The Past, Present and Future of the RRF

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2 Introduction

Professor Enrico Borghetto

Good morning, everyone!

It's a genuine pleasure to welcome you to the second session of our conference. Yesterday, we had an excellent session featuring the presentation of six insightful papers. Today, we are dedicating our time to a round table discussion, which promises to be equally stimulating.

For those of you who don't know me, I am Professor Enrico Borghetto. I specialize in European politics, European Union politics, and political science. Additionally, I coordinate the Jean Monnet module, which is sponsoring this event, titled Replan EU. This is our second Replan EU conference, following a successful inaugural event last year.

The importance of this event cannot be overstated. Replan EU's mission is to disseminate and enhance our understanding of the formulation and implementation of national recovery plans. We are currently during the implementation period, and there are still significant gaps in our knowledge about these plans. Our goal is to foster activities that provide students and the

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wider public with deeper insights into these critical issues. This is why we are also streaming these sessions to reach a broader audience.

Now, let's proceed to our discussion. We are honored to have a distinguished panel of speakers with us today: Ekaterina Domorenok from the University of Padova, Jonathan Zeitlin from the University of Amsterdam and the European University Institute, and Thomas Christiansen from Luiss University.

Thank you all for accepting our invitation and contributing to this important debate.

3 Discussion

3.1 First question

Professor Enrico Borghetto

We are here to get your expert insights on some very important questions. Here's how we'll proceed: there will be three rounds of questions. I'll pose similar questions to each of you, aiming for a flexible five-minute response from each speaker.

Let's begin with our first topic.

The Next Generation EU initiative marks a significant departure in economic governance by introducing a centralized borrowing mechanism and substantial financial transfers between member states. Some view this move towards fiscal integration as a major shift towards fiscal federalism within the EU.

Do you agree that the Next Generation EU represents a "Hamiltonian moment" for EU economic governance? Do you think it will lead to a permanent shift in how the EU manages its economic policies?

Professor Ekaterina Domorenok

It's a great pleasure to participate in this discussion. We began delving into these topics yesterday, and I look forward to hearing from the other participants as we explore these issues further.

Regarding the nature of these instruments, it's clear that the Next Generation EU initiative was seen as exceptional. There are still significant uncertainties about its future and whether it will become a permanent fixture. No one can definitively answer that yet. The ongoing discussion is precisely about this potential institutionalization and what it would entail.

Several novel elements within the Next Generation EU plan need to be reformed if we consider making this instrument permanent. Key issues include legitimacy and credibility beyond the financial aspects. Initially, securing funds was the major hurdle, but now the challenge is to spend this money effectively to benefit the European Union economy.

One critical issue is how this instrument will coordinate with the permanent financial instruments, such as the Multiannual Financial Framework (MFF). There are several overlaps which complicate implementation. The EU's budget funds significant areas like cohesion policy with its Structural Funds and agricultural policy, which are thematically close to the pillars of the Next Generation EU plan, including health, social inclusion, and the green transition. Finally, the absorption of these funds remains a significant implementation challenge. While we aim to utilize these resources and implement reforms by 2026, the future beyond this period remains uncertain. Ultimately, coordination between the different financial instruments is crucial, considering also the political agreements required to determine EU budget allocations. Generally, member states need to agree on roughly 75% of the budgetary expenditures, with the remaining funds directly managed by the EU Commission and agencies.

In conclusion, financial decisions in the EU are inherently political. Current evaluations of the MFF and the upcoming elections will influence the final decisions. The political agenda of the next European Commission will also play a significant role in determining the future of all these instruments.

Professor Jonathan Zeitlin

Thank you. Your question can be answered both literally and more deeply. Literally, there's a consensus that Next Generation EU was not the Hamiltonian moment for the EU. Unlike Hamilton's actions in the US, where the federal government absorbed state debts, this scenario is not on the table for the EU.

Marco Buti and Sergio Fabbrini, prominent figures behind Next Generation EU, referred to it as a potential paradigm shift or merely a significant one-off. Buti himself recently suggested that it might indeed be a big one-off. This perception has influenced the market, with Next Generation EU bonds, despite their AAA rating, trading at similar levels to Spanish bonds. This is partly because the instrument is viewed as temporary and because there's uncertainty about how the loans will be repaid.

Although Next Generation EU is not an enduring step towards fiscal federalism, it has significantly impacted EU economic governance and fiscal policy. One notable change is the emphasis on performance-based financing, which aligns EU funding with achieving results measured by predetermined milestones and performance indicators. This approach, initially part of the Recovery Fund, is likely to be integrated into future EU policies, including the cohesion policy funds.

The upcoming discussions around the next Multiannual Financial Framework will be crucial. Advocates for more centralized fiscal capacity at the EU level, like Buti, emphasize the need for centralized European funding for public goods. This includes performance-based conditionality to legitimize a larger budget.

Furthermore, the recently adopted reform of the Stability and Growth Pact and the broader economic governance framework include national fiscal-structural plans. These plans, combining reforms and investments, will be required from each member state for four to five years based on a debt sustainability analysis by the Commission. Member states aiming for slower debt consolidation will need to produce more detailed plans, including concrete milestones and targets. This mirrors the approach of the National Recovery and Resilience Plans, indicating that the governance features of the Recovery and Resilience Facility will have a lasting impact on EU economic governance.

In summary, while Next Generation EU is not a Hamiltonian moment, its novel features and the shift towards performance-based governance will have enduring effects on the EU's economic policies.

Professor Thomas Christiansen

Thank you very much. Much has already been said, and I fully agree with the previous analysis. Let me break it down further.

Your question looks both backward and forward. Regarding the future, I always advise my students to be cautious about speculating. But let's first reflect on the past.

There is a consensus that Next Generation EU is not the proverbial Hamiltonian moment. However, there are four significant elements of transformation to consider:

Domestic Reform: As Ekaterina mentioned, the impact on domestic reforms has been mixed and patchy. The new monitoring elements of EU funding are significant, as Jonathan detailed. These reforms and monitoring mechanisms are indeed transforming how EU funds are managed and spent.

Volume of Money: The sheer volume of Next Generation EU funds is significant, adding substantially to the normal EU budget. Reflecting on this, we see a transformation in public finance more broadly. For decades, neoliberal economic policies focused on reducing public finance, privatization, and deregulation. However, post-COVID, we observe a shift towards more expansive public spending. This trend is global, as seen in the UK and the US, which were once epitomes of neoliberalism. Although Europe's economy recovered from COVID-19 quite well on its own, the substantial financial injection reflects a deeper ideological shift in the role of public finance.

EU-Member State Relationship: The relationship between the EU and member states and the potential for own resources to finance the debt is another crucial aspect. The EU's limitations on taking out debt, as compared to global competitors like the US, Russia, and China, are a significant handicap. While Next Generation EU was not a Hamiltonian moment, it could be part of a sequence of events leading to a more integrated fiscal capacity.

Future Challenges and Public Spending: Looking forward, several significant challenges will require substantial public spending. The reconstruction of Ukraine and, potentially, Gaza, and developing an industrial policy to maintain our competitiveness against China will all demand significant investment. These scenarios highlight the necessity for the EU to reconsider its stance on debt and fiscal integration.

In conclusion, while Next Generation EU was not the Hamiltonian moment, it marks a significant step in a broader transformation of EU economic governance. The ongoing and future challenges will likely push the EU towards more integrated and expansive fiscal policies. The debate on the EU's ability to take on debt will continue and could lead to further significant changes.

3.2 Second question

Professor Enrico Borghetto

Thank you for these insightful first-round answers. Let's move on to the next question, which focuses on the present moment. Next Generation EU was a rapid response to a crisis, necessitating swift and immediate action. At the same time, it is crucial to ensure robust oversight mechanisms so that the implementation can function effectively. Is there a tension between the quick response to the pandemic crisis and the need to establish a well-functioning implementation structure?

Professor Jonathan Zeitlin

Thank you. This is certainly a valid question because one of the most central features of Next Generation EU, particularly the Recovery and Resilience Facility (RRF) and the national plans, is that they were drafted in great haste, and understandably so. The urgency to respond effectively to the crisis necessitated swift action.

In light of the previous discussions, it is clear that the agreement on the Next Generation EU package had a significant impact on financial markets, dramatically reducing the widening spreads on sovereign bonds across Europe. This effect is quite similar to Mario Draghi's famous "whatever it takes" statement, which brought the euro crisis under control in 2012. From that point onward, the focus of the national plans shifted from the immediate injection of money into national treasuries and combating the economic effects of the pandemic to restructuring member state economies for greater resilience and growth. This includes addressing the challenges of the green and digital transitions and enhancing social and territorial cohesion.

One of the biggest problems arising from the urgency with which national plans had to be drafted is the involvement and participation of stakeholders outside of the central government. Typically, neither social partners nor civil society, nor especially local and regional authorities, were highly involved in the planning process. This was particularly true in Italy, where regions have constitutional prerogatives. In contrast, in countries like Belgium and Spain, regional governments played a larger role.

This lack of stakeholder involvement creates two kinds of problems for implementation. The first is political: if important stakeholders are not consulted in advance, they may raise objections during the implementation stage, potentially delaying or obstructing the process. Spain is a notable example where involving social partners in reforms, particularly labor market reforms, has led to more far-reaching changes. In other cases, the lack of consultation can lead to resistance, which, while sometimes overridden by the government, can still create significant implementation challenges.

The second issue regards practical implementation. For example, in Italy, many responsibilities were assigned to municipalities without involving them in project design. This has resulted in delays and necessitated revisions to the plans. The current government has opted to replace many municipal projects with those allocating funds to private businesses, reflecting both political and ideological choices, as well as implementation difficulties. The promise is that these projects will be funded by less time-sensitive sources.

This dilemma is a recurrent theme in EU policy-making, where member states must draft national reform or action plans. There is a tension between participation and urgency. To address this, it is crucial to make plans that are easily revisable. Recognizing that plans made in haste are based on incomplete assumptions, we should avoid setting them in stone. Instead, we should create a framework that allows for revisions based on experience during the implementation phase.

In conclusion, the key to balancing urgency and participation lies in flexibility. By enabling plans to be revised as they are implemented, we can better address the inherent challenges and ensure more effective and inclusive outcomes. This approach will be crucial as we move forward.

Professor Thomas Christiansen

Thank you very much. I don't have much to add regarding the details of implementation beyond what Jonathan has already covered. However, I would like to place this in a more historical context. The current stringent regime is partly a response to past experiences with the Stability and Growth Pact and fiscal surveillance in general, which did not work well and are partly blamed for the problems during the eurozone crisis in the 2010s.

Member states have a history of not adhering to the rules and softer instruments of fiscal oversight. The response has been to implement tighter and more binding measures. However, this can sometimes lead to an overly restrictive regime, making it difficult to achieve the desired outcomes.

The future of Next Generation EU and its reforms will involve finding the right balance between not giving too much freedom to member states, risking non-compliance and potential default, and not being overly intrusive. This is occurring in a context where many perceive an intergovernmental turn in European integration. Member states have taken more control, especially during recent crises, shifting decision-making power to the European Council and the Council of the EU, away from traditional supranational institutions and the community method.

It's understandable that the European Commission, when given the opportunity, will try to assert its powers, which can cause pushback from member states. Political dynamics continue to evolve, as seen in recent elections. The Dutch elections are a case in point; the Netherlands, pivotal in getting Next Generation EU over the line, may now be more open to considering European responsibilities in the fiscal field beyond member state control. Similarly, in Germany, the current traffic light coalition is unlikely to survive the next election, with the CDU likely to play a more dominant role and potentially be less supportive of EU fiscal integration.

In summary, the European Commission will likely continue to assert its powers where it can, navigating the complex political landscape shaped by evolving national and EU-level dynamics.

Professor Ekaterina Domorenok

The need to quickly spend money and implement reforms, along with the political legitimation of the process, is crucial. Connecting this to Jonathan's points and the previously mentioned smaller-scale perspectives: we used to manage structural funds with institutionalized roles for sub-state authorities and social and economic stakeholders. Many member states have played the role of gatekeepers, which is particularly evident in the application of the partnership principle.

While present, this principle is less formalized and structured than it was in the context of structural funds. This allowed member states to centralize and implement reforms from the top, using the urgency of quick spending and action as a justification. This centralization trend has created discontent and implementation difficulties. It's not just a procedural issue but also a matter of administrative and financial effectiveness.

Municipalities, for instance, are among the main beneficiaries of both structural funds and RRF funding. Despite this, they had little input into the planning and decision-making processes. As a result, local authorities are unhappy because they bear the pressure to spend effectively without having real power over what should be done.

There is a clear tension here. Returning to your first question about general financial rules and their impact on the European Union, the Structural Funds represented a sophisticated system that could have served as a model. These funds have long been performance-based, and they were coordinated with the overall macroeconomic governance design, including the European Semester, the overall financial sustainability framework, and public spending in member states.

Though the Structural Funds were subject to conditionality, this was a low-salience political issue. Next Generation EU pushed in the same direction, attempting to formalize a similar conditionality mechanism and link it explicitly to country-specific recommendations. This was something desired but not effectively implemented before. Now, the system is becoming more integrated as the EU frames this issue politically and aims to implement it effectively.

However, at the EU level, we still lack a comprehensive system for monitoring compliance with these requirements. While we have spending capacity issues and procedural aspects to address, there is no systematic assessment of the impact of these instruments. Also, we need to evaluate whether the outcomes align with our expectations.

To conclude, the tension between centralized implementation and local involvement is significant. Moving forward, it is crucial to create a more inclusive and effective framework that ensures local authorities and stakeholders have a say in the process. This will enhance both the legitimacy and effectiveness of EU funding mechanisms.

3.3 Third question

Professor Enrico Borghetto

Thank you so much. You really anticipated my third question, which takes us to the EU level. To some extent, we expect that these performance-based programs will continue in the coming years, and we are currently experimenting and learning by using them. So, how can we integrate these performance-based programs into the broader EU economic governance? What can we learn from their implementation, and how can they be improved?

Professor Jonathan Zeitlin

Let me share some insights from my collaboration with co-author David Bockhorst, with whom I've written extensively on this topic. First, it's fully understandable that there is an ongoing concern about ensuring that EU funds are well-spent in the member states. Monitoring and auditing are crucial, but we see a lot of double auditing of the same projects, indicating a need for streamlining.

To make performance-based financing work better under the RRF, we need to move away from the idea of creating a rigid, complete contract between the EU and member states. Currently, member states are required to incorporate a series of European priorities in their plans, detail the reforms and investments, set milestones and targets for progress, and adhere to these as if they were binding contractual elements. These elements are operationalized down to specific verification documents, which can only be changed in the case of objective circumstances.

The Commission has made efforts to introduce flexibility, such as allowing partial payments for minimal deviations and lighter procedures for minor changes in plans. However, these are merely patches on a system that doesn't work properly. The core purpose of monitoring the implementation of plans, projects, and reforms should not only be to ensure that member states fulfill their promises but also to verify that these plans are effective.

Effective oversight requires more than just verifying documents; it involves understanding how projects are functioning. This cannot be done centrally, even with significantly more manpower at the European Commission, due to the information deficit compared to member states.

We advocate for a multi-tiered system of diagnostic monitoring, which aims to identify whether projects are working well and what to do if they are not. This system should be based on the explicit assumption that plans may need to be revised, not only in response to unanticipated circumstances like the situation in Ukraine or energy price inflation, but also based on lessons learned during the implementation process.

In this multi-tiered system, the first responsibility lies at the national level, with the Commission overseeing how the national systems are functioning. This approach is similar to existing European regulations in other fields. For example, in food safety, firms have certain obligations, national food safety authorities oversee how firms implement their hazard mitigation plans, and a part of the European Commission oversees the national food safety systems.

I'm pleased to note that these recommendations were adopted by the recent high-level group on the future of cohesion policy, which advocates for a revised, more performance-oriented cohesion policy that includes such a diagnostic monitoring system.

Professor Ekaterina Domorenok

Building on what Jonathan has just said, I want to highlight some key lessons we can learn from these initiatives. It's challenging to create a system that is both fast and effective. This is why we often refer back to cohesion policy and various instruments from that field.

Jonathan's work on ownership and shared management provides a useful framework for understanding these lessons. When national and regional authorities hold core responsibilities—not just formal compliance with plans but also financial and managerial responsibilities—they become genuinely invested in both the financial performance and qualitative outcomes of their projects.

The European Court of Auditors frequently reminds us of the issues in the Funds' management, not just in terms of spending capacity but particularly in the quality and effectiveness of investments. It's crucial to focus on performance, not just in terms of quantifiable targets but also in qualitative aspects.

For instance, consider Italy's Ecobonus program, which has been cited as a best practice in some reports. On the surface, it appears successful: it improved energy efficiency in buildings, increased GDP, and created jobs. However, this effect was short-term and did not lead to sustainable job creation or quality improvements. The use of unqualified workers and substandard materials led to negative social outcomes, contradicting the goals of a green and just transition that Next Generation EU aims to support.

This example shows the need to take performance seriously, beyond just meeting targets. We must ensure that investments lead to sustainable, high-quality outcomes. By focusing on both financial and qualitative performance, we can better achieve the long-term objectives of EU funding programs.

Professor Thomas Christiansen

If I may, let me take a couple of minutes to address a slightly different yet related question.

There's been much discussion about the new industrial policy, which aims to strategically inject public finance into the economy to strengthen certain sectors and make Europe more competitive, especially in the face of competition from China and the United States. Both of these countries strategically subsidize specific sectors of their economies, which poses challenges for Europe.

The issue at hand is not primarily about EU funds but rather national funds. During COVID-19, the European Commission relaxed competition and state aid rules significantly to allow member states to subsidize their economies as part of economic recovery efforts. This relaxation has persisted, and we are now seeing it being potentially misused by countries like France and Germany. They are using these subsidies to attract investment and create jobs, which might seem beneficial at first glance. However, this approach is problematic because it leads to an internal subsidy race, causing distortions and undermining the internal market.

The crux of the problem is that member states with fewer fiscal resources cannot compete with wealthier countries, leading to an uneven playing field. This could unravel 50 years of successful EU competition policy. What we need is a strong, centralized industrial policy in Europe to prevent an internal subsidy race and to ensure that Europe can compete effectively on the global stage.

This issue is related to our previous discussion because it underscores the need for the European Commission to monitor and coordinate how member states use state aid funds. Instead of allowing individual member states to act independently, there should be a coordinated effort to ensure fair competition and to leverage collective strengths for the benefit of the entire EU.

In summary, while we need new industrial policies to boost competitiveness, it's crucial that these efforts are centrally coordinated to avoid internal market distortions and to maintain a level playing field across all member states.

4 Q&A

Professor Enrico Borghetto

Thank you very much. I would like to open the floor to questions from the audience.

Professor Lucia Quaglia

Thank you so much. I am Lucia Quaglia from the University of Bologna, and I have a question or comment for the panel related to one of the first issues addressed: the temporariness of the Recovery and Resilience Facility (RRF). This also ties into some points that Thomas mentioned earlier.

Legally, the RRF is a temporary instrument, but as political scientists, we know that many temporary arrangements in the European Union often become permanent or extended. With the theoretical lenses of historical institutionalism, we can see how institutions evolve over time. What are the chances that some elements of the RRF will be extended?

Another key question is the lack of agreement among member states and institutions on how to pay back the RRF funds, particularly through the so-called EU-level own resources. Without a clear agreement on repayment, the debt could be extended.

I also want to reference the Letta study, which discusses how we can improve the competitiveness of the single market and avoid a race to the bottom through national subsidies. The report emphasizes the need for EU-level investment, particularly in cross-border infrastructure and joint enterprises. EU funding appears to be the most logical instrument for fostering such cooperation.

From a financial perspective, one significant issue is the limited availability of European safe assets. Historically, these have primarily been national bonds from highly-rated member states and some bonds issued by institutions like the European Investment Bank and the European Stability Mechanism. This created a small pool of truly European supranational bonds, with the bulk being German, French, and Dutch government bonds.

The Recovery and Resilience Facility significantly increased the issuance of EU-level bonds, which qualify as European safe assets or supranational European safe assets. There is a growing need for such assets as collateral in the new financial regulations, and the European Central Bank (ECB) has highlighted the importance of increasing their availability.

Given these financial reasons, along with path dependency and the challenges the EU faces, as well as the ongoing disagreement on repayment mechanisms, it seems plausible that the RRF might become less temporary than initially intended.

Professor Jonathan Zeitlin

Lucia, there are indeed many reasons why elements of the RRF might be extended, although I think it's extremely unlikely that the RRF itself will be prolonged, despite the concept of historical institutionalism.

As for the demand for European safe assets, this debate predates the pandemic. For instance, the ECB has considered issuing synthetic euro bonds composed of national bonds or accepting them as collateral. This discussion was significant in the context of completing the Banking and Capital Markets Union but faced objections from national treasuries and finance ministries.

The precedents set by the Next Generation EU package could influence the future of public finance in Europe, but much will depend on the political debate surrounding the next Multi-annual Financial Framework (MFF). Unless another crisis occurs, it is unlikely that we will see instruments as exceptional as the Next Generation EU package again.

It's also worth noting the idea of defense euro bonds, which has gained traction recently. Support for such instruments could emerge, reflecting a shift in EU financial strategies.

A key aspect of making Next Generation EU possible was the reinterpretation of European treaties, particularly Articles 122 and 175. Article 122, a crisis response article, was interpreted to permit exceptional one-off debt borrowing, despite previous interpretations. Article 175, related to cohesion policy, expanded its definition from regional convergence to broader EU-wide convergence. Both articles are likely to be used again, setting a precedent for future EU crisis responses and budgetary decisions.

In summary, while the RRF itself may remain a temporary instrument, its precedents will have long-term implications for how the EU manages public finance and responds to future crises.

Professor Federica Bicchi

I have two questions. The first one is a basic question about the upcoming European elections. How do you think a likely shift to the right will affect the implementation and auditing processes?

Beyond that, where do you see the key moments or "crunch points" in the near future where we should closely monitor developments? While we track progress daily, what specific events or deadlines could significantly impact these processes? For instance, how might the result of the US elections influence our strategies? Or what critical junctures, such as the 2026 deadline, should we be particularly mindful of?

Professor Thomas Christiansen

Regarding your last point, it's optimistic to assume there will be a clear crunch point. Based on past experience, it wouldn't be surprising if the EU continues to muddle through, even with warning signs all around. There are countervailing developments. On the one hand, global threats like climate change, wars in the neighborhood, and the actions of other global powers signal strongly that the EU needs to do more, including fiscally. This is not the right time to be fiscally prudent, as historical and geopolitical contexts suggest. The United States, China, and Russia wouldn't have achieved their global status without accruing debt over the past century.

However, there are countervailing trends at the national level. Member state governments increasingly adopt a parochial attitude, focusing on national electorates and showing a rise in populism. This often involves prioritizing national interests over the European common good. Additionally, there's been a broader shift to intergovernmental decision-making in the EU. For example, under Ursula von der Leyen's presidency, there's been more collaboration with national leaders in the European Council than with the European Parliament. While there are triggers, such as the US elections or the 2026 deadline for implementing NRRPs, there's also reason to believe these might not elicit significant European responses.

Regarding the European Parliament elections, both party-political and institutional dimensions should be considered. Institutionally, the European Parliament has been marginalized, making its majorities less impactful if it remains a weak actor. However, elections send signals about political trends. Although it's assumed that the right will increase, far-right groups like ECR and ID are fragmented both between themselves and within their ranks.

For instance, Meloni's Fratelli d'Italia in the ECR has become an acceptable face of what's misnamed as the center-right in Italy. However, parties within the ECR and ID include factions that are beyond the mainstream. This fragmentation poses problems for alliances. For example, working with Meloni means engaging with Poland's PIS, which is unacceptable to some within the EPP, like Tusk, reflecting internal EPP divisions.

Therefore, a broad right-wing coalition seems unlikely. Paradoxically, this might result in stronger collaboration within the shrinking center or mainstream factions, making it crucial for them to stick together to pass legislation. Hence, despite the rise of the right, the fundamental workings of the European Parliament and its support for EU policies and integration might not change dramatically.

Regarding fiscal surveillance, predicting specific outcomes is challenging. However, based on the current dynamics, a fundamental change from the past seems unlikely.

Professor Ekaterina Domorenok

I would go beyond the political scenario, as we can't predict the future precisely. Instead, let's focus on what we already know is planned. The end of the Belgian presidency is a crucial moment because Hungary takes over next, raising obvious concerns, given the upcoming elections for the Parliament and the new Commission, which adds to the uncertainty.

Currently, political actors are anxious to achieve as much continuity as possible by advancing institutional ideas and adhering to legal commitments made within the framework of the European Green Deal. This legislative agenda included over 65 proposals for regulations, directives, and strategies, creating path dependencies. As the Parliament and the Council of the European Union have established, these acts carry legal consequences, ensuring that some initiatives from this Commission's agenda will persist.

However, the Green Deal is evolving, with a shift towards green competitiveness and industrial policy. This shift has been indicated by several announcements from the European Commission's Vice President. The Commission is reshaping its agenda in this direction, which may be both good and bad news, depending on one's perspective.

The Belgian presidency is working diligently to advance several issues, ensuring the agenda is in good shape for the challenging next six months under the Hungarian presidency. Looking further ahead, the 2025-2026 period will be critical for the new Multiannual Financial Framework (MFF). The MFF is vital for, at least, maintaining the amount of Structural funds and other instruments, which are unlikely to be abolished. Major political agreements will center around this framework, with the Commission and Parliament already preparing for it.

The just transition issue remains significant as countries seek to ensure they receive adequate returns on their EU budgetary contributions. The 'just return' principle will continue to influence discussions on the agenda for green and just transition, digital transition, and related instruments.

Professor Jonathan Zeitlin

Thank you. I'll try to be brief and make three points.

First, I fully agree with Ekaterina that reaching an agreement on the next Multiannual Financial Framework (MFF) is crucial for the issues we've been discussing. It's conceivable that the RRF might be extended by one year due to ongoing demands from many member states. The Commission might prefer this extension to leaving unspent money on the table for unfulfilled projects, though this is a secondary matter.

Second, the main impact of the upcoming elections will likely be on the European Green Deal. We've already seen shifts triggered by farmers' protests in the Netherlands, which have spread to other member states, including Germany and Italy, and manifested in Brussels. This has led nervous governments in the Council, particularly in Germany, to backtrack on previously agreed legislation. Similarly, the European People's Party (EPP) in the Parliament has reacted to the electoral threat from far-right parties by changing positions on various Green Deal proposals. Most legislation passed in a modified, somewhat watered-down form, but some, like the Pesticide Reduction Act, were withdrawn by Von der Leyen.

This indicates a shift from the original Green Deal agenda, especially the farm-to-fork strategy, towards a greater focus on green industrial policy. I believe this trend will continue.

Lastly, regarding fiscal issues, I'd like to nuance something Thomas mentioned earlier about reactions to austerity and neoliberalism. Up until the post-Ukraine inflation period, low interest rates meant there were few worries about expanding public debt. Now, there's a dual focus: reducing and consolidating public debt while strongly supporting public investment. This is a significant shift. Organizations like the IMF and OECD are now advocating for public investment in a way that would have seemed out of place in the past. The revised Stability and Growth Pact reflects this, aiming to balance debt consolidation with the protection of public investment.

If Trump is reelected, this could impact the interpretation of new fiscal rules. The current framework is a compromise between German insistence on annual deficit reduction targets and a broader, more pro-public investment approach. A Trump presidency might amplify concerns about defense and security spending, potentially disrupting this delicate balance.

Question from a student

I have a quick question that might be easy to answer, as you've already touched on this aspect. My experience is primarily with the Italian context. Do you think that continuous changes in national governments can significantly affect the implementation of National Recovery and Resilience Plans (NRRPs)? For instance, in Italy, the Draghi government set specific goals at the outset of the recovery plan. However, when the Meloni government took over, it struggled to meet these aims and had different views on implementing the NRRPs, posing potential threats to their successful execution. Thank you.

Professor Thomas Christiansen

It's curious that we have a round table on this topic without Italian colleagues present, as their insights would have been particularly relevant. I'll make a brief comment, and then perhaps others can provide a more detailed answer.

Your question is a good one. One way to look at it is to see Next Generation EU, the recovery plan, and the Multiannual Financial Framework (MFF) as designed to provide continuity and stability, even when national governments change. These funds and frameworks are multi-annual and deeply institutionalized, precisely to address the fact that governments can change frequently, as seen in Italy.

These structures aim to ensure that certain priorities and projects continue regardless of political shifts. This can be seen as a safeguard against political instability, providing predictability in how things are done. In the case of Italy, which has historically experienced frequent changes in government, these mechanisms help maintain a level of consistency in policy implementation.

From a democratic standpoint, this raises the question of whether democratically elected governments are being held hostage to past decisions they cannot change. Some might argue that this insulates key policies from political influence, ensuring that long-term goals are met. Critics, however, might see it as limiting the ability of new governments to implement their own agendas, potentially viewing the EU as part of a "deep state" that prevents political actors from enacting changes according to their preferences.

On the positive side, just like constitutions and other key elements of economic and monetary policy, these frameworks are insulated from political influence to provide optimal outcomes for society at large. They aim to protect higher values and goals that are enshrined in various programs, preventing populist governments from dismantling important initiatives.

Professor Jonathan Zeitlin

I think we can address this question on two levels. First, specifically regarding the Recovery and Resilience Facility (RRF), and second, reconciling performance-based financing with national electoral democracy.

Regarding the RRF, it was designed as a binding agreement between member states and the EU, rather than a specific government and the EU. This means the commitments remain binding even when governments change. Changes to the plan are primarily allowed under so-called objective circumstances. For instance, the main changes introduced by the Meloni government in Italy were related to the implementation of the plan rather than shifts in priorities. Funds were redirected from municipalities to companies, but this had to be justified by the capacity to spend the money effectively.

Other countries have also experienced government changes, such as Slovakia and Portugal, where shifts from left to right in leadership might result in marginal differences in implementation, but not significant changes in the core priorities.

In the revised Stability and Growth Pact, the Council insisted that national fiscal and structural plans should be devised by governments and could be revised with a change in government. The term of the plan is meant to coincide with the term of the legislature. When a new government comes to power, it can present a new plan, provided it maintains the same debt reduction trajectory as the previous plan but can propose alternative ways of achieving these goals.

This approach represents a reasonable effort to balance the autonomy of elected national governments in setting their own priorities while also meeting common European obligations.

5 Credits

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