 6.8% of the corresponding country's GDP (EU, 2020A: 5, A15). Apart from that criterion, the rest is all suppositions. Several estimates, for instance, forecast that the loans will follow the same pattern of distribution as the grants. Others are based on a diverse range of assumptions[20]. However, in fact, the approved regulations specify nothing in this respect and there are reasons to expect that the distribution pattern of the loans will not be exactly the same as for the grants. On the contrary, it is reasonable to predict that each country's demand for loans will fundamentally depend on three factors: the fiscal room available (here, the countries receiving more grants have less fiscal room); the need to match the financing of projects that have been allocated grants (in this case, there will be a direct correlation between loans and grants); and the differential between the interest rates at which the NGEU loans must be paid back and the rates of the bonds issued to the market (it can also be assumed here that the countries that receive more grants are those that find it harder to get financing on the markets). The estimate shown in Table 4 of this Policy Brief assumes that the key for allocating the loans among the countries is the average between the grant allocation key and the GDP coefficient.

Table 3. Distribution of NGEU grants (2021-2023)

	Commission's proposal (27/05/2020)		**EU Council's agreement** (21/07/2020)	
	(billion euros)	(% s/ total)	(billion euros)	(% s/ total)
Austria	5.79	1.2	3.95	1.0
Belgium	9.48	1.9	6.49	1.7
Bulgaria	9.37	1.9	7.31	1.9
Croatia	7.72	1.5	6.87	1.8
Cyprus	1.60	0.3	1.21	0.3
Czech Rep.	9.15	1.8	8.77	2.2
Denmark	3.11	0.6	2.02	0.5
Estonia	1.92	0.4	1.45	0.4
Finland	4.73	0.9	3.09	0.8
France	56.35	11.3	45.02	11.5
Germany	43.09	8.6	28.62	7.3
Greece	25.52	5.1	19.66	5.0
Hungary	8.87	1.8	7.65	2.0
Ireland	3.36	0.7	1.82	0.5
Italy	104.13	20.8	82.96	21.3
Latvia	2.97	0.6	2.26	0.6
Lithuania	3.99	0.8	2.99	0.8
Luxembourg	0.32	0.1	0.28	0.1
Malta	0.38	0.1	0.36	0.1
Netherlands	10.45	2.1	7.18	1.8
Poland	38.57	7.7	27.81	7.1
Portugal	16.97	3.4	15.57	4.0
Romania	20.45	4.1	16.97	4.4
Slovakia	8.20	1.6	6.99	1.8
Slovenia	2.79	0.6	2.07	0.5
Spain	88.86	17.8	76.15	19.5
Sweden	6.43	1.3	4.48	1.1
Others	5.42	1.1		
Total	**500.00**	**100.0**	**390.00**	**100.0**

Note: the data in the third column are the updated figures provided by Darvas (2020C), which, in turn, are estimated based on the data provided by the Commission (EC, 2020P) (see Table 4).

Source: Darvas (2020B).

f) To finance the NGEU programme, the European Commission is authorized to issue debt (with EU backing) up to a total of €750 billion. Until 2026, net issuances can be made (which means that net

[20] For instance, Darvas (2020D: 10), who generally takes a very reasonable outlook, considers that the countries that will apply for the NGEU loans will be the same countries that have requested support from the SURE program and that they will all go right up to the limit of 6.8% of GDP (in other words, within this set of countries, the loans will be distributed in proportion to GDP). The two hypotheses are, however, extremely questionable. The SURE loans (EC, 2020P) are linked to the unemployment rate and there are countries that have not applied for them but which, however, will receive NGEU grants. It may well be that they apply for loans to co-finance the corresponding projects.

repayments could be zero for this period) and the maturity date of these bonds may be as far off as 31st December 2058[21]. In practice, this means that the programme will be financed by issuing 38-year bonds, with a six-year period without repayments. The €360 billion allocated to loans do not entail any additional cost to the Community budget, as they will be paid by the borrower states themselves. With respect to the €390 billion in grants, under the current interest rate conditions, the financial burden derived from this indebtedness is relatively modest, bearing in mind its magnitude: it will account for between 1.3% and 2.5% of the budget for the first six years, and between 8.6% and 9.3% for the remaining 32 years, depending on the interest rate on the bonds issued[22].

g) The Council's agreement sets out an increase in own resources to cover the higher future costs, referring[23] specifically to a tax on non-recycled plastic (scheduled for application from 1st January 2021), a carbon border adjustment mechanism, a digital levy (coming into force no later than 1st January 2023 onwards), revenue from a revised Emissions Trading System (ETS)[24] and a tax on financial transactions. These new own resources will have to cover the increased spending resulting from the financial burden incurred through the debt issuance required to finance the NGEU and, as mentioned above, this may account for between 8.6% and 9.3% of the current EU budget. This does not account for the possibility that part of the increased spending in the period 2021-2023 will not be consolidated in the future.

3. Once again, the role of the ECB has been particularly important when tackling a Community crisis, as highlighted in the following two key points:

a) The ECB took action immediately. As early as the 12th March, it adopted a set of measures to ensure the full liquidity of the markets and the financial system, typically in the field of monetary policy. These measures included the following[25]: maintaining a 0% interest rate on the main credit operations and the rate of -0.50% paid on the debt facilities of financial institutions; expanding the Quantitative Easing asset purchase program by 120 billion euros; and significantly expanding longer-term refinancing operations (LTROs), particularly those targeted at small and medium enterprises (TLTROs). Under certain circumstances, these loans could even be offered at an interest rate 0.25 points lower than the rate on the bank reserves on the ECB, which, in fact, is equivalent to an implicit subsidy to financial institutions.

b) Almost immediately, on 18th March 2020, the ECB also approved an asset purchase programme, basically sovereign bonds, for a total amount of €750 billion (the Pandemic emergency purchase programme), subsequently raised to €1,350 billion on 4th June and to €1,850 billion on 10th December[26]. Although this formed part of the ECB's set of measures developed through Quantitative Easing, it is clear that it was intended not so much to achieve a monetary policy objective, as to ensure that the Member States could easily place the debt required to cover the costs generated by the coronavirus crisis. This was a critically important measure at a time when the other EU institutions were yet to take any support measures and, as a result, all the fiscal effort fell to the national budgets, which led to the start of strong pressure on the risk premiums at which some Treasuries had to acquire debt. As had occurred previously in the Great Recession, the ECB had foresight and took the lead in the response to a European crisis. It should be noted, however, that, this time, as mentioned in the previous sections, unlike in case of the Great Recession, the Commission, and the Council (and the Eurogroup) also adopted measures immediately.

The ECB has once again shown that it is willing to go to the limit of its mandate in its unequivocal efforts to support economic activity in the Eurozone. This firm attitude was reiterated after the judgment of the Federal Constitutional Court of Germany on 5th May, which questioned the legality of the asset purchase policy[27]. For all these reasons, the declarations of its President should be seen as no more than anecdotal, when, at the start of the crisis, he said it was not the ECB's job to close sovereign spreads in the different countries[28], a statement for which, incidentally, he apologized immediately.

[21] EU (2020A: 3, A5 and A7).
[22] Issuing debt of €390 billion over 32 years at 1% would result in an annual burden of 9.3% of the EU budget and, at a rate of 0.5%, a burden of 8.6%.
[23] EU (2020A: 8, A29; and 64). Also, in relation to the temporary increase in the own resources ceiling, see EU (2020A: 3, A9) and EU (2020A: 4, A10). Fuest-Pisani-Ferry (2020) evaluate the EU's new own resource alternatives.
[24] See EU (2020B) and EEA (2020A and 2020B).
[25] ECB (2020A).
[26] ECB (2020B, C, D and E).
[27] See Federal Constitutional Court (2020A and 2020B), for the ruling; CJEU (2020), for the statement of the Court of Justice of the EU. See also Arnold-Stubbington (2020B), Hall-Arnold (2020), Arnold (2020B), Arnold et al. (2020).
[28] See Arnold-Stubbington (2020A) and Arnold (2020A).

Table 4: Distribution of NGEU resources among EU countries (2021-2023)*

	Grants (billion euros)	% s/total	% s/GDP	Loans (1) (billion euros)	% s/total	Total (grants and loans - billion euros)	% s/total	% s/GDP
Austria	3,95	1,0	1,0	6,95	1,9	10,90	1,5	2,7
Belgium	6,49	1,7	1,4	9,13	2,5	15,62	2,1	3,3
Bulgaria	7,31	1,9	11,9	4,16	1,2	11,47	1,5	18,7
Croatia	6,87	1,8	12,7	3,87	1,1	10,74	1,4	19,8
Cyprus	1,21	0,3	5,4	0,85	0,2	2,06	0,3	9,2
Czech Rep.	8,77	2,2	3,9	6,93	1,9	15,70	2,1	7,0
Denmark	2,02	0,5	0,6	4,96	1,4	6,98	0,9	2,2
Estonia	1,45	0,4	5,2	1,03	0,3	2,48	0,3	8,8
Finland	3,09	0,8	1,3	4,53	1,3	7,62	1,0	3,2
France	45,02	11,5	1,9	52,05	14,5	97,07	12,9	4,0
Germany	28,62	7,3	0,8	57,67	16,0	86,29	11,5	2,5
Greece	19,66	5,0	10,7	11,44	3,2	31,10	4,1	17,0
Hungary	7,65	2,0	5,2	5,41	1,5	13,06	1,7	8,9
Ireland	1,82	0,5	0,5	5,43	1,5	7,25	1,0	2,0
Italy	82,96	21,3	4,6	61,36	17,0	144,32	19,2	8,1
Latvia	2,26	0,6	7,4	1,44	0,4	3,70	0,5	12,1
Lithuania	2,99	0,8	6,1	2,01	0,6	5,00	0,7	10,2
Luxembourg	0,28	0,1	0,4	0,95	0,3	1,23	0,2	1,9
Malta	0,36	0,1	2,7	0,34	0,1	0,70	0,1	5,2
Netherlands	7,18	1,8	0,9	13,76	3,8	20,94	2,8	2,6
Poland	27,81	7,1	5,2	19,70	5,5	47,51	6,3	8,9
Portugal	15,57	4,0	7,3	9,94	2,8	25,51	3,4	12,0
Romania	16,97	4,4	7,6	10,71	3,0	27,68	3,7	12,4
Slovakia	6,99	1,8	7,4	4,44	1,2	11,43	1,5	12,2
Slovenia	2,07	0,5	4,3	1,58	0,4	3,65	0,5	7,5
Spain	76,15	19,5	6,1	51,19	14,2	127,34	17,0	10,2
Sweden	4,48	1,1	0,9	8,18	2,3	12,66	1,7	2,7
Total	**390,00**	**100,0**	**2,8**	**360,00**	**100,0**	**750,00**	**100,0**	**5,4**

Note: Data updated in November 2020

(1) The key to distributing the loans among the countries is taken to be the average between the grant distribution and the GDP coefficient.

Source: The data in the first column are the updated figures provided by Darvas (2020D: Table 1), which, in turn, are estimated based on the data provided by the Commission (EC, 2020P). The rest of the data are the author's own estimates.

4. The three preceding points present the main actions taken by the EU in the economic and budgetary spheres before the coronavirus crisis: the two packages approved by the Council of the European Union, at the proposal of the Eurogroup, and the more significant measures taken by the ECB. However, the role of the European Commission and the Parliament should also be highlighted. The fact that the abovementioned measures were approved by the Council of the European Union and the ECB may give the impression that the Parliament and the Commission were relatively passive and in the background, which would be an inaccurate synopsis of the real situation.

It is clear that, according to the rules of the game established in the Treaties, main authority and the last word in the fields in which action is required falls to Council to a large extent. However, the role of the EC has, first and foremost, been very decisive right from the beginning. Firstly, the EC was resolute and a driving force, taking the initiative making proposals when required. Secondly, in the discussions between the Member States before the adoption of the two large packages of measures in April and July, the EC's proposals were always proactive oriented (better to act than not to), integrationist (Community rather than intergovernmental mechanisms) and in opposition to homeopathic minimalism (strong responses rather than superficial cosmetic cover-ups). The EC has not passed the buck, but rather has assumed responsibilities with remarkable firmness, knowing that its competences and means were limited and that the key decisions had to be adopted by the Council. Lastly, the Commission has had and, more importantly, will have a key role in the rollout of the NGEU, in terms of the implementation of the approved measures.

Despite the fact that, as highlighted above, the packages of measures taken fell within the authority of the Member States and, as such, had to be adopted through intergovernmental institutions (the Council and the Eurogroup), the Commission immediately took direct action to promote a coordinated response to the crisis[29], and acted even more directly in terms of state aids and fiscal discipline rules, areas that fall within the scope of its responsibilities, practically suspending the applicable regulations in both cases[30]. In the case of

[29] As soon as 13th March, the Commission already proposed a coordinated response, specifying the lines of action that it would later adopt. See EC (2020A, B, C and G).

[30] See the references mentioned in the previous footnote. Also, EC (2020D and E), in relation to state aids, and EC

state aids, it could take this action itself in such a way that the decisions adopted did not require the subsequent agreement of other EU institutions to take effect. In contrast, in the case of suspending the fiscal rules, the Commission could not adopt the agreement directly, but rather it took the initiative to make the proposal to the Council to suspend the application of the rules of fiscal discipline, based on the exceptionality clause stipulated in the Stability and Growth Pact. Ultimately, this was an initiative of significant political value that clearly indicated the Commission's position with respect to the appropriacy of applying active fiscal policies rather than austerity measures in such a situation.

2.3. Evaluation criteria for the EU's response to the COVID-19 crisis

It is still too soon for an in-depth assessment of Europe's response to the coronavirus crisis. We do not know what the final impact will be and important aspects of how the adopted measures will be applied still need to be defined. Moreover, there are not enough clear facts to predict how far the path taken by the European institutions will lead. Nevertheless, the decisions taken seem to be of a significant enough scale to justify making a few initial evaluations:

i) Firstly, the **speed and determination** with which the EU reacted should be highlighted. If we had to sum up the response in three words, they would be fast, substantial and integration-oriented. The speed of the reaction has already been discussed: the Commission acted immediately, the Council of the European Union adopted the first package of measures on 23rd April (a month and a half after the crisis erupted) and the NGEU on 21st July (four months later). The substantial nature of the response is reflected in the magnitude of the measures adopted. This point has also been mentioned earlier. Suffice to say that the sum total of the two packages of measures (€1.290 billion) represents around 9.3% of the EU's GDP in 2019 and exceeds the amount of the EU budget planned within the Multiannual Financial Framework for the next seven years (€1.074 billion). Last but not least, it is worth highlighting the integrationist direction of the measures compared to the intergovernmental emphasis of many of the EU's decisions made over the last twenty years. This all demonstrates a significant change in the EU's approach to tackling the COVID-19 crisis with respect to its response to the Great Recession ten years earlier.

ii) Secondly, also in contrast to what happened during the Great Recession, right from the start of tackling this crisis, a philosophy has prevailed that advocates the **very active involvement of the public sector** and opposes austerity policies. To be more exact, the prevailing philosophy is characterized by two factors, the first of which, as just mentioned, is the need for the active government intervention to maintain economic activity. This requires a considerable rise in public spending that, first of all, involved suspending the fiscal discipline rules and rejecting austerity and fiscal consolidation measures. The second key factor that has shaped the prevalent philosophy is the idea that this effort had to be made at a European level. In other words, it was not enough to relax the fiscal discipline rules (and state aid regulations), so that the Member States could accumulate considerable deficits if the health emergency and maintaining economic activity required it, but rather that, in addition, some of the effort should be made by everyone at a European level.

While there were arguments and resistance particularly within the Eurogroup and the Council of the European Union, this was not the case in the Commission, the Parliament nor, of course, the ECB. This is worth noting as it has not always been the case at the Commission.

In the previous crisis, under the presidency of Durão Barroso, the Commission's role was irrelevant, always following the orders of the Council. This time there was significant resistance from some countries (the aforementioned so-called Frugal Four) during the discussions about the first package in April, trying to set relatively severe conditions for accessing the ESM resources. This was also the case during the discussion and approval process of the NGEU, with strong opposition right up to the eleventh hour with respect to the bulk of the support being issued through grants[31]. However, in contrast to what happened ten years earlier, this time, these countries were isolated and on the defensive (even at a domestic level), while a clear majority of Member States were in favour of very active involvement at a European level. The climate had shifted and there was an unstoppable wave of public opinion in this direction. One very important, probably decisive, factor was the German government's

(2020F), regarding the suspension of the fiscal discipline rules. See also Anderson et al. (2020).

[31] In fact, they managed to shift the balance of the distribution of the €750 billion between grants and loans from €500,000/€250,000 in the initial proposal to €390,000/€360,000 in the final agreement.

determination in this respect[32] and Franco-German leadership being resumed to a certain extent.

iii) Thirdly, the EU's response may represent a very significant step forward toward **fiscal union**. It is worth remembering that one of the most common criticisms over the years has been that it is very hard to really move towards monetary union without fiscal union. In fact, at the time that the euro was initially being conceived and designed, concerns were raised from several quarters about the problems inherent in having monetary without fiscal union. Therefore, the measures mark a considerable advance in this direction, with very substantial progress being made along three key lines from the perspective of fiscal union: a) boosting the EU budget; b) the creation of the EU's own taxes; c) large-scale debt issuance by the Commission. These three points should be highlighted because any fiscal union can only exist if there is a European government with its own budget, taxes and a treasury with the power to issue debt, which are the three essential attributes of any government in the sphere of public finance. The measures adopted with the approval of the NGEU are unequivocally oriented in this direction and, if consolidated, they may represent not just a small step ahead but a huge qualitative leap forward.

iv) Another important factor to be underlined is that it is the **Commission issuing debt**, with the backing of the Member States, to finance the direct spending set out in the Community budget (or to fund the resources that will be channelled, in turn, in the form of loans to the Member States). This could certainly constitute a step towards the creation of a European treasury or, in other words, a treasury that issues 'Community' debt to finance the Community budget, rather than to fund the state budgets, as some Eurobond proposals issued over the past ten years seemed to suggest, all of which met with great resistance (probably, at least partly for this reason). This step towards creating fiscal union and a European treasury has led to some commentators describe the current situation as the EU's Hamiltonian moment, in reference to Alexander Hamilton, the former Secretary of the Treasury of the Federal Government of the United States of America who, in 1792, agreed to take on the states' debt by issuing federal debt. This move marked a decisive step towards fiscal and political union[33]. Obviously, this represents a first step in this direction, although as emphasized by Whimster et al. (2018), what essentially characterizes a Hamiltonian moment is the existence of a joint political design solid enough to withstand the adversities faced by government policy[34]. As yet, this step has still to be taken.

As explained, the €750 billion obtained from the Commission's debt issuance will be used to finance projects through grants (€390 billion) and loans (€360 billion). In the former case, this is equivalent to direct debt mutualization that, moreover, generates income flows between the states. In other words, it has redistributive effects insofar as the country allocation key for the grants (as discussed earlier) will differ from the regional key used to distribute the resources required to cover the financial burden generated by this debt (strongly related to each country's fiscal capacity or, in other words, GDP). As such, this mechanism established a genuine transfer union. In contrast, the resources distributed through loans do not generate redistributive flows, as the loan allocation key is the same for receiving the loans as for repaying them[35]. Each state pays back the loan it has received, so the redistributive impact between countries is neutral. This does not mean, however, that the implementation of this mechanism is not hugely important. It constitutes the authentic mutualization of the debt. The Commission becomes indebted to, in turn, lend the money to the states. The market risk is borne by the EU. As a result, the mechanism quietly enables the 'de

[32] In relation to this point, see Mallet et al. (2020).

[33] Calhoun (2020), Enderlein (2020), Kaletsky (2020), Kierkegaard (2020), Weeks (2020) or Whimster (2020) refer to the 'Hamiltonian moment'. To expand on this point, see Bordo et al. (2011), Frieden (2016), Henning-Kessler (2012), Sargent (2011). See also the Policy Brief published by EuropeG (2012) on this issue.

[34] "Europe lacked its own Hamiltonian founding moment and proceeded step by step on a monetary-led strategy in place of an overall design that could resist the political contingencies, which came to determine policy", Whimster (2020).

[35] As mentioned earlier, it is hard to predict the distribution of the €360 billion in loans among the Member States. On the one hand, it would seem reasonable to think that these resources will be allocated to complement the funding of the various projects, in which case the criteria for the distribution between the countries will be fairly correlated to the allocation key for grants (population, unemployment in the last five years and inverse GDP per capita, as explained in the previous section). On the other hand, it is also logical to imagine that Member States will take on debt more or less in line with their fiscal capacity and the state of their public finances. Countries that can obtain conditions on the market reasonably similar to those obtained by the Commission, they will not have much incentive to use the NGEU loan facility. The estimate in Table 4 assumes that the key for allocating loans among the countries is the average between the grant allocation key and the GDP coefficient.

facto' creation of the much-desired Eurobonds. The leap forward taken by the EU towards creating a European treasury, albeit temporarily for the time being, is well worth highlighting.

v) The fifth factor for evaluation is the fact that this initiative will entail a **significant increase in the EU's own resources** in two ways. Firstly, it represents a quantitative increase. As mentioned, from the moment that EC starts to repay the debt of €390 billion (scheduled from 2026 onwards), the EU budget will have to grow by between 8.6% and 9.3% to cover the financial burden that this will involve. However, most importantly, the initiative represents a reinforcement as the EU's agreement (EU, 2020A:8, A29) clearly signifies the idea that these resources come directly from EU taxes and not from transfers from Member States, as has been the case to date for the majority of budget resources. There are four taxes specified in the European Council's agreement: a carbon border adjustment mechanism, a digital levy (coming into force no later than 1st January 2023 onwards), revenue from a revised Emissions Trading System (ETS) and a tax on financial transactions. This leads to two reflections. The first relates to which of these taxes will be most appropriate. Some authors, such as Fuest-Pisani Ferry (2020), clearly favour revenue from the Emissions Trading System. Iakova-Kammer-Roaf (2020) also highlight considerable benefits for this option. However, as a second reflection, if the own taxes (that establish a direct relation between the EU government and European citizens) are set to become an increasingly important part of the EU budget, the tax structure will probably have to be diversified, making it inevitable that all of these aforementioned taxes will have to be used, to varying degrees. In addition, a relatively significant tax will need to be added to the box, such as a portion of Corporation Tax, for which, incidentally, various proposals have been made, linking it to the establishment of an unemployment insurance system at an EU level (along the lines of the SURE program, approved in the April package of measures mentioned earlier).

vi) As a sixth consideration, the agreements adopted by the EU signify a **reinforcement of the Community budget** for various reasons. Firstly, at a purely quantitative level, the €750 billion of the NGEU are incorporated into the Multiannual Financial Framework 2021-2026 (€1,074.3 billion) or, in other words, the EU's budget, for which the Commission is responsible and which it administers and manages. As such, the increase is considerable and even more so if we take into account the fact that the NGEU resources have to be assigned within three years (2021-2023), which means that the annual budget will approximately increase from €150 billion to €400 billion. The second reason is more fundamental. Rather than continuing along the intergovernmental path chosen when the ESM was created (it should be remembered that it was the result of an intergovernmental treaty and is independent from the Commission), there is a clear shift towards reinforcing the Community approach. In other words, there is more of an emphasis on giving power and attributes to the Commission, as the core of European government. So far, this is just an indication, but this fact may mark a turning point, with the reversal of the trend towards strengthening intergovernmental institutions and mechanisms that has gradually gained ground since the early years of this century, paradoxically when the single currency and ECB were established. The reason that this may be seen as counterintuitive is that monetary union represents an enormous step in the direction of integration and, as an institution, the ECB is distinctly federal in nature. The situation demanded progress towards fiscal union and political integration. Now, in contrast, the centre of gravity can shift back towards the Commission and the federal logic. It should be noted that European integration has moved forward when there is a fundamental understanding between France and Germany and a cooperative working relationship between these two countries and the Commission.

Therefore, the Community budget has been strengthened by the measures adopted. However, alongside these factors, it should be noted that the NGEU resources will be allocated according to strictly national criteria. In other words, the Commission will have a very large budget to manage and administer effectively, but this budget will not be used to finance EU programs, designed and implemented by the EC and distributed to the countries according to the objectives that they may each be pursuing, but rather they will be channelled through the states to fund national plans. There will be evaluation and monitoring mechanisms[36] in place, but the logic of implementing EU public spending will be left to the states, rather than enabling a direct relation between the Commission and the end beneficiaries of the resources, as would be typical of a 'federal' government.

[36] See EC (2020P).

vii) A seventh factor is the importance of the **fiscal impact of the EU grants and loans** or, in other words, the extent to which this financial support will have a significant effect on sustaining production activity and recovering the economy. This is a particularly crucial factor, to which a specific section is dedicated later in this brief. The first aspect to underline is that, without a doubt, the resources from the EU will have a significant impact on the GDP of the main beneficiary countries (Table 4). If we only consider grants, in annual terms, they could account for as much as around 3.5% of GDP in the case of Greece, and between 1.5% and 2.5% in the cases of Portugal, Spain and Italy (not to mention countries such as Bulgaria and Croatia, which reach around 4%). Also taking loans into account, the total could account for 5.0% of GDP for Greece, and between 2.5% and 4% for the other three countries. That said, it should be highlighted that, all in all, the discretional fiscal support[37] injected into these countries is by no means excessive and it is far from certain that it will be sufficient to redress the damage caused by the pandemic and get the economy back on track. We only have to consider that the amount is less than the exclusively national support issued by Germany, United States or the United Kingdom (Table 5) and in no case does it exceed 8% of GDP (the percentage surpassed in the great financial crisis of 2007, with a far less severe recession than the current one).

viii) The eighth factor to consider is that there are a lot of **unknowns about essential aspects of the projects** funded through the programme approved by the EU. We certainly know the key objectives specified in the agreement of the Council of the European Union in July[38]: a) the resources must be spent on financing (public and private) investment; b) they have to contribute towards a fast, resilient recovery and help repair the damage caused by the pandemic; c) priority will be given to supporting green and digital areas. The Commission, on which the implementation of support plans will hinge, has published a communiqué on its sustainable growth strategy for 2021 (EC, 2020M) and its guidelines for drafting recovery and resilience plans (EC, 2020N), which takes its inspiration directly from the proposal to establish a Recovery and Resilience Facility (EC, 2020J) formulated by the Commission itself at the end of May[39]. The document specifies more precisely seven priority flagship objectives, particularly in the sphere of renewable energies and the digital economy[40], as well as the main components or sectors on which these plans should focus[41]. The EC's guidelines also specify the steps to take to draft the national plans and the mechanisms for evaluation (*ex-ante* and *ex-post*) and monitoring. At the start of the last quarter of 2020, the states were well into the phase drafting these recovery and resilience plans. However, there are some very strategic aspects that are still shrouded in uncertainty. Firstly, it is unclear what proportion of the resources will go towards repairing the damage and sustaining the economy and what proportion will be spent on really driving a recovery based on a change of production model (wherever required), prioritizing increasing productivity in the medium term. Secondly, how will the resources be distributed between the public and private sectors, how will these sectors complement each other, if at all, and what policy will be followed with respect to any future returns that may be generated by private undertakings initially financed with public capital? Thirdly, how will the resources received as grants and loans complement each other and be articulated? Right now, in the main beneficiary countries, there seems to be a trend focusing exclusively on grants. However, it would be a big mistake not to make use of the loans as well, obviously taking into account each country's financial and fiscal stance. Lastly, the plans should reach the entire economic fabric. It is vital that the resources trigger a capillarity effect, not with a shotgun approach, but rather through carefully planned, well managed projects. We run the risk of the resources being used to fill cracks and end up going mostly to a few big companies, although leaving a sufficient portion to share out, like the minor prizes in a lottery, so that everybody thinks that little is better than nothing. The result is that this crucial European initiative will depend to a large extent on the success it achieves when

[37] The basic objective of the fiscal measures adopted is to prevent the collapse of the economy and employment, rather than aiming to have an expansionary impact. The measures are first and foremost for sustaining purposes. As such, the term 'fiscal support' seems more apt than the 'fiscal impulse', as is commonly used. The different terms that are inevitably used throughout this text refer to the concept of fiscal support measures as defined here.

[38] EU (2020A: 2, A2).

[39] The Commission's document (EC, 2020N: 2) begins with a disclaimer stating that "This document is based on the "Proposal for a Regulation on a Recovery and Resilience Facility" (hereinafter, the 'Proposal'), adopted by the Commission on 28th May 2020 [EC, 2020J] and takes *into account* [our italics] the conclusions of the European Council of 17-21 July 2020".

[40] EC (2020N: 9-11; 2020P: 6-7).

[41] EC (2020P: 10).

moving from the plan phase to the project stage[42]. Obviously, the practical translation of what we are discussing is the capacity to efficiently absorb the resources that reach the different states through the NGEU programme. As a first consideration, the commitments are one thing and the resources finally used (actual payments) may be quite another. We know from experience that the Member States are often not able to exhaust the amounts available[43]. Secondly, spending does not necessarily mean spending well.

Table 5. Discretionary fiscal measures adopted by different countries

a) IMF

	Additional expenditure and lower revenues (billions dollars)				% of GDP*
	Subtotal	Health Sector	Other Sectors	Deferral	
Australia	218	11	207		16,2
Canada	240	39	201	63	14,6
European Union	487	0	487		3,8
France	198	20	178	63	7,7
Germany	418	46	372		11,0
Italy	127	11	117	8	6,8
Japan	782	90	692	243	15,6
Korea	56	4	52	28	3,4
Spain	52	5	47	1	4,1
United Kingdom	441	145	296	9	16,3
United States	3.503	484	3.020	18	16,7

*According to *World Economic Outlook* january 2021 estimates.
Source:IMF 2020, Table 1. Estimated data at the end of December 2020.

b) Bruegel (% of GDP)

	Immediate fiscal impulse	Deferral	Other liquidity /guarantee	Latest update
Belgium	1.4	4.8	21.9	22/10/2020
Denmark	5.5	7.2	4.1	01/07/2020
France	5.1	8.7	14.2	05/11/2020
Germany	8.3	7.3	24.3	04/08/2020
Greece	3.1	1.2	2.1	05/06/2020
Hungrary	0.4	8.3	0.0	25/03/2020
Italy	3.4	13.2	32.1	22/06/2020
Netherlands	3.7	7.9	3.4	27/05/2020
Portugal	2.5	11.1	5.5	04/05/2020
Spain	4.3	0.4	12.2	18/11/2020
United Kingdom	8.3	2.0	15.4	18/11/2020
United States	9.1	2.6	2.6	27/04/2020

Note: The cut-off date is earlier for some countries, see the country-specific description.
* Calculated based in 2019 GDP, because the 2020 GDP outlook is very uncertain. For a precise overview of the indicators, see Anderson et al. (2020).
Source: Bruegel. Anderson et al. (2020).

ix) A ninth factor to take into consideration is the extent to which the new instruments being rolled out will tend to **consolidate in the future** or, as planned in principle, they will strictly be a temporary one-off measure. The EU's response is the result of an agreement pact, as already mentioned, and the terms of this agreement specify the temporary nature of the measures: an exceptional issuance of €750 billion in debt with maturities up to 2058; they will be used to cover an extraordinary increase in spending in the Community budget, assigned over the course of the three financial years 2021-2023 and disbursed until 2026; the rise will be repaid through an increase in own resources (also temporary, in principle, albeit somewhat protracted, as the period runs until 2058). However, the terms agreed are the result of the interaction of forces at a certain point, and these can shift over time. In this case, there are various factors that indicate that these temporary changes may become permanent. Firstly, it is hard to imagine that the new taxes introduced now will be eliminated after being imposed for more than thirty years. Both experience and a minimally objective analysis of the EU's needs now and in the future would lead us to conclude that the new taxes will be maintained and probably expanded. Secondly, over time, the new channel of borrowing will prove to be viable and extremely useful, not only in view of its direct effects, but also due to the importance for the Union of creating a broad capital market with a top-class asset, as bonds issued by the EC would certainly be. Therefore, as the loans mature and the outstanding debt is reduced, the possibility of financing these maturities with new borrowing will probably be considered (slowing the pace of reducing the outstanding debt to manageable levels), thereby increasing the option of funding additional spending. This option will be accompanied, as a third factor, by the fact that both the Commission and the Member States will probably want to finance new projects, although, even in aggregate, they will not have the same magnitude as the NGEU now has. On top of these factors, as emphasized by Giovannini et al. (2020), we have to add the fact that the EU has not yet created a macroeconomic fiscal stabilization instrument, the implementation of which may be greatly facilitated by the experience that the EU is just starting[44]. Therefore, if the experience goes reasonably well, the circumstances should lead to widening the path on which we are now embarking, rather than considering this a one-off digression[45]. The essential requirement,

[42] Pisani-Ferry (2020B) refers to another unknown factors: the type of conditionality that should be applied to the support.
[43] See Darvas (2020C).

[44] "This innovation [joint debt issuance], while a one-off, could also imply lessons for Economic and Monetary Union, which still lacks a permanent fiscal capacity at supranational level for macroeconomic stabilisation in deep crises", Giovannini et al. (2020: 3).
[45] Lagarde (2020: 2), also refers to the possibility of making this new instrument permanent: "We should discuss the possibility of it remaining in the European toolbox so it could be used again if similar circumstances arise".

however, is that this first experience goes well. In other words, the projects have to be useful, well chosen and implemented, with agile, efficient management of the initiative, as well as clearly assessable results and distinctly positive results.

2.4. Relative importance of the economic and fiscal impact of the measures adopted at a national and EU level

In the first phase, the fiscal effort to tackle the crisis caused by the COVID-19 pandemic was primarily borne by national budgets The NGEU should not be used until 2021 and the European support from the April package of measures have not been widely used and, moreover, the support came in the form of loans. Therefore, it is worth analysing the effect that the measures adopted may have in terms of sustaining production activity or the economy at both a national and EU level, and their relative weight to each other.

- As we have just seen, the initial response to the crisis came almost exclusively from the national states, which reacted with great speed and extraordinary firepower, adopting numerous discretionary fiscal measures, primarily aimed at achieving two objectives: covering health costs, and sustaining economic activity. Figures 1a and 1b and Table 5 show data corresponding to the main world economies, a selection of EU countries and the United States. The sources are the OECD, the IMF[46] and Bruegel. Generally, they distinguish between three types of support measures: direct support through the budget, deferrals (of taxes and other kinds of obligations[47]), and loans and guarantees. Obviously, the first of these types can be considered a genuine fiscal measure and, compared to the others, it has a greater impact on the objective of stabilizing economic activity[48]. Although there are some discrepancies in the data between the sources (in some cases, notable), the figures are very significant. The measures that constitute a direct fiscal impulse account for over 8% of GDP in Germany, the United Kingdom and the United States, far above in the latter two cases (and, according to the OECD and IMF, at 10% or above in Japan, Canada and Australia, among others), over 5% in France, and under 4.5% in Spain, Greece and Portugal[49].

The firepower used in these countries was, therefore, far less than in France and Germany, to compare to the two largest economies in Europe. The reason for this fact is hard to determine. Clearly, it may well be the case that they faced a more delicate financial situation in terms of the deficit or public debt and were scared of an uncontrolled rise in the spread of their sovereign bonds (and a return to the nightmare of the years 2011-2012).

Figure 1a. Official estimates of fiscal support (% of GDP 2019)

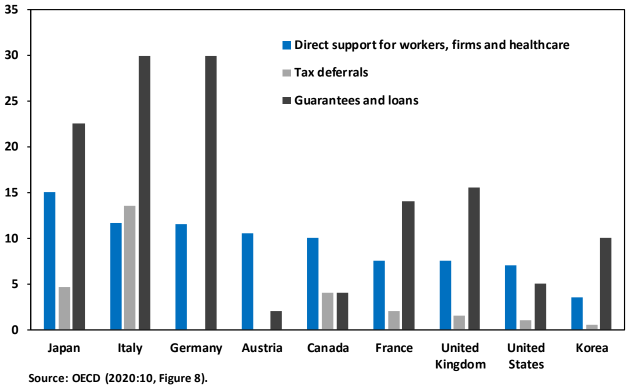
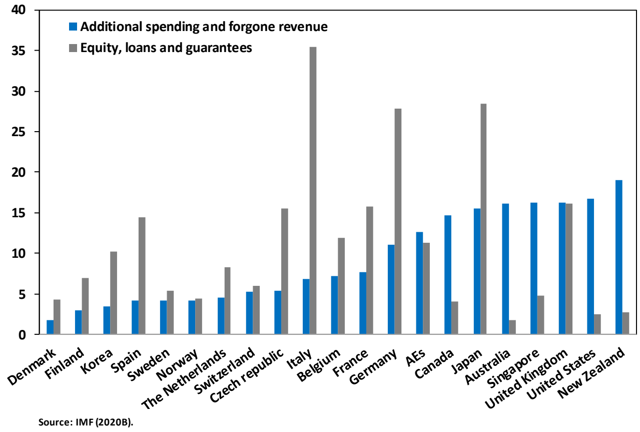


Figure 1.b. Discretionary Fiscal Response to the COVID-19 Crisis (estimated measures as end of December, 2020, % of GDP)



[46] IMF (2020B) offers an up-to-date database of the fiscal measures adopted by the different countries.

[47] Anderson et al. (2020) indicate that a few countries have also deferred the repayment of loans (for instance, mortgages) or utilities bills.

[48] As explained by Anderson et al. (2020), deferrals "improve the liquidity positions of individuals and companies but do not cancel their obligations. Some of these deferrals last for a few months and will expire in 2020, in which case they will not impact the overall 2020 budget balance, just some monthly budget balances. [Therefore, they] cause deterioration of the budget balance in 2020, but improve it later". Meanwhile, loans and guarantees "improve the liquidity position of the private sector, but unlike deferrals, which are automatic and generally apply to the target groups, credit lines require action from the impacted companies. [Moreover] Credit lines and guarantees might not weaken the budget balance in 2020, but would create contingent liabilities which might turn into actual expenses either in 2020 or later".

[49] There are big discrepancies between the sources on figures for direct support issued by Italy. The OECD (Figure 1) puts it at over 10% of GDP, while Bruegel (Table 5a) puts it at 3.4% and IMF (Table 5b) puts it at 6.8%.

However, precisely to prevent this danger, the ECB had launched the Pandemic Emergency Purchase Program (PEPP), which makes this argument less convincing. It may also be the case that these countries, which are among the main beneficiaries of the NGEU that would later be approved (shifting the fiscal impact onto the EU budget) might have thought that the best way to avoid weakening their negotiating position was to highlight the critical situation in which they found themselves. Spain was at the bottom of the list in terms of direct fiscal measures. For instance, it ranked 18th out of the 21 advanced economies, according to the IMF statistics (Figure 1b). In the case of Spain, at least, it appears to have been guilty of excessive caution and wrong orthodoxy when adopting the required fiscal measures, bearing in mind that the EU had suspended the fiscal discipline rules and that the ECB's PEPP was in place to alleviate any excess pressure that may have built up on Spanish sovereign bonds.

- For the first time, the fiscal effort at a national level was complemented by the support (especially, the direct non-repayable grants) approved by the EU, basically through the NGEU. In total, taking into consideration the entire €750 billion, these funds account for 5.4% of the GDP of the EU-27 in 2019, while the direct support, excluding loans (€390 billion) amount to 2.8% (Table 4), which, as emphasized by Pisani-Ferry (2020A), is a higher figure that the Marshall Plan reached in its day. For the main beneficiary countries, the figures would be far higher: for Greece, the direct support alone accounted for 10.7% of GDP and, taking loans[50] into consideration as well, it represented 17.0%; for Portugal, 7.3% and 12.0%, respectively; for Spain, 6.1% and 10.2%; and for Italy 4.6% and 8, 1%. For France (1.9% and 4.0%) and Germany (0.8% and 2.5%), the percentages are far lower. Obviously, these amounts would be even higher if we also include the EU's first package of measures in April, at least the resources from the ESM and SURE programs, which, in total, amounted to €340 billion. Taking these funds into account, the total resources issued by the EU would increase in 45.3%, which would represent 7.8% of the GDP of the EU-27 and, assuming that the country allocation key was the same as the one used for all the NGEU resources, it would account for 24.7% of GDP in the case of Greece, 17.4% for Portugal, 14.8% for Spain and 11.8% for Italy.

Table 6. Direct fiscal support (per year) (% of GDP)

	EU*	National budget			Total
		IMF **	Bruegel***	Average	
Greece	3.6	-	3.1	3.1	6.7
Spain	2.0	4.1	4.3	4.2	6.2
Italy	1.5	6.8	3.4	5.1	6.6
Portugal	2.4	-	2.5	2.5	4.9
Germany	0.3	11.0	8.3	9.7	10.0
France	0.6	7.7	5.1	6.4	7.0
United States	-	16.3	9.1	12.7	12.7
United Kingdom	-	16.7	8.3	12.5	12.5

Source: * Table 4; **Table 5a; *** Table 5b.

Admittedly, in all cases, we have to bear in mind that the resources issued by the NGEU would be committed over a period of three years (2021-2023) and can be disbursed over six years. Therefore, to calculate the annual impact, the abovementioned percentages have to be divided by three. Nevertheless, in the case of the main beneficiary countries, we are still talking about very high quantities, similar to or just slightly less than the levels of fiscal support from the national budget (Table 6): similar in the cases of Greece (3.1% in national direct support, and 3.6%, from the EU, only taking into account direct support) and Portugal (2.5% and 2.4%); around half in the case of Spain (4.2% and 2.0%, respectively); and a third in the case of Italy (5.1% and 1.5%). These amount to considerable sums, without which the countries in question would struggle to make the public spending required to deal with the consequences of the COVID-19 crisis, firstly to sustain the economy and tackle the health emergency and, secondly, to kickstart the recovery. All in all, as highlighted in earlier sections, even with these resources, the figures are by no means excessive, nor is it certain that the total amount constituted by the fiscal impulse and support measures implemented in these countries, both those directly coming from their own budgets and from the EU, is sufficient. This fact is underlined by two statistics: the support is less than Germany, the United States or the United Kingdom at a national level (Tables 5 and 6); and in no case does it reach 8% of the country's GDP, when, as underlined by Furman (2018), for example, the fiscal response of the United States to the Great Recession reached 10% of GDP[51], in a far less severe crisis than we currently face.

[50] As mentioned earlier, it is hard to predict the distribution of the loans among the countries. The estimate shown in Table 4 assumes that the allocation key is the average between the grant allocation key and the GDP coefficient.

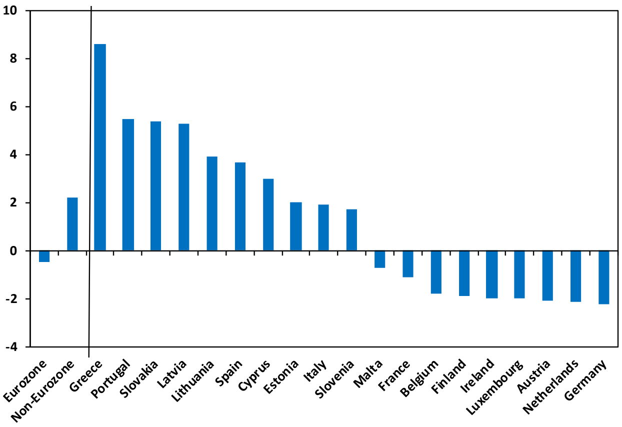
[51] See Tooze (2021) in relation to the insufficiency of the fiscal measures taken by the EU and, particularly, in Spain. In fact, Camous-Claeys (2020: 4) emphasize that the scale of the national fiscal packages is in inverse proportion to the size of the shock in economic terms.

An interesting factor for evaluating the EU's response is to establish which fiscal measures are more effective in terms of their impact on the economy. An issue that has underpinned the points raised by several commentators is the distinction between grants and loans. Moreover, in the opinion of the ECB[52], a third concept should be added to this list: net grants (i.e., the grants received by each state, deducting the future contribution that they will each have to make to cover the financial burden generated by the debt incurred by the EU to fund the measures).

In a recessionary situation like the one we current face, the key indicator from the perspective of its impact on economic activity is the public spending that the Member States can afford thanks to the resources from the EU, whether they come in the form of grants or loans. In fact, in the latter case, the scenario is the same as the situation that occurs in a single country when the government incurs a deficit financed by issuing debt. Obviously, in principle, this debt must be repaid over time, but this in no way hinders the immediate expansionary impact of the public spending on the economy, if it is in a recessionary phase,[53] as is currently the case. Therefore, to adequately evaluate the potentially expansionary impact of the resources issued by the EU, we must consider the overall injection of spending that it could generate, including spending financed by loans. This would also involve considering too the spending financed with the resources from the first package of measures in April, particularly the injection financed through the SURE and ESM programs, even though their aims are more targeted.

As mentioned earlier, a recent report published by the ECB[54] uses a different measure, that it refers to as "grants, net of expected repayments", received or paid by each state. In other words, it calculates the grants and deducts the part that each state will have to contribute to the increase in own resources required to repayments generated until 2058 (this coefficient is basically closely correlated with each country's GDP). In this, case, it is a zero-sum game, of course. Some countries are net beneficiaries and others are net contributors. The estimate made by the authors is certainly a useful calculation for identifying the fiscal flows between countries generated because of the €390 billion in grants contained in the NGEU and the measures taken to finance them. This exercise is very similar to the calculation of the fiscal balances between regions, in the balanced budget hypothesis (in other words, assuming that the sum of all the flows is a zero-sum game). Moreover, this exercise shows the result of what is essentially a transfer union: over the course of 38 years, Germany or the Netherlands would accumulate a negative fiscal balance of just over 2% of GDP, and France of around 1%. In contrast, Greece would have a positive fiscal balance of 8% GDP, Portugal of 5%, Spain of 4% and Italy of 2% (Figure 2). In annual terms, therefore, the figures would be genuinely modest: a negative balance of 0.05% for Germany and a positive balance of 0.21% for Greece or 0.11% for Spain. These figures are far lower that the balances generated between regions within the same state.

Figure 2. RFF: allocation of grants, net of expected repayments (% of 2019 GDP)



Source: Giovannini et al. (2020:2 Chart B).

[52] Giovannini et al. (2020: Chart B). Pisani-Ferry (2020A) use their estimates as a point of reference of the magnitude of the fiscal stimulus generated by the NGEU grants in the different countries.

[53] In other words, in a recessionary phase of the cycle, the Keynesian multiplier is significantly above zero. This point seems to have been definitively established, after the mistakes made in the Great Recession with the application of austerity policies in the EU, based on the assumptions of the theory of rational expectations and new classical macroeconomics, which stated that the multiplier was zero. According to these approaches, even though we are in a recessionary phase, consumers do not increase consumption because they save, thinking of the taxes that they will have to pay in the future to repay the debt required to finance today's deficit. According to the theory of rational expectations, a deficit financed by borrowing would not have any expansionary impact on the economy and, in fact, neither would the direct monetization of the deficit, because consumers would anticipate the depreciation of their future incomes caused by the presumed subsequent inflation. All these assumptions were discredited both in theory and in practice during the Great Recession. A lot of literature focuses on these issues; see, among others, Auerbach-Gordnichenko (2011), Batini et al. (2012), Blanchard-Leigh (2012 and 2013), Blinder (2016), Huidrom et al. (2016), House et al. (2017).

[54] Giovannini et al. (2020).

This would, therefore, be the long-term redistributive effect of the grants from the package approved by the Council of the European Union in July 2020. However, this is clearly not the right measurement to use to calculate the immediate impact of the support package (both loans and grants) in terms of stimulating demand and sustaining economic activity. Otherwise, no spending program (or tax cut) at a national level would have any impact because, seen over time, they could all be considered zero-sum games. Therefore, as concluded above, if we consider that, in an acute recessionary phase of the cycle, the Keynesian multiplier is of a considerable size, the aspect that we have to evaluate is the aggregate spending increase (or tax cut) generated thanks to the approval of the support package, regardless of whether this support comes in the form of grants or loans, or whether the support is received by countries that, at the end of the cycle (in 2058) will be net recipients or net contributors[55].

2.5. The call for solidarity and the creation of a European demos

One of the arguments often raised in the European debate that led to the adoption of the measures discussed above, and which have marked a significant change of course, was the call for solidarity. In other words, it was argued that these measures should be adopted and things should be done at a European level, with the countries in a better situation contributing towards helping those worse off to climb out of the hole (or stopping them sinking into it completely), in the face of a problem that affected everyone and for which nobody was more to blame than anybody else (in contrast, to what happened in the previous crisis, some argued). We do know whether, in the end, this call for solidarity was a decisive factor in agreeing the adopted measures. Perhaps things have gone the way they have for a range of diverse, complex, and probably contradictory reasons. It would be hard to untangle the reasons here in just a few lines. Nevertheless, it is well worth making two remarks.

Firstly, it is not at all certain that calling for solidarity is completely effective politically. It is certainly justified at a moral level. In the current scenario, it seems hard to imagine that people from any part of the planet could indifferently stand by and watch the misfortune and adversity suffered by others without trying to do something to help, particularly when the cause of this misfortune is external or, in other words, not their fault. However, on this point, we could open up a whole other debate that could go on and on[56]. Therefore, in moral terms, there should be little doubt about the suitability (or rather, the requirement) of solidarity in these situations. What is not so certain, however, is whether the call for solidarity is the best way of achieving effective political results or, in other words, to gain the consent of the countries in question. In turn, this is strongly linked to whether this solidarity is accepted by a large majority of public opinion (of the citizens) in these countries.

This is because it is reasonable to assume that, to be effective, a call for solidarity must be preceded by the existence of a demos, a political community that identifies itself as such. In other words, it requires a collective consciousness of forming part of a single populace, among the citizens within the regional scope at which solidarity is practised. Solidarity is not possible unless these prior invisible bonds between the citizens exist. First comes the demos and then solidarity, and not the other way round. Therefore, calling for solidarity without having previously taken the necessary steps to create this demos is simply a case of putting the cart before the horse. The practical conclusion of this line of logic is that, rather than keep talking about solidarity, we have to focus our efforts on creating this European demos. This can obviously not be achieved merely by making rhetorical appeals for European unity, but rather by creating mechanisms and institutions that enable progress in this direction. On this issue, to avoid entering impassable terrain, I will only underline a couple of points. Firstly, the intergovernmental approach is not a tool for making a European demos, but rather an *anti-demos*, while the federal or community approach (which entails creating a federal European government worthy of the name) is exactly the opposite. Secondly, the welfare state and its related policies are a powerful mechanism for promoting social integration and the creation of a national consciousness. Federalism and the welfare

[55] To be precise, the immediate effect in France and Germany is a positive fiscal impact of 4.0% and 2.5%, (Table 4), respectively, although, eventually, they end up having a fiscal negative balance of 1% and 2% (Figure 2).

[56] In other words, should people be left to fend for themselves if the misfortune they face is due to their not having done things well enough or because they have not made the most of their opportunities? Ultimately, this is a debate about meritocracy and whether we should strive to achieve equal opportunities or equal results. Clearly, depending on the starting premises, this has big repercussions on the public policies adopted.

state are the two most potent driving forces that we know for demos-building.

The second remark is that, more than solidarity, there are two factors that probably played a considerable role in bringing about the step forward that the approval of the NGEU constitutes, as well as facilitating the shift in philosophy that has occurred in the European Union. These factors are, first of all, the increasingly widespread belief that, if in the face of a crisis of the proportions that we are currently tackling, the EU is unable to act, divided by national egotism, then the entire European project would be irrevocably and fatally injured, and the scale of disillusionment would mean that there would simply be no way back in many countries. The second factor is that most countries have been conscious of the fact that there is a general common interest that is threatened by the COVID-19 crisis. This is particularly true in the field of public health because the persistence of the epidemic in a single country poses a risk to all the others. However, this is also especially the case in relation to maintaining the single market, insofar as the measures required to tackle the virus led to the fragmentation of the market and the end of freedom of movement of people and goods. In a certain way, the pandemic made it clear that, when we have to provide global public goods, we have to work together to do it collectively and that, in such cases, individual interests can only be served by addressing the collective interest at the same time.

3. Final remarks

1. The response to the COVID-19 crisis may mark *a qualitatively significant step towards accelerating the process of European integration*. The battle is obviously not yet over and several obstacles still lay ahead. However, while the EU's response to the turmoil caused by the Great Recession initially led to a step backwards, the response to the COVID-19 crisis is encouraging. As we have seen, it has paved the way for considerable progress towards fiscal union, with respect to the three pillars on which such a union is based: an EU budget worthy of the name, a set of resources obtained directly in the form of taxes paid by citizens, and a treasury with the power to issue debt. The EU's response to the pandemic may also facilitate a step towards the capital markets union, insofar as a new incontestable safe asset will come into circulation, in the form of bonds issued by the Commission. It also reinforces the role of the Commission and the Parliament, to the detriment of intergovernmental agreements. Most importantly, the EU's response constitutes an unequivocal demonstration of the will to face adversities collectively.

2. The implementation of the NGEU is highlighting the *governance problems posed by the current institutional structure of the EU*. The deadlock that has occurred over the course of its application very plainly demonstrates the practical difficulty to move agreements forward with the speed required for them to be effective, even if these agreements have the indisputable support of the majority of European citizens and of the EU Member States. However, these governance problems are, in fact, the external manifestation of an underlying problem, namely an inadequate degree of political integration. The difficulties that have arisen in rolling out the NGEU are a very clear example of the limitations of the intergovernmental approach and the extent to which the rule of unanimity (in other words, the Member States' right of veto) causes significant dysfunction. One lesson that we can learn from this experience is that we have to move rapidly towards political integration.

This may require the creation of a structure composed of various circles, with a group of countries willing to do make the move immediately and others that are still reluctant. It is highly likely that an initiative of this nature would require a dual compromise: the countries that did not want to move forward in this direction should not have the right to prevent progress towards new forms of political unity for other states that do want to; and these states should not have the right to close the door to a future incorporation, if the countries that do not want to or cannot move in this direction right now wish to do so in the future. If a process of this kind were to move forward, we may well be surprised to see the overwhelming majority of countries, including all those currently in the Eurozone, opting to form part of the first circle. The countries that opt out of this circle would be few in number and heterogeneous in nature: some that cannot (Romania, Bulgaria and Croatia), others that do not want to because they are fine as they are (Denmark and Sweden) and a final group that do not want to because they have governments of a xenophobic, Eurosceptic inclination (Hungary, Poland and, to a lesser degree, the Czech Republic). In any case, there is now a need to move in this direction and the conditions required to do so are probably in place. Making this step a reality fundamentally depends on political will. Taking the leap to launch a single currency was far riskier and that leap was taken.

3. The COVID-19 crisis and the Great Recession have highlighted the outstanding challenges that the EU, and the Eurozone in particular, still have to overcome, as well as which steps need to be taken in the medium term. Fundamentally, progress is needed in three key directions:

a) Firstly, consolidating the actions taken in response to the COVID-19 crisis, as specified in this Policy Brief: reinforcing the Community budget, debt issuance through a European treasury, and strengthening the EU's own taxes.

b) Secondly, making the reforms required to stabilize and shore up the monetary union, the shortcomings of which were made clear in the face of the Great Recession. These reforms would include completing banking and capital market unions, and implementing a macroeconomic fiscal stabilization instrument. While some authors (such as, Giovannini et al., 2020) believe that the Recovery and Resilience Facility could be the rudimentary starting point for this type of mechanism, what is really needed is the creation of a fund more directly linked to each country's cyclical situation, along the lines of the various proposals put forward in relation to fiscal capacity[57], primarily formulated based on the Four Presidents' Report published in 2012, which clearly was in favour of this option[58].

c) Thirdly, politically enacting all these reforms, modifying the institutional architecture of the EU. This would require clearly establishing that the goal towards which we are heading is the creation of a democratic European government. As underlined earlier when discussing the EU's Hamiltonian moment, the key step is the formulation of an overall global design, although the pace for working towards this goal will inevitably have to be gradual.

4. The NGEU is a bold endeavour. If it turns out well (agile implementation, good projects, reasonably positive results), it will give a significant boost to the process of political integration and generate some highly beneficial economic effects. However, this requires rigorous supervision of the resources allocated to the different countries and putting an end to certain traditional practices, such as the shotgun approach (in other words, fragmentation into countless projects of doubtful interest, in an attempt to keep everybody happy) or prioritizing the interests of political players or economic groups close to the power over the general interest[59]. Certainly, these risks are largely a direct consequence of the formula chosen, perhaps inevitably, for distributing the resources at a country level, rather than the EC managing them directly through European projects and programs.

However, if the endeavour goes badly (in other words, the abovementioned things to be avoided end up happening), and the funds are watered down between projects that nobody will remember a few years from now, this initiative will have been of little use and a missed opportunity. This would make it hard to attempt any steps of a significant scale towards political integration for many years. This would probably not be the end of the world. In the past, the EU has made it through plenty of other extremely complicated situations, and the interests at stake if it fails are very high. However, there would be a great loss of confidence among the members. All in all, it would contribute towards the stagnation of the process (once again).

[57] See, among other, Allard et al. (2013), Bernoth-Engler (2013A and B), Enderlein et al. (2012 and 2013), Engler-Voigts (2013), Pisani-Ferry et al. (2013) and Schwarzer (2013). See also the Policy Brief published by EuropeG (2015) on this issue.

[58] Van Rompuy et al. (2012).

[59] Pisani-Ferry (2020C) address this issue very clearly: "Money from heaven can be both a blessing and a curse. If spent well, it can end political stalemates and trigger economic revivals. But if distributed indiscriminately, it encourages state capture and pork-barrel politics".

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