

How Jean-Claude Juncker and Pierre Moscovici laid the groundwork for the EU's post-Covid fiscal policy

*The EU's fiscal rules, which state that governments should run budget deficits no higher than 3% of GDP and maintain a public debt no higher than 60% of GDP, have been suspended during the Covid-19 pandemic and there are now growing calls for them to be reformed or abandoned altogether. Drawing on a new study, **Frédéric Mérand** documents how Jean-Claude Juncker, Pierre Moscovici and other figures within the European Commission laid the groundwork for this paradigm shift in EU fiscal governance.*

On 23 March last year, European Union finance ministers used an escape clause to suspend the fiscal rules of the Stability and Growth Pact (SGP), which limit public deficits to 3% and public debt to 60% of GDP. Since then, a €750-billion recovery plan has been agreed, the chorus of voices asking for a fundamental reform of the Pact has grown, and it is clear that the previous rules will not be applied again any time soon.

The Pact has been derided since its creation, including by Romano Prodi, the former European Commission President, who once called it “stupid”. After the 2010 Eurozone crisis led to a strengthening of fiscal rules, the Pact was even more harshly [criticised](#) by politicians on the left (as well as by a good number of economists and political scientists) as a vehicle for austerity policies that would create a backlash. But the Covid-19 pandemic did what no critic of the Pact would have ever dreamed of: lifted the institutional ceiling to public borrowing in the Eurozone.

In reality, European fiscal rules were always played around with. In more than two decades of existence, the excessive deficit procedure was never taken to its logical conclusion, that of ‘sanctioning’ a member state. Under Jean-Claude Juncker (2014-2019), the Commission granted ‘flexibilities’ and gave ‘€0 fines’ to rule-breaking governments, allowing them to exceed the public deficit ceiling for a variety of domestic reasons. What Keynesians promoted as a ‘smart’ implementation of rigid rules, orthodox critics lambasted as a politicisation of the Pact that would end up undermining it.

The ‘Juncker-Moscovici’ doctrine

So was the Commission politicised, or smart? In a [recent study](#), I argue that these can be two sides of the same coin. I develop the concept of political work, which I define as the practice of carving out space for agency in an environment that is, like the EU, constrained by institutional rules (the Pact) and intergovernmental power structures (the Council, which makes the final decision). If politics is the exercise of freedom, and sometimes reason, it then almost inevitably clashes with treaties and national interests.

I analyse how the Commission implemented the Pact vis-à-vis Italy, Spain, and Portugal during three crucial years between 2015 and 2017, when [new, tighter fiscal rules](#) were road-tested. My analysis is based on more than four years of embedded observation with the economic and financial commissioner, Pierre Moscovici, who held the portfolio of budgetary surveillance in the Juncker Commission. Ethnographic fieldwork allowed me to witness *in situ* and in real time how Moscovici and his team, made up of Brussels bureaucrats and Parisian political staffers, German and French professional economists, all left-leaning and pro-European, gradually came to grips with the Pact, for which they were responsible alongside Vice President Valdis Dombrovskis.

Shadowing this commissioner and his cabinet, I found that politics played a critical role in internal Commission discussions about whether to implement the excessive deficit procedure in Italy, Spain, and Portugal, all of which were technically in breach of the Pact. The ‘Moscovis’, as I call them, took for granted that Eurozone rules were contestable at the margins, and they assumed that conflict would occur along intellectual, ideological and partisan lines.

Their political work consisted of trying to enlarge the space for agency and, within that space, impose their own views on fiscal policy. These views differed from other actors in the Commission, in the Council, and in the member states, which were much more aligned with a [literal interpretation of the Pact](#). The Moscovis did not always win the argument, and when they won it was often because other actors, for their own reasons, pushed in the same direction. But at the end of the day, they succeeded in imposing a flexible interpretation of the Pact that did not please hardliners.

Politics within the Commission

There is a growing body of literature which suggests that, far from behaving as a neutral technocracy, the [Commission is responsive](#) to public opinion and contestation. During my fieldwork, the politicisation that scholars observe among European citizens and parties resonated loudly in the Commission. For example, the fear of a 'populist' backlash in Italy led the Juncker Commission to give Matteo Renzi and Paolo Gentiloni's governments special leeway on account of 'refugees and earthquakes', which were convenient arguments to justify deficits. There was a shared concern [not to antagonise](#) the public.

So public opinion mattered. But politics also took on a narrower, partisan dimension. Even when reporting a deficit above 5% of GDP in Spain, conservative prime minister Mariano Rajoy could count on the support of the Berlaymont's European People's Party (EPP) networks to get away with it. Traditional hardliners on the right suddenly became more lenient.

Denouncing double standards, Social-Democrats (S&D) engaged in a discreet campaign to spare a socialist, António Costa, who also broke the rules of the Pact in Portugal. Brokering implicit deals that shielded governments from their respective political families, the 'grand coalition' parties that dominated the Juncker Commission (as well as the Parliament and the Council) played a role in politicising the Pact, which helped Moscovici impose his own dovish views.

But political work cannot be reduced to public opinion and partisan politics. Fundamentally, the flexible implementation of the Pact was based on a [battle of ideas](#) about fiscal policy: Commissioner Moscovici, most of his cabinet, and some in President Juncker's entourage just did not believe in fiscal austerity. They recognised that countries like Italy, Spain and Portugal faced real economic problems that were not entirely of their own making. That's why they sought to redefine the rules of the Pact, without however challenging them explicitly.

As [Vivien Schmidt](#) has shown, several officials inside DG ECFIN, the Commission department in charge of monitoring member-state commitments vis-à-vis the Pact, also progressively came to the view that implementing the rules too narrowly would only make things worse, especially when countries were trying to implement reforms. Informed by transatlantic debates in economic policy, including in Brussels think tanks and European universities, the Moscos and some experts in DG ECFIN saw the exercise of political discretion vis-à-vis institutional rules not only as politically expedient, but also as the 'smart' thing to do in terms of macroeconomics.

Through the concept of political work, I thus show that the politicisation of the Pact was neither arbitrary, nor a foregone conclusion. It was an intellectual, ideological and partisan struggle among experts and politicians at the crossroads of European politics. As such, political work implied making choices, good or bad, in the face of real institutional and diplomatic constraints.

In the end, the 'Juncker-Moscovici' doctrine undermined fiscal rules, rewarded 'Southern sinners' while aggravating '[Northern saints](#)', and perhaps even played into the hands of Eurosceptics. But it also laid the groundwork for a paradigm shift when, in March 2020, the global health and economic situation so required.

For more information, see the author's accompanying paper in the [Journal of European Public Policy](#)

Note: This article gives the views of the author, not the position of EUROPP – European Politics and Policy or the London School of Economics. Featured image credit: [European Council](#)
