Twitter Thread by Mujtaba Rahman



Mujtaba Rahman
@Mij_Europe



A lot has been written about what Mario Draghi's arrival in Italy means for Italy. But little has been said about what he could mean for Europe. I think Draghi could be a game changer for EU; he could even turn its toxic North-South dynamic on its head. Thread 1/

Why? The @EU_Commission is currently reviewing (quietly) member states reform plans. These are basis upon which EU capitals hope to begin receiving their allocation, in transfers & loans, from the €750 billion Recovery Fund, starting later this year 2/

Remember the numbers are unprecedented. Italy is eligible for ~€188bn (roughly €65.5bn in grants; €123bn in loans). Spain a €144bn, roughly €59bn in grants & €85bn in loans etc etc. The amounts for all member states are unprecedented 3/

Yet despite this, & fact Fr & Ger pushed hard for this deal, officials in Bxl are scathing about proposals advanced by.. Paris & Berlin. I oversimplify: but basically, Macron is distracted by Covid; Merkel, elections in Sept. Sweeping reforms are the last thing on their minds 4/

This puts Commission in its usual bind. If Bxl doesn't raise the reform bar with Chancellery & @Elysee, it will have no credibility to push southern Europe to do same. But it also can't impose reforms on countries that aren't willing to do them, especially not the big 2 5/

Queue Draghi, who is likely to prove the exemplar: slashing red tape, addressing structural admin & judicial bottlenecks that have prevented Italy properly absorbing EU funds; tax & labour market reform, & a focus on levels & efficacy of investment 6/

Of course, none of this will be easy. The politics in parliament are treacherous, there's lingering divisions within his new Govt, big concerns over how long it will last & reforms will be pol charged & take on powerful interest groups 7/

But Draghi commands huge public support (60% & rising; Italy's most popular pol figure by far) & a huge parliamentary majority. He also has a deep level of knowledge & expertise, & likely wouldn't have taken the job unless he had some assurances he could get his agenda through 8/

Perhaps most importantly: the example Draghi sets will create space & precedent for the Commission to go back to Berlin & Paris & demand they do more. It will reduce risk Bxl is scapegoated for not properly enforcing Dec deal (€ for reform); it may encourage Macron to do more 9/

The Recovery Fund needs to succeed in a few test countries, esp Italy but also France, to increase legitimacy of fiscal transfers within EU - either as a permanent feature or in event of future crisis. Even if Draghi makes this slightly more likely, this would be a big win 10/

But this isn't all. Draghi could also positively impact discussion on reform of EU's outdated fiscal rules. Immediately re-applying the old rules after Covid - 3/60% deficit/debt limits & movement to those thresholds obvs makes no sense in light of unprecedented borrowing.. 11/

the pandemic has necessitated. The result would be (again) unprecedented austerity that even northern Europe recognizes would be counterproductive. So rules will probs remain suspended this/next year as EU capitals negotiate what to do about them 12/

However, as we all know, the 3/60% & idea of debt reduction are hardwired into EU's treaties & won't change. But the secondary legislation that implements the treaty could be up for grabs. This is where the "Draghi effect" could have an impact 13/

Seeing reforms in Italy cd encourage more hawkish Northern states to back a set of rules that are slightly less obsessed with austerity & more focussed on growth (a "golden rule") that carves out fiscal space for high quality public spending on green & digital transitions 14/

Bottom line: Draghi is unlikely to be the subordinate previous Italian PM's have been to their masters in Berlin, Paris, the Hague, Brussels & even DC. Draghi is a different beast 15/

If he delivers Recovery Fund reforms & spending in Italy that are seen as a success, Draghi could fundamentally change the econ conversation in Europe, & even its architecture/institutions & prospects over medium term

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