Macroeconomic Governance and Dissensus over Liberal Democracy

Andrea Capati and Federico Bonomi

1 Introduction

The European Union (EU)'s economic response to the outbreak of the COVID-19 pandemic unfolded along two key policy dimensions. First, the EU provided itself with a centralised financial assistance capacity to support economic recovery in all the member states, most notably through the establishment of the Recovery and Resilience Facility (RRF) under NextGeneration EU (NGEU). As an innovative bailout instrument, the RRF marked a paradigm shift in the EU's financial assistance regime—from an intergovernmental coordination model, exemplified by the unanimity-based European Stability Mechanism (ESM)—to a system of constrained supranational delegation that strengthened the role of the European Commission (Capati, 2026; Fabbrini & Capati, 2023).

The second, still relatively underexplored policy dimension concerns the reform of the EU's economic governance framework (EGF)—the set of rules guiding the coordination of national fiscal policies—following the activation of the Stability and Growth Pact (SGP)'s general escape clause in March 2020.

A. Capati · F. Bonomi (✉)
Luiss Guido Carli University, Rome, Italy
e-mail: fbonomi@luiss.it

A. Capati
e-mail: acapati@luiss.it; andrea.capati@eui.eu

A. Capati
European University Institute, Florence, Italy

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The suspension of the fiscal rules in response to the outbreak of the COVID-19 pandemic created the political space, and shed light on the functional necessity, to re-evaluate the EU's ordoliberal approach to fiscal governance. The new EGF—formally proposed by the European Commission in April 2023 and approved in April 2024 after a political agreement by the Council and European Parliament—represents the most significant overhaul of EU fiscal rules since the post-Euro crisis reforms. It comprises three main legal acts: a regulation of the Council and the European Parliament on the coordination and surveillance of macroeconomic policies (European Parliament and Council of the EU, 2024); a Council regulation on the implementation of the excessive deficit procedure (Council of the EU, 2024a); and a Council directive on member states' budgetary frameworks (Council of the EU, 2024b).

The importance of the new EGF lies in its attempt to address long-standing criticisms of the EU's fiscal framework—namely, its excessive complexity, lack of enforcement, and perceived procyclicality. By shifting towards more country-specific fiscal trajectories, a greater emphasis on debt sustainability, and a streamlined enforcement mechanism, the reform aims to strike a delicate balance between fiscal discipline and the need for public investment, especially in the context of the green and digital transitions. Furthermore, it seeks to restore the credibility of the fiscal rules by making them more realistic, transparent, and politically viable. The reform also has broader implications for the political economy of the EU, as it redefines the boundaries between national fiscal autonomy and supranational oversight at a time when geopolitical instability and rising debt burdens are reshaping the fiscal landscape of member states.

The policymaking process behind the establishment of the new EGF has been a long one. It began in February 2020, when the European Commission presented its review of EU economic governance and re-launched the debate on its reform (European Commission, 2020). Over the subsequent three years, inter-institutional negotiations involved the European Commission, European Council, Council, European Parliament, and European Central Bank (ECB). The outcome reflects not only technical compromises on fiscal indicators and adjustment paths but also deeper political choices about solidarity, responsibility, and the future trajectory of European integration.

This chapter raises the following questions: To what extent did ideational conflicts between EU institutions shape the policy content of the new EGF? And how did political dissensus over aspects of liberal democracy manifest in the negotiations behind the adoption of the EGF? To address such questions, the chapter discusses the EU's inter-institutional negotiations leading up to the adoption of the new EGF, illustrating dynamics of political dissensus over the principles, programmes, and policy instruments of EU economic governance.[1] It argues that political dissensus surrounding the principles, programmes, and policies of the new EGF necessitates patterns of discursive convergence amongst EU institutional actors, gradually aligning their ideational positions to make institutional or policy change possible. Discursive convergence occurs at three different levels: first, at the level of philosophical ideas concerning the principles and values of EU economic governance; second, at the level of programmatic ideas related to its key programmes; and third, at the level of policy ideas regarding specific policy instruments within the governance framework. Beyond discursive convergence, the ultimate shape of the EU governance framework is also determined by the relative bargaining power of the institutions involved. When political dissensus becomes too pronounced to allow for shared discursive practices, EU institutional actors leverage their institutional resources and policy competences to advance their preferences. We illustrate these different outcomes by examining EU inter-institutional dynamics. In the realm of philosophical and programmatic ideas, political dissensus was mild, which made discursive convergence possible. By contrast, in the realm of policy ideas, political dissensus was severe, opening the way for power-based bargaining. The above argument is structured as follows. Section 2 elaborates the analytical perspective of the chapter, conceptualising ideas and political dissensus in EU economic governance. Section 3 looks at EU inter-institutional negotiations and explores political dissensus over the principles and values inspiring the new EGF. Section 4 investigates political dissensus over the key programmes for the EGF. Section 5 examines political dissensus over specific policy instruments of the EGF. Section 6 discusses the main findings, considers implications for dissensus over liberal democracy, and concludes.

2 Ideas and Dissensus About the EU's Macroeconomic Governance Framework

We define political dissensus as the emergence of a multi-dimensional ideational conflict by EU institutional actors concerning the principles, programmes, and policies of EU economic governance as manifested in the process that led to the establishment of the new EGF (see also Coman & Brack, 2025; Capati & Christiansen, 2025). Such ideational conflict—which we trace at the level of philosophical, programmatic, and policy ideas—is expected to inform the policymaking process and condition the final

[1] The chapter performs a qualitative content analysis of official documents issued by EU institutions with the assistance of the software *NVivo 15*. Our dataset comprises nineteen documents, covering the period from the European Commission's initial review in February 2020 to the final text of the two EGF regulations in April 2024. It includes conclusions from the European Council (and Euro Summit), statements from the ECOFIN Council (and Eurogroup), proposals from the European Commission, reports from the European Parliament, and an opinion issued by the ECB.

institutional or policy outcome. Political dissensus, which is driven by the heterogeneity of EU institutional actors' ideas about the EGF, thus necessitates patterns of discursive convergence amongst EU institutional actors, gradually aligning their ideational positions to make institutional or policy change possible. When political dissensus is severe, discursive practices give way to inter-institutional bargaining based on institutional resources and policy competences.

This chapter adopts an ideational approach to the examination of the EU policymaking process behind the adoption of the new EGF. It operates on the premise that "ideas matter in the explanation of policy change" (Kamkhaji & Radaelli, 2022, p. 841). Under normal circumstances, the policy instruments underpinning a stable institutional system are resistant to contestation. Indeed, despite its failure to provide a regulatory framework capable of ensuring sustained economic growth in times of financial instability, the old SGP remained the foundation of the EU's economic governance architecture until the outbreak of the COVID-19 pandemic. However, as the ideational literature suggests, sudden exogenous shocks—such as a global pandemic—can pave the way for paradigm shifts by triggering ideational change. In moments of crisis, political actors may embrace new ideas to advance institutional innovations, leveraging the perceived "inadequacy" of existing frameworks to push for reform in the context of negotiations with other actors. From this perspective, institutional change is agency-driven, shaped by political actors' discursive capacity to engage critically with institutions and steer them towards transformation (Schmidt, 2010).

Ideational change, in this context, involves "agents of change reaching a broad consensus upon, and subsequently consolidating around, one particular set of new ideas [...], which will determine the path of subsequent policy" (Hogan & Doyle, 2007, p. 891). By identifying a crisis and highlighting the failures of existing policies, political entrepreneurs challenge dominant institutional arrangements and introduce innovative ideas to replace them (Kingdon, 1995). These actors influence the terms of political debate by framing crises and shaping the policy agenda before collective action towards institutional reform can occur (Sheingate, 2003). However, political consensus is merely the outcome of an ideational shift that drives institutional or policy transformation. The process itself is often contentious and divisive, with competing actors offering divergent interpretations of the same crisis and advocating for different responses. Political entrepreneurs seek to advance institutional and policy solutions through a battle of ideas—one waged through ideational persuasiveness, coalition-building, and historical consistency with previous crisis responses (Capati, 2023). It is only when this "ideational battle is won" that collective action to construct new institutions takes place (Blyth, 2002, as cited in Capoccia, 2015, p. 97).

While ideas serve as the "narratives that shape understandings of events", discourse functions as the "interactive process of conveying ideas" (Schmidt, 2008). In this sense, ideas precede discourse, which in turn precedes the formation of institutions (Carstensen & Schmidt, 2016; Lynggaard, 2019). Ideas can thus be understood as tools that political actors employ and articulate through discourse to drive institutional or policy change. These ideas are structured across three levels of generality (Schmidt, 2008). At the broadest, macro-level, philosophical ideas relate to values and principles, reflecting widely held worldviews that typically become contested only in times of crisis. At the meso-level, programmatic ideas pertain to agenda-setting and the definition of strategic objectives, offering comprehensive action plans and potentially including several policy solutions. Finally, at the micro-level, policy ideas concern specific policy instruments and solutions proposed by policymakers. In the context of EU economic governance, philosophical ideas are about the mostly uncontroversial values that should inspire policymaking, such as macroeconomic convergence amongst member states, financial stability, growth, and employment. Programmatic ideas are about the EU's political strategies to achieve those overarching objectives and can sometimes be the subject of political controversy, including discussions on favouring public investments versus prioritising the reduction of public debt-to-deficit ratios. Finally, policy ideas are about the specific instruments, mechanisms, and tools the EU adopts in the context of those broader programmes and objectives, such as the European Semester, RRF, and SGP. These instruments are in turn characterised by specific features, including escape clauses, expenditure targets, and governance arrangements (see Table 1).

Different EU institutional actors are expected to emphasise different ideas about EU economic governance based on their institutional mandate. As the EU's "guardian of the Treaties", the European Commission champions rules-based fiscal stability alongside growth and convergence. It plays a leading role in proposing, monitoring, and enforcing fiscal rules through the European Semester (Capati & Christiansen, 2024). Accordingly, it is expected to emphasise philosophical ideas such as convergence, debt sustainability, and balanced economic growth; programmatic ideas that promote structural reforms, green and digital investment, and sound public finances; and policy ideas focused on simplified fiscal rules, the use of net expenditure paths, and the activation of escape clauses when warranted.

The ECB is largely outside the fiscal governance framework but plays an influential role through its monetary policy and public interventions. It contributes to shaping expectations and reinforcing credibility in the EU's fiscal architecture. The ECB is expected to emphasise philosophical ideas related to price stability, financial discipline, and the institutional credibility of EU governance. Its programmatic ideas support coherent fiscal frameworks that are compatible with monetary policy, enabling effective macroeconomic stabilisation. In terms of policy ideas, it advocates for clear and enforceable fiscal rules, credible use of flexibility mechanisms, and protection against fiscal dominance.

The European Council sets the broad strategic direction of economic governance, particularly in times of crisis. Composed of heads of state and

Table 1 Sample of the codebook for the empirical analysis

Code	*Description*	*Coding excerpt*
Philosophical ideas	Includes references to ideas about values and principles of EU collective action	"Ensuring financial stability is a precondition for economic growth and job creation" (European Commission 2020)
Employment	Includes references to ideas about employment	"[The Parliament underscores] the importance of reducing debt ratios to prudent levels in a gradual, sustained and growth-friendly manner and addressing macroeconomic imbalances, while paying due attention to employment and social objectives" (European Parliament, 2023)
Growth	Includes references to ideas about growth	"The European Union needs a financial architecture that underpins the resilience of its economies, supports sustainable growth and jobs, and ensures adequate financing for its green and digital transformation" (European Council, 2020)
Debt sustainability	Includes references to ideas about financial and debt sustainability	"The reform aims to safeguard the sustainability of public debt" (ECB, 2023)
Programmatic ideas	Includes references to ideas about the definition of strategic objectives and comprehensive action plans	"We also need to enable more anti-cyclical fiscal policies, given the increasing constraints faced by the ECB" (European Commission, 2020)

(continued)

Table 1 (continued)

Code	*Description*	*Coding excerpt*
Avoiding macroeconomic imbalances	Includes references to ideas about macroeconomic imbalances	"Overall, there was recognition that the MIP helped to raise awareness, promote debate and supported the reduction of imbalances. We agreed on the particular importance of this procedure for our monetary union and acknowledged its preventive and informational value" (Eurogroup, 2022)
Reducing public debt and deficit	Includes references to ideas about the reduction of public debt and deficit	"We shared our initial perspectives on the main elements to be addressed in the forthcoming discussions, in particular the need to reduce high and divergent public debt ratios in a growth-friendly manner by striking the right balance between mobilising public and private investment in support of the green and digital transitions and ensuring sustainable public finances" (Eurogroup, 2021)
Promoting public investments	Includes references to ideas about public investments	"Deep and liquid capital markets are crucial to unlocking additional funding for economic activity in Europe and generating the investments needed for the green and digital transformation of EU economies" (European Council, 2020)
Policy ideas	Includes references to ideas about specific policy instruments and solutions	"The framework should be robust to changing economic conditions and uncertainty, requiring a solid and predictable rule book and escape clauses for exceptional circumstances" (European Commission, 2022)

(continued)

Table 1 (continued)

Code	*Description*	*Coding excerpt*
Escape clauses	Includes references to ideas about escape clauses	"The Council also clarified the conditions for the general escape clause" (Council of the EU, 2023a)
Structural plans	Includes references to ideas about national medium-term fiscal-structural plans	"All Member States should present national medium-term fiscal-structural plans, once a reformed economic governance framework has entered into force. The national plans should cover fiscal policy, reforms, and investments" (Council of the EU, 2023b)
Net expenditure	Includes references to ideas about net expenditure benchmarks	"The use of nationally-financed net primary expenditure, i.e. expenditure net of discretionary revenue measures and excluding interest expenditure as well as cyclical unemployment expenditure, as the single operational indicator for surveillance would allow for the operation of automatic stabilisers, including revenue and expenditure fluctuations outside the direct control of the government" (European Commission, 2022)

government, its preferences are shaped by the political orientation of national governments and the dynamics of intergovernmental bargaining. Accordingly, it does not reflect a consistent institutional perspective but rather mediates between shifting political coalitions and diverse national priorities (Capati et al., 2026). For instance, countries like Germany traditionally endorse an ordoliberal approach to political economy, one rooted in free competition, sustainable public finances, and low inflation, while countries like France tend to favour a more social conception focused on welfare provision and active public expenditure. Similarly, the Council of Ministers (ECOFIN), in which national finance ministers meet, plays a central role in the application and enforcement of fiscal rules. Its decisions are the product of intergovernmental negotiations amongst member states with divergent fiscal preferences and domestic political pressures. As such, its orientations do not follow a fixed institutional logic but reflect the political configuration and economic interests of its membership at any given time. The same applies to the European Parliament, which exercises political oversight and is involved both as a co-legislator and as a consultative body in broader reforms of the economic governance framework. As the EU's only directly elected institution, its positions are shaped by the partisan composition of the assembly and by the electoral accountability of its members vis-à-vis their national constituencies.

The chapter now turns to the identification of patterns of political dissensus—at the level of philosophical, programmatic, and policy ideas—amongst EU institutional actors and the ensuing dynamics of discursive convergence and inter-institutional bargaining leading up to the establishment of the new EGF.

3 Dissensus over Principles and Values

Throughout the policymaking process leading up to the establishment of the new EGF, EU institutional actors put forward seven main philosophical ideas about values and principles around which the EGF was adopted (see Fig. 1). Specifically, philosophical ideas included the sustainability of debt and finances (63 total references), inclusive growth (38), employment (28), economic convergence (24), national ownership (22), the streamlining of rules (19), and financial stability (14). Different EU institutions emphasised different principles. For the European Commission, the streamlining of SGP rules (14 references) was relatively more important than debt sustainability (11), employment (9), inclusive growth (6), economic convergence (5), and financial stability (5). National ownership was the least salient for the supranational executive (4 references). The Council—both the ECOFIN Council for the EU27 and the Eurogroup for the Euro Area—prioritised debt sustainability (44 references) and growth (23) over all other principles underpinning the EGF, with national ownership and convergence following (11 each). For instance, the Council stressed that "[t]he main objective of the reform of the economic governance framework is to ensure sound and sustainable public finances, while promoting sustainable and inclusive growth and job creation in all member states through reforms and investment" (Council of the EU, 2023a). The European Parliament also privileged debt sustainability (44 references) over growth (22) and employment (19), but it also paid attention to issues related to national ownership (12) and convergence (11). It stressed that "[i]n order to enhance national ownership, the role of independent fiscal institutions, traditionally mandated to monitor compliance with the national framework, should be expanded to the economic governance framework of the Union" (European Parliament, 2023). The ECB emphasised the sustainability of finance (4 references) and growth (3) over other cornerstones of EU economic governance, highlighting "the importance of sustainable fiscal positions for price stability and sustainable growth in a smoothly functioning

Economic and Monetary Union (EMU)" (ECB, 2023). Finally, the European Council—including the Euro Summit of the Euro Area—highlighted financial stability (3 references) and growth (2) as the most relevant principles, for instance stating that the reform should have "the objective of firmly establishing sustainable and more inclusive growth" (European Council, 2023). Overall, although EU institutional actors differed in the emphasis they placed on the various principles underpinning the new EGF, political dissensus remained mild, as all institutions broadly invoked the same values. This opened the way for discursive convergence at the level of philosophical ideas.

The chronological progression of policy documents issued by EU institutions helps to shed light on some interesting patterns surrounding specific philosophical ideas. First, amongst the analysed institutions, the European Commission strongly supported the streamlining of EU economic governance rules. The simplification of the existing framework featured prominently in the institution's review of February 2020, as it argued that "the complexity of our rules makes it harder to explain to our citizens what 'Brussels' is saying, and that is something none of us should accept" (European Commission, 2020). The relevance of the issue was, however, neglected by the European Council meeting of December that year (European Council, 2020), while the Eurogroup meeting of November 2021 merely acknowledged that "the questions of simplification [...] also featured in our discussion" (Eurogroup, 2021). The Commission again emphasised the importance of streamlining and simplification in its communication to the Council, Parliament, and ECB of November 2022 (European Commission, 2022), winning the support of the ECB in July 2023, with the latter recognising that the reform of the SGP

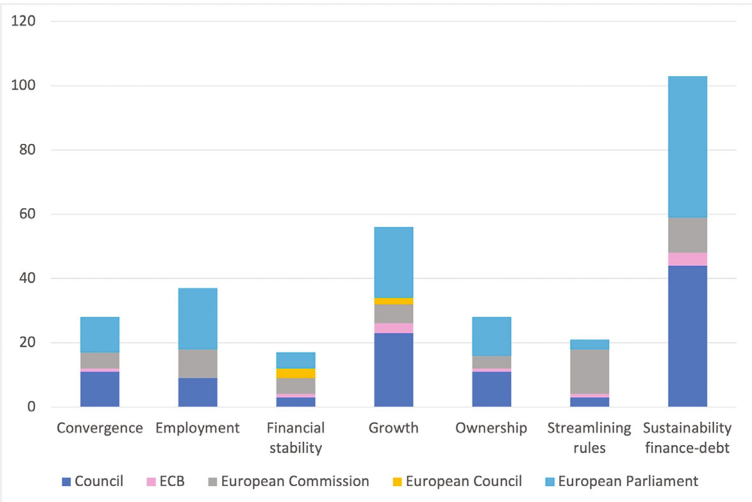

Fig. 1 Number of total references to philosophical ideas by EU institution

should aim to "achieve simplification [...] of the framework" (ECB, 2023). Only at a much later stage would the European Parliament buy into the simplification principle as a priority for the new EGF (European Parliament, 2023) and push that priority through legislative negotiations with the Council to secure an agreement. Because of inter-institutional dissensus on the identification of rules simplification as a pillar of the new EGF, such a philosophical idea was only put forward once in the final regulations adopted by the Council and the European Parliament.

By contrast, ensuring sustainable government finances—the single most important principle of the new EGF as per the Commission review of February 2020—attracted widespread consensus as a philosophical idea. The ECOFIN Council of March 2023 stressed that "the soundness and sustainability of public finances over the medium- and long term" is the key principle behind the EU economic governance framework, while the ECB opinion of July reiterated that "the reform aims to safeguard the sustainability of public debt". Based on the Commission's proposal of April 2023, both the European Parliament and Council thus recognised debt sustainability as the main objective of the EGF in their negotiating mandates (Council of the EU, 2023a; European Parliament, 2023). Because the sustainability of public finances was never contested as the main cornerstone of the reform, it was the most frequently referenced philosophical idea in the two final regulations of the EGF adopted in April 2024.

4 Dissensus over Programmes

The six main programmatic ideas in the policymaking process behind the establishment of the new EGF included promoting private and public investments (236 total references), avoiding macroeconomic imbalances (88), reducing public debt and deficit (53), pursuing green policies (42), adopting a multiannual surveillance framework (37), and favouring counter-cyclical economic policies (33). All institutions except the European Council emphasised the strategic importance of private and public investments over all other programmatic ideas, with the ECOFIN Council explicitly defining investments a top "EU strategic priorit[y]" (Council of the EU, 2023b). The heads of state and government prioritised green finance instead, suggesting that "[a] strong European financial architecture is instrumental in [...] fast-forwarding our green and digital transitions" (European Council, 2023). Following investments, avoiding macroeconomic imbalances was the most salient programmatic idea for the European Commission (40 references), which required "a more effective framework to detect and correct macroeconomic imbalances" (European Commission, 2022). The same was true for the European Parliament (23) and the Council (20), while the ECB privileged debt and deficit reduction (6), stressing, for instance, the importance of ensuring that "debt is put on a sufficiently diminishing path" (ECB, 2023).

For the European Commission, providing a multiannual surveillance framework was more important (21 references) than reducing public debt and deficit (15), pursuing climate policies (12) and counter-cyclical economic policies (12). The Council supported debt and deficit reduction (12 references) more than green policies (11), multiannual framework (10), and counter-cyclicality (8) (see Fig. 1). The ECB recognised avoiding macroeconomic imbalances (5 references) as well as adopting counter-cyclical (3) and climate policies (2) as relevant programmatic orientations but neglected the multiannual surveillance framework. Finally, except for green policies and investments, the European Council overlooked other programmatic ideas. As for philosophical ideas, EU institutional actors emphasised different programmes of action but largely agreed on a small set of such objectives as part of the new EGF. This paved the way for discursive efforts by EU institutions to overcome a mild political dissensus at the level of programmatic ideas (Fig. 2).

In the context of programmes, the European Commission also tried to act as a political entrepreneur with respect to the adoption of counter-cyclical economic policies, with two references in its initial review of February 2020, six references in its communication on orientations of November 2022, and four references in the formal legislative proposal of April 2023. The Commission claimed that "we need to enable more anti-cyclical fiscal policies, given the increasing constraints faced by the ECB" (European Commission, 2020). This notwithstanding, neither the Council—in either its ECOFIN or Eurogroup format—nor the European Council (or the Euro Summit) identified the counter-cyclicality of economic policies as a key programme for the new EGF. Political dissensus over the promotion of counter-cyclical economic policies

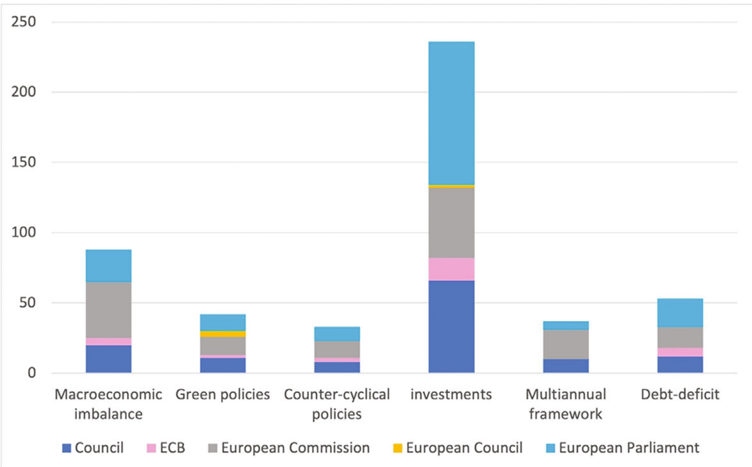

Fig. 2 Number of total references to programmatic ideas by EU institution

was hard to resolve, as several member state representatives within intergovernmental institutions perceived it as opposed to the principle of public finance sustainability and the debt reduction programme. In particular, Germany—with its model of political economy based on the constitutional enforcement of a debt brake—and other Northern European countries insisted on fiscal prudence, fearing that counter-cyclical policies would incentivise moral hazard.

In June 2023, however, the European Commission launched an informal consultation with the ECB on the economic governance reform and was able to persuade the central bank discursively to support counter-cyclicality as a programmatic priority for the new EGF. This resulted in the ECB espousing the "countercyclicality of fiscal policies" in its Opinion of July that year (ECB, 2023). The European Commission and the ECB were thus able to build a "winning coalition" around counter-cyclical economic policies, with the European Parliament and the Council joining in later through the report on the reform proposal (European Parliament, 2023) and the formal negotiating mandate (Council of the EU, 2023a, 2023b), respectively. The idea of counter-cyclicality eventually made it through to the final text of the two EGF regulations adopted in April 2024,[2] but, due to pre-existing dissensus over that programme, it was only mentioned twice and four times, respectively.

By contrast, promoting private and public investments was never contested as a programmatic idea for the new EGF. It was put forward by the European Commission in its review of February 2020 and supported by the European Council meeting of December 2020, the Eurogroup meeting of November 2021, and the ECB Opinion of July 2023. The European Council again recognised the strategic importance of investments in its Conclusions of October 2023, before the European Parliament and Council integrated private and public investments as a key programme for the next EGF in their negotiating positions in December that year. Because of the widespread political consensus that investments attracted across the board, they featured prominently in the final text of one of the EGF regulations, with 40 total references.[3]

5 Dissensus over Policy Instruments

Along with principles and programmes, EU institutions also negotiated the specific policy instruments of the new EGF. Three of them stood out as particularly salient: escape clauses (31 total references), national medium-term fiscal-structural plans (237), and the net expenditure (290). Unlike for philosophical and programmatic ideas, however, political dissensus about the specific policy instruments to be included in the new EGF was "severe", with the European Commission and the European Parliament on the one hand and the Council on the other hand supporting contrasting policy tools.

[2] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202401264 and https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202401263.

[3] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202401263.

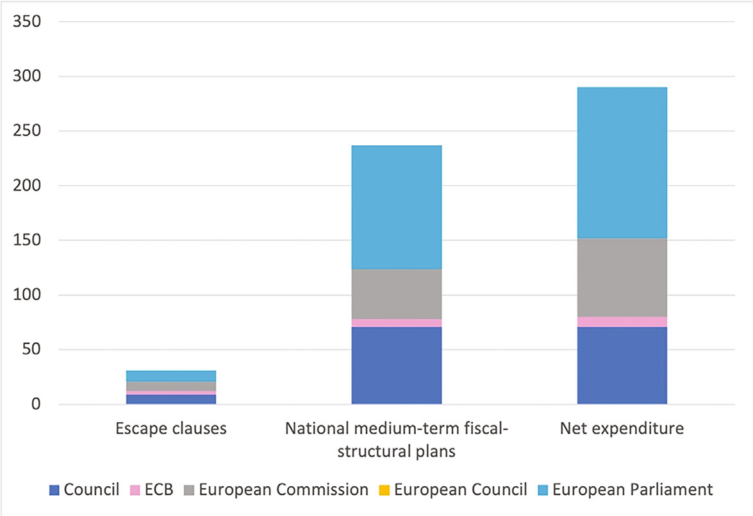

Fig. 3 Number of total references to policy ideas by EU institution

This contributed to the emergence of hard bargaining between EU institutional actors based on their possession of institutional resources and policy competences (Fig. 3).

First, concerning the net expenditure paths, the European Commission proposed a shift to multi-year fiscal planning based on medium-term fiscal-structural plans, using net primary expenditure as the single operational indicator. These plans would be country-specific, taking into account each member state's public debt challenges. The Commission itself would provide guidance by proposing a technical trajectory for member states with a deficit ratio exceeding a threshold of 3% or a debt ratio exceeding 60%. The European Parliament proposed transforming the Commission's technical trajectory into a "reference trajectory", serving as a basis for bilateral dialogue between the Commission and the member state. The Parliament's definition of net expenditure would exclude expenditure on Union programmes fully matched by Union funds revenue, national expenditure on co-financing of programmes funded by the Union capped at a limit of 0.25% of GDP, cyclical elements of unemployment benefit expenditure, and costs associated with the borrowing of funds for the loans related to the national Recovery and Resilience Facility Plans. Eventually, the Council refined the trigger for applying the technical trajectory by explicitly referencing the Treaty reference value for debt and deficit. The Council introduced a risk-based approach to the technical trajectory and added a medium-term perspective, requiring that debt and deficit remain below reference values over the medium term. The Council also introduced debt sustainability and deficit resilience safeguards. The former mandates a minimum annual average decrease in the debt-to-GDP ratio, with the required decrease depending on the level of debt. The latter requires fiscal adjustment until a deficit level that provides a resilience margin of 1.5% of GDP relative to the 3% deficit reference value is reached. It also specifies the annual improvement in the structural primary balance required to achieve this margin.

Second, the European Commission's proposal included provisions for both general and country-specific escape clauses, allowing deviations from the net expenditure path under certain conditions. While the European Parliament agreed with the Commission's proposals, the Council refined the conditions for invoking the general escape clause, specifying a one-year time limit for deviations from the net expenditure path and allowing the European Fiscal Board to deliver an opinion on the extension of the clause. The Council also added that the relevant independent fiscal institution may deliver an opinion on the extension of the national escape clause.

Finally, the European Commission envisioned medium-term national fiscal-structural plans to integrate fiscal policies with structural reforms and investment commitments, emphasising debt sustainability and sustainable and inclusive growth, aligning with EU priorities like the green and digital transitions. The plans would cover a minimum of four years, with a possible extension to seven years contingent on reform and investment commitments. The European Parliament sought to increase member state ownership of the plans and include more actors in the process. Prior to submission, member states would need to establish a mechanism for civil society to express recommendations and suggestions. National parliaments would have a debate on the draft plan, and all related information would be made public. The European Parliament removed a rule mandating member states whose plans include a higher net expenditure trajectory than in the technical trajectory to provide sound and verifiable economic arguments explaining the difference. It also emphasised the common priorities of the Union, ensuring consistency with Union investment instruments. The Parliament then tasked the Commission with establishing a scoreboard to display the progress of the implementation of the national plans, including the reforms, investments, and Union priorities, as well as the current stage of the plan's life cycle and the status of the actual net expenditure path. The Council explicitly required the inclusion of the technical trajectory or technical information provided by the Commission, and it elevated the standard of justification for deviations from the technical trajectory, demanding sound and data-driven economic arguments. The Council introduced more specific and stringent criteria for the reforms and investments that could justify an extension of the adjustment period. The Council also specified that the plan must address the common priorities of the Union, including achieving a fair green and digital transition, ensuring energy security, strengthening social and economic resilience, and, where necessary, building defence capabilities.

Finally, the ECB provided its positions on the three instruments on one single occasion (ECB, 2023). As for net expenditure paths, the ECB acknowledged the key role of the debt sustainability analysis in designing technical trajectories and welcomed the shift towards a framework less reliant on real-time output gap estimates. However, it stressed the need for a more precise definition of "net expenditure", particularly concerning the calculation of discretionary revenue measures and cyclical unemployment benefit components. Furthermore, the ECB suggested elaborating on the methodology for assessing the plausibility of debt reduction and establishing a common framework for member states' justifications when proposing higher net expenditure trajectories than those suggested by the Commission. The ECB also welcomed the requirement for the Commission to set up a control account to keep track of cumulative deviations of actual net expenditure from the net expenditure path, recommending that the functioning and key parameters of the control account should be specified further.

Concerning escape clauses, the ECB supported the possibility for the European Fiscal Board to provide an opinion to inform the Council recommendation on activating or extending the general escape clause. Finally, with respect to medium-term national fiscal-structural plans, the ECB underscored the importance of national ownership and a transparent technical dialogue between member states and the Commission. The ECB advocated for more detailed requirements for reform and investment commitments within these plans and supported a prudent approach to extending plan durations, emphasising the need for commitments to materialise fully. Moreover, the ECB recommended that the proposed new SGP preventive arm regulation specify the objective circumstances that would be considered relevant and clarify how the Commission would consider the past adjustment of the member state concerned, or the lack thereof, in preparing its new technical trajectory. In addition, the ECB recommended that the proposed regulation ensure that the revised plan not permit the backloading of reforms and investments. Finally, the ECB advocated for a holistic monitoring of structural reform commitments, investments, and fiscal policies and suggested enhancing the role of independent fiscal institutions in plan preparation and assessment, as well as welcoming the possibility for the European Fiscal Board to provide an opinion to inform the Council recommendation on activating or extending the general escape clause.

The outcome of the negotiations on the new EGF reveals a complex interplay of institutional preferences, with the Council exerting the most significant influence over the final architecture of key policy instruments. Regarding net expenditure paths, the final regulation reflects a clear shift towards a rules-based and quantifiable approach, strongly favoured by the Council. The adoption of specific, risk-based reference trajectories, concrete debt reduction benchmarks, and deficit resilience safeguards underscores the Council's commitment to fiscal discipline and predictability. While the European Parliament succeeded in shaping the methodology for plausibility assessments—introducing deterministic scenarios and transparent criteria—the Council's procedural framework, including timelines and reporting requirements, ultimately prevailed. The European Commission's initial ambition for greater flexibility and delegated authority was notably curtailed, as the final text integrated most operational details directly into the articles, thereby reducing the Commission's discretion in future adjustments.

Escape clauses represent another area in which the Council's procedural preferences were paramount. The final text codified strict deadlines for the activation and extension of both the general and national escape clauses, prioritising swift and predictable responses to economic shocks while safeguarding medium-term fiscal sustainability. The Council's insistence on a one-year time limit for deviations and a mandatory European Fiscal Board (EFB) opinion for extensions reflects a desire to balance flexibility with oversight. The European Parliament's proposals for enhanced transparency and a more prominent role for independent fiscal institutions were only partially accommodated, with the EFB's involvement strengthened but most of the Parliament's more prescriptive elements omitted. The Commission's foundational framework for escape clauses was retained, but its discretionary role was further limited by the Council's procedural safeguards.

Turning to national medium-term fiscal-structural plans, the final compromise showcases a blend of Council and Parliament priorities, but with the Council's structured, evidence-based approach dominating. The plans must now include detailed, data-driven justifications for any deviation from the reference trajectory and must align with a list of common Union priorities—albeit a less comprehensive one than initially envisioned by the Commission and Parliament. The Parliament's advocacy for stakeholder consultation and national parliamentary debate was reflected in the final text, though in a less prescriptive form. Notably, the requirement for an independent fiscal institution's opinion on macroeconomic forecasts, a key Parliament demand, will become mandatory only from 2032 and remains optional until then. The Council's emphasis on quantifiable targets, fiscal sustainability, and the integration of reforms and investments within the planning period was central to the final outcome, while the Commission's and Parliament's calls for more ambitious investment targets and transparency measures were largely set aside.

Overall, the final legislative package on the EGF's core instruments—including net expenditure paths, escape clauses, and national medium-term fiscal-structural plans—demonstrates a decisive move towards a more rules-based, Council-driven framework. While elements of the European Parliament's vision for greater democratic legitimacy, transparency, and stakeholder involvement were incorporated, these were often diluted or rendered optional in the face of the Council's preference for procedural efficiency and institutional discretion. The European Commission's role, while still central to the technical implementation and monitoring of the framework, is now more circumscribed, with less scope for unilateral adaptation of the rules. This outcome reflects a broader trend in EU economic governance: a search for balance between fiscal discipline and flexibility, national ownership and supranational oversight, and the competing imperatives of democratic legitimacy and institutional effectiveness.

6 Conclusion

This chapter has investigated the ideational and institutional dynamics underpinning the adoption of the EU's new EGF, focusing on the interplay between the European Commission, the Council, the European Parliament, the European Council, and the ECB.

The analysis has shown that while the reform process was characterised by significant political dissensus—rooted in divergent philosophical, programmatic, and policy ideas—discursive convergence was essential for achieving a political agreement. Political dissensus about the principles and values of the EGF often originated from different approaches to political economy, with countries like Germany embracing an ordoliberal conception based on free competition, sustainable debts, and low inflation and countries like France espousing a social conception based on welfare benefits and public expenditure. Discursive convergence between EU institutions at the level of philosophical ideas thus paved the way for compromises around the programmes and tools of the new EGF.

However, the outcome of the negotiations reveals that convergence was not evenly distributed across institutions or policy domains. Instead, the Council's preferences for a rules-based, predictable, and quantifiable approach to fiscal governance prevailed, shaping the architecture and operational details of the EGF's core instruments. The final legislative package, as adopted in April 2024, demonstrates that the Council's influence was particularly pronounced in the design of net expenditure paths, the activation and extension of escape clauses, and the structuring of national medium-term fiscal-structural plans. The Council successfully embedded concrete benchmarks, risk-based safeguards, and strict procedural timelines, thereby limiting the discretion of both the European Commission and national governments. While the European Parliament achieved some objectives—such as the inclusion of its methodology for plausibility assessments and the eventual mandatory role for independent fiscal institutions—most of its ambitions for greater transparency, stakeholder involvement, and democratic oversight were either diluted or rendered optional. The European Commission, meanwhile, saw its initial proposals for flexibility and delegated authority significantly curtailed, with operational details codified directly in the legislative text and its future discretion reduced.

Importantly, this outcome underscores the limits of discursive convergence in the face of entrenched institutional interests and power asymmetries. While the negotiation process allowed for the integration of diverse perspectives—particularly regarding the balance between fiscal discipline and flexibility and the need for both national ownership and EU-level oversight—the resulting compromise was not fully the result of discursive convergence. Rather, it reflected a pragmatic accommodation in which the imperatives of fiscal stability and the Council's bargaining power took precedence over more ambitious proposals for democratic legitimacy and policy adaptability. For instance, the Council's insistence on strict, quantifiable debt reduction benchmarks and the inclusion of a mandatory minimum annual decrease in the debt-to-GDP ratio overruled the Commission's initial proposal for more flexible, country-specific adjustment paths. This shift limited the scope for policy adaptability, as member states facing unique economic challenges were required to adhere to uniform fiscal constraints rather than negotiate tailored solutions. The partial incorporation of the European Parliament's priorities and the circumscription of the Commission's role highlight the ongoing tension between efficiency, legitimacy, and flexibility in EU economic governance.

Looking forward, the new EGF offers important lessons for the future trajectory of EU policymaking. The institutional settlement reached in 2024 demonstrates that while discursive and ideational processes are crucial for bridging divides and enabling reform, the ultimate shape of EU governance frameworks is also determined by the relative bargaining power of the institutions involved. As the EU continues to navigate complex economic, social, and geopolitical challenges, the effectiveness and legitimacy of its governance structures will depend on their capacity to accommodate both the need for fiscal stability and the demands for democratic accountability and policy responsiveness. The experience of the EGF reform thus calls for continued reflection on how to balance these imperatives, ensuring that the EU's economic governance remains both robust and legitimate in the face of future crises.

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