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Cecilia Mancini

Explorative Analysis of European Economic Post-Covid-19 Crisis Recovery Strategy Through the Lenses of the New-Developmental Paradigm

São Paulo - SP

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Orientador: Prof. Alexandre Abdal

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Banca examinadora:

Prof. Alexandre Abdal (orientador)
Instituição: FGV EAESP

Prof. Bresser Pereira
Instituição: FGV EAESP

Prof. Gabriel Rossini
Instituição: UFABC

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ABSTRACT

As economies around the world struggle with the drafting and implementation of strategies to fight the economic consequences of Covid-19 pandemic while the crisis itself is still not an overcame threat, the question of what our economies will look like after coronavirus is of fundamental interest. This article seeks to explore and analyse European Union's strategy for economic recovery and future economic growth from the standpoint of New Developmentalism. The idea behind this research topic lies in the hypothesis that after Neoliberalism's failure to deliver constant growth and development in Europe, the EU 27 have inadvertently turned - especially as a reaction to the Covid-19 pandemic - to a new economic governance strategy that has strong common ground with New Developmental theory. Therefore, what I will investigate in this paper is which are the proposed policies at the European level that resonate with New Developmentalism, why and how such a foreign economic theory can be applied to the analysis and be part of the solution for Western European countries and which are the challenges represented by the EU supranational nature. The expected contribution of this paper is the demonstration that New Developmentalism could acquire popularity in Europe in the next decades as a way of achieving sustained development after the recession caused by the pandemic.

KEY WORDS: Covid-19, New Developmentalism, European Union, Economic Development, Public Policy, Economic Recovery

RESUMO

As economias ao redor do mundo estão lutando com a elaboração e implementação de estratégias para combater as consequências econômicas da pandemia do Covid-19 enquanto a crise em si ainda não é uma ameaça superada. A questão de como nossas economias ficarão após o Coronavírus é de interesse fundamental. Este artigo procura explorar e analisar a estratégia da União Europeia para a recuperação econômica e o crescimento econômico futuro do ponto de vista do Novo Desenvolvimentismo. A ideia por trás deste tópico de pesquisa reside na hipótese de que após o fracasso do neoliberalismo em proporcionar crescimento e desenvolvimento constantes na Europa, a UE 27 inadvertidamente voltou-se - especialmente como uma reação à pandemia de Covid-19 - para uma nova estratégia de governança econômica que tem forte terreno comum com a teoria do Novo Desenvolvimento. Portanto, o que investigarei neste artigo são as políticas propostas no nível europeu que ressoam com o Novo Desenvolvimentismo, porque e como tal teoria econômica estrangeira pode ser aplicada à análise e ser parte da solução para os países da Europa Ocidental e quais são os desafios representados pela natureza supranacional da UE. A contribuição esperada deste artigo é a demonstração de que o Novo Desenvolvimentismo pode adquirir popularidade na Europa nas próximas décadas como forma de alcançar o desenvolvimento sustentado após a recessão causada pela pandemia.

PALAVRAS CHAVE: Covid-19, Novo Desenvolvimentismo, União Europeia, Desenvolvimento Econômico, Políticas Públicas, Represa Econômica

LIST OF ABBREVIATIONS

BEI - European Investment Bank

ECB - European Central Bank

EMU - European Monetary Union

EU - European Union

IMF - International Monetary Fund

MFF - Multiannual Financial Framework

NGEU - Next Generation European Union

NRRP - National Recovery and Resilience Plan

RRF - Recovery and Resilience Facility

SGP - Stability and Growth Pact

SME - Small and Medium Enterprises

SURE - Support to mitigate Unemployment Risk in an Emergency

WHO - World Health Organization

WTO - World Trade Organization

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1. INTRODUCTION

1.1 Background and Context

As Countries around the world struggle with the drafting and implementation of strategies to fight the economic consequences of Covid-19 pandemic while the crisis itself is still not an overcame threat, the question of what our economies will look like after coronavirus resonates among governments, supranational organizations and the academic milieu. The modest aim of this article is to approach this broad question from a narrow and unexplored point of view.

Western European Countries belonging to the European Union have been the first democracies to be hit intensely by the pandemic and although the recent nature of the phenomenon and heterogeneity of responses makes it challenging to draw similarities or comparisons between Countries' reactions, it is safe to suppose that States will behave differently according to their means, long term objectives and governance structure. More specifically, the European Union has shown to this date one of the most decisive and ambitious responses as the European Council reached an agreement on the next Multiannual Financial Framework for 2021-2027 and on 'Next Generation EU' on 21 July 2020.

In this work I intend to analyse the EU's proposed strategy for economic recovery through the lenses of an economic paradigm that is not *per se* part of the European political economy's culture and tradition, namely New-Developmentalism. This is a specific current of thought born in Brazil and whose main exponent is Professor Bresser-Pereira, but whose principles are starting to resonate between economists worldwide. Being formulated in the Global South to serve - in principle - the Global South, it has as foundation Keynesianism and Classical Political Economy and in particular it draws from Classical Developmentalism or Latin American Structuralism.

New-Developmentalism was born with the intent of explaining the failure of low income, middle income and developing countries to catch up with developed high-income economies in the last forty years. As Europe prepares for its next economic phase, projecting itself into the future with the heavy burden of Covid-19 economic repercussions on its shoulders, and as New Developmental objective of achieving sustained economic growth becomes shared once again by high income countries after the alleged failure of Neoliberalism to guide their economic development and after more than a decade of limited growth following the 2008 financial crisis, my goal is to show patterns of similarity between the European Union intended economic manoeuvres to face Covid-19 repercussions and New Developmental precepts and to discuss divergences where present. For these reasons in this article, guided by the hypothesis that the EU is in fact steering towards a more developmental model of strategic growth planning, I will try to present the elements in its recovery strategy that made me perceive the existence of a pattern that hopefully, by the end of the reading, will appear clear to the reader as well.

The rationale behind the choice of this particular topic lies in my personal life experience. As a FGV student and a student of Prof. Bresser-Pereira himself, I had the opportunity of coming into contact with New Developmentalism and I became interested in it, but only when the pandemic struck and I witnessed European countries' efforts to rebuild a stronger economic system, I had the idea of investigating whether there are in fact signs that Europe needs and is in search for new sources of inspiration for its macroeconomic thinking and whether New Developmentalism could represent, even implicitly so, a viable and fitting guide to recover Europe's economy. This particular research question has never before been investigated and for this reason I believe that this work represents a humble, but valuable and original contribution to the fields of Development Economics and European Economics. To this extent I gathered most of my research material from academic papers, official reports, working documents, data, and information from European Institution sites.

1.2 Introduction

As previously introduced the objective of this article is to discuss supposed current shifts in the European Union economic governance strategy, and in particular to test the hypothesis that the EU main institutions are slowly "renouncing" the neoliberal and austerity strategy that guided the Union reforms and actions in the past four decades, to embrace a new growth and stability strategy that resonates with the Latin American school of thought of New Developmentalism. This programmatic shift would mark the end of the era of Neoliberal reforms that dominated rich Countries economic behaviour (both academically and politically) since the 1980s and would recalibrate international economic thinking towards a new era of development and growth, at least in the EU.

To this extent in this article, I will introduce in chapter 2 New Developmentalism and its main theoretical features (section 2.1) together with its set of economic proposals (sections 2.2 and 2.3). Being New Developmentalism a current of thought born in a different context than the one against which it will be analysed in this article, I will discard its discussions regarding Dutch Disease neutralization and more *ad hoc* policy proposals for low and middle-income Countries, together with references (although rare) to situations of “predator”[1] or non-democratic Nation-states. This is obviously because these topics, although of great interest and relevance, find little application in the European democratic context. Additionally, New Developmental theory itself does not exclude the applicability and congeniality of its proposals to high-income developed countries, especially if they find themselves in a stagnation or recession phase of their economy.

In chapter 3 and in particular in section 3.1 and 3.2 I will analyse briefly some aspects of the economic currents and phases that succeeded one another in Europe in the last four decades in order to contextualize what the role of New Developmentalism could be in light of Europe’s past economic history. In section 3.3 I will explore the social and economic effects of the Covid-19 pandemic in the EU. Clearly at the time of writing[2] the Covid-19 crisis is far from overcome as in Europe the feared Second Wave has materialized, meaning that data concerning its economic impact and the entity of the consequential expected economic recession is being adjourned constantly. The severity of the recession that will actually materialize however, doesn't hinder the discourse of this article, as whichever the exact values of the fall in real GDP, unemployment and production, the guidelines and details of the European recovery strategy and the relative allocated funds have already been discussed and agreed on, notwithstanding the fact that it already appears evident that an “austerity” strategy would be of very little use to the aim of restoring economic growth and deliver social protection in the present and future context. There exists of course the possibility that, as the crisis worsens throughout the winter of 2020/2021, the EU-27 will come to accrue the allocated funds, without however modifying, the spending and reform objectives.

In the fourth and last section I will describe the EU's recovery strategy and I will discuss the evidence gathered from the analysis of the Union is official working documents concerning

[1] Bresser-Pereira, L.C. (2017). The economics and the political economy of new-developmentalism. *Textos para discussão 464, FGV EESP - Escola de Economia de São Paulo, Fundação Getulio Vargas (Brazil)*.
[2] The present thesis has been written between september and november 2020.

reform and recovery objectives against new developmental political economy proposals. In section 4.1 will expand on the EU policy proposals trying to trace a *fil rouge* and to gather a coherent view among the various instances that in the Union are charged with formulating and influencing economic policies, namely the European Commission, the European Parliament, the European Council and the Central European Bank. What is important to clarify, is that the identification of a clear policy and reform path is far from obvious in an acephalous entity as the European Union. To this aim various sources had to be consulted and taken into consideration and the general orientation of the Union's economic plans always had to be abstracted from working documents of diverse nature and coming from different European Institutions. Moreover, for the aim of this article the working documents which will be considered of primary relevance are the ones issued by the European Commission and the European Council which are the "executive" instances in the European governance[3] and that more than any other take initiative on and coordinate economic and social policies in the Union. My expectation, which as we will see is mostly met, is to find evidence of a change of policy route in the consulted documentation and to see these changes match in content and purpose with New Developmental policy proposals.

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[3] Costa, O. & Brack, N. (2014). Le fonctionnement de l'Union Européenne. *Editions de l'Université de Bruxelles*.

2. New Developmentalism

2.1 The unfolding of New Developmentalism in the context of Globalization, Rentier-financier Capitalism and Neoliberalism

For the last 40 years the world has been immersed in a process and a project - globalization - that describes and shapes international actors' strategies in the global arena. I define globalization in this section as the general and all-encompassing context in which both the formulation of New Developmentalism and the Covid-19 crisis take place. Although the exact time frames of its development are not agreed on unanimously by scholars (many argue that the globalizing process started with the Americas discovery in 1492), I can safely affirm that globalization entails the international integration of economies and societies and the destabilization of traditional scale hierarchies as its two most visible manifestations[4]. Besides a social global phenomenon, many authors[5] (and I will retain this view for the development of this article) identify globalization's stemming hour as the moment in which classical developmental capitalism was knowingly substituted in the US growth and hegemonic strategy by liberal orthodoxy. This moment coincides with the beginning of the Neoliberal Years of capitalism about which I will discuss in later sections and can be located historically with the reforming ideological mandates of Margaret Thatcher in the UK and of Ronald Reagan in the US whose ideas and principles soon spread across the world through their commercial and financial influence and through International Organizations heavily influenced by the US like the IMF and WTO. The globalization process peaked around the years 1990s and 2000s and went through a marked slowdown after the 2007-2008 financial crisis and will likely additionally slow its pace in the aftermath of the 2020 Covid-19 pandemic. The European Union also played a crucial role in the intensification of globalization, its mere existence and enlargement agrees with the whole idea of deep economic integration and deregulation, but its peculiarity as a decentralized political entity makes it an unicum for several reasons and the Union is often found not to follow predictable trends of centralized national States. Its trade patterns, exchange rate policies and free circulation traits make it necessary to draw separate conclusions as for the future of its economy but most certainly the 2007-2008 financial crisis

[4] Abdal, A. & Ferreira D. (). Desglobalização, globalização e pandemia: impasses atuais na economia-mudo capitalista. In Rossini, G. (org.) (). COVID-19: aspectos sociais, políticos e territoriais. *Santo André, Brasil: EdUFABC.* No prelo

[5] For example, in Palley (2018) or Rodrik (2011), cited below.

and the Covid-19 pandemic represent pivotal moments in its history as a protagonist of the globalization process and project as they do for some other States operating in the international system. It is in this general framework, the one of the failure of classic developmentalism and Neoliberal orthodoxy, that New Developmentalism is conceived and in this context, the one of the European Union in a slowed-down globalized international economy after the Covid-19 pandemic, that I will set the present discussion.

The subject of this analysis - New Developmentalism - is an open and growth-oriented economic current born in Brazil in the 2000s from the economic thought of Prof. Luiz Carlos Bresser-Pereira. The word “New Developmentalism” was used for the first time in 2003 by Bresser-Pereira but many academics (M. H. Simonsen, Felipe Pazos, Nakano, Lara Resende and Arida) contributed to its formation over the previous years. New Developmentalism stems from classical economic theory, Keynesian economics and classical developmentalism and empirically from the observation of the failure of most developing countries[6] to complete their development trajectory and catch up with the high-income developed economies of the world. Its methodology is in fact one of historical deduction from which pragmatic yet limited in scope micro and macroeconomic models are built. It is founded on the observation of the historical and economic context and the consequential generalization of the regularities and of the patterns observed in said context. The choice of the method arises from the belief of the unsuitability of the hypothetical-deductive method, widely adopted in neoclassical economics, to the satisfaction of the adequacy of the theory to reality criterion, that is to say from the unsuitability of the hypothetical-deductive to form predictions and conclusions that are coherent and adherent to the economic reality in analysis.[7]

As mentioned, New Developmentalism develops as an economic theory in a historical moment where many other economic theories have alternated to one another attempting to explain and guide the surrounding economic reality. In particular it is classical developmentalism, with which New-Developmentalism shares half of its denomination hinting at the common aim of these two currents, or better, its failure to guide economic growth in developing countries that more than any other economic paradigm inspired new developmentalism. Classical

[6] It is a widely accepted view that the only successful countries that managed to industrialize and develop so as to rich comparable well-being levels to Western civilizations powers are East Asian countries such as Japan, Hong Jong, Singapore, South Korea and most notably China.

[7] Bresser-Pereira, L.C. (2009). The Two Methods and the Hard Core of Economics. *Journal of Post Keynesian Economics, 31*(3), 493-522. Retrieved November 8, 2020, from http://www.jstor.org/stable/27746860

Developmentalism, as Bresser-Pereira explains, dominated the international scene, and in particular the Latin American one, from the 1940s, when it was first formulated, to the 1980s, when the World Bank let it aside to adopt a Neoliberal guiding economic paradigm or conventional orthodoxy. This coincided more or less globally with what is commonly referred to as a "Neoliberal Turn" or "Washington Consensus", that is to say when neoliberal reforms were adopted in many countries from the US and the UK to Latin America and when neoliberalism became predominant in scholar environments, therefore marking the end of Keynesian developmental theories as guidelines for economic development and the transformation of the World Bank from a developing fostering agency to an incubator of neoliberal reforms. As it is commonly known neoliberal reforms are pervaded and inspired by "market fundamentalism"[8] and most often entail privatization of national industrial agencies and deregulation of the market in favour of capital-holders' rents. For this reason, the Neoliberal Years of capitalism are also referred to by Bresser-Pereira as a period of rentier-financier capitalism, that is to say a time in which States' policies favoured the interests of capital holders over the interests of the working class, entrepreneurs and small and medium enterprises. Additionally, economic openness and active participation in the global market, which are not in principle opposed by New Developmentalism, are defining objectives of neoliberal policies, even at the cost of imposing fiscal austerity to a State own's national economy to even out inefficiencies generated by fierce global competition and market distortions. These reform tendencies spread as well across the European Union to the extent that over the years many claimed that neoliberal reforms had taken a stab to Western Europe welfare state and social market economy, although it is most plausible to affirm that the strong social characterizing features of the European Union economy were only scaled back and not completely dismantled. Covid-19, nevertheless, showed the inefficiency of both the health and the bureaucratic sectors, whose deficiencies especially for Southern European Countries are undeniable.

New Developmentalism was conceived as an economic theory applying to middle-income developing countries whose economies operate in an open and competitive global market. But as the new neoliberal conventional orthodoxy supposedly failed to deliver its expected results especially in the light of the foreign debt and the 2008 economic global financial crisis, developed economies also turned to other models of development and of public finance management but no dominant current affirmed itself so far in Western Europe nor in the US

[8] Bresser-Pereira, L.C. (2012). Structuralist macroeconomics and the new developmentalism. *Brazilian Journal of Political Economy*, *32*(3), 347-366. https://dx.doi.org/10.1590/S0101-31572012000300001

that would enable us to speak about a new era of economic governance in the same way as we refer to the 1980s Neoliberal Turn. If an economic trend has not affirmed uniformly, the situation appears different when speaking about the political climate, where nationalist, protectionist and populist views gained generalized popularity. What can be hypothesized however, is that the present Covid-19 pandemic crisis triggered - even more so in the Countries most hit by the pandemic like the EU - an even bigger reaction than the one generated by the 2008 crisis. The Covid-19 social, economic and welfare state emergency made it clear that previous economic management of the European Union had done its job in stabilizing European Member States' fiscal accounts but had failed in delivering sound policy guidance for the building of a solid European economy capable of growing at a sustained pace and of surviving an external shock of the magnitude of the pandemic-generated crisis in analysis. For this reason and for other aspects about which I will discuss more in detail in the following sections, it is in the expectation of the hypothesis underlying this work, that European Member States, under the guidance of the European Union main agencies, will more or less implicitly turn their eye, as evidence shows, to new models of economic development. In this context what I believe will represent a valid option for Western European countries is in fact New Developmentalism. This economic theory, although born to fit and foster developing aspirations of middle-income countries, presents far reaching precepts that allows the possibility of seeing it applied and adopted by high-income countries, more specifically because, according to its theoretical framework, the bud of "developmentalism", before being a prerogative of developing countries, lies historically in the context of the Industrial Revolution, which happened of course in XVIII century Western Europe.

2.2 New Developmental Political Economy: Two Forms of Capitalism and the Role of the State in the Economy

"The nation's increased savings and investment capacities, the means by which it incorporates technical advances into production, human capital development, increased national social cohesiveness resulting in social capital or in a stronger, more democratic civil society, a macroeconomic policy capable of assuring the state's and the nation-state's financial health, leading to conservative domestic and foreign indebtedness ratios, are all constituents of a national development strategy."[9]

[9] Bresser-Pereira, L.C. (2008). The New Developmentalism and Conventional Orthodoxy. *Iberoamericana – Nordic Journal of Latin American and Caribbean Studies*. 4. 10.16993/ibero.195.

Among the supporting pillars of the New Developmental theoretical framework there is the premise that capitalism as a form of productive structure was born through a "developmental state", "Developmentalism, not economic liberalism, was the default form of capitalism. Historically, capitalism was born developmental during mercantilism."[10] What Bresser-Pereira argues is that contrary to a more superficial view on the matter, capitalism before being associated with the prevalence of markets and deregulation as towing for the economy and with the capitalist State par excellence, the United States, has to be associated with its pivotal role during mercantilism and the Industrial Revolution. Capitalism, as a way of organizing production, arises for the first time in history during the mercantile era solicited by a developmental state, it is only later on in the XIX century that capitalism came to be associated with the characterizing form of capital allocation of economic liberalism, and with the type of State that lies at the other side of the spectrum, namely the liberal state. More in detail, New Developmentalism theorizes the individuation of two distinct ways of coordinating capitalist societies that manifested throughout history: developmental capitalism and liberal capitalism. It is according to whichever the role of the State and the market have in the economy that an economic system can be categorized under one or the other capitalism declination. In a developmental capitalist economy, the State, which carries out a developmental role, intervenes moderately and strategically in the economy cooperating with an equally relevant market. In a liberal capitalist setting, the State is a minimal State whose intervention in the economy is considered cumbersome and the market is the lead actor in the economic system. These two forms of capitalism are supported and reinforced by as many variants of capitalist coalitions. Bresser-Pereira depicts the developmental class coalition being composed in middle income countries by the industrial bourgeoisie, urban industrial labor force, salary workers and the public administration, while the liberal class coalition sees the convergence of rentier capitalists, financiers, and corporate chief executive interests. Exactly this class coalition is what is viewed by Bresser-Pereira as the dominant class in developed high income countries since the Neoliberal Turn, hence during the financier-rent era of capitalism. During this time redistribution policies were abandoned causing a steep increase in inequality and systemic instability, the class coalition that guided these policies is also addressed as being "radical-reactionary". Exemplifying the predominance of the liberal coalition influences in decision making political instances it is possible to cite the saving operations carried out in the EU of

[10] Bresser-Pereira, L.C. (2017). The two forms of capitalism: developmentalism and economic liberalism. *Brazilian Journal of Political Economy*, *37*(4), 680-703. https://doi.org/10.1590/0101-31572017v37n04a02

the banks so-called “Too Big To Fail”, that unequivocally speaks about the prioritization that was made during the financial crisis to the detriment of the common citizen.

After having taken the shape of mercantilism and economic liberalism in the early XIX century during the Industrial Revolutions, capitalism turned into techno-bureaucratic and then social-developmental during the Golden Years of capitalism, a period of time that goes from the end of World War II to the late 1970s and that what characterized by progressive developmentalism and social improvements. During these years financial stability enabled developed countries to consolidate their welfare states and in Germany the Christlich Demokratische Union Deutschland, CDU, conceived the “social market economy” model whose core values were integrated into the formation of the European Economic Community and that can be regarded as Europe’s version of classical developmentalism. As already hinted, after this phase, the world’s leading economies underwent a change that opened the way for the Neoliberal Years of Capitalism, where liberal capitalism was again seen collectively as the standard way of coordinating economic activity. This period lasted from the 1980s to the first 2000s, when the 2008 financial crisis that affected the US, Latin America and Europe to a great extent, brought the world “back” to a more cautious hybrid type of capitalism that can be encountered in the grey area between liberal and developmental capitalism, especially in European countries, where there never was a full commitment to a liberal ideology, even if the 2010 euro crisis and consequent recession were direct causes of the neoliberal approach to economic regulation that had prevailed up until that.

Developmental capitalism takes root especially in a Nation-states where the State itself is of a developmental type. The prototype of the developmental state after which many other Nation-States modelled their developmental policies is Japan. The convergence in this State of the predominance of structuralist/Keynesian macroeconomic theory, of the favouritism towards State intervention in the economy and of a fervent private sector, made Japan one of the most successful, if not the most successful, State to complete its transition to a developed country and to have built a resilient and time-sustainable economy. Japan is not however the only Nation to have moved from the developing to the developed label in a remarkable way. China also followed a pattern of incredible growth stepping on the hyperglobalization path that had been set out as a project by the US and becoming in around 30 years its major creditor[11], hence asserting its position of dominance or near dominance in the world order. Of course, the Chinese developmental strategy presented different characteristics mainly due to its dictatorial form of government and communist ideology combined with openness to neoliberal capitalism. What distinguishes a developmental state from its liberal counterpart is the ratio of its ruling: a developmental state has as its core objective social and economic development. A developmental State sees development as a priority and acts towards this priority implementing developmental policies and intervening moderately in the economy. In this context we take development as meaning the "sustained increase in wages and living standards of the population" or/and the "increase in labor productivity and per capita income"[12], that is to say, we associate development with the broader concept of "progress" which, again according to Bresser-Pereira is the "historical process through which modern societies achieve the main political objectives that they defined: security, individual liberty, economic development, social justice and the protection of the environment"[13], all of which are of course targets of a developmental State. As Peter Evans puts it, to classify a State as developmental it must own the characteristics of "bureaucratic capacity" and "state embeddedness" which both serve the aim of growth and development. The concept of embeddedness, namely the insertion of public bureaucracy into public society and into the business community also draws attention to an important issue that comes before the role of the State in the economy and that concerns social and institutional norms.

One of the most renowned takes on institutions is North's, according to his definition "*institutions are the humanly devised constraints that structure human interaction. They are made up of formal constraints (rule, laws, constitutions), informal constraints (norms of behavior, conventions, and self-imposed codes of conduct), and their enforcement characteristics*."[14] Institutions, as depicted in this definition, mould social and economic interaction between individuals which is crucial to understand why, according to New Developmental theory the virtuous circle between education, national bureaucracy and the

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[11] Abdal, A. & Ferreira D. (). Desglobalização, globalização e pandemia: impasses atuais na economia-mudo capitalista. In Rossini, G. (org.) (). COVID-19: aspectos sociais, políticos e territoriais. *Santo André, Brasil: EdUFABC.* No prelo

[12] Bresser-Pereira, L.C. (2017). The economics and the political economy of new-developmentalism. *Textos para discussão 464, FGV EESP - Escola de Economia de São Paulo, Fundação Getulio Vargas (Brazil)*.

[13] Bresser-Pereira, (2017). op. cit.

[14] North, D.C. (1993). "Economic Performance through Time," *Nobel Prize in Economics documents* 1993-2, *Nobel Prize Committee*.

private sector (as it is shown by the Japan example) plays an important role as an incubator of good and performing developmental policies. This link that exists between norms and economic dynamism is overlooked by supporters of the liberal state, that see national bureaucracy (as it can often be) unperforming and costly and that consequently cut on its resources. On the contrary a developmental state is built on the virtuous cooperation of its tecno-bureaucracy and its entrepreneurs, on the awareness of its civil society, and in particular of its people and its elites, to be part of the same Nation-State and of the same national developmental project. For this framework of analysis - the EU context - to observe a developmental strategy, we would need to encounter nationalist developmental coalitions at both the national and European level, since European citizens do in fact perceive their citizenship and nationality as twofold.[15]

Following this line of thought institutions and social norms alone do not suffice to set a coherent and efficient developmental line of action, that is why this discussion brings the role of the State, and in the case of the European Union, of its supranational decision-making institutions, at the centre of attention. Differently from a developmental state, the liberal model of state retracts its prerogatives and circumscribes them to the securing of the rule of law, and to the maintenance of sound public finances, while the rest of its tasks are delegated to the action of the market, regarded as the most efficient institution for the regulation of the economic activity. This one assumption, of the market aptness to coordinate a State's economy, is discarded in the developmental state theorization. A developmental state administers its economy starting from the assumption that the market acts as an optimal coordinator of the economic activity only for already competitive sectors while non-competitive sectors need state-level strategic industrial planning. Among the non-competitive sectors there are communications, transportation, healthcare, and infrastructure for most economies, while depending on the sector of specialization or relative abundance, each economy presents different additional non-competitive sectors. For the ones that we have named, State intervention is required especially because these are sectors that concern social well-being. In particular, in its 2010 definition P. Evans draws from Amartya Sen theorizations and calls attention to the ability and necessity of a developmental state of being “capability-expanding”. Evans’ characterization of the developmental states is updated and the element that distinguishes the 20th century developmental state from the 21st century developmental state is precisely this new focus on

[15] In 2019, according to Eurobarometer surveys, more than two-thirds of Europeans felt that they are citizens of the EU in addition to being national citizens of their belonging Country, meaning that it is safe to extend the concept of a - transversal - national and developmental class coalition to the population of the EU.

the capacity of a State or a government to improve collective welfare conditions[16]. The importance for a State of being able to act as a multiplier for its citizens opportunities in life acquires significance and more importance in a globalized economy environment and it applies specially to States that have passed the developing point.

What is being pointed out by Evans is that more (or to the same extent) than the accumulation and investment for the acquisition of plants and industrial complexes, a developmental state must concentrate on the development of human capital, that is regarded as being the true engine of 21st century growth. According to this viewpoint and to New Developmentalism, what drives growth is the ability of human beings to utilize "bits" of information - technology, data, etc. - in new ways, making human capital more important than ever and with it the economic sector that more than any other employs human capital as its main source of input which is the service sector. The service sector is what has been driving economic growth in most high-income countries and reached remarkable importance also in manufacturing-intensive countries such as China and India. But the contradiction brought up by Evans, which is also a very important point for this analysis, is that when during the Neoliberal Years of capitalism economies cut down on government spending these cuts directly affected job areas that are intrinsically linked with the creation of value-added (and economic growth) in high-income societies, namely education, R&D and healthcare. These cuts determined a small but still relevant shrinkage of the European welfare system, an issue that acquired crucial importance in the European recovery strategy as we will see in the next sections. In particular the most evident gap concerns the failure of the liberal state to aim at capability expansion allocating resources towards capability-expanding sectors which have been on the opposite under-remunerated and under-supplied. The inappropriate supply and remuneration of the sectors related with the provision of knowledge, know-how, technological sophistication and human capital results from market inefficiencies, again pointing out at market's inappropriateness to regulate economic activity in non-competitive but still crucial sectors like education, research and healthcare.

So, if the necessity of both a quantitative and qualitative increase of State intervention in the economy emerges clearly, what caused the widespread wish for a retreat of the State as a mere coordinator? The liberal orthodoxy ignores the concept of the "nation" as the origin of the willingness to grow and develop or it assumes that in times of globalization, in the Neoliberal

[16] Evans, P. (2010). The challenge of 21st century development: building capability-enhancing states. *New York: United Nations Development Programme*.

Years of capitalism, Nation-states have lost significance. In addressing this issue, a very interesting perspective comes from US scholar M. Mazzucato[17] that, discussing the topic of the State's role in the economy depicts a model of State - the "entrepreneurial-state" - that shares some similarities with our developmental state in analysis. Firstly Mazzucato shares the belief in the State as the engine of great revolutionary technologic, economic and social improvements in the same way as New Developmentalism regards the State as the actor behind the Industrial Revolution, secondly she stresses the importance for the State to support both the supply and demand side similarly to New Developmentalism, but what is more interesting of her discourse is the identification of what happened during the Neoliberal Years of capitalism as the realization of a "self-fulfilling prophecy". More in detail after being blamed responsible for fiscal irresponsibility and populistic policies, increasingly more tasks have started being outsourced to the private, increasingly less resources have been allocated towards the State depriving it of the high-skilled personnel and human capital it needs to operate efficiently and making it unattractive to high-skilled labor. This aspect brings the present discussion on a new and additional level, the State, in order to be developmental, not only needs to be consciously oriented towards growth, but it also has to be regarded from the outside as the actor that is capable of generating growth, in Mazzucato's words, it is vital to let the State "think big again".

2.3 New Developmental Economic Policy: Micro and Macroeconomic Management

New Developmentalism, as an economic stream, was formulated with the overriding objective of offering a compound of practical principles which describe the political and managerial strategy towards which a government that wants to be developmental should aim. I already described the vocation that lies behind a developmental state, in this section I will describe what are the main policy indications and proposals that resulted from New Developmentalism theorization. The theorization of New Developmentalism was progressive, and from the early 2000s it grew to encompass increasingly more theoretical innovations reaching its programmatic maturity in recent years. Its policy guidelines concern mainly, but are not limited to, the micro and macroeconomic governance of a State. In this section I will report them without for the moment discussing in detail their applicability or supposed relevance to the European and Eurozone context which is the subject of the fourth chapter. I already discussed New Developmental political economy and its most important theoretical innovations, namely

[17] Mazzucato, M. (2015). The entrepreneurial state: Debunking public vs. private sector myths.

the importance of the concept of nation, the two forms of coordination of capitalist economies and the correlated class coalitions and forms of capitalist state and its opposition to conventional liberal and neoliberal orthodoxy. Now I will introduce one last aspect of its political economy - "the sixth condition of accumulation"[18] - and its microeconomic and macroeconomic principles together with its views on welfare provision and on general growth strategy.

The sixth condition for accumulation is a New Developmental theoretical innovation that builds on the previously conceived five conditions that come from general economic theory (condition one to four) and from Keynesianism (condition five). These conditions are to be guaranteed by the State in order to promote development and increase of living standards for the population, and they are:

(1) Education and health care
(2) Institutions that guarantee property rights and contracts
(3) Investments in the infrastructure
(4) Finance to investments and availability of credit
(5) The availability of demand
(6) Access to demand

Conditions one to four concern the supply side of capital accumulation, the Keynesian condition six posits the availability of demand, while the condition added by New Developmental theory concentrates on the demand side, but in particular on the access to demand that the exchange rate guarantees or denies. [19]

We saw how the role of the State is to act in the economy to foster growth and development and how the State should promote capital accumulation and technical progress. New Developmental microeconomic conceptualizations in this respect are limited to the borrowing from classical political economy and from developmentalism of respectively the notions of labor value theory, of profit rate parity tendency, of growth as industrialization and, to a lesser extent, of the complacency towards industrial strategic planning. New Developmental macroeconomics on the contrary is exhaustive, and as discussed previously, it argues that

[18] Bresser-Pereira, L.C. (2017). The economics and the political economy of new-developmentalism. *Textos para discussão 464, FGV EESP - Escola de Economia de São Paulo, Fundação Getulio Vargas (Brazil)*.
[19] Bresser-Pereira, L.C. (2020). A New Theoretical Framework: New Developmentalism Challenge. 63:3, 114-132, DOI: 10.1080/05775132.2019.1705006

technological innovation and the relative productivity increase that stem from education and investments in R&D, help create the comparative advantages that enable States to be competitors on the global market and are the aspects on which a State should invest if it wants its economy to grow at a sustained pace in the long run. In particular New Developmentalism adopts a sensible growth model of the form[20]:

$$g = \alpha I/Y - n \qquad (1)$$

In the equation (1) the per capita growth g is determined by capital productivity and total investment (αI/Y) minus the rate of population growth n which is considered constant. To ensure the growth predicted by the model, the developmental state has to set the proper economic ground, which I will now illustrate.

Said ground consists of three macroeconomic pillars: a) the correct setting of the five macroeconomic prices, b) the correct setting of the fiscal account and c) the correct setting of the current account. Now, before going into detail about the five market prices, the current and the fiscal account, it is important to be mindful that these economic policy prescriptions were designed and formulated to address and solve problematics of centralized (federate or non-federate) sovereign Nation-states, therefore their application and analysis in relation to the European Union, that is an international economic and political organization of supranational nature, may require some flexibility and interpretation that is nonetheless essential to the aim of this article. Additionally, these three pillars, when met, must be accompanied by other State-led initiatives which are part of New Developmental political economy like by an industrial strategy that aims at diversification of output in a context of open economy that New Developmentalism supports and about which I will discuss in the next section.

The first of the three pillars in the New Developmental macroeconomic policy is the correct setting of the five macroeconomic prices which is assumed as not being an automatic result from the operation of the market alone. Now, the proof of the efficacy of this prescribed governmental objective is given by the evidence coming from Japan, South Korea and Taiwan

[20] Bresser-Pereira, L.C. (2017). The economics and the political economy of new-developmentalism. *Textos para discussão 464, FGV EESP - Escola de Economia de São Paulo, Fundação Getulio Vargas (Brazil)*.

that, according to Bresser-Pereira, pursued an active macroeconomic policy that maintained the five macroeconomic right or nearly right[21] which served as a strong catalyser of growth.

These five prices are 1) the interest rate, b) the profit rate, c) the wage rate, d) the inflation rate and lastly e) the exchange rate. The interest rate should be relatively low and set at around the same level or slightly higher than the international interest rate with adjustments according to a country's risk level, with a spread of no more than two percentage points. What usually is found by Bresser-Pereira to be keeping the interest rate from its right level is either “economic populism” or financiers' economic and political interests that both benefit from interest rates above the country risk level. The interest rate level should on the contrary be modelled to please interests of business entrepreneurs and workers and to attract foreign capitals. The expected profit rate, in order to stimulate investments, should be satisfactory and stable especially for high-return economic sectors such as industrial production chains, manufacturing sectors and tradable non-commodities. An optimal wage rate is expected to and should grow in proportion with the increase of a State’s productivity. The inflation rate must be kept under control and inflation, which was regarded with a certain complacency by classical developmentalism, is considered highly undesirable.

Finally, the exchange rate, to which New Developmentalism attributes great relevance, in particular in the context of the chronic overvaluation that characterizes Latin American countries in between financial crises, should be competitive and not overvalued, guaranteeing access to demand to firms that operate with State-of-the-art technology. The main argument here is that the volatility of the exchange rate is not a casualty and the observed tendency (especially in Latin America) of chronic and cyclical over evaluation has its causes in the Dutch Disease and of three specific policies - *políticas costumeiras* - adopted by developing countries namely i) the setting by Central Banks of high interest rates, ii) the growth with foreign debt and iii) the use of the exchange rate as an anchor to tame inflation. In this article we will not elaborate on the Dutch Disease which is not applicable in the European context nor on the three usual policies of developing countries, of course, for the same reason. However, the chronic overvaluation theory lies at the core of New Developmental macroeconomics and around this point the growth model is built, nonetheless the fact that the distortions just cited do not occur with the same frequency, intensity and characterization in the European Union does not mean

[21] Bresser-Pereira, L.C. (2020). A New Theoretical Framework: New Developmentalism Challenge. 63:3, 114-132, DOI: 10.1080/05775132.2019.1705006

that if the Union were to incur in these distortions it would not see its exchange rate over-evaluated and its growth compromised.

In this context it is extremely important, also for further discussion, that one of the frequently mentioned "peculiarities" of the European Union is that it encompasses the first historical monetary union of considerable dimensions. The European Monetary Union (EMU) was firstly established in 2000 and it now comprises 19 counties who have consented to the transfer of their monetary sovereignty to a common central bank, the European Central Bank (BCE) that is the only institution charged with the task of issuing the euro, of using it as reserve and of intervene to modify its circulating quantity. Hence, the BCE has the monopoly of the supply of the euro and through it can regulate interest rates, exchange rates and indirectly wages and prices[22], which makes it impossible for European countries to devalue their currency when needed as a policy tool.

The second pillar of New Developmental macroeconomics concerns the current account. Between the current account and the exchange rate Bresser-Pereira observes a close correspondence in so far as an appreciated exchange rate will correspond to a current account deficit. This is because a State that opts for a growth strategy based on foreign indebtedness will see an appreciation in its exchange rate. Hence a developmental State should impose balance on its current account, but this equilibrium should not be obtained by means of cuts to public investments. The aversion of growth with foreign indebtedness arises from the belief that the capital stock is to be built nationally and exploited to grow with an export-led strategy and not from a protectionist ideology. A balanced fiscal account and a balanced fiscal policy is the third pillar of New Developmental macroeconomics. The fiscal policy should achieve "public savings that finance partially public investments of around 20% of GDP" and a budget deficit is allowed to complement these financing[23]. The fiscal account also should show a primary surplus and a small debt that is long in maturity. However New Developmentalism allows for countercyclical expansion in recessions and contractions in periods of economic booms. In this New Developmental theory draws from Keynesian principles who also promoted temporary fiscal flexibility to sustain employment and public investment when needed.

[22] Bagella, M. (2006). L'euro e la politica monetaria. *Giappichelli Editore*, Torino.
[23] Bresser-Pereira, 2017. op. cit.

The New Developmental theorization also expresses clear views on a State's optimal welfare system and distributive policies. This issue is of particular relevance since the nature and scope of the welfare system has always been a crucial economic and political issue in Europe as will be revealed in the next chapter. The type of welfare state prescribed by New Developmental theorization suggests the setting of a sensible minimum wage, of a substantial and progressive tax burden and of social protection inclusive and enforced norms. The tax system should be designed to finance education and a universal healthcare in order to promote a more efficient model of collective consumption. New Developmental views on job protection are interestingly inspired by the so-called "Scandinavian" model of "flexicurity"[24]. This is a labor market strategy that consists in the simultaneous strengthening of flexibility and security, as suggested by its denomination, which has been actively adopted by the European Union. A flexicurity strategy then implies an increased flexibility of the workforce which benefits employers and enhanced social security policies that entail unemployment benefits, short work schemes and workers training or retraining. In the more recent publications[25] it appears more evidently, and in line with generalized practices and beliefs, an urge for environmental protection as another task to be addressed by the developmental state which is also incidentally the only actor with the capacity to intervene on it. As we will see in the next chapter, these welfare prescriptions are in extreme accordance with EU projects and prescriptions for the future.

[24] Bresser-Pereira, op. cit.

[25] For example, in 2020's "Principles of New Developmentalism" we can read that: "Economic development turns into human development when, besides improving the standards of living, advances in the realization of the political objectives that modern societies defined for themselves - two procedural objectives (national autonomy and democracy) and five, final objectives: security, individual freedom, economic development, social justice and protection of the environment." Bresser-Pereira, L.C. (2020). Principles of New Developmentalism. *Brazilian Journal of Political Economy*, *40*(2), 189-192. Epub April 17, 2020. https://doi.org/10.1590/0101-31572020-3121

3. EUROPEAN SOCIO-ECONOMIC TRAJECTORY: FROM THE GOLDEN YEARS OF GROWTH TO THE WAKE OF COVID-19

3.1 The Golden Years, the Neoliberal Turn and the 2008 Financial Crisis

The building of the European Union[26] started as a project during the Golden Years of Capitalism. Between the Schuman Declaration of 1950, which marks the festivity known as Europe Day each 9th of may in the EU, and today, 2020, nearly seventy years have passed, years in which the Union underwent several and significant mutations, from the modification of its denomination and its Member States to the intensification of the integration and of its Institutions' prerogatives. The historical analysis of the steps that led to the creation of the European Union as we know it today would be out of the aim of this thesis, nevertheless what is central in this analysis is understanding and underlying the context in which the EU developed and some relevant events that conducted to the hypothesized new-developmental turn.

The Golden Years of Capitalism are often referred to in literature on the European Union as the "EU Golden Age" and they go roughly from 1957 - institution of the European Economic Community with the Rome Treaty - to the first Oil Shock in 1973. This period was one of intense export-led growth driven by the furthering of integration and low inflation[27], it was "the time of progressive developmentalism or the Fordist class coalition, it was a period of fast growth, impressive financial stability, and a relative reduction of inequalities, in which the political centre moved to the left, and the common political objective was to create a social or progressive capitalism, regardless of whether the political party in office was social democratic or conservative. In Germany, the conservative Christian Democratic Party proposed a "social market economy" which was essentially "developmental and democratic."[28] Ruggie refers to the tendencies present during this time frame as being part of an "embedded liberalism"[29] trend: a combination of "liberal" economic policies and universal welfare provisions that constituted the core of the traditional European "social market economy" model. However, the sustainability of the embedded liberalism model started to become evidently problematic in the

[26] In this thesis I will use the term European Union, EU even when referring to the Union in moments in time when it was denominated European Economic Community or European Community.
[27] Guerrieri, P. & Padoan, P. C. (2020). L'economia europea. Tra crisi e rilancio. *Il Mulino, Bologna.*
[28] Bresser-Pereira, L.C. (2017). The two forms of capitalism: developmentalism and economic liberalism. *Brazilian Journal of Political Economy*, *37*(4), 680-703. https://doi.org/10.1590/0101-31572017v37n04a02
[29] Ruggie, John Gerard. 1982. "International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order." International Organization 36 (2): 379–415.

1990s, turning into a full-blown crisis after the Great Recession, although signals of growth slowdown were already present in the 1970s. The neoliberal perspective represented an attack to the European welfare system, as it promoted the idea of the cumbersomeness of the State and as a consequence “Internationally as well as domestically neoliberals downplayed the role of the State and promoted structural adjustments that would make markets distributors of well-being, families responsible for their own opportunities, and the community sector the final safety net.”[30] It is in the 1990s however, that the negative effects of neoliberal policies in the EU and in the international environment became more evident and the political parties that had supported the growth in the previous decades lost credibility, leaving a political space that would have been filled years later by the populist movement and economic nationalism.

As described earlier, the 1980s represented a change of route for the European economy, in which, following conventional orthodoxy and US influences, EU political leaders steered in favour of liberalization, further economic integration both inside and outside the Union, cuts to social public provisions and structural measures that were believed to be conducive to economic prosperity. During these years, an important process that consolidated neoliberal ideas about fiscal stability was the stipulation of the Stability and Growth Pact - SGP - that was signed in 1997 “to strengthen the monitoring and coordination of national fiscal and economic policies to enforce the deficit and debt limits established by the Maastricht Treaty”[31] of february the 7th 1992. The SGP entered into force to the entire extent of its provisions two years after and underwent significant modifications in 2011 with the approval of the so called “Six Pack” directives, to which the “Two Pack” and “Fiscal Compact” reforms followed in 2013. A very important innovation of the “Six Pack” directives is the creation of the European Semester (or new European governance) which was charged with the surveillance and enforcement of the pact through procedures such as the EDP - Excessive Debt Procedure - or “soft coordination of policies”.

Although the EU's efforts to promote convergence of living standards and equal growth across the Countries, diverging trends were nonetheless happening already in the 1970s and 80s in the context of a general slowdown of economic growth, slow increase of the inflation and of the

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[30] Jenson, Jane. (2010). Diffusing Ideas for After Neoliberalism: The Social Investment Perspective in Europe and Latin America. Global Social Policy. 10. 59-84. 10.1177/1468018109354813.

[31] Information retrieved from https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic governance-monitoring-prevention-correction/stability-and-growth-pact/history-stability-and-growth pact_en#1992

unemployment rate. The significant enlargements of the Union that happened in these years also represented a solution to these problems and to the general feeling of "europessimism". Overall, even if the 1980s did not represent a moment of economic stagnation as was feared, the European Union arrived at the wake of the century with unsatisfactory levels of economic activity which was the reason for the launch in the year 2000 of the so-called "Lisbon Strategy" which encouraged Member State to continue the deepening of integration and liberalization on one side and the reinforcement of innovative investments and R&D on the other, a policy line in the grey area between a developmental and a liberal agenda[32]. From the first year of this century onwards the EU did indeed succeed in promoting a uniform fall in the rate of poverty - which would have been interrupted by the recession of 2008 - but efforts to reinvigorate economic activity did not produce significant result, with the average growth of productivity in the EU between 1995 and 2004 hovering around 1.4% (against the 2.1% of the years 1987-1995).

From the fact that many steps of European institutional and economic integration happened during the Neoliberal Years of Capitalism we can draw the assumption that the Union itself, in its way of operating, presents latent and persistent neoliberal traits that remained pervasive even after 2008, when the financial crisis proved the inaptness of the Neoliberal economic paradigm. The recession that resulted from the 2008 financial crisis revealed the fragile nature of Europe's socio-economic foundations in two ways. Firstly, it enhanced the social and territorial inequality resulting from the financialization of the Europeans economies that were already presenting them in the 1980s. Secondly, it showed how the EU was struggling politically to distance itself from the structural ordo-liberal bias of its governance.[33] The response to the 2008 financial crisis was then one of "austeritarianism", especially under the Barroso Commission, and of acceleration of pre-existing neoliberal trends. The Eurogroup, the informal meeting of EU27 finance ministers, agreed on a strategy of prioritization of rentier-financial interests over social ones, of fiscal discipline and of internal devaluation of debtor countries with little and intransigent help from creditor ones.

[32] Guerrieri, P. & Padoan, P. C. (2020). L'economia europea. Tra crisi e rilancio. *Il Mulino, Bologna.*
[33] Crespy, A. (2020) The EU's Socioeconomic Governance 10 Years after the Crisis: Muddling through and the Revolt against Austerity, JMS Annyal Review

According to New Developmentalism "after the Global Financial Crisis of 2008 and the collapse of neoliberalism, globalization retrieved and the State resumed a far more relevant role in rich countries, so that their States may remain conservative, but are no longer neoliberal"[34]. The alleged collapse of neoliberalism did to some extent verify at least in programmatic intentions of leaders, but it did not happen in the immediate aftermath of the crisis. What replaced neoliberal instances at the national level in the European political discourse is populism and antieuropeism that fed on citizens' malcontent and on the divisive fracture of the northern and continental rich European Countries versus the Southern and Eastern ones. Nevertheless, the first signals of a renewed interest in social policies and investments became more frequent in the decade that preceded Covid-19.

3.2 The Partial Recovery from 2014 to 2019: The Quiet Before the Storm

The signals towards the comeback of interest in investment and social policies increased in the years 2014-2019. In these years, the president of the European Commission was Jean-Claude Junker, who succeeded to Barroso and started the slow and subtle steering towards social and welfare policies. In particular he gave the name and impulse to the "Juncker Plan" (now renamed InvestEu) that "launched in 2015 as the Commission's flagship initiative to leverage private investment across Europe"[35]. Incidentally and due to the partially new policy approach during the years, in 2015-2019 European economy was undergoing a period of economic stability and moderate growth: The Euro area current account was showing a surplus signalling aggregate domestic demand backwardness with respect to economic activity and an improved competitive position, government debt was declining on average and on aggregate the euro area fiscal stance remained broadly neutral over 2015-2018. In fact, according to the "new institutionalism" approach, after the 2008-2013 crisis, new EU institutions arose, and the existing ones gained wider scopes and more tools. The further delegation of power towards EU institutions was the only response that the European Union was able to give during the crisis, in order to have a coordinated response of all Member States and avoiding diminishing intergovernmental cohesion. This caused big changes in the balance of power within EU

[34] Bresser-Pereira, L.C. (2019). Modelos de Estado desenvolvimentista, *Revista de Economia da Universidade Federal do Paraná*, 40(73): 231-256. http://dx.doi.org/10.5380/re.v40i73.69802 F

[35] Crespy, A. (2020) The EU's Socioeconomic Governance 10 Years after the Crisis: Muddling through and the Revolt against Austerity, *JCMS Annual Review* https://doi.org/10.1111/jcms.13083

institutions and this change was reflected also in the relationship between European Institutions and national politics. Furthermore, the “new economic governance”, the “six pack” and “two pack” that were mentioned above, and the new constraints imposed by the intergovernmental treaties, caused more tensions between Member States. In particular, the conflict arose between States like Germany, that thanks to their advantaged economic positions could “impose” mainly macroeconomic and monetary constraints, and “weaker” States that had to respect them, like Italy, Greece and Spain. Despite internal divergences in 2019 private investment had been increasing unremittingly since 2013 and it was then reaching pre-2008 levels while public investment had started picking up only two years before. Moreover, before 2020 Covid-19 crisis which will bring the unemployment rate to around 9.5% in the euro area and 9% in the EU in 2020” the job market had been experiencing three years of uninterrupted improvements[36]. If not every economic indicator was flourishing at the wake of march 2020, the expected slowdown in the economic growth in 2019 due to adverse external environment on export-oriented sectors as reported by the 2019 European Semester, was nothing compared with what the EU would soon have had to endure.

Conclusively and to complete the contextual frame that I am depicting in these sections that describes the ground on which the Covid-19 pandemic takes place, is relevant to mention that in the last decade, the European political scenario has been reshaped by the outburst of populist movements, to the point that some scholars have spoken of a populist revolution. These parties, characterized by a strong anti-establishment dimension, fed on the citizen’s discontent towards institutions and mainstream politics following the 2008 Great Recession, and further expanded with the migratory crisis and the terrorist threats that invested Europe in the last five years. Depending on the issues on which these parties rely, a division has been theorized, between left- wing (or inclusive) populisms – examples are Syriza, Five Star Movement and Podemos respectively in Greece, Italy and Spain – and right- wing (or exclusive) ones – among which we find Rassemblement National, League, Party for Freedom in France, Italy again and The Netherlands. However, the concept of economic and financial populism presented in many of Bresser-Pereira’s works is only partially applicable due to the loss of monetary policy sovereignty of EU Member States in favour of the ECB. Economic populism has nonetheless

[36] European Commission, A.A. 2020. *Identifying Europe’s Recovery Needs*. Report no. SWD(2020) 98 final/2. Retrieved from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020SC0098(01)&qid=1591607109918&from=IT

manifested to some extent in many countries in which populist parties have or had the majority through the implementation of short-sighted excessive spending social economic policies or reforms whose target was short-term electorate pleasing instead of structural medium to long-term economic stability.

This brief panoramic overview of some of the salient aspects that characterized the socio-economic European past serves to locate contextually the EU reaction to the current crisis which can be read as both a reaction to the mistakes made after the 2008 financial crisis and as an acceleration of the policy path inaugurated by the Juncker Commission. To additionally sum up, and in Bresser-Pereira's words: "the 2008-2009 global financial crisis illustrated that cutting public investment has been a common way for governments to limit high deficits and corresponding financing needs. This strategy came at the expense of economic growth in the medium to long run; investment levels in a number of Member States with high debts (e.g. ES, IT, PT, and EL) have never recovered. Therefore, it is important to support the recovery and foster potential growth through structural reforms and investments."[37] It is with this objective in mind that on the 1st of december 2019 Ursula von der Leyen started her mandate as President of the European Commission (succeeding to Junker) and on July 2020 EU leaders agreed on a recovery strategy, as will be described in chapter 4.

3.3 Coronavirus Economic Impact in Europe

"The Covid-19 pandemic is producing an economic crisis that may turn bigger than the Great Depression of the 1930s"[38]

Covid-19 caused in the world and in Europe an extremely saddening number of human lives losses. Losses that at the time of writing continue happening each day, and that, during the second wave phase in which Europe finds itself, have returned nearly to the frightening numbers of when the pandemic first started in march 2020. While processing these information governments are faced with the infamous task of imposing freedom restrictions to a tiered and

[37] European Commission, A.A. 2020. *Identifying Europe's Recovery Needs*. Report no. SWD(2020) 98 final/2. Retrieved from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020SC0098(01)&qid=1591607109918&from=IT

[38] Bresser-Pereira, L.C. (2020). Financing COVID-19, Inflation and Fiscal Constraint. *Brazilian Journal of Political Economy* 40 (4), 604-21. https://doi.org/10.1590/0101-31572020-3193.

tested population, allocating emergency relief resources, declaring “winners” and “losers” among the population, saving the financial stability of the State and drafting a credible and effective plan for the future. Precisely the link between social relief and policy implementation is the nexus that allows to speculate on economic analysis, using economic indicators to represent the severeness of the crisis when in fact the number of deaths should speak for themselves, because it is through political and economic action, through numbers, laws and statistics, that the crisis will in the end be overcome and that Covid-19 will cease to produce human losses.

The Covid-19 crisis, as we saw, is not the first external shock the European Union had to endure since its foundation, but it is a phenomenon whose characteristics go far beyond those of a financial or economic sectoral shock. Covid-19 and its repercussions permeate every aspect of our society filling in and expanding social and political fractures, feeding on and exposing the most vulnerable aspects of our democratic and bureaucratic system and ultimately shaking Western confidence, bringing the political discourse back to its ancestral topics: the protection of the citizen, of its freedom, of its well-being and of its rights. Incidentally, it is “when a pandemic happens like this happens, we see how important the State is, how it is our great instrument of collective action”[39]

At the time of writing and as previously mentioned, Europe finds itself dealing with the expected and feared “second wave” of contagion, hence the data and numbers here reported are supposed to change, and grow, with time. “Uncertainty” is the world that appears in each data report and economic analysis in which best- and worst-case scenarios are always depicted. Nonetheless the core strategy for Recovery has been agreed on through formal negotiations during the summer of 2020 and the plan as it was drafted and conceived will not be altered if not in the quantity of the planned allocated resources or in the times of its implementation, that could of course be accelerated. The latest official data available concerning Covid-19 impacts and economic projections for the future and are well resumed in the Autumn 2020 Economic Forecast[40]. It projects a contraction of 7.4% (7.8%) in 2020 of the EU economy (euro area)

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[39] Bresser-Pereira, L.C. (2020). Financing COVID-19, Inflation and Fiscal Constraint. *Brazilian Journal of Political Economy* 40 (4), 604-21. https://doi.org/10.1590/0101-31572020-3193.

[40] European Commission. (2020, November 5). Autumn 2020 Economic Forecast: Rebound interrupted as resurgence of pandemic deepens uncertainty. [Press release] Retrieved from https://ec.europa.eu/commission/presscorner/detail/en/ip_20_2021

before a partial recovery with growth of 4.1% (4.2%) in 2021 and 3% (3%) in 2022 but output is not expected to return to its pre-Covid-19 levels until 2022. An important data to look at is the drastic impact of the pandemic on an already fragile job market, the autumn forecast projects the unemployment rate in the EU (euro area) to rise from 6.7% (7.5%) in 2019 to 7.7% (8.3%) in 2020 and 8.6% (9.4%) in 2021, before declining to 8.0% (8.9%) in 2022. Additionally, as feared by European leaders, forecasts project the aggregate government deficit of the euro area to increase from 0.6% of GDP in 2019 to around 8.8% in 2020, before decreasing. This pattern of sharp decrease and of slow increase mirrors the fact that the initial State expenditure shock will be slowly re-absorbed with time when emergency expenditure will no longer be necessary. This pattern is repeated by the aggregate euro area debt-to-GDP ratio that will increase from 85.9% of GDP in 2019 to 101.7% in 2020 and then of a percentage point circa each year. Inflation in the euro area is not excessively worrisome as is expected to go from an average of 0.3% in 2020, to 1.1% in 2021 and 1.3% in 2022, remaining under the 2% mark targeted by the ECB.

On a different and optimistic note, the *buzz word* of European and national leaders during Covid-19 times has been “resilience”, this is because the immediate objective of the European Union after acknowledging the threat represented by the pandemic, has been not only to “survive”, “resist” to the crisis, but to bounce back projecting the reaction towards the short, medium and long term building a new model of European development guided by updated and modern values such as a stronger European identity, a Green and a Digital revolution, more integration and cohesiveness. It is important to note in this context that an important drive of the drafting and implementation of such an ambitious plan and of the coral effort that was undertaken is related to the survival itself on the Union and only secondarily on its Member State desire for a European developmental project, and, only marginally for their desire for a more integrated Europe. In fact, one of the most impactful, especially in the short-run, effects of Covid-19 and of confinement measures, has been the disruptions of the complex supply chains spread across Member States on which “virtually all European ecosystems rely”[41]. The limitation of free movement across the Union violates and endangers its very nature and inequalities in recovery speed together with the mentioned supply chains disruptions could lead

[41] European Commission, A.A. 2020. *Identifying Europe’s Recovery Needs*. Report no. SWD(2020) 98 final/2. Retrieved from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020SC0098(01)&qid=1591607109918&from=IT

to “permanent distortion of the level playing field of the Single Market and divergence of standards of living”[42] hence justifying a part of European reactionary strategy to Covid-19.

[42] European Commission, A.A. 2020. *Identifying Europe’s Recovery Needs*. Report no. SWD(2020) 98 final/2. Retrieved from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020SC0098(01)&qid=1591607109918&from=IT

4. EUROPEAN DEVELOPMENTAL RECOVERY STRATEGY

4.1 The EU Recovery Macroeconomic Strategy

I mentioned in the previous chapter how unfit and passive was the EU response to face the 2008 sovereign debt crisis and its aftereffects in 2013-2014, additionally I painted a brief image of the faint signals of recovery in the years 2014-2018. In this chapter I will analyse a short time window - the last months of 2019 and 2020 - in which the Covid-19 exploded around Europe and the globe, shuttering every projection of recovery that had been made in the preceding months and undoing 3 years of improvements on the growth and employment front in the EU. During this time frame three main events around which I will construct my discourse here are worth mentioning: 1) the outbreak of the Covid-19 pandemic in Europe in march 2020, 2) the realisation of European leaders of the necessity of a collective action and lastly 3) the negotiations that led to the design and implementation of a coordinated strategy for economic recovery about which I will discuss in this section. Conclusively, in the following section I will present how this recovery strategy shows patterns of similarity with New Developmental political economy and economic policies and in which way it diverges from them, and what, given the overall context drawn in the article, we can expect, or hope for the European Union's future.

The World Health Organization declared Covid-19 as a global health crisis on march the 11th of 2020 and since then the pandemic took over our lives, governments and economies producing the sanitary and economic consequences illustrated above. On july the 21st the European Council reached an historic agreement after months of uncertainty and five days of intense negotiations on the willingness to adopt an economic recovery plan and on the intention to revise the Union's Multiannual Financial Framework for 2021-2027. What made the agreement possible was the shared awareness that the pandemic was not going to be a "one country only" problem, that it was not going to be an isolated shock with delimited effects in time and that most importantly that the disruptions it was going to create would have taken a stab at an already fragile EU and monetary union, coming from years of recession, slow growth, euro-scepticism and ultimately Brexit. Nonetheless it took some time before all European leaders realized the nature of the threat they would have soon faced and on february 2020 the general behaviour was still on the "wait-and-see" spectrum. The factors that more than anything triggered the conscience of governments and cabinets both at the national and European level were the fast diffusion of the disease and the consequences of confinement and economic activity halt measures. These consequences were the disruption of European value chains and of the free circulation system on which the Single Market, the European economy, families and firms and the very European identity relies so heavily.

An additional factor that made it necessary to take a European coral and autonomous stand on the response to the Covid-19 pandemic was United States' heedless response. Signals from the US estrangement from the "hyperglobalization" project were already evident in Trump's mandate, that was dominated by protectionist and unitarist moves[43] and the US decisions to postpone the G7 meeting that should have been held in february 2020 in Camp David, Maryland, to a later date, when the world was on the verge of an economic crisis, can only be interpreted as a confirming sign of this "detachment" hypothesis. In this scenario the Union's leaders came together, among significant obstacles, divergences and frictions, to draft an ambitious plan and to collect considerable resources to outlive the crisis, ending up sturdier that before it hit, and maybe giving a final answer to Kissinger's famous sarcastic inquiry: "who do I call if I want to speak to Europe?", since not only, in this context the EU leaders made their numbers - roles - clear and available, but they also made "Kissinger's" - the US - need to call, obsolete.

The EU overall recovery strategy consists of measures that can be divided into two broad categories: derogatory and temporary measures, and proactive and growth-oriented measures. In the first category, fall the first decisions taken by the European Central Bank who announced the expansion of liquidity, the creation of new facilities to face the pandemic ensuring an unlimited intervention in favour of Eurozone government's bonds[44] and the decision taken by the Commission to activate the General Escape Clause of the Stability and Growth Pact to allow for the more fiscal flexibility needed to deal with Covid-19 consequences[45]. Under the second category the one comprehending more structural and medium and long-term oriented measures, we find an ambitious package that combined the Multiannual Financial Framework for 2021-

[43] Abdal, A. & Ferreira D. (). Desglobalização, globalização e pandemia: impasses atuais na economia-mudo capitalista. In Rossini, G. (org.) (). COVID-19: aspectos sociais, políticos e territoriais. *Santo André, Brasil: EdUFABC.* No prelo
[44] Guerrieri, P. & Padoan, P. C. (2020). L'economia europea. Tra crisi e rilancio. *Il Mulino, Bologna.*
[45] European Commission, A. A. 2020. Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact. Report no. COM(2020) 123 final. Retrieved from https://ec.europa.eu/info/sites/info/files/economy-finance/2_en_act_part1_v3-adopted_text.pdf

2027[46] with instruments - among which the Next Generation EU is the most notable - that are focused on the recovery needs of the Union and that draw guidelines and operational propositions accordingly[47]. The overall package of combined resources and instruments amounts to a total of €2 364.3 billion[48] although in the form of different programs and different tools (grants, loans, direct investment etc) and with different criteria for timing, conditionality of transfer and allocation. It is important to note in this context, that it is impossible to enumerate and describe in detail each initiative of the overall strategy as it would take the focus away from the article's line of thought and objective. To this extent I will present in this section the strategy according to three salient features, namely the SURE instrument, which I had not mentioned yet, the activation of the General Escape Clause and the Recovery and Resilience Facility - which is part of the NGEU.

The "Support to mitigate Unemployment Risk in an Emergency" or SURE is a temporary financial assistance instrument that has been available for requesting Member States since October 2020 and it was designed to face impelling economic and social consequences of the coronavirus pandemic on their national territory. During the first months of the response to Covid-19 crisis SURE has been a crucial asset for States who have found themselves in the position of approving sudden budget variances to cope with the necessity for short work schemes and subsidies to firms to sustain employment[49]. The SURE instrument, whose funds at the time of writing have already been made available to Member States, is hence a one-time only tool destined to the financing of national safety nets that doesn't say much about future European economic outlooks but that is an eloquent economic policy statement in contrast with the 2008 crisis European socio-economic response, which of course lacked emergency policy solutions like this one.

In many ways the 2008 economic crisis and its consequences served as a valuable lesson, in particular the existence of the General Escape Clause, which was added to the Stability and

[46] The Multiannual financial framework (MFF) is the EU's long-term budget usually it covers a seven-year-period although according article 312 of the Treaty on the Functioning of the European Union it should cover at least five. It sets the maximum level of resources ('ceiling') for each major category ('heading') of EU spending for the period it covers.

[47] European Council. A.A. 2020. *Special meeting of the European Council (17, 18, 19, 20 and 21 July 2020) – Conclusions.* Report no. CO EUR 8 CONCL 4. Retrieved from https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf

[48] Information retrieved from https://www.consilium.europa.eu/en/policies/coronavirus/covid-19-economy/

[49] Information retrieved from https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/financial-assistance-eu/funding-mechanisms-and-facilities/sure_en

Growth Pact with the "Six Pack" reform of 2011, is inspired by the realisation of EU bureaucrats and bankers that in periods of economic downturn more flexibility is required for expansionary budget manoeuvres. So, on april 2020 the General Escape Clause of the SGP was activated by the European Commission. Its activation, according to EU estimations, will allow by Member States up to €330 billion to support workers and businesses, and it is motivated by the fact that "in periods of severe economic downturn for the euro area or the Union as a whole, Member States may be allowed temporarily to depart from the adjustment path towards the medium-term budgetary objective, provided that this does not endanger fiscal sustainability in the medium term"[50]. Nonetheless the Commission and the European Council announced that although necessary, the activation of the General Escape Clause does not entail the suspension of the procedures of the SDG. Many, among politicians, academics and EU bureaucrats are advocating for a reform of the SDG to consider the new demands of a European economy that needs to expand and invest to grow.

On november 10th 2020 "the European Parliament and EU Member States in the Council, with the support of the European Commission, reached an agreement on the largest package ever financed through the EU budget, of €1.8 trillion."[51]. Of this amount the most important result is the €750 billion assigned to the Next Generation EU which is the instrument that more than any other represents the EU's willingness to not only restore economic stability in the 27 countries, but to project their economies into the future. The first important thing to notice about the NGEU is that while funds for the MFF come from the EU's own resources, to finance the NGEU for the first time in history "the Commission will be authorised to borrow funds on behalf of the Union on the capital markets"[52]. Additional financing for the plan will come from its own multiplier effect and from the Union's new own resources coming from revenues of a new carbon border adjustment mechanism, an Emissions Trading System and Financial Transaction Tax. Although financing sources are distinct the MFF and the NGEU are complementary and are constructed on one-another. But if the MFF is a part of a standard

[50] European Commission, A. A. 2020. Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact. Report no. COM(2020) 123 final. Retrieved from https://ec.europa.eu/info/sites/info/files/economy-finance/2_en_act_part1_v3-adopted_text.pdf

[51] European Commission, (20202) Eu's Next Long-Term Budget & NextGenerationEU: Key facts and figures [Fact Sheet] Retrieved from https://ec.europa.eu/info/sites/info/files/about_the_european_commission/eu_budget/mff_factsheet_agreement_en_web_20.11.pdf

[52] European Council. A.A. 2020. *Special meeting of the European Council (17, 18, 19, 20 and 21 July 2020) – Conclusions.* Report no. CO EUR 8 CONCL 4. Retrieved from https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf

procedure, is renovated every seven years and it contains budget allocations and policy guidelines, the NGEU is of an extraordinary and emergency nature and is not to be re-implemented once its objectives are fulfilled.

The NGEU is structured in different instruments that will direct investments in each respective area of intervention and among these instruments the most ambitious is the above-mentioned Recovery and Resilience Facility. Under this instrument each national government will be called to draft and implement a National Recovery and Resilience Plan conditional on which funds will be unblocked. Each Member State will receive the funds it has been assigned on the basis of different criteria (graveness of the crisis impact for example) in tranches and provided that it is able to show proof of actual implementation of the projects, investments and reforms enumerated and described in its NRRP. Although each NRRP will be formulated at a national level, EU institutions launched a series of guidelines and criteria to help identify investments and reform needs. Additionally, a governance “revision” procedure has been put in place if at any time during the implementation a Member State doubts or disagrees with another Member State responsible use of the shared budget. For what concerns their approval procedure NRRP will have to be assessed by the European Commission in a two months’ time frame and then transferred to the European Council for a final approval to be communicated in a four-week period[53].

Before going into detail about specific prescriptions for the NRRP and for general recovery strategy, whose analysis is the subject of the next section, it is important to mention that the most relevant criteria are: 1) the alignment of the plans with EU priorities, 2) the destination of at least 37% of the resources to investments and reforms supporting the green transition, 3) the alignment of the plans with European Semester country specific recommendations and lastly 4) the destination of at least 20% of the resources to investments that contribute to the digital transition. The second and fourth conditions in particular are a leitmotif in each official document addressing guidelines and priorities for reform packages and are presented as a non-negotiable transversal priority that has crucial importance for the EU's future.

[53] Information retrieved from https://www.consilium.europa.eu/en/press/press-releases/2020/10/09/covid-19-council-agrees-its-position-on-the-recovery-and-resilience-facility/

4.2 Convergence with New Developmental Policy Proposals

In this section I will exploit the same order of discussion of the prior section, namely the analysis of the SURE mechanism, of the suspension of the Stability and Growth Pact and of the RRF, adding a fourth and more significant item of speculation which consists in the analysis of general investment and reform guidelines and suggestions that emerge as trends in the analysis of the whole strategy. In this section however, I will analyse their content in the light of the New Developmental paradigm using them as a pretext to approach wider lines of thought, hence extrapolating general tendencies from punctual prescriptions and drawing a pattern which hopefully will appear clearly in the eyes of the reader.

As already noted in the previous section what is most striking about the activation of the SURE mechanism is its mere implementation. This instrument has been the equivalent of an E.R. for European economies ensuring financing for safety nets put in place by Member States to face the immediate short-term need of the pandemic. The needs identified by the [54]Commission as being the most pressing are: 1) equity repair, 2) public and private investments and 3) social spending. This last one is of exceptional importance for the reason that the immediate relief that will be given to SME and the job market will determine the severity of the recession and its duration. According to the Commission. “Social spending not only prevents individual hardship and underpins social cohesion, but it also supports aggregate demand in the recession. As budgetary pressures rise, it will be important that increasing provision of essential social support does not crowd out public investment or liquidity and solvency support to the corporate sector in countries with weaker fiscal positions. A healthy economic recovery requires that both are maintained through the trough of the crisis.”[55] For instance, a crucial measure that was put into place in several European Countries was the temporary blockade of layoffs, a measure that combined with State-subsidies that funded short-work schemes for SMEs and workers, would have been considered an inconceivable market intromission during the Neoliberal Years.

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[54] European Commission, A.A. 2020. *Identifying Europe’s Recovery Needs*. Report no. SWD(2020) 98 final/2. Retrieved from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020SC0098(01)&qid=1591607109918&from=IT

[55] European Commission, A.A. 2020. *Identifying Europe’s Recovery Needs*. Report no. SWD(2020) 98 final/2. Retrieved from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020SC0098(01)&qid=1591607109918&from=IT

However, increases in government spending on the part of Member States would not have been possible were it not for the suspension of the Stability and Growth Pact with the activation of the General Escape Clause. The need for more fiscal flexibility has been present in the EU for quite some time now, and it shows in documentation prior to 2020 in which the Commission encouraged Member States to rely on public investment at the full extent of their possibility under the SDG to face slow unsatisfactory growth in both the EU and eurozone. However temporary the nature of this measure, the activation of the General Escape Clause and the postponement of the judgment on EDP procedures[56] are signs of shared willingness to retrace EU steps and to put an ease to the austerity policies that albeit ensuring fiscal and economic stability, failed their mission to restore economic prosperity. The rejection of orthodox austerity in favour of a "responsible countercyclical fiscal and exchange rate policy associate to a current account policy"[57] appears as a clear New Developmental standing point together with the rejection of the market primacy Neoliberal assumption and we interestingly observe how, especially if public investment policies are successful in delivering the expected economic results, odds are that the GSP itself will undergo further reforms once the crisis has passed, economy has stabilized and times allow, reflecting a developmental pattern of actions.

The importance of the mise-en-place of the NGEU and of the Recovery and Resilience Facility does not only lie in the collective effort and willingness for cooperation that they and their way of financing resources (collective debt and new own resources) represent, which alone are a testament to EU27 commitment to higher integration in the future, but for this analysis their relevance also comes from the significance of the content of the various working documents, destined to Member States governments, which accompany and guide their implementation. The indications contained in working documents, reports and communiqués are plentiful and rich of details and although I will try to offer in this section a satisfying summary of their content and of the core ratio behind them, it is particularly eloquent in explaining the EU approach towards the crisis and its overcoming, that the working document titled "A Roadmap for Recovery: Towards a more resilient, sustainable and fair Europe"[58] features in its opening the

[56] "The Excessive deficit procedure, abbreviated as EDP, is an action launched by the European Commission against any European Union (EU) Member State that exceeds the budgetary deficit ceiling imposed by the EU's Stability and growth pact legislation." Information retrieved from https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Excessive_deficit_procedure_(EDP)#:~:text=The%20Excessive%20deficit%20procedure%2C%20abbreviated,Stability%20and%20growth%20pact%20legislation.

[57] Bresser-Pereira, L.C. (2020). A New Theoretical Framework: New Developmentalism Challenge. 63:3, 114-132, DOI: 10.1080/05775132.2019.1705006

[58] European Council, (2020) *A Roadmap for recovery Towards a more resilient, sustainable and fair Europe*. Retrieved from https://www.consilium.europa.eu/media/43384/roadmap-for-recovery-final-21-04-2020.pdf

sentence "The European Union needs a Marshall-Plan type investment effort to fuel the recovery and modernise the economy".

The Marshall Plan of 1948 inaugurates the age that New Developmentalism identifies as the Gold Years of Capitalism that was mentioned in previous sections, the age of sustained economic growth and of sturdy coordination and strategic intervention of the State in the economy that allowed the EU to experience its "European economic miracle" that as we saw lost momentum with the neoliberal reforms of the 1980s and 1990s and most intensely with the 2008 financial crisis. Accordingly, a relevant point of convergence of the European repair strategy with New Developmental economic policy is the importance attributed to public investment in non-competitive slow-profiting sectors. In its working document on European industrial strategy the Commission stresses that - in accordance with New Developmental receipts - "mobilising private investment and public finance is acutely important where there are market failures, especially for large scale deployment of innovative technologies"[59]. Based on the belief that "both public and private sector investments were clearly insufficient already"[60] before the pandemic, the Commission pointed at four areas of investment needs, namely: basic macroeconomic investment needs, additional investment needs due to crisis impact, additional investments needs revealed by the crisis and investment needs irrespective of crisis. In this last grouping we find investments to support the Green and Digital transition which are underlying transversal objectives and whose attainment must be considered in the drafting of reforms and projects in every area of intervention. The Digital transition has much to do with the "productive sophistication" developmental criterion. Digital improvements are in fact not only related to state-of-the-art digital infrastructures and connectivity, but they comprehend the up-skilling of the labor force and hence are closely intertwined with social and job market policies. In the document "A New Industrial Strategy for Europe" the Commission describes the new intended plan of promoting "life-long learning" as a "Pact for Skills" which will need the collaboration of industry, governments, social partners, and stakeholders that will work together to foster "up and re-skilling and to unlock public and private investment in the workforce" concentrating on areas with "high growth potential".

[59] European Commission, (2020) Communication from the Commission: A new industrial strategy for Europe. Report. no COM(2020)102 final. Retrieved from https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52020DC0102&from=EN

[60] European Commission, A.A. 2020. *Identifying Europe's Recovery Needs*. Report no. SWD(2020) 98 final/2. Retrieved from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020SC0098(01)&qid=1591607109918&from=IT

Moreover, and again in accordance with New Developmental beliefs, the Commission made it clear that although a huge mobilization of National public resources and public-led investments will be needed, for reforms and investment projects to be successful and to unlock the multiplier effect that is supposed to make the recovery plan self-financing in the long run, private investments must add up and complement public ones. The strategic cooperation between private and public effort, coupled with economic and fiscal reforms is believed to be the key to economic growth and stabilisation. As we read in "Identifying Europe's Recovery Needs" working document "Already before the crisis, the level of public investment in the EU27 was insufficient to keep the public capital stock constant as a share of GDP. Net public investment, i.e. gross fixed capital formation less consumption of fixed capital, amounted to only 0.3% in the EU27 in 2019, a level which would — if maintained — result in a declining public capital stock as a share of GDP. Stabilising the capital stock in relation to output so as not to erode the EU economy's capacity to support future growth and prosperity would require an increase in public investment (compared to Spring 2020 Forecast plans) of about €100bn per year."[61] This renewed awareness of the need for investment is also directed towards a new industrial policy and towards the objective of a newly regained competitiveness on international markets.

The EU has vocalized its willingness to reinvigorate its industrial role, that in the last decades had been heavily neglected. Implementing a large-scale industrial project is proper of old developmentalism policies but nonetheless, in the new context of the shared responsibility of the private and of the public sector, it accounts as a sign of a European development project. In fact, in a working document titled "A New Industrial Strategy for Europe" we read that the Commission wishes to develop and trace a new industrial strategy but without compromising core European markets such as "social market economy values" like job security and inclusiveness. The expected global competitiveness which will result from the execution of the plan as a whole will be nonetheless "European" insofar as it will develop thanks to SMEs which "account for over 99% of all European firms", "high value-added products and services" and "complying with the highest social, labour and environmental standards". The "national" ("Europeist") developmental project then appears clear as we read the words "Europe will

[61]European Commission, A.A. 2020. *Identifying Europe's Recovery Needs*. Report no. SWD(2020) 98 final/2. Retrieved from https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020SC0098(01)&qid=1591607109918&from=IT

always be the home of industry”[62], that although hiding some nostalgic feelings about Europe’s achievement during the Industrial Revolutions and the Golden Years of Capitalism, make a clear statement of where Europe’s efforts will be directed in the near future.

Lastly for a broader and complete discussion it is important to address general economic trends and signals that emerge when “reading between the lines” of the aforementioned working documents, briefings, and press releases. As we mentioned previously, I hypothesize Covid-19 crisis to be a catalyst of an already latent process towards a more developmental approach to European economic management on the part of its leading institutions as a consequence of the realisations and lessons of 2008.

With this respect it is very interesting to read working documents that date to 2019, prior but very close to the outbreak of the pandemic. For example, in the communication of the Commission to the other EU institution about the “2019 European Semester: Country Specific Recommendations” it is possible to observe two important aspects. Firstly, the document opens announcing a series of optimistic data like that for the seventh consecutive years the European economy was growing, a fact that would soon turn to be untrue and that “investment has gone back to pre-crisis levels; the number of people in employment has reached the highest level ever recorded and public debt has declined overall.” Secondly, on a less bitter note, we read that the intention of the European Semester - that I recall being a “cycle of economic and fiscal policy coordination within the EU [that is] part of the European Union's economic governance framework.”[63][64][65] - was to follow the path of the “virtuous triangle” of increased investments, inclusive growth-oriented reforms and fiscal stability. These three elements contain in principle the core of what will be identified, in a much amplified and detailed way, as a sensible strategy for growth in 2020 after Covid-19. Additionally, the “developmental” approach is visible insofar as the Commission was urging States that had the possibility to do so, i.e. States with available fiscal space, to increase their public investment and to adopt a growth enhancing

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[62] European Commission, (2020) *Communication from the Commission: A new industrial strategy for Europe*. Report. no COM(2020)102 final. Retrieved from https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52020DC0102&from=EN

[63] Information retrieved from https://www.consilium.europa.eu/en/policies/european-semester/

[64] Information retrieved from https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester/framework/eus-economic-governance-explained_en

[65] It focuses on the 6-month period from the beginning of each year, hence its name and during this time the Member States align their budgetary and economic policies with the objectives and rules agreed at the EU level.

composition of public spending and to shift the tax burden away from labor to facilitate private sector investments and facilitate job market access. Another element of developmental planning that was already present *in nuce* in 2019 is the increased attention to topics such as “innovation scale and impact” and “quality and labor market relevance of skill”. These two topics are in fact very present in New Developmental literature and in particular are funding elements of the growth equation at the basis of its macroeconomics.

A year ahead and in the same document development and growth oriented structural suggestions appear with more determination alongside measures that are directly assessed to Covid-19 effects mitigation, although it is safe to assume that for the following years Covid-19 repair measures and growth-oriented measures will be inextricably linked. In the “2020 European Semester: Country Specific Recommendations” working document, developmental stances become more frequent and pervasive. For instance, we read how the increased role of the public sector in the economy, motivated by the substantial policy interventions required to face the crisis, calls for a much more skilled and efficient public administration. About this topic I discussed in the previous sections when describing New Developmental belief in the building of an entrepreneurial and efficient public bureaucracy as investment in this sector exemplifies the very nature of the developmental project as they embody the willingness to invest in the “res-publica”, that is to say in the national - European - development project. Recommendations for the revitalisation of the State apparatus also comprehend the reconstruction of “a more effective and stronger welfare state, active labour market policies and skills development” acquires far more relevance in 2020 suggestions to Member States triggered by the unveiling action of Covid-19 of structural gaps. According to New Developmentalism the focus on employment and a strong welfare state (supported by extensive and progressive taxation) is at the centre of a developmental strategy.

What at this point of the analysis strikes the most as a divergence between New Development principles and the EU economic intended direction is the unitary nature of its currency. According to Prof. Bresser-Pereira the delegation of monetary sovereignty from the Eurozone countries to the ECB represents a non-developmental move, if not the non-developmental move *par excellance*, that actually weakens the Union itself, as in his words “the euro acts like a foreign currency for its Member Countries and will remain a permanent source of “internal depreciations", imposing very high costs on people and economic growth”, more importantly the New Developmental analysis reads the 2008 economic crisis as a consequence of excessive private debt and of mismatched real exchange rates present within the Eurozone[66], aspects of the crisis that according to Bresser-Pereira were knowingly overlooked by those Countries that would have gained the most from the financial interpretation, like Germany. Although the whole extent of this discussion lies outside the scope of this article, what is interesting to comment on in this section is that while Bresser-Pereira's solutions to European stagnation and geographical inequality consisted in the dissolution of the single currency or in its mutation in a common currency, it is actually the last "utopic" path that he mentions in its article on monetary sovereignty, the path of federalizing the European Union, that after the EU response to the Covid-19 crisis and the issuing of the common European bonds, seems indeed more plausible than the abolition of the currency, albeit on a very far reaching perspective.

4.3 Reflections on the future of the EU

In the beginning of this discussion, I mentioned how the question of how our economies will look after the Covid-19 pandemic is the most impellent curiosity for economists, academics, and political leaders around the world. One of the most popular views is that the Covid-19 crisis will put a halt to the globalization project and to the world order guided by the US that already suffered a slowdown since 2008-2009. If the termination of this order is a sensible hypothesis, speculations about by what order it will be substituted vary to a great extent. One interesting hypothesis is the one of a tripolar order of the global economy led by the US, Europe and China-Pacific Asia[67] without the affirmation of a strong leadership capable of guiding a multilateral governance.

The absence of a global leadership posits the problem of the lack of strategic cooperation with respect to global and large-scale threats like Climatic Change. Nevertheless, if the EU were to strengthen itself it could use the momentum of the rivalry between China and the US to acquire more relevance in the international context. President Von der Leyen in her speech about the State of the Union of september 2020 externalized the necessity of responding more assertively to global events"[68] and to refine its partnership and alliances. The victory in the United States race for the White House of the Democrat Joe Biden is expected to favour Europe complacency

[66] Bresser-Pereira, L.C. & Rossi, P. (2015). Sovereignty, the exchange rate, collective deceit, and the euro crisis. *Journal of Post Keynesian Economics*, 38:3, 355-375, DOI: 10.1080/01603477.2015.1087807
[67] Guerrieri, P. & Padoan, P. C. (2020). L'economia europea. Tra crisi e rilancio. *Il Mulino, Bologna*
[68] https://ec.europa.eu/commission/presscorner/detail/en/SPEECH_20_1655

towards its transatlantic alliance, as Biden already announced that the US will re-enter the Paris Agreement on climate change.

In this respect and as we saw throughout this chapter the EU dedicated a special attention to the so-called "twin transitions" again in her speech Von der Leyen confirmed that if the Green and Digital transition were already a priority in the EU industrial strategy, "the last six months have only accelerated that transformation – at a time when the global competitive landscape is fundamentally changing. This is why we will update our industry strategy in the first half of next year and adapt our competition framework which should also keep pace.".

A crucial issue in the drafting of the new European industrial strategy in light of Covid-19 has been the need for industrial differentiation, that is also a part of the New Developmental strategy, but that was in particular triggered by episodes of goods shortage during the pandemic. The Commission hence stressed many times in the working document analysed that shortage of materials or products is never to be repeated and that it is important to diversify the import portfolio as well as to strengthen European home production of basic goods, pharmaceuticals, energy and raw materials whose demand is expected to grow and to double by 2050 for raw materials.

If data helps predicting the economic outlook of the following years, what we can predict is that without a strong European lead and receptive national governments who, in following EU directives, increase their strategic and developmental role in the economy, the best-case scenarios, in which debt-to-GDP ratios will decline already by 2024, are not going to be realised. The recovery of the economy after Covid-19, the Green and the Digital transition, the affirming of a renewed primary role in the international system, the attainment of a more equal and free society are all objectives that need can be reached only if the State, guided by the Union, is free and capable to "think big again".

To conclude our discussion, I wanted to mention Charles Tilly's famous aphorism: "War made the State and the State made war". If we really are at "war with the virus" as UN Secretary General Guterres affirms, EU and its democratic parties must not waste the momentum and react with a strong developmental leadership so that if the occasion is not lost, this war will have made the State and hopefully, the State will have won the war.

5. CONCLUDING REMARKS

In this brief article I traced a line that starts in Brazil in the years 2000s, with the formulation of New Developmentalism by Prof. Bresser-Pereira, and that ends in 2020, in a Covid-19 infested European Union. The process that enabled me to visualize and follow this line of thought was indeed the same that brought me to Brazil and then back home to EU, when the pandemic was officially declared by the WHO. Thanks to this chaining of events, I was able to hypothesize the existence of this alleged pattern of similarity between New Developmental precepts and the EU economic recovery strategy to the coronavirus crisis. In the first chapter I introduced and contextualized the subject of the papers and anticipated the protagonist elements to the subsequent analysis. In the second one I dedicated my attentions to the presentation and description of New Developmentalism, from the context of its theoretical formulation to its political economy and economic propositions, the depiction of which already put an accent on the elements that later would have been pointed at as being characterizing elements of the EU Recovery Plan as well. In the third chapter I tried to draw a comprehensive and concise picture of some of the salient events that shaped Europe’s economic and social past and that I considered of great relevance to the analysis carried out in the article. In the fourth and last chapter, hopefully, we saw how the interpretative analysis of EU working documents and official reports brought to surface the intentions of the EU to follow, specially after the Covid-19 crisis, a more social, national and developmental path, steering away from years of economic liberalism and austeritarianism.

As I conclude this article, the Covid-19 threat is still very present across the EU and the world. It is impossible for now to speculate on how the future of the Union will actually look like ten, twenty or fifty years from now. Will the pandemic generate further integration in the Union, and if so, of which kind? The possibilities of integration paths are multiple in a context of an incomplete union as the EU. Will EU Member States be attracted by the idea of continuing on the integration path? Or will Brexit mark the beginning of a “disintegrating” phase? Will the Constitution project, that was aborted in in 2004 due to the rejection of French and Dutch citizens, be put on the table again to reaffirm the EU community belief in the rule of law and social rights principles?

What can be taken as sure is the collective hope that the European Union, as a political and economic union, will continue to promote peace and stability both for its citizens and for its neighbouring Countries as it has been its purpose for the last seventy years.

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