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Reforming European Economic Policies

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Despite the European Union's ambitious response, the current crisis is a stark reminder of a nagging problem: the challenge, in practice, to the principles and concepts governing major European economic policies. This situation can be seen in monetary policy, budgetary rules, trade policy, competition, the European budget and the structure of the euro zone. It fuels resentment between Member States and populations and, paradoxically, it encourages economic divergence. It is also undermining the legibility and credibility of European action in the eyes of the public. It therefore would seem advisable to reform the European economic framework in a pragmatic rather than radical way.

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The European agreement on a recovery plan reached on 21 July 2020 has shown the solidarity and effectiveness of Europeans when exceptional circumstances require it: the pooling of certain loans, the large amounts of subsidies paid to Member States hard hit by the crisis and the prospect of developing new own resources illustrate the Union's capacity for innovation and breakthrough when its existence seems threatened. The difficulty of the negotiations has, however, rekindled the profound differences of appreciation that exist between the Member States, not only regarding the conduct of economic policies and national administrations but, more fundamentally, regarding the Union's general economic framework.

While it is normal for the Union to be open to disagreements during negotiations, particularly in the field of economic policy, it is not desirable for these to affect its coherence, which implies shared fundamental principles and rules accepted by all, in good faith. However, the current crisis highlights the fact that certain ideas and principles, which found the Union's economic structure, have been progressively called into question over the last few years, particularly since the 2008 financial crisis: this is the case, for example, with the rules of the Stability and Growth Pact, the ban on monetisation of public debts, the "classic" conception of international trade and the limits placed on the European budget.

This divergence, which is now apparent, between principles and practice, has not been theorised; it is the result of the necessary response to crises, which often leads to national withdrawal and the accentuation of divergences of conception in economic policy. This has led to misunderstandings, frustration and resentment between States, European institutions and citizens. This is why we believe it would be useful, following on from the reviews of certain policies that have already been undertaken and with a view to the Conference on the Future of Europe, to carry out an overall reflection on a realistic overhaul[1] of the shared set of principles and rules likely to strengthen the Union's economic efficiency, cohesion and legitimacy.

1. THE CONCEPTUAL FRAMEWORK OF EUROPEAN ECONOMIC POLICIES IS UNDER CHALLENGE

An analysis of the Union's various economic policies shows that their current practice over the last few years has diverged significantly from the legal and/or conceptual principles that originally defined them. We begin with a series of observations, informed by a large body of existing research, as to the nature of the differences. Our analysis goes beyond this, however, by presenting the policies as a whole and succinctly for the first time. Above all, it shows that questioning them is problematic, firstly at the economic level, but

[1] Progressive, or incremental, economic integration seems to us to be more preferable than a radical breakaway exercise, for several reasons: the tensions inherent in economic policies are all the more difficult to reduce as economic and political logics have always been in conflict; Europe is riddled with different economic conceptions and interests resulting in particular from the differences in the Member States' economic structures; the current European political context is still characterised by a certain amount of mistrust and conflict.

also at the political level, particularly in the Member States (at the level of administrations, political representatives and citizens) and with regard to the EU institutions.

Monetary Policy

Since the financial crisis of 2008, there has been a shift from an "orthodox" view of monetary policy and the independence of the European Central Bank (ECB) to a progressively unconventional, then expansionist policy, which has led the monetary institution, like others before it, to finance a substantial part of the Member States' public debt. The ECB's action consists in "short-circuiting" the financial system, since it intervenes in all debt markets (money and bonds) partly in place of banks and other financial institutions. This situation makes bank profits and market developments dependent on the course of monetary policy, while creating mistrust between financial institutions and the ECB. The development of monetary policy is problematic from the point of view of its effectiveness: since the 2008 crisis, it has had very positive effects on short-term financial stability, as can be seen in the effect of government debt purchase programmes on sovereign spreads. Its real contribution to the revival of growth and inflation is more debated. Above all, the negative effects of this policy on the financial system and the economy (weakening of financial institutions, increase in financial risk-taking, disappearance of the interest rate signal, "moral hazard" for public finances, increase in global indebtedness, creation of asset bubbles, survival of "zombie" companies) do not appear to be emphasised enough[2]. Finally, from a political point of view, current developments in monetary policy is encouraging citizens' mistrust of the ECB[3].

Budgetary Framework

The gulf between the "Maastrichtian" principles regarding public debt and deficit/GDP ratios (ceilings and mechanisms of convergence and incentives) and reality has increased. The existing constraints were first discredited in practice under Franco-German pressure in 2003, then with the 2005 reform of the Pact, which rendered the latter inoperative[4]. After the 2008 crisis, new constraints and freedoms were introduced with the "Six Pack", the "Two Pack" and the 2012 Treaty on Stability, Convergence and Governance (TSCG) but the logic of deficit restraint remained cardinal. The current crisis and Member States' budgetary measures (additional expenditure and commitments and lower revenues) make a return to the fundamentals of the Stability and Growth Pact unrealistic. In economic terms, the "corpus" of European budgetary rules has been fragile since its origins. It is well known that the 3% deficit and 60% debt rules were set without explicitly taking into account the real risks of the unsustainability of public debts specific to each State. Also, growth in the euro area was rather weak during the 2000s, notably due to the lack economic policy coordination. From a political point of view, the technocratic nature of the Pact's constraints is not always understood by public opinion, particularly in the South. Currently, the demonstrated effects of monetary policy on financial stability, the questioning of so-called "austerity" budgetary policies, and the massive need for investment all serve to delegitimise this budgetary framework. This is why there are many proposals to reform the Pact.

Competition

Against a backdrop of tensions between supporters and opponents of EU rules, recent years have seen a resurgence of "economic patriotism", for example in France and Germany. Recently, the pandemic crisis led the Commission to propose, in March 2020, a framework for Member States to help their businesses[5] : this seemed legitimate, but in practice challenges State aid and the competition policy[6]. At the same time, the classic benefits of European competition policy (guarantee of free choice and advantageous prices for consumers, support for innovation and investment), as well as the certain geopolitical weight that it gives the Union, are not well enough known to public opinions.

[2] Negative effects such as these have been analysed by Jacques de Larosière "Les lames de fond se rapprochent" (Odile Jacob, 2017). While the ECB has admitted them, the common appreciation of the financial and political spheres overlooks them.

[3] Several factors explain the growing trend, since the 2008 crisis, of citizens' distrust of the ECB, including in particular the fact that monetary policy is even less intelligible than before, if not incomprehensible.

[4] DIndeed, the amended criteria of the Pact have meant that the Commission has never considered it appropriate to propose to the Council the approval of sanctions against a Member State, nor did it ever formally do so before 2005.

[5] See the summary review of the flexibility given to the European framework for State Aid.

[6] State aid from European States is likely to be very unequal in scale, which could cause distortions of competition and renewed economic divergence.

Reviews of European Economic Policies

- **Monetary Policy** : in January 2020 the ECB's Council of Governors launched a vast review and assessment of the ECB's strategy notably focusing on its inflation target, the efficacy of its tools and the consideration of climate and digital issues.
- **Budgetary Rules** : in February 2020 the Commission launched a review of the economic governance framework aiming to assess the effectiveness of the existing rules in view of the sustainability of public finance, growth, coordination and convergence.
- **Competition** : in March 2020 the Commission initiated a review of its competition policy targeting both the texts that had come to maturity as well as more controversial issues such as the idea of the "relevant market".
- **Trade Policy** : in June 2020 the Commission launched a review of its trade policy notably aiming to provide greater consideration to certain global issues and to defend the reciprocity of European rules. This review was made public in February 2021.

European Budget

The consensus fixing a modest budget (barely exceeding 1% of the Union's GNI), lacking sufficient volume and structure to be counter-cyclical, relying much more on subsidies than on investment mechanisms, was first shaken during the 2008 crisis. As proof of this, the States had to create ad hoc financing institutions (EFSF, then ESM) and rely on the European Investment Bank (EIB) in a highly improvised manner. The adoption of the recovery plan unquestionably confirms the need for more substantial financing to respond to economic shocks and to invest in the sectors of the future (climate and digital transitions, health, strategic infrastructures, etc.). Above all, despite the progress made in the 2021-2027 multiannual financial framework (the, ultimately limited, will to strengthen policies for the future, more efficient use of resources for investment purposes through the "InvestEU" programme), the crisis has brought certain criticisms of the European budget back to the fore: the lack of sustainable debt issuance capacity, the economic and political usefulness of social transfers and more substantial investments, and the democratic legitimacy of the budgetary choices made by the Union's leaders. In addition, there is the problem of respect for the rule of law by certain countries that are net beneficiaries of European funds (Poland, Hungary), the weakness of own resources and the consideration of the issue of the equity of national contributions, which has diminished[7].

Trade Policy

The crises of 2008 and 2020 reminded us of the risks and potentially negative economic effects linked to the mechanism of global distribution of certain products (job destruction, shortages, disruption of value chains, drop-in activity) as well as the vulnerability of the European productive fabric to foreign attempts to take control of strategic companies. Beyond this, the schematic contrast between an open Europe that prides itself on defending multilateralism and other more protectionist powers (restricting access to public markets, extensive use of the extra-territoriality of the American criminal justice system or failure to protect intellectual property) has become more marked. These dynamics call into question the idea that "classical" trade opening is beneficial, even if it is not discredited on a theoretical level. This situation explains why the Commission has taken care to review this policy with the aim of making it more transparent and more protective. This change of direction seems all the more justified given that European trade policy will undoubtedly become more difficult to conduct: the Union is in fact engaged in negotiations with partners (the United States, China, India, the United Kingdom) that are more difficult than in the previous period (Canada, Japan, Vietnam) in a context of protectionism, ecology and "localism" that is more restrictive and clearly legitimised in public opinion. Moreover, in the European

[7] A number of States that had budgetary rebates before the current crisis (Netherlands, Austria, Sweden, Denmark) saw these increase, sometimes significantly, in the 21 July agreement, without this being justified. Germany's rebate has remained unchanged.

Parliament, the weight of the Greens, added to that of the Social Democrats, may give fresh resonance to concerns about food safety, environmental damage and, more broadly, the limited negative effects of certain agreements on industrial activity and employment in Europe.

2. EUROPE FACES THE RISK OF WIDENING INTERNAL DIVERGENCE

The questioning of European economic policies and the growing gap between concepts and practice are real, long-standing and have been amplified by recent crises. We do not deny certain positive effects of adapting policies in response to new situations, but the current state of affairs is problematic in terms of the economic efficiency sought and the Union's political cohesion. In particular, we emphasise the multiplicity of divergences, revealed or accentuated, between the States, the European institutions and the citizens - the triangle on which the legitimacy of the organisation is based.

The first divergence is between principles, understood in terms of original law or concepts, and the practice of conducting economic policies. This dynamic is undesirable because it inherently undermines the credibility of the whole conceptual edifice in economic matters. This is particularly true in certain sectors of public opinion which are already more or less clearly contesting it on the grounds that it is too "orthodox", "liberal", at the service of the most "powerful" organisations, companies and individuals, but probably also, in a more diffuse way, in entire societies. Even though the Union is still built on the rule of law and knows how to be flexible, its Member States and institutions cannot be satisfied with this volatile political context, which is hampering the proper conduct of public policies.

The second divergence concerns the macroeconomic performance of the Member States: despite the innovative nature of the European response to the current crisis, there is a risk that, due to potential shortcomings (uncertain development of new own resources, insufficient support for demand and/or short-term activity), the major economic indicators will return to differentiated trends, particularly in the budgetary field (risk of divergence in the public deficit and debt/GDP ratios), but also in terms of competitiveness (medium-term effects of asymmetrical State aid, for example between Germany and Greece), the capital stock (resulting from unequal investment programmes) or productivity[8]. This is problematic for the viability of the euro area and the internal market.

The third divergence lies in economic assessments and analyses: as in 2008, the current crisis is exacerbating national withdrawal (in the concerns and implementation of public policies) and, more fundamentally, the ever-latent confrontation of economic policy conceptions, both at the level of administrations and political representations and opinions. This is the case for all the policies reviewed, each of which is crossed by opposing currents regarding the importance of monetary and budgetary rigour or the benefits of free trade and undistorted competition. Beyond the recovery from the crisis, the elaboration of a financial and economic roadmap for the Union in the medium and long term is rendered more difficult by the absence of consensus surrounding the major economic trade-offs. This problem is compounded by the fact that economic doctrine is the focus of debate. On the budgetary front, a consensus is emerging led by Olivier Blanchard, former IMF chief economist, to put the following into perspective, in a context of supposedly long-term weakness of interest rates, the risks of rising public debts and concomitantly legitimising substantial public investment expenditure. From a monetary point of view several observers (Daniel Cohen, Laurence Scialom, Willem Buiter and Stanley Fischer *et alii*) are coming forward to demand *helicopter money*, the cancellation of debts held by the ECB, massive financing of the ecological transition), putting the analysis of macro-prudential risks in the background. In the industrial field, the desire for State interventionism faces a generally orthodox, albeit evolving, academic approach.[9]

The fourth divergence is expressed in the field of political negotiations: the positions defended by the States are typified, prior to the conclusion of agreements, by major differences. As early as the 2008 crisis, a gap separated the advocates of a change regarding the common debt and the defenders of orthodoxy, a gap that has been

[8] The risk of renewed macroeconomic divergence is highlighted in the European Commission's latest economic forecasts: by way of illustration, the average level of GDP in the peripheral countries of the euro zone would, under the effect of the crisis, be reduced in 2020 to its pre-crisis level of 2007, which it had only surpassed in 2019. Worse, the public debt levels of these countries could increase by 15 to 20 points of GDP. These forecasts suggest that budget deficits should not be drastically reduced in the medium term.

[9] In a 2019 paper, "The return of the policy that shall not be named: industrial policy principles", IMF economists Reda Cherif and Fuad Hasanov, point to one ambition (putting innovation and technology at the heart of the process) and three industrial policy principles (addressing sectoral market failures; aiming to export; allowing vigorous international competition to work).

opened again during the current crisis. On monetary issues, some States, such as Spain, may have wanted the issuance of common perpetual debt, while others continue to express *mezza voce* doubts about the ECB's policy. In the area of trade and competition, the States in favour of trade liberalisation and economic competition dominate those who challenge them, which explains why the Commission's openings in these areas of exclusive competence are more incremental than radical[10]. It is true that the political differences between Member States fuel, to a certain extent, a transnational debate between parties and civil societies, the importance of which returned in the post-2008 years and which must undoubtedly be nurtured in the future. This democratic exercise concerns European economic and social issues even more than other aspects of internal policy (migration, respect for the rule of law) or external policy (foreign policy and common defence). However, the dissensions expressed obscure the economic analysis (political concepts and ideologies often take precedence over the explanation of economic issues and mechanisms). They lead to public policy choices that are difficult to understand and hinder the frank expression of solidarity when it is expected, as in the case of the agreement on the European recovery plan.

The review of European economic policies is all the more important since, in practical terms, the world economy has been characterised in recent years by a stronger and more multiplied climate of confrontation. The "economic war" is now open and expressed by a renewed interest in protectionism, conflicts over exchange rate strategies, the extra-territoriality of American law, technological competition favourable to the United States and China and challenging competition[11], asymmetric reciprocity in market access and intense global tax and regulatory competition. At the same time, economic multilateralism is weakening: paralysis of the WTO, less coordination of economic policies, questioning of financial regulation efforts.

3. EUROPEAN ECONOMIC POLICIES MUST BE DEBATED AND RECOVER THEIR LEGITIMACY

Should the context of questioning economic doctrine and practice and the resulting divergences lead the Union to modify its economic framework? Several issues plead in favour of a widespread liberation from the constraints framing economic policies (massive investment requirements in the climate and digital transitions, risks of macro-economic divergence, the need to reduce inequalities, the quest for greater industrial autonomy, the challenge of supporting growth, popular protests). Once the crisis is over, answering this question will first of all require a collective medium-term reflection marked by the dual prism of the quest for economic efficiency and the political cohesion of the Union.

In this perspective we can distinguish several options.

The first is to deny the tensions analysed here, to act as if nothing had happened. The Union’s contemporary economic practice may have been marked by this, particularly after 2008, when the States confronted their misgivings, collectively reasserting the principles of the 'Maastrichtian pact' at budgetary level and, partially, at monetary level[12], while relying on the institutions (ECB, EIB, Commission) to help them ensure financial stability and fund the necessary counter-cyclical and structural measures. The institutional changes agreed (creation of the EFSF, ESM, new budgetary rules) were then marked by a sense of urgency and a technocratic logic without being really debated by the political representations and the opinions. This path does not seem to be a sound one from a democratic and political point of view: it does not respond to the real political, social and economic challenges. It creates frustration among entities attached to the principles, as well as among those who criticise them. Yet these same challenges continue to loom over Europe. Above all, ontologically, a crisis reveals the instability and intrinsic fragility of a system and the respective responsibilities of its components at the legal-political level: for this very reason, it is an opportunity for renewal.

The second option points to the possibility of demonstrating that what is done in practice is, in the strict sense, in conformity with European law, even if the practices observed are far from the spirit of European law (absence of credible rules and authentic cooperation, questioning of the "constitutional" order, undermining of founding principles such as the absence of monetary financing). In recent years, the ECB has largely interpreted its mandate to the benefit of the general interest, initially in

[10] *On competition, the Commission proposed to re-examine the notion of 'relevant market' and to review the rules specific to the digital sector, without envisaging any radical changes. On trade, it made overtures on the transparency of its mandates and affirmed that European standards (notably environmental) would not be flouted during the negotiations.*

[11] *The weakening of competition extends beyond the digital sector, see Thomas Philippon, The great reversal, Belknap Press 2019.*

[12] *Reference to the pressure, albeit combined with that of the markets, by several Member States and the institutions to drastically reduce public spending over the period 2010-2013 in a pro-cyclical manner and the delay in conducting a truly unconventional monetary policy. This assessment does not refer to the countercyclical fiscal policy conducted in 2008-2009 nor to the ECB's first public debt purchase programmes and other significant market stabilisation measures.*

the short term with the concern for financial stability, but by undermining the founding "Maastrichtian" consensus and, in fact, its own legitimacy. The temptation exists, in the current crisis, to give in to this facility, for example with regard to State aid.

The third option would be to create new rules to allow all Member States to fit into the "enlarged" economic policy frameworks. This hypothesis was suggested at the time of the 2005 reform of the Pact, but it worsened the credibility of the budgetary "corpus" and undermined its effectiveness. Maintaining the exceptional practices and rules resulting from the recent crises would have the same consequences, while continuing to fuel financial risks (as regards monetary policy) and aggravating political and economic divergences (as regards State aid). This option would also have the political disadvantage of not responding to the need for democratic debate on the Union's economic and social issues and for the re-legitimisation of common policies.

The fourth option seems preferable, consisting of launching a debate to try to rebuild a political consensus around economic policies and to re-legitimise them. This perspective is part of the context of the Conference on the Future of Europe. In this perspective, two types of action seem appropriate: firstly, to launch a debate to try to rebuild a political consensus around economic policies and to re-legitimise them:

- Changing certain rules and practices: this path must be taken with caution because the principles underlying the stability periods (seriousness of budgetary and public management, virtues of competition, primary principles and objectives of monetary policy, gains in international trade) are still valid. It would appear wiser to build on the "economic acquis" and the existing or recently created flexibilities and to broaden the instruments of each of these policies;
- Re-legitimising the fundamentals of the current framework, its flexibilities and potential amendments, at EU institutional level on the basis of policy reviews and at the Conference on the Future of Europe with the help of contributions from leading figures. Despite the difficulties inherent in the exercise, considering a change in the Treaties to strengthen the coherence of policy objectives, principles and economic practices should not be ruled out in the long run[13].

4. WITHOUT RADICALLY MODIFYING IT, THE EUROPEAN ECONOMIC FRAMEWORK COULD BE AMENDED

It appears that the European economic framework needs to be the focus of a democratic debate that can provide it with renewed legitimacy. The context is favourable for at least four reasons:

- Crises are, by their very nature, an opportunity to revisit existing intellectual paradigms;
- The energy and environmental transition is a cross-cutting, politically and economically virtuous lever for transforming these policies;
- Several technical reviews of the established frameworks (currency, trade, and competition policies, budgetary rules) will be concluded by the European institutions, without it being possible for them to be really democratically relayed;
- A conference on the future of Europe should be opened shortly.

Monetary policy should be subject to marginal changes:

- In an effort to bring the “conservative” and “heterodox” camps closer together, the monetary policy review initiated in January 2020 on the effectiveness and limits of unconventional action must be completed;
- The "foundations" of monetary policy (independence of the ECB, primary mandate of price stability[14], the need for a balanced policy mix, i.e. the development of a budgetary capacity specific to the Union or even the euro area) must be reaffirmed;
- The price stability target could be more "flexible”[15];
- Cross-cutting support for climate transition financing should be provided through a range of instruments (collateral rules, conditional refinancing operations, etc.);
- The prospect of monetary policy normalisation (sequenced “tapering”, predictable rate hikes) should be reopened as soon as conditions permit again;
- The effectiveness of macro-prudential supervision

[13] The prospect of a reform of the Treaties would be as necessary as it would be politically difficult, since it would involve a process of clarifying the issues at stake before the opinions and national political representations that would be called upon to ratify a new text. The issues analysed (and even some ambitious changes to the rules) make it desirable, as do other institutional questions. This question must be the subject of more in-depth work.

[14] Multiplying the objectives of a central bank is likely to expose it to greater political pressure and weaken its independence. A reform of the mandate would probably imply a revision of the Treaties.

[15] More inflation would undoubtedly be welcome, to bring down the real values of debt. However, its pursuit should not become "obsessive" in a context of sustained disinflationary pressures and thus justify new unconventional programmes with known obstacles and consequences. Thus, the ECB could adopt an average inflation target of 2%, as the Fed did last August.

could be strengthened, notably by reducing the discretionary power of national authorities.

- Based on the work started by the ECB interinstitutional dialogue, the democratic control of the European Parliament and the raising of awareness amongst the citizens regarding the monetary policy must be continued and even strengthened[16].

On the budgetary front, several fairly significant changes could be taken into consideration:

- First, the pitfall of a hasty restriction of public deficits must be avoided so as not to hinder recovery;
- The deficit and debt criteria should be modified, and the control of structural expenditure maintained, if necessary, by retaining certain rules[17];
- At the institutional level, the Eurogroup should be formalised, made autonomous and held accountable for its decisions (reports from its president to the European and national parliaments); a European Budget Council could be envisaged to guarantee better national ownership of the issues at stake and more effective budgetary coordination;
- Various measures aimed at supporting investment, in particular in the energy and environmental transition, can be undertaken (creation of a European competence, exercised independently, to decide what high quality public investment is; recapitalisation of the EIB; development of advisory capacities in support of public policies and project structuring).
- Further coordination and convergence efforts in fiscal matters should be facilitated by the use of "bridging clauses" or other instruments.

The competition policy must:

- Continue to allow State aid when it addresses sectoral "market failures" and is based on relevant, viable and, where possible, coordinated investment programmes, such as the European programme for electric batteries[18]. This approach could be extended to other industrial and service projects supporting the energy and environmental transition;
- As foreseen by the Commission, taking forward certain ideas (question of the reform of the "relevant market" for a global view of the competitive arena in which large European companies operate[19], strengthening of "*anti-dumping*"[20] tools);
- Change the rules for the digital sector to fight against abuse of dominant positions and maintain market access for small businesses;
- Benefit from pooling more R&D spending for innovation at European level, focused on technologies where Europe is lagging behind and on digital and environmental transitions;
- Benefit from a deepening of the digital single and energy markets;
- Step up the fight against unfair tax competition in Europe and beyond.

Beyond the recovery plan, it would seem that the future multi-annual financial frameworks need to be strengthened:

- Increase the funds allocated to future-oriented policies (digital, energy, artificial intelligence, etc.) and the means of "blending" (use of budgetary funds for investment purposes), while at the same time strengthening the European investment "ecosystem", particularly with a view to supporting companies' equity capital[21];
- Reduce subsidies for traditional policies (CAP, Cohesion Fund), especially when these policies can be supported by investment and/or blending, while reaffirming environmental and digital ambitions;
- Develop budgetary funds that can be used in emergency situations to deal with social challenges on the model of the "SURE" mechanism agreed in spring 2020;
- Develop own resources by using them to demonstrate strong political ambitions, in particular in the field of the environment and fair competition (plastic tax, reform of the quota system and taxation of CO_2 emissions, a carbon tax at the borders, tax on the digital sector, harmonisation of company taxation);
- In parallel, if possible, lower the proportion of national budgetary contributions and make national contributions fairer (Italy, Spain, Germany, Netherlands, Sweden, Denmark);
- Adjust the political and budgetary mandates over a five-year period so that the European Parliament approves the budget at the beginning of the

[16] The European Parliament could improve the current 'monetary dialogue' by better assessing how the ECB is achieving its objective.

[17] The concern to control structural expenditure and deficits, enshrined in the budgetary "golden rule" resulting from the TSCG, should be maintained on condition that the margins of error in the calculations are reduced and that "cyclical flexibilities" are largely granted on an ad hoc basis to States in recessions in order to better support common activity.

[18] Other bilateral or multilateral industrial cooperation could be conducted, for example in energy systems, the Internet of Things, the cloud, quantum computing, artificial intelligence, robotics, hydrogen, defence, space, or the bioeconomy.

[19] The Commission opened the door to a review of this concept at the end of 2020, while remaining very cautious: the red line for approving a merger must remain, in its view, the maintenance of reliable alternatives on the market.

[20] The Commission is determined to reform the competition rules so that foreign subsidised groups (directly or indirectly) operating in the EU, or wishing to make an acquisition, are better controlled and subject to measures to restore competition (divestment of assets, reduction of production capacity, acquisition bans, etc.).

[21] Support for investment is an important political balance point between those who favour austerity and those who favour solidarity in the euro area. In fact, the initiatives (Compromised Eurozone Budget Project (CEBP) and the Recovery and Resilience Facility (RRF)) give pride of place to this type of support for activity, which is useful in the short and medium to long term and ensures the modernisation of economies.

legislature, based on a pan-European political debate.

The European Trade Policy would benefit if it:

- Worked towards reforming the WTO (updating the rules, for example specific to the digital sector) by seizing the tangible opportunity provided by the change in the US administration.
- Systematically demanded the application of the "level playing field", i.e. compliance by the Union's partners (United Kingdom, United States, China) with ambitious reciprocal standards (absence of environmental and social "dumping", rules on competition and access to public contracts, legal or fiscal security, etc.) and make access to the European market conditional on these;
- Used and strengthened, if necessary, trade defence tools ("anti-dumping" measures, etc.)[22], protecting against FDIs in strategic sectors[23]);
- Reviewed the vulnerabilities of European value chains (including public procurement) and identified potentially beneficial relocations of activity;
- Strengthened financial compensation mechanisms for the "losers" of globalisation (strengthening of the Globalisation Adjustment Fund and other budgetary resources to address urgent social needs, coordination of social or investment policies serving industrial restructuring and lifelong learning like those provided for in the Just Transition Mechanism, thought into the on the upgrading of service jobs);
- Raised awareness of elected authorities and public opinion regarding the issues at stake, mechanisms and gains to be had by international trade.

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The energy and environmental transformation, the forthcoming results of the reviews of the policies analysed in this paper currently underway and the prospect of the Conference on the Future of Europe provide a lever for pragmatically reconsidering each of the Union's major economic policies and giving them renewed legitimacy. This challenge will not be easily surmounted: political constraints, when linked to divergent interests and economic conceptions, have always weighed on the conduct of economic policies. Therefore, after so many political confrontations and democratic pitfalls in the past, there may be a strong temptation to return to the usual "modus vivendi". The exercise of re-legitimising economic policies must nevertheless be carried out taking into account the context of crisis, which again exposes the Union to economic collapse, to the mistrust of opinions and to the discord of some of its leaders. This exercise is also necessary in a very uncertain international environment where Europe must better defend its own interests and continue to play an important role in trying to re-establish collective rules of the game.

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[22] These measures protect about 320,000 direct jobs in the industrial sectors in the EU (source: EPSC). Anti-dumping measures could be extended to the services sector.

[23] In March 2019, the EU adopted a cooperation mechanism to facilitate the exchange of information between Member States when offers of FDI from partners are made, with the Commission being able to issue an opinion when these FDIs concern more than one Member State or a European programme (Horizon). The approval of FDI remains in the hands of the Member States. Harmonisation of rules, or even approval of FDI at EU level, could be considered= as recommended by Véron et al (2020).

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