

Foreword

by *Adam Tooze*

“Europe will be forged through crises and will be the sum of the solutions to these crises.”

These lines by Jean Monnet are often cited as consolation. They remind us that time and again Europe is counted out, only to rise again, re-configured and more tightly integrated. Europe came through the empty chair crisis of the early 1960s, the shock of German unification and the end of the Cold War, the exchange rate crisis of the 1980s and 1990s and the setback to the constitutional proposal of 2005. As Monnet predicted, Europe was defined by the solutions to each of those crises.

Those were above all political crises, of immediate concern primarily to the political class of Europe. With the onset of the global financial crisis in 2007 and the ensuing crises of Eurozone sovereign debt, Europe’s crisis-driven development continued, but it became an attritional struggle that was far broader in its range. In the 2010s, millions of Europeans, above all young Europeans, suffered prolonged unemployment. Austerity took its toll on European society and its welfare state and European politics bears the scars as well. As Marco Buti puts it, Europe lived under the “curse of permanent existential threats and ultima ratio decisions.” The Europe that has emerged in the last decade is more resilient and commands majority support, but it also tougher and, for many, profoundly disenchanted.

In this collection of essays from Marco Buti’s time as Director General of Directorate General for Economic and Financial Affairs (DG ECFIN) and more recently as Chief of Staff of the Commissioner for the economy, Paolo Gentiloni, we can follow one of Europe’s leading public servants as he struggled to think his way out of the treadmill of government-by-crisis. Europe needs more, Buti consistently argues, than just an accumulation of crisis-fighting measures. As he puts it in

chapter 41, co-authored with George Papacostantinou, the crisis response needs to be: “economically coherent, marshalling the policy tools and mechanisms that provide for an effective crisis response, addressing root causes ... [.] In the complex EU institutional framework, it also needs to have institutional coherence, leveraging common governance mechanisms while respecting both subsidiarity and the EU Treaties. Finally, it needs to be politically coherent, maintaining citizens’ support in what tend to be traumatic and divisive periods.” Unfortunately, meeting what Buti and Papacostantinou call the Monnet Compatibility Test, is a very difficult task. It requires bold decisions and permanent institutional advances. Caught in the “middle of the river,” as Buti described it in July 2017, Europe remains at risk of being swept away by the current.

Making Europe through crisis is not just costly and nerve-wracking. It also means that our historical vantage point is subject to kaleidoscopic rearrangement. That comes with a certain fascination. Reading this compilation of Buti’s essays we can retrace blow by blow his reactions to each new challenge. But it is not just the writer’s perspective that shifts. So too does the perspective of the reader.

Today we come to this collection against the backdrop of COVID-19. As far as the EU’s economic governance was concerned, 2020 was a “good” crisis. The virus came from outside. It has by 2021 wrought havoc across all of Europe, North and South, East and West. That brutal fact opened the door to collective action. The banking and Eurozone crises of 2008-2015 were different. Unlike the virus, those crises were widely seen as endogenous – driven by too much debt piled up over preceding years. For that reason, the crises were also contentious. Arguments between creditors and debtors split Europe into blocs. And to make matters worse, it was the “wrong” debts that were most to the fore.

It was, as Buti has remarked, an unfortunate accident of history that the crisis exploded first in Greece. That focused attention on public debt and fiscal indiscipline rather than private debts and banks. The politics of the crisis would have been very different if the paradigmatic problem had been the real estate bubbles of Spain and Ireland and the entanglement of Europe’s banks in them, rather than the government debts of Greece.

The early essays in this volume are marked by the battles of that moment. Promoted to Director General of DG ECFIN in November 2008, Buti was in the thick of the fight. As befits his role, he mounted a stout

defence of Europe's new fiscal framework. If we follow Buti, the rules were neither as inflexible nor as inappropriate as their critics – including this author – alleged.

By the summer of 2012 it seemed that Europe was truly taking a step forward. The path for Draghi's "whatever it takes" had been cleared by an agreement on the banking union. But more was needed. Europe needed a fully integrated capital market. It needed a safe asset. Ultimately, as had always been envisioned, it needed a federal fiscal policy. To promote this development, the EU institutions, with the Commission taking a leading role, drafted a series of proposals – the Four Presidents Report of 2012, the Five Presidents Report of 2015 and the 2018 proposal for a European Investment Function. But, now, the corollary of Monnet's maxim kicked in. With the crisis in abeyance there was no progress. Worse than that, a new distribution of roles was becoming entrenched. As Buti argues, the Rawlsian veil of ignorance was pierced. Since the Northern creditors knew, or at least thought that they knew, the strength of their position, their focus was squarely on risk reduction as a precondition for any significant steps towards risk sharing.

If the line between crisis and normality had been clearly drawn, if all had been well between 2012 and 2020, the ensuing impasse might not have mattered. But, though the acute crisis had passed, there was a pervasive sense that something had broken. After 2013 talk of "secular stagnation" stalked the halls of power. The ECB was struggling to prevent the Eurozone sliding into a Japan-style deflationary trap. As wages and growth stagnated, in many countries anti-European sentiment was on the rise. Divergence took on ever more worrying dimensions. Italy, Europe's third largest economy, was being left behind. Rather than promoting productivity and progress, the Euro came to be seen by many as a form of slow strangulation.

As the seriousness of this situation became evident, we see Buti's assessments not only of the immediate situation, but of the crisis itself, becoming more critical. Whereas he had once expected a rapid recovery from the shock of 2008-2012, the extent of the damage was now obvious. His final reckoning with his time as Director General of DG ECFIN – chapter 38, "Economic Policy in the Rough" – makes sobering reading. At critical moments in the crisis, intergovernmentalism had failed to deliver timely policy responses. Weaknesses of democratic accountability had been exposed. As Mario Draghi made clear in his parting speech at

Sintra in 2019, Europe's policy regime remained lopsided – far too heavily reliant on the central bank.

This assessment too was shaped by its moment - the second half of 2019. At that time the taps of fiscal policy seemed stuck shut. This was a surprise. Public choice theory had assumed that the problem was to discipline politicians from spending too much. If it was true, as Buti argued in one original paper, that politicians were not always punished for taking painful reform measures, it also seemed true that they could become addicted to counterproductive fiscal discipline. If, in the 1980s, the fiscal dominance to be feared was too much spending, fiscal dominance could also be exerted by inaction. Fiscal passivity in the face of the risk of deflation, forced a central bank's hand.

Faced with Europe's impasse, it was up to economists to speak up. The increasing urgency of Buti's calls for action is nicely encapsulated by the piece he co-authored in 2019 with Laurence Boone, chief economist of the OECD (chapter 37). "Right here, right now" is their title. Growth and trade were decelerating to a dangerous degree. And then, like a *deus ex machina*, COVID arrived.

To say that Europe's public health response to the global pandemic has left much to be desired, would be an understatement. Added to which, in March and April 2020, a ruinous repetition of the Eurozone crisis logic of 2010 seemed on the cards. But then, the game turned. With Paris and Brussels urgently pushing, Berlin decided to declare COVID-19 an exceptional emergency and to greenlight a major step towards a large collective fiscal capacity – a shift from intergovernmentalism to the Community method.

Next Generation EU is not a life support program or a fiscal stimulus of the type that member states have been pushing. It is above all a growth policy. As Buti and his colleagues have been highlighting, for Europe's future, reviving public investment is key. In 2018 they had called for a common investment facility. Now, in the midst of crisis, it had arrived.

Not every aspect of the EU's "community" response to the 2020 crisis has been equally successful. To avoid ruinous competition, Brussels took charge of vaccine policy. As a vaccine producer, Europe has been second to none. Unlike the USA, Europe along with China and India is one of three great vaccine suppliers to world. But slow delivery to Europe's own population caused huge uproar. All the more so because it coincided with another devastating pandemic wave over the winter of 2020-2021. The

least that can be said, however, is that Europe has learned. Unlike during the Eurozone crisis, the social shock has been held in check, and fiscal and monetary policy have worked together well. The question in 2021 is whether Europe has done enough to accelerate the pace of recovery, once the health crisis has been contained.

Too often it is missed that what defined Europe for Monnet were not crises as such, but the solution-finding. As the political scientist Hugh Heclo remarked: "...Governments not only 'power' ... they also puzzle. Policy-making is a form of collective puzzlement on society's behalf." (Heclo 1974: 305)

The European Commission is not a government like others. It has less room for the exercise of power. What makes Buti's essays so interesting is that they show us the process of puzzling in action.

The papers collected here are not concerned with technical economics. The Commission's QUEST model remains in the background. The necessary references are to be found in the bibliography. What we see in these papers is the policy-maker's mind at work. The art lies in slicing problems, probing which constraints are binding and which are not. It lies in defining the interaction between constraints. Buti is an adept of the trilemma, a formulation which forces us to recognize the interdependence between choices. Escaping the constraints that they impose often involves thinking laterally. If fiscal integration is politically impossible, can the same effect be achieved through the development of more integrated financial markets? If convergence requires reform, how do you persuade politicians that that is something other than political suicide? If households can smooth consumption or even borrow to take advantage of the new opportunities opened up by reforms, could reform even be a vote-winner?

The confidential official papers of the Commission between 2010 and 2020, will remain behind wall of confidentiality for decades to come. The papers collected in this volume were written for the public. They are part of a debate. Many of these pieces are written as replies. That in itself has value.

It is too often said that Europe lacks a common political public sphere. The years of crisis have begun to change that. National elections matter to the entire EU. A major driver of the common 2020 crisis response was the desire to avoid strengthening a nationalist backlash against Europe. Political publics are multi-centred and multi-layered. In the sphere of

economic expertise, recent decades have seen the emergence of a true European public sphere. In the wake of the Eurozone crisis, coalitions of economists – most notably French and German – have sought to construct a new common ground. This kind of search for the middle-ground matters politically. It also influences the Overton window of policy. In the crucial moves towards a common fiscal response to the 2020 crisis between March and May 2020, cross-border agreement amongst experts, was a significant factor shaping opinion, notably in Berlin. The essays in this volume are testimony to the energy with which the economists of the Commission have engaged in these debates, with Marco Buti in the lead. It is not by accident that many of the pieces are drawn from Voxeu, the common platform for European economic policy debate.

If Europe emerges from the solutions found to collective crises, European political community emerges from the collective puzzling that this entails – whether within the Brussels machine, in coalition of national governments, or in the broader public. This collection is living proof of Marco Buti's dedication to that collective undertaking. We are in his debt.