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Eurozone Crisis & COVID-19 Pandemic: Interpreting the Economic Governance Review of SGP through the lens of Policy Failure: Focusing on the Effectiveness of the Debt Ratio standard and the Excessive Deficit Procedure (EDP) under the Stability and Growth Pact (SGP)

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**EUROZONE CRISIS & COVID-19 PANDEMIC: INTERPRETING THE ECONOMIC
GOVERNANCE REVIEW OF SGP THROUGH THE LENS OF POLICY FAILURE**

*Focusing on the Effectiveness of the Debt Ratio standard and the Excessive
Deficit Procedure (EDP) under the Stability and Growth Pact (SGP)*



**Universiteit
Leiden**

Thesis Submitted in Partial Fulfilment of the Academic Requirements
for the Award of the Degree of MSc Public Administration
(Economics & Governance)

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DECLARATION

I hereby declare that the thesis titled “*Eurozone Crisis & COVID-19 Pandemic: Interpreting the Economic Governance Review of SGP through the lens of Policy Failure*” is an original work of mine and no part of the thesis has been submitted for award of any degree or for any publication.



Signature

Kunal Meena

Date: 10th March 2023

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ABSTRACT

Economic Governance in the EU has been most significantly impacted by the COVID-19 pandemic, and with the suspension of the Stability and Growth Pact (SGP), window for reforms have become visible. To understand the implications of the proposed reforms by the EU Economic Governance Review, we conduct a case analysis of both the COVID-19 Pandemic and the European Debt Crisis of 2009 to understand how efficient these SGP reforms could be. The case-study analysis compares the public expenditures considering the reforms to derive the efficiency of the SGP and Excessive Deficit procedure (EDP). The author is able to derive limitations pertaining to ‘inadequate collaborative policymaking’ as the driver towards policy failure in our analysis. Overall, even though the study might identify the relevance of the EDP in establishing sound fiscal health amongst the member states, the procyclical impact of the reforms suggest further discourse in the field.

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CHAPTER I: INTRODUCTION

1.1. RESEARCH OBJECTIVE

In accordance with the General Escape Clause, the Stability and Growth Pact (SGP) was suspended on the 27th of March 2020. (COM, 2020) As part of its suspension of the Stability and Growth Pact (SGP), ECOFIN took an equivalent decision back in November 2003. Rather than marking the end of a period of rapid economic and monetary integration in the Europe, the event marked the end of a period of '*successful*' integration. France and Germany, the founding members of the SGP, were seen as dismantling the SGP (in the 2003) in the face of procedural steps that could have eventually led to sanctions if the deficit limit was persistently violated by them. As a result, they lobbied enough Member States in order to prevent a qualified majority from being achieved for the Commission's recommendation to extend the procedure beyond the current stage. According to several commentators, this decision was in direct conflict with the spirit of the Pact and was against all those who were led to believe that this framework was to enforce budgetary discipline by automatically imposing fines on delinquents.

There were, however, some observers who welcomed the abandonment of the arrangement. According to them, the single currency would be able to function without it. It was also predicted by other economists that complying with the SGP's Excessive Deficit Procedure would ultimately lead to the demise of the Euro and the Economic and Monetary Union (EMU). Since the macroeconomic environment had been favourable immediately after the reform, followed by a sudden and dramatic change, it has been difficult to determine whether the new SGP would've been effective over the long term.

The statement that the SGP is currently being reviewed is probably inaccurate. As a matter of fact, it has continuously undergone reforms since its inception in 1997. As of 2005, 2011, and 2013, there have been three formal reforms to the SGP. It is fair to say, therefore, that the Stability and Growth Pact has had a rather unstable lifetime. A flexible interpretation of the SGP was introduced by the European Commission in 2015. (COM, 2015) Following the recent decision by the EU institutions to freeze some of the most rigid provisions of the Stability and Growth Pact during COVID-19, an in-depth review of the EU's fiscal rules has been initiated. In addition to this latest twist from the Commission, the EU Economic Governance Review also aimed at revolutionising the existing Stability and Growth Pact (SGP). As of right now,

this latest reform is in the process of being implemented. Particularly noteworthy is the fact that the European Commission adopted its communication on Economic Governance Review on 5 February 2020. (COM, 2020) To address several of the 'challenges' surrounding EU fiscal coordination, a comprehensive 'public debate' was proposed. As a result, debt sustainability was particularly challenging, as were pro-cyclical fiscal policies by member states, a lack of a definitively growth-oriented public finance composition, a lack of strong central fiscal capacity to deal at least with eurozone crises, and the complexity and lack of transparency associated with the entire EU fiscal coordination system. A discussion regarding the reform of the EU's economic governance framework should emphasize the need to improve the EU's fiscal coordination framework in order to ensure sustainable public finances.

Within a month of the European Commission's previously mentioned Communication, the COVID pandemic erupted. Consequently, a year after the outbreak, the European Commission published its Communication on the EU's fiscal response to COVID-19. (COM, 2021) The Commission mentioned the process of economic governance review in the last part of this Communication: 'the Commission intends to resume public debates on the framework for economic governance once the recovery has begun.' According to the Commission, the 'pandemic' has significantly altered the context of public debate. As a result of increased government debt and deficit levels, economic growth has declined, and, more importantly, the SGP rules have been frozen for the first time in the history of EU fiscal coordination, which is of vital importance to this thesis. (COM, 2021)

While it has been historically debated that the SGP has been inefficient in dealing with economic crises, SGP being one of the prominent fiscal mechanisms questions the economic governance of the European Union. The academic as well as the societal relevance of the debate surrounding the SGP motivates the current study. Even though the pact has been constantly under review, the study shall attempt to conduct a qualitative assessment of the public spending trajectories of the member states as an attribute towards understanding its efficiency.

In order to further specialise the outlook of the study, the thesis shall focus on the Stability and Growth Pact (SGP) of the European Monetary Union (EMU) to understand how the European Debt Crisis of 2009 and the COVID-19 pandemic have led to the policy reforms as we have always understood. To understand the implications of the crisis on the Stability and Growth Pact (SGP), we shall conduct case-studies surrounding the implementation of the pact during the European Debt Crisis of 2009 and the COVID-19 Pandemic in the other. By conducting

two case studies, we would be able to understand how the relevant actors and institutions have reformed the pact through the years. Public Spending as the dependent variable in the current study shall be studied in a comparative qualitative analysis research. To understand the research objective the author dictates the ‘effectiveness Excessive Deficit Procedure (EDP) under the Stability and Growth Pact (SGP)’ during the times of economic crises. The objective in its entirety connotes towards a pact at the front-line of the impact of the crisis.

To better isolate and formulate the case-studies, the author shall look at the parameters of Excessive Deficit Procedure (EDP) otherwise called the ‘corrective arm’ of the Stability and Growth Pact (SGP) and the ‘Debt & Deficit Ratio to the GDP of the member states’ standard which directs toward the instance of activation of the EDP. The SGP holds the centre-place at the European Economic Governance, and the lack of descriptive and explanatory theories surrounding the same paves the way for clear significance of the study.

In order to formulate the thesis, the author will first isolate the previous literature relevant to the research questions and the proposed hypothesis. The literature review shall in an overview cover the existing quantitative study on the effectiveness of the Excessive Deficit Procedure (EDP) which shall formulate the base of our qualitative evaluation. The various theories surrounding the mechanisms of EDP and SGP shall also be included in the literature review to ensure uniformity throughout the study. During the European Debt Crisis, reforms in the form of Sixpack were introduced to mitigate the adverse impact of the crisis on the fiscal health of the member institutions, which shall be covered under previously mentioned literature sources. Other than that, the reforms in the SGP surrounding the COVID-19 pandemic are still under review, with the proposed reforms published for public review. The literature shall utilise the opportunity to understand and dictate the relevant provisions of the proposed reform in light of the discussion. While doing so, we shall also include the theories surround Policy success / failure for further theoretical analysis. The hypothesis of the study shall be prosed with the purview of the theoretical framework, working toward the operationalisation of the relevant concepts form the selected literature review.

Thereafter, the study shall devise the research methodology of the study to enlist the proper resources and designs utilised in order to fulfil the study. The utilisation of the said designs is rather fluid in comparison to the definition. The research design covers the aspects of sources for the study, the analysis framework to be followed, the case studies selected, the operationalisation of the relevant concepts derived from the literature along with its

significance to the field. The author aims to further the discourse on the topic of economic governance surrounding the Stability and Growth Pact (SGP) and to do so, will utilise the qualitative evaluation of the quantitative data from the literature.

The author shall study both the European Debt Crisis of 2009 and the COVID-19 Pandemic in light of the Stability Growth Pact (SGP) and how the reforms in the regulations of the pact shall entail the path towards mitigating the impact of the crisis on the member states. In the form of individual case studies, the varying impact of the Excessive Deficit Procedure (EDP) and the Debt Ratio standard on the public expenditures by the governments of the member states shall be interpreted in qualitative terms to formulate the answer the research question of the study. The individual case studies shall follow an in-dept analysis of the reform of the regulations and its impact on the relevant parameters. With an aim towards deciphering the policy failure of the reforms, the individual assessment will prove helpful in formulating the claims.

The individual case study shall be followed by a comparative analysis of the two case studies to understand the terms of comparability of the reforms and the formulate a collective narrative of the policy framework of the Stability and Growth Pact (SGP). The comparative analysis would not be able to achieve the level of sophistication that a quantitative analysis would, but for the assessment of the parameters required to answer the research question, an in-dept analysis would provide more than sufficient evidence. The comparative analysis on one hand would also be able to decipher the common trend of reforms that commission have introduced through the years, which would in-turn be complimentary to the case studies.

Followed by the comparative analysis, the author will formulate their conclusive narrative enlisting the findings as well as the recommendations in line with the prevalent literature. The conclusive narrative will try to fill the gaps wherever it may deem necessary in its capacity. The conclusive narrative will also define the answer to the research question posed in the study to further the literature surrounding SGP and its interpretations.

1.2. RESEARCH QUESTION

To formulate a definite structure of the study, the author shall aim towards answering the following explanatory research questions:

Research Question I: Is the *(proposed)* reformed Excessive Deficit Procedure (EDP) under the Stability and Growth Pact (SGP) an efficient policy amendment through the lenses of Public Policy Failure (Hudson et al, 2019) during the European Debt Crisis of 2009 as well as during the COVID-19 Pandemic?

Research Question II: How efficient has the *'muting'* of the Stability and Growth Pact (SGP) been during the COVID-19 Pandemic? What are relevant implications from the halt?

CHAPTER II: LITERATURE REVIEW

Through this chapter, the author aims to conceptualize the research topic in this literature. The key definitions and concepts which shall further our claim are to be discussed extensively in light of the existing literature. The main literature shall depend on the formulation of the Stability and Growth Pact (SGP) with a critical overview of the Excessive Deficit Procedure (EDP) throughout the periods to understand its impact on the trajectories of public spending in the European Union amidst the Eurozone Crisis of 2009 until the COVID-19 pandemic.

Thereafter, we shall indulge our discussion around EU Economic Governance Review in light of these developments. Public Spending trajectory evidence shall be enlisted via secondary sources in the literature which then shall be interpreted subjectively.

2.1. UNDERSTANDING THE STABILITY AND GROWTH PACT (SGP)

Throughout the evidence recorded in the 21st century European Economic Governance Forums, it has been evidently stipulated that the Stability and Growth Pact has amended the understanding one had of Economic Governance. While the evidence might highlight an opinionated narrative usually, the studies have rather been divided equally in support and criticism of the pact.

Introduced in 1997, the *Stability and Growth Pact (SGP)* is an agreement between the countries in the European Union, aimed at maintaining and facilitating the Economic and Monetary Union (EMU) of the European Union. (Beetsma & Uhlig, 1999) Through its ‘preventive’ arm, the SGP facilitates a careful fiscal monitoring of the member states by the European Commission and the Council of the European Union. And while the said monitoring is issued with directives, it in turn proposes a standard for the economic activities of the member state and how they ought to manage their fiscal health. (Wyplosz, 2022) The directives in bold states that the member states must maintain their *GDP to Debt and Deficit Ratio* below a certain limit defined by the pact, which is in turn strengthened by the legislative basis of the pact. Over the years, the pact has been directed towards maintaining a rather uniform level of this Debt and Deficit ratio amongst its member states, which in turn has attracted a rather large amount of criticism considering the objectivity of the pact. Considering the same, evidence of these criticisms suggest that the ‘preventive’ arm aimed at monitoring and drafting the budgetary objectives for the member states, are overwhelming for its member states. One such instance

would direct our attention towards the *European Debt Crisis of 2009* during the Great Recession where fiscal monitoring mechanisms weren't able to direct proper remedial measures to the member states.

While it might be briefly regarded as a set of rules drafted to ensure sound economic health of the member states, through its '*corrective*' arm it is legally obligated to sanction proper directives in facilitating the same. The stability and growth pact through its corrective arm is able to direct its member states to adopt proper policy measures in order to maintain the debt and deficit ratio. (Beetsma & Uhlig, 1999) The SGP in turn refers to this as the *Excessive Deficit Procedure (EDP)*. The EDP is implemented to intensify the surveillance of the commission to ensure sound fiscal health of the member state. (Beetsma & Uhlig, 1999) Although the commission is obligated to implement Economic Sanctions in non-compliance to the directives of the procedure, the member states are before-hand under scrutiny for an extended period. The Excessive Deficit Procedure (EDP) have popularly been the centre of debate and has been criticised for the lack in transparency of its implementation. But rather than implying context from opinionated narratives, the author shall derive their stances from academic studies underlying the procedure as a factor towards the government spending in the next sub-heading. (Beetsma & Uhlig, 1999)

Since the research question entails objective interpretation of the effectiveness of the Excessive Deficit Procedure (EDP), we shall attempt to trace its implementation and the associated amendments at our disposal while addressing the European Debt Crisis of 2019 and the COVID-19 pandemic. The corrective arm came into force two years after the implementation of the pact and the same has been significantly amended on multiple occasions thereafter.

As the SGP has been in place for several years, several reforms have been carried out. For instance, in 2005, it was amended to enhance the economic rationale and flexibility of its fiscal rules. (Wyplosz, 2022) As a result of the European Debt Crisis in 2011, a more fundamental revision was carried out in 2011. As well as adopting the debt criterion, it revised voting rules regarding sanctions so that sanctions would have a higher chance of being imposed, and it strengthened fiscal rules for countries with deficits below 3%. (Beetsma, 2022) It is important to understand that the Two-Packs, as well as the Treaty on Stability, Coordination, and Governance (TSCG), signed by 25 countries came into force in 2013. (Beetsma, 2022) There were a number of recommendations made to countries, including the establishment of independent fiscal councils as well as the use of independent macroeconomic forecasts as the

basis for the fiscal forecasts. Despite the fact that these changes have been made, the importance of the EDP procedure and the importance of the 3% threshold remains the same. The most significant of these amendments would include the adoption of the *Treaty on Stability, Coordination, and Governance* (TSCG) of 2013 which launched a new intergovernmental economic cooperation with the member states in order to further the economic health. (Estella, 2021) The Six-Pack introduced in 2011 preceded these measures and was introduced amidst the debt crisis of 2011 introducing the six regulations aimed at strengthening the 'preventive' and the 'corrective' arm of the SGP. Although these amendments paved the way for a new generation of policy measures aimed at the redressal amidst a crisis of such intensity, the criticism these amendments have received outlines its inability to respect the democratic values of its member states. What we need to understand is the perpetual debate surrounding the integration theories of European Union embarking towards a lack of more federalised institutional framework for the European Economic Governance. (Beetsma, 2022) With the same in mind, the author objectively aims to utilise this friction in a narrative studying the pandemic and the review of the European Economic Governance.

Although it was drafted to with-hold the standards of economic crisis presented in the past, the amendments have rather been unable to subside the effected of the pandemic on the economic health of the member states. Considered as a rather effective measure, with the spread of the COVID-19 pandemic, the SGP utilised its *General Escape Clause* in the wake of 2020 to allow flexibility of its member states in the economic decisions without any hindrance form the commission. (Estella, 2021) The escape clause entails that the member states are allowed deviation from their budgetary objectives, as presented before the SGP, provided they are not endangering their fiscal sustainability over the longer period. This in turn does not provoke the EDP directed towards handling such deviation.

Author in the current study shall look at a comparative assessment of the case-studies regarding the implementation of the varying directives by the SGP to counter the European Debt Crisis of 2009 and the COVID-19 pandemic. The 'preventive' and the 'corrective' arms are to be scrutinised to isolate the causal relation between the public spending trajectory and the reforms initiated thereon.

2.2. THE POLITICS OF THE STABILITY AND GROWTH PACT (SGP)

While the economic literature around the Stability and Growth Pact (SGP) might be sufficient to determine the status quo of the states within the European Union (from a statistical perspective), to understand the reforms in the public policies surrounding the Stability and Growth Pact (SGP) we would be required to utilise political science literature. Considering the same, we shall inculcate the necessary insights from Heipertz and Verdun's book (2010) titled '*Ruling Europe: The Politics of the Stability and Growth Pact*'. (Heipertz & Verdun, 2010)

A thorough analysis of the Stability and Growth Pact is conducted in the book, using integration theories as an underlying framework in order to provide an explanation as to how the empirical data can be made sense of. It is either the case that EU studies are empirically sound, but fail to take advantage of their theoretical insights, or they are devoted strictly to improving the theory, regardless of how thin the evidence is. (Heipertz & Verdun, 2010) Using insights from more than a dozen years of SGP history in combination with our interpretation of how to explain integration processes more effectively using theories of European integration, this study attempts to synthesize insights from more than a dozen years of SGP history. There was a great deal of interest given to the SGP because of its rapid growth, which its founders had not anticipated at the time. Experts, as well as existing paradigms regarding economic policy, have played an important role in assisting the Pact to be implemented since it is becoming increasingly entangled in both domestic and international politics. (Heipertz & Verdun, 2010)

The purpose of this study was to explore the origins, the implementation, the impacts of institutional crises on its implementation, and the outcome of the Stability and Growth Pact during the period between 1995 and 2000. (Heipertz & Verdun, 2010) As the author briefly discusses the implications of the financial crisis on the SGP, he speculates on the possible outcomes of the crisis being sustained in the long run. In its analysis of the genesis of the Pact from multiple theoretical perspectives, this book applies a novel approach by asserting that these perspectives are complementary to one another when explaining the outcomes of the Pact's genesis. (Heipertz & Verdun, 2010) Neither the national positions nor the existence of the SGP can be accounted for without a comprehensive explanation.

It appears that the author's analysis of domestic politics during the implementation period was the most appropriate explanation of why member states behaved in the manner they did. It is for this reason that the SGP crisis is primarily a case of intergovernmental cooperation, even

though domestic politics also play an important role in explaining the national positions as well as why the issue has retained relevance internationally as well. (Heipertz & Verdun, 2010) A comprehensive understanding of the reform period must take account of the four theoretical approaches combined to provide a comprehensive look at all four strands of the reform process, and with a particular emphasis on the role of experts within each of these strands. In order to effectively understand the implementation process following the reform of the SGP and the financial and economic crises, it is necessary to utilise a functional and *expertocratic* approach. (Heipertz & Verdun, 2010)

Considering the characteristics outlined below, it is evident that the SGP would serve as a useful tool for promoting a broader understanding of integration from a general standpoint. In the first place, it can be applied to a wide range of theories that are generally considered to be competitive in nature. (Heipertz & Verdun, 2010) There is a tendency in the literature on European integration theories to claim that one approach to explaining integration is superior to another approach to explain integration. In order to be able to maximise the effectiveness of a particular approach, it is often necessary to minimise the scope of the subject under study.

Aside from that, the SGP was introduced at the time when the EU was preparing for the monetary union, which was at the centre of all integration within the EU during the 1990s. (Heipertz & Verdun, 2010) There is no doubt that the implementation of EMU has become the most important aspect of day-to-day operations of the EMU, along with setting monetary policy at the ECB. It was revealed by the 2003 crisis surrounding the SGP that it was fundamentally an instrument of European integration which illustrates the power dynamics within an enlarged EU (a power struggle between the Commission and the Council as well as between small and large members) that the SGP was fundamentally an instrument of European integration. (Grauwe, 2005) Having been implemented as a result of the reform, functional logic within the European integration process has proved to be an important force in maintaining stability and continuity between rules and regimes in the aftermath of the reform. (Heipertz & Verdun, 2010) Integration continues to be a complex process that requires the contributions of experts and paradigms (paradigms). The results of this study confirm that the SGP has been analysed in the light of the recent financial and economic crises as well as the results of this study confirm the findings.

A national as well as a supranational actor played an important role in the first layer of policy-making process when it came to the creation, implementation, and reform of the SGP. As a

result of the SGP that was prepared in November 2003, however, the number of key players on the continent grew because of the Pact being put at risk, especially when the ECJ had to interpret the Pact. (Grauwe, 2005)

Additionally, the case illustrates a wide range of key aspects of integration, perhaps even all the most important characteristics. In addition to high political and technical issues, it also involves intergovernmental negotiations, domestic policy issues, negotiations as well as mutual adjustment of different positions, law-making and enforcement, as well as negotiations and mutual adjustment of positions.

The choice of narrower cases from the above list that focus on one aspect of the above list or on a particular theory is not a problem. It is often the case that a deeper level of understanding is acquired as a result of focusing only on the narrow case, but this greater level of understanding usually comes at the expense of a lesser understanding of the broader integration phenomena surrounding the narrow case. (Heipertz & Verdun, 2010) Consequently, the author has chosen an approach that represents a 'messy situation' which required the use of many theories in order to understand, without concluding that it was possible to explain the situation fully. There will undoubtedly be some questions left unanswered, and that is inevitable. According to the author, despite the pressures associated with the financial crisis, the SGP has largely survived to this day, despite those pressures, and the reason for its creation, the way it was implemented, and finally its re-formulation is explained in the study. (Heipertz & Verdun, 2010)

This study presents an exercise that can be used as a model for analysing cases of European integration in politics more generally, which can help to better understand these issues. Methodological approaches are premised on limitations, which in theory implies that the premise itself implies limitations. (Heipertz & Verdun, 2010) By applying different theories to explain different aspects of the empirics, rather than attempting to fit them into a single theory, the author was able to explain the empirics by applying various theories. Due to the results of this research, new theories could be developed, or existing theories could be improved upon. (Heipertz & Verdun, 2010) Additionally, apart from focusing on the national level, the analyses are also conducted at the state level as well as local level. According to the author, when it comes to understanding governmental behaviour, domestic factors should also be considered in addition to intergovernmental perspectives, so that intergovernmental perspectives can be transcended in order to become a more comprehensive understanding of the behaviour of

governments. (Heipertz & Verdun, 2010) There is a need for economists and investors to consider the interests and activities of domestic actors and institutions in conjunction with the interests and activities of domestic institutions and political actors, as indicated by the study.

In addition, it is worth pointing out that non-state actors play a significant role on policymaking at a level that is not fully encompassed by the concept of the state itself but is a distinct dimension all on its own. This fact should not be overlooked. As far as the concept of the state is concerned, it is impossible to fully comprehend the role that experts play in the process of making policy along with the concept of the state. (Heipertz & Verdun, 2010) An analysis of the process by which governments of member states decide on negotiation in relation to their interests was conducted using a government-to-government approach so that it could be demonstrated how these negotiations are decided. In order to achieve their objectives, they must convey their determination to achieve a result that matches their interests in line with what they want. The SGP, in either its original shape or through its reforms in 2005, is the product of a bargain which has been made between sovereign states and was adopted in 1997. As a result, instances that became controversial and politically charged required negotiation, and the outcome of these negotiations often reflected the political power constellations that were playing out. From the point of view of domestic politics, both the development of a government's Strategic Plan and the implementation of that plan will be affected by its domestic situation. (Heipertz & Verdun, 2010) As a means of appeasing the Bundesbank and trying to persuade sceptical domestic audiences to embrace the EMU, the German government developed the Stability Pact. In order to calm the domestic constituency, the French government had to make cosmetic concessions. Similarly, it was domestic considerations of both the German and European governments that led to the suspension of the SGP in November 2003, which was a result of domestic considerations on the part of both governments. In other words, domestic politics is often a determining factor in whether a particular political initiative is politically salient during a particular period, or at a particular level of development within society. (Grauwe, 2005) Domestic politics in the country, as well as the SGP reform in 2005, also played a significant role in the implementation period.

Taking a neofunctionalism approach to the problem, the neofunctionalists argue that, due to its functional implications, there is an increased need for a greater level of economic coordination. Although there are some restrictions that are imposed on this area of the law by the Maastricht Treaty, a rules-based approach seems to be the best option in this regard. (Heipertz & Verdun,

2010) This apparent tension was the result of two opposing functional logics that, according to the author, were in tension with each other. After the launch of Stage II of the euro area, several informed stakeholders recognized that policy initiatives in this area would emerge as a result of the launch of this stage. (Heipertz & Verdun, 2010) Neofunctionalism is therefore capable of explaining the type, framework, and direction of policy initiatives based on the underlying policy problem to the degree that it explains the underlying policy problem. As a result of a functionalist approach to the revised Pact, we can better understand why the revised Pact was able to remain firmly rooted in both the Treaty and its predecessor even after such harsh criticism. (Heipertz & Verdun, 2010)

By focusing on ideas and experts, we were able to develop a deeper understanding of how acceptable solutions are shaped by the ideas that shape the dominant paradigms of economic policy, which in turn shape the ideas that shape the ideas of experts. However, while the fundamental principles of the paradigm remain the same, policy learning and the exchange of ideas bring about changes to these ideas over time. (Heipertz & Verdun, 2010) During the formulation of a policy, ideas and experts have a significant role to play. The actors involved (such as the economists in the EFC) didn't abandon the underlying principles of the SGP, despite the turmoil surrounding the agreement. As a result, the more radical proposals that were made by non-actor experts (academics) did not have a significant impact on the experts who were involved in making the policy decisions. Instead of a comprehensive new regime being introduced in 2005 that would completely overhaul the SGP, a modest reform was enacted in 2005. (Grauwe, 2005) The reason for this phenomenon can be attributed to both functionalism and expertocratic thinking. As a result of these types of explanations for how the SGP performed in the months following the collapse of Lehman Brothers, experts have mostly remained supportive of the fundamental ideas that caused the Pact to be developed in the first place. (Grauwe, 2005)

The book conclusively is able to formulate their understanding of the origins and the reforms in the Stability and Growth Pact (SGP) through the amalgamation of the multiple theories of European Integration. The author in the book utilises the Intergovernmentalism and Neofunctionalism approaches along with two approaches from Comparative Political Economics. We shall take into account these approaches to support our contentions concerning the reforms to be introduced through the EU Economic Governance Review. The research design shall identify and enlist the theories inculcated in the study from this scholarly work.

2.3. COVID-19 AND THE 'MUTING' OF SGP

For the salience of the discussion surrounding the recommendations drafted under the EU Economic Governance Review, the literature review shall outline the published work by O Blanchard, A Leandro, and J Zettelmeyer titled '*Redesigning EU Fiscal Rules: From Rules to Standards*'. (Blanchard et al., 2021) The said working paper identifies some interesting insights into the working of the stability and Growth Pact (SGP) amongst the other EU fiscal rules.

Amongst other things, Blanchard et al have contributed significantly to the debate on European economic governance reform by presenting a set of recommendations. As a recommendation made by Blanchard et al., the concept of fiscal standards should be used in lieu of fiscal rules. (Blanchard et al., 2021) The first being legally binding and enforceable norms, and the second being an independent assessment by national and European fiscal authorities, according to the authors. There would be a decision rendered by the European Court of Justice (ECJ) if there would be a divergence between the state and one of these authorities. (Blanchard et al., 2021)

Blanchard et al emphasize the necessity of understanding what standards mean in their writings. This study suggests that the primary difference between rules and standards is the degree to which the legal content of a given rule is declared ex post, rather than ex ante, at the time when it is applied, rather than at the time of its formulation. (Blanchard et al., 2021) In practical terms, this would mean that the legal contents of a standard would be somewhat unclear, and it would leave a great deal of latitude to the enforcer to determine its legal contents. From a legal point of view, the authors emphasize the fact that fiscal rules and fiscal standards are both norms from a perspective of the law. (Kaplow, 1992) They support their distinction between rules and standards by using an important thread of legal literature to provide a foundation for their argument. Furthermore, they refer only to Kaplow's 1992 piece '*Rules Versus Standards: An Economic Analysis*' in another paper which is also published by the Peterson Institute. (Kaplow, 1992) Kaplow believes that the ratio between the frequency with which certain behaviours occur to the choice between rules and standards is a crucial factor in deciding. (Kaplow, 1992) The general rule is that rules are preferable for situations where a behaviour occurs frequently, whereas standards are preferable for situations where they occur less frequently. In addition, Kaplow suggests that there should always be the same legal outcome when a rule or standard (Kaplow, 1992) is applied:

'It should be emphasized that the appropriate content is taken to be the same ex-ante and ex-post, which implies that both the law promulgator (with a rule) and the law enforcer (with a standard) are able to determine the appropriate content [of any given norm]—although the cost [of determining the appropriate content] need not be the same when incurred ex-ante or ex-post'. (Kaplow, 1992)

Based on Kaplow's argument here, the rules do not satisfy the standard when it comes to meeting the standard. It is true that if a rule is chosen over a standard, there will not be a difference in legal outcome in the end. (Kaplow, 1992) It is therefore necessary to decide how to handle transaction costs in order to be able to calculate a particular legal result in a particular case. There is no requirement to estimate the costs associated with determining results as part of standards, as opposed to rules. It is a requirement under the rule that costs be anticipated, whereas there is a requirement under the standard that costs be delayed in order to meet the requirement. (Blanchard et al., 2021) There is a general rule that it is not possible to produce the best legal outcomes through rules, and that it is impossible to produce the worst legal outcomes through standards (or vice versa). All of them should achieve similar, if not the same results, at the end of the day.

There is a common pattern between institutional proposals and expert opinions regarding the reform of the EU's economic governance system. Both advocate for several reforms while not questioning the spirit or rationale of the Union's fiscal coordination system. (Kaplow, 1992) The intellectual background of each institution or expert directly affects the choice of a reform that will be implemented. Nevertheless, Blanchard et al's proposal is a much more thought-provoking one since it implies that the entire system of EU fiscal governance, in place since 1992 as a result of the adoption of the Stability and Growth Pact and the Maastricht Treaty, needs to be rethought. (Blanchard et al., 2021)

Although it has already been discussed in the literature review, it is relevant to point out the activation of the SGP's Severe Economic Downturn (SED) Clause (or the General Escape Clause) given how the activation of the said clause opens the room for the interpretation of the negative impact of micro-managing fiscal activities of member states. (Martin et al., 2021) The author derives their arguments in light of the recorded data of the European Debt Crisis of 2009 and compare the same with the evidence from the COVID-19 pandemic to further their claim and formulate their conclusion. (Beetsma, 2022)

Since the activation of the general escape clause, there have been evident increase in the debt & deficit ratio of the member states, which shall be discussed extensively in the coming chapters, and while the increase in the debt & deficit ratio would have alarmed the SGP, their impact on the public spending could easily be said to outweigh the objectivity behind the SGP's balance during a pandemic. This study although relies heavily on the statistical data from the OECD database, the qualitative evaluation in the paper studies the implications of these statistical figures to formulate their recommendations extensively.

In wake of the pandemic when the commission deciphered the need to activate the General Activation Clause, we can very well isolate the causal impact the countermeasure would have had on the economies if the said clause hadn't been activated. The understanding behind the clause states that during a severe economic downturn the pact shall be suspended to accommodate the member states to accommodate the rising public spending necessities without provoking the Excessive Deficit Procedure (EDP). In the light of public policy review, we are able to infer in such instances of non-enforcement of the general escape clause, a Public Policy Failure as depicted under the study by (Hudson et al., 2019) would describe the situation. Although without deciphering the relevant statistics of such incidents, we are unable to identify the necessary framework to isolate the failure, but we are able to claim that the overly optimistic expectations in light of a pandemic would require necessary immediate amendments to the policy to reduce the public cost of the failure. The activation of the general escape clause could be said to mitigate any such costs and thereby prevent counter-productive impacts of the SGP in light of a crisis. (Beetsma, 2022) The relevant literature is able to depict how the policymakers and the key actors were able to mitigate these impacts by exercising the general escape clause, the need to '*mute*' the SGP in the wake of an adverse economic crisis undermines the influence and the administrative capabilities of the pact.

While we understand how the activation of the general escape clause would pave the way of exponential increase in the public costs associated with the loss of human resources, as a result of inadequate public spendings during a pandemic, would prove the policy inefficient and a liability, we ought to understand that the applicability of the general escape clause opens the window of opportunity to amend the necessary policies surrounding the SGP to counter future calamities in line with the pandemic and the debt crisis. These opportunities are although not isolated to the amendments to the clauses within the SGP and would therefore entail amendments surrounding the governance aspect as well.

During the decade prior to the Covid-19 pandemic that hit the European Union in early 2020, the European Union had already experienced enough crises. With the migrant crisis and the sovereign debt crisis that have all swept across Europe since 2010, as well as Great Britain's vote to leave the EU in 2016, Europe has been experiencing fast-burning crises since 2010. Besides the simmering climate crisis, the security crisis, and the rise of populist anti-system parties, there were still several other slow-burning crises that had to be dealt with. (Beetsma, 2022) There was a group of political parties that contested the Euro, the European Union, and the tenets of liberal democracy and the rule of law in the European Union and its member states. As far as the short-term risks of the COVID-19 health crisis, which immediately became an economic crisis, are concerned, along with the need for a rapid response, the COVID-19 health crisis was one of the most significant crises of the century, due to the unexpected way in which this double crisis disrupted long-standing policies and processes across a wide range of sectors. It was the COVID-19 health crisis that outperformed all these other crises in terms of risks as well as the need for rapid response. (Beetsma, 2022)

This study aimed at understanding the implications of the '*muting*' of the Stability and Growth Pact (SGP) as a function of the dependency of the public spending by its member states and the Debt & Deficit Ratio determined and exercised through the Excessive Deficit Procedure (EDP) / '*corrective arm*' of the pact, shall be helpful in formulating our conclusive remarks with the necessary recommendations whensoever necessary.

CHAPTER III: THEORETICAL FRAMEWORK

In this chapter, the author shall aim to justify the literature review by way of formulating a theoretical framework to outline the relevant association of the theoretical aspects and the findings of the study. The chapter shall also justify the hypotheses' selected for the study and shall forward their claim. While the research question is able to provide the brief outlook of the study, the chapter shall correlate it to the specific literature chosen beforehand.

3.1. POLICY FAILURE AND POLICY-IMPLEMENTATION GAPS

In order to understand the public policy failure / success, we shall utilise the theoretical framework from the study by Bob Hudson, David Hunter and Stephen Peckham (2019) titled '*Policy failure and the policy-implementation gap: can policy support programs help?*'. (Hudson et al., 2019) The study is significantly able to determine the drivers to policy failure and the relevant policy support programs. The study builds on the scholarly work by Deborah Stone (2012) titled '*Policy Paradox: The art of policy decision making*'. (Stone, 2012) And while formulating the parameters affecting the outcome of policy implementation, the same have been shared between the two. The author takes the abovementioned into consideration before devising the thesis on the line of paradoxes surrounding policy implementation.

There is a growing sense that policies don't succeed or fail solely because of their merits. More people are becoming aware of that fact as time goes by. In complex messy systems like ours, it can be challenging to develop and implement effective policies. (Carey et al., 2016) There is, however, a growing tendency among governments to look at ways in which the policy process - especially the implementation phase - can be strengthened and supported rather than allowing policies to drift into failure in the absence of government support. A key contribution of this article is that it provides a comparative analysis of different approaches to policy support, identifies key messages for policy practitioners, and highlights some of the main reasons for policy failures in three ways.

There is no doubt that the key to improving policy support is to first and foremost understand why policies fail in the first place - by understanding why policies fail we will be able to better understand how we can improve them in the future. (McConnell, 2015) As a result, policy failures can be attributed to four broad factors:

1. *Overly Optimistic Expectations*: dispersed governance, insufficient collaboration, and political cycles as a result of the insufficient collaboration. (Hudson et al., 2019) Despite the fact that most people assume that the larger and more expensive policies - the "major projects" - are carefully measured and evaluated before they are initiated, an influential study of failures in major government projects called "overoptimistic expectations" has been titled overly optimistic expectations.
2. *Implementation of Dispersed Governance*: When policies are formulated at the national level, they are difficult to achieve some consistency in their implementation at the subnational level, especially if there is a political authority at the subnational level that has different powers than those at the national level. (Hudson et al., 2019)
3. *Inadequate Collaborative Policymaking*: The design process of a policy usually involves the participation of a number of stakeholders, including politicians, policy makers, managers, and administrators, as well as local actors involved in implementation, such as users, frontline staff, and agencies that provide local services. (Gazley, 2017) Policy design and implementation have to become integrated, rather than being separate and distinct stages in the process of creating a policy.
4. *Vagaries of the Political Cycle*: A politician can be found in a fluctuating political cycle because he or she is not held responsible for failed policy initiatives, which means the politician has moved on or resigned from their office when the policy fails. (Hudson et al., 2019) They are prone to being lured in by quick results, resulting in them being attracted to them too easily.

It is important to note that the four threats to successful policy implementation that have been discussed in the preceding paragraph can no longer be addressed by simply hoping that normal channels and procedures will suffice, as they are so widespread. Among other things, it is important to understand the process through which policy moves, how policy can be supported best at each of these points, and how policy can be developed in the best way. (Hudson et al., 2019) As the preparation process unfolds, four sequential steps are followed: preparing, tracking, providing support, and reviewing.

Policymakers will be able to ensure they understand the practicalities of implementation if they examine the feasibility of policy proposals more carefully at the outset, as this will give them a better grasp of the realities of implementation. (May, 2015) An inadequacy in the design of a policy is due to many reasons, such as a poor understanding of the problem, an insufficient

understanding of how the policy will be implemented, unclear or even contradictory objectives, insufficient quality evidence, and a lack of political support.

Implementing policies to make sure they are implemented in a timely manner, the emphasis here is on the establishment of some form of central ‘delivery unit’ that is tasked with tracking the progress of policy implementations. (Hudson et al., 2019) As Gold (2017) points out, such units have become a worldwide trend in recent years - they are now located in 25 different countries and provide services for a variety of reasons, including: (i) Identifying key policy priorities within a department and tracking progress against them through the analysis of performance data at constant intervals; (ii) Identifying specific problems in the delivery of the service that may require additional resources to be resolved to help overcome any delivery challenges; (iii) Providing regular reports to government leaders about the progress that has been made. (Hudson et al., 2019)

In particular, when it comes to policies that are complex and long-term, it is important to ensure that effective implementation is achieved by simply monitoring performance delivery. So, in order to make sure that the implementation process is successful, we need to decide whether some sort of support mechanism is necessary, as well as what type of approach would work best. (Hudson et al., 2019) If such an approach were to be adopted, it would be necessary to keep close contact with the implementing agencies in order to ensure that their perspectives are understood as part of the process. (i) The management and regulation of the process; (ii) Approaches to problem-solving; (iv) Capacity building. (McConnell, 2015)

Following the implementation of your policy, you will need to assess how effective it was in achieving its objectives, enabling you to determine the extent to which your policy objectives have been met. (McConnell, 2015) A framework such as this is not only important for the identification of policy support models appropriate for specific domains, but it also has an impact on other aspects of the policy development process. (Cairney, 2016) An overview of the general hypothesis can be summarized as follows: (i) In order to implement the performance management model at an administrative level, it is possible to use a top-down approach; (ii) In order to affect a political change, it will also be necessary to adopt a collaborative approach that integrates guidance, regulation, performance management, and flexibility into the model; (iii) In order to successfully implement experimentally, a bottom-up approach needs to be used which recognizes and responds to the implementation context while supporting the problem-solving process; (iv) Additionally, symbolic implementation can also be associated with the

same characteristics as experimental implementation, although capacity building may also be necessary in order to achieve this goal. (Cairney, 2016)

The author in the thesis shall identify the relevant attributes of policy failures, if present, and shall also attempt to devise recommendations for efficient policy implementation. The thesis is aimed at identifying the relevant policy implementation gaps through the lens of quantitative evaluation. The four factors attributed towards policy failure shall formulate the base of our analysis and shall be utilised to identify the pattern of implementation gaps during the Eurozone Crisis of 2009 and the COVID-19 Pandemic.

When we take these attributes into consideration, we also consider that policy failure and Stone's work on policy paradoxes might not always be correlated. As stipulated by Stone, policy paradoxes are not always correlated to policy failure but the same that do have similar attributes associated with their failure. Thereby when we identify any implementation gaps in the analysis in the thesis, we shall attempt to take a brief outlook of Stone's perspective while identifying the attributes of policy failure as identified by Hudson et al.

3.2. DEBT & DEFICIT RATIOS

In understanding the implications of the reforms in the SGP on the public spending trajectories of the member states, we take into consideration economic studies surrounding the debt crisis of 2009. The seminar work by Jasper & Niels in 2020 titled '*Fiscal discipline in EMU? Testing the effectiveness of the Excessive Deficit Procedure*' (De Jong & Gilbert, 2020) is significantly able to identify the impact the EDP had on curbing the crisis as a function of the deficit ratio. The author aims to formulate a base for their contentions on the existing literatures surrounding the Excessive Deficit Procedure (EDP) to better estimate the implications as the aftermath of the COVID-19 pandemic.

In the article, it has been stated that as the central part of the Stability and Growth Pact (SGP), the Excessive Deficit Procedure (EDP) has faced opposing criticisms from both sides. Some criticize the EDP for imposing too much fiscal austerity, whereas others question whether the EDP really has any disciplining power at all. (Buti & Carnot, 2012) As a first step toward testing the effectiveness of EDP, the article created a real-time database of recommendations. Then it estimated the augmented fiscal reaction functions for a panel of member states of the European Monetization Policy. (De Grauwe & Ji, 2012) The results indicated that a 1% of GDP

increase in the EDP recommendation led to 0.8–0.9% additional fiscal consolidation plans. (De Jong & Gilbert, 2020) In addition, 0.6–0.7% of actual consolidation plans were affected by the increase. As the control, the result does not extend to countries that receive financial support: although these countries have implemented substantial consolidation measures, their required and delivered consolidation efforts are less closely linked in these countries. Accordingly, the results suggest that EDP recommendations have significantly shaped fiscal policies in the euro area, particularly between 2010 and 2014, during which EDP recommendations were most frequent. (De Jong & Gilbert, 2020)

The structural budget balance is the dependent variable in the study since it is the measure of fiscal adjustment. They used cyclical conditions, government solvency, and the political business cycle as independent variables. Several researchers have identified these variables as driving discretionary fiscal policy, including Mink and De Haan (2006), Beetsma and Giuliodori (2009), and Cimadomo (2012), and they aim to capture how the government wants to spend its money. In addition to the more usual determinants of discretionary fiscal policy, real-time EDP recommendations are included as an independent variable in the study to see if these recommendations have explanatory power. A country with a deficit exceeding 3% of GDP is almost by definition part of an EDP, so there is no control group. A high-deficit country may react more fervently to budget balance changes for a variety of reasons other than recommendations from the EDP. Market pressure and conditionality set in the context of financial support programs offer two notable candidates in the context of the European sovereign debt crisis:

1. This study controls for the presence of financial assistance programs and, additionally, allows the coefficient on EDP recommendations to be influenced by these programs. Several financial assistance mechanisms were established by the EU and its member states as a response to the sovereign debt crisis that began in 2010.
2. By including the ten-year sovereign yield spread against Germany as a regressor, it also controls for market pressure in the regressions. By comparing interest spreads with a safe country, market participants can assess fiscal sustainability in a comprehensive and timely manner. The spreads might be more responsive to governments than slow-moving indicators like debt levels, as Dell'Erba et al. (2015) and Debrun & Kinda (2016) suggest.

By formulating the empirical model on the above stated basis, the results have been derived coherently. Based on the usual fiscal reaction function variables, the evidence that discretionary

fiscal policymaking contributes to keeping euro-area countries solvent is weak. (De Jong & Gilbert, 2020) According to the study, political business cycles do exist. Based on the regression analysis using realization data, (planned) elections result in a statistically significant fiscal loosening of 0.6% of GDP, but not in forecast vintages. (De Jong & Gilbert, 2020) The effect of sovereign spreads is expected. Market discipline seems to play a role in EMU as well: an increase in spreads induces up to 0.3% of GDP adjustment, except for the 'policy free' one-year ahead Spring Forecast. (De Jong & Gilbert, 2020)

While the study conclusively suggests that the SGP has procyclical effects, the amendments to the preventive arm has been said to be within the bounds of limitations for the current interpretation. The author conclusively takes into account the empirical evidence from the study to formulate a base for the contentions of the comparison hereon.

Furthermore, when we talk about the implications of the Debt & Deficit Ratio on the public spendings of the member states, we are able to understand that the same has been studied throughout the evidence presented in the research studies preceding the COVID-19 pandemic. When we take into consideration the Excessive Deficit Procedure (EDP) during the European Debt Crisis of 2009, we are able to identify its adverse impact on the public spendings during a crisis.

The Jasper & Niels (2020) article is able to decipher the implications of the Excessive Deficit Procedure (EDP) on the member states have proved procyclical. The public spending associated with procyclical policies is classified as an economic shrinkage where the deficit public spending is unable to mitigate the severe impacts of the crisis. In such instances it has been evidenced to prove detrimental to the fiscal health of the state which in turn correlates to the is the necessary mitigating factor for the '*preventive*' arm to consolidate.

The Debt & Deficit Ratio although have shown significant impacts on the fiscal policies of the member states, are increasingly becoming the determinant of public spending of the member states. The study coherently studies the impact of the debt & deficit ratio on the public spending trends during the Economic Debt Crisis of 2009 and the COVID-19 pandemic (assumption) through the means of the existing literature to identify the relevant amendments to the SGP. While the communication concerning the EU Economic Governance paves way of multitude of amendments surrounding the monetary arms, the reconsideration of the Debt & Deficit Ratio could expand the positive reinforcement of the policy amendment.

3.3. HYPOTHESIS

In light of the theoretical framework formulated in the current chapter along with the relevant literature attached in the previous, the author shall devise the following hypotheses to further the claim by the qualitative and quantitative assessment of the relevant sources. They are hereby listed:

1. **Hypothesis I:** Historically vagaries of the political cycle have impacted the effectiveness and the exercise of the Excessive Deficit Procedure (EDP) under the Stability and Growth Pact (SGP) in the European Union.

The thesis shall hypothesise that the domestic political inclinations have been reflected in the exercise of Excessive Deficit Procedure (EDP) through ages. The Stability and Growth Pact (SGP) has rather been lenient in situations which could otherwise be identified as biased.

2. **Hypothesis II:** Inadequate collaboration between the member states and the relevant public institutions have depicted biased standards when exercising attributes of Stability and Growth Pact (SGP).

The second hypothesis in the study shall underline the varying level of enforcement the European Union has been depicted, which eventually hinders the collaboration between the member states public institutions.

3. **Hypothesis III:** Implementation of public policies (such as the SGP) in a dispersed governance state could be explained through the integration theories, thereby answering the attributes of policy failures.

When we observe the study of the origin and the formation of the Stability and Growth Pact (SGP) through the lenses of European Integration theories, dispersed governance could be factorised to depict policy failure in the instance of post-COVID EU Economic Governance sphere.

4. **Hypothesis IV:** The current Debt & Deficit Ratio to the GDP standard set by Stability and Growth Pact (SGP) would not be able to mitigate the negative implications the re-enforcement of the Stability and Growth Pact (SGP) with the proposed amendments.

In line with the findings of the studies surrounding the European Debt Crisis of 2009, the author would isolate the implications of the current ratio on the public spending of member states by means of qualitative justifications. The relevant literature along with justifiable claims from secondary sources would show significant correlation to the claims.

5. ***Hypothesis V***: The qualitative evaluation of the exercise of EDP during the European Debt Crisis of 2009 would imply a policy failure of the amended Stability and Growth Pact (SGP).

In line with the communication from the commission, the author would investigate the relevant factors mitigating the negative impact of the exercise of the EDP through the lens of the relevant theoretical framework. The claims of the proposed amendments would thereby be analysed for adjacent implications as well.

CHAPTER IV: RESEARCH METHODOLOGY

The author through this chapter aims to justify the research methodology adopted for conducting this research. The methodology is examined in elements of Design, Cases, Sources, Operationalisation, Data Analytics, and the Scope & Limitations of the research. The Research Design would entail the research model adopted by the thesis along with the necessary strategies and amendments to accommodate the research. The Case Studies shall justify the selected case studies and their relevance and significance to the study. The Relevant Sources shall aim to describe the process of acquiring the relevant data for the research along with the types. The Operationalisation of the relevant variables shall be followed thereon. And lastly, the Scopes and the Limitations of the research shall be enlisted in the conclusion to determine the significance of the study.

4.1. RESEARCH DESIGN

It is intended in this paper that a Qualitative Comparative Analysis Design approach will be adopted, which constitutes a powerful design when generating causal explanations. (Toshkov, 2016) The study shall first follow Case Studies Research Design then moving onto a Qualitative Comparative Analysis, which would facilitate the formulation of recommendations. (Toshkov, 2016) The current study aims at analysing the impact of Reforms in SGP through the Eurozone Crisis of 2009 and the COVID-19 Pandemic on the public spending in the member states. Case Study would be helpful in identifying the relevant parameters of analysis for a Comparative Research Design. Since Qualitative Comparative Analysis is the only one design in conducting a small-n and medium-n comparative research, therefore the set theory and the methodology of necessary and sufficient conditions concerning the QCA are much more general and could be easily implemented in differing approaches. (Toshkov, 2016)

Analysis and synthesis of similarities and differences across a small group of cases that share a common focus or goal are the key components of comparative case studies. (Toshkov, 2016) By comparing both cases, we are able to gain more generalizable knowledge while also examining them in-depth. (Toshkov, 2016) An in-depth examination should be followed by a comparative analysis as a secondary step. However, one must first understand the individual

characteristics of each amendment in order to gain a thorough understanding of the patterns of amendments.

Quantitative as well as qualitative data is generally incorporated into comparative case studies. In keeping with this trend, this research paper follows suit. Even so, the research question is primarily answered through qualitative methods. In order to determine how public policies affects outcome over time and place, statistical data shall be utilised. The overarching qualitative goal of the study must nevertheless be viewed in this light. A process tracing approach will be used to provide a detailed analysis through a qualitative evaluation of relevant amendments to the pact. In view of this, the quantitative findings are interpreted and guided by the qualitative approach in the research.

4.2. CASE STUDIES

The research paper focuses on the comparison between the *European Debt Crisis of 2009* and the *COVID-19 Pandemic (Economic Crisis)* to understand the impact of the exercise of the Stability and Growth Pact (SGP) through its Debt & Deficit Ratio to GDP impacting the Public Spending trends in the member state thereafter. Given the drastic difference between the two case studies, the author shall determine the comparable factors by hypothetical super-position of similar policies in both the cases along with the real-time data analysis.

To understand the intent behind such comparison, the author shall justify the same with the on-going advancements of the field. The comparable policy frame of both the cases over-shadows the differences in their adoption. Thereafter, an analysis of the on-going amendments shall prove fruitful in studying the economic crisis management by the Stability and Growth Pact (SGP) with a heightened level of understanding.

While conducting the in-case analysis of the two economic crises in the thesis, the author shall be identifying a small set of countries for comparison within the case. The selection has been pre-determined and the explanation pertaining to the said selection is recorded below:

1. **Germany:** The country Germany has been selected for within case comparison since the Stability and Growth Pact (SGP) had been initially proposed by the Minister of Finance from Germany. (Heipertz & Verdun, 2010) Additionally, the role Germany played in strengthening the compliance of the pact has been well recorded in multiple scholarly works. The literature review of the thesis has also identified evidence of the same in the

book by Heipertz and Verdun. The statistical significance of a large economies pattern of public spending when subjected to the Excessive Deficit Procedure (EDP) is comparable to the small economies with high compliance.

2. **France:** The country France has been identified as one of the large economies in the European Union with the one of the lowest compliance percentages through the years. (Larch & Santacroce, 2020) The same has been observed and recorded in the study by Larch, M., & Santacroce, S. (2020, May).
3. **United Kingdom:** Although not relevant for the case study concerning the COVID-19 pandemic, the enforcement of the Excessive Deficit Procedure (EDP) during the Eurozone Crisis of 2009 has statistical significance. The non-compliance has been specifically selected to understand the Integration of the European Union, as observed and studied in the book by Heipertz and Verdun. (Larch & Santacroce, 2020)
4. **Estonia:** With one of the highest compliance rates amongst the member states, Estonia is a statistical jewel in the current study. The same has been recorded in the Graph 6.1 as well as the study by Larch, M., & Santacroce, S. (2020, May). The public spending patterns with pro-cyclical observations are able to derive significant outcomes detailing the effectiveness of the Excessive Deficit Procedure (EDP) under the Stability and Growth Pact (SGP). (Larch & Santacroce, 2020)
5. **Latvia:** In order to study provide coherent results in the quantitative analysis, Latvia is selected from small economies amongst the member states. Latvia acts as the reference to provide credibility to the outcomes from the findings from Estonia. Additionally, Latvia is much more comparable to Estonia in terms of their compliance percentage and their public spending patterns, which would help derive comparable outcomes. (Larch & Santacroce, 2020)

When we conduct the said case studies, we shall also be furnishing graphs from the OECD Database (with specific references in the next sub-section). The graphs shall be divided into two periods namely:

1. **2005 to 2015:** Case Study of the European Debt Crisis of 2009\
2. **2015 to 2021:** Case Study of the COVID-19 Pandemic (Economic Crisis)

The two case studies shall formulate the relevant parameters of comparison in the Qualitative Comparative Analysis (QCA) whereby the case study of COVID-19 pandemic shall observe the Graphs 5.5 and Graph 5.6. Here the overview of all the member states is given in the Graph

5.5 to formulate a detailed picture since there is not much significant impact to be observed in a smaller set of countries.

4.3. RELEVANT SOURCES

The research significantly relies on the secondary sources of data to justify both the qualitative and quantitative claims. The secondary sources include academic articles, journals, books, news-media articles, and relevant publications to support the qualitative claims within the study. Other than references in the study, relevant sources carried forward the entire study by the author shall be listed as follows:

1. *Scholarly Publication by Bob Hudson, David Hunter and Stephen Peckham (2019) titled 'Policy failure and the policy-implementation gap: can policy support programs help?'. (Hudson et al., 2019)*

The scholarly work by Hudson et al. shall accommodate the formulation of the Hypotheses of the study. The parameters of analysis are recycled from the study and operationalised to carry out the research.

2. *Book by Heipertz and Verdun (2010) titled 'Ruling Europe: The Politics of the Stability and Growth Pact'. (Heipertz & Verdun, 2010)*

The book by Heipertz and Verdun shall formulate the Political Science literature on the work and shall be instrumental in analysing the origin and the reform of the Stability and Growth Pact (SGP) through the theories of European Integration, as identified in the study. The thesis shall follow the similar pattern of analysis.

3. *Seminar Work by Jasper & Niels in 2020 titled 'Fiscal discipline in EMU? Testing the effectiveness of the Excessive Deficit Procedure' (De Jong & Gilbert, 2020)*

The seminar work by Jasper and Niels shall be utilised to identify the parameters of Stability and Growth Pact (SGP) affecting the Public Spending patterns in the member states. The identification of Deficit and Debt Ratio into the qualitative assessment is recycled from the seminar work since similar parameters have been utilised in studies surrounding SGP.

The within-case analysis includes statistical data in the form of graphical depictions from international organizations such as OECD as well as communications from the European Commission. These graphical depictions denote the quantitative data utilised to further the research scope. Description of the sources shall be as follows:

1. *Graphs from 5.1 to 5.3 and 5.6:* The Empirical Data in these graphs have been extracted from the OECD database. The OECD National Accounts Statistics and the OECD.Stat Database have been identified to be furnishing the same. (General Government Spending, n.d.)

While the data has been extracted from the OECD database, the same has been done so to identify the trajectory of the Debt and Deficit Ratio of the countries during the period from 2005 to 2015 (Graph 5.1 to 5.3) and from 2015 to 2021 (Graph 5.6). The Public Spending has also been effectively identified through these graphical depictions.

2. *Graph 5.4:* The graph has been recycled from the seminar work by Jasper and Niels (2020) to denote graphically the EDP recommendations as a fraction of euro area GDP. (De Jong & Gilbert, 2020)

The graph denotes the EDP recommendations over time. Figure (a) shows the number of countries in EMU that received non-zero EDP recommendations in any given year. Figure (b) shows the total required fiscal adjustment, as a fraction of euro area GDP.

3. *Graphs 5.5 and 6.1:* These graphs have data published by the European Fiscal Board from the relevant referenced sources by Larch, M., & Santacrose, S. (2020, May). (Larch & Santacrose, 2020)

The graph 5.5 denotes the Government Debt Ratio for the group countries, here the countries other than the set countries have also been observed, due to the lack of observable data in the recent times. The author thereby observes the entire set. The Graph 6.1 on the other hand observes the economic data surrounding the average compliance with fiscal rules across countries from a period of 1998 to 2019. The graph provides statistically significant contentions for the study.

4. *Figure 6.1:* The figure has been included from the communication by the European Commission regarding the EU Economic Governance Review. *Communication on*

orientations for a reform of the EU economic governance framework (2022), European Commission. (COM, 2022)

The Figure formulates the necessary architecture designed by the commission for the review.

The comparative analysis of the cases thereafter is carried out through qualitative assessment of the relevant quantitative data presented earlier. The comparison is significantly influenced by the quantitative data but is justified only through the qualitative assessment.

Considering that the research aims to understand the public spending trajectories of member states in both the cases, the author shall aim to correlate within close bounds. This entails that the factors affecting the welfare state trajectories are isolated to accommodate the duration of the research. The public spending data as associated with productive public spending data shall derived from the Economic Fiscal Board and shall thereafter be utilised to formulate conclusive remarks.

4.4. OPERATIONALISATION

Considering the extend of the research, the study shall aim to determine broader concept of public spending rather than taking into account the welfare state parameters, which would otherwise be used to isolate the specific impact over the welfare trajectory. Without undermining the significance of the study, the nature of the case studies entails broader perspective of the dimensions of public spending to reduce complications in determining the causal inference with greater accuracy. Form a macroeconomic perspective, the involvement of rather specific parameters of welfare state trajectories would limit the research to a state level analysis.

From the varying methods of operationalisation, the two broad choices would convey either through a qualitative evaluation of the public spending or through institutional changes. Although the institutional changes would be able to specify the political perspective of the public spending, to evaluate the quantitative data pertaining to the changes in public spending, the author chooses the same. Given the nature of both the crisis, the qualitative assessment of the quantitative statistical data shall be sufficient to determine the causal impacts on the public spendings.

Public Spending as the percentage of the GDP shall be used to justify the level of financial freedom member states have as a comparison to the instances in the previous crisis management. The comparability of public spending shall entail:

1. Public Spending changes during the crisis; and
2. Public Spending changes after the amendments.

Although significantly stated, the level of *Debt & Deficit Ratio to GDP* shall be the defining parameter to control for in the quantitative analysis. And since the same have been recycled from the previous studies, a qualitative assessment would sufficiently justify any changes in the level of public spending.

4.5. DATA ANALYSIS

While determining the significant parameters to justify the claims within the comparative analysis, the author shall be utilising the following tools:

Case Analysis: The case study shall inculcate a qualitative assessment of the case in light of the relevant literature, and at the same time would be deriving the parameters for comparison from the quantitative data from secondary sources. The parameters shall be in the form of graphical depictions studying the public spending trends.

Comparative Analysis: The comparison of the two case studies shall be formulated through comparing the similar parameters from the case analysis while justifying the hypothesis. The comparison shall majorly be relying on the qualitative justification of these parameters in light of the relevant literature.

CHAPTER V: CASE DESCRIPTION

In this chapter, the author aims to conduct the in-depth single-case analysis for both the cases. The chapter shall take into account the relevant developments in the literature till date and builds upon it the qualitative assessment of the quantitative data. The author, through this chapter, shall be formulating the parameters for a comparative analysis in the next chapter.

5.1. EUROPEAN DEBT CRISIS OF 2009 (EUROZONE CRISIS)

The European Debit Crisis of 2009 (also called the Eurozone Crisis) is the multi-year fiscal debt crisis affecting the economic health of most of the member states from 2009 until 2010s. During onset of the European Debt Crisis of 2009, the Economic and Monetary Union (EMU) of the European Union formulated multiple reforms and recovery proposals to dissipate the large-scale impact of the crisis. (Copelovitch et al., 2016) In light of the fact that most of the redressal mechanisms at their disposal proved inefficient, the fiscal policies saw multitude of reforms and amendments during the crisis and the post-crisis period.

In our study, we focus our attention on the implications of the amendments of the Stability and Growth Pact (SGP) and the exercise of the Excessive Deficit Procedure (EDP) to understand their implications on the public spending trajectories of the member states. Thereafter we shall devise the policy success.

5.1.1. AMENDMENTS TO THE SGP AND ITS IMPLICATIONS

After the financial crisis in Europe in 2009, EU economic governance, *Sixpack*, was implemented to achieve a heightened level of macroeconomic surveillance and reform the Stability and Growth Pact in response to the crisis. As part of the "six-pack" rules introduced by the European Commission and a task force of the European Council, two different versions of these regulations were introduced in September 2010. (Frieden & Walter, 2017) A preliminary agreement was reached between the *European Parliament* and the *ECOFIN Council* regarding the content of the Sixpack in March 2011, and then negotiations between the European Parliament and the ECOFIN council were initiated as to how to secure the council's endorsement of the Sixpack. The agreement entered into force on the 13th of December 2011 after an entire year of negotiations. Objectively by the drafting of the six

regulations, macroeconomic imbalances were addressed, and public deficits were aimed to be reduced.

The Six-Pack consequently was made up of the following regulations:

Fiscal Policy

1. *Regulation 1175/2011 amending Regulation 1466/97*: On the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies. (Frieden & Walter, 2017)
2. *Regulation 1177/2011 amending Regulation 1467/97*: On speeding up and clarifying the implementation of the excessive deficit procedure. (Frieden & Walter, 2017)
3. *Regulation 1173/2011*: On the effective enforcement of budgetary surveillance in the euro area. (Frieden & Walter, 2017)
4. *Directive 2011/85/EU*: On requirements for budgetary frameworks of the Member States. (Frieden & Walter, 2017)

Macroeconomic Imbalances

5. *Regulation 1176/2011*: On the prevention and correction of macroeconomic imbalances. (Frieden & Walter, 2017)
6. *Regulation 1174/2011*: On enforcement action to correct excessive macroeconomic imbalances in the euro area. (Frieden & Walter, 2017)

There are four instruments included within the Sixpack which are aimed at increasing compliance with the Stability and Growth Pact (SGP). There is nothing new or different about this reform other than the fact that sanctions will be imposed earlier and more consistently compared to what is already imposed under the SGP. (Copelovitch et al., 2016) There is a plan to achieve more stringent budgetary discipline in euro area countries in order to ensure a more stable financial situation. When a government is subject to an excessive deficit procedure, if any necessary measures are not taken in order to reduce the deficit, the government might be required to make an interest-bearing deposit of 0.2% of its GDP as a condition of adhering to the procedure. (Copelovitch et al., 2016) The EU's Council also has a different voting mechanism for triggering automatic sanctions as part of its sanctions system. Furthermore, the Member States are required to alter their forecasting practices as well as their statistics in order to comply with EU standards. It is possible that additional fines will be imposed against a

country in the event of its data found to be false. (Copelovitch et al., 2016) Sixpack also includes two other pieces of legislation, one pertaining to early warning systems, and one relating to corrective mechanisms for excessive macroeconomic imbalances, both of which are contained in the legislation.

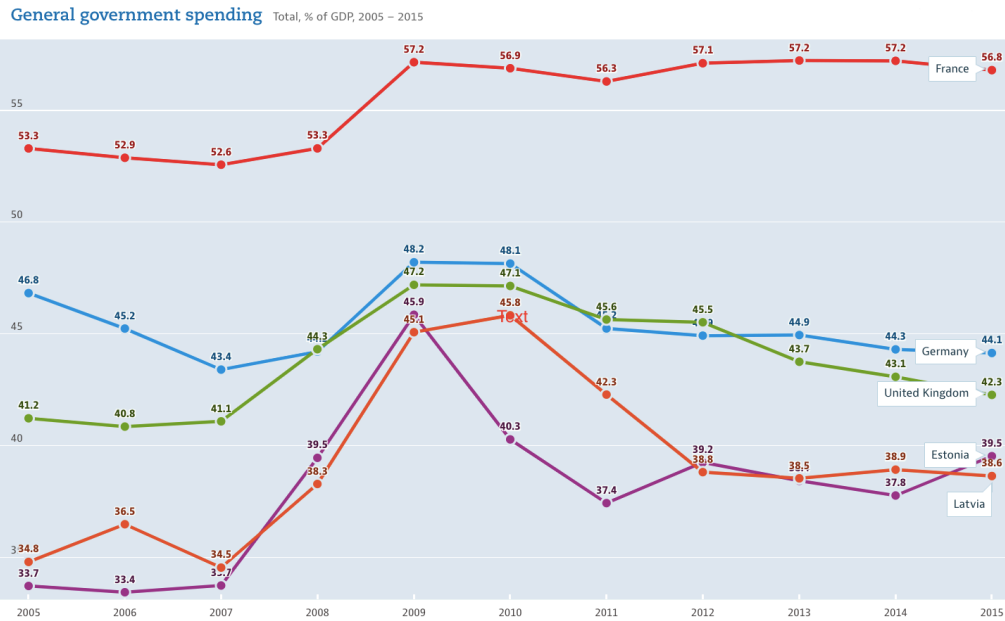
While the six-pack was introduced in the wake of the economic crisis of 2009, it was subsequently followed by additional measures by the commission in the coming years. The amendments in this regard have been determinative towards the fiscal policy forecast of the member states in the coming years.

5.1.2. PUBLIC SPENDING AND DEBT ACCUMULATION

To understand the public spending trajectories, we derive our quantitative base from the graphical depictions extracted from the OECD database. Taking into consideration that the implication of the public spending captures only a broad overview, we would isolate our contentions and findings to facilitate a supranational fiscal health evaluation for our quantitative assessment. The statistical significance of the deficit and debt ratio to the public spending might be questioned to be depended, we could objectively over-look such deviation to understand the implications of the Stability Growth Pact (SGP) and similar reforms.

When we take into consideration the spending from the *Graph 5.1*, we are able to observe a sharp rise in the Government Spending in 2008 through 2010 which is followed by subsequent differing levels of reduction in the public spending. As widely argued, bigger economies are showing higher resilience to the economic crisis despite the implications. The level of government spending in this research is studied as a function of the reforms in Stability and Growth Pact (SGP) which in turn helps us argue the varying level of compliance within the EU. (De Jong & Gilbert, 2020) The European Fiscal Board (EFB) in their studies have shown tabulated data suggesting the level of compliance amongst the different member states with the budgetary policies deviating from the regulations under the SGP. (De Jong & Gilbert, 2020) Although frequently argued as broad spectrum of analysis, the resilience of the economy of member states is reflected through their public expenditures and debt & deficit levels.

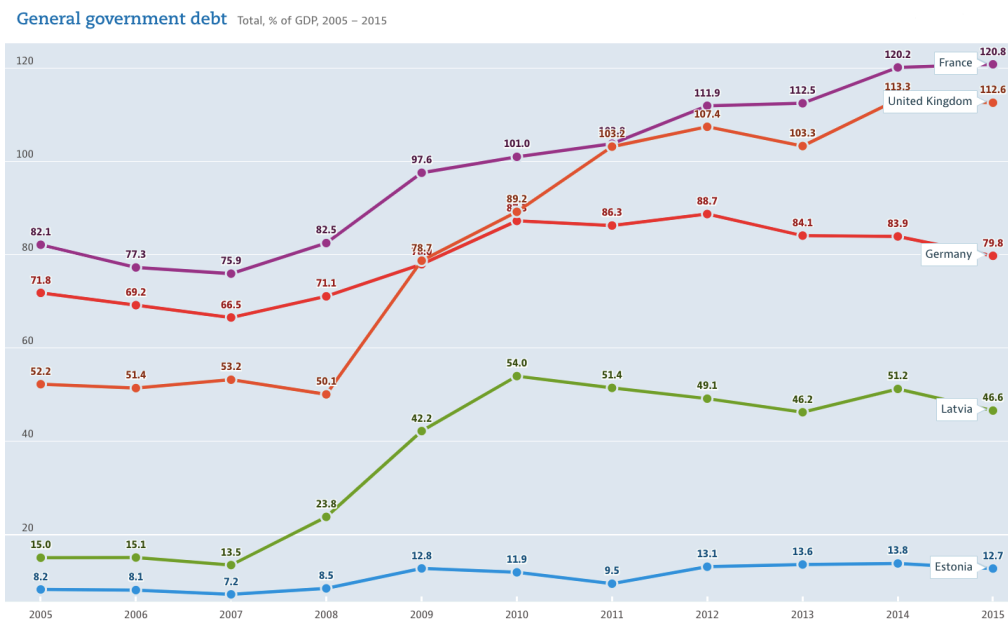
This period of sharp rise in the government spending was accompanied with the commission introducing the six-pack regulations for stringent surveillance and increased compliance



Graph 5.1: General Government Spending (Total, % of GDP, 2005-2015)
Source: OECD Database

amongst the member state. As discussed earlier, the objectivity of the sixpack regulations was mainly inclined towards the reduction in the deficit level and to address the macroeconomic imbalances. The implications of which are widely discussed as being procyclical and often criticized for the stringent surveillance regulations with lower indulgence at state level.

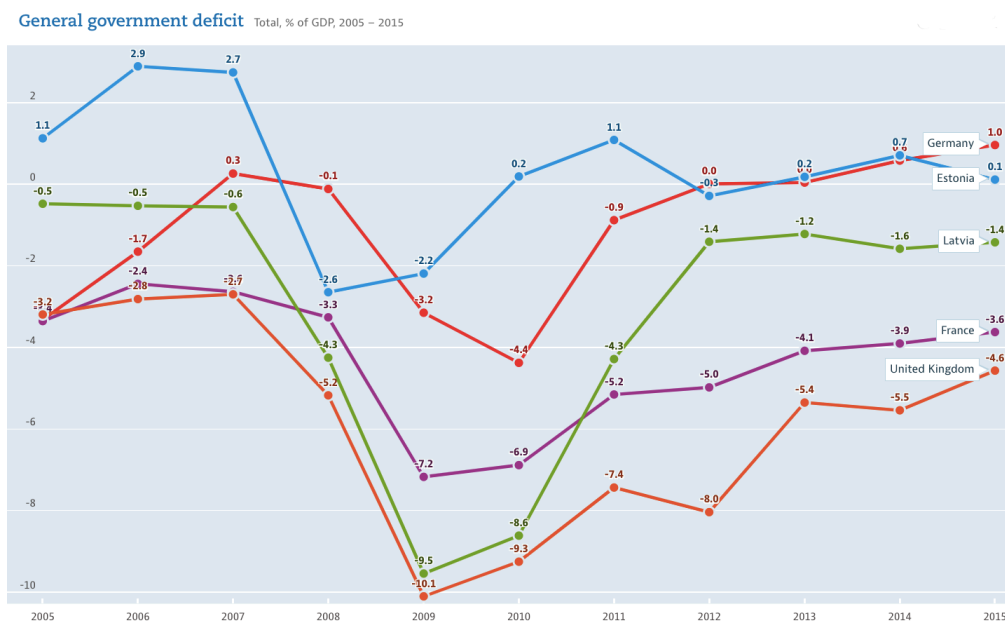
Compared to the differing levels of public spending in the member countries the government debt, in *Graph 5.2*, has not been significantly impacted. The resilience of the economies in the



Graph 5.2: General Government Debt (Total, % of GDP, 2005-2015)
Source: OECD Database

situation has also been depicted similarly by (De Jong & Gilbert, 2020) suggesting the compliance with the SGP regulations and resultant impacts of the EDP on these figures. The debt mitigated the excessive deficit impact the crisis inferred upon the member states. To better understand the narrative, we shall also consider the deficit level of the member states during the same period.

By interpreting the Graph 5.3, we are able to understand how the subsequent reduction in the government spending could be observed as a factor mitigating the impact of the eurozone crisis of 2009 on the general government deficit during the period. The mitigation could have been factorially induced by the implementation of the necessary policy frames such as the EDP under the Stability and Growth Pact (SGP) during the period of crisis. To support the said claim we decipher the sixpack introduced during the period and study the compliance level of the member state along with the figures suggesting the EDP initiated during the said period.



Graph 5.3: General Government Deficit (Total, % of GDP, 2005-2015)
Source: OECD Database

It is also significant to understand how after the implementation of the sixpack reforms, the deficit level of the member states is being treated by the Excessive Deficit procedure (EDP). The contentions raised under the study conducted by Jasper & Niels (2020) also draws in the similar lines of interpretations.

As per Hudson et al (2019), the instances of weak collaboration in formulating a policy and the failure to recognise the common ground of policy problem initiates one of the drivers of policy

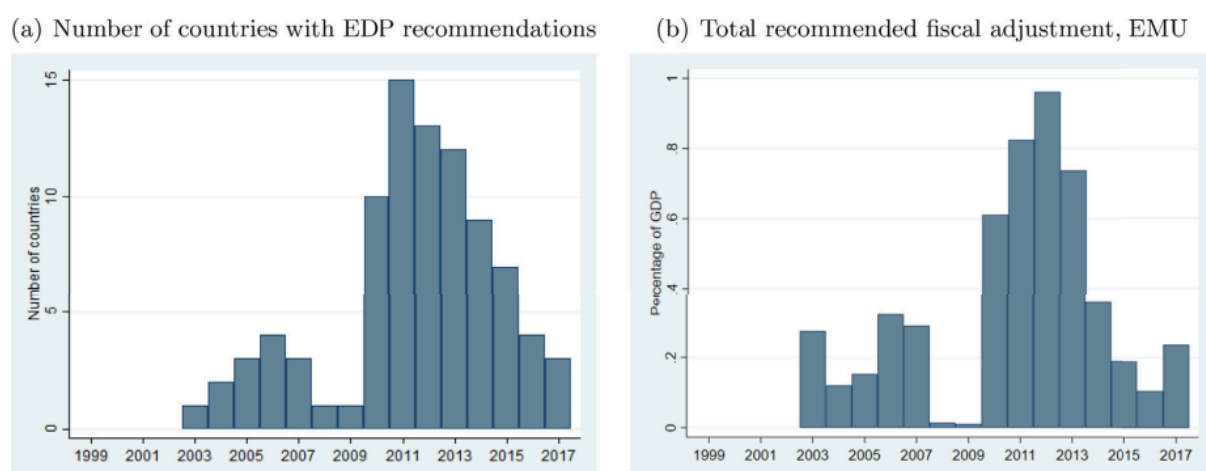
failure. The success or failure of any policy could be argued on multiple parameters, but the inability of the policy to recognise such discrepancies lead to policy failure. The efficiency of the SGP and its Excessive Deficit Procedure (EDP), in the light of policy success and failure helps us determine the presence of policy paradoxes during the crisis (Stone, 2012).

5.1.3. EXCESSIVE DEFICIT PROCEDURE (EDP)

With an objective to understand the impact of the impact of the Excessive Deficit Procedure (EDP) under the SGP during the European Debt crisis of 2009, we shall take into account the quantitative evaluation from the study by (De Jong & Gilbert, 2020) and evaluate our arguments to formulate a qualitative evaluation suggesting the policy implications in the line of failure or success.

The quantitative evaluation of the effectiveness of the EDP created a real-time database of recommendations. It estimated the augmented fiscal reaction functions for a panel of member states of the European Monetization Policy. (Beetsma & Uhlig, 1999) The results indicated that a 1% of GDP increase in the EDP recommendation led to 0.8–0.9% additional fiscal consolidation plans. Accordingly, the results suggest that EDP recommendations have significantly shaped fiscal policies in the euro area, particularly between 2010 and 2014, during which EDP recommendations were most frequent. Inherently, which had a procyclical impact. (De Jong & Gilbert, 2020)

Contenting towards the same evaluation, we overview the said quantitative findings with our theoretical framework to understand its implications towards policy success. The *Graph 5.4(a)*



Graph 5.4: EDP recommendations over time. Figure (a) shows the number of countries in EMU that received non-zero EDP recommendations in any given year. Figure (b) shows the total required fiscal adjustment, as a fraction of euro area GDP.

Source: Jasper & Niels (2020)

dictates the number of countries in the EMU that received a non-zero EDP recommendations in any given year, and the *Graph 5.4(b)* indicates the total required fiscal adjustment as a fraction of the euro area GDP. (De Jong & Gilbert, 2020) In its entirety, the EDP has observed a boost in its exercise over the period of the eurozone crisis of 2009, and the same is associated with the steady decrease in the level of government spending during the same period. With bigger economies like the case of France and Italy, we have observed a much lower level of EDP compliance and the European Fiscal Board (EFB). On the contrary, the compliance in the cases of smaller economies taken in the studies have significantly higher level of compliance to the SGP directives. (Cohen-Setton & Leandro, 2018)

For instance, during the period of the economic crisis, the compliance parameters of the country France have indicated a mere 22% compliance whereas the country of Estonia have showcased a compliance of 76%. (Larch & Santacroce, 2020) Even though the suggested data indicates better compliance, the public expenditures have been significantly reduced in the countries with higher level of compliance. The bigger economies here in the graphs have been able to by-pass these compliances and still maintained their debt ratio over the designated level till 2015. (Larch & Santacroce, 2020)

While we might understand that the policy formulated for maintaining sound fiscal health of the member states is bound to have mixed reviews, but the rigidity of the regimes during a crisis have proved detrimental in most instances involving bigger economies. Which in turn directs us to the research question asking the relevance of the EDP during a crisis in light of policy success or failure. This in-turn drives out the issue surrounding '*Inadequate Collaborative Policymaking*' suggesting the failure to establish a common ground, which in turn could be flexible to every nation, resulting from the inadequate development of tools promoting interorganizational partnering. (Hudson et al., 2019) Policy failure drivers, as studies by (Hudson et al., 2019), suggest an Implementation issue in the reforms adopted during the crisis.

While at the same time, when we look at the countries with higher compliance level, we are able to observe a significant reduction in the level of public spending during the time of an economic crisis which in turn is counter-productive in its objectivity. The reduction in public spending during a period of recession suggest procyclical effects which in turn produces a policy paradox.

According to (Stone 2012) policy paradoxes are omnipresent in public policies, with ambiguity being one possible manifestation of a paradox. They have argued that the paradoxes not only refer to different actors competing to define a policy problem but also about the same actor entertaining different ways to understand problems and juggling many criteria. The discrepancies within the interpretation of the objective goals could impact the refined policymaking procedure. While mostly associated with a form of policy failure, they are not necessarily correlated. Continuing from the theoretical framework, when we isolate the objectives and the impacts of the reforms policy, we are able to observe a policy paradox associated with the abovementioned policy failure. The objective aim of the Stability and Growth Pact (SGP) is to ‘facilitate and maintain a sound economic health of the member states but the policy implications inferring a reduction in the level of public spending during an economic crisis showcasing procyclical effects. The counter-productive implications of the paradox results in the policy failure. The policy failure, although has been briefly identified here, we would compare our contentions with the ones for the COVID-19 pandemic in the comparative analysis to formulate a cohesive narrative. The aim would be identifying any set pattern in the identification of such paradoxes, and if so, what would the failures around such paradoxes attribute towards. We would utilise the attributes stated by Hudson et al. (2019) to understand the policy implementation gaps in our current case.

Although it has been descriptively argued in Hudson et al (2019), the balance between the success and failure of any policy should be optimised. The implementation of any policy is multi-faceted and complex which in turn requires an extensive discourse while formulating any policy.

5.2. COVID-19 PANDEMIC

In the wake of the COVID-19 pandemic, the European Commission recognised the adversity of the situation and implemented the General Escape Clause thereby suspending the Stability and Growth Pact (SGP) along with it the Excessive Deficit Procedure (EDP). The unprecedented implications the pandemic posed towards the fiscal health of the member state have left the SGP at the brink of an immediate collapse and the reforms to follow shall be aimed at deeming it credible in the light of any such calamities.

By understand and outlining the implications of the ‘muting’ of the pact along with a critical evaluation of the proposed reforms to the SGP shall entail this case study. The author aims to provide a critical overview of the crisis in the light of its impact on the EDP and the public spending trajectories to be observed. The qualitative evaluation of the proposed EU Economic Governance Reforms shall justify any claims to follow in the next chapter.

5.2.1. IMPLICATIONS OF THE ‘MUTING’ OF SGP

Since inception of the COVID-19 public health crisis, the European Monetary Union (EMU) have been unable to implement the Stability and Growth Pact (SGP) considering the heavy Government Public Spending required to dissipate any harm to the human resources in the member states. On the contrary, numerous scholars have started questioning the credibility of the Stability and Growth Pact (SGP) since its suspension. Their claims entail from the inability of the pact to ensure sound fiscal health and coordination of the relevant Economic Governance mechanisms in the wake of a crisis.

On both a legal and economic level, EU fiscal frameworks currently suffer serious credibility issues. (Truger, 2020) Economically, these frameworks are creating a self-fulfilling prophecy in the market. They commonly use rules and rule defection by member states as yardsticks to determine whether they are correct when betting against, for example, the sustainability of the debt of their member states. (Truger, 2020) This is because the current EU fiscal framework places the EU closer to the market forces than disciplining the fiscal policies of individual Member States, which impedes the perfection of the eurozone rather than disciplining it. (De Grauwe & Ji, 2012)

Furthermore, since the SGP is central to EU law, it undermines the credibility of the legal framework for EU fiscal policy from a legal perspective as well as the credibility of the EU

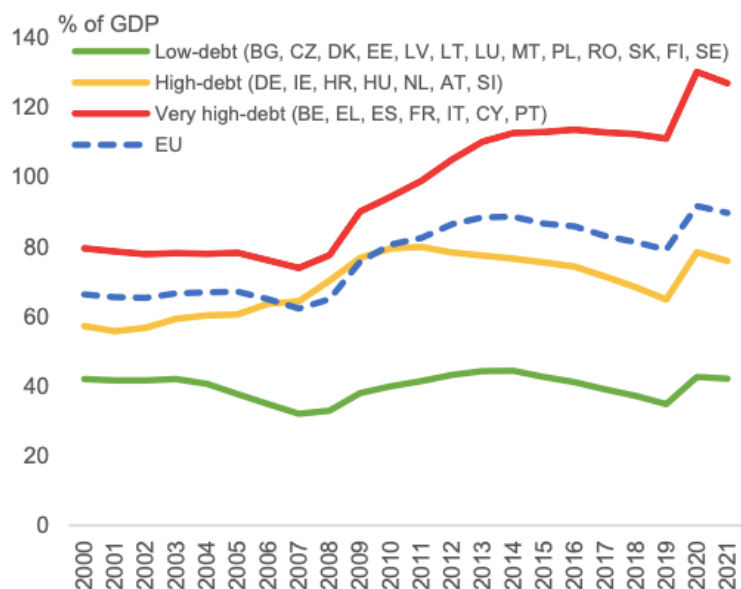
legal system as a whole because it undermines the credibility of the legal framework for EU fiscal policy. (Gil Ibanez, 2004) As a result of the lack of stability in the EU fiscal framework, it has suffered continuous sway since it has been totally unsteadied. Technical factors have not been involved in these ways, but rather there has been a convergence of interests among the Member States, particularly among some of them. Currently, all Member States are subject to general sanctions as a result of EU law, however, in this situation, sanctions have never been imposed, which is unusual. In the EU institutions, there is no longer any hesitation in sanctioning non-compliant Member States. In the new context, where sanctions are not necessarily the norms, they have become a standard that the EU currently utilises, even if they have not become the dish of the day, it is even more difficult to explain the absence of sanctions in the EU's fiscal domain. (Gil Ibanez, 2004)

Furthermore, the current EU fiscal framework is not a safe and reliable one because of its complexity. The SGP is complex due to several factors, so it is important to recognize that. It has been stated that there are too many regulations in this field, a situation which has even been called overwhelming by some. (Truger, 2020) As a result, regulation overload causes a great deal of contradiction. Therefore, it is not just that there are too many rules, it is also that they are sometimes incoherent. For instance, a nominal deficit target of 3% can be coupled with a structural deficit target of 0.5%. As much as the European Commission attempts to interpret both targets coherently, the fact remains that the use of these targets almost guarantees divergent results. A consequence of contradictions is that the implementation of the SGP rules becomes arbitrary and not discretionary as a result of contradictions. The use of arbitrary SGP rules is a result of the lack of credibility and complexity of the SGP. The complexity and lack of credibility of the SGP legal framework perpetuate the political use of EU fiscal rules as a whole. (De Grauwe & Ji, 2012)

This might be the worst possible scenario in terms of credibility, as it illustrates the lack of legal credibility of the EU fiscal framework. It might be the best proof of that fact since the almost inherent instability of the framework is the worst outcome of all possible outcomes. Legally, the fact that the system is continuously being reviewed is conclusive evidence of its inequity when it comes to legal issues as well. It is important to remember that when norms (or sets of norms), such as those in the SGP, are constantly being reviewed and re-evaluated, they provide many incentives for change. From a credibility standpoint, it is impossible to balance rigidity with flexibility when it comes to a norm (or a set of norms).

5.2.2. PUBLIC SPENDING AND DEBT ACCUMULATION

In the aftermath of COVID-19, the operation of automatic stabilisers has resulted in an increase in public debt ratios. Large-scale discretionary measures have caused GDP to drop. In the countries with the highest debt ratios prior to the COVID-19 pandemic, significant increases were experienced. (European Fiscal Board: Annual Report 2022, Brussels., 2022) There has been a decline in GDP as a result of large-scale discretionary measures. In order to increase the flexibility of the SGP, it is necessary to activate the severe economic downturn (SED) clause. (Martin et al., 2021) Generally known as the general escape clause, it allows the SGP to operate with greater ease. In light of the crisis, a revision to the SGP has become even more important. This is since fiscal policy guidance measures such as excessive deficit procedures could have provided some direction, but the measures were not implemented. (Beetsma, 2022)



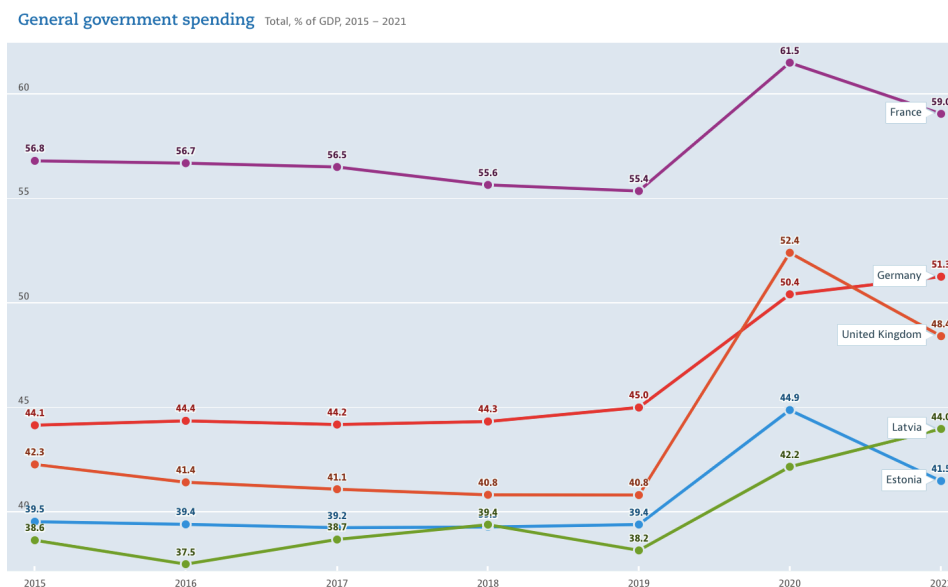
(1) The classification of countries by debt level is based on the average debt-to-GDP ratio in 2011-2019. Very high-debt = above 90% of GDP; high-debt = between 60% and 90% of GDP; low-debt = below 60% of GDP.

Graph 5.5: Government Debt Ratio by group of Member States
Source: European Commission

It has been recommended that the EU Independent Fiscal Institutions (2021) design a reform of the pact prior to the deactivation of the SED clause and that countries agree with it prior to the deactivation of the clause. (Beetsma, 2022) Although this seems impossible, it is not practical. This is because the SED clause is expected to be lifted in the near future. (Beetsma, 2022) Therefore, countries are expected to have prepared their budgets for the coming years. After consulting with the Commission, it is possible, however, to devise a blueprint for an

overhaul. Due to this, if a new arrangement is developed during the transition period, the Commission will be in a better position to determine what the pact will do. As much as some stakeholder groups are in agreement with this position, it should be noted that it is not the view of all stakeholders. (Martin et al., 2021) An eight-member panel of finance ministers issued a statement recently opposing the deactivation of the SED clause in any reforms of the SGP (Blümel et al., 2021).

And while, the corroboration of the in-credibility of the Stability and Growth Pact (SGP) paves the way for further development, the contentions by scholars have directed towards a rather new line of reform. As we are able to observe the standard increase in the debt accumulation of the member states, we also have to recognise the public expenditure associated with the debt accumulation.



Graph 5.6: General Government Spending (Total, % of GDP, 2015-2021)
Source: OECD Database

While the *Graph 5.5* showcases the three groups of government debt where the associated debt has varying level, we can decipher from the *Graph 5.6* the associated, rather significantly higher, level of public spending of the government in the member states in Very-high Debt Group in *Graph 5.5*. Although argued with the fiscal health in consideration, the very-high debt group include the countries which were evidently severely impacted by the pandemic. These contentions stem from the justification that such fiscal regulations prove in-credible despite the objectivity.

5.2.3. PROPOSED ECONOMIC GOVERNANCE REFORM

As stipulated earlier in the literature review, the author aims to isolate the hypothetical impact these proposed fiscal reforms would have on the level of public expenditure as well the fiscal health of the member states. In light of the earlier depicted data in graphs, it is evident to infer that although debt ratios of several countries exceed 100% of GDP, it is unlikely that the current 60% ceiling will be reached for quite a few years since the debt ratios of several countries exceed 100% of GDP. (Beetsma, 2022)

According to the European Fiscal Board (2018), a structural primary surplus exceeding 3-4 percent is necessary for some countries in order to achieve a more benign economic situation than the one they currently face. As a result of this political crisis, it seems impossible for these countries to generate surpluses for a decade. (Eichengreen & Panizza, 2014)

In addition, after 15 years, the debt reduction burden is likely to remain well above 60%. There have been huge claims for abolishing the current debt reference value of 60% as a result of the Coronavirus crisis and for increased debt levels to mitigate future calamities. (Beetsma, 2022) Consequently, these calls are motivated because of the low nominal interest rate, and the market expects that interest rates will remain low for the foreseeable future in the financial markets as a result of these calls. Higher debt would allow governments to invest more in energy transitions and the digitalisation of their economies, which would reduce the pressure for harmful consolidation.

Since in recent years inflation has increased sharply, and financial markets have exhibited a tendency to be short-sighted and not be able to predict interest rates accurately. Although it is not a baseline scenario, it is reasonable to predict that inflation will remain high due to continuing supply constraints, high demand, and a shortage of labour. (Beetsma, 2022) Moreover, as a result of the current loose monetary policy conditions, it is highly likely that they will result in more inflation in the medium run than we expect since the monetary policy measures only affect inflation after a significant delay.

As a result of the high level of debt that a government has, it is more susceptible to an increase in interest rates than it does if it does not have a low debt level. Furthermore, it is also possible for new major crises to occur as a result of the maturity time profile of debt determining the speed at which the debt will pass through. (Beetsma, 2022) There have been three major crises since the turn of the century that have all been unforeseen. A conservative approach to public

debt is recommended considering these arguments, which suggest that energy transition and climate disasters may have a much higher cost than anticipated in the future.

Even though these arguments have been made, it is likely that the extreme levels of public debt will force deviations from the previously agreed-upon limits of the SGP in the future. Despite the fact that the "snowball effect" will significantly negatively impact debt ratios after the Coronavirus crisis, it may not be necessary for the one-twentieth rule to be followed immediately. (Beetsma, 2022) Even though adhering to this rule may be difficult in the future, it will still be necessary to do so in the present. If debt reduction requirements are alleviated, it is essential to ask how we can convince countries to adhere to a milder path if they have not followed the required debt reductions in the past.

It is a well-known fact that, on one hand, it is more credible to impose softer, more realistic requirements, while on the other hand, it creates a sense that future revisions are expected. As well as enhancing the credibility of debt reduction strategies, there would also be the need for a revision of the SGP in other dimensions in order to make it more credible. The same could be observed in the proposed economic reforms communication where the increased surveillance and the improved architecture of the mechanism leaves the member state in ambiguity. (Beetsma, 2022)

The revision of a reduction path can encourage governments to improve their behaviour even if we cannot expect them to follow the new path perfectly. By simplifying rules and reducing the dependence on unobservable variables, the proposals to adjust for the debt ratios shall aim to mitigate any future constraints on the public expenditure. If fiscal requirements are violated, not under-taking surveillance will become more difficult to justify.

The amendments would thereby aim to involve the member state in term proposal of economic recovery, which would serve as the long-term measure, but the dissipation of the immediate challenges require rather soft approach to the recovery.

CHAPTER VI: COMPARATIVE ANALYSIS

Through this chapter, the author shall aim towards formulating a comparative analysis of the two case studies with the comparable parameters observed through quantitative sources and interpreted through a qualitative lens. The author firstly observed the policy outcome comparison the two cases would have, followed by a comparison of the debt accumulation of the member states through the years as a function of the exercised Stability and Growth Pact (SGP) norms to understand their effectiveness. Lastly, with the theoretical interpretation of the policy reforms, the author shall conclude the comparison.

It is evident how the two cases have differing parameters, but the study shall leniently observe the two on a hypothetical plane, to ensure simplicity from a qualitative assessment perspective.

6.1. EU ECONOMIC GOVERNANCE REVIEW

In October 2021, the Commission relaunched a public debate on the review of the EU's economic governance framework. The Commission invited all key stakeholders as well as other EU institutions to participate in the debate. In essence, this communication summarizes what the Commission thinks should be done to reform the economic governance framework in order to improve efficiency. In this report, the commission discusses the key economic and policy issues that will affect the coordination and surveillance of economic policy within the European Union in the years ahead. The reform seeks to anchor economic surveillance in a common framework to make it easier to maintain effective economic surveillance and to ensure a multilateral policy coordination process. In addition to ensuring equal treatment and multilateral coordination of policies, the reform also seeks to facilitate effective economic surveillance as a major objective. (COM, 2022)

There are a number of issues that need to be considered during the process of reforming the existing SGP, as identified by the commission:

To assist Member States in identifying and addressing common policy challenges and priorities in order to guide them. The EU's economic governance framework has guided Member States to achieve their economic and fiscal policy objectives. Even though the framework has evolved and become more complex over time, not all instruments and procedures have been able to

withstand the test of time, even when they filled surveillance gaps and became more adaptable to economic conditions over time.

There will be a need for high levels of investment to ensure energy security, economic and social resilience, and defence capabilities as the economy and social systems continue to transition to green and digital economies. In order to respond effectively to crises, policy coordination will be key. Moreover, the reformed framework must assist Member States in addressing the long-term challenges that the EU faces. (COM, 2022)

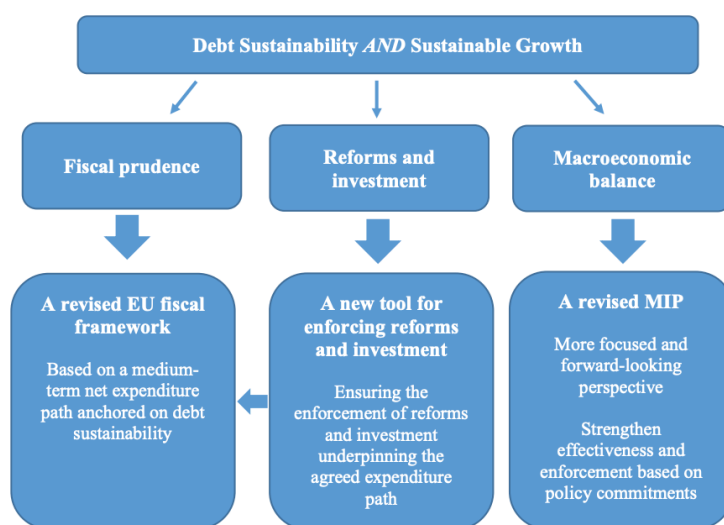


Figure 6.1: New Governance Architecture
Source: European Commission

To ensure debt sustainability and promote sustainable and inclusive growth, the Commission's orientation is to simplify and integrate macro-fiscal surveillance to ensure debt sustainability and promote sustainable, inclusive growth. This architecture for governance aims to be more medium-term oriented. The Treaty states that there should not be any difference between the current deficit of 3% of GDP and the current debt-to-GDP ratio of 60%. (SWD, 2020)

As a central component of the new governance architecture, the national medium-term fiscal-structural plans will be a central component. The revised framework would be derived from an EU-wide framework incorporating the fiscal, reform, and investment commitments of all Member States. By taking a medium-term approach, Member States would be able to differentiate themselves within a revised EU framework that would ensure sustainable growth as well as reduce debt sustainability risks within a revised EU framework. In order to maintain the credibility of a budget deficit of below 3% of GDP, a risk-based surveillance framework could be used to adjust the current debt reduction benchmark based on the country-specific

debt ratio. (COM, 2022) It would be a wise move on the part of national leaders to consolidate and reform the country's debt slowly as a key component of medium-term plans. As long as member states commit to reform and investment that contribute towards bringing debt to a sustainable state, the adjustment period will be extended, and the adjustment process will be guided more gradually as a result. The fiscal framework could be simplified and made more transparent if fiscal adjustment paths and fiscal surveillance were aligned with debt sustainability.

National governments agree on fiscal-structural plans for the medium term. (COM, 2022) As part of the reformed Stability and Growth Pact, the member state would propose a fiscal-structural plan based on a framework of the EU, and this plan would form the basis for the reform. It is anticipated that Council members will adopt the medium-term fiscal-structural plan, which also includes the fiscal trajectory, after receiving a positive assessment from the Commission.

To ensure transparency and help in the monitoring of the implementation of the long-term fiscal-structural plans, Member States should be required to submit annual reports on the implementation of the national medium-term plan. The EU would have a greater degree of enforcement as part of multilateral surveillance, even though Member States would have greater freedom in designing their fiscal trajectories. The new tool that is being developed would ensure that reforms are implemented, and commitments are achieved. Putting in place national frameworks and processes would make it easier for a structural-fiscal plan to succeed over the medium term. (COM, 2022)

By implementing a more effective framework, macroeconomic imbalances can be detected and corrected more effectively. Enhanced dialogue with Member States would serve as a cornerstone of the Commission's MIP orientations for improving implementation and making it more effective. A macroeconomic environment that is characterized by new risks should also reinforce the role of the MIP in preventing such risks. The reform would aim to reduce the inertia that has characterized the MIP rather than focusing on the evolution of risks and the implementation of policies. (COM, 2022) Furthermore, the reform would allow for greater visibility of imbalances within the EU and the euro area, while also emphasizing macroeconomic issues affecting the Member States as a whole. Several links between the MIP and the fiscal framework are proposed in this review in order to make maximum use of their synergistic effects.

To formulate their comparison between the two instances supporting and denying the amendments, the author takes into account the objectives and contentions of the communication by the commission. By comparing previous evidence from the 2009 debt crisis with the current economic trajectory of member states, the case studies will aim to determine whether these amendments have a causal impact on the current economy.

6.2. THEORIZING POLICY OUTCOMES

When we take into consideration the two case studies from the previous chapter, we can derive the policy outcome of the exercised redressal frameworks in the wake of the crisis. The comparison shall follow simple policy evaluation under the model adopted from the Implementation Gap study by (Hudson et al, 2019).

6.2.1. INADEQUATE COLLABORATIVE POLICYMAKING

When we take into consideration the European Debt Crisis of 2009, we observe significant amendments in policies mainly comprising of the Sixpack Regulations focusing on the Stringent Surveillance of the Debt Accumulation by the member states and the adjustment towards macroeconomic imbalances. The same reforms have outlined the adoption of the Stability and Growth Pact (SGP) debt rule focussing on maintaining the 60% cap on the debt accumulation by the member states. The exercise of such reform led to a boom in the Excessive Deficit Procedures (EDP) adopted by the commission in the coming period followed varying level of compliance with the union by the member state. The policy reform directed towards maintaining a stringent compliance to the pact faced with criticism by numerous scholars suggesting that the objectivity of reforms is contradictory to the core of the Stability and Growth Pact (SGP). The evaluation of the policy from the perspective of Policy Implementation Gap in the study by (Hudson et al, 2019) suggested multifaceted challenges inclining the public policy towards the bracket of Policy-failure. The policy failure was characterised by the *absence of collaborative policymaking* and the inability to determine the common grounds for drafting the policy objectives. The lack of intergovernmental partnership could be suggested to depict the level of varying compliance to the EDP by the member states. Although the public spending analysis suggested that the compliance not necessary paved the way for sound fiscal health, the exercise of EDP in the coming years opened the room for much criticism. From (Stone, 2012) perspective the policy reform circled around a policy paradox

undermining the basic aim of the SGP, the failure could also be characterised to be influenced by the same paradox.

6.2.2. *OVERLY OPTIMISTIC EXPECTATIONS*

Alternatively, when we are taking into consideration the COVID-19 pandemic and its implication on the relevant reforms to the Stability and Growth Pact (SGP), we can decipher the incapability of the pact to mitigate the severe economic downturn the crisis entails upon the member states. The same led to the exercise of the General Escape Clause of the SGP which immediately suspended the exercise of EDP to mitigate the rising debt accumulation by the member states. (Beetsma, 2022) The suspension of the pact suggested the need for policy reform and the same was thereafter exercised through the launch of the EU Economic Governance Review. The suggestions and proposed reforms substituted the applicable stringent surveillance mechanism of the existing SGP. (Darvas et al., 2018) Although argued by scholars, the debt ratio of the member state was unable to receive the proper attention in the proposal. The suggested ‘muting’ of the SGP enabled the member states to invest heavily in public health through public spending by the governments, the long-term implications of the same would be difficult to mitigate as under the proposed reforms. (Estella, 2021) Though the perspective of (Hudson et al, 2019) the proposal would indicate towards the *overly optimistic expectations* from the designated reform, the same would only be a discussion for future research.

6.2.3. *VAGARIES IN POLITICAL CYCLE*

When we outlined the limitations of the exercise of the Excessive Deficit Procedure (EDP) under the Stability and Growth Pact (SGP) during any financial crisis, we have evidentially observed how the pro-cyclical impact of the policy have rendered the SGP ineffective in dealing with the COVID-19 pandemic. Historically, financial crisis has been rather abruptly dealt with within the European Union. The founding country of the Stability and Growth Pact (SGP) being Germany, has also identified vividly how the political intricacies at a domestic level have impacted the governance of the pact not only at the national but also at a supranational level. (Heipertz & Verdun, 2010) When we observe the compliance of the various member states in the European Union with the directives issued under the SGP, we are to observe a low compliance rate with the bigger economies as depicted under the Graph 6.1. (Larch & Santacroce, 2020) The compliance percentage of France and Italy have been

historically lowest amongst the member states, which have also been defended with contentions pertaining to the domestic political sphere. The same would also provide us evidence as to how the implementation of the public policy becomes a challenge when the domestic political cycles hinder the efficiency of the policy at a supranational level.

As a factor of evaluation, the policy outcomes of both the crisis indicate unanimously towards the inefficiencies pertaining to the exercise of the EDP, mainly suggesting reformation of the valuation of Debt Ratio. In the instance of European Debt Crisis of 2009, quantitative evidence from the study by Jasper & Niels (2020) suggested the procyclical impact of the Excessive Deficit Procedure (EDP) whereas the qualitative evaluation by the author in this study suggested the possible policy paradox associated with the exercise of EDP. While the case study of COVID-19 pandemic turned towards the future of the reforms, critically studying them to evaluate the effectiveness of the Debt Ratio parameter utilised by the EDP. Both indicated towards rather similar take on the inefficiency of the EDP to mitigate the economic crisis. While the magnitude of impact varies between them, from the perspective of public policy evaluation, they suggested towards policy failure in both case studies.

6.3. UNDERSTANDING COMPLIANCE AND THE SGP

Despite the reforms undertaken in the Stability and Growth Pact (SGP), the euro area's public finances continued to show little progress toward their medium-term objectives (MTOs). In addition, the number of countries with deficit ratios exceeding the reference ratio has increased. It was reported that five euro-area countries were still experiencing excessive deficits, including France, Germany, Greece, Italy, and Portugal, as well as eight countries that were not members of the European Union. (Larch & Santacroce, 2020) On 8 November 2005, the ECOFIN Council ruled that Hungary failed to take effective measures to correct its excessive deficits in accordance with Article 104.8 of the ECOFIN Convention. There has been a limited amount of fiscal tightening in the euro area as a result of a moderate economic growth environment, and the aggregate general deficit ratio has declined below 3%. Due to the growth of the economy in 2006, the public finances of the EU were relatively positive. (Heipertz & Verdun, 2010) In a few cases, temporary measures were also effective in reducing the government's deficits and increasing public revenue. Only Cyprus achieved the deficit level that allowed the EDP to be abrogated, whereas the UK remains in excessive deficit status (in June 2006). (Heipertz & Verdun, 2010)

The German government fought fiercely against the Article 104.9 notice during 2003 and 2004, which may explain its acceptance in 2006 as a result of an eclectic approach to European Integration theories. (Heipertz & Verdun, 2010) On the domestic front, significant changes had taken place. A grand coalition between the SPD and CDU was formed by Angela Merkel to succeed Schröder's government in 2005. (Heipertz & Verdun, 2010)

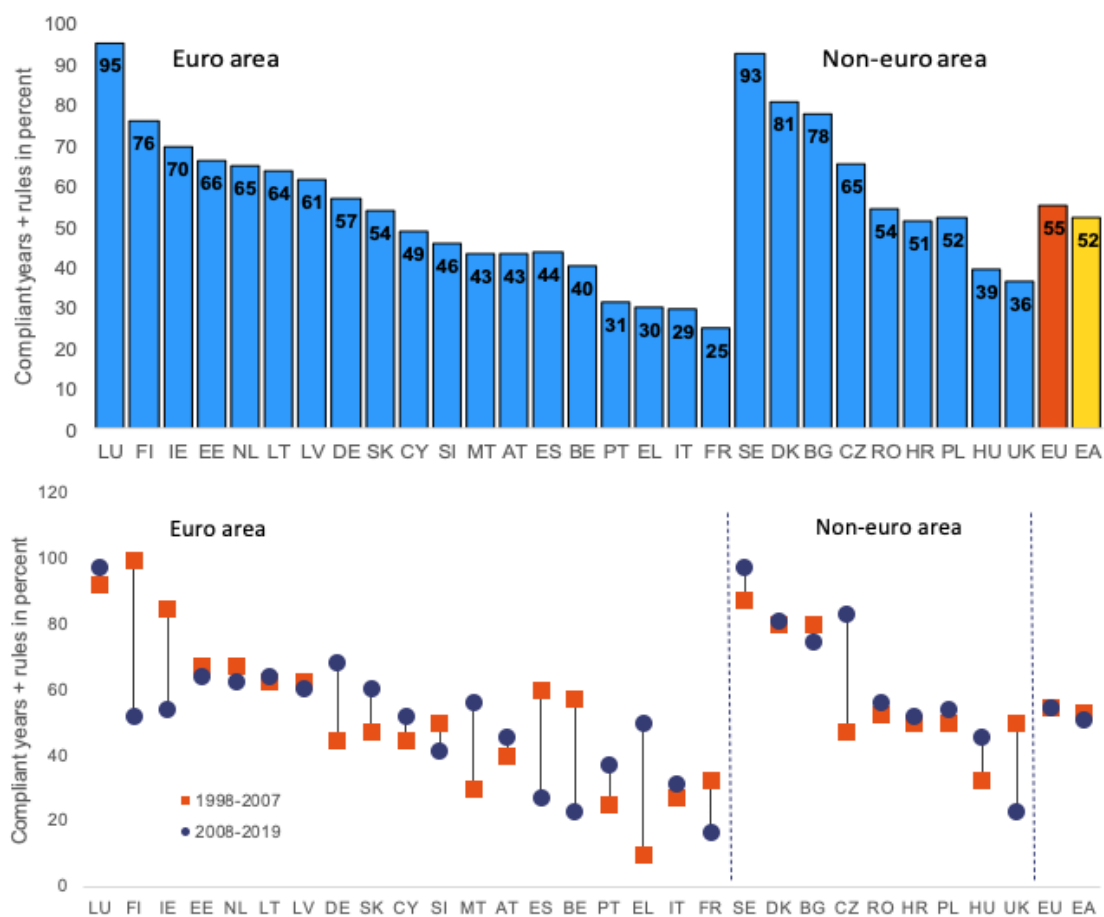
Apparently, the German government accepts the Council notice in light of the perception that the revised SGP is being closely controlled from Brussels, and that full compliance with the revised SGP has been demonstrated. While the SGP rules were adapted based upon functional and expertocratic explanations, they remained fundamental for monitoring national fiscal policies at the European level, regardless of their adaptation. A number of experts within all concerned institutions, including the German Ministry of Finance, saw them as the only relevant point of reference for the fiscal policy discourse in Brussels after the clashes in 2003 and 2004. (Heipertz & Verdun, 2010) The German Ministry of Finance was not only eager to demonstrate the effectiveness of the revised SGP in this very prominent case. Even so, it is apparent that Germany will not be sanctioned for implementing paragraph 9 in accordance with paragraph 11. This understanding, which has never been explicitly stated, was the basis for Germany's acceptance of Article 104.9. (Heipertz & Verdun, 2010)

The four theoretical lenses can help shed light on these events:

The intergovernmental approach may not be well suited to understanding these developments. If a member state wished to protect its sovereignty and room for manoeuvre in the future, it is likely that it would have lobbied for a period in which the SGP rules are not applicable. The evidence to support this assertion has been limited, and we are aware of only one instance in which a government has requested that the rules be applied flexibly, and not to be abandoned or suspended. (Heipertz & Verdun, 2010) At the very least, some member states would be able to seek maximum flexibility over the rules if an intergovernmental approach were adopted rather than a lack of clarity regarding when the Pact would take effect. (Heipertz & Verdun, 2010) Considering the current economic crisis, an approach that keeps rules in place that may impact Member States in the future is likely to be challenged by at least some Member States. It appears that the intergovernmental element does not significantly affect current outcomes without such measures.

Similarly, the verdict on the domestic politics approach, which examines the behaviour and rules of key domestic actors and institutions, is the same. Also, it does not appear that domestic actors or institutions are playing an important role in determining whether the SGP should be applied in this situation. (Heipertz & Verdun, 2010) Domestic actors are overwhelmed by competing priorities in the face of the global economic crisis - and the SGP is unlikely to be among them. In the current context, it is unlikely that the SGP will also benefit from a domestic politics perspective. There is a possibility that this may change in the future as the effects of the economic and financial crisis become more apparent. (Larch & Santacroce, 2020)

A functional and expertocratic approach would seem more appropriate to explain current events. In general, it is assumed that the framework will continue to be implemented in a formal



Graph 6.1: Average compliance with fiscal rules across countries, 1998-2019
Source: European Commission

manner at least. (Larch & Santacroce, 2020) This functional logic seems to be incorporated into government policy as well. In the event that economic growth picks up and the tide turns, there is a possibility that the SGP will become relevant again, even if it does not affect current measures for crisis management. (Heipertz & Verdun, 2010) In this circumstance, a

Commission may decide to focus on the SGP and impose its rules on 'bad performers'. Considering the degree of uncertainty, it is very likely that any Member State would find itself in that situation, thereby supporting the theory that the mechanism relied upon was highly effective. (Heipertz & Verdun, 2010)

When we evaluate our two case studies from the perspective of neofunctionalism and expertocratic approaches, we could also observe how the general trend of compliance dictates a rather significant role on the ability of the domestic player and how in the event of COVID-19 pandemic, a complete halt of the pact deemed as the only viable solution to the overly optimistic expectations from the public policy. Although as depicted under the Graph 6.1, we could also derive how bigger economies such as France and Italy have been on the lower end of the compliance parameter and how the upper end of the data dictates smaller economies such as Estonia.

6.4. DEBT ACCUMULATION AND PUBLIC SPENDING DYNAMICS

Even though from the perspective of policy evaluation we can determine the effectiveness of the Excessive Deficit Procedure (EDP), the public spending dynamics of the member states provide evidence supporting the research question.

Taking into consideration the European Debt Crisis of 2009, we are able to understand that the public spending dynamics are linked towards a rise in the debt accumulation of the member states. The compliance to the SGP regulations was not uniform with the fiscal health depictions by the commission. (Wyplosz, 2022) The varying level of public spending suggested varying level of debt accumulation, and the bigger economies with higher spending found themselves outside the set parameter in the evaluation. While the exercise of the EDP showed an exponential growth during the 2009 crisis, its impact on the public spending suggested procyclical impacts.

During the COVID-19 pandemic, with exercise of the General Escape Clause, the suspension of SGP was indicated in the graphs through a rapid rise in public spending as well as the debt accumulation by the member states. Here the member states with high level of debt accumulation were in line with the member states at the front-line of the impact of the pandemic. (Beetsma, 2022) Although studies have indicated further increase in the said valuation of the debt with the various factors indicating towards inflation, the public spending

dynamics have been rather uniform amongst the member states. The inefficiencies associated with the Debt Ratio have been evidently recognised in the study. (Martin et al., 2021)

To evaluate the two case studies from the perspective of EDP effectiveness, we utilised different methodologies. Although the implications of the inefficiency of the EDP have been of different magnitude, the evaluation of the possible impact of EDP exercise in the case of COVID-19 pandemic remains hypothetical. The basic limitation towards the evaluation of the EDP exercise requires detailed policy impact on the various member states which otherwise is difficult to estimate. (Estella, 2021) The possibilities associated with the COVID-19 pandemic suggest a reformation of the debt rule exercised by the EDP, but the close surveillance accompanying the same with flexibility to the member state's economic approach suggest incomprehensible outcomes compared to the empirical evidence from EDP effectiveness study surrounding the European Debt Crisis of 2009. The procyclical impact of the EDP during the 2009 crisis could be replicated by the reforms suggested under the EU Economic Governance Review, but the same remains a question for future research.

CHAPTER VII: CONCLUSION

Through this chapter, the author aims towards concluding the findings and establishments from the research. The discussion shall inculcate the elements of recommendations through narration of the views of the author. The chapter shall also address the research question with concluding remarks along with the evaluation of the hypothesis. And along with the limitations and scope of the study, the author shall discuss its implications on the existing literature.

7.1. ADDRESSING THE RESEARCH QUESTION AND THE HYPOTHESIS

With the aim to address and evaluate the research, we shall answer our research question while interpreting the relevance of the chosen hypothesis:

R1: Is the (proposed) reformed Excessive Deficit Procedure (EDP) under the Stability and Growth Pact (SGP) an efficient policy amendment through the lenses of Public Policy Failure (Hudson et al, 2019) during the European Debt Crisis of 2009 as well as during the COVID-19 Pandemic? If so, how?

Through the extensive qualitative evaluation of the case studies, the research was able to determine the ineffective exercise of the EDP in years. The quantitative data from previous studies were utilised to determine the efficiencies of the EDP exercise to formulate a narrative for the qualitative evaluation. The Public Policy was thereafter interpreted through the lens of theoretical framework determined in the study to conclude the presence of policy implementation gaps surrounding the exercise of EDP. In both the crisis policy failure was outlined but with rather different approach. The procyclical impact of the EDP was understood to determine ‘Inadequate Collaborative Policymaking’ driving the policy failure in the European Debt Crisis of 2009. Whereas ‘Overly Optimistic Expectations’ from the proposed reforms to the SGP directs towards future policy failure. The policy failure although isolated through qualitative evaluation also mentions the multifaceted challenges to public policies challenges efficient policymaking procedures.

R2: How efficient has the ‘muting’ of the Stability and Growth Pact (SGP) been during the COVID-19 Pandemic? What are relevant implications from the halt?

The study was able to determine with sufficient evidence how the muting of the Stability and Growth Pact (SGP) has been efficient in increasing the necessary public spending during the

times of a public health crisis. The muting of the SGP did not only impact the national economies but also identified that the challenges faced by the member states amplified with the exponential increase in the EDP exercise during the Eurozone Crisis of 2009. The quantitative sources strengthened the qualitative evaluation suggesting the inefficiency during this crisis. In the case of the COVID-19 pandemic, we were able to determine the impacts of the Debt Ratio on the member states, with no amendments to the SGP's standards. The study was able to determine the non-compliance with the unrealistic parameters set for the member states in a post-pandemic evaluation. The study was therefore able to conclude the necessity of an amendment surrounding the EDP & the Debt Ratio to facilitate the fiscal recovery of the member states efficiently.

Additionally, the study was also able to provide evidence suggesting the validity of the hypothesis set in the theoretical framework:

Hypothesis I: Historically vagaries of the political cycle have impacted the effectiveness and the exercise of the Excessive Deficit Procedure (EDP) under the Stability and Growth Pact (SGP) in the European Union.

Hypothesis II: Inadequate collaboration between the member states and the relevant public institutions have depicted biased standards when exercising attributes of Stability and Growth Pact (SGP).

Hypothesis III: Implementation of public policies (such as the SGP) in a dispersed governance state could be explained through the integration theories, thereby answering the attributes of policy failures.

Hypothesis IV: The current Debt & Deficit Ratio to the GDP standard set by Stability and Growth Pact (SGP) would not be able to mitigate the negative implications the re-enforcement of the Stability and Growth Pact (SGP) with the proposed amendments.

Hypothesis V: The qualitative evaluation of the exercise of EDP during the European Debt Crisis of 2009 would imply a policy failure of the amended Stability and Growth Pact (SGP).

7.2. SCOPE AND LIMITATION OF THE STUDY

The study is able to determine with clarity the public spending trajectory and how changes in the parameters of economic crisis management, the resilience is impacted. The scope of the

study is not limited to its implications on development scheme for the Stability and Growth Pact (SGP) but rather it opens the door for discourse to evaluate the economic crisis redressal mechanisms from the light of policy implementation gaps. The study was able to contribute to the existing literature of discourse on the evaluation of a wide debated mechanism. The scope of the study has been effectively extended due to the presence of relevant theoretical frameworks in previous literature. The study is able to expand the scope of the existing literature on this vast topic of societal as well as academic relevance.

While scope of the study determines its relevance, there are multiple limitations left for the future researchers. The most evident of all would cover the fact that the qualitative evaluation is unable to cover the intricacies of the causal relations between the various variables in the study. This is in turn reflected when we determine the impact of reform in SGP upon the member states during the COVID-19 Pandemic. By utilising quantitative tools, the study could've provided more transparent narrative to the causal relations.

Since we have conducted a comparative analysis research, it is without doubt one of the weakest ways when we conduct cross-case analysis stage to distinguish the association from causation. The connection between the cross-case analysis and the within case analysis is mostly prone to lose connections, thereby hindering the measurements and the findings of the study. There is also a problem of generalisation, as could be identified within the said study, beyond the case analysed. These are not specifically isolated to comparative analysis and within case analysis research. While the methodological limitations of the study might be limited to the limitations pertaining to the research design, there are even more limitations pertaining to the nature of the study at hand.

The limitation entails from the comparability of the two crises in the study. Although the implications of the policy reforms showcased similar outcomes through similar form of amendments, the relevant actors and institutions involved would be impacted differently in an economic crisis and a public-health crisis leading to an economic crisis. However, the paper might be able to mitigate the differences to some extent by choosing much broader concept for operationalisation. In the current study, the same would not be possible due to the limited research on the SGP and COVID-19. And since the 'muting' of the SGP, statistical data are based on the assumption rather than statistically significant figures. At the same time the choice of the selection of the countries have provided comparable data for the comparative analysis but the same could not be held comparable after the COVID-19 pandemic. The Comparability

is hypothetical. The narrative of the thesis is able to subdue these limitations by focusing on the present data, but the conclusion presents the directives for any future research on the subject.

7.3. CONCLUDING NARRATIVE

Through the study, the author aimed at understanding the redressal mechanisms in the wake of any economic crisis, and with the proper redressal mechanism evaluation, the study was able to determine the realistic challenges pertaining to the policymaking. The theoretical framework utilised to develop a critical overview of the Stability and Growth Pact (SGP) amidst the European Debt Crisis of 2009 and the COVID-19 Pandemic has been able to formulate the policy outcomes through the lens of Implementation-Gap. The derivation of the recommendations to address the on-going reform proposal for the SGP dictates the need to look into the Debt Ratio with soft approach to recovery in mind. The need for such reforms highlights the purpose of the study.

Based on a substantial amount of literature regarding the political economy of budgetary institutions, it has been suggested that a stronger budgeting process and a stricter set of fiscal rules can help maintain fiscal discipline and prevent excessive government debt accumulation. It has also been argued by some that fiscal policies of a monetary union should place a greater emphasis on long-term debt than on short-term nominal deficits in order to avoid inefficient stabilization in times of adverse shock, which would make it a procyclical model. With the same in mind, the study determines that a fiscal discipline approach that is one-size-fits-all based on deficit targets imposes a relatively high level of fiscal discipline on countries with relatively low debt levels, which means that sustainability risks are limited consequently. It is important to evaluate the trade-off between the risk associated with elevated debt levels and the goal of fiscal policy to stabilize macroeconomics during economic downturns in order to determine the optimal rate of debt reduction.

In economic theory, there are no definite methods to determine the optimal level of public debt. In the future, the optimal level of debt might be determined by a variety of factors, including the initial debt level, projections of future expenditures (for example, pensions, healthcare, and the transition to renewable energy), political weights assigned to different cohorts, insolvency risks, and the political objectives of establishing a common fiscal framework within the European Union. But when it comes to establishing a debt ceiling for the EU, it is susceptible

to arbitrariness and an undesirable lack of flexibility. Consequentially, with consideration to relevant sources and theoretical frameworks, in order for the EU to deal with its extremely high levels of debt, one of four approaches can be used:

1. In the first approach, we do not touch the rules, but rather allow for more violations.
2. Secondly, we could differentiate the speed at which adjustments were made to the 60% common ceiling.
3. Thirdly, even though the debt ceilings of all countries could be raised, the rate at which excess debt is reduced by one-twentieth each year would remain the same.
4. Fourthly, the debt ceilings could be adjusted in accordance with the country's circumstances.

By retaining 60% as a long-term ceiling and setting differentiated debt ceilings that will be set over a period of seven years, the second and fourth options can be combined. After that, new debt ceilings will be set for the next seven years, and so on, aiming to get each country's debt down to 60%. It may be possible to maintain a sufficient level of equitable horizontal treatment. This will enable us to reduce excessively high debt levels gradually and, in a manner, acceptable to all members. Although, it would be necessary for countries to unanimously agree to amend Protocol 12 so that the 60% reference value can be maintained in order to ensure a long-term debt ceiling remains in place.

Several factors appear to contribute to a high debt ratio, including the fact that fiscal policy is often procyclical. In addition, high debt ratios are not sufficiently reduced, particularly when opportunities arise. Despite the flexibility of government rules, it appears that expenditures on public investment or growth-friendly expenditures have not been sufficiently reduced. The results of the economic crisis have been a consequence of countries not building buffers to take advantage of the good times. This resulted in unwarranted budgetary contractions during the recession. Between 2011 and 2013, there was a substantial improvement in structural balance during an extremely negative period of output gap over a period when the structural balance was extremely negative. Investments did not rise due to slippages in expenditures, as a result of slippages in expenditures. Several the shortcomings of the SGP could be summarized as follows:

1. The complex and opaque rules, which are based on unobservable indicators, allow different countries to cherry-pick the indicators to receive the benefit of the doubt. This depends on the circumstances.

2. Moreover, it was found that the medium-term planning process is weak, with adjustments being delayed and often they do not materialize.
3. Politics interfered with economic assessments, while the Commission increasingly conducted bilateral surveillance with the countries surveyed as a result of economic concerns.

Although fiscal rules can never be perfect, they can nevertheless be used to restrain government budgetary policies. Upon lifting the SED clause, a revised SGP is required. This is because the credibility of the SGP is further undermined if the original rules cannot be adhered to. This would result in returning to the old surveillance practice. As a result, the momentum behind reforms may begin to fade. Changing or differing from the current debt reduction requirements post-COVID-19 is a vital step towards achieving a stronger commitment to achieving the revised debt reduction requirements. As a result, it will be even more critical for the SGP to be revised and simplified in other dimensions. This will make it easier to understand and more transparent. In addition, it will help determine whether national IFIs will be able to play a significant role in monitoring the development of the debt markets.

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