

The Next Generation EU

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The next generation EU: An analysis of the dimensions of conflict behind the deal

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Abstract

This article presents an analysis of why it was possible to reach an agreement on the Next Generation EU (NGEU), the EU's fiscal and policy response to the COVID-19 pandemic, since the deal breaks with the norms of no common debt issuance and will result in significant redistribution across Member States through grants. Based on an in-depth case study analysis, we identify three main dimensions of conflict underlying the political negotiations: the fiscal dimension, the rule-of-law dimension and the policy dimension, especially the climate and digitalization agendas. Various coalitions of actors were able to negotiate on these aspects, keeping a balance between their main priorities, but also making concessions, to enable an agreement. Our analysis reveals that the Franco-German alliance has been revived, enabling the grant instrument in the NGEU to be adopted; a new alliance of small rich northern states named the Frugals' has emerged as a surprisingly strong coalition, insisting on conditionality for accessing the grant; a clear Polish-Hungarian front has appeared to be challenging the EU's commitment to the rule-of-law; and a weakly coordinated Spanish-Italian front was successful in terms of securing grants as an instrument. The article also assesses that despite the agreement on the deal, there will continue to be battles in the NGEU, especially on the fiscal and rule-of-law dimensions. Yet, it could represent a 'Hamiltonian moment,'

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if the NGEU becomes a permanent fiscal instrument, which would advance European integration further.

KEYWORDS

actor-centred institutionalism, COVID-19, European Commission, European council, fiscal union, Franco-German alliance, Frugals, next generation EU

1 | INTRODUCTION

The Next Generation EU (NGEU), the EU's fiscal and policy response to the COVID-19 pandemic, could represent a 'Hamiltonian moment,' because it ties a (temporary) fiscal capacity for the EU to a common growth agenda (Celi, Guarascio, & Simonazzi, 2020). The NGEU – 360 billion euros in loans and 390 billion euros in grants – breaks with austerity policy, adopted in the aftermath of the 2008 financial crisis, as the main EU response to economic crises (de la Porte & Heins, 2015; Dyson, 2015; Scharpf, 2020). However, it is puzzling that the NGEU was agreed upon, considering the tensions between creditor and debtor countries, which climaxed in the aftermath of the Great Recession (Armingeon & Baccaro, 2012), and the continuous challenge to the rule-of-law and democracy by Poland and Hungary (Blauberger & van Hüllen, 2020). The NGEU, agreed to in conjunction with the Multiannual Financial Framework for 2021–2027 (MFF) (European Council, 2020), shows that the EU member states can jointly agree on policy, with funding, to deal with large-scale crises. However, the response is perplexing, not only due to underlying political tensions but also because the NGEU breaks with core norms of EU cooperation – in particular, no common EU debt issuance and no large-scale redistribution to cushion economic crises.¹

This puzzle leads to our research question: how was the deal on the NGEU possible, considering the underlying political tensions and that it required unanimity of all member states in the European Council negotiations? To undertake our analysis, we use the theoretical framework of actor-centred institutionalism (ACI), because it focuses on key actors, dimensions of conflict and on the institutional setting. The article is a first tentative analysis of the dynamics behind the decision. Furthermore, it delimits itself from the subsequent negotiations on the NGEU and the MFF in the European Parliament (EP),² because member states are decisive in budgetary issues, particularly debt issuance and distributive policy (Stenbæk & Jensen, 2016).

Based on our analysis, the paper concludes that the agreement on the NGEU in the European Council was possible due to changes of position among central actors, including concessions made on the central lines of conflict, especially the fiscal dimension and the rule-of-law. The change of positions includes, first, Germany's decision to support the grant as an instrument, representing a U-turn from its traditional fiscal stance in the EU (Dyson, 2015); second, the Frugals' acceptance of the grant as an instrument in the NGEU in exchange for a high level of conditionality for the disbursement of grants and third, acceptance by Poland and Hungary of the rule-of-law as a condition for receiving EU funds, provided details and procedures were not specified. Finally, a necessary but insufficient condition enabling a decision on the NGEU is the fact that it was negotiated in conjunction with the MFF, enabling side payments and rebates for countries.

The remainder of this article is organized as follows: Section 2 specifies our analytical approach, based on ACI; Section 3 presents the methodology; Section 4 presents the analysis on each dimension of conflict and a discussion on overall outcome; and Section 5 concludes and suggests issues to analyse in future research.

2 | THEORY: ACTOR-CENTRED INSTITUTIONALISM

The negotiations leading to the agreement on the NGEU and MFF could be addressed through diverse theoretical approaches (Schild, 2008). First, liberal intergovernmentalism could illuminate the interaction between the

negotiations at the European level and the aggregation of national interests at the domestic level (Moravcsik & Schimmelfennig, 2019; Schimmelfennig, 2018). Second, theories on budgetary processes could be used to map whether changes are incremental or punctuated (Citi, 2017). Third, neo-institutional theories could provide insights into how budget negotiations in the EU are shaped by path dependency and the high number of veto players involved (Schild, 2008). Fourth, negotiation theory could be utilized to examine the negotiation tactics used by actors to facilitate the agreement, including package deals, log rolling and side payments (Dür & Mateo, 2010). Finally, actor-centred institutionalism (ACI) presumes public policies (codified in decisions), result primarily from the intentional actions of actors, in accordance with their (economic and political) interests, in an institutional setting, which sets the rules of the game (Scharpf, 1997, pp. 36–44). Thus, this paper uses ACI (Scharpf, 1997), because it integrates several of the central components in the other theoretical approaches. More specifically, it emphasizes the role of actors and their interests, in line with liberal intergovernmentalism; the role of the institutional setting and its implication for decision making, as accentuated by budget theories and neo-institutional theories and, finally, the strategic interaction between actors, consistent with negotiation theories. Yet, it has some limitations, in that it focuses on one moment in time and does not analyse the process longer-term ideational or structural changes. However, the snapshot analysis is useful to understand the underlying dynamics behind important decisions, which can provide a basis for further research.

Following the ACI framework, the *institutional setting* pertaining to the NGEU and MFF negotiations is defined by the EU Treaties, according to which the member states, represented by the heads of state or government, are the main *actors*. In the European Council, the decisions are made unanimously, implying that all member states are veto players and that they seek an acceptable rather than optimal result (Stenbæk & Jensen, 2016). Concerning the *dimensions of conflict*, they reflect points of contention between actors. For our case, the points of contention pertain to the negotiations, which we derive inductively from our empirical material, when they are central for one or more coalitions of actors. On this basis, we identify three dimensions of conflict, which are the fiscal dimension, the rule-of-law dimension and the policy conditionality, focused on climate and digitalization. Concerning the fiscal dimension, this includes first the choice of fiscal instruments – that is, whether loans or a combination of loans and grants, should be used. Loans are not controversial, as they have been used before in conjunction with the 2008 financial crisis. This contrasts with the proposed grant instrument in the NGEU, which are contentious because some actors see them as a step towards fiscal federalism. The loans and grants both require the issuance of a common EU debt, which was partially institutionalized following the Great Recession (Epstein & Rhodes, 2018). A second issue of tension in the fiscal dimension is the conditions for disbursement of grants – that is, the extent to which accepted grants should be monitored throughout their implementation, via milestones and very specific plans, including the possibility to halt a grant, if the plan is not followed accordingly. Regarding the rule-of-law dimension, this refers to the correct use of funds, precluding corruption, but also to the requirements of the rule-of-law and democratic institutions set out in the Treaties. It is contentious, as some actors identify the rule-of-law and democracy as central European values, whereas others have a more lenient approach. Regarding policy conditionality, this refers to specific policy requirements in the commitment of funds in the NGEU. Specifically, macroeconomic environment, climate policy and digitalization are issues of policy.

The theoretical concept of *actor constellation* describes the positions of *actors and coalitions vis-à-vis* each other, on one or more dimension of conflict. During negotiations, which are limited in time, actors have incomplete information and limited time to review the information (Stenbæk & Jensen, 2016). Some member states make explicit coalitions on one or more issues to influence the outcome, while others do not create formal coalitions, weakening their negotiation power. In our analysis, we assess the degree of coordination among actors. Aside from the coalitions of member states, the Council president is often a broker in the negotiations, especially shortly before and during negotiations, while the Commission president prepares the scene in the agenda-setting phase through instruments such as Commission communications and white papers (Stenbæk & Jensen, 2016). In this case, it is the Commission communication on the NGEU (European Commission 2020a).

In the analysis, we identify the strength of actor coalitions by ascertaining the extent to which actors, first, have similar positions on the dimensions of conflict and, second, the degree to which they coordinate their positions.

The final element of the theoretical framework is the *mode of interaction*, which is also determined by the institutional setting in which the outcome is determined (Scharpf, 1997). In our case, the mode of interaction is achieved through distributive bargaining, where the actors focus on the distribution of the resources in the negotiation process (Stenbæk & Jensen, 2016).

3 | METHOD

The article consists of a single case study of the EU decision-making process, which resulted in the NGEU. We consider it a critical case empirically, because it is a completely new instrument that breaks with existing practice by introducing large common EU loans and grants; theoretically, the outcome (NGEU with MFF) was unlikely, because of the many veto players involved and the high level of preference heterogeneity (Scharpf, 1988; Tsebelis, 2002). Methodologically, the paper uses the case study approach, consisting of a structured, focused analysis (Bennett & George, 2005) and utilizing the theoretical framework derived from ACI. We employ various empirical sources, which allow for triangulation of information, to create an analytical narrative around key concepts that captures why and how the NGEU was agreed upon. Regarding empirical material, we draw on primary sources such as official documents, including Commission proposals, European Council documents as well as national and cross-national governmental position papers. In addition, we have conducted five semi-structured elite interviews (Berry, 2002) with representatives from the member states, EU institutions and think tanks (see online Appendix 1 for the interview questions, which have been derived from the theoretical framework). Due to the confidential nature of the high-level negotiations among member states, we do not disclose the identity of our interviewees or their institutional placements. The paper also utilizes secondary sources – such as analyses by think tanks, news from international press outlets and academic publications – especially to cross-check information.

4 | ANALYSIS OF THE LINES OF CONFLICT IN THE NEXT GENERATION NEGOTIATIONS

This section analyses the positions of the main actors involved in the negotiations, along the dimensions of conflict presented in the outline of ACI: fiscal instruments, the rule-of-law and climate and digital policy requirements. For each dimension, the section presents the positions of the actors & coalitions and the outcomes thereafter. Previous coalitions such as the ‘Friends of Cohesion’³ advocated for more money for cohesion funds to continue to exist, but were less significant in the NGEU (Interviews 1–5, 2020).

4.1 | Fiscal instruments

The choice of the fiscal instrument(s) of the NGEU, on whether it should be funded only via loans or a combination of grants and loans, has been highly contentious, first because grants are seen to develop a European fiscal capacity and second because of the large-scale common EU debt issuance – managed by the European Commission – that the NGEU entails. In addition, the total budget of the MFF was contentious because each member state, as in past rounds of the MFF, focuses on its own economic interest (Citi, 2013; Dür & Mateo, 2010; Laffan & Lindner, 2017; Schild, 2008; Stenbæk & Jensen, 2016).

4.1.1 | Actor positions

In their joint position paper, France and Germany support grants and loans as fiscal instruments to strengthen European economies during the COVID-19 crisis in 2020 (Information Office of the Federal Government of Germany, 2020). Germany and France wanted to show leadership and to pave the way for unity in the EU. The Franco-German alliance is central in further European integration, and this alliance has been revived in the context of the corona crisis (Interview 3, 2020).

The French and German leaders were both concerned by the rise in right-wing political movements in their own countries and across the EU. Citizens, especially in countries strongly affected by the economic crisis, have expressed growing distrust in political institutions across Europe, which has led to new political movements at the left and right of the political spectrum (Armingeon & Baccaro, 2012). These issues and Brexit have been a source of concern in France and Germany (Interviews 3 and 4, 2020). Additionally, France and Germany would like the EU to be a strong geo-political power, especially considering the rise of China and political unpredictability of the US, which has increased during the Trump presidency (Herszenhorn, Bayer, & Momtaz, 2020; Interviews 4 and 5, 2020). For Germany, the EU is important in terms of signalling that it is a responsible country and as an instrument for channelling German foreign policy (Dyson & Goetz, 2012).

In France, Macron had advocated for a stronger fiscal dimension for the countries of the Eurozone prior to the pandemic (Macron, 2017). Although the NGEU is a fiscal instrument for all EU countries and not just the Eurozone, the idea of a fiscal instrument with its own resources is in line with France's position of a stronger federal dimension in the EU. France also has an economic interest in a common EU fund, because together with Italy and Spain it was among the countries hardest hit by the COVID-19 pandemic during the first wave, with a negative impact on economic growth (Interview 1, 2020). Furthermore, it has a high level of accumulated public debt, with limited possibility for fiscal expenditure. This also explains why France strongly argued for a bigger EU budget in the MFF and starkly opposed rebates (Interview 3, 2020; Drachenberg, 2020).

Until the economic crisis following the COVID-19 pandemic, Germany was the strongest advocate for fiscal restraint and austerity in times of crises (Dyson, 2015). This position influenced the EU response to the 2008 financial crisis at a time when there was a majority of conservative and right-wing governments in the EU. This included, on the one hand, strengthened EMU governance, and on the other hand, structural reforms prescribed by the EU-IMF through Memoranda of Understanding (MoU) for countries unable to repay the interest on their debt without financial assistance (de la Porte & Palier, 2021; Scharpf, 2020). During the COVID-19 crisis, Germany changed position radically by supporting a grant instrument and large-scale common EU debt issuance. The change in position can be explained by several factors, based on strategic considerations and learning from the policy response in the last financial crisis. Regarding strategic considerations, Germany assessed that the single market should be strengthened because COVID-19 is affecting Germany's export-driven model, which relies on a high volume of trade with the rest of the EU (Interviews 1 and 2, 2020; Scharpf, 2018). Following from this, Germany has provided significant state aid to its own companies during the COVID-19 crisis, which is having an effect on the internal market and has therefore put it under pressure to create a level playing field (Interview 3, 2020). Regarding learning from past experiences, Merkel was concerned about the growing distrust in EU countries that had been most severely affected by the 2008 financial crisis (Interviews 3, 4, and 5, 2020). These factors together explain that Merkel joined Macron in supporting a grant instrument.

Countries that were against the grant as an instrument no longer had the support of Germany and the UK. The Netherlands became the lead of the 'Frugals,' a group of small, rich countries (also including Denmark, Sweden and Austria) with balanced economies that had low levels of accumulated debt, which had extensively coordinated their positions due to the high stakes (Interviews 2, 3 and 4, 2020). The red line in their position was to support common debt issuance and loans in the NGEU, but they were against grants as an instrument, as they feared the EU could develop into a fiscal union (Frugals non-paper, 2020; Interview 3, 2020). Furthermore, the Netherlands, supported by the other Frugals, was vocal about specifying conditionalities related to economic reforms in the final negotiations of the European Council (Interviews 3 and 4, 2020). This was also

expressed in a letter by the Dutch government to the European Commission. The Dutch government proposed a model that was inspired by the Memoranda of Understanding, whereby countries would get access to payments on the basis of progress towards specified targets and reform (Government of the Netherlands, 2020). Mark Rutte, the Dutch prime minister, also fought hard for a clause specifying that one member state could veto the disbursement of funding in the case that targets were not met.

Southern European countries wanted grants to be allocated with as little conditionality as possible. Italy and Spain both had high accumulated debt and already ran high budget deficits prior to the Covid-19 pandemic. Following the impact of the 2008 financial crisis on their economies and welfare states (Pavolini, León, Guillén, & Ascoli, 2015), the trust in the EU decreased (Armingeon & Baccaro, 2012). Although the leaders of Italy and Spain met shortly before the July 2020 European Summit, they did not formally coordinate their positions in conjunction with the NGEU (Cué & Verdú, 2020; Interviews 2, 3 and 4, 2020). Thus, the internal cohesion of this coalition was weak. This could be partly because they were worse hit by COVID-19 and had to deal with its impact in terms of health care and economic measures and partly because of internal political challenges linked to increased polarization and decreased internal cohesion.

Concerning Eastern European countries, Poland and Hungary were the strongest actors, arguing for a strong link between the NGEU and the MFF, because they are net beneficiaries. This position was supported by the other Visegrad countries, the Czech and Slovak republics and many of the Friends of Cohesion. Thus, those actors insisted that the NGEU should be temporary and that the MFF should be the main instrument targeted at underdeveloped regions (Polish position paper, 2020; Friends of Cohesion, 2020). In contrast to Southern Europe, they are fiscally conventional and thus support an NGEU whereby recipients have to show that the results lead to an improvement in the macroeconomic environment. Thus, similarly to the Frugals, they support conditionality related to reform requirements and fiscal responsibility (Interviews 1 and 4, 2020; Euractiv, 2020).

4.1.2 | The outcome

The outcome of the negotiations with respect to the fiscal dimension of the NGEU is a total budget of 750 billion euro, including grants (390 billion euros) and loans (360 billion euros). Crucially, for the NGEU, the Commission is empowered in the 'Own Resources Decision' to borrow funds on the capital markets on behalf of the EU up to the amount of 750 billion euro in 2018 prices, until the end of 2026 (European Council, 2020). In addition, conditionality on macroeconomic soundness of reforms has been integrated in the NGEU, especially challenges articulated in country-specific recommendations in the European Semester process. In addition, the member states agreed on a possibility to be able to brake a grant if there are serious deviations from meeting milestones and targets, which are pointed out by at least one member state to the European Council (European Council, 2020).

The total MFF budget agreed to was 1.074 trillion and 750 billion euro under the NGEU (European Council, 2020). To obtain the agreement of all member states, special deals amounting to around 12 billion euro and rebates of ca. 7.5 billion were agreed upon (Interview 3, 2020; European Council, 2020).

From the Commission proposal to the final European Council conclusions, the allocation key, which is central in determining what various countries can obtain from the NGEU, shifted from favouring low-income countries towards taking greater consideration of country size and the severity of the economic impact of the COVID-19 pandemic (decline in GDP, unemployment). This was agreed in a COREPER meeting prior to the European Council meeting and had not been contentious (Interviews 3 and 4, 2020).

4.2 | Rule-of-law

A central dimension of conflict is on the extent to which access to resources from the NGEU and the MFF should be linked to democracy and the rule-of-law. The two elements are key parts of the Copenhagen criteria from 1993,

which applicant countries must fulfil to enter the EU (Blauberger & van Hüllen, 2020). Moreover, Article 2 of the Treaty of the European Union commits to 'values of respect for human dignity, freedom, democracy, equality, the rule-of-law and respect for human rights.' This includes that all public powers, should operate within the constraints set out by law, are in accordance with the values of democracy and fundamental. Furthermore, the rule-of-law includes, amongst others, legal certainty, effective judicial protection by independent and impartial courts, separation of powers and equality before the law (European Commission, 2020b). Whereas the EU has strong mechanisms to ensure applicant members' compliance with the Copenhagen criteria prior to accession, the tools to discipline existing member states are limited. To address this challenge, the European Commission has initiated yearly rule-of-law reporting and country-specific recommendations in the European Semester, yet these are mainly in the realm of soft law (Interview 4, 2020; European Commission, 2020b; Blauberger & van Hüllen, 2020).

4.2.1 | The positions

Due to challenges with the rule-of-law and democracy, the European Commission included strict rule-of-law and democracy conditions in the initial proposal for the MFF and for the NGEU (European Commission, 2020a). From the perspective of the European Commission, such conditions were built on pre-existing initiatives, especially the rule-of-law reporting, which was initiated towards the end of Jean-Claude Juncker's term as president of the European Commission. Subsequently, the first rule-of-law report was published under the presidency of Ursula von der Leyen, and the ambition of the Commission was to further strengthen commitment to this issue (European Commission, 2020b; Interviews 4 and 5, 2020). Her ambition was to link rule-of-law requirements to the MFF and the NGEU (European Commission, 2020a; Interviews 4 and 5, 2020).

Following the lead of the European Commission, France and Germany support the rule-of-law conditionality. Macron especially has been concerned about compliance with the rule-of-law in Eastern Europe. Merkel and the CDU have been criticized for being less vocal about the rule-of-law, since Fidesz, the right-wing nationalist-conservative political party to which Victor Orbán belongs, sat alongside CDU in the European Parliament in the European People's Party group. Furthermore, Germany has been criticized for tolerating Orbán's use of EU funds for political purposes (Interview 3, 2020). This could explain why the rule-of-law conditionality was not mentioned in the Franco-German negotiation position (Information Office of the Federal Government of Germany, 2020). Nevertheless, the issue has increasingly also been important for Germany as part of the strategy to strengthen the European Union vis-à-vis other regions in the world, including the US and China (Interview 3, 2020).

Dutch Prime Minister Mark Rutte has been the most outspoken head of state regarding the respect of rule-of-law and democracy (Interview 1 and 3, 2020; Government of the Netherlands, 2020). Rutte has to a large extent been supported by the other Frugals, thus strengthening the Dutch negotiating position (Interview 1 and 2, 2020). In contrast to the Franco-German paper, the Frugals non-paper makes explicit reference to the need to adhere to the rule-of-law and fundamental rights (Frugals non-paper, 2020). Taken together, this has reinforced the position that the NGEU and MFF is the venue where the issue can be addressed.

For the Southern European countries, the rule-of-law is not of prime importance, because their battle is mainly on the first line of conflict, on large unconditional grants. In addition, Spain and Italy have taken steps to improve the fight against corruption (European Commission, 2020b). They would, furthermore, like to be considered full democracies among their Western European counterparts (Interviews 4 and 5, 2020).

Concerning Eastern Europe, there has been a backsliding on these values in several of the member states that entered in 2004. Hungary has recently been qualified as an elected authoritarian regime, while the other member states of the EU are classified as democracies.⁴ Hungary and Poland have been criticized for pursuing policies that run counter to the Copenhagen criteria and the EU's fundamental values (Blauberger & van Hüllen, 2020; Kelemen, 2020). Specifically, the two countries have undertaken reforms, which curb the independence of the judiciary and media. These issues have been highlighted in the rule-of-law report, but also in country-specific

recommendations in the European Semester (Interview 4, 2020; European Commission, 2020b). Poland argues that the reference to the treaties is sufficient and that no more conditionality related to rule-of-law is necessary (Polish position paper, 2020; Interview 1, 2020). The other Visegrad countries, the Czech Republic and the Slovak Republic, while previously united with Poland and Hungary, seek to distance themselves from Poland and Hungary on this issue (Interviews 3, 4 and 5, 2020). They have well functioning and independent judiciaries and have recently undertaken reforms to address some challenges. In the Czech Republic, initiatives have been taken to increase transparency in the appointment, promotion and dismissal of judges, while in Slovakia, the government announced important reform plans to strengthen judicial independence and integrity, as well as the appointment process for the Constitutional Court (European Commission, 2020b).

4.2.2 | The outcome

Although all coalitions except Hungary and Poland placed great importance on rule-of-law and democracy, the initial proposal on this issue was softened during the negotiations, especially due to the vocal opposition of a strong wording on rule-of-law during the European Council meeting by Hungary, which was supported by Poland (Interview 5, 2020; Nielsen, 2020). Thus, the conclusion makes reference to ‘general principles embedded in the Union Treaties, in particular the values of Article 2 TEU,’ and more specifically to the financial interests of the Union, and to the respect of rule-of-law (European Council, 2020). This wording, which is ambiguous, was agreed after lengthy negotiations between the heads of state and government in July (Interview 3, 2020). It has, after the European Council meeting, continued to be a battle field.

4.3 | Green transition and digitalization

The green agenda in the EU has traditionally been supported by Northern European countries, whereas countries that have a substantial reliance on coal in their energy mixes have opposed this agenda (Interview 5, 2020). However, in recent years, especially following awareness of climate change issues, EU commitment to tackle climate change has been strengthened through a number of directives and regulations, headline targets in renewables, energy efficiency and reduction of greenhouse gas emissions (de la Porte & Stiller, 2020). The shift to digitalization is supported by most member states. However, there has not been funding to support these two political agendas, because much of the funding from the EU budget is pre-committed to the common agricultural policy and cohesion policy.

4.3.1 | The positions

Prior to the COVID-19 crisis, the newly appointed president to the Commission, Ursula von der Leyen, identified the green agenda as a unifying project for the EU (von der Leyen, 2019). The Green Deal was put on the table in December 2019, setting out a plan for how to turn green transformation into an economic growth opportunity for Europe. With the advent of the COVID-19 crisis in Europe in the spring of 2020, the issue of economic recovery took over the top of the agenda. However, the Commission did not give up on the idea of green growth, which can be seen in its proposal for the NGEU. Whereas ‘repair’ focused reactively on coping with the damage of the COVID-19 crisis, ‘prepare’ focused proactively on transforming Europe in a greener and more digitalized direction for the next generation. Digitalization also became an important priority based on the recognition that Europe lagged behind the US and China in this area, especially with regard to the developments in artificial intelligence and the presence of tech companies (European Commission, 2020a). Thus, the

NGEU presented an opportunity for the Commission to propose funding to support member states in the climate and digitalization agendas (Interviews 4 and 5, 2020).

The Franco-German coalition follows the commission's proposal, whereby the need to speed up the green and digital transitions is central in their joint position paper. Their position can be explained by the voters' increasing prioritization of the green agenda. In Germany, the green agenda has been on the rise, which, among other things, can be seen in the increased support for Bündnis 90/Die Grünen in the recent elections (Bürgin & Oppermann, 2020). It can also be read as a classic example of how Germany is trying to shape the EU in its own image, as the country that has focused on energy transition in a more green direction (Dyson & Goetz, 2012). In France, Macron was interested in signalling the importance of the green agenda, especially concerning demands from the far left. As for the digital dimension, the two countries are also supportive, and their position can mainly be explained in geopolitical and economic terms by the fact that Europe is lagging behind in this area compared with the US and China. Germany and France had extensive informal communication with the Commission about the EU priorities, in conjunction with the specification of their position (Interviews 4 and 5, 2020).

The Frugals' position is also in line with the Commission communication, as these countries traditionally belong to the environmentally and digitalization friendly cluster of member states in the EU (Interview 3, 2020). In their position paper, they highlight that they are favourable to 'a green transition that underpins the EU's ambitious climate, growth and digital agendas' (Frugals non-paper, 2020). However, compared with the fiscal dimension, and thereafter the rule-of-law, their position on these issues was less intense (Frugals non-paper, 2020; Government of the Netherlands, 2020). They are also keen on macro-economic policies in line with the European Semester (Interviews 4 and 5, 2020).

In the Southern European cluster, the picture is blurred, as there is not a strong interest in an exclusive focus on the Green Deal and digitalization. However, there is considerable support for the green agenda, which is a departure from the historical positions of Italy and Spain. This is due to the influence of green parties and movements in these countries, most notably illustrated by the five-star movement in Italy, and Podemos in Spain (Interviews 1 and 3, 2020).

The Visegrad countries, especially Poland, have traditionally been more sceptical about the green dimension, which can be explained by the presence of cheap coal as a natural resource (Jensen & Nedergaard, 2012). Following climate change developments in recent years, there has been an increase in political commitment to the green agenda among Eastern European countries. For instance, the main focus for Poland is on energy transition – energy efficiency and a shift to renewables – rather than climate change. This is for geopolitical reasons, which can be explained by the fact that Poland has devoted many resources to making the EU energy independent from Russia (Polish position paper, 2020; Interview 2, 2020). In other countries, such as Slovakia, green transition is currently a key priority (de la Porte & Stiller, 2020).

4.3.2 | The outcome

In terms of the final outcome, the European Council conclusions of July 21, 2020, emphasize how 'the plan for European recovery will need massive public and private investment at the European level to set the Union firmly on the path to a sustainable and resilient recovery, creating jobs and repairing the immediate damage caused by the COVID-19 pandemic whilst supporting the Union's green and digital priorities' (European Council, 2020). Regarding resources, the European Council conclusions read that 'programmes and instruments should contribute to mainstream climate actions and to the achievement of an overall target of at least 30% of the total amount of Union budget and NGEU expenditures supporting climate objectives' (European Council, 2020). Similarly 10% of funds are to be devoted to the digital transition. Thus, the final outcome of the negotiations with regard to the green and digital agendas is slightly less ambitious compared with the Commission's original proposal (Interviews 3 and 5, 2020). Although some of the Eastern and Southern European countries would have liked a lower proportion of funds

devoted to the green transition, they supported the agenda, because it provided them with opportunities to develop initiatives favourable to climate challenges, and there was no direct requirement to reduce reliance on coal as an important energy source, at least in the short term. The compromise of 30% in the NGEU for the green and digital transformations was acceptable for all actors.

The COVID-19 crisis has counterintuitively meant that the green and digital agendas did not become a major conflict dimension in the negotiations. Without the NGEU, which provides new funds that can be used for green and digital transformation, the MFF would have been a central battleground in terms of how much of the budget should go to traditional policy areas such as the common agricultural policy and how much should be spent on new transformative policies such as climate policy. Prior to COVID-19, the Commission had proposed a slight reduction of funds to the common agricultural policy in preparation for the new MFF, which was contentious at the time. The contention was reduced when funding for the green and digital transformations were provided by the NGEU, without removing funds from pre-existing areas (interview 4, 2020).

4.4 | Explaining the overall outcome

Having mapped the outcome and positions of the actors along the three conflict dimensions, we can now take stock of the overall result of the negotiations. The end result of the negotiations is to a large extent a function of distributive negotiations, where the various coalitions of actors have had to accept trade-offs across the conflict dimensions, in order to enable an agreement (Jensen & Nedergaard, 2012; Scharpf, 1997; Stenbæk & Jensen, 2016). As in the previous negotiations of MFF for 2014–2020, the president of the European Council, in particular, has made use of side payments, so all actors can come out and declare victory towards domestic constituents (Stenbæk & Jensen, 2016). The side payments in the endgame of the negotiations amounted to approximately 12 billion euro (Interview 3, 2020). Besides side payments to ensure all actors would agree with the final deal, the continuation and increase of rebates were also an important instrument to convince net payers to the budget to accept the deal (Interviews 3 and 5, 2020). Another negotiating technique that has been actively used by the brokers is the formulation of delicate issues at a high level of abstraction, leaving it up to the Commission to fill in the content later. This includes the conditionality for receiving the loans, which so far lies in the hands of the Commission, with advice of the Economic and Financial Committee, or the requirements regarding the rule-of-law principle, which continued to be an issue of contention until December 2020 (Interviews 3 and 5, 2020). Another technique, employed by the leaders of the Commission and of the European Council, which was also used during the MFF negotiations for 2014–2020, was to drag the heads of state and government through marathon negotiations, convincing all to reach an agreement (Stenbæk & Jensen, 2016).

In addition to the various negotiation tactics, the political setting of the negotiations, where there is less support for an austerity agenda compared with during the sovereign debt crisis, is also an important factor to understand why it was possible to conclude such a historic agreement despite diametrically opposed positions of the member states on key political issues, especially loans versus grants as an instrument, conditionality for receiving grants, rule-of-law requirements, and, to a lesser extent, climate and digitalization. Germany's change of position, in particular, has been crucial in enabling an agreement on the NGEU. Table 1 summarizes the results for different actors on the three dimensions of conflict.

The European Commission has obtained an outcome close to its ideal position. On the fiscal dimension, the Commission will have the responsibility for managing the grant instrument, involving assessing member state plans for using the money, as well as taking common EU loans on financial markets. Furthermore, there is substantial funding for the green and digital agendas, which would not have been possible without NGEU, or without trade-offs from other areas. On the rule-of-law, the outcome is satisfactory, but it is not perfect, because the rule-of-law has been watered down after the European Council meeting (interviews 4 and 5, 2020).

Coalition/dimension	Fiscal	Rule of law	Green and digital
Commission	+++	++	+++
Franco-German	+++	++	+++
The Frugals	++	++	++
Poland and Hungary	++	+	++
Italy-Spain	+++	++	++

TABLE 1 Overview of outcome of negotiations on NGEU

Note: Source: Own presentation, on the basis of analysis. +: outcome of negotiation far away from ideal position. ++: outcome acceptable. +++: outcome of negotiation close to ideal position.

Regarding coalitions of member states, the Franco-German coalition is the big winner in the negotiations, assessed by comparing the overall result with their original negotiating position (Information Office of the Federal Government of Germany, 2020). The two member states managed to set the agenda by coming up with a proposal prior to the Commission, and they managed to significantly shape the negotiations according to their interests. On the fiscal dimension, France and Germany managed to secure funding to rebuild their economies due to the change in allocation key – from favouring underdeveloped economies to favouring countries most severely hit by the coronavirus – while Germany was the only non-Frugal country to secure a rebate (Interview 1, 2020; Darvas, 2020). On the rule-of-law issue, the two did not manage to introduce strict adherence, but the Council conclusions did refer to the need to respect rule-of-law. On the green and digital dimensions, the coalition managed to secure a balance between green and digital investments, as well as economic reforms as planned in the European Semester, to ensure reforms harmonize well with EMU criteria.

The result for the Frugals is more mixed but generally favourable. Regarding the fiscal dimension, the coalition did not come through with its wish to provide support for recovery from the COVID-19 pandemic only through loans (Frugals non-paper, 2020). However, the proportion of grants was significantly lower than in the Commission and Franco-Germany proposals (from 500 to 390 billion euro). In addition, conditionalities regarding grants were explicitly included in the European Council conclusions, in exchange for the Frugals' acceptance of the grant instrument. The extensive conditionality for grants was especially to the negotiation capability of the Dutch Prime Minister Mark Rutte. Economically, all members of the coalition managed to preserve and expand rebates in the MFF (European Council, 2020) and to prevent major increases of the MFF. This can be attributed to the high degree of coherence in the coalition, which despite attempts by other actors to divide it by offering individual member states special rebates, stood shoulder to shoulder throughout the negotiations (Interview 3, 2020). Concerning the rule-of-law question, which was important to the coalition, the result was acceptable, as it is still open to interpretation, despite a recent agreement on strengthening the use of funds to fight against corruption, but less to the fundamental rule-of-law issues, such as judiciary independence. Regarding the climate and digitalization agendas, the result is also acceptable for the coalition, as the outcome reflects the green agenda, but also economic reform, as a continuity with the European Semester (Interviews 3 and 5, 2020).

Italy and Spain did not coordinate their positions, although their interests are comparable, which would in principle have weakened their overall negotiating power. Concerning the fiscal dimension, the countries have insisted on the need for grants rather than loans, due to the significant health and economic impacts of the COVID-19 crisis (Interview 3, 2020). This negotiating position was to a great extent fulfilled, although Spain and Italy had to accept a higher degree of conditionality. Concerning the green and digital agendas, the result is satisfactory for both countries, which, due to domestic politics and rising support for a green agenda, have supported the initiative. However, they would have preferred a more open-ended possibility for using funds. Overall, the countries' success in the negotiations is mainly due to exogenous factors, in particular that they were hit hard by the COVID-19 pandemic, affecting the health care systems and their economies.

For the Visegrad countries, the result is also mixed. Regarding the fiscal dimension, Poland left the negotiating table with fewer economic resources than when it arrived, following the allocation key adopted, which was less favourable to economies under development (Darvas, 2020; Interview 2, 2020). This is due to the concessions they received regarding the rule-of-law, but also because they continue to be net beneficiaries in the MFF. Furthermore, on the green and digital agendas, their support was overall supportive, although mainly focused on energy policy. In line with the Frugals, Poland has insisted on a strong macro-economic perspective in the NGEU, which was achieved in the outcome in the European Council conclusions (Polish position paper, 2020; Interview 1; European Council, 2020). The most important outcome is a much stronger alliance between Poland and Hungary, especially due to the rule-of-law issue, which the other Visegrad countries distance themselves from.

5 | CONCLUSION

On July 21, 2020, the European Council reached an agreement on the NGEU and MFF for 2021–2027 during the COVID-19 pandemic. The NGEU is historic, as it breaks with the principles of no major common debt issuance and no major redistributive fund in case of crisis. If the NGEU becomes permanent, it could constitute a ‘Hamiltonian moment’ in the EU.

Yet, there are many obstacles along the way. The European compromise remains fragile due to different political expectations about the future direction among the coalitions of member states – the Franco-German alliance, the Frugals and the Polish-Hungarian alliance – which have become solidified in the negotiation on the NGEU. On the fiscal dimension, although money is ex-ante earmarked per country, the decision to allocate the money is pending approval of recovery and resilience plans, currently being prepared by all member states. They will be assessed and monitored by the Commission, depending on the interpretation and implementation of the conditionality, currently being devised. The requirements for rule-of-law, following negotiations after the European Council in July, are mainly focused on corruption associated with the use of funds, and less with fundamental rule-of-law requirements. Yet, there is still considerable ambiguity around the rule-of-law principle, which is still open to interpretation. The results of the NGEU, in terms of growth and jobs, but also the green transition and digitalization, may strongly influence whether the NGEU remains a temporary instrument or constitutes a ‘Hamiltonian moment’ by laying the foundations for a permanent fiscal union.

While this analysis is but a snapshot of the factors enabling the decision on the NGEU, through ACI, there are many possible ways to build on our findings. First, future studies could examine the impact of other factors, such as shifts in ideas of the central coalitions of actors. Related to that, the role of European and domestic interest groups in shaping the position of their governments could be analysed. Second, it is important to study the further crystallisation of conditionalities attached to the allocation of funds, especially regarding rule-of-law and policy requirements, from an administrative, political and legal perspective. Finally, another avenue for future research is to study if and eventually how the NGEU could alter growth models across the EU, especially in the periphery economies, that are still struggling with high levels of public debt.

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ENDNOTES

- ¹ The NGEU is different from structural and cohesion funds, which address developmental differences but are not designed to deal with economic crises.
- ² In its July 2021 resolution on the NGEU and the MFF, the EP wanted a larger budget and less conditionality for the disbursement of funds (European Parliament, 2020). Very minor concessions were made, mainly on unspent funds from previous programs (16 billion euros). However, the EP was not significant on the battleground of the NGEU as an EU instrument (Interviews 3, 4 and 5, 2020).
- ³ The Friends of Cohesion are Bulgaria, the Czech Republic, Cyprus, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania, Slovakia, Slovenia and Spain.
- ⁴ <https://www.v-dem.net/en/data/data-version-10/>

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