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Article

The Political Determinants of Fiscal Governance in the EU: Towards a New Equilibrium

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Abstract
The article investigates the political determinants of fiscal governance in the EU. Since the outset of the Economic and Monetary Union, the EU adopted a model of fiscal regulation which attempted to keep government debt and deficit in check to avoid "fiscal dominance." With the 2020 pandemic, the EU suspended the fiscal rules and adopted a program, Next Generation EU, having some features of a central fiscal capacity. On the bases of comparative federal analysis, the article discusses the political conditions that preside over the formation of a stable central fiscal capacity, here conceptualized as the "triple-T model." We argue that, in unions of states, the determinants of a central fiscal capacity consist in the appearance of an existential threat, in the reciprocal trust among national governments for answering the threat with central resources, and an adequately long time planning horizon of national policymakers to apprehend the benefits of those common resources for all member states. On these bases, the article outlines the contour of a new EU fiscal set up which encompasses an EU central fiscal capacity and robust budget rules framing the fiscal choices of national authorities.

Keywords
central fiscal capacity; Economic and Monetary Union; European Union; fiscal equilibrium; fiscal governance; fiscal policy

Issue
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1. Introduction

The article investigates the political determinants of fiscal governance in the EU. For fiscal governance, we understand the specific form adopted by and within the EU for governing the activities of fiscal extraction and distribution. In unions of states, as in the EU or in a federal aggregation of previously independent states (such as the US and Switzerland; Kelemen, 2013), that form has registered different relations between the competencies (and the powers) of the union's center and those of the union's states (hereinafter, member states). If it is true what Weber (1920/1997) argued, namely who controls taxes controls power, then one should assume that independent states, when they decided or were obliged to aggregate, have tried to keep under their control as much fiscal sovereignty as possible. Following Riker (1975, p. 116), however, one might argue that the preferences of the states constituting the union or of the states already members of the union change in "the case that a significant external or internal threat or a significant opportunity for aggression is present, where the threat can be forestalled and the aggression carried out only with a bigger government." In fiscal governance's terms, a bigger government means a center endowed with a fiscal capacity independent from the vagaries of member states' financial transfers. Thus, historically, it was the perception of a threat (in the form of an internal or external crisis calling into question the very existence of the union, thus definable as existential crises) that led

the union's member states to change their original preferences and to allocate a fiscal capacity to the center (in the US case, through the change of the constitution, from the 1781 Articles of Confederation—but adopted in 1777—to the 1787 Constitution). However, we argue that Riker's model, if applied to the EU case, is insufficient to explain the formation of a central fiscal capacity. The latter implies also a mutual trust that giving the center the resources for promoting a collective answer would benefit all the member states, a trust, moreover, that requires time for being interiorized by the member state elites. The conceptualization of these three factors constitutes our contribution to the debate on fiscal governance in the EU.

Following the literature on the EU economic and fiscal governance (F. Fabbrini, 2016; S. Fabbrini, 2016; Gordon, 2022; Hallerberg, 2013; Hinarejos & Schütze, 2023; Juncker et al., 2015; Schelkle, 2017; Woźniakowski, 2018, 2022), we focus on the distinct concepts of "fiscal capacity" and "fiscal regulation." A preliminary conceptual clarification is necessary. The fiscal capacity (adopted by the US) is defined as the possibility recognized to the federal center to autonomously extract and distribute fiscal resources, while fiscal regulation (adopted in the EU) is defined as the possibility recognized only to the member states to extract and distribute fiscal resources, although their fiscal policies should then be regulated by commonly agreed rules. Although the EU is not a constitutional federation, it is however a union of states by aggregation, as is the case for the US (Stepan, 1999). Comparing the EU with the US, thus, can give useful information on the political conditions determining the structuring of fiscal governance (Sbragia, 1992) and more in general of the central institutions of governance. Comparative federalism shows that the post-1787 American experience has epitomized the model of a fiscal capacity divided between the federal center and the member states. Both levels of government have been assigned an autonomous power to extract and distribute fiscal resources. Allocating a fiscal capacity to the center was considered necessary to deal with both internal (fiscal rebellion) and external (European powers) threats, whose magnitude would have been unmanageable (so it was thought by the main political elites) by the single member states. The EU has instead epitomized the model of fiscal regulation. With the Economic and Monetary Union (EMU), the EU has adopted a model consisting in preserving the fiscal sovereignty of the participating member states but regulating it through strict rules (starting with those of the 1997 Stability and Growth Pact [SGP]; Tuori & Tuori, 2014). The regulation of member state fiscal policies has constituted the strategy for accommodating national fiscal sovereignty within the EMU interdependence, with the goal of avoiding "fiscal dominance" in a currency area with one monetary policy and multiple fiscal policies. By "fiscal dominance," we refer to the constraints that irresponsible fiscal policies would put on the conduct of the single monetary policy (see, e.g., Sargent & Wallace, 1981). In the model of fiscal regulation, member state governments are the only actors who extract and distribute fiscal resources, thus transferring few of them to the supranational center, whereas in the US model of multilevel fiscal capacity, both member states and the federal center separately control the extraction and distribution of fiscal resources.

Having comparatively identified the rules-based model of the EU fiscal governance, the article will discuss the conditions that led to it, and then to its partial and temporary revision during the 2020 pandemic (with approval of the program of Next Generation EU, hereafter NGEU) and, finally, to its stalemate during the economic and security crises induced by the Russian invasion of Ukraine. If the 2010s sovereign debt crisis led to the strengthening of the fiscal regulation model, the 2020s crises have called into question that model and its conceptual premise, that the responsibility for dealing with the crisis is exclusively national. In 2020, NGEU was approved, financed via the issuance of EU debt, monitored by the supranational center, and guaranteed by the EU budget and by prospective new own resources (EU taxes). Facing the Russian war of aggression, the issuance of EU debt was used to financially and militarily support Ukraine (through the Macro-Financial Assistance Instrument or MFA+), but several member states resisted the idea to replicate NGEU for dealing with the domestic economic consequences of that war. The outcome is an unstable model of fiscal governance. We elaborate a "triple-T model" for conceptualizing the reasons for that fragile arrangement and, thus, the political conditions under which it could evolve towards a more stable equilibrium.

2. Comparative Models of Fiscal Governance

If unions of states are understood as aggregation of previously independent territorial units, it seems consequential to assume that their constituent states have an interest, in setting up the union, to preserve as much as possible of their previous control of the activities of fiscal extraction and distribution. Being the main actors in the process of aggregation, national governments have an inevitable preference for maintaining the integrity of their core state powers (Genschel & Jachtenfuchs, 2013), even in the new context of institutional aggregation. Taxation constitutes the core of statehood, the activity which makes possible the financing of state power, exercised towards both the domestic society and the international system. In any voluntary aggregation of states, the decision on where to locate fiscal sovereignty has been one of the most controversial (Parent, 2011).

In the American experience (Woźniakowski, 2022), it was the war which triggered the process of "fiscalization" (as defined in the introduction to this thematic issue; Woźniakowski et al., in press). With the 1787 Constitution, the federal center took over the debt

accumulated by the states for fighting the British empire, also because the payment of the debt led to an increase in domestic taxes and subsequent domestic fiscal revolts. Because the federation was motivated (according to Riker's model) by the need to guarantee the security of the union from economic or military threat, the 1787 Federal Constitution recognized to the federal center the power to extract fiscal resources and to use them autonomously for purpose of collective defence, thus substituting the 1781 Confederal Constitution (the Articles of Confederation) where the center depended entirely on the states' financial transfers. The 1787 Constitution, making the federal center fiscally independent, fulfilled the promise of the (anti-English) revolution which was made "in favor of government" (Edling, 2003). However, the federal center did not become the cashier for state debts. Indeed, during the recession of 1839–1842, eight states and the territory of Florida defaulted on their commitments and four repudiated their debt. As Congress refused to bail them out, member state elites, for assuring the financial markets, decided to introduce balanced budget amendments in their constitutions. Today, 49 out of 50 member states have balanced budget constitutional rules and can resort to rainy-day funds only in exceptional circumstances (Kessler & Henning, 2012; Sargent, 2012; Wallis, 2000). With the 1787 Constitution, fiscal sovereignty was thus divided between the member states and the federal center, although the former could control a larger share of it than the latter. Not only fiscal sovereignty was divided vertically between member states and the federal center, but, at the latter's level, it was put under the governance of "separated institutions sharing governmental power" (the House of Representatives, the Senate, and the president; Neustadt, 1991, p. 29). Thus, in the US, both levels of government enjoy an autonomous fiscal capacity, with the latter differently regulated. The member states have come to regulate their fiscal capacity through constitutional rules imposing balanced budgets under the pressure of the markets, the center regulates its fiscal capacity through congressional rules negotiated by the leaders of the separated institutions. The US case is interesting (for the EU) because it shows that there is a complementarity between fiscal capacity and fiscal rules.

The process of European integration started from different political premises than the process of American federalization (Fossum & Jachtenfuchs, 2017; Kelemen & McNamara, 2022). Because the military security of the union and the member states was guaranteed, since the 1950s, by an external actor (the US through NATO), the European states focused on economic security, aggregating around a project of market integration. The market project was promoted through a regulatory activity which abolished national barriers and introduced transnational rules. Integration through regulation does not require, for its implementation, the extraction and distribution of fiscal resources by a supranational centre. The costs of regulation, in fact, are mainly borne by the regulated actors and not by the regulators (Majone, 2014). Thus, the regulatory approach to a common and then the single market has justified the permanence of a weak center in terms of fiscal and military capabilities (Genschel & Jachtenfuchs, 2011). Certainly, during the integration process, several proposals were advanced for empowering the supranational center with some form of fiscal power. The 1970 *Werner Report* proposed to create a new authority at the supranational level with the power to determine national budgets "as regards the level and the direction of the balances and the methods for financing the deficits or utilizing the surpluses" (Werner, 1970, pp. 12–13), an authority thus accountable to a supranational legislature. The *MacDougall Report* (MacDougall, 1977) proposed to move from an indirect to a direct fiscal power of the supranational center, creating a Community budget of 2.5% of total GDP as the premise for the introduction of a single currency. *The Four Presidents Report* (Van Rompuy, 2012) proposed to create a central fiscal capacity, the first time that such a proposal was made in an official EU document. The report of the High Level Group on Own-Resources (Directorate-General for Budget, 2016), written under the chairmanship of the former commissioner and Italian Premier Mario Monti, advanced the idea to create an EMU budget based on common borrowing. However, all these proposals were never followed up at the political level. Fiscal power remained exclusively in member states' hands (Beetsma & Giuliodori, 2010; Eichengreen, 1993).

Following Riker's model, one might argue that the preferences of supranational and national governmental leaders in favor of national fiscal sovereignty have not been challenged by a threat to the economic and military security of both the EU and its member states. The adoption of the single currency with the 1991 Maastricht Treaty was not motivated by an immediate existential challenge (to the EU). In the literature, two were the main reasons for adopting a single currency: First, there was a need to preserve the integrity of the newly created single market against competitive devaluations; second, there was a need to contain the economic power of the post-1990 reunified Germany, substituting the latter's monetary sovereignty with a new single currency (Bulmer & Paterson, 2010; James, 2012). In Maastricht, a compromise was made, subtracting monetary policy from the control of member states, leaving however to the latter the control of national fiscal policies (S. Fabbrini, 2015). The institutional outcome has been a policy regime combining supranationalism in monetary policy (because managed by the independent ECB) and intergovernmentalism in fiscal policies (because remained under the control of the member states, coordinating in the Eurogroup of the economic and financial ministers of the EMU). However, with the ensuing introduction of the SGP in 1997, a macroeconomic regulatory framework was set up for enforcing discipline on the decentralized member state budgetary policies (Heipertz & Verdun, 2010).

3. The Fiscal Regulation Model and the Crises

The fiscal regulation model was tested to the core by three existential crises that hit the EU in the last 15 years: the global financial crisis (2009–2010) that morphed into a sovereign debt crisis (2011–2013), the pandemic crisis (2020–2021), and the Russian war of aggression that triggered a major energy and security crises (after 2022). In Table 1, we provide a snapshot of the main features of these three crises and the policy and institutional responses to them.

The sovereign debt crisis of the first half of the 2010s did not create the conditions for questioning the principle inspiring the rules-based fiscal governance model. Instead, it led to a further strengthening of fiscal rules, either through new intergovernmental treaties signed outside the EU (such as the 2011 European Stability Mechanism [ESM], or the 2012 Treaty on Stability, Coordination, and Governance in the EMU, better known as the Fiscal Compact) or through legislation approved according to different EU legislative procedures (such as the 2020 European Semester, the 2012 Six Pack, and the 2013 Two Pack). Such a strengthening of the fiscal regulation model found its roots in the predominant interpretation of the crisis according to which the latter was due to the budget's misbehavior of southern member states, a misbehavior to rectify through stronger and more intrusive rules (Buti, 2021). The sovereign debt crisis had large distributive effects on EMU member states (strengthening the creditors and weakening the debtors), and at times it was perceived as a real threat to the viability of the euro by national and EU leaders. However, the moral hazard paradigm prevented the setting up of a central fiscal capacity (if not for crisis management purposes as with the ESM), leaving to the centralized balanced-sheet policy of the ECB ("whatever it takes") the role of making up for the lack of a central budget. It was risk-sharing by stealth (Buti, 2021). ECB intervention was deemed politically less costly, also in Germany and in the traditionally frugal countries, than building a central fiscal capacity.

In the first decade of EMU existence, thus, the main political actors (national and EU policymakers), although they perceived a possible threat to their individual and collective economic security, thought that the threat could be met through a centralized monetary policy and the working of automatic fiscal stabilizers at the national level, rather than through the adoption of a central fiscal capacity. The sovereign debt crisis of the first half of the 2010s showed the limits of that framework. Facing a crisis with distributive implications, and given the prevailing moral hazard paradigm, national governments split between creditor and debtor states, with the former

Table 1. Comparing three crises.

	EMU crisis	Covid-19 crisis	War/energy crises
Features of the crises			
Source	Endogenous and policy-induced	Exogenous and common	Exogenous and common
Nature	Combined demand and supply shock	Combined demand and supply shock	Supply shock
Impact	Severe and long-lasting, asymmetric on member states	Very severe, asymmetric on member states and sectors	Less severe, but long-lasting; asymmetric at the global level and on member states
Policy responses			
Monetary policy	Slow till "whatever it takes" (2012)	Expansionary: Quantitative easing, pandemic emergency purchase programme	Restrictive: Quantitative tightening
Fiscal policy	Restrictive	Expansionary	Broadly neutral
Institutional changes			
Supranational	• *6/2 Pack* • Single Supervisory Mechanism as part of the banking union • Launch capital market union	• *General Escape Clause* • *State Aid Temporary Framework* • *NGEU* • *Temporary Support to Mitigate Unemployment Risks in an Emergency (SURE)*	• *General Escape Clause* • *State Aid Temporary Framework +* • Price cap on gas • Platform for joint gas purchases • *Commission proposed reform of EU fiscal rules**
Intergovernmental	• *Fiscal Compact* • *ESM*	• *ESM Pandemic Facility*	

Notes: * proposal under discussion; fiscally relevant decisions in italic.

imposing on the latter their policy choices. During existential crises, intergovernmentalism might end up generating domination (S. Fabbrini, 2016). Moreover, in a situation of limited trust, in the subsequent developments of the regulatory framework—with the reforms of 2005 and 2011–2012—the attempt to prevent the risk of moral hazard behavior by national governments, led to an increasingly detailed and complex set of rules, codes of conduct, and guidelines. This lack of transparency contributed to the discredit of the fiscal rules.

4. Fiscal Regulation is not Enough

Things changed with the 2020 pandemic crisis and the post-2022 Russian war and its consequences (as the energy and security crises; Buti, 2021; F. Fabbrini, 2022). As pointed out in Table 1, the pandemic crisis was exogeneous and symmetric, affecting all the EU member states, none of which could be considered responsible for it. Therefore, the moral hazard paradigm could not be used for explaining it or for devising a solution to it. NGEU aimed at helping member states recover from the pandemic through funds raised in the financial markets by the European Commission (European debt), guaranteed by the EU budget and (prospective) new own resources (EU taxes). However, NGEU does not epitomize a pure central fiscal capacity because the funds can be used only by the member state governments, the only actors authorized to spend them although within commonly agreed guidelines (regulating the achievement of targets and the implementation of reforms) negotiated with the European Commission. That notwithstanding, NGEU "constituted an unprecedented integrative step for the EU since it involved the European Commission undertaking massive borrowing on the capital market for the first time" (Ferrera et al., 2021, p. 13).

The suspension between 2020 and 2023 of the adjustment requirements of the SGP made evident that the EU and member state leaders clearly perceived the pandemic as an economic and political threat whose consequences could not be dealt with within the regulatory framework of the SGP. With the adoption of NGEU, the EU fiscal governance has made an important step—although temporary and partial—towards the acquisition of a fiscal capacity by the supranational centre. The pandemic crisis obliged traditionally reluctant national governments to change their preferences, giving up the principle of exclusive national fiscal sovereignty, although the common fiscal resources could not be spent autonomously by the supranational centre. With the de facto suspension of the SGP, the main rules conditioning the fiscal behaviour of member states were essentially reflected in the contract negotiated by each national government with the European Commission regarding its own National Resilience and Reform Plan.

The pandemic was different than the sovereign debt crisis. Whilst the sovereign debt crisis was dealt with within the fiscal regulation model (further strengthening it), with the adoption of SURE and NGEU, the Covid-19 crisis prompted a revision of the fiscal regulation model. Whilst learning from the populist reaction to the social consequences of the fiscal regulation model adopted for dealing with the sovereign debt crisis played a role (Matthijs & Blyth, 2015; Schmidt, 2020), it was the scale and nature of the pandemic, hence its threat's potential, that led EU and member state authorities to revise the rules-based fiscal governance model and to launch a form of fiscal capacity with NGEU (Buti & Fabbrini, 2023; S. Fabbrini, 2022). Indeed, the governance of the latter, based on the interplay between the European Commission and national governments, was designed for favoring the alignment of preferences among previously divided countries' elites, increasing the likelihood of delivery of the reform and investment commitments enshrined into the National Resilience and Reform Plans.

One could have expected that the war of aggression by Russia, for its energy and economic consequences, would have further pressured towards the formation of a central fiscal capacity. However, it has not happened. Buti and Messori (2023) argue that at least three reasons have hindered the leap forward. First, the Franco-German motor, which worked well in the launch of NGEU, has been less effective in tackling the economic fallout of the Russian war, so it has proven difficult to take bold decisions that are positive in the long run, but not always in the short run. Second, a large share of NGEU funds is still to be spent, which has strengthened the reluctance of the euro-sceptical national governments in committing additional EU resources. Third, the reduced focus on joint initiatives was reinforced by the nature of NGEU as a one-off program: The emphasis on the temporariness of common debt issuance has reduced its attractiveness to financial portfolio managers, with the effect of weakening its liquidity and worsening issuance conditions. More generally, national and EU leaders seem to have operated under a "lump sum of political capital": Given the huge amount of political capital needed to ensure a common front on sanctions vis-à-vis Russia, other important but politically divisive topics fell by the wayside. Thus, whilst important decisions have been made (see Table 1), the domestic implications of the war have been met mainly through national answers. The heterogeneity of the national energy mixes prompted national responses to the spike in gas prices and it took a long time before member states and EU institutions could agree on a cap on gas prices. The setting up of an EU Sovereignty Fund, to support the energy transition and the competitiveness of the EU industry, advanced by the president of the European Commission Ursula von der Leyen in January 2023, was downgraded to a platform with very limited additional resources in the European Commission's proposed review of the multi-annual EU budget in June 2023 (European Commission, 2023b).

5. Complementarity and Substitutability

From the previous analysis, one can frame the evolution of the EU fiscal governance along two dimensions: the degree of stringency of the budget fiscal constraints (fiscal regulation) and the role (or lack thereof) of a central fiscal capacity. This is represented in a simplified way in Table 2. The combinations of the two variables allow us to trace the evolution of fiscal governance over the past 15 years.

The global financial crisis was tackled without putting in place central fiscal instruments or resources, apart from the creation of an intergovernmental crisis management tool (the 2010 European Financial Stability Facility transformed in 2012 into the ESM). Instead, fiscal regulations were tightened, and budget constraints were enforced based on market-driven austerity. Indeed, the sovereign debt crisis was interpreted as a fiscal crisis due to the ineffectiveness of the existing rules. The latter were thus strengthened to avoid similar episodes in the future. The moral hazard paradigm was on full display. Consequently, the premature fiscal restraint during this period put an excessive burden on the shoulders of the ECB, with the result that "fiscal dominance" prevailed not out of fiscal laxity, as postulated by the literature (Sargent & Wallace, 1981), but as the outcome of excessive fiscal prudence (Buti, 2021, Chapter 38). In short, in times of stress, the combination of "no central fiscal capacity, yes binding fiscal rules" did not prove a satisfactory *economic equilibrium*.

In the aftermath of the global financial crisis, after the famous "whatever it takes" by the then-president of the ECB in July 2012 had stabilized the markets, fiscal rules were implemented in a more flexible manner. The new flexibility mode was codified in a European Commission communication at the beginning of the Juncker Commission in January 2015 (European Commission, 2015). The fading of market worries on the redenomination risks prevented an operational discussion on creating a central fiscal capacity. The issue was mentioned in the *Report of the Five Presidents* (Juncker et al., 2015) and in the *Report of the Commission on the functioning of EMU* (European Commission, 2017), but it did not gain significant traction. The French sponsored the creation of an anti-cyclical EMU budget, but the proposal was downgraded during the negotiations to a loan facility to support investment (European Commission, 2018) and eventually abandoned. However, a combination of "no binding rules, no central fiscal capacity" does not appear as an adequate manner to manage a currency union: As such, it cannot be considered a satisfactory *institutional equilibrium*. The eruption of the pandemic in March 2020 led to a de facto suspension of the rules via the application, for the first time, of the so-called General Escape Clause, with the creation of a temporary central fiscal capacity in the form of both NGEU and SURE, regarding this time the entire EU and not only the EMU. Whilst adequate as a response to the emergency, the combination "no fiscal rules, yes central fiscal capacity" does not appear to foster trust amongst EU member states and, as such, does not qualify as a *political equilibrium*.

Whilst comparisons with the evolution of the US fiscal governance need to be pursued with caution, the EU trajectory shows important similarities with the US. The absence of a central fiscal capacity was combined with binding budget constraints of the US states via market discipline and international arrangements in the years preceding the 1776–1781 American War of Independence. The war led to the formation of a significant debt by the US states to finance it, with all the budget constraints fading. The inability of the 1781 Articles of Confederation to deal with the state debts led to the Federal Constitution of 1787 and the bailout of US states debt in 1790 through a central fiscal capacity. However, it was only the adoption of balanced budget amendments by US states following the 1839–1842 recession, after the decision not to bail out US states debt, that provided the conditions for a stable fiscal arrangement between the federal center and the member states (so moving in the direction of "yes/yes" in the quadrant of Table 2).

In sum, whilst the combination of no binding fiscal rules and a central fiscal capacity, albeit temporary and sui generis like NGEU, has proven an effective way to address an existential crisis such as the pandemic, it cannot be considered a stable arrangement to organize the vertical fiscal relations in the EU. At the same time, going back to the situation with strict budget constraints and no central fiscal capacity or loose rules enforcement and no central fiscal capacity do not appear adequate for dealing with future crises or consistent with the aim of delivering on key EU priorities. This is even more evident in light of the threats linked to Russia's war of aggression. In the long run, the only viable equilibrium appears as one where a central fiscal capacity goes hand in hand with binding fiscal rules (quadrant "yes/yes" in Table 2).

Table 2. The evolution of the EU fiscal governance.

		Central fiscal capacity	
		No	Yes
Binding fiscal constraints	Yes	Global Financial Crisis (2009–2013)	Post-war (?) (2024–)
	No	Sovereign debt crisis aftermath (2014–2019)	Pandemic (2020–2023)

A central fiscal capacity that should be at the service of the EU as such, not devised as financial transfers to national governments or as a mere stabilization tool. This would alleviate the risks of moral hazard, that is the allegation that the EU operates as a transfer union, but also the risks of the *juste retour*. A central fiscal capacity should supply European public goods, like supporting the energy transformation, the green transition, the research in new technologies, the delivery of common health provisions, the building of digital infrastructure, and the investment in security and defence (Buti & Messori, 2022).

6. Going Beyond Riker: The Triple-T Model

As Riker argued, threat matters in creating the conditions for central fiscal capacity. A threat is not an objective fact, but a constructed political phenomenon. It is necessary to create a shared perception of an internal or external threat for helping to cross long-established red lines (or better for incentivizing EU and national leader to change their consolidated fiscal preferences). Certainly, the Russian war of aggression represents the threat asking for the creation of a central fiscal capacity to respond to its economic and security implications. However, although necessary, threats are not sufficient for activating a process of "fiscalization," as shown by the EU experience during the crises here examined. Two other factors, trust and time, are necessary to transform a possibility into a reality.

Trust concerns the convergence of member state governments' preferences towards policy and institutional solutions benefitting all of them. In the EU case, to build trust, it requires the enforcement of a credible set of fiscal rules that ensure national fiscal discipline. For this reason, the ongoing reform of the EU fiscal rules (European Commission, 2023a), together with the effective implementation of NGEU, are not only important per se but have also a broader relevance for the evolution of the fiscal governance of the EU. Credible fiscal regulation would alleviate political concerns of moral hazard and a proper delivery of reforms and investments of the National Resilience and Reform Plans would show that setting up a form of central fiscal capacity might be a positive (or convenient) political investment. As argued by Buti and Messori (2021), the closer the needle that remains to the national fiscal responsibility, the more the fiscal rules will have to foresee flexibility to allow the necessary room for manoeuvre at the national level; the closer the central budget moves to a substantive fiscal capacity, the stricter the respect of the EU requirements will have to be at the national level (a correlation confirmed by the US experience).

The EU experiences shows, also, the importance of the time factor. Time consists in letting national decision-makers interiorize the advantages of a supranational solution, like the creation of a central fiscal capacity. This requires that national governments find a way to protect their preferences from short-term political changes for apprehending the medium-to-long-term benefits of a central fiscal capacity. A sufficiently long-time horizon is needed to apprehend the positive effects of a central fiscal capacity as mutual insurance. Those positive effects would imply the awareness that the future pattern of risks will imply that the winners of yesterday and today are not necessarily the winners of tomorrow. Such a combination emerged in the response to the pandemic when the three main decision-making actors were sufficiently protected from short-term constraints: The German chancellor, having decided not to seek reelection, could pay less attention to short-term domestic concerns; the French president was in the middle of his first term, with a strong European agenda and a high probability of reelection for a second term; finally, the new European Commission had just been installed with a strong mandate of pursuing a green new deal. From here comes our triple-T model (see Figure 1).

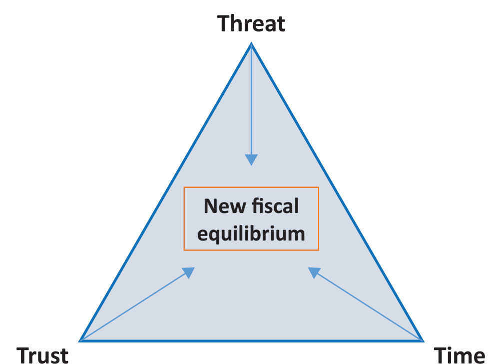

Figure 1. The triple-T model.

How does the triple-T model fare in understanding the policy response to the three major crises that have affected the EU in the past 15 years? In Table 3, we tested such policy responses through the prism of our model. During the global financial crisis, the moral hazard paradigm dominated and, notwithstanding the danger to the integrity of the EMU due to redenomination risks, the policies were characterized by a short-term bias. More structured institutional reforms (such as the creation of the ESM or the launch of the banking union) came late in the day and in a half-hearted manner. As a result, the crisis response to the *threat* of redenomination risks did not go hand in hand with the requirements of *trust* and *time*. The response to the threat of the pandemic was much more adequate. The EU dissolution concerns were palpable should have countries gone on separate tracks. Trust was fostered by the exogenous nature of the shock, hence not attributable to national policy mistakes. The response was large and decisive. However, due to its temporary nature and the focus on transfers rather than on common projects, the longtime horizon in policy planning—and hence the requirement of time—was only partly met. Finally, the response to the energy and security crises triggered by the Russian war of aggression was perceived as a slow-burning threat.

It highlighted the heterogeneity of preferences due to the different national energy mixes and different views on the geopolitical role of the EU. Maintaining trust proved a constant challenge and the necessary long-term horizon underpinning the time dimension proved lacking. Consequently, structural uncertainty prevailed and, whilst important decisions were made, there was no leap forward towards a central fiscal capacity.

As indicated in the last column of Table 3, looking at the three Ts across these crises shows that the EU was reactive, rather than proactive, in the presence of threats; that it had difficulties in building trust among national authorities and that it has had limited time for letting the latter to interiorize the advantages of a central fiscal capacity as an insurance-based approach to solidarity. Overcoming those limits would certainly require strong political leadership at the EU and national level.

7. Conclusions

We have argued that the fiscal regulation model that characterised the EU, and the EMU since the latter's inception, has not overcome the test of time. The experience of the global financial crisis and the subsequent sovereign debt crisis have shown that the absence of a central fiscal capacity led to an overburdening of monetary policy and a much higher loss of output. Different was the fiscal approach in tackling the pandemic. The creation of NGEU marked a substantive shift in the EU fiscal governance towards a form of central fiscal capacity. However, the temporary nature of this instrument and the fact that it is mainly focused on transfers to national governments imply that the EU has not yet embraced a new and stable model of fiscal governance, combining fiscal regulation with fiscal capacity. We argue that a stable model of fiscal governance should combine a credible set of fiscal rules with a central fiscal capacity.

New fiscal governance, combining national fiscal regulation with central fiscal capacity, would theoretically emerge from the shared view on the threat represented by the Russian crisis and its structural implications, from mutual trust between national governments and from their learning that lengthening their time horizon entails a policy mix which is convenient for all of them. There is a complementarity between fiscal regulation and fiscal capacity, although that complementarity can take different forms (being the outcome of the federal bargain, to use Riker's model again, between national and supranational authorities). Any consideration of a more permanent central fiscal capacity will need to go hand in hand with an agreed regulation of national fiscal sovereignties. The literature on federations by aggregation shows that fiscal rules and central fiscal capacity are both necessary, although their combination varies according to the broader institutional arrangements of those federations. We have argued that the triple-T model (threat, trust, and time) provides an analytical framework for conceptualizing the evolution of the EU towards a new model of fiscal governance and identifies the conditions for making the latter stable because satisfying the preferences of both national and supranational authorities.

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Conflict of Interests

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Table 3. The triple-T model at work.

	Global Financial Crisis	Covid-19	War/energy	Lessons
Threat	Redenomination risks	EU dissolution concerns	Slower burning crisis	Reactive attitude
Trust	Policy-induced, moral hazard	No policy-induced shock	Heterogeneity of preferences	Necessary, not sufficient condition
Time	Short-term bias	Large but temporary response	Time incongruence	Insurance-based approach needed
Outcome	Sub-optimal crisis strategy	Semi-optimal crisis strategy	Structural uncertainty, no leap forward	Political leadership wanted

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