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EU Economic Policy and the European Green Deal

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European Economic Policy and the European Green Deal: an Institutionalist Analysis

von

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## **EU ECONOMIC POLICY AND THE EUROPEAN GREEN DEAL**

The article deals with the influence of the European Commission in the field of economic policy in the European Union (EU) since the beginning of the 21<sup>st</sup> century. Starting from reflections on the guiding idea of supranationality the question arises if and how the Commission has increased its influence on the economic policies of the EU Member States. The role of the EU's long-term strategies like the European Green Deal are analysed by applying the approach of Evolutionary Institutionalism. Has the European Commission induced institutional change and improved its own institutional fitness? Which role does the European Green Deal play in European economic policy?

**Key words:** European integration; EU; European economic policy; European Green Deal; European integration theory/approaches; Evolutionary Institutionalism

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## 1 INTRODUCTION

The European Green Deal (European Commission, 2019b) was presented as a political concept in the European Union (EU) and central element of climate policy by the newly-elected President of the European Commission Ursula von der Leyen in December 2019 (European Commission, 2019f). A main aim is to reduce the net emissions of greenhouse gases to zero by 2050 becoming the first climate-neutral continent. Furthermore, it contains a timetable for the most important strategies and measures in order to realise the European Green Deal.

Extreme climate events worldwide such as the flood disaster in Germany, China and Myanmar and wildfires in the South of Europe, the United States, Canada that have displaced tens of thousands of people, seem to give evidence that advancing global warming significantly increases the likelihood of extreme weather. The latest Intergovernmental Panel on Climate Change (IPCC) report, drawing on more than 14,000 peer-reviewed studies to assess the physical science of climate change, states that extreme weather events will become more frequent in the future (IPCC, 2021a). The report concludes: “From a physical science perspective, limiting human-induced global warming to a specific level requires limiting cumulative CO<sub>2</sub> emissions, reaching at least net zero CO<sub>2</sub> emissions, along with strong reductions in other greenhouse gas emissions” (IPCC, 2021b).

The European Green Deal is one of the six priorities set by the European Commission for 2019 – 2024 (European Commission, 2019h) in response to the current challenges such as globalisation, digitalisation and above all climate change. At the same time, it is integral part of the strategy for the implementation of the UN agenda 2030 (UN, 2015b) and the EU’s goals for sustainable development. Mrs. von der Leyen called the new climate plan as “Europe’s ‘Man on the moon’-moment” stating, “Our goal is to reconcile the economy with our planet, to reconcile the way we produce and the way we consume with our planet and to make it work for our people”. The Commission President regards the Green Deal as the new growth strategy for Europe (European Commission, 2019g).

The Covid-19 pandemic confronts Europe and in particular the European economic and social policies with the challenge to cope with the acute and future socioeconomic consequences of the crisis. Establishing the recovery plan “NextGenerationEU”, that together with the EU’s long-term budget amounts to a total of more than €1.8 trillion, the European Commission tries to combine the stimulation of the European economies with a sustainable transformation (European Commission, 2020d). The European Green Deal serves as orientation for the politico-economic coordination at EU-level “to put sustainability and the well-being of citizens at the center of economic policy, and the sustainable development goals at the heart of the EU’s policymaking and action” (European Commission, 2019b).

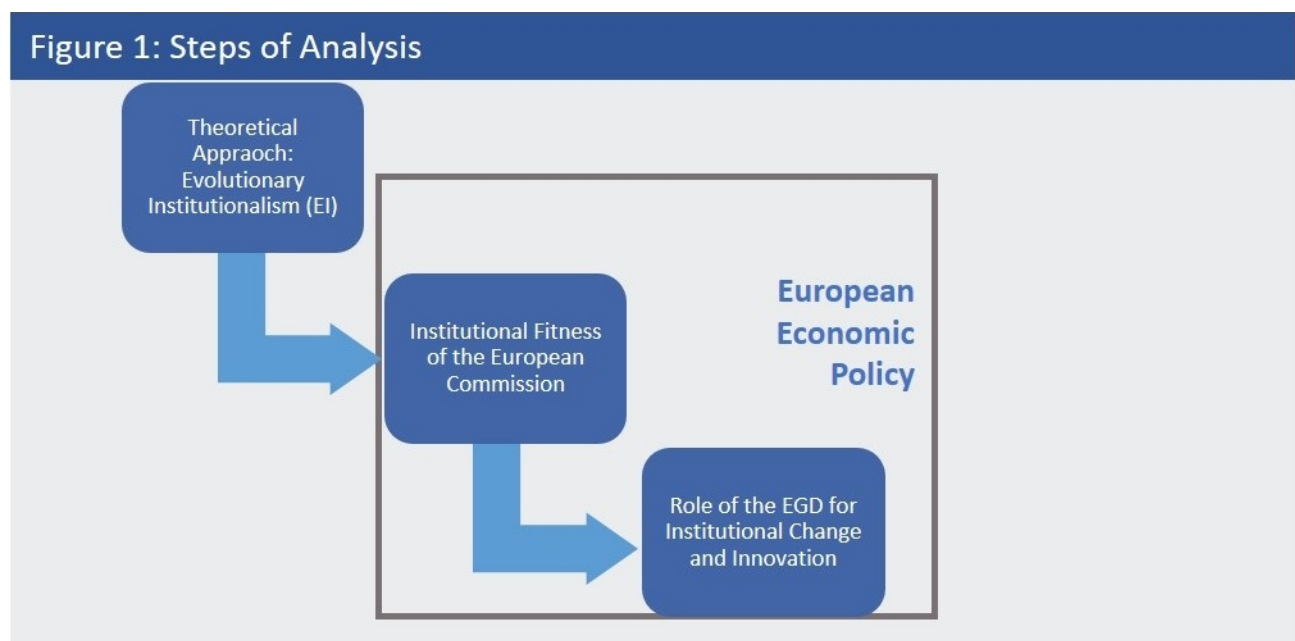
In view of this new global European plan the article deals with the following questions: Which (strategic) options has the EU to shape economic policy and what might be the role of the European Green Deal in European economic policy? Related thereto is the question



how fit the European Commission is in the field of economic policy with regard to its guiding idea of supranationality. Is it innovative enough to increase its institutional fitness?

These questions will be reflected on the basis of Evolutionary Institutionalism as analytical approach aiming at analysing the evolution, fitness, change and stability of institutions. The approach refers to patterns of biological evolution assuming that institutions are similar to biological species. Interacting with a dynamic environment in a niche, institutions react and stabilise in a practiced form. Evolutionary Institutionalism contributes to a deeper understanding of institutional evolution and change in a long-term perspective (Bochmann, 2011, p. 6).

This case study is a macro-level analysis in the sense of institutional stability, its functions and change of the European Commission in the field of European economic policy. The first part sets out the relevant theoretical elements of Evolutionary Institutionalism in order to scrutinise institutional fitness of the European Commission with regard to economic policy in the EU and the role the European Green Deal plays relating to institutional innovations and change (see figure 1). The article provides a rare case example for the use of the operationalised version of Evolutionary Institutionalism by the two German scholars Patzelt and Lempp (Patzelt, 2007; Lempp, 2009).



Source: author's own figure.

## 2 ANALYTICAL FRAMEWORK

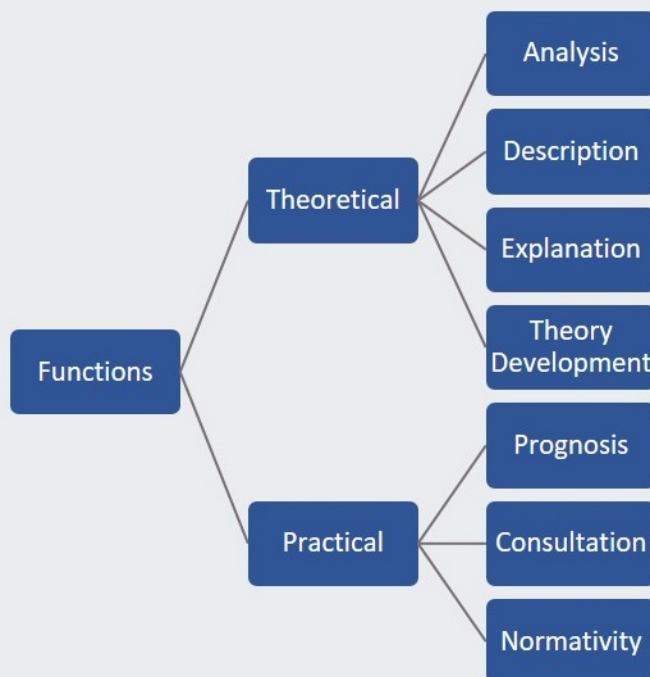
### 2.1 The approach of Evolutionary Institutionalism

#### 2.1.1 Functions of theories

The European integration process has been accompanied by theoretical and practical considerations and approaches. They serve to analyse, explain and predict in particular the development in the context of the European Union and its predecessors since the end of the Second World War. Research approaches comprise methods and terminology, levels of analysis and hypotheses and have different functions (see figure 2).

For theoretical analysis and description of important factors and actors of the integration process it is necessary to focus and thereby simplify the reality to a certain extent. Many theories aim at the explanation of the integration process and some provide prognosis for future integration and/or disintegration developments (Giering, 1997, p. 12 ff.). Furthermore, following their explanatory model some approaches even offer practical potential recommended action like overall political recommendation for organisations or mission statements (Lempp, 2018, p. 276).

Figure 2: Functions of Theories



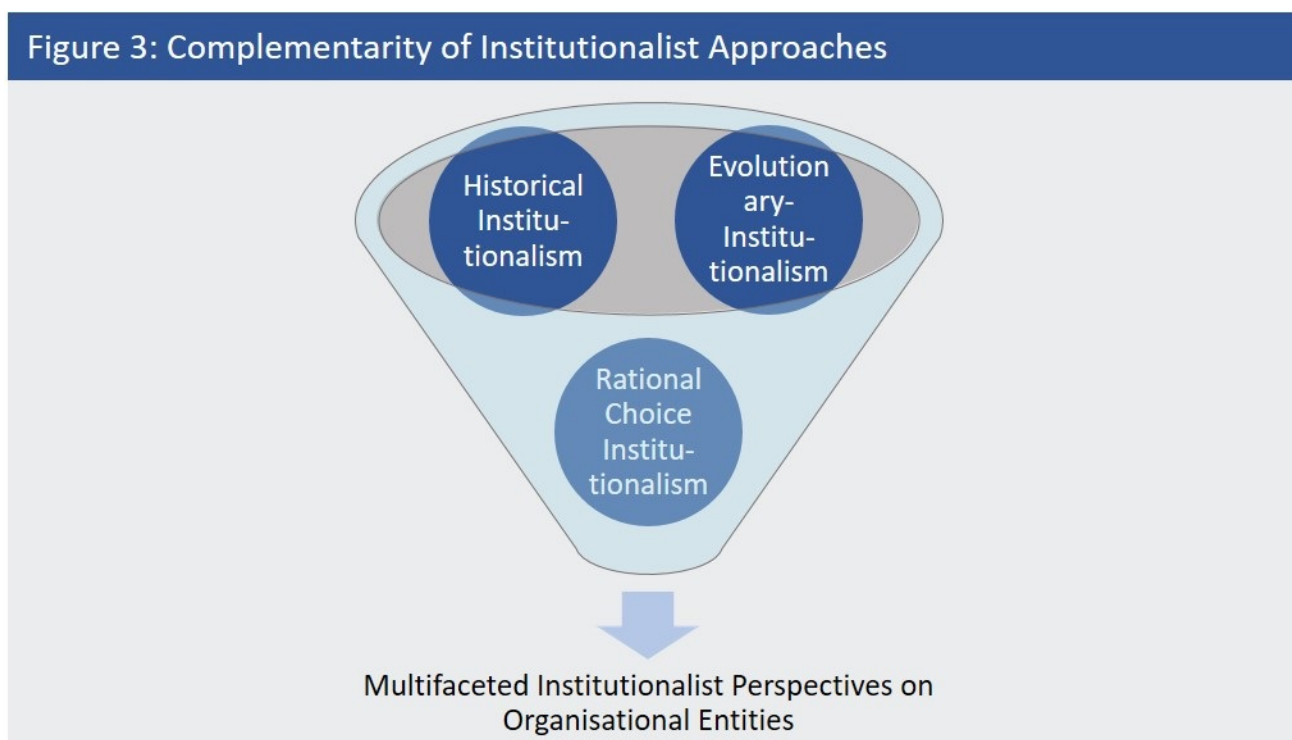
Source: author's own figure.

Apart from the established theoretical approaches of European integration e. g. intergovernmentalism or (neo-)functionalism an increasing differentiation on the one hand and focusing on the other can be observed. Yet current research in the field of European integration theory also focuses on the poly-crisis and phenomena of disintegration in the EU (Treude, 2019, p. 37; Grimmel, 2020).

### 2.1.2 Evolutionary Institutionalism

Evolutionary Institutionalism is a relatively young and idea-oriented (neo-)institutionalist approach asking which role institutions play in the integration process without a teleological focus. It is based on the theory of evolution which has been applied to many disciplines in natural and social sciences (Patzelt, 2007). Manyfold explanatory and interpretative patterns for institutional change enable to analyse organisational entities in a dynamic environment. By providing historical and multifactorial analytical criteria the approach allows to draw theory nearer to the complexity of reality.

Evolutionary Institutionalism as “an integrated, consistent and comprehensive approach” offers a dynamic and procedural view of institutional change and their members within their respective environment by analysing explanatory variables for institutional evolution and change (Fürstenberg, 2016, p. 58). The challenge is to operationalise the high degree of abstraction of the approach applying this approach to the case of the European Green Deal as part of the economic policy in the EU. The approach of the Evolutionary Institutionalism has been developed by the two German scholars Patzelt and Lempp and was applied in some case studies (cf. Bochmann, 2018; Hambloch, 2016; Bai, 2019).



Source: author's own figure.

With regard to the established approaches Historical Institutionalism and Rational Choice Institutionalism Fürstenberg argues for a complementary perspective of Evolutionary Institutionalism. Historical Institutionalism takes historical dimensions and contexts and thus path dependencies into account, whereas Rational Choice Institutionalism includes rational preference settings (see figure 3). To a certain extent Evolutionary Institutionalism is able to balance the weaknesses of Historical Institutionalism as an ex post facto approach lacking a decision-making perspective and the deficiencies of Rational Choice Institutionalism focusing on generalisable results fitting in models that reduce the

complexity of reality. In sum, Evolutionary Institutionalism as an interdisciplinary approach incorporates rational choice concepts and historical context as explanatory variables and integrates “a much tested and successful biological theory into political science” (Fürstenberg, 2018, p. 57).

*“Evolutionary Institutionalism offers a complex evolutionary model for the analysis of institutional fitness, stability and change of the EU institutions and policies”*

The analysis of institutional change on the basis of Evolutionary Institutionalism offers a complex evolutionary model taking into consideration various causes of fundamental institutional change, but also individual learning, natural selection and randomness. Further research could focus on the analysis of (structural) burdens for the European Commission in economic policy by the EU-Treaties. In general, future research may apply Evolutionary Institutionalism on EU research and questions of institutional stability, change and fitness of (EU) institutions. Using the theoretical approach for the analysis of institutional guiding ideas such as supranationality or intergovernmentalism it could be added by extending its instruments to disintegration phenomena such as Brexit. Furthermore, it could also serve as a basis for (political) consultancy.

## **2.2 Institutional fitness: the institution´s ability of survival**

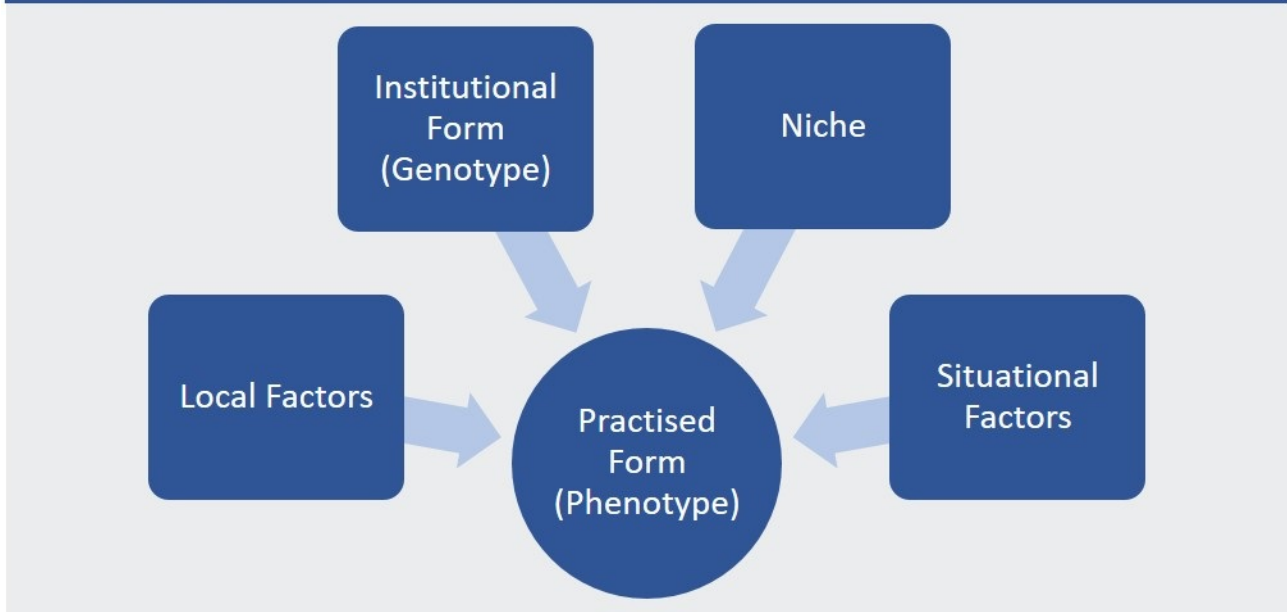
### **2.2.1 Institutions**

Evolutionary Institutionalism is based on an evolutionary-theoretical approach that transfers knowledge of the evolutionary theory to the analysis of the origin, stability and change of institutions. Institutions like biological species “are embedded in an interactive environment that they use to draw resources from and perform functions for and in which they compete with others” (Bochmann, 2011, p. 8).

However, Evolutionary Institutionalism is not a mere reductionist approach of the biological theory. Institutions can be understood “as a rule that determines a form or function“ (Fürstenberg, 2016, p. 48) and as relatively firm social structures. They are characterised by stability on the one hand, yet also by flexibility and adaptability on the other. The institutional form is based on a set of informal and formal cultural patterns, norms, routines and rules as targets, equivalent to the genotype. This cultural set as well as changes in the niche and local, situational factors influence the practised form of an institution (see figure 4), the equivalent to the phenotype. Thus, the practised form is crucial for the actual behaviour of its members (Lempp, 2009, p. 50 ff.).

The biological term “niche“ comprises the physical and environmental conditions of a species interacting with other species. The niche of an institution contains 1. on the demand side: the scope and scale of required resources for its survival, functioning and stability and the institutional actors managing the resources, and 2. on the supply side: the environment influencing the institutional functions and its competitors offering the same or substitutive functions. The term niche refers to those elements of the environment and the institution that might be subject to change by institutional mutations (Bochmann, 2011, p. 12 f.).

Figure 4: Determinants of the Practised Institutional Form



Source: author's own figure.

Beside an ordering and regulating function institutions provide orientation to the external and internal stakeholders. As such, institutions form a systemic frame for the reductions of transaction costs (Altner, 1992, p. 60). Evolutionary Institutionalism leads to the insight that institutions might be as well explaining (explanans) variable as explanatory variable (explanandum). The analysis of institutions with Evolutionary Institutionalism mostly results in a dynamic and long-term view of the institutional adaptation processes to their niche consisting of those environmental elements that have an impact on the reproduction and function fulfilment. A crucial assessment criterion of institutional performance and fitness is how effectively and efficiently an institution can adapt to the niche and possible changes within this niche (Lempp, 2009, p. 50 ff.).

***“As central elements guiding ideas legitimate the existence of an institution“***

For the stability of an institution, it is ideal when its members share the set of guiding ideas and the cultural framework as long as this set guarantees the institution's survival. The guiding ideas of an institution provide the framework for rules, norms, the knowledge base, cultural patterns and routines. It includes information about the purpose and aim of the institution's existence thereby providing the basis for identification, orientation and action of its members. As central elements guiding ideas legitimate the existence of an institution and provide the highest level of stability of all its elements (Lempp, 2009, p. 76 ff.).

When new members, novices, join an institution they introduce new ideas or knowledge which have an impact on the current generation of members. Cultural patterns change from within the institution and from outside. Such mutations, variations “of the institutional blueprint”, can be transmitted to the next institutional generation (Bochmann, 2011, p. 10). In the long run “those traits that result from beneficial variations will be retained, while others disappear” (Bochmann, 2011, p. 11).

### 2.2.2 Fitness criteria

What is crucial for institutional fitness with regard to its reproductive efficiency, stability and durability in the niche? If institutions are able to adapt successfully to different situations of niche turbulences they can ensure their survival.

In order to assess institutional fitness two main criteria are crucial: adaptation to the current niche and the future adaptability to possible dynamics and changes of their niche (see figure 5). Adaptedness reflects the survival probability in different niche settings in general and concrete niche situations in particular. Therefore, evaluation and fitness criteria of institutions are not an absolute result but always relative and dependent on the niche situation. An institution is successful if it keeps its guiding ideas and claims of validity attractive for individuals who accept them as guidelines and orientation for action (Lempp, 2009, p. 151).

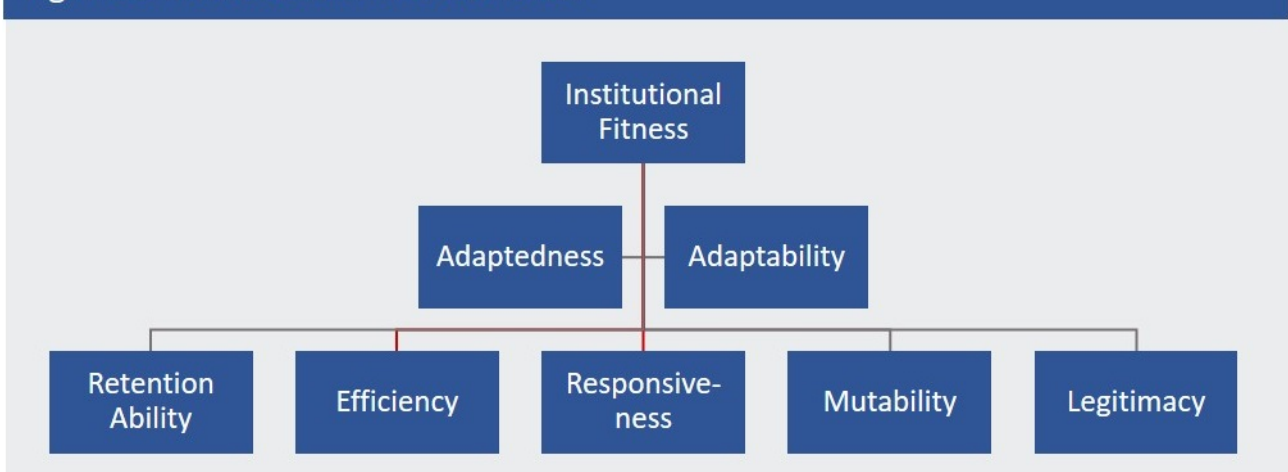
*“There are different criteria for the fitness of an institution“*

Different institutional fitness criteria can be identified: If an institution succeeds in optimising the target-means relationship by using the resource-input from the niche for the scope of institutional performance and supply it is efficient (efficiency).

Other fitness criteria are the acceptance of an institution by its stakeholders (legitimacy) and the institution’s ability to disseminate efficiently its form, norm and rules and thus successful problem-solving strategies to new member cohorts (ability of retention). This implies that bringing in human cognitive characteristics as an explaining factor for institutional change is logical as institutions are human social systems (Lewis/ Steinmo, 2012, p. 2f.).

Furthermore, an institution is fit when it is able to adapt effectively to niche turbulences taking advantage of efficient flexible structures (mutability) and to react adequately to environmental changes (responsiveness) (Lempp, 2009, p. 153 ff.).

Figure 5: Institutional Fitness Criteria



Source: author’s own figure.

Mems, defined as configurations of information, are crucial for the form and guiding idea of an institution and thus for the acceptance by its members. Mems carry burdens such as cultural patterns, rules, routines, interpretation schemes or knowledge. Fundamental structures of an institution “carry all other superficial institutional layers as their burdens” (Bochmann, 2011, p. 11).

Interacting with each other mems also play a fundamental role for the process of inheritance. Their reproduction mechanism is subject to imitation with different reproductive efficiency. Compared to gens in the biological theory of evolution mems have a wider spectrum of inheritance patterns because institutional members can inherit characteristics which they have acquired during their lives (Lempp, 2009, p. 43 ff., p. 117 ff.).

However, if an established institution is well-adapted to its niche it might remain relatively or completely stable (stabilizing selection). Even if there is need for institutional change there might be different forms of interfering burdens that could impede adjustment and variation processes (Lempp, 2009, p. 100 ff.).

## **2.3 Institutional change: the institution’s ability of innovation**

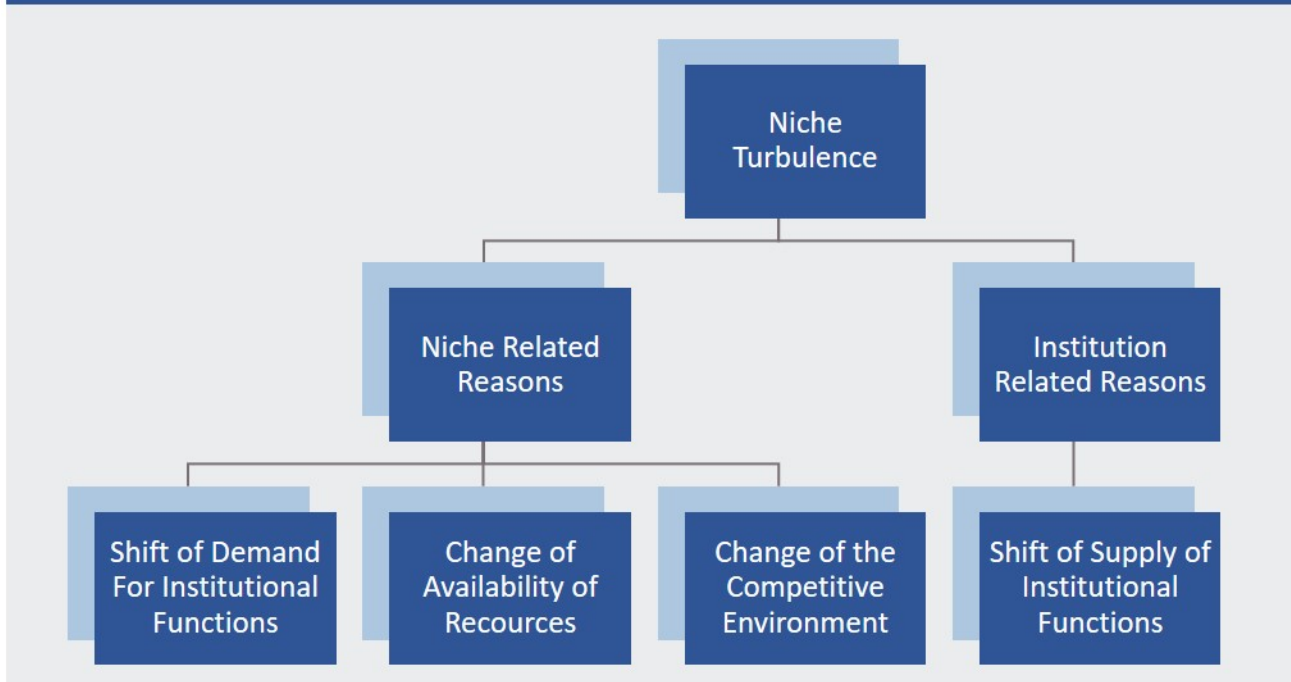
### **2.3.1 Causes of institutional change**

Evolutionary Institutionalism differentiates between niche-related reasons and institution-related causes for institutional change. Niche-related causes may be linked to niche turbulences related to changes of the resource availability, the behaviour of the demanders of institutional functions and services or the competitive situation with existing or new players. Institution-related reasons for institutional change derive from changes in supply of institutional services as a cause for niche turbulences (see figure 6) (Lempp, 2009, p. 151).

*“Institutional change might be triggered by randomness, the principle of natural selection and the possibility of individual learning as influencing factors“*

Institutional change may be triggered by randomness, the principle of natural selection and the possibility of individual learning as possible influencing factors (Lempp, 2009, p. 130 ff.). In contrast to Rational Choice Institutionalism or Historical Institutionalism, Evolutionary Institutionalism regards individuals as interwoven with each other and the institutional structures but at the same time as free to change or leave the institution (Fürstenberg, 2016, p. 53).

Figure 6: Causes of Institutional Change



Source: author's own figure.

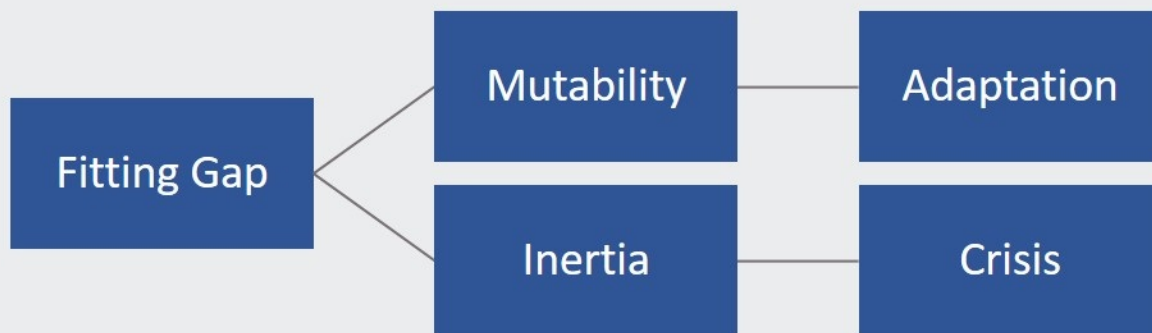
If there is niche turbulence, what are the basic mechanisms of adaptive institutional change? Normally, there must be institution-exogenous and institution-endogenous factors for institutional change at the same time. Institution-exogenous factors arise from niche turbulences and refer to the demand side for institutional change while institution-endogenous factors refer to institutional mutability i. e. the ability of adaptive institutional change and refer to the supply side for institutional change.

***“Niche turbulences might induce fitting gaps between the institution and its niche”***

However, a fitting gap between the institution and its niche occurs or can grow when niche turbulences and necessary institutional adaptation do not develop simultaneously and/or successfully. In sum, institutional change requires 1. a fitting gap and advantageous external selection conditions inside the niche such as demand for the availability of resources, and 2. the mutability of the institution and advantageous internal selection conditions such as the ability of innovation and implementation in the practiced form. However, if there is a fitting gap (see figure 7) and the demand for institutional change but no mutability of the institution it enters into a state of inertia and crisis (Lempp, 2009, p. 135).



Figure 7: Reactions to a Fitting Gap



Source: author's own figure.

### 2.3.2 Process of institutional change

Most commonly institutional change is triggered by changes in the niche and a resulting pressure to adapt owing to the lack of fit between institution and niche. Therefore, the complex process of institutional change must be considered in more detail: Institutional change and changes in the niche do not necessarily occur parallelly to each other: A current lack of institutional fit might have been caused by former change in the niche and/or institutional change.

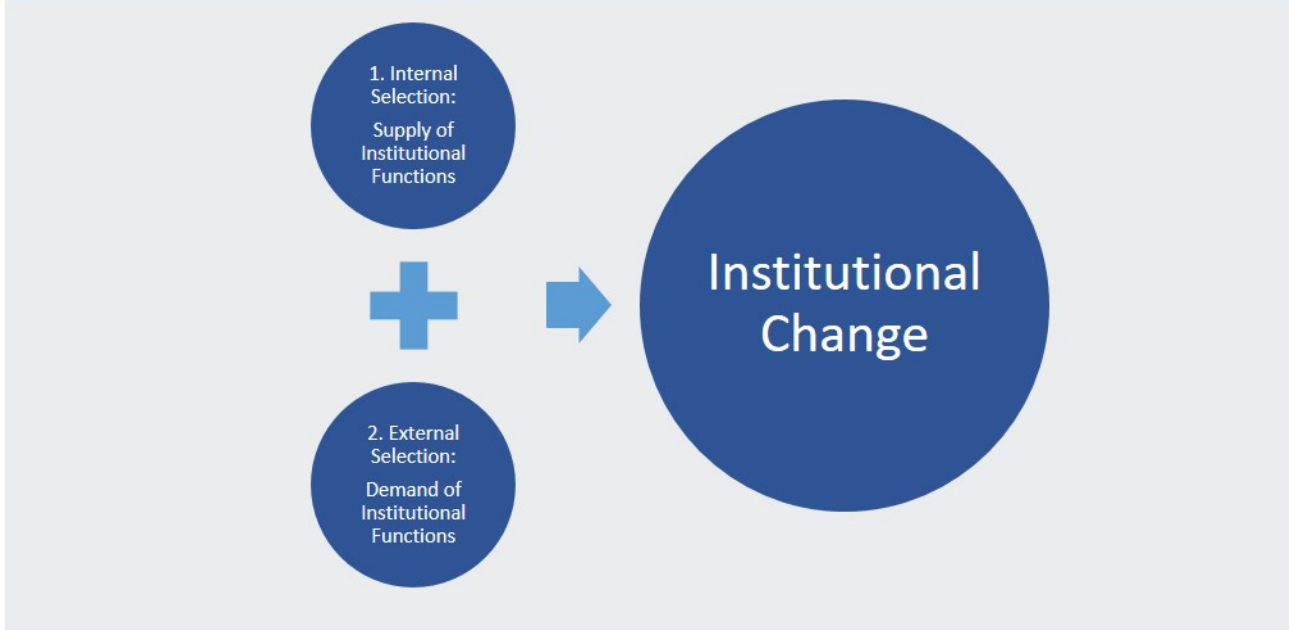
There is differentiation between external and internal fit. External fit relates to the degree of fit between institution and niche whereas internal fit comprises the compatibility between an innovation and the existing institutional form and the acceptance with the members of an institution.

*“Institutional change is two-stage selection process”*

Internal fit is the first step in a two-stage selection process of institutional change (see figure 8) as a framework in which innovations are translated into action within an institution (internal selection). After the institution has been changed internally, in a second step a high level of external fit between the institution and the niche (external selection) in the selection process is a prerequisite for sustained institutional subsistence (Lempp, 2009, p. 171).

In case the internal and/or external fit of an institution in its niche is not ideal after a process of institutional change, the fitness criteria will reveal inadequate levels of performance. By contrast, if a mutation in the processes of internal and external selection proves to be successful for the survival and reproduction probability of the institution, “the algorithm of evolution makes sure that those traits that result from beneficial variations will be retained, while others disappear” (Bochmann, 2011, p. 11).

Figure 8: Two-Step Selection Process of Institutional Change



Source: author's own figure.

In summary, the underlying assumption is that gradual institutional change can be understood as an evolutionary process. In the case that the mutation has a negative impact on the probability of the institution's survival it will be withdrawn. Fundamental institutional change is a result of successful internal and external selection because the institution has gained a competitive advantage in relation to other actors in the niche (relative selection). If it fails to adapt successfully to the essential life-sustaining needs of institutional change in its niche it will not be able to survive (absolute selection) (Lempp, 2009, p. 151).

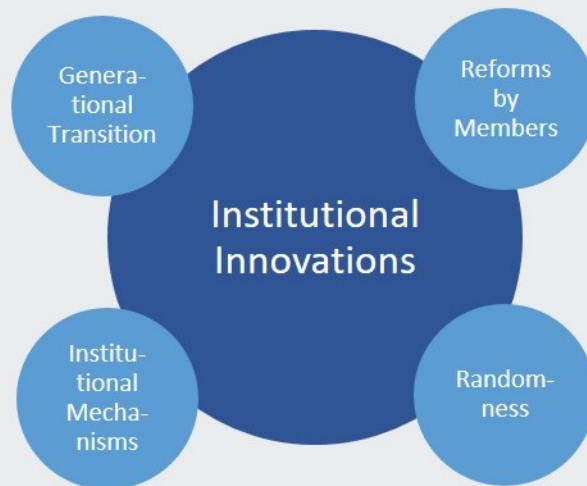
### 2.3.3 Innovations

Innovations are central for institutional change. How do innovations in the form of new rules, routines, knowledge and cultural patterns in institutions originate? There might be intentional and unintended changes and mutations (see figure 9). When members of an institution react to a perceived lack of fit intentional changes of the institutional form i. e. reforms can result in mutations of the institutional form. If and how successful those reforms are, depends on many factors and developments in the niche and the institution.

*“Relationships of cause and effect are difficult to measure“*

Unintended mutations of the institutional form occur due to different forms of randomness. Mutations of the institutional form can be caused by a transition from one member cohort to the next provided that new members introduce new cultural patterns, knowledge and values in the institution. Besides, there might be intra-institutional and inter-institutional mechanisms such as mutually reinforcing positions, interests and rules which have a long-term impact on the institutional guiding ideas can induce their change. However, relationships of cause and effect are difficult to measure (Lempp, 2009, p. 136 ff.).

Figure 9: Origins of Institutional Innovations

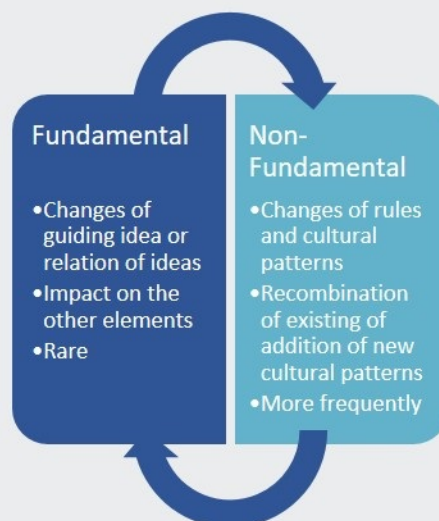


Source: author's own figure.

### 2.3.4 Forms of institutional change

Non-fundamental institutional change can be distinguished from fundamental institutional change (see figure 10). Changes of rules or mems as cultural patterns which are passed among humans are typical for non-fundamental institutional change. Institutions remain stable when there is no change of the guiding ideas. When a guiding idea changes fundamentally it will most likely have an impact on the other elements like the structure, processes, contents and interpretations of an institution and its members (Lempp, 2009, p. 128 ff.). Fundamental institutional change is rare whereas mere changes of the external characteristics of an institution by recombination of existing or the addition of new cultural patterns occur much more frequently (Bochmann, 2019, p. 102).

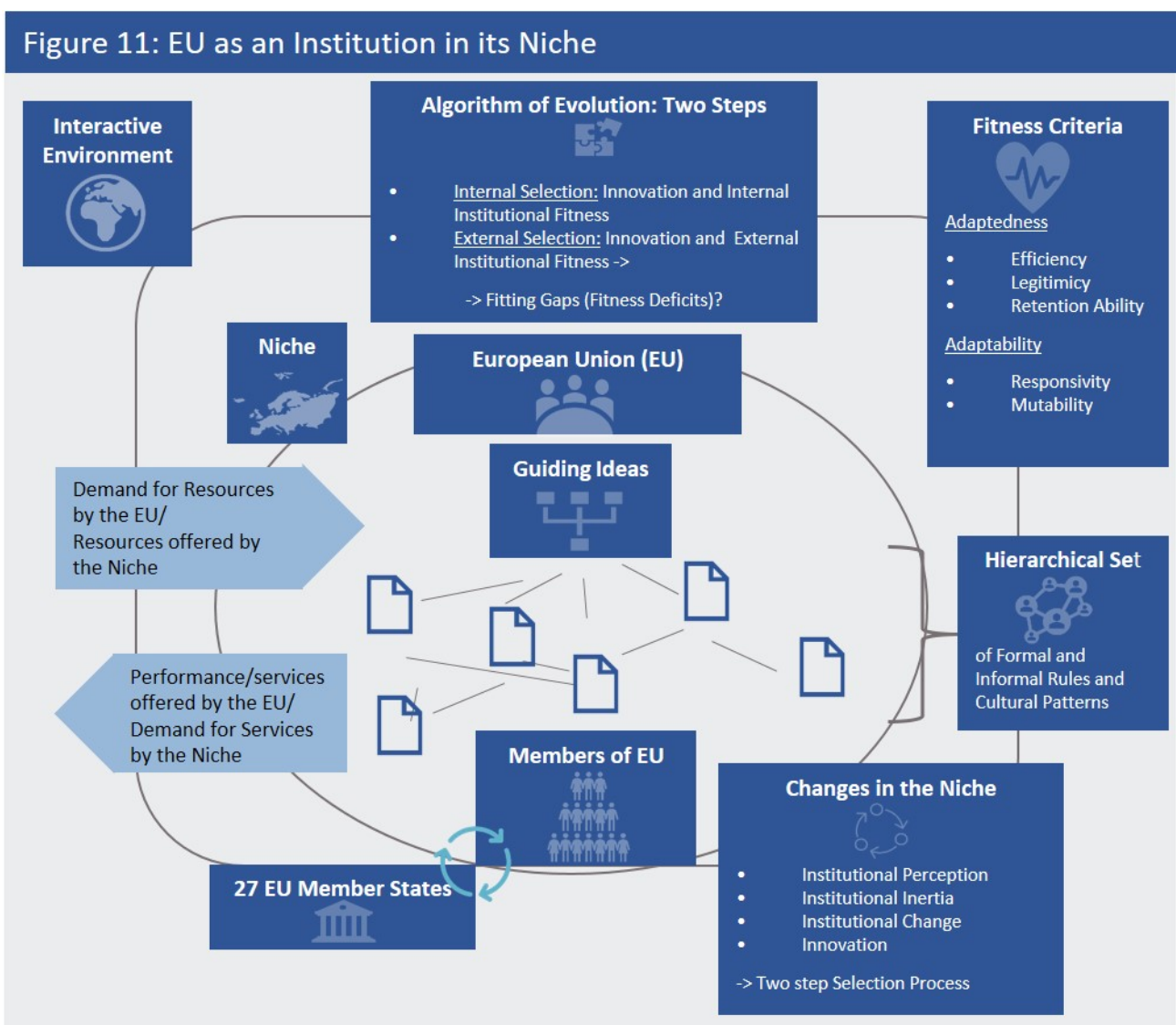
Figure 10: Fundamental and Non-Fundamental Institutional Change



Source: author's own figure.

Basically, there can be intentional and unintentional changes of the institutional form i. e. of the guiding ideas, functions, structures and mechanisms. Besides an institution could have an impact on the niche thereby increasing its own fitness without any changes in the institution itself. Institutions may change their micro- and macro-environment constituted by technical, legal, political, economic or cultural settings. If an institution makes adaptations to a changed niche deliberately this can lead to damages or at worst even threaten the very subsistence of the institution. Less risky are changes of those elements apart from the guiding ideas or other elements with strong burdens.

By contrast measures taken by an institution resulting in a higher level of acceptance with its stakeholders could have a risk-reducing effect. If adaptation is successful, there will be a gradual development of structures fixing the new burdens and impeding their later change (Lempp 2009, p. 163 ff.). In any case, the relationship between adaptation measure and effect is very complex. In sum analysing the EU with the approach of Evolutionary Institutionalism results in a sophisticated model displaying the community as a living organism with symbiotic and interacting relations to its members and other actors in its niche (see figure 11).



Source: author's own figure.

### **3 EUROPEAN ECONOMIC POLICY AND THE EUROPEAN GREEN DEAL - AN ANALYSIS BASED ON EVOLUTIONARY INSTITUTIONALISM**

#### **3.1 The role of European economic policy for institutional fitness of the European Commission**

Which (strategic) options has the EU to shape economic policy? Related thereto is the question how fit the European Commission is in the field of economic policy with regard to its guiding idea of supranationality. Is it innovative enough to increase its institutional fitness?

##### **3.1.1 European economic policy**

The two basic paradigms of the EU are supranationality and intergovernmentalism which are displayed in its structures, processes and task assignments to the institutions. In the EU the combination of European and national institutions plays a significant role in the EU multilevel-system (see figure 12). National governments are represented in the European Council and in the Council of the European Union as intergovernmental EU institutions. The European Commission, the European Parliament, the European Court of Justice and the European Central Bank are supranational institutions representing the European interest.

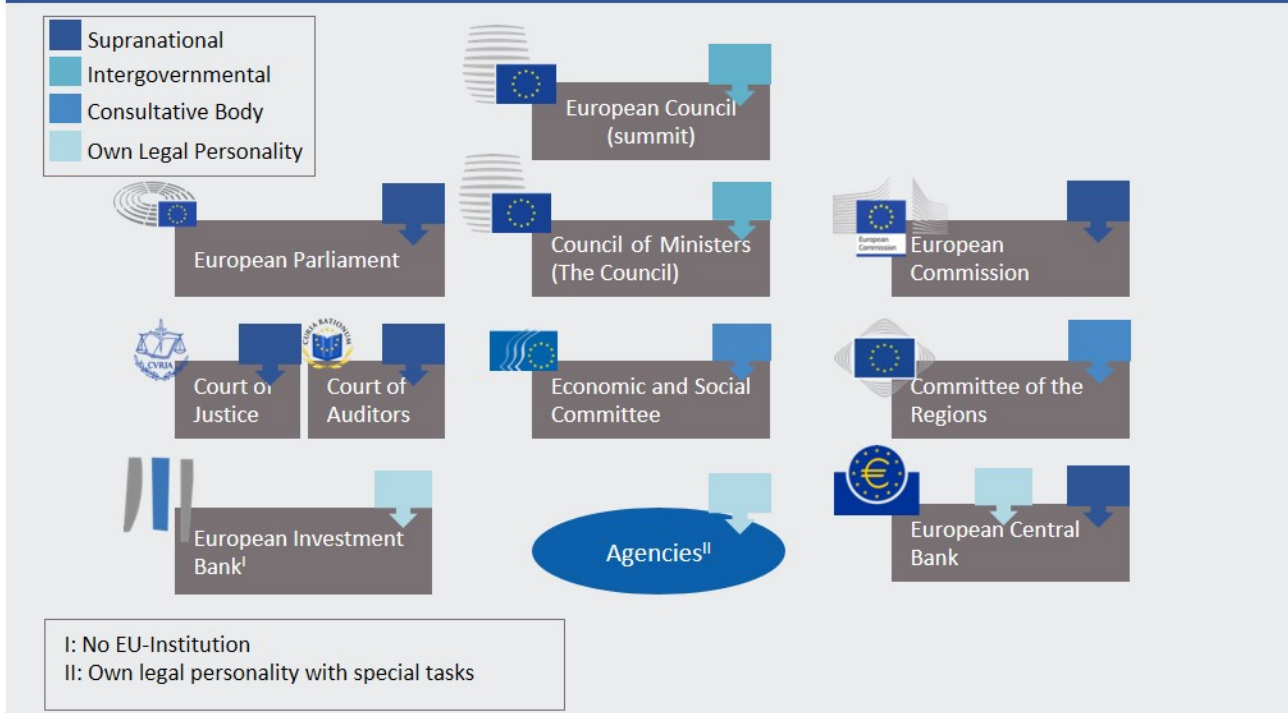
Member Countries have ceded authority and sovereignty in some policy fields to the EU as a supranational entity, whose decisions in those fields are binding on its members. While the European Commission is the central executive and is obligated to the general interest of the EU it represents its supranational idea (Article 17, EU, 2010).

*“The European Commission is the supranational organ “par excellence””*

In the light of the coordinating, executive and administrative functions and the right of initiative the Commission is the supranational organ “par excellence” (Weidenfeld, 2020, p. 135). According to the treaties it has the task of budget and programme planning, administration and representation of EU externally. Furthermore, the Commission monitors the application of the EU law under the supervision of the European Court of Justice (Article 17, EU, 2010). As external agenda setter it has the monopoly of initiative for legislative action on the basis of the treaties but does not vote on them (Pappi/Henning, 2003, p. 289).

To become an EU law the European Commission initiates formal policy proposals and starts a consultative process with representatives from different interest groups, the civil society and national and local governments and authorities. Once a proposal is formally adopted by the European Commission, the Council of Ministers and the European Parliament discuss the proposal and both must be adopted by both. In short, member states share decision making on matters that they have assigned to the EU (EU, 2021).

Figure 12: Institutions of the EU



Source: author's own figure on the basis of: European Commission (2021h).

The community's economic policy does not belong to those policy fields for which the necessary legal basis exists in primary law. Nevertheless, with respect to the coordination of the economic and employment policy the EU has specific competences with the possibility to go beyond the principles laid down in the treaties (European Commission, 2020a).

Article 3 EUV comprises the aim of a "sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance." (Article 3, EU, 2010). In articles 2 to 5 TFEU, provisions regarding categories and areas of unions competence, in articles 119 to 144 TFEU, provisions regarding economic and monetary policy, and in articles 282 to 284 TFEU, provisions regarding the European Central Bank, it is laid down, that the Member States "shall coordinate their economic and employment policies within arrangements as determined by this Treaty, which the Union shall have competence to provide" (EU, 2010).

*"The EU is based on the treaties as a rule of law."*

The institutional form (genotype) of the European Commission is determined by the treaties of the EU being a rule of law with supranationality is the central element of its guiding ideas. In the field of economic policy the Commission's competences are limited. However, the members involved at the European and national level are influenced by the institution's environment and by different local and situational factors shaping the practised form (phenotype).

### 3.1.2 Historical perspective

Applying the criteria of Evolutionary Institutionalism for the assessment of institutional fitness it is obvious that the Treaty of Lisbon does not provide the European Commission with supranational competences in the field of economic policy. This, in turn, focuses attention on the question of how the European Commission has made efforts to implement the supranational idea as benchmark for orientation and action in the field of economic policy. Can supranationalisation of the economic policy in the EU be stated aiming at optimizing the European Commission's institutional performance and supply (efficiency)?

When institutionalisation takes place "the phenotypes of the members of institutions grow more and more similar" (Bochmann, 2011, p. 9). It results in a more compliant behaviour of the institutional members with stabilising effects on the institution. Is a political process identifiable in which the Commission tries to convince national actors to orient themselves to a centralised European economic policy and thereby increasing its acceptance with its stakeholders (legitimacy) (Lempp, 2009, p. 153 ff.)?

*"Since the launch of an economic and currency union with the Treaty of Maastricht the European Commission has enlarged its competences in economic policy"*

European economic policy can be characterised by the elements of economic constitution and economic process policy. On the basis of the concept of social market economy and the EU treaties the European Commission is responsible for the competition policy in the EU. Since the signature of the Treaty of Maastricht 1992 it has enlarged its fields of competences in economic policy (European Commission, 2020e).

The EU single market was introduced with the European Single Act and complemented in the Treaty of Maastricht by an economic and currency union and a supranational monetary and currency policy for the Eurozone countries (see figure 13).



Source: European Commission (2021h).

Although it was obvious that the necessary economic convergence in the EU requires a deeper macroeconomic coordination of the national policies the scope of influence assigned to the EU-organs in the treaties remained limited. The European Central Bank is responsible for the common European monetary policy and the Eurogroup coordinates policies of common interest for the euro-area. The EU Member States are responsible for the national fiscal and economic policies also setting main policy orientations in the European Council. The European Commission has gradually assumed increasing responsibility for macroeconomic coordination and monitoring of the national economic policies sharing tasks with the Council of the EU and the European Parliament (see figure 14).

*“In the latest crises it has become obvious that the intellectual design of the Economic and Monetary Union needs to be redesigned in the future“*

In regards to the external shocks of the financial and macro-economic crisis between 2007 and 2012, followed by the Eurozone debt crisis and the Covid-19 pandemic crisis, it has become obvious that the intellectual design of the Economic and Monetary Union, founded at the beginning of the 1990s, needs to be redesigned. The question arises how the interplay and macroeconomic coordination of the multi-level economic governance and its actors might be reformed in the future.

**Figure 14: Economic Governance under Economic and Monetary Union**

<p><b>The European Council</b></p> <p>sets main policy orientations</p>	<p><b>The Council of the EU (“The Council”)</b></p> <p>coordinates EU economic policy-making and decides whether a Member State may adopt the euro</p>	<p><b>The Eurogroup</b></p> <p>coordinates policies of common interest for the euro-area Member States</p>	<p><b>The Member States</b></p> <p>set their national budgets within agreed limits for deficit and debt, and determine their own structural policies involving labour, pensions and capital markets</p>
<p><b>The European Commission</b></p> <p>monitors performance and compliance</p>	<p><b>The European Central Bank (ECB)</b></p> <p>sets monetary policy, with price stability as the primary objective and acts as central supervisor of financial institutions in the euro area</p>	<p><b>The European Parliament</b></p> <p>shares the job of formulating legislation with the Council, and subjects economic governance to democratic scrutiny in particular through the new Economic Dialogue</p>	

Source: European Commission (2021i).



How the ongoing reform of intellectual and institutional design of EU-governance will be oriented towards future crisis prevention and resilience remains to be seen. In the Eurozone the creation of an independent fiscal authority “to achieve the right combination of inflation, output, interest rates, and sovereign risk” would require new legislation (Reichlin/Schoenmaker, 2020; Reichlin 2020). Anyway, even though the Member States are responsible for their fiscal and economic policies over the years the European Commission succeeded in extending its influence gradually on the national economic policy and also on the employment and social policies by the EU’s ten-year strategies (see figure 15).

Figure 15: The Genesis of EU Economic Governance	
Year	
1992	Treaty of Maastricht: introduction of Euro as common currency and convergence criteria: annual government deficit $\leq$ 3 % of GDP, government debt $\leq$ 60% of GDP
1999	Stability and Growth Pact: enters into force
2010	European Semester: kick-off monitoring of both budgetary and economic policies
2011	Six new laws, known as the “six-pack”: closely monitoring, coordination and enforcement of economic governance of EU countries
2012	Treaty of Stability, Coordination and Governance in the Economic and Monetary Union: Euro area Member States agree to make the goal of balanced budgets part of their national constitutions
2013	Two new laws, known as “two-pack”: euro area Member States agree to prepare their budgets according to common standards and a common timeline, submitting drafts to the Commission and each other
2015	Five President’s Report „Completing Europe’s Economic and Monetary Union“: ambitious plans and measures (e. g. introduction of national Competitiveness Boards and an advisory European Fiscal Board) for deepening the Economic and Monetary Union and to complete four Unions: an Economic, Financial, Fiscal and Political Union
2020	Economic governance review by the European Commission: Findings: “The review acknowledges that the current EU fiscal governance framework has grown excessively complex”
2021	„Recovery and Resilience Facility“: Submission of national Recovery and Resilience Plans (RRP), including targets, milestones, estimated costs, and assessment of the national plans by the European Commission

Source: European Commission (2020c), (2020e), (2021j).

The economic policy coordination ranges from the monitoring of the financial markets to a multilateral coordination of the national economic policies in the Council of Ministers and the fiscal policy in the Economic and Monetary Union (Adam/Mayer, 2020, p. 312 ff.). The Maastricht convergence criteria played a significant role serving as macroeconomic indicators to evaluate if countries are prepared to adopt the euro and economic integration and convergence. Among others the key figures refer to price stability, sustainable public finances, to exchange-rate stability and long-term interest rates (see figure 16) (Becker, 2020, p. 9 ff.; European Central Bank, 2021).

Figure 16: Maastricht Convergence Criteria

What is measured	Price stability	Sound and sustainable public finances	Durability of convergence	Exchange rate stability
How it is measured	Harmonised consumer price inflation	Government deficit and debt	Long-term interest rate	Exchange rate developments in ERM II*
Convergence	A price performance that is sustainable and average inflation not more than 1.5 percentage points above the rate of the three best performing Member States	Not under excessive deficit procedure at the time of examination	Not more than 2 percentage points above the rate of three best performing Member States in terms of price stability	Participation in ERM II* for at least 2 years without severe tensions, in particular without devaluing against the euro

\* ERM II = Exchange Rate Mechanism II: a system to reduce exchange rate variability and achieve monetary stability in Europe.

Source: European Commission (2021a).

The fiscal-political regulations in the Stability and Growth Pact which entered into force in 1998 have been complemented by gradually developed structures of EU economic governance. The aim of the Stability and Growth Pact is to enhance the Treaty provisions on sound public finances as a prerequisite for sustainable growth and employment. Since then, the process of goal setting has been consensus-oriented between Commission and Member States. The implementation falls under national responsibility based on the Open Method of Coordination that has its origins in economic policy coordination aligning Member States’ policies towards the Economic and Monetary Union. It became more visible with the Lisbon strategy of economic and social reform (2000) (see figure 17). “Achievement of the Lisbon goals of economic, employment, social (and later environmental) reform was said to rely – at least in part – on the development of techniques designed to encourage policy learning, the exchange of best practices and information” (Armstrong, 2016, p. 5).

*“Member States orient their national policies to common objectives”*

Instead of assigning the task to EU institutions, Member States orient their national policies to common objectives. Under the surveillance of the European Commission, they evaluate each other intergovernmentally in a form of peer pressure. The macroeconomic surveillance was complemented by a European innovation scoreboard in 2001. On the basis of a comparative analysis of innovation performance in EU countries, other European countries and regional neighbours it “assesses relative strengths and weaknesses of national

innovation systems". The aim is to enhance the competitiveness of research and innovation (European Commission, 2021f).



Source: author's own figure based on: Eurostat (2013).

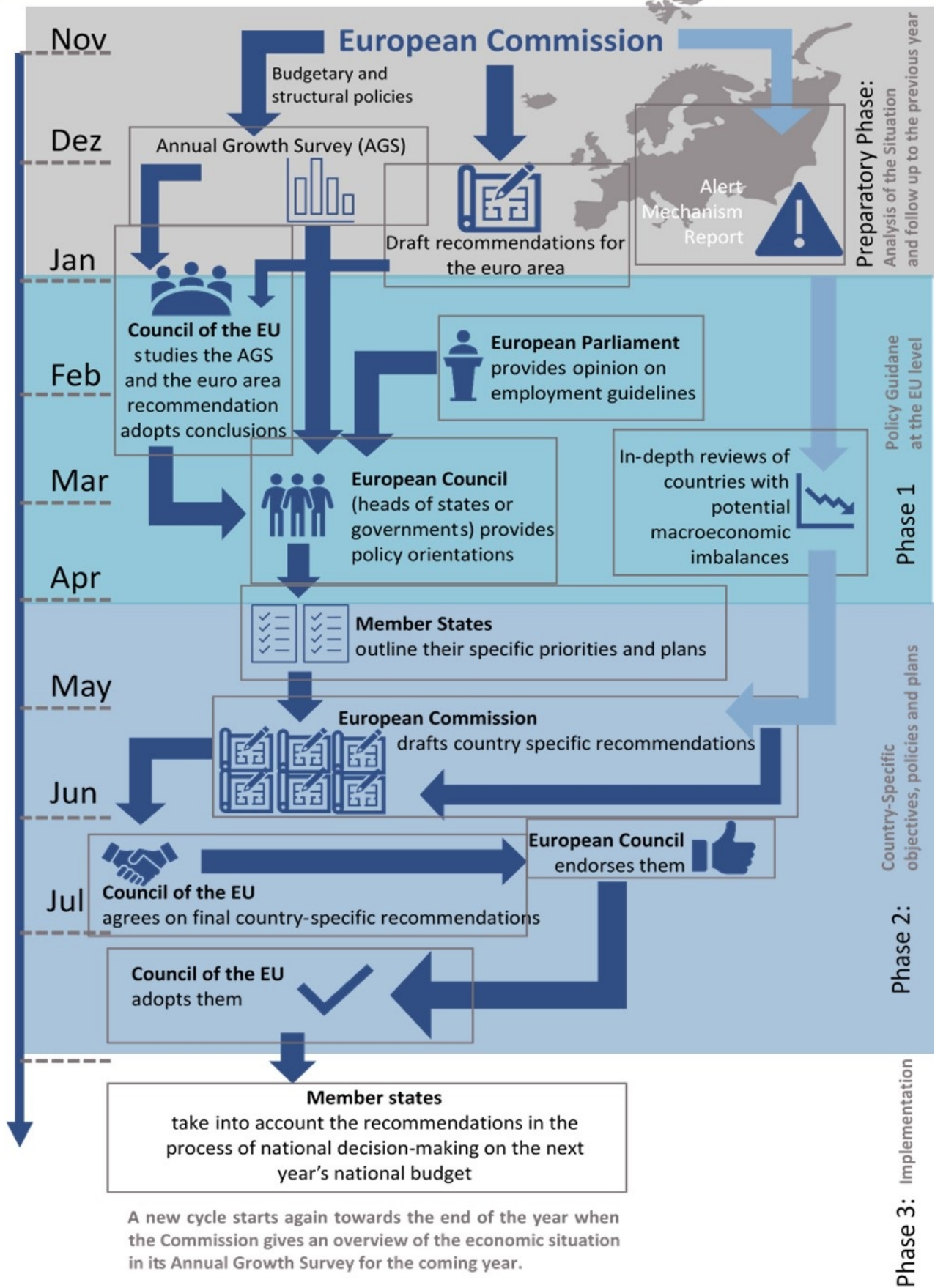
However, due to the global financial and macroeconomic crisis 2008–2013 and the so-called sovereign debt crisis particularly in some Eurozone countries afterwards the main focus shifted to basic macroeconomic questions, in particular to how to stabilise the Eurozone. The financial, economic and currency crises revealed the extent of socio-economic heterogeneity of the Member States in the Economic and Monetary Union. Economic asymmetries and inadequate policy coordination became apparent. 2011 marks a turning point after the global financial and economic crisis started a process of reinforced economic and budgetary monitoring and coordination within the framework of the European Semester (Bernanke et al., 2019, p. 11 ff.).

Not the implementation of the reform goals was the real task but the development of an ever closer, more efficient coordination process with sanctions if necessary. The aim was to overcome the crisis and to create prevention and resilience mechanisms for the future. Considering the economic disparity of the Eurozone countries with the European Semester a reformed governance was created (Schmidt/Schünemann, 2013, p. 162 ff.).

*“The process of the European Semester is an annual cycle of economic and fiscal policy coordination”*

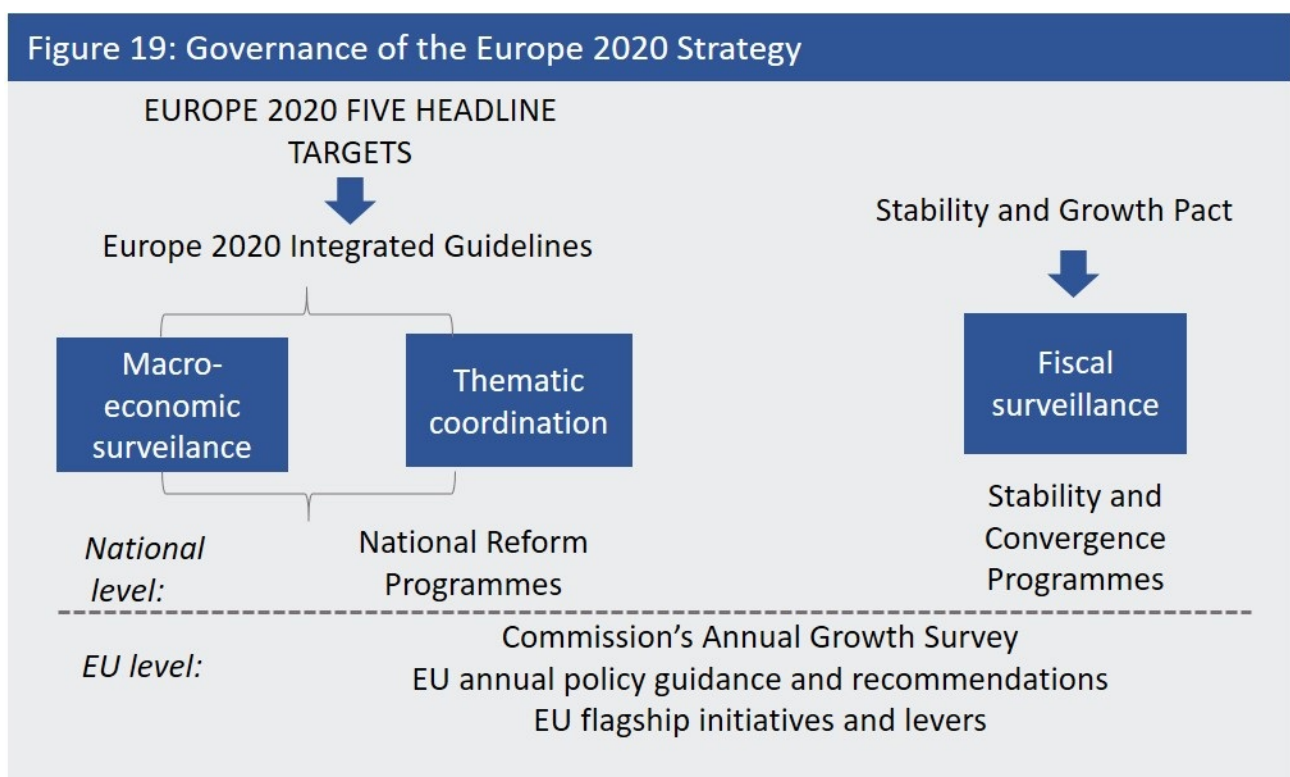
With the European Semester the EU established an alignment process of national budgetary and economic policies with the objectives and rules agreed at the EU level since 2010. The process of the European Semester is an annual cycle of economic and fiscal policy coordination: The EU Member States work on documents comprising their budgetary strategies and reform plans before these plans undergo a process of analysis by the European Commission. If necessary, it issues recommendations to the Member States which have to be adopted by the Council and then implemented in national policy-making (see figure 18). The European Semester is the central framework of processes within the EU's socio-economic governance (Becker, 2011).

Figure 18: Who does what in the European Semester?



Source: European Council/Council of the EU (2021).

The Europe 2020-strategy drew on this soft form of fiscal, social and economic policy control, surveillance and coordination (see figure 19). Thus, on the one hand the merge of fiscal budgetary aspects of the Stability and Growth Pact with the macroeconomic surveillance and thematic coordination of the Europe 2020-strategy was welcomed as “an integrated approach which is moving in the direction of a comprehensive policy mix” (Hacker/Van Treek, 2010, p. 7). On the other hand, critical voices stated that the approach assumed “a false paradigm, which ties innovation and social progress one-sidedly to the fulfilment of state debt criteria”. With the European Semester the already existing intergovernmental Open Method of Coordination was integrated in the areas of social protection and inclusion and the macroeconomic control instruments were adjusted. The reformed EU governance acknowledged that economic, employment and social policies of interdependent national economies are crucial for a stable macroeconomic environment particularly in the euro area.



Source: European Commission (2010).

After the President of the European Commission, Jean-Claude Juncker, had not presented a new ten-year strategy, Mrs. von der Leyen associated the European Green Deal “with the aim of transforming the EU into a fair and prosperous society with a modern, resource-efficient and competitive economy” (European Commission, 2020b, p. 1). Thus the EU follows the new economic policy of a “green economic growth”, which has been defined in greater detail since the turn of the millennium also by the Organisation for Economic Cooperation and Development (OECD, 2011).

In sum, European economic policy starts with planning and strategy documents to be developed to align the approaches of the EU Member States towards a common understanding of problems and goals as matters of mutual interest according to Art. 121

AEUV. At best the result is an agreement on coordinated common reactions and steps for actions in national economic policies (Becker, 2020, p. 19 ff.). Evaluating this development since the 1990ies it might be interpreted as tendencies of unitarisation characterized by a concentration of tasks, the harmonisation of jurisdiction and a continuous coordination of executive policies at the European level (Becker, 2020, p. 33).

After the European Commission and Council have activated the “general escape clause” of the Stability and Growth Pact, Member States are allowed to temporarily depart from the normal budgetary requirements. De facto the numerical fiscal adjustment requirements from the Pact have been suspended as long as this does not endanger fiscal sustainability in the medium term. Thus, the numerical fiscal adjustment requirements stemming from the Pact that can guide Member States' fiscal policies have been deactivated. For that reason, the “Recovery and Resilience Facility Regulation” were put into effect in February 2021. It provides “some general indications on Member States’ fiscal policy for the period ahead and its link with the funds of “NextGenerationEU”, in particular the Recovery and Resilience Facility” (European Commission, 2021e). The crisis response at the European level is in line with the unitarising development due to macroeconomic coordination and has even strengthened the Commission’s position in EU governance.

*“The crisis response at the European level strengthens the Commission’s position”*

Member States assisted by the European Commission have to prepare recovery and resilience plans with “a coherent package of reforms and investment initiatives to be implemented up to 2026” and “supported by the Recovery and Resilience Facility”. The national plans and measures must fulfill assessment criteria outlined in an EU regulation, among others in particular targets devoted to support the green and digital transition. It is the European Commission that has assumed the responsibility to operationalise each national recovery and resilience plan into legally binding acts including financing agreement/loan agreement, operational arrangements. Only then the Council can adopt the Commission’s proposal. The scope of EU monitoring has even increased: Disbursements will be linked to performance of the Member States based on milestones and targets reflecting the progress of reforms and investments of the plan (European Commission, 2021c).

Further steps towards a stronger influence on the economic governance of the European institutions are under discussion. The review of the EU’s economic governance framework “conducted in the context of the ambitions set out in the European Green Deal” has been postponed due to the Covid-19 crisis (European Commission, 2020c). The comparative Eurobarometer survey commissioned by the European Parliament showed even 2018 that 38 % of respondents in the 28 EU-Member States considered that the measures of economic policy taken in the EU were insufficient and 58 % would like the EU to intervene more in the field of economic policy. In the context of the European Green Deal the European Commission intends to continue and extend the existing economic coordination on processes with the Member States (Delivorias/Dobrevá, 2019, p. 3 ff.).

### **3.1.3 European economic policy interpreted with Evolutionary Institutionalism**

Overall, looking at the role of the European Commission in the field of European economic policy it is obvious that it has not realised its main idea of supranationality yet. In fact, this could be interpreted as an atavism stemming from the beginning of the integration process after the Second World War. The fact that the Member States are sovereign in the economic policy field whereas the EU only has complementary and coordinating competences can be interpreted as a structural burden for the European Commission. This burden was inherited from the Treaty of Rome to the current treaty and has caused a lack of internal fit inside the EU and a lack of external fit between the EU and its niche. Such a perceived partial lack of fit and a tense relationship between internal and external fit, between structural burdens and the need for adaptation are typical characteristics of institutions (Lempp, 2009, p. 108 ff.).

*“The internal fit of the EU was challenged when the Economic and Monetary Union tied the Member States with their disparities in economic performance together“*

The internal fit was substantially challenged when the Economic and Monetary Union was introduced tying the Member States with their disparities in economic performance together to a common monetary policy and a single currency at the end of the 1990s. Induced by external crises like the global financial and socio-economic crisis 2008 ff. the lack of external fit of the monetarily integrated but economically independent European economies became even more obvious. During the Eurozone debt crisis different consolidation measures of strict fiscal austerity were taken in those countries that struggled most to overcome their budget deficit problems.

*“In the sovereign debt crisis the supranational reaction aimed at sustainable public finances through strict fiscal austerity and the creation of bailout institutions“*

Supranational reaction was not limited to strategic plans as outlined before. Rather it has been accompanied by concrete actions in the field of fiscal and economic policy monetary as well as monetary policy: For better economic performance the European Semester was complemented by the Euro Plus Pact 2011 to guarantee the stability of the Eurozone allowing for non-euro area countries to participate voluntarily and focusing on competitiveness, employment, sustainability of public finances and reinforcing financial stability (see figure 20).

Besides, new bailout institutions were established: The European Financial Stability Facility (EFSF) founded by the euro area Member States 2010 served as temporary crisis resolution mechanism. It provided financial support through the issuance of bonds and other instruments on capital markets for Ireland, Portugal and Greece. The European Stability Mechanism (ESM) is a permanent fund to provide a lending capacity for Eurozone countries. The Banking Union and new laws aim at the sustainable stabilisation of the banking sector. The European Central Bank's monetary policy remained oriented to price stability but became expansionary reducing interest rates and buying bonds at a large scale in order to stabilise governments and banks (Baldwin/Wyplotz, 2019, p. 490 ff.).

Figure 20: Reactions in EU to the Global Financial Crisis

- **Commitment to the euro and to financial stability**
- **New crisis management tools and reforms of rules:**
  - European Stability Mechanism: fund to help countries in extraordinary economic difficulties
  - New laws for stability of banks
  - Banking Union: EU-wide supervision of banks and a mechanism to close down failing banks
- **Better economic governance:**
  - European Semester: annual procedure to coordinate public budgets
  - Euro+ pact, 'Fiscal compact treaty': mutual commitment to sound public finances

Source: European Commission (2021h).

In the sovereign debt crisis the Commission has tried to reduce the lack of internal and external fit by strengthening its guiding idea of supranationality in economic policy which has been reinforced since the introduction of the Single Market: Provided with a limited scope of legislative possibilities in the Treaty of Maastricht as initiator and agenda setter the Commission has strived to commit the EU Member States to common goals by common strategies, new institutions and concrete action. The incremental increase of the European Commission in the influence on the Member States' fiscal, monetary and economic policies has been positively correlated to a growing supranational EU governance.

*"Efficiency is essential for the survival of an institution"*

This induced an impact on the institutional mems of national and European political-cultural patterns and routines in economic policy which have changed significantly since. These interacting mems as integral parts of the form and guiding idea of the European Commission play a fundamental role for the process of inheritance. Shaping its micro- and macro-environment constituted by national technical, legal, political, economic or cultural settings innovatively opens up the opportunity to increase its fitness in terms of efficiency, retention ability, mutability, legitimacy and responsiveness.

Among the fitness criteria for institutions the level of institutional efficiency is essential. The European Commission succeeded in increasing its own institutional performance and output by extending its influence and limiting the scope of national sovereignty in economic policy. Issuing directives and recommendations the European Commission has worked on the basis of treaties thereby using the resource-input from its niche. With the gradual introduction of a defacto European economic governance national actors have not only been involved but to a certain extend convinced of its logic.

Another criterion of institutional fitness refers to the level of its legitimacy and retention ability: Although the Commission had started a long-term process of supranationalisation in the intergovernmental field of economic policy, European governance has been widely



accepted by old and new Member States. Their common interest in the economic advantages of integration and protection against global challenges seem to outweigh the concerns of losing sovereignty when they accept the Commission's guidelines for their legislative bodies.

*“European and national action in European economic policy are interwoven“*

However, the process of an incremental orientation to a supranational governance refers so far only to the external segments of the institutional form which serve to preserve the supranational guiding idea of the European Commission. Instead of centralisation at the European level it becomes obvious that mechanisms of European and national interaction have been established in the field of economic policy. Thus, both levels have become more and more interdependent and interwoven with each other in the sense of a functional task sharing.

### **3.1.4 Intermediate summary**

Intensified competition worldwide for investments, leading edge technologies and global crises forces the EU as a global player to adapt to its niche. When the long-term strategies and action taken by the European Commission result in a higher level of acceptance of the EU with the stakeholders this could have a risk-reducing effect and could help to gain a competitive advantage in relation to other actors in the niche. Over the long-term aligning mechanisms between Member States and the EU such as mutually reinforcing positions, interests and rules might have a long-term impact on institutional guiding ideas. This process could even result in an additional assignment of tasks to the supranational institutions within the EU in future reforms of the treaties.

## **3.2 The role of the European Green Deal for institutional change in European economic governance**

### **3.2.1 The idea of the European Green Deal**

The topics climate change and climate policy have become a focus of media attention through the demonstrations and public appearances of climate activists like Greta Thunberg since 2018. Societal discussions are concerned with all possible solutions of global environmental problems. Hence, what is the role of the European Green Deal in European economic policy analysed on the basis of Evolutionary Institutionalism?

The idea of a Green New Deal exists in the USA since at least the two-thousands. The European Green Deal was presented by former German Minister of Defence Ursula von der Leyen in December 2019. The plan is seen as a concession of von der Leyen as the President of the European Commission - nominated by the heads of states and governments at short notice – to the left, liberal and green parties in the European Parliament. They did well in the European elections 2019.

In the Eurobarometer survey 2019 the issue of climate change was assessed as the second major problem (European Commission, 2019e). Even before the world economic crisis 2008

and in the light of the costs of global warming José Manuel Barroso, the President of the European Commission, 2007 considered that the EU should take the lead in finding solutions for the challenges of climate change by issuing a plan for Europe's transformation to a low carbon economy (Stern, 2007; European Commission, 2007). Climate change affects all regions in Europe, with southern European regions expected to be impacted the most due to changes in temperatures and the availability of water (see figure 21).

*“Reactions to the European Green Deal in the EU multi-level system are split”*

The reactions of different actors in the European multi-level system to the European Green Deal are split ranging from enthusiasm to critical considerations of the related measures in the future (Bianchi et al., 2020). In particular in view of the pandemic it is expected that multilateral self-commitment to ecological objectives might be much weaker in post-pandemic times compared to the goals of the European Green Deal. At the international level with the European Green Deal the EU has taken the leadership in climate issues, thereby putting pressure on China and other main emitters.

*“Critics see a possible resistance of the population to the European Green Deal”*

On the contrary, critical voices see a possible resistance of the population strengthened by populist political leaders like the Gilet Jaune protests in France which arose after the increase of petrol prices or the rise of the AfD in Germany. It is already clear, that not all Member States identify with the aim of zero percent emissions by 2050. Eight countries - among them Spain, Sweden and Latvia - aim at increasing their emission reductions until 2030, whereas Poland and Hungary consider this as a high estimate. This opposition could grow when it comes to pending decisions concerning the agricultural and industrial sectors (Harvey/Rankin, 2020).

In view of the pandemic crisis and poly-crisis the EU has convened the “Conference on the Future of Europe” to promote participation of EU citizens “in shaping EU policies and ambitions, improving the Union's resilience to crises”. The initiative is also linked to strengthen the implementation of the European Green Deal (European Parliament, 2021).

Figure 21: Projected Impacts of Climate Change in Europe

Type of impacts	Potential impacts	Base	1,5°C	2°C	3°C
<b>Human impacts from heat and cold extremes</b>	People annually exposed to a 50-year heatwave (million)	9.6	103	168	288
	Annual fatalities form heatwaves (x1000)	2.7	28.8	49.4	89.0
	People annually exposed to a 50-year cold wave (million)	9.6	4.9	2.7	1.2
	Annual fatalities form cold waves	80	33	19	8
<b>Impacts of wind-storms</b>	Wind losses (€ billion)	4.6	4.5-11.3	4.6-11.4	4.6-11.3
	Wind losses (% of GDP)	0.004	0.03-0.04	0.03-0.04	0.03-0.04
<b>Impacts on water recourses</b>	People living in areas with water stress (million)	52	59	60	65
	People living in areas with severer water stress (million)	3.3	3.4	3.4	11
<b>Impacts of droughts</b>	Drought losses (€ billion)	9.0	9.7-25	12.2-31	17.3-45
	Drought losses (% of GDP)	0.07	0.06-0.08	0.07-0.10	0.10-0.14
<b>River flood impacts</b>	Damage (€ billion/year)	7.8	8.6-24	9.6-33	8.6-48
	People exposes (1000/year)	172	92-252	100-338	90-482
<b>Coastal flood impacts</b>	Damage (€ billion/year)	1.4	12-111		23-239
	People exposed (1000/year)	0.1	0.6-1.4		0.8-2.2
<b>Wildlife danger and vulnerability</b>	Population in Wildland-Urban inter-face-exposed to fire danger (million)	63	68	-	78
<b>Alpine tundra habitat loss</b>	Alpine tundra loss in Pyrenees (%)	-	74	91	99
	Alpine tundra loss in Alps (%)	-	36	50	75
	Alpine tundra loss in Scandinavian Mountains (%)	-	50	61	87

Type of impacts	Potential impacts	Base	1,5°C	2°C	3°C
<b>Economic impacts</b>	Annual welfare loss (€ billion)	-	42	83	175
	Annual welfare loss (% of GDP)	-	0.33	0.65	1.38
	Welfare loss from human mortality related with extreme heat (€ billion)	-	36	65	122
	Welfare loss from human mortality related with river and coastal floods (€ billion)	-	8.5	16	40

Source: Ciffolili et al., 2021, p. 18 f.

The European Green Deal of the EU is considered as “the flagship initiative of this European Commission” (Bianchi et al., 2020, p. 5). The European Commission’s declared the aim of the European Green Deal as a “new growth strategy” (European Commission 2019a) is to reconcile the goals of environmental protection and a competitive economy as well as social well-being in Europe (see figure 22). In addition to these aspects the European Green Deal also has a strategic and practical-operational character including an action plan for concrete measures and investment and financing requirement in a given timeline (European Commission 2019b).



Source: European Commission (2021h).

While the Member States of the European Coal and Steel Community, the EU’s predecessor institution, worked together only in the economic sectors of coal and steel the European Green Deal aims at making Europe to the first climate-neutral continent until 2050. This means that there will be no more net gas emissions decoupling economic growth from the

use of resources and realizing an individual and social-inclusive economy. Social acceptability and participation are regarded as the keys to ensure a stable transition to a sustainable model of socio-economic development in Europe (European Commission, 2019a).

The importance attached to the European Green Deal is displayed by the fact that the responsibility for the European Green Deal lies within the portfolio of the deputy Executive Vice President of the European Commission, Frans Timmermans. He among some of his colleagues in the Commission is responsible for the coordination with the commissioners whose portfolios are crucial for realizing the European Green Deal. This concerns in particular the topics for energy, digital topics, economic affairs, trade, internal market and environment (European Commission, 2019c).

### **3.2.2 Historical perspective**

From a historical perspective the European Green Deal builds on existing policies and visions in particular in the field of climate policy. Nevertheless, the European Green Deal is a holistic approach across sectors that attempts to overcome the perspective of competing objectives between economy and climate. This is consistent with the international climate agreement of 2015 which itself was based on the climate initiatives of the 1990s: The United Nations Framework Convention on Climate Change and the Kyoto Protocol being the only legally binding international treaty on climate policy (UN 2015a; UN, 1992).

In regards to the protocol that entered into force in 2005 the EU committed itself in the first round (2008 - 2012) to reduce the greenhouse gas emissions by an average of 5 % below 1990 levels. At the 2012 conference in Doha/Katar the parties agreed upon a second commitment period (2013 - 2020). Therein all parties committed themselves to publish a long-term climate strategy by 2020 with the aim to launch appropriate measures against climate change (European Commission, 2019d).

*“EU Emissions Trading scheme has not achieved the intended steering effects yet“*

In order to achieve and implement the climate protection targets in the Member States the EU established the European Emissions Trading System (EU ETS) and international mechanisms for certificate trade of pollution rights and project-based environmental protection. However, the EU Emissions Trading scheme has not had the intended steering effects on companies. Since 2009 the CO<sub>2</sub> emissions remain below the maximum cap i. e. the maximum amount of greenhouse gas emissions allowed to be emitted in the system by the participants. Due to an oversupply of emission certificates and a lack of adjustment mechanisms for supply and demand companies have not invested in low-emissions techniques. Phase 4 of the European Emissions Trading System starting 2021 could be the most expensive period for companies on the one hand and at the same time the most efficient period for realising the EU climate goals due to the increase in prices and a limited scope of certificates (see figure 23) (European Commission, 2021b).

In July 2021 the European Commission adopted “a comprehensive and interconnected set of proposals” in order to “deliver on the targets agreed in the European Climate Law”. They include a tightening of the European Emissions Trading System and at the same time expanding the emissions trading to new sectors. In addition to energy and infrastructure policy related legislation it contains an alignment of taxation policies with the European Green Deal objectives (European Commission, 2021g).



Source: European Commission (2015).

At the same time European Green Deal is a re-launch of the ten-year strategies, guidelines and reform recommendations and the integration of the European Green Deal into the European Semester as the new central control instrument of European economic policy. Following the multi-year growth strategies of the European Commission the European Green Deal with regard to its strategic character, can be seen as the successor of the Lisbon Strategy (2000) and the Europe 2020 Strategy (2010) already citing “smart, sustainable and inclusive growth” (European Council, 2010, p. 1).

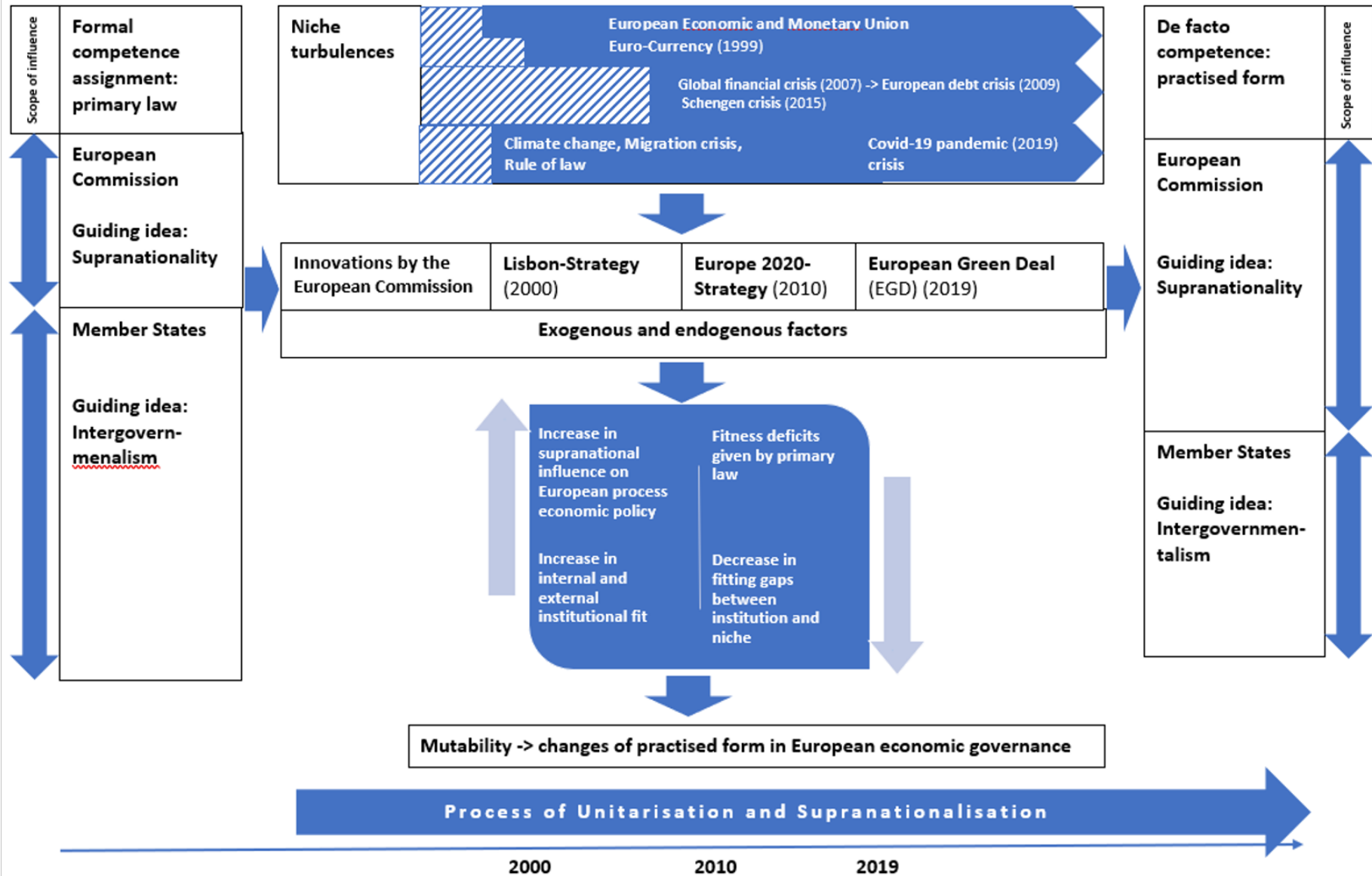
*“The European Green Deal is the reference for economic recovery measures”*

Even though the strategies differed from each other in terms of policy focus and priorities they enabled the European Commission to coordinate the Member States’ economic policies more closely. Once issued the strategies subsequently were operationalised by further documents and policies in order to implement union procedures (Hacker, 2010, p. 7). By this the European Commission has optimised its influence and efficiency in the processes of economic policy field. Future measures for economic recovery to reduce the negative socio-economic effects of the Covid-19 pandemic have to be oriented towards the sustainability goals of the European Green Deal. Overall, it will be the framework and point of reference for responses to global challenges such as climate change and migration as well as economic policy in the EU (Becker, 2020, p. 18).

### **3.2.3 European Green Deal interpreted with Evolutionary Institutionalism**

With regard to Evolutionary Institutionalism the European Green Deal can be interpreted in two ways (see figure 24). With this strategy the European Commission meets the international demands due to the increased niche turbulences of climate change as an institution-exogenous factor. Challenging the basic living conditions of human beings and all creatures in the long run global warming has an impact on the availability and distribution of resources. International organisations like the UN have set long-term projections on the agenda and countries have agreed on the Paris agreement 2015. The European Green Deal can be seen as the attempt of the EU to adapt to a crucial global problem and to assume leadership acting as a pioneer and global role model. Furthermore, by offering strategic

Figure 24: European Economic Policy analysed with Evolutionary Institutionalism



Source: author's own figure.

planning and concrete action the European Commission anticipates the demand of new much-needed services to counteract climate change in the Member States. In summary, these efforts at EU-level try to meet the requirements of institution-exogenous factors on the international and European demand side of institutional change.

*“The European Green Deal offers new niches for EU agenda setting”*

With the European Green Deal the European Commission opens up new niches for European agenda setting offering innovative perspectives and services for global issues of future generations. Issuing the new long-term agenda Ursula von der Leyen as a novice in the EU has resumed the tradition of EU long-term strategies issued by her predecessors Romani Prodi and José Manuel Barroso and answered and by this received the acknowledgement of the European Parliament for her own presidency of the European Commission.

*“With the European Green Deal, strategic agenda setting and planning has resulted in a comprehensive holistic agenda for the EU Member States”*

This institution-endogenous process of generational transition led to a continuation of intentional institutional change: Introducing long-term strategies the European Commission has assumed the leadership for strategic planning in the EU. Thus, with the European Green Deal, strategic agenda setting and planning has resulted in a comprehensive holistic agenda for the EU Member States. In this view related niche turbulences in the EU may be the consequences of the European Green Deal. In fact, it shows the Commission’s efforts to increase its scope and scale of power in strategic planning and action thereby stabilizing its position, securing access to resources and possibly attracting new addressees. In summary, these efforts at EU-level can be seen as adaptive mutability on the supply side of institutional change of the European Commission.

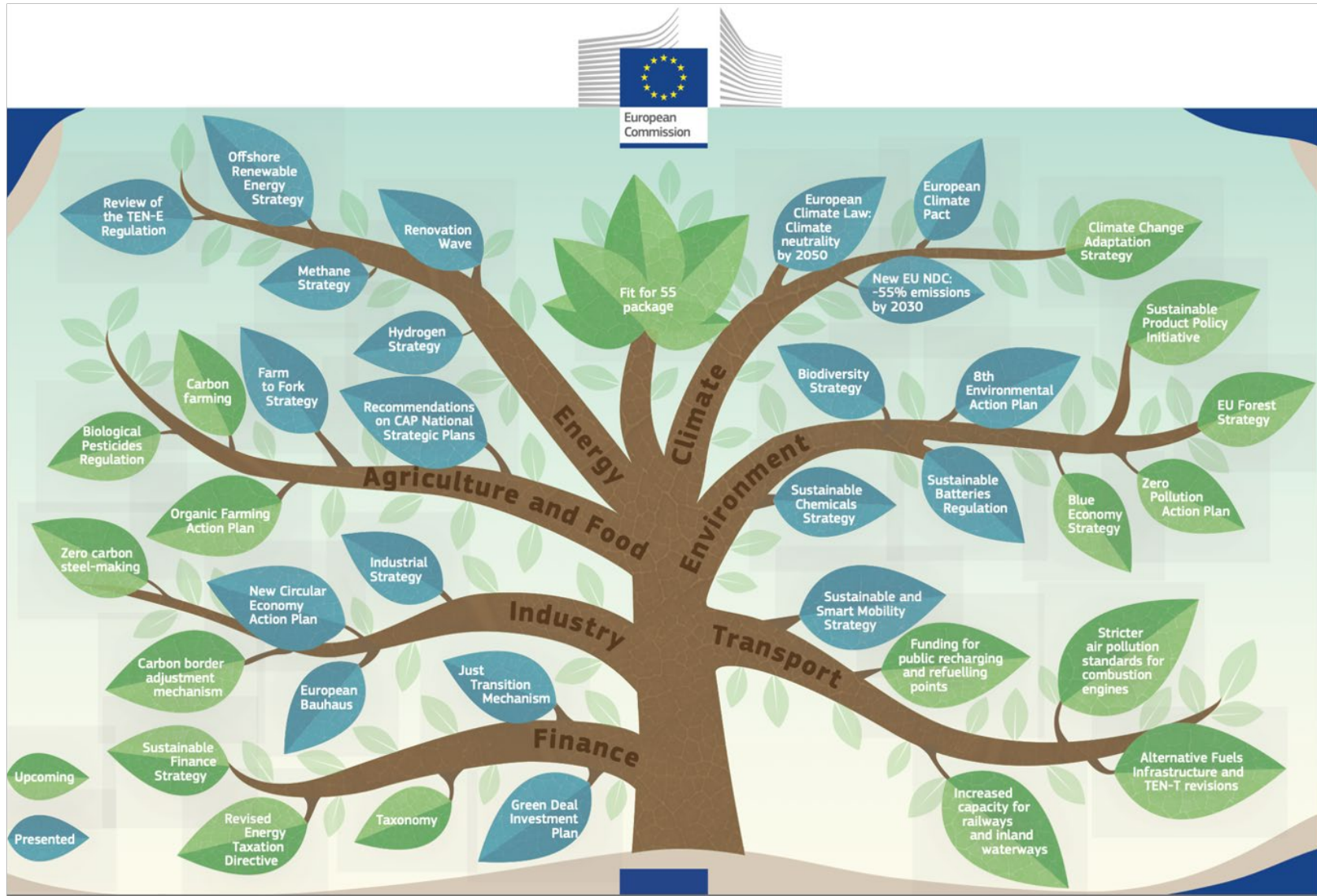
The continuous efforts of the European Commission are intentional changes of the mechanisms of economic policy shifting tasks and power from the national to the European level. The European Green Deal is the continuation of overall strategies for the EU which allows for the implementation of European governance diffusing in the Member States.

*“The European Green Deal strengthens European economic governance”*

In the framework of the European Green Deal some more specified initiatives, action and strategic plans, guidelines, regulations and programmes have already been announced (see figure 25). The implemented functions, structures and processes of economic policy have already changed the micro-institutional environment of the Commission and strengthened its position in the EU multi-level governance system. If these changes are successful then there will be an incremental development of structures fixing the new burdens. Changes of rules or mems as cultural patterns which are passed among humans are typical for non-fundamental institutional change.



Figure 25: Overview of European Green Deal Initiatives



Source: European Commission (2021d)

Only if the two-step selection process of institutional change is successfully completed the innovation of the European Green Deal with its strategic and operational implications will result in a sustainable institutional change. Nevertheless, high standards of environmental goals in order to become the first climate-neutral continent by 2050 will probably influence intra-institutional and inter-institutional mechanisms in the form of mutually reinforcing positions of politicians and the civil society.

*“A fitting gap between the EU and its niche can challenge its survival ability“*

The question arises if actions taken today can keep up with the changes in a highly dynamic environment that has an impact on the niche of the EU. If the European Commission accomplishes to adapt to its niche the evolutionary algorithm might fix new burdens and thus lead to non-fundamental institutional change as a proof for successful mutability. Thus, with the European Green Deal the Commission might even increase its scope of responsibility not only in the field of economic policy. However, if the fitting gap between the EU and its niche cannot be bridged adequately, variation might be unsustainable or result in atavistic institutional arrangements challenging its survival ability at worst.

#### **3.2.4 Intermediate summary**

The European Green Deal was issued within a historical situation of an increased level of niche turbulences where a lack of fit between the EU and its niche has become apparent. The institutional innovation of the holistic vision of a green, sustainable and inclusive European society displayed in the European Green Deal reflects an ambitious approach to adapt to a highly complex environment at the global level and in a situation of poly-crisis at the European level.

*“A superior model of a sustainable and inclusive market economy“*

With the new strategy the Commission subsumes European economic governance to a superior model of a sustainable and inclusive market economy. The environmental goals of the European Green Deal are measurable whereas a sustainable and inclusive society is not clearly defined but part of the political and academic debate. The question if the European Commission is able to operationalise the strategic aims of the European Green Deal efficiently is crucial for its legitimacy at the global and at the European and national level.

#### 4 SUMMARY

Reflecting the strategic actions taken by the European Commission in the field of economic policy since the start of the new it can firstly be stated that it has started a deepening process of supranationalisation rather than fundamental institutional change. The result is a shift of strategic and operational impact from the intergovernmental to the supranational main idea in European economic governance. The Commission succeeded in a tighter and more binding economic-political coordination though not associated with the end of national economic policy or even the end of the nation states in a European federal state. This can be interpreted as a result of institutional evolution and not of rational institutional design set out in the EU treaties and gives evidence of a process of unitarisation in other policy fields in the European multi-level governance system.

Although the Member States formally have the legislative competences in the field of economic policy giving the EU only complementary and coordinating competences it is the European Commission that has gained increasing importance. The Commission has gradually implemented innovative endogenous and exogenous institutional structures by unitarising economic policy. With the guidelines and recommendations in the European Semester it preforms the economic policy of the Member States. Obviously, this complies with the Member States' interest in the advantages of economic and political integration as protection against global challenges and benefits of the single market to the detriment of national economic sovereignty. The relationship between national economic policy-making and supranational supervision has become symbiotic in the niche of the European Commission. As fundamental institutional change is typically incremental and can emerge in the background it has increased its fitness by the issuing of long-term strategies.

In this context the European Green Deal is the new long-term strategy as a new holistic approach with which the Commission tries to tackle the historic challenge of climate change at the global level and to leverage its institutional fitness. Thus, the European Green Deal serves as an agenda setter and to reinforce the EU's representative functions externally as a supranational organisation and model at the global and European level. Aligning fiscal, economic, social and climate policy to common goals the European Green Deal internally holds the opportunity for the European Commission to strengthen its position in the framework of EU economic governance. The scale of socio-economic coordination has been increased through more surveillance and national alignment procedures to ever more policy fields since the Lisbon strategy.

If successful routines and rules in economic policy induce new burden structures, the institutional change might lead to an increased fit of the EU to its niche and help to reduce a historic fitting gap formalized in the Treaty of Lisbon. This could induce future changes of the official task assignments in the EU treaties in the field of economic policy. Finding innovative solutions for current and future niche turbulences such as economic shocks, environmental and migration issues, pandemics, EU-exit of Member States will be crucial for the EU's institutional fitness and thus its resilience and survival.

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