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## Cautious optimism for EU economic governance and democracy in 2022

Looking forward to 2022, I am cautiously optimistic. After close to two years of Covid-19 pandemic doldrums, the growth rate promises to be the best in fifty years, due to the major funding related to the NextGenerationEU (NGEU) programme, combined with releasing the brakes on government investment by temporarily suspending the Stability and Growth Pact (SGP) deficit and debt rules. The shift in economic ideas – from the obsession with deficit and debt to a focus on investment for the green transition and the digital transformation while addressing social inequality at the same time – should largely be credited with this turnaround in economic prospects. But EU economic governance has also played an important role, as it has moved from a largely top-down exercise to a more bottom-up one in which national capitals are now in the driver's seat through their National Resilience and Recovery Plans (NRRPs).

Positive outcomes combined with better governance assures greater legitimacy concerning policy performance and procedural accountability. And we can hope that these, in turn, will contribute to renewed political legitimacy, by reducing the socio-economic sources of discontent that have fuelled the populist challenge to democracy. The only concern – which speaks to the caution in my optimism – is that the fund is temporary, and the ideational shift might be as well; in addition, the pandemic is not over yet. Nonetheless, what a change from just two years ago!

Looking backward to 2020, what a difference from my prognostications for that year! It all had seemed rather dismal from the vantage point of late 2019. Ever resilient were ordoliberal ideas about the benefits of stability and the dangers of inflation – despite massive quantitative easing from the ECB. And neo-liberal ideas about structural reforms to deregulate labour markets and cut welfare states continued to find resonance – despite a growing recognition of the problems of inequality, stagnant wages, and endemic poverty. Moreover, those without the fiscal space still could not invest (Southern Europe), while those that had the fiscal space continued not to do so (Northern Europe). As a result, although things had gotten much better since the darkest days of the eurozone crisis, the crisis was not over, ten

years on. As a consequence, there was an exponential rise in populist anti-system politics appealing to those feeling economically left behind, worried about the loss of socio-cultural status, or wanting to politically ‘take back control’.

But against all expectations, everything changed in 2020 with the start of the pandemic. After an initial hesitation which evoked the early days of the eurozone crisis, the EU made a massive leap forward, with a major reversal of the ordo/neo-liberal script. Legitimacy, so much at risk during the eurozone crisis – as evidenced by the poor political economic outcomes, the questionable quality of the governance, and the populist revolt – improved due to this new EU-level solidarity.

As for 2021, all predictions were off, as the pandemic ebbed and flowed, even as governments continued to incur increasing deficits and debts to support their economies while the NGEU, Recovery and Resilience Facility (RRF), and NRRPs were put into operation. Only at the end of 2021 can we return to prognostications about the future.

For 2022, there are many causes for optimism. New ideas, policies, and practices will continue to predominate. These include an enhanced role for ‘state’ actors – EU and national – as public entrepreneurs with new ideas focus on greening economies, digitalising societies, and ensuring social equity. National capitals will be taking up the challenge through the NRRPs, with massive new spending and accelerated growth rates for countries most hard-hit by the eurozone crisis (especially Italy). The ECB will increasingly shift its focus from a sole concern with its primary objectives of inflation-targeting, to secondary objectives encompassing the general economy, including employment and climate change. The EU Commission will continue to shift its structural reform conditionality away from concerns with deficits and debts to improving national administrative performance and democratic rule of law. And the Council will continue its ‘positive politicisation’, through its cooperative interactions with the Commission and tacit support of the ECB.

One question for 2022 involves the impact of national elections on the Council. The new SPD-led German coalition government is good news. However, the coalition’s inventive policy gymnastics to get around the neoliberal FDP Finance Minister, who is opposed to permanent EU level debt and a coalition contract that pledges to maintain the constitutionalised debt-brake, are worrisome. And so are the upcoming French elections, which depend greatly upon President Emmanuel Macron winning a second term. In addition, the ordo/neo-liberal austerity hawks are likely to be back, once things return to some kind of new normal, in particular if the SGP rules are not relaxed or are eliminated altogether.

Another question for 2022 is whether the funding initiatives will continue to be mainly centralised technocratic fixes. To overcome the populist challenge, such ‘state’ decision-making needs to be both decentralised and democratised – with more bottom-up involvement of social partners and citizens along with enhanced roles for both national parliaments and the European Parliament. More consultation via general dialogues – say, a ‘Great Macroeconomic Dialogue’ around the ECB’s general monetary targets and bond-buying, and an ‘Industrial Strategy Dialogue’ focused on the sustainable growth strategies of the Commission and national capitals – needs to replace the ‘governing by rules and ruling by numbers’ that is embedded in the Stability and Growth Pact. In short, in addition to having

permanent funds to steer towards sustainable and equitable development, EU governance also needs greater bottom-up decentralisation and democratisation. This alone could combat the deteriorating politics in which citizens, frustrated with their lack of voice and choice, vote for populists. And it could make a success of 2022!