

**THE FUTURE OF THE EU'S  
ECONOMIC PROPOSITION IN  
LIGHT OF LOOMING ECONOMIC  
POPULISM: A CASE FOR AN  
ENDOGENOUS RESPONSE.**

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## Relevant Information

This document summarises the key points of one of the round tables held at the [Fide Foundation 2<sup>nd</sup> International Congress at Oxford, on Nationalism, Populism and Identities: Contemporary Challenges](#). The key topic was the future of the EU's economic proposition in light of looming economic populism: a case for an endogenous response.

The panel was comprised of **Juan ESPINOSA GARCÍA**, Partner at Silverback Advocacy. Previously, Advisor to the Ministry of Finance and Civil Service of Spain. (Leader of the Subgroup), **Miguel DE LA MANO**, Executive Vice President at Compass Lexecon based in Brussels. Currently Partner in RBB Economics, - **Maria Pilar CANEDO**, Member of the Board of the National Commission of the Markets and of the Competition, **Amanda COHEN BENCHETRIT**, Specialist senior judge by the General Council of the Judiciary in commercial matters. Academic Advisor to Fide, **Martín MARTÍNEZ NAVARRO**, Référendaire (law clerk) at the Court of Justice of the European Union, and **Sonsoles CENTENO HUERTA**, Partner of the European Union Law Department at Pérez-Llorca. State Advocate on leave of absence. Former Head the Legal Service before the Court of Justice of the European Union. Member of Fide's International Academic Council.. *As contributors:* **Frédéric JENNY**, Professor Emeritus of Economics at ESSEC Business School in Paris. He is Chairman of the OECD Competition Committee (since 1994), and Co-Director of the European Center for Law and Economics of ESSEC (since 2008). Member of Fide's International Academic Council.

### About the Fide Foundation

The Fide Foundation is a legal-economic think-tank based in Spain, committed to involving the civil society in all major legal and economic developments in Spain, the EU and abroad.

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# THE FUTURE OF THE EU'S ECONOMIC PROPOSITION IN LIGHT OF LOOMING ECONOMIC POPULISM: A CASE FOR AN ENDOGENOUS RESPONSE.

## ABSTRACT

This article will discuss the extent to which the European Union is equipped to provide, and is indeed providing, an appropriate response to the economic issues that have amounted to the rise of economic nationalism/populism. It will be argued that if the EU delivers satisfactory solutions in terms of growth, prosperity and equality, economic populism will be kept at bay. A relationship will be acknowledged between the criticisms from economic populism and certain economic policies and performances from the EU in the current context. The situation of such stances will be analysed in turn, in order to propose workable solutions in the quest of an ever more prosperous, egalitarian, value-providing EU.

## INTRODUCTION

We live in times where enthusiasm for the so-called *European Project* no longer seems to find yesteryear's widespread unanimity amongst the folk of Europe. The last decade has taught us that the future of the enterprise is not self-fulfilling, let alone evident, and so we should not take it for granted. There are a range of elements that amount to that realisation. Such elements are roughly the same ones identified and built upon by the nationalist/populist discourse - whether from the Left or Right side of the political spectrum - in portraying the vision of the European Union (EU) of late as a lame, lackadaisical and, ultimately, ailing entity.

If the Brexit episode made a highly impactful finale for a season that spanned over longer than a decade, the following instalment in *The Whereabouts of Europe*, which we are now well ventured into, promises no less troublesome, unresolved cliff-hangers, from the challenges stemming from post-Covid-19 to the new geo-political order and, not least, even a real military conflict in the continent. Since the EU is called for a starring role in her own show, it seems timely to contrast the vigour and



momentum to keep fulfilling her foundational purpose against the growing pace of nationalism and populism. More precisely: against the economic dimension thereof - as many of populism ´s supporting concerns are economical in nature.

Hence, this contribution discusses the extent to which the European Union (EU) is equipped to provide, and is indeed providing, an appropriate response to the economic issues that have amounted to the rise of economic nationalism/populism.

The EU clearly fulfils the role of culprit of all evil from populism ´s ranks. She herself is an attempt to transcend nations and nationalism. She tries to build an overarching economic logic via integration of national economies. She is as interested in process as in results - and her array of institutions is not for the unexperienced. There is indeed space for the EU to address this “clash of propositions” by taking direct stances, from economic sanctions to third parties to budgetary retaliation to members that divert from settled democratic standards. This very moment could be ripe for such a confrontational approach - the role of Europe in combatting populism with all possible economic weapons, “whatever it takes” as some would have it.

However, the perspective chosen for this contribution is neither defensive nor confrontational. A utilitarian approach of sorts has been favoured instead as, when considered broadly, the economic outcomes to be pursued can be shared from both the EU and the populist perspectives: growth, prosperity, equality. What they offer is different diagnoses and different toolkits. So, if the validity of the EU ´s economic proposition depends largely on how she performs, what we need to look at is how she is performing. Because, ultimately, the case of *more, not less Europe* will be about citizen support and appeal, not academical discussion. More than anything else, the EU needs to seduce her people and ground a certain sense of belonging, or *to* belonging, upon her capacity to provide solutions - also in the economic remit.

Considering the above, we will first sketch precisely what economic populism is. Following that, we will delve deeper into the sources of economic dissatisfaction experienced throughout Europe lately and how economic integration should be rebalanced as a consequence thereof. Then we will analyse the might of the EU ´s economic reach to contend economic populism, namely: economic regulations and policies; monetary policy; public funding activity; and institutional layout. Finally, some

conclusions on the current strengths and shortcomings and practical insights on how to implement any possible ways forward will follow.

## **A WORKABLE NOTION OF ECONOMIC POPULISM**

Economic nationalism and populism cannot be approached in isolation from the wider concept of political populism as a challenge to liberal democracy.<sup>1</sup> We may define political populism as a polarizing, emotional ideology, across the left-right political gamut, which “considers society to be ultimately separated into two homogeneous and antagonistic groups, the (pure) people versus the (corrupt) elite.”<sup>2</sup> This people/elite dichotomy inherent to populism does of course exhibit an economic dimension.

The reasons for the rise of populism are manifold, but recent research reveals common trends – which turn out to be fundamentally economic. To name but a few: the comparative losses in competitiveness and productivity; the reverberations of the world financial crisis starting late in the first decade of the 21<sup>st</sup> century; the potential exhaustion of some local industries and services; an increasing importance of digital and platform economies endorsing disruptive models in asymmetrically regulated markets; demographic shifts; and the difficulties of some job markets to adapt to changing circumstances. As a common, overarching theme we find the consolidation of economic globalisation, a pattern that dates back decades. The causal link between globalisation and

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<sup>1</sup> For a systematic rapport of both strands, we may refer to Bertola, G., Driffill, J. (2017). Economic Policy and the rise of Populism – it’s not so simple, [https://www.researchgate.net/publication/316642278\\_Economic\\_policy\\_and\\_the\\_rise\\_of\\_populism\\_-\\_it's\\_not\\_so\\_simple](https://www.researchgate.net/publication/316642278_Economic_policy_and_the_rise_of_populism_-_it's_not_so_simple). See page 4 ff. in particular.

<sup>2</sup> Mudde, C. (2004), “The Populist Zeitgeist”, in *Government and Opposition*, 39, 542-563.

political/economic backlash leading to populism is widely accepted<sup>3</sup> and has been recognised since at least 1997.<sup>4</sup>

The dynamics referred to above are not transitory in nature, but instead pervade structurally in Western capitalist economies, notably in Europe ´s: aging population, fragmented and distorted labour markets, pressures on wages from globalisation. However, it is equally evident that such issues become more salient in times of dire economic contexts, aka crises.<sup>5</sup> Crises make underlying tendencies more likely to morph into tangible threats such as growing inequality divides, growth stagnation, public and private debt overuse, rampant unemployment, risk of exclusion, deterioration of social welfare, exhaustion of “safety-net” social services and the like. These economic indicators - which may anticipate an uprising in populism - ramp up in crises and affect the middle and working classes, particularly the ones related to unemployment rates, median income, and wealth concentration.<sup>6</sup>

From the above follows that it is fear - or, put conversely, the longing for security - that ultimately drives the continuum unemployment-inequality-exclusion-dissatisfaction. This is an important point as, essentially, the gist of economic populism is dissatisfaction, namely with the economic policies adopted and maintained by policy-making establishments in such contexts: austerity, minimum intervention, a deferred passive monetary policy (at least for quite some time), preservation of free

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<sup>3</sup> See Guriev S, Papaioannou E. 2020, *The political economy of populism*. CEPR Discuss. Pap. 14433, Centre for Economic Policy and Research, London.

<sup>4</sup> Rodrik D. (1997), *Has Globalization Gone Too Far?* Institute for International Economics, Washington, DC, [https://econpapers.repec.org/article/meschalle/v\\_3a41\\_3ay\\_3a1998\\_3ai\\_3a2\\_3ap\\_3a81-94.htm](https://econpapers.repec.org/article/meschalle/v_3a41_3ay_3a1998_3ai_3a2_3ap_3a81-94.htm)

<sup>5</sup> This is a recurring point in many of the citations included. For one, Kahn, R., Tananbaum S.A. (2015), *Addressing Economic Populism in Europe*, Council of Foreign Relations <https://www.cfr.org/sites/default/files/pdf/2015/12/December%202015%20GEM.pdf>.

<sup>6</sup> Some interesting analysis on how this structural context has influenced the Brexit vote and Trump’s election:

- Darvas, Z., Efstathiou, K., 2016, Inequality and the vote for Trump, Bruegel, <https://www.bruegel.org/2016/11/income-inequality-boosted-trump-vote/>
- Darvas Z., 2016, Brexit vote boosts case for inclusive growth, Bruegel, <https://www.bruegel.org/2016/07/brexit-vote-boosts-case-for-inclusive-growth/>

trade and de-regulation, the sometimes-unintuitive handling of moral hazard in the presence of a systemic threat.

“Take back control”, read the Brexiter claim in 2016 ´s referendum. In line with that aspiration, whether or not delusional, populist economics focus on pursuing growth and redistribution via control, particularly national, *inter alia*: expansionary fiscal policies with lesser regard of capacity limitations and intertemporal budget constraints; a restriction on international trade in favour of national protectionist measures; consequently, a disbelief in supranational economic integration; immigration-limiting labour policies; a more active role of the State in the economy, as a direct provider of citizen ´s needs so as to avoid the effects of inequality. This “need to intervene” - even if it involves going it alone - in turn ties economic populism to the “people vs. elite” rhetoric of the wider populist movement.<sup>7</sup>

## **NAVIGATING DISSATISFACTION: A REBALANCING OF EUROPEAN INTEGRATION**

Populists are opposed to European integration, the internal market and the Euro. Moreover, they reject the implied loss of sovereignty for the Member States and challenge the freedom of EU citizens to live and work in other EU countries. Why?

As mentioned above, a significant cause is the unequal impact of globalisation and technological change on different parts of the EU. Economic developments like structural change and the associated costs in terms of uncertainty and job losses are seen as the outcome of international economic integration. These forces were exacerbated by the 2008 Global Financial Crisis, which had harsh consequences, particularly for the unemployed and young adults looking for a first job. Moreover, throughout the crisis, national and European policymakers had to implement unpopular

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<sup>7</sup>For a comprehensive, comparative account cfr. Ivaldi, Gilles & Mazzoleni, Oscar. (2021). Economic Populist Attitudes in Western Europe and the United States. 10.1007/978-3-030-53889-7\_8.

[https://www.researchgate.net/publication/348208721\\_Economic\\_Populist\\_Attitudes\\_in\\_Western\\_Europe\\_and\\_the\\_United\\_States](https://www.researchgate.net/publication/348208721_Economic_Populist_Attitudes_in_Western_Europe_and_the_United_States)



structural reforms in the labour, capital and product markets and enforced austerity policies to stimulate the economy. There is a consensus among economists that economic populism may result in unsound policy choices by oversimplifying economic realities and isolating such countries from the global economy. But precisely, this is why economic populism is appealing. It promises simple solutions to complex problems. In the aftermath of the financial crisis, for citizens in debtor countries like Greece and Portugal, who suffered from falling living standards with no end in sight, rejecting austerity was perceived as the only viable option.

This led to a debate about the failure of the ruling elites and the fact that the costs of the crisis were disproportionately borne by "ordinary people" and not those deemed responsible for it.

EU economies are as integrated and as open externally as they have ever been. Yet, although populist parties have been active throughout Western countries for many years, it is only over the last decade that we have seen a general trend of increasing support. This is happening against the backdrop of longer-running economic trends: the labour share in income has gradually decreased, and the demand for lower-skilled labour has declined. The result has been a rise in inequality between skill and income groups, with a distinct regional profile. While the deepening globalisation and EU integration, combined with skill-biased technical progress, have unambiguously generated overall income gains via higher static and dynamic efficiency, these outcomes have not been Pareto-optimal.

Moreover, a series of adverse economic shocks have particularly hit the "losers" of this development. Austerity policies have further increased distributional conflicts instead of countering this development with welfare state measures. This fuelled an already existing undercurrent of discontent and fading trust in democratic institutions. Ordinary citizens have gradually lost confidence in the so-called "elites" to deal with the (real or imagined) unfair distribution of gains and burdens in society. In this context, EU policies have been increasingly perceived as being biased pro-market and pro-business, paying little attention, if any, to their social impact and undermining cohesion, solidarity, autonomy, and governability at the national, regional, and local level.

These effects were predictable. The workhorse models of international trade and economic integration have strong redistributive implications. Under competitive conditions, as long as the importable goods continue to be produced at home (that is, ruling out complete specialisation), there



is always at least one factor of production that is rendered worse off by trade liberalisation. That factor is the one used intensively in the importable goods, in the case of the EU: low-skilled labour. In effect, the deepening of the Single Market has had winners and losers: income inequalities between factor owners of labour and capital have increased. Simultaneously, inequalities increased within the labour income group. Demand for high-skilled labour increased, while less-skilled workers suffered from job and wage losses.

In principle, the gains from trade can be redistributed to compensate the losers and ensure no group or region is left behind. However, these redistribution mechanisms designed and operated at the national level, whilst successful in the successive rounds of the EU's expansion, appear not to work effectively anymore. Some insights can be suggested:

- First, the redistributive effects of liberalization and international trade get larger and tend to swamp the net gains as the trade barriers in question become smaller,<sup>8</sup> which explains why globalisation becomes politically more contentious in its advanced stages.
- Second, redistribution to mitigate economic inequality can be very costly.
- Third, there is a strong empirical association between financial globalisation and financial crises over time.
- Fourth, capital mobility gives employers a credible threat: accept lower wages, or else we move abroad, which further shifts the burden of economic shocks to labour.
- Fifth, as capital becomes globally mobile, it becomes harder to tax.
- Sixth, support for redistribution measures decreases with the inflow of migrants.
- Finally, "Brussels" has become an easy scapegoat, being accused of ignoring the social consequences of its policies and, even worse, undermining the capacity of the nation state to deal with them.

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<sup>8</sup> Rodrik, Dani. "Populism and the economics of globalization." *Journal of international business policy* 1.1 (2018): 12-33.

In this economic context, the most critical challenge the EU faces is not lack of openness but lack of legitimacy. As long as EU integration is seen as a project of the political elites and the wealthy, it will carry the seeds of its own destruction. The push for ever deeper economic integration has to go hand in hand with policies that strengthen a more Social Europe. The best way to confront economic populism is to prove it wrong and ensure that the tide of EU integration lifts all boats, not just the yachts.

However, dealing with economic populism does entail much more than providing an adequate response to inequality. It will require not merely a re-adaptation of the EU ´s economic principles but a proper handling of the economic toolkit at her disposal in order to adapt to the current circumstances. Furthermore, it will involve doing so in a recognisable fashion that connects with the concerns of her citizens and with a certain European *ethos*. In all, this means no other thing than offering an added value to citizens.

## **THE EUROPEAN UNION ´S ECONOMIC TOOLKIT AS A CONTENDER TO ECONOMIC POPULISM**

What we call the economic foundations of the EU is a complex interrelated set of policy, regulatory and institutional dimensions. Interestingly, each one of these spheres has merited criticism from the ranks of economic populism. It is worth analysing the extent to which such criticisms do reflect the current situation and, more importantly, the potential that there is in each of them for the European Project to provide valid solutions to persistent, and upcoming, economic challenges.

The rise of economic populism needs to be addressed by finding better ways to combine the benefits of open markets and integration with social protection and fairness. Is the EU on the right path? We will review some of these remits in turn.



## IV.1 ECONOMIC REGULATION AND POLICY

Unsurprisingly, the EU ´s sectoral regulatory action has been somewhat identified with the promotion of liberal paradigms, coupled with a certain vision of these policies being deployed through remote, cumbersome procedural methods dominated by technocratic shenanigans. Elite-driven formulations, protracted discussions, far from our people: good crop for populism ´s rhetoric.

The picture of highly liberal policies with weak regulatory drive might however not fully correspond to the current situation, both in terms of aspiration and execution. Today, the *Brussels Effect*<sup>9</sup> sets the world ´s regulatory bar in many respects. Those standards do not embed only, or even mainly, a libertarian vision. For one thing, there are other mottos increasingly justifying the EU ´s policy actions. Disruptions and risks brought about by technology and, not least, technological sovereignty itself; environmental aspirations and social responsibility standards; financial instruments in increasingly decentralized contexts; the protection of consumers both online and offline. These belong in the current EU ´s (notably the European Commission ´s) high-level political mission as much as the four freedoms. Hence the aspiration of strong, prescriptive regulatory frameworks at the EU level.

An analysis of certain policies currently under scrutiny supports this view. For example, as regards the pursuit of efficiency as an economic outcome, we can mention the transformation of European competition law that is taking place in response to the phenomenon of digital platforms via the Digital Markets Act (DMA).

This is a piece of regulation where ex-post analysis and remedies - traditionally the cornerstone of competition policy - is giving way to ex-ante solutions, introducing concepts such as “gatekeepers” to whom certain specific behavioural requirements will be applied. Hence its value as an example of how the EU provides a way of protecting citizens and small and medium businesses in the light of technological, global, libertarian, monopoly-prone business models (a populist theme), with a fresh, non-deferred, ex-ante approach drawn from the experience acquired in the enforcement of arts. 101

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<sup>9</sup> As termed by Bradford, A., 2020, *The Brussels Effect: How the European Union Rules the World*, Oxford University Press.

and 102 TFEU. Beyond the bold instrumental layout however lies the very same motivation as that driving competition law since its modern development during the industrial revolution in the USA: to protect the general interest, market functioning, consumers and, ultimately, democracy.

On a different note, we can consider sustainability and corporate responsibility issues, which go beyond mere economic policy. The EU is signalling a clear thrust in those. The call is not only to contain negative social impacts from business activities but to foster positive impacts. One such example would be 2019 ´s European Green Pact, with an ambition to become GHG-emission “net-zero” by 2050, and the subsequent Green Deal and Fit for 55 policy toolkits. In order to achieve this, in January 2020, the Commission launched an investment plan for a sustainable Europe that will mobilize at least EUR 1 trillion in sustainable investments over the next decade from the EU budget.

Likewise, the green transition requires investment, both public and private. This is where another EU instrument, the European Taxonomy, comes into play. In order to redirect private investment flows towards sustainable activities a comprehensive regulatory scheme, comprising a general Regulation and several successive Delegated Acts, has been devised to signal environmentally sustainable economic activities, providing common appropriate definitions, and providing security for investors, avoiding greenwashing.

Another ambitious remit is the Corporate Social Responsibility provisions to tighten companies ´ compliance obligations on issues such as human rights, the environment or good governance in their value chains. These policies purport to build a more social-friendly regulatory environment for the EU ´s business ecosystem. For instance, this year the Commission's Proposal for a Directive on sustainable corporate governance and due diligence saw the light of day. The proposal aims to promote sustainable and responsible business behaviour across global supply chains.

It is then clear that the EU ´s economic policies currently go well beyond market integration and free trade, whether by traditional economic themes being refashioned or through the intensification or environmental and social overtones. What remains to be seen is whether this will contribute sufficiently to any narrative reinforcing her pertinence in the future.

## IV.2 MONETARY POLICY AND THE ROLE OF THE ECB.

The European Central Bank (“ECB”) is one of the main “specialised” institutions of the EU. It has two main tasks: first, it has the exclusive competence to define and implement the monetary policy of the EU Member States whose currency is the euro (currently they are 19)<sup>10</sup>; second, it contributes to the prudential supervision of credit institutions and to the stability of the financial system (a competence it shares with national central banks).<sup>11</sup>

By exercising these competences, the ECB has become a decisive EU actor, as became apparent during the 2008 financial crisis and the ensuing sovereign debt crisis. ECB’s President Mario Draghi: “*whatever it takes*” speech is widely seen as a defining moment in the 2010 ´s financial crisis recovery,<sup>12</sup> followed by massive asset purchase programmes for the acquisition of bonds in secondary markets (“Quantitative Easing”) and other non-conventional measures (e.g., negative interest rates).<sup>13</sup> For many observers and analysts, the ECB truly saved the existence of the euro during such troubled times.<sup>14</sup>

However, it is not unusual for Eurosceptics to develop a discourse around a pledge to restore economic and monetary sovereignty as their recipe of choice to attain the economic prosperity which,

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<sup>10</sup> Articles 3(1)(c) and 119(2) TFEU.

<sup>11</sup> Article 127(5) TFEU.

<sup>12</sup> <https://www.ecb.europa.eu/press/key/date/2012/html/sp120726.en.html>

<sup>13</sup> For a brief discussion of the ECB’s monetary policy toolbox, see the speech by Philip R. Lane, Member of the Executive Board of the ECB, at the 2020 US Monetary Policy Forum, available at <https://www.ecb.europa.eu/press/key/date/2020/html/ecb.sp200221~d147a71a37.en.html>.

<sup>14</sup> See for instance <https://www.nytimes.com/2019/05/24/opinion/after-draghi-wonkish.html>, <https://www.nytimes.com/2019/06/16/business/mario-draghi-ecb-euro.html>, <https://qz.com/1038954/whatever-it-takes-five-years-ago-today-mario-draghi-saved-the-euro-with-a-momentous-speech/> and [https://www.kfw.de/KfW-Group/Newsroom/Latest-News/News-Details\\_426753.html](https://www.kfw.de/KfW-Group/Newsroom/Latest-News/News-Details_426753.html).

according to them, the EU is incapable of providing to its citizens.<sup>15</sup> It is in this context that the ECB finds itself often in the crosshairs of Eurosceptic populists. The typical accusations may range, under a variety of versions, from failing to adopt sound policies to prevent and deal with crises to failing to take into account the needs of « the people ».

Such criticisms are not so worrisome as an interpretation of past events but as an anticipation of how the ECB is supposed to behave in light of the prospective challenges ahead. Will the populist claim of a passive monetary authority hold? Will the ECB change course to disarm its critics? The design of the ECB could and should be fine-tuned in order to ensure that its monetary policy effectively contributes to the achievement of tangible results to the benefit of EU citizens (economic growth, employment, fight against climate change) and gains citizens' trust. The following could be some ways forward.

Firstly, as far as the mandate of the ECB is concerned, the monetary policy of the eurozone has as its primary objective to maintain price stability “and, without prejudice to this objective, to support the general economic policies”.<sup>16</sup> The ECB had defined since 2003 the objective of price stability as maintaining inflation rates below, but close to, 2% over the medium term.<sup>17</sup> In July 2021, the ECB slightly modified its inflation target by declaring that price stability is best maintained by aiming for a 2% inflation target over the medium term (which means that negative and positive deviations of inflation from the target are equally undesirable).<sup>18</sup> The primary implication of this is that, in principle, the ECB's monetary policy cannot pursue other main objectives different from price stability and

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<sup>15</sup> See, for instance, the programme of Marine Le Pen, candidate of the *Front national* to the French Presidential elections of 2017, whose first measure was a pledge to open negotiations with the EU in order to restore the monetary and economic sovereignty of the French people; available at <https://rassemblementnational.fr/pdf/144-engagements.pdf>.

<sup>16</sup> Articles 119(2) TFUE and 127(1) TFEU.

<sup>17</sup> See <https://www.ecb.europa.eu/mopo/strategy/pricestab/html/index.en.html>.

<sup>18</sup> See <https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210708-dc78cc4b0d.en.html>.

which are equally important, such as economic growth or the promotion of full employment.<sup>19</sup> It is noteworthy that, in contrast, neither the Federal Reserve nor, arguably, the Bank of England have a similar narrowly defined mandate.<sup>20</sup> Unsurprisingly, authoritative voices have considered the ECB's inflation-fighting mandate as counterproductive.<sup>21</sup>

Another consequence of defining so narrowly the objectives of monetary policy is that if and when the ECB interprets its mandate in a "flexible" manner and adopts non-conventional instruments that may be seen as pursuing other objectives of economic policy (which are legitimate but are not included within the ECB's mandate under a strict reading), the ECB's actions are exposed to political attacks and even legal challenges for exceeding the limits of its competence. Similarly, the possibility for the ECB to implement a "green" monetary policy is surrounded by uncertainty and open to potential challenges, in particular if such policy can somehow be regarded as threatening the objective of price stability.

Furthermore, and relevant to the populists´ frequent attack of the ECB as overly detached from the sources of political legitimacy, it would be advisable to increase the ECB's democratic legitimacy and its political accountability, without prejudice to its independence when conducting its functions and the non-renewable character of its presidency.

Lastly, the EU treaties establish an absolute prohibition on monetary financing, which prevents the ECB from financing public spending by Member States or the EU institutions through monetary

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<sup>19</sup> When inflation is extremely low and remains below 2 %, as it was the case for several years until the recent geo-political tensions erupted and exacerbated unusual upwards pressures, the ECB could argue that it is aiming at getting inflation closer to the 2 % target through a monetary policy that indirectly may favour economic growth and employment. However, this possibility rests on a hypothetical premiss that may not necessarily arise in the real world.

<sup>20</sup> See <https://www.federalreserve.gov/faqs/what-economic-goals-does-federal-reserve-look-to-achieve-through-monetary-policy.htm> and <https://www.bankofengland.co.uk/monetary-policy>.

<sup>21</sup> See J. STIGLITZ, "Rewriting the Rules of the European Economy", Norton, 2020, pp. 72-73. See also J. STIGLITZ, "The Euro. How a Common Currency Threatens the Future of Europe", Norton, 2018, pp. 145 *et seq.* For a simple discussion of the harmful economic effects of the inflation-only mandate, see also P. KRUGMAN, "Euro Zone Death Trap", published on the New York Times on 25 September 2011, available at <https://www.nytimes.com/2011/09/26/opinion/euro-zone-death-trip.html>.



policy.<sup>22</sup> This prohibition aims at ensuring price stability, protecting the ECB's independence and promoting fiscal discipline among Member States and the EU institutions. In accordance with standard economic theory, it is preferable for public authorities to finance spending through taxation or capital markets, rather than through monetary policy. However, in the aftermath of the financial crisis and in the context of the Covid-19 pandemic, some economists have argued that the absolute prohibition of monetary financing should be re-examined and perhaps nuanced.<sup>23</sup>

### **IV.3 ACTIVE FUNDING AND THE CASE OF NEXT GENERATION.**

The active funding to member states via regional, structural or social policies has been instrumental in the EU's economic integration process. It can be argued that without the affluent-to-recipient rent transfer logic embedded in the EU's budget, in exchange for the perks of market opening and liberalisation, the so-called ever closer union would have not come this far. Conversely, this issue has proved one of populism's most effective claims, particularly resonant in the poorer regions within EU's richer countries, as the somewhat coarse arguments made during the Brexit campaign show all too well.

Since redistribution is key to fighting inequality, and the latter is so related to the dissatisfaction themes that have both partially grounded economic populism and called for a reshaping of EU's policies, funding programs will remain key in the European agenda for some time, in particular in the topical context of the Next Generation EU (NextGen EU) program. Again, the EU has often been depicted as a distant, non-interventionist witness of the evolution of the economy, surpassed by

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<sup>22</sup> Article 123 TFEU. This implies that the ECB cannot grant credits to or purchase debt instruments directly from Member States and EU institutions.

<sup>23</sup>See I. AGUR, D. CAPELLE, G. DELL'ARICCIA & D. SANDRI, "Should Monetary Finance Remain Taboo?", IMFBlog, 22 February 2022, available at <https://blogs.imf.org/2022/02/22/should-monetary-finance-remain-taboo/>. See also A. WATT, "Quantitative easing with bite: A proposal for conditional overt monetary financing of public investment", Institut für Makroökonomie und Konjunkturforschung (IMK), Düsseldorf, 2015, Working Paper n° 148, available at <https://www.econstor.eu/bitstream/10419/110391/1/82030462X.pdf>. As regards the covid-19 pandemic, see <https://www.ifuturecitizen.com/post/monetary-financing-against-the-covid-19-crisis-safe-or-risky> and <https://voxeu.org/article/fight-covid-pandemic-policymakers-must-move-fast-and-break-taboos>.

circumstances when crises come about or, if at all, providing improvable solutions. Now comes a context, however, where the EU is bound to be active and intervene. And it has done so in spades, via Europe ´s Recovery Plan, a stimulus scheme amounting to €1.8 trillion overall and, namely, NextGen EU, the boldest fiscal policy effort at the EU level to date.

It is in the EU ´s best interest that NextGen EU not only becomes a success but is perceived as such. Will this sheer effort then contribute to better align the EU to her citizens, to show the kind of positive impact that stems from being part of such a supranational entity? It will all depend on how some design features end up playing out.

Firstly, from a national standpoint, NextGen EU does imply a transactional (in terms of net contributor vs recipient member states) over a pan-European vision. In a clear signal of inter-state solidarity, funds have been distributed by member States, not through “European-wide” projects, which might affect their overall effectiveness and efficiency. The net effect on the “inequality” challenge will in any case be uncertain. Furthermore, the increase of inequality being one of the foundational positions of economic populism, it is clear that citizenry will perceive the thrust clearly in the biggest recipient countries, but less so in the less intensely benefited ones.

Secondly, funds are dependent upon examination of “national recovery” plans containing several regulatory and policy commitments. Funds are, hence, conditional. Conditionalities imposed by EU ´s institutions pertaining liberalisation, market reforms and the like, alongside budgetary contention, played a major role in sourcing populist claims in the midst of the past decade ´s crises. It remains to be seen if the conditionalities agreed here will act similarly if the scheme underperforms.

Moreover, a further difficulty arises regarding the overarching theme of NextGen EU via, mainly, the RFF, which is to shift towards the transition to a greener and more digital economy. This normative approach differs from a traditional stimulus package, aiming at “merely” restarting the economy back to the structural point it hitherto was.

In the European context, where lagging issues related to productivity, economic structure and aging population pervade, linking the recovery action to specific objectives and reforms that different member states need looks like a sound decision. As the ECB has pointed out when modelling the

NextGen EU impacts, a mere fiscal transfer that shies away from real reforms will not have a sustained effect on growth and ultimately lead to higher debt.<sup>24</sup>

However, this ambitious transformational purpose can not only be difficult - or not evident - to measure but, more importantly, also hindered by the myriad of requirements to abide by, with the possible effect of making the action scattered and sometimes even contradictory or inconsistent with speedy economic recovery.<sup>25</sup> Measures may cover a wealth of possible areas but, at the same time, need to contribute to some of the seven possible European Flagships;<sup>26</sup> respect gender equality and equal opportunities; contribute to the strategic autonomy of the Union; be consistent with the periodic Country Specific Recommendations; improve the quality of the Public Administration; expand the effective use of public-private partnerships... and so forth.

Lastly, even though the consequences are yet to be clearly envisaged, the evolution of the Russia-Ukraine conflict will greatly affect how current plans will end up. Most likely some re-prioritisation of NextGen EU's foundational objectives will be involved - particularly the environmental ones, greener economy, and energy and the like. At best, some relaxation in their ambition and timelines will be needed.

To sum up, as strategic as they are for the repositioning of the EU ´s role in promoting resilience, NextGen EU's design traits make it difficult to ascertain whether the potential for a clear narrative in positioning the EU ´s valid role as opposed to economic populism ´s main tenets will be matched.

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<sup>24</sup> See European Central Bank, (2021), "The macroeconomic impact of the Next Generation EU instrument on the euro area", Occasional Paper Series, No 255, January [www.ecb.europa.eu/pub/pdf/scpops/ecb.op255~9391447a99.en.pdf](http://www.ecb.europa.eu/pub/pdf/scpops/ecb.op255~9391447a99.en.pdf) .

<sup>25</sup> Here we are drawing extensively from the findings in Núñez Ferrer J. (2021), Avoiding the Main Risks in the Recovery Plans of Member States, CEPS, <https://www.ceps.eu/ceps-publications/avoiding-the-main-risks-in-the-recovery-plans-of-member-states/> .

<sup>26</sup> These are: 1) Power up, 2) Renovate, 3) Recharge and Refuel, 4) Connect, 5) Modernise, 6) Scale-up and 7) Reskill and upskill.

#### **IV.4 INSTITUTIONAL LAYOUT AND LEADERSHIP.**

No analysis of the EU ´s economic might would be complete without a reference to the institutional layout and leadership muscle necessary for the EU to be credited in the future as an impactful actor. The EU has been cartooned from the nationalist/populist stance as an irrelevant dwarf in the international arena and increasingly incapable of fostering their economic principles domestically. These claims do show that the way the EU is perceived by her people is important to her significance.

If the EU is unfit in the decision-making process, dissatisfaction of citizens grows. If the EU is not perceived to give adequate solutions, this may generate a vacuum which is filled by those who place EU ´s inaction and paralysis at the forefront of the criticism. Hence, the way the EU deals with such issues may undermine or, conversely, reinforce the opportunity for a stronger impact on the economic remit, and so vis-á-vis economic populism. Several broad elements define the current and immediate context in this respect:

- 1) The digestion of the somewhat short-sighted Conference on the Future of Europe.<sup>27</sup> This process is intended to give citizens a leading role, though it is still difficult to say at this stage whether it will have any impact on the EU policies.
- 2) Overcoming the COVID-19 health crisis. The EU has had a prominent role in the response to the pandemic, with iconic actions such as the vaccination program that have helped provide vital services to the population. The action has then turned to economic recovery plans, namely Next Generation EU, which aims at transforming the economy by injecting floods of money to pursue digitisation and sustainability outcomes.

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<sup>27</sup>[https://ec.europa.eu/info/sites/default/files/en\\_-\\_joint\\_declaration\\_on\\_the\\_conference\\_on\\_the\\_future\\_of\\_europe.pdf](https://ec.europa.eu/info/sites/default/files/en_-_joint_declaration_on_the_conference_on_the_future_of_europe.pdf).

- 3) The relationship with the United Kingdom: The effective use of Article 50 TEU has proven that the EU is not permanent, and it is the will of its Member States that allows this project to continue.<sup>28</sup> This was hard enough for the EU ´s self-esteem and fast-forward dynamic. However, getting used to the new relationship with the UK, and also rebuilding the EU without the UK, are no less straightforward long-term tasks that transcend the EU-UK partnership agreement. This is important for the EU ´s credibility as a relevant economic actor.
- 4) Navigating through the current military conflict in Ukraine and the consequences thereof. It is still early days to minimally envision the implications that Ukraine ´s invasion will bring for the EU ´s geo-political and economic position in the region and the world at large. One thing is for certain: sanctions, economic retaliation regarding raw materials, energy inflows being shrunk and the ensuing urgency to reduce the dependence of certain external EU energy suppliers, shifting budgetary priorities to build a real common defence apparatus... will make previous plans and policies for economic recovery harder to implement.

The evolution of these issues will determine the confidence of the EU in her own future and her force relationship vis-à-vis populism, including the economic aspects. However, they also provide opportunities for the EU to reposition and further connect with the concerns of citizens and economic and social tissues. They will be crucial in how the EU will portray herself.

Chiefly, if the EU wants to combat economic populism, she will need to perform convincingly toward both citizens, Member States, and the international community. The key issue is how to ensure that these three perspectives, which are essential to the Union's actions, converge and have a positive

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<sup>28</sup> The slogan of the UK Brexiteer campaign "take back control" in 2016 was a clear demonstration of economic populism. Citizens who were disappointed with their living conditions, together with a backdrop of polarised politics and disinformation, were seduced by the campaign.

impact on the day-to-day life of citizens so that economic populism can be minimised. As a starting point, any action needs to have due regard to the principles of subsidiarity, solidarity, and mutual trust.

- Subsidiarity<sup>29</sup> aims to ensure that decisions are taken as closely as possible to citizens, and that constant checks are made to verify that action at EU level is justified in light of the options available at national, regional, or local level.<sup>30</sup> The EU must avoid superfluous actions.
- Solidarity is enshrined in the Treaties as one of the values of the society in which we live under Article 2 TEU, although its use has been limited.<sup>31</sup> The COVID-19 pandemic has intensified its use, both in speeches and in certain regulations.<sup>32</sup>
- Mutual trust is the basis of the relations between the Member States and the EU and a consequence of sharing the values of Article 2 TEU.<sup>33</sup>

These are long-standing principles in the European acquis; however, looking forward, the first two in particular can be key to redefine what kind of role and leadership the EU needs to deploy in relation to Member States: a firm albeit not invasive, proactive yet subtle role.

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<sup>29</sup> Article 5 TEU

<sup>30</sup> Specifically, this principle means that the EU does not take action (except in the areas that fall within its exclusive competence) unless it is more effective than action taken at national, regional or local level. President Juncker emphasised this principle in his 2018 State of the Union address: “*This Commission has sought to be big on big issues and small on the small ones*”

<sup>31</sup> It is the basis of the Solidarity Clause 222 of the Treaty on the Functioning of the European Union (TFEU) or Article 122 TFEU in the area of economic policy.

<sup>32</sup> For instance, Regulation (EU) 2020/672 of 19 May 2020 on the establishment of a European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) following the COVID-19 outbreak or Council Regulation (EU) 2020/2094 of 14 December 2020 establishing an EU Recovery Instrument to support the recovery in the aftermath of the COVID-19 crisis.

<sup>33</sup> The EU has established a new legal order based on the same values and the same system of enforcement, which is composed of national judges and the ECJ

Finally, we can complement this traditional toolkit with more creative innovations that pertain to the projection of the EU 's leadership, including in the economic remit. One such concept is that of "open strategic autonomy", adopted by the EU to serve as a coordinating framework for a very broad set of policies to boost the external projection of the EU in its commitment to open trade and multilateralism while, at the same time, reinforcing the region's economic and financial resilience.<sup>34</sup> The EU Strategic Agenda 2019-2024 provides that "the EU needs to pursue a strategic course of action and increase its capacity to act autonomously to safeguard its interests, uphold its values and way of life, and help shape the global future";<sup>35</sup> and the European Council Conclusions of 1-2 October 2020 stressed the need to achieve "strategic autonomy while preserving an open economy".

In summary, the contention of economic populism goes beyond economic policy and performance. Credibility, leadership, coordination with Member States, and a sound roadmap for the future are paramount for the EU to have a meaningful role.

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<sup>34</sup> BDE, Economic Bulletin 1/2021, Pilar L'Hotellerie-Fallois Armas, Marta Manrique Simón y Antonio Millaruelo de Lafuente <https://www.bde.es/f/webbde/SES/Secciones/Publicaciones/InformesBoletinesRevistas/BoletinEconomico/21/T1/descargar/Files/be2101-it-Box5.pdf>

<sup>35</sup> The European Commission defines OSA when referring to trade. It recalls the EU's commitment to open and fair trade with well-functioning, diversified and sustainable global value chains. It encompasses resilience and competitiveness to strengthen the EU's economy; sustainability and fairness, reflecting the need for responsible and fair EU action and assertiveness and rules-based cooperation to showcase the EU's preference for international cooperation and dialogue, but also its readiness to combat unfair practices and use autonomous tools to pursue its interests where needed. (Trade Policy Review - An Open, Sustainable and Assertive Trade Policy [https://eur-lex.europa.eu/resource.html?uri=cellar:5bf4e9d0-71d2-11eb-9ac9-01aa75ed71a1.0001.02/DOC\\_1&format=PDF](https://eur-lex.europa.eu/resource.html?uri=cellar:5bf4e9d0-71d2-11eb-9ac9-01aa75ed71a1.0001.02/DOC_1&format=PDF))

## CONCLUSIONS AND RECOMMENDATIONS

The glance provided gives way to certain conclusions as regards the aspiration, opportunities, and possible difficulties for the *European Project* to remain ahead of economic populism. We shall outline them in turn.

- i. ***The EU must pay attention to the sources of current economic dissatisfaction.*** By identifying such concerns - inequality, a narrow scope for economic regulation and policy, insufficient public economic stimuli in times of resilience, an increasing disconnection to states and citizens and a weakened leadership - the EU allows herself to preserve her core economic principles of economic integration. It is fair to acknowledge that the EU has identified this necessity.
- ii. ***The EU is moving towards alternative and efficient ways of promoting the benefits of free trade while preserving the interest of citizens and consumers.*** In the current context, the trade-off is demanded to be particularly exigent. The EU does seem to have gripped this issue, via a renewed approach to landmark economic policies related to market efficiency, such as competition policy, in the context of new challenges like digital platforms.
- iii. ***The EU is promoting and leading economic policies with a transformative social dimension, with the interest of the citizen at their core.*** This is a field where the EU seems to be delivering as well – from environmental issues like the Taxonomy regulations and circular economy packages to corporate governance frameworks or more social-oriented regulation. The regulations and policies of the EU are no longer the sole remit of free trade, deregulation, liberalisation and the like. The vision of a more social Europe is present.
- iv. ***The EU could consider broadening the ECB’s monetary policy mandate and could review the ECB’s institutional framework.*** Even with a fair share of criticism from populism, the ECB’s seminal role in past crisis has been widely recognised. There is however space for some reforms of the current situation in order to make the ECB more impactful, now - when preserving price stability remains a fundamental concern - and in the future: pursuing a



wider range of policy objectives, such as promoting economic growth or full employment; reinforcing democratic legitimacy and accountability; re-examining the absolute prohibition on monetary financing.

- v. **The EU must guarantee that redistribution mechanisms address clearly, and impactfully, the concerns and needs of her societies.** NextGeneration funds make an evident opportunity. However, beyond implementation, there remains the issue of whether they are going to suffice per se to convey a distinct, European impact.
- vi. **The EU needs to address economic populism from a holistic approach, taking into account its economic, social, and political dimensions coherently, putting citizens at the centre of its action.** The EU should not neglect the current context and use essential principles like subsidiarity and solidarity along with new concepts such as “open strategic autonomy” to enhance leadership and close coordination with Member States.

Building from these conclusions, some possible concrete, and immediate recommendations as to how the EU might go about better contending economic populism - some economical, some institutional, some strategic in nature - might be the following.

1. **Own the narrative.** What can the EU do for me? This is the question that should never be lost sight of. The EU must have a role in favouring those economic outcomes that their citizens and societies value. There is no more effective response to economic populism than being present. There is though more to this assertion than meets the eye. In today’s complex environments, well addressed economic policy is not enough. Connecting with citizens is paramount -precisely what populism tries to do. The EU must avoid being perceived as a fabrication of elites with the sole logic of consolidating free markets - particularly as this is no longer the case if it ever was. The current debate is not about things like regulatory quality, institutional reform and the like; it is about what value the EU brings to the table and how citizens perceive it. To be present, the EU’s raison d’être needs to be connected with a European ethos.

THE FUTURE OF THE EU ´S ECONOMIC PROPOSITION IN LIGHT OF LOOMING ECONOMIC POPULISM: A CASE FOR AN ENDOGENOUS RESPONSE



**2. Promote and explain regulation in a pedagogic manner.** If the role and regulatory stances of the EU need to be explained, then why not do it? Populism ´s PR can get a country off the EU; it has happened. So it will not hurt the EU to strengthen her own. Regulation makes an evident candidate: the EU needs her citizens to know and understand. The key to relevance - or presence - is not conquering any available space that is available for regulation, and overregulating it; indeed, less can often be more. The key however is explanation: not so much via hefty ex-post assessments but by conveying to all citizens of Europe -not just the elite- what the point is. It is not true that people ´s views on economic policies and regulations are unchangeable. Recent economic research compellingly demonstrates that when policy decisions are explained a certain way, whether on the grounds of effectiveness, efficiency and - to a lesser extent, which is also telling - fairness, people can change their preconceptions.<sup>36</sup> The EU needs to explain economic policies and what she brings to the table more and better. This is particularly acute in the case of the poorer regions of richer countries, where a sense of lagging attention and resource displacement in favour of other regions in Europe might find a stronger grasp.

**3. Address inequality, reinforce redistribution.** This is the elephant in the room in terms of economic outcomes. There are several issues than can be addressed.

- a. *Firstly, make NextGeneration a success.* This means: reasonable impact - on the strategic themes of digitisation and sustainability and on aggregate EU growth and spill over effects; reasonable implementation - Member States making the most of programs ´ availability; sufficient transparency and accountability via the instruments set out at the European level, such as the Recovery and Resilience Scoreboard, and the involvement of national Independent Fiscal Institutions - so that money is not lost in translation.

<sup>36</sup> Stantcheva, S., 2020, Understanding economic policies: What do people know and learn?, available at: <https://socialeconomiclab.org/understanding-economics/>

On top of that, as the EU 's core-periphery economic conditions continue to diverge, it would be convenient that these funding efforts strengthened social and regional cohesion - allowing for some catch-up of the poorer areas, whether national, EU-wide or cross-border.<sup>37</sup>

- b. *Secondly, **work towards a dedicated fiscal capacity for the Euro Area***. This, as called for in the Five Presidents Report in 2015,<sup>38</sup> would not only add to the macroeconomic stability properties of EMU; it could at the same time serve distributional functions, be it in support of pre-market fairness via social investment or post-market cohesion in the form of unemployment benefit funds. Access to the social minimum is not effectively guaranteed for all Europeans, and one in four is still at risk of poverty or social exclusion.
- c. *Lastly, **concentrate on labour markets***. There is ample evidence that increasing job insecurity makes people more susceptible to populist rhetoric. This effect dominates in regions lagging behind. At the same time, increasing labour market mobility decreases the attractiveness of the far-right agenda in regions where people benefit from new job opportunities generated by the Single Market. Therefore, unemployment assistance and active policies to re-integrate unemployed people into the labour market remain critical. In this respect, employers must be incentivised to continuously invest in their workers' qualifications. This is best done at the EU level. Similarly, debt relief and personal bankruptcy regulations should also be developed at the EU level to avoid a race to the bottom among the Member States.

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<sup>37</sup> For a detailed discussion on the matter, Pilati, M., (2021), National Recovery and Resilience Plans: Empowering the green and digital transitions?, EPC Discussion Paper, <https://www.epc.eu/en/Publications/National-Recovery-and-Resilience-Plans-Empowering-the-green-and-digit~3e58f0v>.

<sup>38</sup> [https://ec.europa.eu/info/publications/five-presidents-report-completing-europes-economic-and-monetary-union\\_en](https://ec.europa.eu/info/publications/five-presidents-report-completing-europes-economic-and-monetary-union_en).

4. ***Harness the current contingency... by getting back to basics.*** The EU ´s perception is penalised by the fact that, normally, no one cares about the things they take for granted - in particular if they reasonably work. But the opposite also holds true. Like it or not, a single whatever it takes, a couple of bold moves in the context of Covid-19 or the invasion of Ukraine, are worth more to citizens than one thousand cautiously designed regulations or a well thought of Conference on the Future of Europe. Some economic challenges from the current situation are distinctly European - energy supply, the monetary path, industrial policy, the repositioning of economic solidarity. Today ´s context calls for the EU ´s leading role and, moreover, for a new momentum on European unity and purpose. Namely all actions to be taken can be channelled via either solidarity or subsidiarity, those ageing principles.
5. ***Make it a shared responsibility.*** However, to each their own. There is a role to play for Member States, governments, national political ecosystems and stakeholders as well, in order to nurture the EU towards the future and contend economic populism. As we are constantly reminded of, lately with the French election, populism will conquer or be conquered in nations, not at Berlaymont. We should be done with the scapegoating exercise of the EU as the punching ball of national politics, as if she were that uncomfortable neighbour one needs to cope with. The European Union is not the European Commission, nor Brussels/Luxembourg for that matter - this structural mental image being possibly populism ´s foundational win in Europe. National dynamics are part of the EU ´s ecosystem and national leaders need to be committed to the task of defending and preserving the EU, not using it as a way to divert frustration. Likewise, national leaderships play as large a role, if not larger, than EU counterparts in promoting long-term ambition, as Italian President Draghi has recently shown in front of the European Parliament with his pledge to more integration in order to protect the EU from future crises. And so, we plead leaders of Europe, behold your people.

## AUTHORS:

- **Juan ESPINOSA GARCÍA**, Partner at Silverback Advocacy. Previously, Advisor to the Ministry of Finance and Civil Service of Spain. (*Leader of the Subgroup*).
- **Miguel DE LA MANO**, Executive Vice President at Compass Lexecon based in Brussels. Currently Partner in RBB Economics.
- **Maria Pilar CANEDO**, Member of the Board of the National Commission of the Markets and of the Competition.
- **Amanda COHEN BENCHETRIT**, Specialist senior judge by the General Council of the Judiciary in commercial matters. Academic Advisor to Fide.
- **Martín MARTÍNEZ NAVARRO**, Référéndaire (law clerk) at the Court of Justice of the European Union.
- **Sonsoles CENTENO HUERTA**, Partner of the European Union Law Department at Pérez-Llorca. State Advocate on leave of absence. Former Head the Legal Service before the Court of Justice of the European Union. Member of Fide's International Academic Council.

## CONTRIBUTOR:

- **Frédéric JENNY**, Professor Emeritus of Economics at ESSEC Business School in Paris. He is Chairman of the OECD Competition Committee (since 1994), and Co-Director of the European Center for Law and Economics of ESSEC (since 2008). Member of Fide's International Academic Council.



# **NATIONALISM, POPULISM, AND IDENTITIES:**

## **CONTEMPORARY CHALLENGES**

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