The European Green Deal: more than an exit strategy to the pandemic crisis, a building block of a sustainable European economic model[1]

Annette Bongardt* & Francisco Torres**

* CICP, University of Évora, and UFP

** Católica Lisbon School of Business and Economics

Abstract

This article puts forward that the European Green Deal (EGD) is more than just another initiative for green growth. Instead, it adds a building block to the European economic model, alongside the single market and Economic and Monetary Union. The pandemic crisis would therefore need to be addressed also through the EGD framework. We find that the Covid-19 crisis provided a missing link between the EGD's long-term objectives and conducive short-term policies. We discuss to what extent economic governance changes reinforce the role of the EGD as a pillar of the European Union economic model, contributing also to creating strong (political, institutional and society) dynamics in favour of sustainability and promoting integration.

Keywords: European Green Deal; EU economic model; sustainable European integration; Covid-19 crisis; EU economic governance and policy formulation.

Introduction: the EGD as a building block of the European economic model

In December 2019, the incoming European Commission (EC) launched the European Green Deal (EGD) as this generation's defining project for the European Union (EU). It involves a broad roadmap to make the EU economy and society carbon neutral by 2050 (EC, 2019b). Commission president Ursula von der Leyen characterized the

[1] Pre-print non-edited version. The article is published by the Journal of Common Market Studies 60(1), 2022. Please see https://onlinelibrary.wiley.com/doi/10.1111/jcms.13264. We would like to thank Amy Verdun, Valerie D'Erman, Daniel Schulz, Bart Vanhercke, Boris Fronteddu, Sebastiano Sabato and three anonymous referees for their comments on earlier versions. The usual disclaimer applies. This article was supported in part by a Jean Monnet Network entitled "The Politics of the European Semester: EU Coordination and Domestic Political Institutions (EUROSEM)" Agreement number: 600110-EPP-1-2018-1-CA-EPPJMO-NETWORK (Grant agreement nr 2018-1359), with the support of the Erasmus+ programme of the European Union. The first author conducted this study at the Research Center in Political Science (UIDB/0758/2020), University of Minho / University of Évora, supported by the Portuguese Foundation for Science and Technology and the Portuguese Ministry of Education and Science through national funds.

challenge ahead as 'Europe's man on the moon moment'.[2] At the time the EU was arguably in need of reviving the process of European integration. A relaunch of the integration project could be important, not least to help overcome the economic and political fall-out from the sovereign debt crisis that had divided member states and to stem any disintegration tendencies in the follow-up of the (by then imminent) first exit of a member state from the Union.

The EGD commits the EU to a change in policy direction towards more sustainability. It thereby envisages another qualitative change in European integration. The single market and Economic and Monetary Union (EMU), also Commission initiatives, had shifted a trade-led to a European regulatory model and added a monetary union to the (still incomplete) economic union side. Doing so, both enhanced economic sustainability, promoting efficiency through the competitiveness rationale in the single market and (mostly microeconomic) benefits of a single currency.[3] The EGD would further enhance these goals, by bringing in environmental sustainability and making climate neutrality a priority and modifying that competitiveness rationale to competitive sustainability. The chief rationale for EU-level coordination, as the European Commission (2019b) and the ECB (2021a; 2021b) acknowledge, lies in avoiding negative spillovers from non-internalized environmental degradation into the single market and EMU. Our key argument is that the EGD may thus be regarded as a third building block in the making of the European economic model, alongside the single market and EMU, and that any crisis would therefore also need to be addressed through its framework.

There are two principal reasons why the EGD has the potential to become another building block of the European economic model. First, it is built on EU sustainability thinking that had been evolving over time and represents its (logical) culmination, as economic efficiency reasoning requires that environmental effects be accounted for, too.[4] It gives consistency to what had been a piecemeal approach

---

[2] https://ec.europa.eu/commission/presscorner/detail/fr/speech_19_6749 (accessed 26 June 2021).

[3] They also put the Union on a higher economic integration stage on the Balassa scale (Balassa, 1961). The EGD consolidates that move by encompassing economic policy coordination efforts in a structured and coherent way, through a sustainability lens.

[4] Note that this calls for internalizing negative external effects from productive activity like pollution. If negative externalities are not priced in, there is a difference between private cost (market price) and social (opportunity) cost, which leads to excess consumption and production (an economic inefficiency).

(Bongardt and Torres, 2013). Second, the EU could only ever hope for truly politically sustainable European integration, if it put economics at the service of the EU integration project by adopting a wider sustainability perspective, also in addressing its governance fragilities (Begg et al. 2015; Nicolaïdis 2017). The European Green Deal claims to provide such a sustainability lens (EC, 2019a).

The EGD is an expression of what the EU does well: long-term thinking.[5] The challenge remains to bridge long-term goals with consistent policies and actions in the shorter term with a view to climate and environmental mainstreaming. Yet the EGD did not come with (a claim for) new competences for the Union, unlike the single market and EMU. The EGD draws on the existing EU economic governance framework for implementation, most notably climate and energy policies.

Because of that possible gap between the EGD's ambition and means, with coordination across all policy areas a challenging task, the eruption of the Covid-19 pandemic, shortly after the presentation of the EGD in December 2019, put the EU at a crossroads. Short-run crisis concerns and measures could have been derailed or watered-down the EGD, if incompatible with its long-term goals and a consistent pathway.[6] The experience with the global financial crisis showed that opportunities for a green recovery had been largely wasted (Stagl 2020; Jaeger et al., 2020). Yet, this did not happen to the EGD as a policy agenda, as analysed in Dupont et al. (2021). The EGD was approved and went ahead in the midst of the Covid-19 pandemic crisis.

The pandemic faced the EU with issues beyond public health, which are foremost a member state competence The EU needed to deal with short-run needs related to the severe socio-economic effects generated by the Covid-19 pandemic crisis, which threatened European public goods and European integration (the single market, Schengen, even EMU). After a short period of apparent hesitation, the EU this time reacted fast, initially to common health challenges but subsequently also to socio-economic upheavals, including through EU funding. This speedy and forceful

[5] For Nicolaïdis (2017), long-term thinking is the silver lining of the EU's democratic deficit, given that the Union is less subject to electoral pressures.

[6] For instance, the state aid schemes provided under the EU temporary framework barely addressed the environmental and climate objectives (van Hove, 2020). Greenpeace (https://www.greenpeace.org/static/planet4-eu-unit-stateless/2020/10/20201005-fossil-free-politics-report-polluters-profiting-pandemics.pdf) has criticized the ECB for not excluding fossil fuels from its Pandemic Emergency Purchasing Programme.

action was a lesson drawn from the (not only belated) responses in the sovereign debt crisis (D'Erman and Verdun, this issue; Vanhercke and Verdun, this issue; Ladi and Tsarouhas, 2020; Wolff and Ladi 2020). What was by no means assured was that policies and actions would be consistent with or conducive to EGD goals. Not only were economic and social impacts looming large in the pandemic crisis but the crisis-driven reduction of economic activity reduced some environmental problems (such as air pollution levels in cities). Yet, the climate crisis calls for more than merely decoupling environmental effects and economic activity but for profound, transformational changes – putting the EU on a different development path (Wolf et al. 2021).

Adopting the perspective of the EGD as a third building block in the making of the EU economic model, the article considers whether the pandemic crisis was addressed also within the framework of the EGD, although it was still at an early stage. Departing from the fact that the EGD stayed on course, it sheds light on whether and to what extent the pandemic crisis may even have reinforced it, making it part of the solution rather than the problem and more than that part of the EU's economic model It examines whether the response to the pandemic crisis introduced economic governance changes that reinforce the role of the EGD, contributing also to creating strong (political, institutional and society) dynamics in favour of sustainability and promoting integration.. In terms of methodology, this article draws on existing literature and the analysis of official documents.

The European Green Deal: more than the sum of its parts

The European Green Deal sets out to achieve net zero emissions of greenhouse gases (GHG) for the EU as a whole by 2050, decoupling economic growth from resource use and transforming the EU into a fair and prosperous society, with a modern and resource-efficient and competitive economy (EC, 2019b). It requires above all cutting emissions, investing in green technologies and protecting the natural environment. The objectives follow up on the previous European economic agendas (Lisbon and Europe 2020 strategies), in that the European economy and society are to become sustainable by transforming potential threats (climate and environmental challenges) into economic opportunities (sustainable growth) and by making the transition just and inclusive. . However, the EGD introduces an overarching (climate neutrality) sustainability lens to all policies and on the economy and society. This is a paradigm change.

The recognition of climate change as the biggest medium to long-term challenge facing the EU paved the way for limiting global warming as the priority objective. Reaching carbon-neutrality presupposes deeply transformative policies and environmentally sustainable growth. The EGD enshrines a set of policy initiatives that span a wide range of policy areas: clean energy, sustainable industry, building and renovation, farm to fork (sustainable food system), eliminating pollution, sustainable mobility and biodiversity. The EGD is an integral part of the plan to implement the United Nations 2030 Agenda and its sustainable development goals (SDGs). It features an action plan for implementation, a climate law to turn political carbon neutrality commitments into a legal obligation, and a just transition mechanism to smooth the transition in the most affected regions. The EGD bases necessity for change on scientific evidence on multi-faceted environmental damage and challenges (among others, climate change, loss of biodiversity, ozone depletion, water pollution, waste pollution, and urban stress). It stresses inter-generational justice (in the interest of the young generation) and economic opportunity (a new growth strategy).

Scholars have studied the EGD's state and implementation in the broader context of EU climate governance (Siddi 2020), its deeply transformative nature (Bloomfield and Steward 2020) and also EU responses to the Covid-19 pandemic crisis (Wolff and Ladi 2020). Those include the impact of the Covid-19 crisis with a view to EU economic governance and policy learning (Ladi and Tsarouhas 2020) and also to the EGD, in terms of a critical juncture (Dupont et al. 2020).

Arguably, the EGD is also linked to political opportunity. When the European Council had appointed Ursula von der Leyen to become Commission president, upon proposal of French President Macron and as part of a deal between member states, it was all but clear that she could assemble the necessary votes in the European Parliament. The fact that she had not been a *Spitzenkandidat* in the run-up to the European elections pitted her against the Parliament, which wanted to establish that principle, and also against part of her own party, which had seen its S*pitzenkandidat* being vetoed by the European Council.[7] She had to reach out for support across

[7] On the *Spitzenkandidaten* issue, see Christiansen (2016).

political parties and climate was the principal unifying theme. Shortly after the election of the Commission, on 28 November 2019, the Parliament declared a climate and environmental emergency in support of net zero GHG emissions by 2050.

By tabling the ambitious plan to transform Europe into the first carbon neutral continent, the incoming Commission manifested entrepreneurial spirit.[8] Still, as Dupont et al. (2020) explain, neither this entrepreneurial spirit nor (bottom-up and top-down) politicisation alone explain the advances in EU climate policy in responding to the crisis. They conclude (p. 1106) that it was the convergence of those two factors that prepared the ground for the window of opportunity opened by the Covid-19 crisis to be exploited for EU climate policy. Undoubtedly, those factors played an important role. However, as far as implementation is concerned, the EGD did not come with new EU competences. Nor was it clear whether the envisaged financial allocation was adequate for a green transition (Siddi, 2020). Policy coordination would take place within the established and apparently unchanged governance framework, involving a mix of policies.

What has received less attention is the EGD's potential to be more than the EU's answer to the climate crisis, adding another building block to the European economic model. Its sustainability lens makes it an overarching programme that aims at transformational change to the EU economic model, encompassing all previous economic coordination efforts in a structured and coherent way.[9] Prioritizing climate neutrality does more than strengthen environmental cum economic sustainability, it but also furthers political sustainability. All together: EU integration sustainability. What sets apart the EGD is that it provides a coherent narrative on climate and sustainability, which encompasses all other, also previously unrelated, policy areas. Environmental protection is now considered in the context of economic development and the EGD thereby broadly reoriented the European process of macroeconomic coordination from growth to sustainability (Bloomfield and Steward, 2020; Wolf et al., 2021).

[8] This is an important difference with the euro crisis discussed by Bauer and Becker (2014), interrupting the 'successively shifting from policy entrepreneurship to policy management' (p. 18).

[9] Already for Bloomfield and Steward (2020), the EGD is a significant turning point in the relationship between the traditionally separate policy areas of environmental protection and economic development.

The EGD project provides not only an ambitious vision but coherence and direction to an already consolidating, if still piecemeal, base in terms of environmental policy, environmental mainstreaming and sustainable development (Bongardt and Torres, 2013; Dupont et al. 2021). The (previous) Commission had presented the vision of a climate-neutral economy (EC, 2018) and a reflection paper on a sustainable Europe by 2030 (EC, 2019c), the Council (2019) had reiterated the objective of striving for climate neutrality and called for accelerating a comprehensive and overarching implementation strategy reflecting the UN 2030 Agenda and mainstreaming its 17 SDGs into policies, and the European Council (2014) had been already moving towards the goal of carbon neutrality by mid-century. Environmental mainstreaming is a treaty-based principle since the Amsterdam Treaty. The EU is an important actor on the global stage, most notably in the climate field (Paris Climate Accord, Kyoto Agreement). Policy coordination already included the (greening of the) European Semester since 2013.

The European Green Deal has the potential to be more than the sum of its parts and therefore a building block to the European economic model. With climate and sustainability as the overarching rationale, all other policies need to be coordinated and legislation revised to fall in line with a holistic sustainability objective and carbon emission targets. Climate policy (hard law) together with climate mainstreaming may create a constraint that helps to align other policy areas. International commitments, above all the 2015 Paris Climate Accord, add (self-imposed external) constraints.

The EGD can draw on a multitude of policies and instruments, which had lacked coherence and a holistic approach. There had been important developments, among which that environment policy and instruments (notably the creation of the European Emissions Trading System (ETS), a EU-level cap-and-trade instrument) had been brought ever more under an efficiency rationale since the internal market and the EU's global climate leadership role. The latter has fed back into internal policies and member state targets.[10]

[10] The ETS is a market-based instrument with efficiency properties. Its good functioning hinges on an adequate carbon price and a competitive market setting. Subject to a cap to total emissions, the carbon price reflects relative scarcity (supply and demand). Carbon trading provides economic agents with an incentive to abate emissions and invest in more environmentally efficient equipment. The ETS is to

Last but not least, the EGD has the potential to contribute beyond environmental sustainability also to the sustainability of the European integration process as such. To the extent that it curbs negative spillovers and promotes synergies, the EGD feeds back into and complements the qualitative changes that the single market and EMU made to the European economic model and contributes also to economic and political sustainability.[11] Prior to the pandemic crisis, the EGD's contribution to addressing unresolved EU governance fragilities (notably EMU's incompleteness) was limited.

A bridge to the long term: The Covid-19 crisis plays to the European Green Deal

The Covid-19 pandemic crisis tested the sustainability of the European economic model and with it of the process of European integration. Its health and socio-economic consequences deflected attention from climate-related phenomena that would have otherwise focused public attention (events like forest fires, even in the arctic and in rainforests, and broken records in land and ocean temperatures, extreme weather events, localized catastrophes). Still, there are several ways in which Covid-19 contributes to consolidating the case for the EGD.

Covid-19 is part and parcel of a wider picture of the consequences of man-made environmental degradation of the planet. It may be yet another zoonotic disease, which crossed over from animals to humans (*The Lancet*, 2021). If so, it is not an isolated incident, but rather the latest of many that already occurred in this millennium.[12] Scientists remind us that the emergence of zoonotic diseases is inextricably linked to habitat destruction and the loss of biodiversity and facilitated by unsustainable mass animal farming and globalization practices, which facilitate rapid

become broader and more effective in its 4th phase (2021-2030), as part of the Fit-for-55 package (European Commission, 2021b).

[11] Note that in the EGD the notion of a just transition is seen as a precondition to achieve a broad social consensus on the green transition and, to eventually, ensure a successful implementation of the EGD project (Sabato and Fronteddu, 2020). While the EGD was thin on social aspects, the Commission (2021b) proposed a new Social Climate Fund as part of its package to implement the EU's new 2030 climate target.

[12] Among which SARS 1, MERS, Zika or Ebola. Other public health challenges include vector-based diseases, which are associated with climate change, and antimicrobial resistance, which is linked with the overuse of antibiotics, notably in factory farming.

and wide spreading and do not factor damages in.[13] From an economics standpoint, markets fail if environmental damages are not properly accounted for (with all the difficulties that direct regulation or pricing of natural resources and their use pose in practice) or when there are no markets for a good. It is hence not least due to efficiency considerations that climate and biodiversity need to be integrated into economics and decision-making (Stern, 2007; Dasgupta, 2021).

The Covid-19 crisis depressed economic activity, which reduces associated pressures on the natural environment – albeit temporarily. CO_2 emissions fell as a by-product of the pandemic crisis. To address the climate crisis and achieve sustainable development these emissions should not be allowed to bounce back (International Energy Agency, 2020; International Monetary Fund [IMF], 2020; World Meteorological Organization [WMO], 2020). It follows that a return to business as usual is insufficient to avoid a rebound effect, as happened before (Jaeger et al., 2020). Rather, what is called for are lasting changes with a shift towards sustainable production and consumption patterns. Put differently, a crisis exit strategy implementing a green recovery and transition (Bongardt and Torres, 2020).

The pandemic crisis can be expected to modify attitudes. It drew attention to economic and societal shortcomings, such as insufficiently addressed market failures also beyond climate change, not enacted reforms, missing or misdirected investments ranging from lagging digitalization to pollution. It tested the adequacy of social welfare systems[14], thereby also raising more general issues, such as a re-evaluation of the social value of work and remuneration. Workers in low-paid, often precarious, jobs – in supermarkets, logistics, health and care sectors – turned out to be key for the system to keep functioning during a lockdown. The crisis also afforded a glimpse of the opportunities and a foretaste of benefits associated with a different, more sustainable, way of life. By highlighting the gap and potential for modernization in

[13] According to the Secretariat of the Convention on Biological Diversity (2020), the world has failed to meet a single target to stem the destruction of wildlife and life-sustaining eco-systems in the last decade.

[14] For a mapping of the key social protection measures taken in the first wave of the pandemic (March-December 2020) in the EU-27, see Spasova et al. (2021).

the EU in a range of areas, the pandemic has prompted changes in the short-run that may accelerate structural change.[15]

It is indicative of changing mindsets that the climate crisis did not cease to be perceived as a global emergency despite the ongoing pandemic crisis (United Nations Development Programme [UNDP], 2021).[16] In the EU, Eurobarometer 93 (Summer 2020) and 94 (Winter 2021) data shows that environment and climate change remained among the main concerns held by EU citizens. Top priorities in response to the coronavirus crisis in their view include the long-term, that is, a strategy for facing a similar crisis in the future. A special Eurobarometer (513, conducted March-April 2021) on climate change shows that for the first time European citizens regard climate change as the single most serious problem facing the world – ahead of the spread of infectious diseases.

The pandemic not only had a profound economic impact, but also came with social and environmental lessons. By putting in sharp evidence weaknesses in such a wide range of areas, from the vulnerability and shortcomings of global supply chains, cities (from housing to public spaces), transport systems, agricultural practices, to the digital sector, it showed the need for and potential of comprehensive and sustainability-oriented reform in the EU. Attitudes to fighting climate change (Special Eurobarometer 513) confirm that a (often large) majority of European citizens 'agree' or 'tend to agree' that tackling climate change and environmental issues should be a priority to improve public health. In their view, adapting to the adverse impacts of climate change can have positive outcomes for citizens in the EU while damages due to climate change are much higher than the costs of the investments needed for a green transition. Three quarters of those surveyed are of the opinion that the recovery funds should be invested in the green economy rather than in the fossil-fuelled economy.

In conclusion, the pandemic crisis establishes a conducive link between the short-term and the long-term. It plays to the EGD's economic rationale and policy priorities. The pandemic has thereby worked towards reinforcing the EGD as a building block in the European economic model. Policy responses may build on

---

[15] Notably with respect to the digital sector and changes in work (at a distance) and trade (online), adopted in the face of social distancing and confinement used to control the spread of Covid-19.

[16] The People's Climate Vote (UNDP, 2021) shows widespread recognition (64 per cent of the respondents, from 7 October to 4 December 2020) of climate change as a global emergency in each of the fifty countries surveyed.

policy linkages, such as synergies between addressing climate change and Covid-19 (causes, policies) and also complementarities (digital transition). Environmental and social lessons contribute to preparedness to change unsustainable patterns of consumption and production in line with the EGD and long-standing EU priorities (digital, fair and sustainable economy).

On the EGD as an exit strategy and dynamics towards sustainability

In the 2008-09 financial and the 2010-13 sovereign debt crises, sustainability and green growth were already objectives of the EU's economic agendas. Yet, the EU largely wasted the opportunity for a green crisis exit although that would have been feasible financial restraints notwithstanding, through existing instruments (regulation), with a view to incentivising sustainable behaviour and investment (Begg et al., 2015; Bongardt and Torres, 2016). The pandemic crisis caught the EU at a time when the EGD's long-term sustainability and climate neutrality objectives had just been launched. It quickly presented it with the need to deal with the pandemic's economic and social fall-out, which the EU treated as an emergency.[17]

When the EU responded to the pandemic crisis, it initially viewed it foremost as a public health crisis, in a second stage also as an economic crisis. The latter was perceived as posing a particular challenge for EMU. The most effective way for the EU to address the economic consequences of the pandemic crisis was therefore through its euro area framework. The EU acted on the lessons learnt during the sovereign debt crisis, intervening earlier and forcefully at the EU level.[18] The immediate response to the economic impact of the crisis was largely built on and developed within the governance structure of the euro area, through institutions put in place or envisaged at the time of the sovereign debt crisis: the European Stability Mechanism (access to finance costs of the pandemic), ECB measures (the Pandemic Emergency Purchase Programme, PEPP), budgetary rules (activating the Stability and

[17] The climate crisis did not receive the same treatment, regardless of the scientific evidence and need for urgent action (WMO, 2020; IMF, 2020). The IMF (2020) warns against a rapidly closing window for halting temperature increases at safe levels, urging a shift to a sustainable and fair growth path through a combination of carbon pricing and an initial green stimulus.

[18] See Ladi and Tsarouhas (2020) for an historical institutionalist approach taking into account policy learning, notably from the previous crisis.

Growth Pact's general escape clause), the unemployment reinsurance scheme SURE (see Vanhercke and Verdun, this issue).

However, for the EDG to be a building block of the EU economic model the pandemic crisis would need to be addressed also within that framework. The Covid-19 crisis provided the missing link between the EGD's long-term objectives and conducive short-term policies.[19] The pandemic crisis is an acute crisis within a larger environment and climate crisis context. Both public health and the environment have public-good characteristics, with potentially large and longer-term benefits that are not internalized. In the pandemic crisis, decision-makers acted on science-based policy advice to an extent that has not happened in the climate crisis (Bongardt and Torres, 2020). The crisis context opened the opportunity to correct market failures (climate change being the largest) and promote the shift to sustainable production and consumption patterns that would benefit public health but also the environment/climate, and consolidate a sustainable model of development.

The European Commission saw that the EGD could be framed as an exit strategy for the pandemic crisis (EC, 2020b). The EU's efforts to ensure a future-oriented sustainable, even, inclusive and fair recovery were therefore centred on the EGD (termed the EU's recovery strategy) and on investment.[20] Moreover, the EU's response to the pandemic also supplied resources – in fact, the EU's largest ever stimulus package. A large part of the recovery funds is earmarked for a green transition (EC, 2020b).

Funding of an unprecedented scale was made available to avoid economic and social dislocation and prop up the economy in what was thought to be a short-term symmetric shock, albeit with asymmetric effects on member states. The EU's 7-year multi-annual financial framework (MFF) 2021-2017 plus the creation of a recovery fund, Next-Generation EU (NGEU), connected to the MFF and designed to support businesses and member states, form part of an overall 1.8 trillion euro package prepared and agreed against the pandemic crisis background. The NGEU (750 billion euros) is to address at the same time the economic and social dislocation from the pandemic crisis and also to focus on sustainable investment and reforms,

[19] See for instance European Commission (2020e).

[20] https://ec.europa.eu/commission/presscorner/detail/en/ip_20_940

notably green and digital. The recovery and resilience facility (RRF), which supports states, is the main facility in the NGEU instrument. Funds are to be disbursed as loans and grants, in line with EU priorities. Of the RRF's expenditure (672.5 billion euros), more than a third (37 per cent) is earmarked for spending on a green transition (and at least 20 per cent for digital investment).

When fleshing out the Eurogroup proposal of a recovery fund, the European Commission (2020b) seized the opportunity to further European integration (EU fiscal powers) and simultaneously green objectives. The NGEU is funded by EU emission of debt, thirty per cent of which green bonds, to be repaid through new genuine own resources. Some of those serve green objectives and were front-loaded. The four-phase approach to new own resources comprises first a non-recycled plastic waste based contribution (as of 1 January 2021), second a carbon border adjustment mechanism (CBAM) and digital levy (to be introduced by 1 January 2023), third a EU ETS-based own resource (extendable to aviation and maritime), and finally working on introducing other new own resources (such as a financial transaction tax).[21]The new plastic levy and the ETS are EU-level environment policy instruments with a double dividend, conferring on the EU both own resources and means to correct incentives in view to a green transition. The revision of the EU ETS directive for phase 4 (2021-30), to achieve GHG emissions reductions conform to the EU's new 2030 targets, is under way as part of the fit-for-55 package. A CBAM would bring in revenue, but is foremost about correcting international competitive distortions (carbon leakage) at the EU-border, thereby protecting the political and economic viability of the EU's treaty-based polluter pays principle and its crisis exit strategy.[22] The two are interrelated, as an effective ETS exerts pressure towards the introduction and effectiveness of a CBAM.

Furthermore, there is increasing evidence that the EGD created dynamics in favour of environmental and climate sustainability at various levels. Examples at the EU level include: calls for rethinking the previous Commission's reform proposal for

[21] https://www.consilium.europa.eu/en/infographics/recovery-plan-mff-2021-2027/

[22] After the ETS, the EU climate policy flagship policy, a CBAM would be another EU-level environment policy instrument. The Commission is to propose additional new sources of revenue like a financial transaction tax, a financial contribution linked to the corporate sector and a new common corporate tax base by June 2024. Still, as Fuest and Pisani-Ferry (2020) point out, the revenues from the ETS alone would be largely sufficient to repay the NGEU debt.

the common agricultural policy (CAP); efforts to create an EU green finance taxonomy to guide investments; a review of trade policy; fossil energy declared as incompatible with recovery fund support.[23] Another supranational institution, the ECB, has also shown entrepreneurship: its strategy review enables it to consider more deeply how it can continue to protect its mandate, strengthening the resilience of monetary policy and the ECB's balance sheet in the face of climate risks (ECB 2021a, 2021b). At the national level, examples include a strong cross-party consensus for the creation of a ministry of ecological transition in Italy in 2021 to encompass the EGD and recent court rulings in various member states - Supreme Court of the Netherlands (2019), Paris Administrative Court (2021), German Federal Constitutional Court (2021) and Brussels Court of First Instance (2021) - on the need to protect citizens' rights in face of climate change.

In sum, as an agenda-setter, the Commission used the pandemic crisis to frame its Green Deal as an exit strategy and to equip itself with funds to accelerate the transition, with a significant part dedicated to the recovery from the pandemic for 'green' objectives. On the one hand, the EGD narrative extended to the pandemic, having demonstrated the need for the EU to lead the green (and interrelated digital) transitions and make its societies and economies more resilient. On the other hand, due to the NGEU recovery plan, the tool to seize the opportunity had come into existence. Moreover, through enhanced EU fiscal capacity it contributed to promote integration and created dynamics in favour of sustainability. The recovery fund was also an important step in the direction towards common bond issuance, which will also be an important instrument for EMU's sustainability. Although set up as a temporary facility, it contributes to balancing the economic and monetary union sides through an EU fiscal capacity.

The European Green Deal and policy formulation

The European climate law is the EGD's centrepiece, the act that sets into hard law the 2050 climate neutrality goal but also includes an increased target for GHG emissions

---

[23] Of course, the EGD is at an early stage and faces implementation challenges, as illustrated by criticism of the lack of CAP reforms and the controversial implementation of the Green taxonomy regulation through implementing acts.

of at least 55 per cent by 2030.[24] In July 2021 the Commission presented the package of legislative proposals to deliver the EU's 2030 climate target, coined 'Fit-for-55' (EC, 2021b). Hard law provides a lever for the necessary tightening across policy areas but within limits.

The EGD's long-term carbon neutrality and sustainability objective calls for a profound transformation of the European economy and society in the coming decades. The substantial acceleration in the emission cuts targets for 2030 brings implementation needs forward in time and thereby increases pressures for policy action in the shorter term,. It makes the task to review all policies and legislation to ensure consistency (objective, pathway) even more demanding. It increases pressures on all economic sectors to contribute already in the shorter term, within a holistic sustainability rationale (of which the circular economy and the farm to fork strategies are an expression).

To ensure that all EU policies contribute to the net zero objective and that all sectors (economy, society) play their part, the Commission needs to review all relevant policy instruments, proposing, if needed, their revision. It is entitled to issue recommendations to member states whose actions are inconsistent with the climate-neutrality objective, which those would have to take into due account or otherwise explain their reasons for not doing so. Such a delegated act (article 290, Treaty on the Functioning of the EU (TFEU)) empowers it to amend or supplement legislation. Still, the gain in implementation power is subject to strict conditions and conditioned by national competences (example: energy and amending national GHG emission trajectories). As Knodt and Schoenefeld (2021) point out, the achievement of the new target will hinge significantly on the efficacy of future harder soft governance approaches.

The implementation of the EGD essentially relies on the existing governance framework. Still, there are some important changes and developments, induced by the climate or the pandemic crisis.

---

[24] The 2030 target initially stood at 40 per cent. After an impact assessment, the Commission quickly upgraded it to at least 55 per cent. The European Council enshrined the new target in December 2020, whereas the European Parliament had (unsuccessfully) aimed at 60 per cent. The Regulation was discussed as a whole by co-legislators under the ordinary legislative procedure (EC, 2021a).

The Annual Sustainable Growth Strategy (ASGS) replaced the previous Annual Growth Strategy. In the ASGS, which the Commission sees as a paradigm shift in EU economic policy, away from economic growth as an end in itself, the EGD and the SDGs are put at the heart of the European Semester (EC, 2019a). The EGD serves as a broader economic narrative based on a notion of competitive sustainability. The SDGs will be mainstreamed into EU policies with a view to addressing the trade-offs between sustainable development goals and the environmental dimension and other (economic, employment, social) policies (Sabato and Mandelli, 2021). As explicitly pointed out in the ASGS 2020, the Commission now adopts a wide (economic, social, environmental) sustainability lens rather than a narrow one which previously the custom. It emphasizes the multi-faceted role that environmental policies can play with regard to a sustainable economic recovery and employment growth. This would happen through resource efficiency and the circular economy but also others like environmental fiscal reform, including shifting the tax burden from labour (a good) onto environmental pollution (an inefficiency).[25]

The implementation of the EGD is only to a smaller extent within the European Semester, past efforts to green the European Semester also through green country-specific recommendations (CSRs) notwithstanding. The Semester illustrated the potential but also the limits of open coordination (Verdun and Zeitlin, 2018).[26] Critics have pointed to various factors that held back the Semester and CSRs, such as national policy competences, unclear priorities or lacking ownership of reform (Darvas and Leandro, 2015; Efstathiou and Wolff, 2018; Haas et al. 2020). Nevertheless, case studies point to achievements not captured by quantitative implementation analyses, such as the dynamics of putting or keeping an EU-relevant issue on a national agenda and facilitating the alignment of reform priorities within national administrations (Bokhorst, this issue).

On the other hand, due to its association with the RRF the Semester is undergoing important changes. This may result in a mutually beneficial relationship between signalling in the Semester process and reinforced governance (Moschella, 2020). The RRF provides funds for a green transition but with conditionality attached

[25] Implementation of measures is conditioned by unanimity voting in tax matters (article 113 TFEU).

[26] See also Vanhercke and Verdun (this issue) for a discussion of those limitations and how the Recovery and Resilience Facility (RRF) might be increasing the European Semester effectiveness.

for their disbursal, which results in a hardening of soft governance (Knodt and Schoenefeld 2020; Vanhercke and Verdun, this issue).[27] Member states draw up their national plans, which addresses the issue of member states needing to take ownership of reforms, however balanced by the need to meet binding climate and digital goals.[28]

Climate and energy regulations in the single market context assume particular importance for the implementation of EGD goals. Like the environment, climate and energy are areas of EU shared competences. The two policy areas are interlinked, as (fossil) energy sources are a chief contributor to global warming. Governance through energy and climate regulation implies that national plans will meet EU recommendations on top of the European Semester (Matthews, 2020). In some areas unanimity voting applies (the case of the energy mix or taxes).[29] This may undermine implementation or enforcement vis-à-vis member states, unless ways around can be found (example: policy linkage). The 2018 governance regulation for the energy union marks a shift in the direction of hardening soft governance (Knodt and Schoenefeld 2021). In its Fit-for-55 package the Commission proposes to base energy taxation on energy content (Tagliapetra 2021). The issue of the most efficient policy mix between the ETS and regulatory measures in the field of renewables and energy efficiency is demanding: for instance, for carbon pricing to function properly, other policy instruments have to be devised so as not to interfere with, or distort, the price signal.

Conclusion

This article contributes to the literature on the EGD by discussing it as a building block of a sustainable European economic model, alongside the single market and EMU. However, the Covid-19 pandemic crisis erupted when the EGD was still in the making. Hence the EGD could have easily been derailed if its (long-term) priorities were not upholdable in the face of (and incompatible with) short-term needs.

---

[27] The idea of using funds to incentivize economic reforms had been launched in the sovereign debt crisis, but was abandoned in December 2013.

[28] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eueconomyexplained/recovery-and-resilience-facility_en

[29] Measures covered by the EU's environmental competence are subject to qualified majority voting (Art.192 TFEU), while those falling under energy competence are subject to reservation of sovereignty and unanimity (article 194:2 TFEU).

Departing from the fact that the EGD stayed on course, we have argued that the pandemic crisis has contributed to reinforce it, making it part of the solution rather than the problem and more than that part of the EU's economic model. The Commission presented the EGD as a new project for reviving European integration. It started out with the need to bridge its long-term ambition of carbon neutrality and sustainability and the shorter run with consistent actions and a gap between its vision and means (governance, funding).

This article enquired why the EGD, despite the shortcomings with which it was conceived and the short-term needs of the pandemic crisis was even reinforced. It found that the EGD's narrative, including the economic opportunities associated with green growth, was extendable to the pandemic as a recovery strategy. In fact, the synergies between addressing the two crises (climate and pandemic) have allowed the EU, upon the Commission's initiative, to seize on the Covid-19 pandemic crisis to create a missing link between long-term objectives and short-term policies and actions for a green transition (EGD as crisis exit strategy, funding).

The article has shown that the response to the crises triggered some economic governance changes and developments that consolidate the role of the EGD as a pillar of the EU economic model. The EU crisis response considerably reinforced the available budget for a green transition but it also hardened soft governance by introducing reform conditionality and increased ownership, giving more implementation power to the Commission. The Commission has shown entrepreneurship not only through the initiative of the EGD but also by seizing the opportunity to use it as an exit strategy to the pandemic crisis as to accelerate the green transition. This entrepreneurial role and enhanced influence of the Commission also makes the EU a more political actor.

The coming into existence of the NGEU recovery plan was an important tool. Through enhanced EU fiscal capacity, notably through frontloading of own resources, a dynamics in favour of sustainability was created. It contributed to promoting environmental policy instruments in the EU's domain (a new plastic levy, the ETS, a CBAM). The new EU fiscal capacity, together with other ongoing dynamics in favour of sustainability at the EU level (monetary, financial, energy and trade policies, attempt at CAP reform) and also the national and local levels not only allowed the EU to reinforce its environmental policy but also imply an advance in economic and political integration. In this way, the Commission used the occasion of the pandemic crisis and the expansion of the EU funds and budget usage to demonstrate the need for the Union to lead the green (and interrelated digital) transitions and make its societies and economies more resilient.

What had received less attention was the EGD's potential to be more than the EU's answer to the climate crisis. This article has argued that the EGD is more than just another EU initiative for green growth. Instead, it adds another building block, needed to further develop the European economic model. It lent itself to and was used as an exit strategy for the pandemic crisis but also came out consolidated in the process.

Although the jury is still out, the EGD at this point seems to have developed into an important pillar of the EU's economic model, together with the single market and EMU, which represents a qualitative change in EU governance. Of course, the EGD is still at an early stage and there are formidable challenges ahead, not least with regard to governance and implementation. But all these developments will also offer much scope for further research.

References

Balassa, B. (1961) *The Theory of Economic Integration*, London: Allen & Unwin.

Bauer, M.W. and Becker, S. (2014) 'The Unexpected Winner of the Crisis: The European Commission's Strengthened Role in Economic Governance'. *Journal of European Integration*, Vol. 36, No. 3, pp. 213-229.

Begg, I., Bongardt, A., Nicolaïdis, K. and Torres, F. (2015) 'EMU and sustainable integration'. *Journal of European Integration,* Vol. 37 No. 7, pp. 803-816.

Bloomfield, J., and F. Steward (2020) 'The Politics of the Green New Deal'. *Political Quarterly*, 91, 4, 770-779. doi:10.1111/1467-923X.12917.

Bokhorst, D. (2022) 'The influence of the European Semester on reforms in the Member States and lessons for future evolution'. *JCMS: Journal of Common Market Studies*, Vol. 60(1).

Bongardt, A. and Torres, F. (2013), 'Economic governance and sustainability'. In A. Verdun and A. Tovias (eds), *Mapping European Economic Integration*, Basingstoke: Palgrave Macmillan, 146-167.

Bongardt, A. and Torres, F. (2016) 'EMU Reform and Resilience in a Re-Dimensioned EU'. *Journal of Economic Policy*, Vol. XXXII, No. 3, Dec., pp. 575-596

Bongardt, A. and Torres, F. (2020) 'Lessons from the Coronavirus crisis for European integration'. *Intereconomics*, Vol. 55, 3, pp. 130-131.

Brussels Court of First Instance (2021) "Klimaatzaak, 17 June. Available at https://prismic-io.s3.amazonaws.com/affaireclimat/18f9910f-cd55-4c3b-bc9b-9e0e393681a8_167-4-2021.pdf, Accessed 15 July 2021.

Christiansen, T. (2016) 'After the *Spitzenkandidaten*: fundamental change in the EU's political system?'. *West European Politics*, 39:5, 992-1010, DOI: 10.1080/01402382.2016.1184414

Council of the European Union (2019) 'Towards an ever more sustainable Union by 2030', Council conclusions, 8286/19, 9 April 2019.

Darvas, Z. and Leandro, J. (2015) 'The limitations of policy coordination in the euro area under the European Semester'. Policy contribution 19, Bruegel.org, November.

Dasgupta, P. (2021) 'The Economics of Biodiversity: The Dasgupta Review'. February. Available at www.gov.uk/official-documents

D'Erman, V. and Verdun, A. (2022) 'Macroeconomic policy coordination and domestic politics: The politics of policy coordination in the EU from the European Semester to the Covid-19 Crisis – An Introduction'. *JCMS: Journal of Common Market Studies*, Vol. 60(1).

Dupont, C., S. Oberthür, I. von Homeyer (2020) 'EU economic governance and Covid-19: policy learning and windows of opportunity'. *Journal of European Integration*, 42, 8, 1095-1110.

Efstathiou, K. and Wolff, G.B. (2018) 'Is the European Semester effective and useful?'. policy contribution 9, Bruegel.org, June.

European Central Bank (2021a) 'Climate change and central banking', keynote speech by Christine Lagarde, President of the ECB, at the ILF conference on Green Banking and Green Central Banking, Frankfurt, 25 January. Available at https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210125~f87e826ca5.en.html

European Central Bank (2021b) 'The ECB's monetary policy strategy statement', 8 July. Available at https://www.ecb.europa.eu/home/search/review/html/ecb.strategyreview_monpol_strategy_statement.en.html

European Commission [EC] (2001) 'A sustainable Europe for a better world: a European Union strategy for sustainable development'. Commission's proposal to the Gothenburg European Council, COM(2001) 264 final, 15 May 2001.

EC (2018) 'A clean planet for all. A European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy'. Com/2018/733 final. Available at https://op.europa.eu/en/publication-detail/-/publication/59671a41-f3d6-11e8-9982-01aa75ed71a1/language-en

EC (2019a) 'Annual Sustainable Growth Strategy 2020'. COM(2019) 650 final, Brussels, 17 December. Available at https://ec.europa.eu/info/sites/info/files/2020-european-semester-annual-sustainable-growth-strategy_en.pdf

EC (2019b) 'The European Green Deal'. COM(2019) 640 final, Brussels, 11 December. Available at https://ec.europa.eu/info/sites/info/files/european-green-deal-communication_en.pdf

EC (2019c) 'Towards a sustainable Europe by 2030'. Reflection Paper, 30 January 2019. Available at https://ec.europa.eu/info/publications/reflection-paper-towards-sustainable-europe-2030_en

EC (2020a) 'Commission Work Programme 2021. A union of vitality in a world of fragility'. COM(2020) 690 final, Brussels, 19 October. Available at https://eur-lex.europa.eu/resource.html?uri=cellar%3A91ce5c0f-12b6-11eb-9a54-01aa75ed71a1.0001.02/DOC_1&format=PDF

EC (2020b) 'Europe's moment: Repair and prepare for the next generation'. COM(2020) 456 final, 27 May. Available at https://ec.europa.eu/commission/presscorner/detail/en/IP_20_940

EC (2020c) '2020 European Semester: Country-specific recommendations'. COM(2020) 500 final, 20 May 2020. Available at https://ec.europa.eu/info/sites/info/files/2019-european-semester-country-specific-recommendations-commission-recommendations-communication_en.pdf

EC (2020d), The European Green Deal Investment Plan and Just Transition Mechanism explained, 14 January. Available at https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_24

EC (2020e) 'Tackling pollution and climate change in Europe will improve health and well-being, especially for the most vulnerable'. Press corner, 8 September. Available at https://ec.europa.eu/commission/presscorner/detail/en/IP_20_1571

EC (2021a) 'EU climate action and the European Green Deal'. Available at https://ec.europa.eu/clima/policies/eu-climate-action_en

EC (2021b) 'Fit for 55: Delivering the EU's 2030 climate target on the way to climate neutrality'. COM(2021)) 550 final. Available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021DC0550

European Council (2014) 'Council conclusions', EUCO 169/14, 24 October 2014. Available at https://www.consilium.europa.eu/en/policies/climate-change/2030-climate-and-energy-framework/

Fuest, C. and Pisani-Ferry, J. (2020) 'Financing the European Union: new context, new responses'. Policy contribution 2020/16, Bruegel.org, 11 September.

German Federal Constitutional Court (2021), "Constitutional complaints against the Federal Climate Change Act partially successful", 29 April, https://www.bundesverfassungsgericht.de/SharedDocs/Pressemitteilungen/EN/2021/bvg21-031.html. Accessed 15 July 2021.

Haas, J. , V. D'Erman, D. Schulz and A. Verdun (2020) 'Economic and fiscal policy coordination after the crisis: is the European Semester promoting more or less state intervention?'. *Journal of European Integration*, 42(3): 327-344, DOI: 10.1080/07036337.2020.1730356.

International Energy Agency (2020), 'World Energy Outlook 2020', Paris.

International Monetary Fund (2020), 'Mitigating climate change – growth- and distribution-friendly strategies', ch 3, World Economic Outlook: A long and difficult ascent. Washington, October, pp. 85-113.

Jaeger, J., M.I. Westphal, and C. Park (2020) 'Lessons Learned on Green Stimulus: Case Studies from the Global Financial Crisis'. Working Paper. Washington, DC: World Resources Institute.

Knodt, M. and Schoenefeld, J. (2020) 'Harder soft governance in European climate and energy policy: exploring a new trend in public *policy'. Journal of Environmental Policy and Planning* 22:6, 761-773.

Knodt, M. and Schoenefeld, J. (2021) 'How "harder soft governance" might help deliver the EU's new 55 per cent emissions reduction target*'.* LSE EUROPP blog, 27 January.

Ladi, S. and Tsarouhas, D. (2020) 'EU economic governance and Covid-19: policy learning and windows of opportunity'. *Journal of European Integration*, 42, 8, 1041-1056.

Matthews, A. (2020) 'The Commission's climate law proposal: what it says and how it might be improved', 11 March. Available at http://www-capreform.eu

Moschella, M. (2020) 'What role for the European Semester in the recovery plan?'. Economic Governance Support Unit (EGOV) Directorate-General for Internal Policies PE 651.377 – October. Available at https://www.europarl.europa.eu/RegData/etudes/IDAN/2020/651377/IPOL_IDA(2020)651377_EN.pdf.

Nicolaïdis, K. (2019) 'Sustainable integration: The silver lining of a democratically challenged EU'. Bertelsmann Stiftung 2019.

Paris Administrative Court (2021), "The Case of the Century", 3 February http://paris.tribunal-administratif.fr/content/download/179704/1761585/version/2/file/CP%20affaire%20du%20siècle_EN.pdf. Accessed 15 July 2021.

Sabato, S. and Fronteddu, B. (2020) 'A socially just transition through the European Green Deal?'. ETUI Working Paper 2020/08, Brussels.

Sabato, S. and Mandelli, M. (2021) 'Integrating the Sustainable Development Goals into the European Semester: a governance conundrum for the von der Leyen Commission?'. In Vanhercke, B., Spasova, S. and Fronteddu, B. (eds) Social policy in the European Union: state of play 2021 (Brussels: ETUI and OSE), pp. 109-128.

Secretariat of the Convention on Biological Diversity (2020), 'Global Biodiversity Outlook 5', Montreal. Available at https://www.cbd.int/gbo5

Siddi, M. (2020) 'The European Green Deal. Assessing its Current State and Future Implementation, Finish Institute of International Affairs, WP 114.

Spasova, S., Ghailani, D., Sabato, S., Coster, S., Fronteddu, B. and Vanhercke, B. (2021) 'Non-standard workers and the self-employed in the EU: social protection during the Covid-19 pandemic'. European Trade Union Institute Brussels, ETUI Research paper – report 2021.02.

Stagl, S. (2020) 'Opportunities of post COVID-19 European recovery funds in transitioning towards a circular and climate neutral economy'. Briefing requested by the ENVI committee, Policy Department for Economic, Scientific and Quality Life Policies, Directorate-General for Internal Policies, European Parliament, PE 6548-186, November.

Stern, N. (2007) *The Economics of Climate Change* (Cambridge: Cambridge University Press).

Supreme Court of the Netherlands (2019), "Climate case Urgenda", 20 December https://www.urgenda.nl/wp-content/uploads/ENG-Dutch-Supreme-Court-Urgenda-v-Netherlands-20-12-2019.pdf. Accessed15 July 2021.

Tagliapetra, S. (2021) 'Fit for 55 marks Europe's climate moment of truth'. Bruegel Blog, 14 July.

The Lancet (2021) 'Climate and Covid: converging crises', editorial, 397:10269, 71 9 January.

United Nations Development Programme (2021) 'People's Climate Vote – results', January. Available at https://www.undp.org/content/undp/en/home/librarypage/climate-and-disaster-resilience-/The-Peoples-Climate-Vote-Results.html

Van Hove, J. (2020), 'The impact of state aid on competition and competitiveness during the Covid-19 pandemic: An early assessment'. Study requested by Econ committee, European Parliament, December.

Vanhercke, B. and Verdun, A. (2022) 'The Covid-19 crisis and the future of socio-economic governance in the EU', *JCMS: Journal of Common Market Studies*, Vol. 60(1).

Verdun, A. and Zeitlin, J. (2018) 'Introduction: the European Semester as a new architecture of EU socioeconomic governance in theory and practice'. *Journal of European Public Policy*, Vol. 25, No. 2, pp. 137-148.

Wolf, S., Teitge, J. Mielke, J., Schütze, F. and Jaeger, C. (2021) 'The European Green Deal – more than climate neutrality'. *Intereconomics* 56:2, 99-107.

Wolff, S. and Ladi, S. (2020) 'European Union responses to the Covid-19 pandemic: adaptability in times of permanent emergency'. *Journal of European Integration*, 42, 8, 1025-1040.

World Meteorological Organization (2020) *United in Science 2020*, under the direction of the United Nations Secretary-General. Available at https://public.wmo.int/en/resources/library/united-science-2020