Alcidi, C. and Corti, F. (2022) The EU response to Covid-19: breaking old taboos? in Vanhercke, B. and Spasova, S. (eds.) *Social policy in the European Union: state of play 2021. Re-emerging social ambitions as the EU recovers from the pandemic*, Brussels, European Trade Union Institute (ETUI) and European Social Observatory (OSE): pp. 39-60 (link)

When the Ukrainian crisis escalated in February 2022, the European Union was preparing for a post-pandemic economic recovery phase, with most of the national recovery and resilience plans entering into the implementation phase. Despite concerns about exceptionally raising prices, the overall economic context was positive, and the winter forecast released by the Commission in February 2022 (just a couple of week before the Russian aggression of Ukraine) projected the EU economy expanding at about 4% in 2022, after a 6.1% growth rate in 2021. Most Member States managed to reach the pre-pandemic volume of output by the end of 2021.

With the economy growing fast and the general escape clause embedded in the Stability and Growth Pact activated (hence fiscal rules de facto suspended since March 2020), in October 2021 the Commission relaunched the debate on the reform of the EU's economic governance framework, which was first opened in February 2020 but suspended during the COVID-19 pandemic.

The material, institutional and ideational context in which the EU response took place materialized also in an unprecedented policy response.

And indeed, the pandemic represented a turning point of the debate on the future of European economic governance. '*This time is different*' is the *adagio* often used to describe many crises, and indeed it seems to apply particularly well also for the COVID-19 crisis. The nature of the economic shock was different, as it was a public health shock that hit all countries in the same way, and not a shock caused by an internal build-up of imbalances,

reckless creditors or reckless debtors. Second, the EU institutional framework was different from that of 2009, allowing the EU to rely on different policy tools, notably on the monetary side, even though the EU fiscal roof was still leaking (Bénassy-Quéré and Weder di Mauro 2020). Third, the chorus of scholars reacting to the crisis in March 2020 was unanimous in calling on national governments to act fast and do whatever it took to 'keep the lights on' until the recession was over. The policy prescription revolved around four pillars: provide liquidity, support income and employment, protect the financial system and speed up economic recovery.

The material, institutional and ideational context in which the EU response took place materialized also in an unprecedented policy response. All in all, the combination of existential (public health) crisis and experiential learning from the errors of the Great Recession led EU policymakers, along with the Commission and the ECB at the helm and with strong support from the European Parliament, to adopt a more solidaristic approach to respond to the COVID-19 crisis. In such a context, four taboos were temporarily broken, thus opening the room for a debate on the future of economic governance for the EU.

The first taboo was broken a few weeks after the outbreak of the pandemic on 20 March 2020, when for the first time the Commission activated the 'General Escape Clause' of the Stability and Growth Pact, with the aim to provide Member States with the flexibility needed to take all necessary measures for supporting health and civil protection systems and to protect their economies, including through further discretionary stimuli and coordinated action. The activation of the General Escape Clause allowed Member States to intervene regardless of their room for fiscal manoeuvre under the SGP rules and in relation to their debt levels.

Finally, the fourth important taboo broken by the pandemic was represented by the re-discovery of public investment as an instrument for growth

The second broken taboo was the introduction of a semi-automatic fiscal stabilizer to support employment protection (Corti and Alcidi 2021). With SURE, the new EU financial instrument that acted as a second line of defence to support public expenditure on short-term work

schemes and similar measures to preserve employment, the EU deployed a large-scale issuance of EUR 100 billion in social bonds, with an average maturity around 15 years, to finance projects and initiatives that aim to achieve greater social benefits. The back-to-back loan structure underpinning the SURE borrowing system had an explicit solidaristic nature whereby Member States enforced national irrevocable, callable and unconditional guarantees, that is, if a country should fail to honour a call on time, all the other Member States would be called on a pro rata basis. Such a solidaristic mechanism also had a strong redistributive feature, as two main groups of Member States benefitted from SURE: highly indebted countries that profited from SURE's lower yields and small local debt markets that profited from the longer maturity of SURE bonds.

The third broken taboo was the issuance of common EU debt (Ferrer et al. 2022). EU borrowing is being used to provide loans to support Member States' expenditure for short-term work schemes (under SURE) and will finance loans and grants under the long-term recovery strategy (RRF). As observed above, SURE issued EUR 100 billion in social bonds to finance back-to-back loans to support employment protection measures. On an even larger scale, the EU Recovery Instrument, also known as the NGEU, introduced for the first time the issuance of EU debt, backed with EU Own Resources, to finance non-repayable grants (EUR 384.4 billion) and loans (EUR 360 billion) to support Member States' recovery after the pandemic. In this case, the EU also introduced so-called 'green bonds' to finance exclusively green and environmentally sustainable expenditure.

While the EU response to the pandemic has certainly evidenced a shift towards a solidaristic approach that temporarily broke some long-time consolidated taboos, this has not (yet) been accompanied by progressive steps to strengthen the institutional framework of the Eurozone

Finally, the fourth important taboo broken by the pandemic was represented by the re-discovery of public investment as an instrument for growth (Corti et al. 2022). After the Great Recession, the EU experienced a phase of public investment retrenchment and de facto underinvestment. During these years, the net stock of capital was negative in many Member

States, especially in the Southern countries, like Italy and Spain, which means that the capital invested was not even enough to maintain the existing stock. The EU response to COVID-19 followed an opposite path. The Recovery and Resilience Facility, the main instrument to support countries' recovery, puts at its centre the relaunch of public investment as a strategic objective. The annualized support that Member States receive in grants is expected to increase the amount of public investment up to 60% in countries like Bulgaria, Portugal and Croatia.

With these four temporarily broken taboos in mind, the negotiations on the future of EU economic governance are now taking place in Brussels after the Commission published in March the results of the public consultation launch from October until December 2021. At the same time, the energy price crisis that followed the inflation and was further aggravated in the aftermath of Russia's invasion of Ukraine has motivated EU policy leaders to adopt a coordinated response. While the EU response to the pandemic has certainly evidenced a shift towards a solidaristic approach that temporarily broke some long-time consolidated taboos, this has not (yet) been accompanied by progressive steps to strengthen the institutional framework of the Eurozone. This remains formally unchanged. While the Eurozone still lacks its own fiscal capacity, the COVID-19 crisis set a precedent in terms of common fiscal effort in times of exceptional needs. Put differently, while Eurozone governance has not changed, its politics—at least in Brussels—have been transformed. For this transformation to be completed, political codification outside Brussels is needed. However, this requires political consensus to be gained in national capitals. In this respect, strategic consensus in Brussels cannot seal a paradigm change for the EU as a whole. Member State governments have to come round half-way.

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