

POLITICS IN THE TIME OF CORONA

With the outbreak of COVID-19 and the looming economic crisis in its wake, all attention is focussed on the healthcare response in the first place and the consequent recovery plan. At the same time, and as with every crisis, profound political issues often go unnoticed only to re-emerge in earnest in the aftermath. Below are some of the most pertinent political takes from the crisis so far and a look ahead.

EU IS A PEACE AND PROSPERITY PROJECT

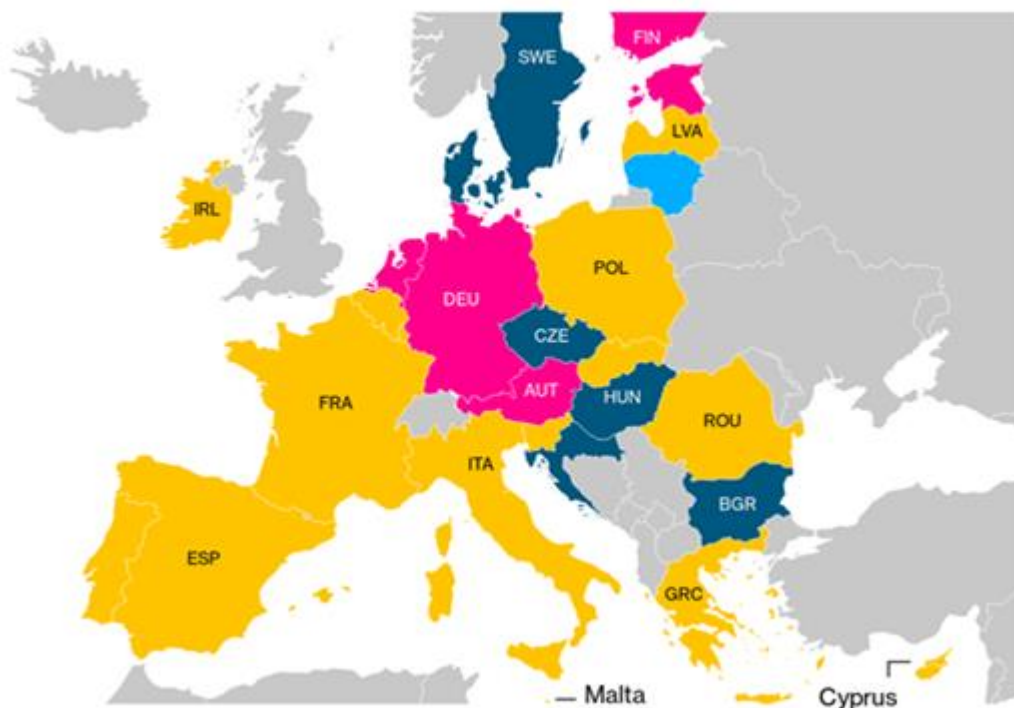
The functioning of the EU has shown innate difficulties in addressing crises over the course of a more than a decade. The concept of solidarity was the backbone of the enlarged EU and the first major crack appeared during the Eurozone crisis at the end of the first decade of the new millennium. It was further eroded half a decade ago with the migrant crisis and the resulting chasm of unresolved differences between Member States, and is now facing a potentially tectonic movements in the aftermath of the COVID-19 pandemic and recession.

The differences among Member States and their primacy in the EU architecture is truly revealed in times of crisis: borders are being reinstated, EU state aid rules loosened [even if not yet fully suspended as demanded by Austria], governance and democracy principles [not surprisingly, Hungary and Poland again] side-lined to allow for a smoother functioning of the European Council, and national interests dominate the political arena.

“ALL POLITICS IS NATIONAL” AND THAT IS A PROBLEM

The picture below illustrates Eurozone members' positions on COVID bonds in the first vote that rejected the proposal. Member States opposing the common bonds are governed by: EPP and Greens (Austria), RE, EPP and ID (Estonia), S&D, RE, Greens and GUE/NGL (Finland), EPP and S&D (Germany) and RE and EPP (Netherlands). Parties represented in five Groups, all but ECR, in the European Parliament participating in these governments clearly illustrates the superiority of national interests over any European ideological alignment. Moreover, a majority of EPP-led governments (Cyprus, Greece, Ireland, Latvia, Romania, Slovakia and Slovenia) diverged from the line of Germany and Austria who normally guide EPP's positions. A similar division persisted in the EUCO on the approach to the debt mutualisation and the next long-term EU budget.

■ Supports virus bonds ■ Opposes virus bonds ■ Other euro members
■ Other EU members



Source: Bloomberg

European political parties have also reduced to the minimum the coordination of their positions prior to the EUCO and the Councils. In fact, in the runup to the latest EUCO summit, dealing with the recovery response and the MFF, European Political Parties held no meaningful preparatory meetings/teleconferences to align national positions according to the party lines, acknowledging the primacy of national interests.

CAPITALS LEAD, BRUSSELS FOLLOWS

If an illustration was ever needed, the communications from the Parliament and the Commission on COVID-19 certainly provided it in the context of the Multiannual Financial Framework (MFF) discussion. Member States have always played the central role in unanimously determining the EU's long-term budget, based on the Commission's proposal and the consent of the Parliament. The Commission's reluctance to come out with the new proposal before the Council agreed on outlines and the Parliament's virtual pledge to rubber-stamp the agreement indicate that the budgetary power is fully in the hands of Member States at this stage. As the MFF will define not just the recovery approach, but also the framework for the Green Deal [Just Transition Fund arguably being the pillar of it and its funding being uncertain at the moment], industrial strategy and other flagship projects of the Commission, it is clear the EU's ambitions will be shaped by Member States.

A LOOK AT NATIONAL TRENDS

One of the striking trends since the beginning of the COVID-19 pandemic is the resurgence of mainstream political parties in most of the EU, especially on the centre-right. In Germany, the governing CDU (EPP) has been in close tie with the Greens since the European Elections in May 2019. Almost a year later, the Christian-Democrats have more than doubled in support compared to their counterparts, surpassing the result they had in 2017 elections (39% compared to 16% for SPD and 15% for the Greens), all while being effectively without party leadership. A similar situation is in Austria, where OVP (EPP) has close to 40% support, Czechia, where embattled governing ANO rebounded with outbreak of COVID, and the Netherlands with VVD (RE) almost doubling their ratings from mid-February. Likewise, Social-Democrats (S&D) in Denmark score 10 percentage points better compared to general elections last year.

It is worth noting that, aside from isolated yet notable cases such as Belgium, France and Finland, populists have so far failed to capitalise on the crisis and increase their popularity. In fact, in most countries, their ratings have either been flat (Germany, Spain, Czechia) or dropped (Austria, the Netherlands, Sweden), mainly at the expense of the governing mainstream parties. Structuring and implementation of the recovery programme will therefore be even more significant in taming the last-year's surge of populism.

However, while the crisis rallying favours governing mainstream parties, mainly at the expense of the fringe nationalists and populists [both left-wing and right-wing], as well as the Green parties, the post-crisis political landscape could see their resurgence. Governing parties and politicians will have to make decisions related to the exit from the confinement where criticism is inevitable: too little, too late / too much, too soon. In addition, economic decisions to bail out certain companies and sectors are poised to spark some backlash, rekindle discontent and (re)energise activists.

In fact, the recent polls suggest that a majority of Europeans support keeping the climate agenda atop of priorities despite the pandemic. The likely scenario where some aspects of the EU's Green Deal may get delayed or derailed, especially at the national levels, are likely to give boost to the Green parties in the opposition. In addition, the economic slump and post-crisis recovery has always been a fertile ground for populist to capitalise on people's dissatisfaction and another surge of populists throughout the continent post-COVID is not unlikely.

To add to the plights of governing parties, the tensions between central and provincial/regional governments have been tenuous wherever there is a significant level of regional autonomy (Germany, Spain, Belgium, etc). Infights within the same political party have nowhere been as dramatic as in Germany, where the feud over the reopening of the economy has divided the governing CDU/CSU (EPP) sister parties along the Lander lines.

AND WHAT ABOUT BRUSSELS?

Among political families, the EPP will be facing the biggest challenge in the coming period. The centre-right family will need to find a way to reconcile the positions of their [dominant] German-speaking and their southern and eastern members [a majority of their heads of state and government] on fiscal and economic policies. In addition, they will need to make a decision on how to deal with Fidesz's now consistent derogation of

democratic postulates of the Union, which led 13 delegations in the Group to revolt again. Finally, EPP still doesn't have a clear and coherent position on the Green Deal transition, which became apparent when the Green Deal initiative of the ENVI Chair was signed only by a handful of their MEPs and even the letter by one of their own received more signatures from prominent MEPs of groups other than EPP.

Socialists will not be in an easy situation, either, facing similar issues when it comes to the crisis response and the Green Deal, granted to a lesser extent. For the S&D and their governments, the focal point of both of these topics will be the question of employment and viability of their respective national economies, with the rift between the north and the south likely to deepen and widen.

For the Greens and to a lesser extent the Renew Europe, the future of the Green Deal is a make-or-break and it is likely they would keep on insisting on its unaltered continuation. The Green Recovery initiative in the Parliament came from the RE ENVI Chair Pascal Canfin and the Danish initiative in the Council to carry on with the Green Deal was supported by all the governments where the Greens participate, with the notable exception of Lithuania where the Prime Minister comes from the party whose MEP sits with the Greens.

Greens are likely to focus their communications on two fronts: actively supporting the greenest possible incarnation of the Green Deal at the EU level and on criticising any attempts to bail out or support fossil fuel industry at the national levels.

In the absence of a unity within the EPP, Merkel's eroded leadership, and arguably the Commission President Ursula von der Leyen's, the French President Emanuel Macron took the effective thought guidance in Europe, putting himself and the Renew Europe at the forefront of the EU.

WHAT NEXT?

Aside from negotiations on the recovery package, MFF, Brexit, Green Deal and all the files which are being pushed back, we will be likely facing a big structural issue – what next for the EU. It has become painfully obvious that the EU is ill-equipped to respond to major challenges and crises and there is a clear need, and more frequent calls, both from Brussels and national capitals, to address these deficiencies – one way or another.

One way would be to give more power to the European Commission, more competences to the EU and more say to the European Parliament. This would likely mean revisiting, if not reopening, the Treaties to provide more democratic legitimacy to institutions already perceived as distant and opaque. It has been one of the main political messages the MEPs sent last Friday in their COVID-19 Resolution. However, opening the Pandora's box of Treaty revisions and additional powers for Brussels at the time when Member States are being highly protectionist and citizens approving of it, and with a looming recession which is always a fertile ground for populism, seems a risky prospect.

Another extreme would be the scaled-back reach of the EU institutions and going back to a more intergovernmental state of affairs of the pre-Lisbon era. In practical terms, no changes would be needed to the legal documents and Member States would effectuate their independent policies resting assured that, as in the cases of Poland and Hungary, they would not be penalised for their trespasses.

The most likely scenario, however, is that the EU would delay its Conference for Europe to a point where it would be appropriate to bring the subject back to political discussions and then by the next Elections in 2024 perhaps come out with a proposal or two – transnational lists, direct election of the Commission President or something else, rather symbolic.