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The EU's New Economic Governance Framework and Budgetary Decision-Making in the Member States: Boon or Bane for Throughput Legitimacy?*

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Abstract

The euro crisis has sparked changes in the EU's economic governance framework and a crisis of legitimacy across the union. While the institutional repercussions of the crisis have been studied before, the democratic impact at the national level has received much less attention. This paper aims to fill this gap, focusing on the procedural changes that the EU's new economic governance (NEG) framework has brought to national budgetary decision-making. Building upon the Varieties of Democracy framework, the paper adds empirical nuance and conceptual clarity to the notion of 'throughput legitimacy' and its components: openness, inclusiveness, transparency and accountability. Detailed case studies of post-crisis Austria, Italy and Portugal show that the NEG improved access to national budgetary decision-making and enhanced executive scrutiny, while excessive complexity remains the Achilles' heel of EU fiscal rules. We submit that these procedural changes are too meaningful to be overlooked in post-crisis debates about EU democracy.

Keywords: budgetary politics; democracy; throughput legitimacy; economic governance; euro area; fiscal integration

Introduction

The perennial debate about the alleged democratic deficit of the European Union (EU) has received renewed attention following the sovereign debt crisis (Majone, 2014; Bellamy and Weale, 2015). Public trust in EU institutions hit all-time lows (European Commission, 2013), and the survival of the common currency was often considered in relation to a certain democratic deterioration of the union (Crum, 2013; Kratochvíl and Sychra, 2019). Against the backdrop of this crisis of legitimacy in the EU (Schmidt, 2020), this paper shifts the focus to the national level (see also Bokhorst, 2022) by analysing to what extent the EU's new economic governance framework (NEG) has ameliorated or worsened the legitimacy of national budgetary decision-making. A closer look at the procedural impacts is warranted by the crucial role 'fiscal sovereignty' has played in the politicization of EU politics during and after the crisis, particularly because the NEG introduced measures (see also Mariotto, 2022) which influence fiscal policy-making in the member states.

The so-called 'Six-Pack' (2011) and 'Two-Pack' (2013), were adopted to tighten fiscal coordination and thus reinforced the Stability and Growth Pact (SGP). The most important elements of the 'Six-Pack' include the Macroeconomic Imbalances Procedure

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(MIP) and the introduction of a 'reverse qualified majority voting' scheme for imposing sanctions within the Excessive Deficit Procedure (EDP). It also incorporated the levels of public debt in the EDP, rather than only deficit levels. The 'Two-Pack' further institutionalized the European Semester through a binding timetable for the coordination of national budgetary plans and clear procedures for their assessment. Additionally, the Fiscal Compact required signatory states to enact so-called 'golden rules' for balanced budgets in their constitutions (Fabbrini, 2013) while many member states also created independent fiscal councils as new watchdogs assessing national budgets (Tesche, 2019).

The underlying concern of these regulatory changes with a stricter application of fiscal rules appeared to be in line with popular demands at the time (see Standard Eurobarometer 78). However, Bremer and Bürgisser (2020) argue that public support for fiscal consolidation may have been overstated, which in turn, challenged the legitimacy of adopted measures. In fact, EU-induced austerity was criticized of its allegedly undemocratic nature in various capitals around Europe both in mass demonstrations and legislatures (Della Porta, 2015; Bremer *et al*., 2020). Unsurprisingly, Varieties of Democracy (V-Dem) data traces a general decline in the quality of EU democracy during the past decade; a trend also highlighted by various studies concerned with the overall democratic impact of the NEG (Matthijs, 2017; Kriesi, 2018). What most studies lack, however, is a systematic analysis of the procedural components of democratic legitimacy linked to specific decision-making processes such as the one associated with national budgets, which is believed to have been impacted most by the reforms. A specific focus on procedural features is warranted on multiple accounts: (1) it is less researched, (2) it may have important ramifications for other types of legitimacy (Schmidt and Wood, 2019), (3) it poses fewer methodological challenges in comparison to other forms of legitimacy, the study of which have often resulted in contradictory results.

This paper aims at providing both conceptual clarity and empirical nuance to the notion of throughput legitimacy (Schmidt, 2013). As for the former, we advance an analytical scheme that studies the transformative potential of the NEG on the openness, inclusiveness, transparency, and accountability of the national budgetary decision-making process. In contrast to Schmidt and Wood (2019) where openness and inclusiveness are rather hard to distinguish, this study draws a clear line. While openness is typically referred to as 'open process' in the sense that members of the public have access to policymakers (Schmidt and Wood, 2019), we instead understand openness as referring to policymakers keeping an 'open mind' when engaging with citizens and organized interests. In other words: while inclusiveness is about giving non-state actors a voice in decision-making, openness is about ensuring that their voices are heard. We measure this through stakeholders' perception of the quality of their involvement, as indicated by the item 'respect for counterarguments' in the V-Dem framework.

Additionally, the paper provides empirical detail concerning the changes in budgetary decision-making of three member states (Austria, Italy and Portugal). This serves as the basis to assess the shifts in throughput legitimacy not against a normative ideal but, rather, against the previously existing status quo. First, our qualitative data suggests that the procedural aspects of national budgetary decision-making have been substantially improved, especially concerning the ability of parliamentary and civil society actors to hold their governments to account. At the same time, we recognize that excessive complexity remains the key Achilles' heel of the EU's fiscal framework, which also hampers the openness of national procedures. Secondly, as procedural advances were most pronounced in countries more severely affected by the crisis, we suggest that the NEG has contributed to a levelling of the playing field in national budgetary procedures across the EU. Thirdly, the deviation of our findings from the V-Dem data highlights the relevance of and added value in complementing quantitative assessments with qualitative case studies.

The paper is structured as follows: first, we discuss the scholarly literature on the link between the NEG and its democratic implications. Second, we build upon the gaps identified in the literature by proposing a novel analytical framework to evaluate the procedural quality of budgetary decision-making at the national level, focusing on elements of 'throughput legitimacy'. Third, we present our empirical findings based on case studies of budgetary politics in Austria, Italy, and Portugal. The paper concludes with a discussion on what the findings imply for the literature and the prospects for EU democracy.

I. The NEG and its Impact on Democracy

Europe's economic and monetary union (EMU) is a fundamentally asymmetrical structure: a fully centralized monetary policy is coupled with decentralized, rules-based fiscal and economic policies. The sovereign debt crisis revealed the limitations of this unbalanced system and pushed European leaders to reform or 'complete' the EMU. Next to efforts promoting financial integration through the establishment of a European banking union, reforms squarely focused on the issue of public budgets.

While the European institutions have tried to set the reform agenda through a number of presidents' reports (Van Rompuy, 2012; Juncker *et al.*, 2015), the scholarly literature on the euro area financial crisis mostly highlights the relevance of intergovernmental decision-making (Csehi and Puetter, 2021) marked by conflicting preferences across member states, often pitting 'Northern Saints' against 'Southern Sinners' (Blyth, 2013; Matthijs and McNamara, 2015). Studies variably trace the origins of those conflicting preferences back to countries' varieties of capitalism (Hall, 2014), different growth models (Baccaro and Pontusson, 2016), economic traditions (Carstensen and Schmidt, 2018), or competing cultures (Hien, 2020). Concerning their political effects, however, they tend to point to similar dynamics: Northern coordinated market economies with export-led growth models and strong (ordo-)liberal traditions being able to determine the path for EMU reform due to their strong net creditor position. Critics argue that this has undermined the legitimacy of the euro and the democratic quality of decision-making in EU economic governance.

At a general level, Crum (2013), building on Dani Rodrik's famous trilemma, argues that euro area member states pursued monetary integration along with the desire to preserve national sovereignty, and thus, democracy was expected to fall victim to the process. Snell (2016) also builds on Rodrik's framework to argue that the EU has gone through different phases of the trilemma over the past two decades: while the pre-crisis period witnessed limited integration to safeguard national sovereignty and democracy, democracy was sacrificed during the crisis, whereas the post-crisis plans for EMU reform suggest a weakening of national autonomy. While they both provide a relevant structural explanation for democratic deterioration, they do not present a detailed analysis of how this democratic decline is expected to play out with regards to the various components of democratic legitimacy (namely input–throughput–output). Matthijs (2017) and Papadopoulos (2020) offer more detail and emphasize that the management of the euro area financial crisis drastically reduced national democratic choices in the euro area periphery, underlining the input-oriented democratic deficit of EU economic governance that Scharpf (2014) highlighted earlier. While Armingeon and Guthmann (2014) show that support for democracy declined during the crisis years, Kriesi (2018) argues that people's support for the democratic principles has not been impacted on. Furthermore, Ruiz-Rufino and Alonso (2017) claim that satisfaction with democracy depends on people's perception of their government's autonomy to implement policies, while Schimmelfennig and Schraff (2020) argue that bailout-related disillusionment with democracy fades over time.

As far as the democratic impact of the NEG on the budgetary *process* is concerned, much of the literature focuses on the role of national parliaments as they hold the power of the purse (Wehner, 2006). Studies are rather inconclusive whether the crisis and the following measures had a negative (Majone, 2014; Crum, 2018) or positive (Jančić, 2016) impact on their ability to monitor budget-related decisions, or how they might have impacted different models of budgetary processes (Raudla *et al*., 2019). Part of the problem is that the budgetary process is orchestrated now within the European Semester, a 'never-ending cycle of budgetary monitoring' (Dawson, 2015, p. 982) which encompasses different modes of governance (Rasmussen, 2018). Interestingly, much of the literature focuses on factors that may influence parliaments' capacity to scrutinize (Auel and Höing, 2014; Verdun and Zeitlin, 2017; Barrett, 2018; Kreilinger, 2018). And while scrutiny seems to be greater in non-euro area countries under the European Semester (Hallerberg *et al*., 2018), Rasmussen (2018) rightly points out that we lack specific knowledge of 'how scrutiny is performed in order to understand the scope and depth of parliamentary involvement' (p. 342).

In fact, the literature on parliamentary scrutiny tends to reflect upon one aspect of throughput legitimacy: the issue of accountability (Fasone, 2018). In a similar manner, while Naert (2016) studies the impact of NEG on national budgets from an accountability perspective, the role of newly established or reformed fiscal councils in budgetary politics were also assessed in relation to their capacity to hold the executive to account (see Horvath, 2018). Hence, we still lack a more systematic analysis of all procedural components of the national budgetary decision-making process to pass a more encompassing evaluation of the democratic impact of the NEG.

This paper thus aims to contribute to the literature in three ways. First, in contrast to a sole focus on accountability, this study adds further nuance and conceptual clarity on the *various* dimensions of 'throughput legitimacy' building on the methodology adopted in the V-Dem framework. Secondly, it offers an in-depth assessment of the procedural quality of budgetary decision-making after the crisis to underscore the specific nature and substance of democratic challenges facing the NEG. Thirdly, it highlights some discrepancy in quantitative and qualitative measures of legitimacy, and thus makes a case for methodological pluralism in the study of procedural legitimacy.

II. Varieties of Democracy and National Budgetary Politics

The Focus on Throughput Legitimacy

The Treaty on the Functioning of the European Union (TFEU) imposed numerical limits on government deficit, established the surveillance of national fiscal policies, and a sanction mechanism in case of any violation of these rules. These basic elements were strengthened and amended during the crisis through the Six-Pack, the Fiscal Compact, and the Two Pack, which were all integrated into an annual cycle of economic monitoring and guidance called the European Semester (Laffan and Schlosser, 2016). In order to be able to assess how the NEG may have influenced the procedural aspects of budgetary decision-making at the national level, it is essential to define both independent and dependent variables of the equation. To do that, the paper incorporates the V-Dem framework to inform the various components making up 'throughput legitimacy (see Figure 1)'.

The focus on 'throughput legitimacy' is driven by two considerations. First, as Schmidt and Wood (2019) argue, even though 'throughput legitimacy' cannot cure input and output deficiencies, its absence may easily contribute to their deterioration, especially in multi-level polities. In fact, as Vivien Schmidt (2013) argues, throughput legitimacy is the guarantee that the political process of input 'comes out as uncorrupted output' (p. 9). Additionally, Francesco Nicoli (2017) convincingly argues that fiscal integration 'created a 'twin legitimacy deficit' of European integration: not sufficient redistributive policies to achieve output legitimacy, but sufficient progress towards insulated decision making on fiscal policy to fail to reach input legitimacy' (p. 393). It is within this context that a closer and more specific focus on throughput legitimacy becomes relevant. Although Steffek (2019) rightly points out that procedural features are often subsumed under input legitimacy, throughput legitimacy is solely concerned with the qualities of political decision-making. What matters for this paper, nevertheless, is not under which label we incorporate components of good governance, but rather how they have been impacted by the NEG.

Secondly, the empirical study of both input and output legitimacy faces important methodological challenges. Generally, input legitimacy compiles two components. While *representativeness* is generally assessed through parliamentary politics (which often overlaps with the 'throughput' notions of inclusiveness and accountability, see Kröger, 2019; Schmidt and Wood, 2019), *responsiveness* is measured through the extent to which government policies reflect the interests of the electorate. Responsiveness in relation to economic and financial matters more generally has been analysed at both the EU (Meijers *et al*., 2019) and national level (Degner and Leuffen, 2020; Hobolt and Wratil, 2020). However, studying national budgetary responsiveness empirically requires a detailed analysis of state budgets and their alignment with voters' expectations, which is beyond the scope of this paper. As for output legitimacy, most studies focus on the effectiveness of policies, yet diverge on their assessment (in case of the euro area financial crisis compare Alesina *et al*., 2020; Blyth, 2013). Not only do both scholars and policymakers disagree on criteria for measuring fiscal policy effectiveness, it is also difficult to delineate the effects of specific fiscal measures from those of structural macro-economic trends. We thus follow Steffek's (2019) argument that 'compared to the manifest difficulties in measuring and interpreting governance output, the convenience of a purely procedural conception of legitimacy is that it seems relatively easy to operationalize and measure' (p. 792).

Throughput legitimacy is concerned with the quality of governance processes, and relates to the openness, inclusiveness, transparency, and accountability of democratic decision-making (Schmidt and Wood, 2019; Schmidt, 2020). Instead of focusing on the political criterion of government responsiveness or the performance criterion of policy effectiveness, it concentrates on the procedural criterion of good governance:

decision-making which is accessible and controllable. We deviate from previous work (see Schmidt and Wood, 2019) by proposing a sharper analytical distinction between openness and inclusiveness. While other scholars have defined openness as the diversity of participants (Coen and Katsaitis, 2019), we define *openness* as respect for counterarguments, measured through the extent to which political elites recognize alternative claims and reasoning in budgetary debates. In other words: our understanding of openness does not refer to an 'open process' (which is closely related to inclusiveness) but to policymakers keeping an 'open mind'. Our measure for *inclusiveness*, in contrast, describes the extent to which various stakeholders have access to the budgetary process (on the relevance of CSOs see Pianta, 2013).

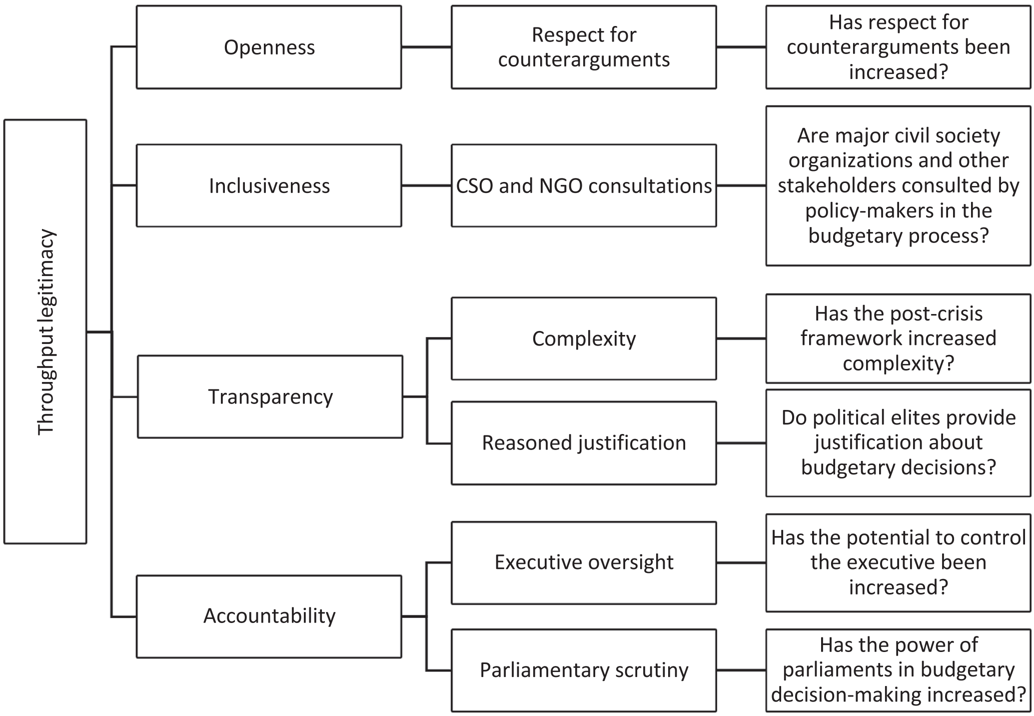
Transparency comprises two factors: reasoned justification and complexity. The former tackles the issue whether political elites have been induced more to justify their budgetary decisions, while the latter inquires whether complexity has increased which is then likely to undermine clarity. Diverging from the framework proposed by Dawson and Maricut-Akbik (2021), we measure *accountability* through the degree of oversight, and the institutions and processes it entails. It is measured through two channels: parliamentary scrutiny and – in line with the V-Dem framework – the action of non-representative fora (for example fiscal councils) whose work may enhance attempts to hold decision-makers to account.

This analysis thus utilizes the V-Dem framework as a starting point to structure our analysis. To do so, we adjust V-Dem items specifically to the budgetary decision-making process and substitute the quantitative V-Dem scores with qualitative assessment gained through semi-structured interviews with national experts and stakeholders. We also consider components of democratic legitimacy which do not have directly corresponding measures in the V-Dem dataset (for example complexity), but were considered essential for a thorough understanding of the democratic character of national budgetary processes.

Case Selection

Much of the literature portrays the politics of the euro area financial crisis and EMU reform as a struggle between either North and South or creditors and borrowers, and often focus on big member states in their analyses. We however follow a similar approach as Raudla *et al*. (2019), and include euro area member states in our study that offer variation in terms of their crisis experience and fiscal traditions. Consequently, we provide in-depth case studies of domestic budgetary politics in Austria, Italy, and Portugal. Despite sharing a common border, Austria is typically considered to be part of the fiscally frugal North, while Italy is associated with exceptionally high levels of public debt. Portugal adds further variance to our analysis by providing a case where the 'ordinary' process of EU economic governance follows a period of intense monitoring in the context of an 'extraordinary' bailout and economic adjustment program (EAP) between 2011 and 2014. While our analysis focuses on the 'normal' procedures under the European Semester process, the experience of strict fiscal surveillance associated with an EAP arguably casts a long shadow and influences budgetary politics for years even after the adjustment program has been terminated. Thus, we submit that the Portuguese case may provide relevant lessons for other post-program countries such as Greece, Cyprus, or Ireland.

Figure 1: Measuring the Procedural Components of Budgetary Decision-Making



Finally, the three cases show substantial variance regarding the strength of parliaments in the domestic budgetary process (see Table 1). Additionally, while Austria has a long history of independent fiscal institutions monitoring the governments' budgetary policies, such institutions were only introduced in response to the euro area financial crisis in Portugal and Italy. The level of intrusiveness through EU rules and institutions is generally thought to reflect the risk of spillovers within monetary union (Alcidi and Gros, 2015). In the area of budgetary politics, the levels of public debt and public deficits are the key benchmarks established by the SGP. The more public debt rises above the benchmark of 60 per cent of GDP, and the closer member states are to the 3 per cent deficit benchmark, the more we can expect EU monitoring to intensify. On both counts, we may expect the NEG to act as a harder constraint on the domestic budgetary process in Italy and Portugal than in Austria.

III. Empirical Analysis

Openness

The NEG has limited the need for 'respecting counterarguments' in national budgetary decision-making by promoting a heavily rules-based approach to state finances. The most extreme case of this, evidently, concerns decision-making under conditions of an adjustment program, which significantly narrowed the discursive space for budgetary politics in

Table 1: Debt and Decision-Making in Selected Countries

	Austria	*Italy*	*Portugal*
Public debt and deficits			
Public Debt Level, 2018	74.0	134.8	122.2
General Government Overall Balance, 2018	−0.2	−2.1	−0.7
Budgetary decision-making			
Parliamentary Strength in Budget Process (0–5)	5	1	2
Fiscal Council: Scrutiny Effectiveness (0–1)	0.43	0.41	0.69
Fiscal Council: Year of Creation	1970	2014	2012

Sources: IMF Fiscal Monitor, 2019; Eurostat BPM6; Hallerberg *et al*. 2012, p. 70; Asatryan *et al*., 2017, p. 8.

Portugal 2011–14. This led the overall narrative around fiscal austerity to reflect TINA ('there is no alternative') arguments (Moury and Standring, 2017). Additionally, officials from Portugal argued that the strict timelines of the annual coordination cycle often leave insufficient time to consider the input of stakeholders, and thus engagement in national consultations are a mere formality to 'check the box' (Interview 14).

Such discursive narrowing also took place in Italy, as the question of *how to* instead of *whether to* satisfy the fiscal rules dominated the political discussion and commanded a large amount of government attention and resources (Interview 40). It is quite telling that exchanges on national budgets between the government and EU institutions were explicitly likened to 'blackmail' by both civil society and governmental actors (Interview 32, 40). The 'stick' of opening an Excessive Deficit Procedure for Italy was perceived as the key driving force behind budget cuts and structural reforms, for example of the pension system (Interview 32) – in line with what Stefano Sacchi (2015) has called 'conditionality by other means'. As a consequence, national officials had little room for maneuver to consider counter-arguments or to maintain an "open mind" about budgetary decisions.

Similar sentiments were voiced by stakeholders in Austria who questioned whether decision-makers had a genuine interest in considering the positions of social partners (Interviews 54, 55), which is further constrained by 'deadlines which hardly allow for meaningful exchange of positions and for providing feedback' (Interview 54). Some argued that the NEG changed the dynamics of budgetary politics: while previously it was mainly a national issue which rested upon social partners' input, with a European dimension added national interest groups became less pertinent (Interview 55). Nevertheless, it was also pointed out that, occasionally, a constrained discursive framework allowed stakeholders to pressure the government by calling their attention to requirements and recommendations formulated under the NEG (Interview 53). Others also pointed out that the focus of the budgetary debate has shifted more towards changes in expenditures, given that there was an almost uniform acknowledgement of budgetary constraints (Interview 51).

Inclusiveness

The European Semester process is viewed to have considerably widened the range of formal consultations and informal meetings with government officials, social partners and CSOs. While national officials in Portugal often perceive the number of meetings as excessive (Interviews 12, 15), social partners and CSOs evaluate the Commission's increased efforts to include their views positively (Interviews 17, 21). Still, Portuguese trade unions qualify their involvement in the process as 'consultation' rather than 'participation' and thus perceive their own influence as low (Perista and Perista, 2019). This is also reflective of the openness component described in the previous section.

The situation was evaluated similarly in Italy, where CSOs are increasingly invited to *European* consultations and fact-finding missions even though *national* government officials consider their role for the budgetary process 'less relevant' (Interviews 34, 36). Hence, interviewees suggested that the European Semester had improved the involvement of the social partners in the budgetary process (Interviews 34, 36, 37), particularly the three main unions and Confindustria as the peak business association. While Confindustria has long had a close relationship with the finance ministry, unions find it easier to get their voices heard in Brussels than in Rome (Interviews 32, 34). Consequently, unions no longer perceive the Semester as an 'intrusion' but, rather, as a window of opportunity to influence their national government's agenda (Pavolini and Natili, 2019).

Austrian social partners report that their relationship with the government has not changed considerably and that they continue to upload their positions mainly through party links (Interviews 54, 55). Nevertheless, an interviewee did highlight that the NEG provided some social partners (for example Wirtschaftskammer) with greater argumentative power against others (Interview 55). Furthermore, the technicality of the NEG empowered the finance ministry against all other actors and led to the effective exclusion of interest groups from the interpretation process (Interview 55). On the other hand, social partners appreciated the more wide-spread bilateral meetings with the European Commission (Interviews 53, 54, 55), which allowed for the expression of their critical approach to budgetary decisions. This even led to a situation where a Commission CSR asked the Austrian government to use the resources and knowledge of social partners in decision-making (Interview 54).

Transparency

Following from the above, one may expect that 'reasoned justification' also suffered in member states due to the NEG framework. However, this did not materialize entirely, partly because parliamentary scrutiny and executive oversight have increased (see below). And while the constraints coming from the new framework may be widely accepted (as in Portugal) or contested (as in Italy), 'reasoned justification' is still allowed within or without the TINA framework. In Italy, it was highlighted that the minister of finance had to explain himself or herself (that is, provide 'reasoned justification') whether he or she wanted to accept changes suggested by the fiscal council on the draft budget (Interview 35), which – given the role of the newly established fiscal council – was attributed to the post-crisis NEG. Portugal's fiscal council performs a similar function, thus enhancing debate on fiscal measures (see below). In Austria, the picture is rather obscure. While some argue that a 'soft comply-or-explain' principle was adopted in the budgetary process (Interview 51), others claimed that the reduced discursive framework led to less substantive and more formal reasoning (Interview 55). As a consequence of Portugal's painful experience with the EAP, there is seemingly broad acceptance of fiscal constraints as something to be respected in order to avoid a repeat of the crisis and to maintain national room for maneuver for social spending. This was most clearly on display in the 2019 re-election of the Costa government, which was based on broad voter support for 'sound public accounts' (Wise, 2019). Yet we submit that this discursive narrowing of budgetary debates in Portugal likely reflects not a (lasting) internalization or full acceptance of EU fiscal rules, but rather the limited acceptance of constraints based on (short-term) cost–benefit calculations.

Turning to the EU-level, however, there is wide agreement that EU fiscal rules are plagued by a degree of complexity that makes it next to impossible to achieve a transparent process. Even by the Commission's own admission, the attempt to make the SGP more sophisticated and flexible has 'also increased its complexity and reduced its transparency' (European Commission, 2020). As Portuguese interviewees pointed out, this complexity not only makes it very difficult to communicate the details of the fiscal framework to citizens and stakeholders (Interviews 12, 13), it also poses a challenge for effective coordination between EU officials and national policymakers. Stakeholders in Austria argued that the NEG both increased and decreased complexity. On the one hand, it provided a formal, clearer structure (Interview 55) – even an update on the public accounting system (Interview 51). On the other hand, the fiscal architecture became extremely convoluted with new components and conditionalities (Interview 55), and led to an increase in internal bureaucracy (Interview 54).

This complexity of the NEG has given the Commission considerably more flexibility, which was seemingly used for political purposes. According to a report by the European Fiscal Board, for instance, the Juncker Commission used every possible loophole the SGP offered in order to avoid imposing penalties on Italy (Schmidt, 2020, p. 201). Portuguese policymakers equally echoed the perception that the classification of member states under both the Excessive Deficit Procedure (EDP) and the Macroeconomic Imbalance Procedure (MIP) can be driven by political considerations (Interview 14).

Accountability

Legislatures are often considered as the main channel to hold the executive accountable in budgetary politics. Traditionally, the strength of the national parliaments to perform this function varied strongly across our three cases, from an exceptionally strong role in Austria to a much smaller role in Italy, with the Portuguese *Assembleia da República* faring only slightly better. The three parliaments thus vary regarding their right to propose a budget independently of government, whether they could propose amendments, or which consequences these amendments have (Hallerberg *et al*., 2012).[1] Here, the NEG framework has worked to level the playing field, as the role of the traditionally weak parliaments seems to have been strengthened.

The case of Portugal is special in this regard, as the executive was strengthened vis-à-vis domestic actors during the EAP, leaving the Constitutional Court as the principal

[1]We recognize that parliamentary strength is a contested concept and various measures exist. In a related arena – parliamentary involvement in EU affairs – previous research has shown strong differences between institutional strength and actual activity of parliaments (see Auel *et al*., 2015). While we hence cannot rule out such differences, the survey-based measure on the role of national parliaments in the budgetary process provided by Hallerberg *et al*. (2012) is the most specific yardstick available.

veto player (Moury and Standring, 2017; Lütz *et al*., 2019). Following the conclusion of the program, however, our interview data suggest a strengthening of the parliament in the budgetary process. The most notable change in this regard was a significant increase in support staff at the parliament's Technical Budget Support Unit (UTAO), which has supported the parliamentary committee for budgetary and financial affairs since 2006 (Interviews 11, 18, 20). Furthermore, the European Semester requires governments to submit documents such as the Stability Programme (SP) and Draft Budgetary Plans (DBP) at an earlier stage in the process, thus allowing parliament to scrutinize budgetary policies more effectively and throughout the annual process (Interviews 18, 20). Interestingly, following a tradition established during the EAP, the Portuguese parliament not only debates the SP but votes on it, even though this is not a legal requirement (Interview 20).

The traditionally weak Italian parliament was among those national parliaments most 'assertive in extending their involvement in the budgetary process' (Crum, 2018, p. 275) and received new prerogatives in the context of the European Semester, for example additional reporting duties for the government (Rittberger and Winzen, 2015). Two key moments for parliamentary involvement concern its approval of the National Reform Program (NRP) in April and the budgetary law in October. While the Italian parliament cannot change the wording of the NRP itself, its voice is much stronger when it decides on the budgetary law which translates the policy priorities of the NRP into concrete laws and acts of government (Interview 36).

Although changes to the budgetary process were not only the outcome of the NEG in Austria, but also the result of national reform initiatives which started in the mid-2000s (Interviews 52, 55), the NEG has definitely helped solidify the proposed changes. Two new features were added to the structure: budgets now emerge within a four-year medium-term financial framework (MTF), and a Parliamentary Budget Office (PBO) was established (Interview 52). While the *Nationalrat* leads discussions on the MTF ensuring that budgetary policy-making remains 'political' (Karremans and Kaltenleithner, 2020), the PBO increased the parliament's expertise capacities by providing budget-related analyses to MPs. Consequently, the role of the Austrian parliament – traditionally considered a powerful legislature – was further increased in relation to the national budget as well as the Stability Program (Crum, 2018) to hold the government to account.

Critical scholars warn that increased powers are unlikely to substantially influence budgetary policymaking and ultimately are insufficient to outweigh the centralization of fiscal rules in the EU (Jančić, 2016). Crum (2018, p. 273) argues that the additional powers of national parliaments to scrutinize their respective governments' budgets are embedded in a reinforced two-level game which has tilted the balance in favor of the supranational level. Although the national budgetary process may be heavily constrained externally (Scharpf, 2011; Laffan, 2014) – regardless of the formal role parliament plays in decision-making – a shift in the balance of power at the national level may matter less substantially than it does in procedural terms.

As far as non-majoritarian institutions are concerned, both Italy and Portugal have established new fiscal watchdogs. Portugal's Public Finance Council (CFP) began monitoring the consistency and sustainability of Portugal's budgetary policies in 2011 to promote fiscal transparency. Despite its novelty, the CFP has quickly established itself as one of Europe's most effective independent fiscal institutions (Horvath, 2018). The CFP does not limit its scrutiny to compliance with EU rules but, rather, provides an assessment of the government's overall fiscal strategy, which is publicized via the media in order to send credible signals to the public (Tesche, 2019, p. 1217). The creation of Italy's Parliamentary Budget Office (PBO) in 2014 similarly improved executive oversight, albeit to a somewhat lesser extent. Its main role and lever of power considers its endorsement of the government's macroeconomic projections which underlie the budgetary planning documents. While the government can ignore non-endorsement – and has done so in the past – this may affect the Commission's assessment and thus backfire. The standoff of late 2018 provides a case in point when the Commission rejected the initial draft budget presented by the Lega-M5S government – for which the non-endorsement by the PBO may have been one reason (Interview 35). In contrast to the two Southern countries, Austria had a fiscal watchdog before the NEG. However, during the budgetary reform process described above, the former *Staatsschuldenausschuss* was renamed as Fiscal Council (*Fiskalrat*) and was given more resources (Interview 55). Yet, the role of the council did not change considerably (Interview 52), continuously providing analyses and forecasts on debt sustainability, and an assessment of budgetary plans (Interview 51).

Comparative Findings

The qualitative data presented above suggests interesting dynamics. First, there have been substantial improvements in the procedural aspects of national budgetary decision-making, especially concerning the ability of parliamentary and civil society actors to hold their governments to account. At the same time, we recognize that excessive complexity remains an obstacle in the EU's fiscal framework, which also undermines the openness of national procedures. Hence, the complexity needs to be addressed in current debates about reforming the EU's fiscal framework after the Covid-19 crisis. Secondly, the improvements seem asymmetric as improvements are more pronounced in member states more exposed to the euro area financial crisis. As changes in Austria were less prominent, we suggest that the NEG had a levelling effect on budgetary processes across EU member states. This may reflect that the burden of adjustment in the crisis fell disproportionately onto Southern member states not only in terms of national fiscal policies but also in terms of fiscal decision-making. From the perspective of democratic legitimacy, however, we argue that those changes have had, on balance, a rather positive effect.

Thirdly, qualitative findings seem to diverge from the quantitative assessment provided by V-Dem (see Online Appendix). Since the V-Dem database provides us with a more aggregate reading of democratic quality (that is, is not linked to a particular decision-making process of a distinct policy area), in-depth studies of those processes 'on the ground' add complementary insights. We argue that a more detailed look at national procedures is particularly warranted in the area of budgetary decision-making given the key role 'fiscal sovereignty' continues to play in debates about the EU's impact on member state democracies. Hence, combining aggregate quantitative data with interview data focused on key questions provides a nuanced picture of member state democracies. Not only does this underscore the relevance of mixed-methods research, but it may also inform policymakers which specific aspects of which decision-making procedures require further adjustments. It is along these lines that the difference between the rather minor and mainly negative changes traced by the quantitative dataset and the often-positive evolution reflected in qualitative data from interviews, public documents, and media reports should be interpreted. It leads us to conclude that the overall decline in democratic quality in our case studies has not been caused by the NEG and the way it has changed national budgetary procedures.

Conclusion and Implications

The optimistic take that 'Europe is forged in crises' is increasingly giving way to concerns about crises as undermining support for the European project (Jones *et al*., 2016). Mirroring this concern, the literature on democracy in the European Union mostly portrays the effect of the euro area financial crisis and subsequent reforms of EU economic governance as worsening the EU's democratic deficit (Scharpf, 2014; Matthijs, 2017; Crum, 2018). This paper partly goes against this current by pointing to tangible improvements of procedural legitimacy in national budgetary decision-making. We agree that EU fiscal rules have the worrying tendency to narrow the discursive space and limit the national room for manoeuvre, which pushes the national democratic process in the direction of 'politics without policies' (Schmidt, 2020).

However, we also argue that there is merit in going beyond the sweeping generalizations which characterize the EU's new economic governance (NEG) framework as a preemption of democracy. Disaggregating democratic quality into its component parts and analysing them empirically in a crucial policy domain – budgetary politics – allows us to identify several characteristics where democratic quality has actually improved vis-à-vis the pre-crisis practice of national budgetary policymaking. Specifically, we find progress in terms of inclusiveness and accountability, yet trace obstacles in terms of openness and (partly) transparency. Our in-depth case studies complement quantified indicators of democracy, and could inform further reform steps. While we do not wish to suggest that a (partial) improvement of throughput legitimacy at the national level may offset deeper-rooted challenges in input and output legitimacy, following Schmidt and Wood (2019), we submit that they might drive more substantial institutional reform over the medium term.

Steffek (2019) rightly argues that the normative leverage of throughput legitimacy unfolds only in conjunction with input and/or output legitimacy. Consequently, throughput legitimacy without input or output legitimacy may very well prove worthless, as the rise in Eurosceptic sentiment and voting shares for populist parties seem to suggest. Still, we insist that dissatisfaction with the status quo should neither lead us to glorify the democratic quality of national budgetary politics in the past nor to overlook recent procedural changes that have empowered national parliaments and given social partners more opportunities to participate in the decision-making process. Especially in countries where societal actors traditionally found themselves sidelined in national budgetary politics, their involvement in EU policy coordination holds the potential to actually increase their respective government's responsiveness to societal demands.

A note of caution appears warranted, however, when considering the next step of fiscal integration that the Next Generation EU represents. While providing a strong signal for strengthening the European project during a devastating crisis, the greatly upgraded powers of the European Commission to influence member state economies through the new Recovery and Resilience Facility (RRF) also raises legitimacy concerns. On the one hand, the RRF has the potential to improve the European Semester's unimpressive implementation record by offering non-repayable grants as reform incentives. On the other hand, an increase in contestation may well become the flipside of greater effectiveness. As the disbursement of funds depends on the Commission's assessment of national reform plans, it may find itself confronting controversial national debates with unforeseeable consequences. Thus, building on the EU's efforts of the past decade to increase the inclusiveness and domestic ownership of the European Semester may prove even more important in this new era of EU fiscal politics.

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Supporting Information

Additional supporting information may be found online in the Supporting Information section at the end of the article.

Data S1. Supporting information