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Abstract

This paper offers a theoretically informed and empirically grounded explanation of the EU’s fiscal response to the coronavirus crisis. Deploying liberal intergovernmentalist theory, it assesses the making and form of the EU’s first fiscal support package of 23 April 2020 in terms of national preference formation, intergovernmental bargaining, and policy and institutional choice. National preferences resulted both from the overall threat the coronavirus crisis posed to the EU’s cohesion and from member states’ different affectedness and fiscal position: While all agreed that some common fiscal response was necessary, the particularly hard-hit and fiscally stricken Southern EU countries called for large and unconditional support via the introduction of Corona bonds. The fiscally more stable and conservative Northern EU countries, in turn, preferred more limited measures and the use of existing instruments. Due to their larger financial resources, the fiscally more conservative countries determined the room for agreement and dominated the negotiations. Consequently, the form of the EU’s eventual first fiscal support package mostly reflects the preferences and bargaining power of the Northern EU countries.

Keywords
coronavirus; crisis; fiscal response; EU; liberal intergovernmentalism.
Introduction*

From January 2020, the new global coronavirus (COVID-19) spread rapidly across European Union (EU) member states and pushed national health and social security systems to their limits. Statistics show that as of 23 April – the day the European Council endorsed the EU’s first fiscal support package –, about 924,000 cases and almost 100,000 deaths had been reported in the 27 EU member states, more than in any other region in the world at that time (Johns Hopkins University, 2020; ECDC, 2020). To slow down the spread of the virus, EU member states put in place rigorous restrictions on economic and individual outdoor activities and reintroduced controls at the inner borders of the Schengen free-traveling area. This led to a massive decline in economic output, rising unemployment and – in the medium term – rising government debt. Member states and EU institutions responded with various support measures such as interest rate cuts, credits, and state-backed guarantees to contain the economic damage and to initiate the economic recovery. Notably, the European Central Bank (ECB) on 18 March announced to buy up to €750 billion in government bonds until the end of the current year to reduce interest rates and facilitate government borrowing (ECB, 2020).

Discussions and negotiations about more direct economic and fiscal support measures, however, took place between the EU member states. After various rounds of bargaining, the EU’s heads of State and Government, at the European Council meeting on 23 April 2020, endorsed a first fiscal support package worth €540 billion. This package consists of a pan-European support instrument for short-time work, guarantees for European companies, and favorable credit lines from the European Stability Mechanism (ESM) for particularly hard-hit member states (Council of the EU, 2020b). The package, due to its size and distributional implications, represents a remarkable political and fiscal commitment by EU member states. At the same time, however, it fell well short of the initial demands by various national and EU policymakers who had called for significantly more extensive measures and instruments, such as the mutualization of government debt and joint borrowing through the introduction of common Corona bonds. Instead, the package largely reflects the preferences of fiscally conservative, foremost Northern EU countries.

This paper analyzes the making and eventual form of the EU’s first fiscal support package in the fight against the coronavirus crisis based on the assumptions and expectations of Liberal Intergovernmentalism (LI). LI is one of the major European integration theories which seeks to explain the form, substance, and timing of important policy and institutional innovations in the process of European integration. LI assumes member states to be the most important actors in the international system. Through intergovernmental negotiation and bargaining, they seek to achieve their goals and maximize their gains. Under the impact of international interdependence, LI assumes policy and institutional innovations to take place in three steps (Moravcsik, 1999, p. 4; Moravcsik and Schimmelfennig, 2019, pp. 65-69): First, member states define their national preferences following the foremost economic interests of powerful domestic interest groups. Second, they bargain to reach substantive agreements, where the negotiations reflect the national preferences, the issue-specific interdependence, and the relative bargaining power of each state. LI expects those states that are most powerful, most satisfied with the status quo and most needed for an agreement to be able to threaten others with non-cooperation and compel them to make concessions. And third, member states establish and design international policies and institutions to commit to and secure their agreements.

In recent years, scholars repeatedly have drawn from LI theory when seeking to explain the EU’s (non-)reforms in response to the various crises it faced. With regards to the Eurozone crisis, for example, Schimmelfennig (2015) has argued that the common interest in the salvation of the Euro prompted EU member states to deepen integration in European monetary, financial, and fiscal policies. Due to their

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asymmetrical interdependence, however, the newly created policies and institutions largely reflected the preferences of the less affected, Northern EU countries. Regarding the refugee crisis, by contrast, Zaun (2018) has noted that due to the very different distribution of arriving refugees and their resulting better negotiating position, the less affected, foremost Eastern EU countries were able to successfully oppose quotas and the EU-wide relocation of refugees. Overall, LI has proven to be a very useful theoretical framework for accounting for the negotiation dynamics and outcomes of EU crisis management.

At the same time, however, LI has been criticized for some shortcomings and ‘blind spots’. First, as Kleine and Pollack (2018) have stressed, LI builds upon an exogenously driven formation of national preferences. According to LI, a state’s national preferences reflect the interests of powerful domestic actors, which in turn result from their degree of international interdependence. LI thus pays little attention to endogenous processes, which, however, can also influence national preferences. For instance, states’ high level of interdependence and their common interest in salvaging the Euro cannot be explained without the recognition of previous integration steps and a certain path dependence in European monetary and economic integration (see also Schimmelfennig, 2015; 2018).

And second, LI postulates a rational and quite clear process of national preference formation, where the interests of powerful domestic, foremost economic, actors are swiftly established and then transmitted to government circles. These assumptions, however, are problematic for two reasons: First, in times of crisis, the situation is unclear for everyone involved. In the case of the coronavirus crisis and the EU-wide lockdown and disruption of economic supply chains that it triggered, it took time for economic actors to assess and formulate their interests and demands. Therefore, at least in the early stages of a crisis, a member state’s preferences and bargaining position are expected to result first of all from structural factors, its own affectedness, and its relative capacity to cope with the crisis’ ramifications. And second, economic interest groups are but one important actor in the formation of national preferences. As in particular the refugee crisis has shown, national identity issues and their mobilization through political parties can also play an important role in and for domestic politics. Therefore, scholars have called to widen LI’s focus when accounting for the formation of national preferences (Hooghe and Marks, 2019; Zaun, 2018).

This paper essentially makes two contributions: Empirically, it provides an explanation of the EU’s response to the coronavirus crisis in general and of the making and form of the EU’s first fiscal support package in particular. The coronavirus crisis, in principle, was an exogenous, symmetrical shock to the EU and its member states, but it had an asymmetric impact and revealed the different fiscal position and leeway of member states. Due to their better bargaining position, the less affected and fiscally more solid EU countries were able to dominate the negotiations and shape the substance of the support package. In more theoretical terms, the paper assesses and further develops LI in light of the EU’s most recent crisis. Due to the high fiscal issues at stake and their distributional implications, member-state governments – in particular the heads of State and Government and, to a lesser extent, the finance ministers – took the lead in the negotiations and were the most important actors. The paper thus stresses the suitability of LI to explain the negotiation dynamics and outcomes during the coronavirus crisis. At the same time, however, it also highlights the widely invisibility of domestic economic actors, the role of wider domestic politics in individual member states, and the importance of existing EU institutions and instruments for the strategic bargaining and, eventually, negotiation success of the fiscally more conservative EU countries.

The subsequent sections follow LI’s tripartite analysis of national preference formation, intergovernmental bargaining dynamics, and institutional and policy choice. Each section develops specific LI expectations with regards to the coronavirus crisis and assesses them with regards to the empirical evidence (for a similar design on the Eurozone crisis, see Schimmelfennig, 2015). The analysis rests on official EU documents, national government reports, and press accounts. The conclusions summarize the main findings, assess the merits and limitations of LI with respect to the coronavirus crisis, and make some suggestions for further research.
The formation of national preferences

For LI, national preferences for European integration are the result of international interdependence. LI assumes rational actors who want to increase their own benefits and pass on damage to others (Moravcsik, 1999). Hence, actors that are particularly badly affected by a crisis and see little benefits from individual, national measures will advocate greater European cooperation and burden-sharing. By contrast, actors that are less affected by a crisis and consider individual, national measures more adequate or sufficient tend to be reluctant towards European cooperation and burden-sharing.

Unlike the Eurozone and the refugee crises, the coronavirus crisis basically was an exogenous, symmetrical shock which was not caused or intensified by unsustainable financial and economic developments or an allegedly too generous asylum policy in individual EU member states. Rather, actors all across the EU felt the political, economic, and social consequences of the pandemic. The rapid closure of borders within the Schengen area and the associated restrictions on the free movement of people and goods within the European single market made clear the severity of the crisis and the threat it posed to the entire EU. In its Spring Economic Forecast in early May 2020, the European Commission projected that the EU economy would contract by an unprecedented 7.5 per cent in 2020, a revision down by around nine percentage points compared to the Autumn Forecast in the previous year (European Commission, 2020b).

At the same time, however, the immediate effects and further economic and fiscal trajectories of the pandemic were and will not be the same across the EU. From the beginning, the numbers of people being infected and dying from the coronavirus differed quite substantially. By 23 April 2020 – the day the EU's first fiscal support package was endorsed –, 25,500 and 22,000 people, respectively, had died from the virus in Italy and Spain. By contrast, by that day 5,500 people had died from the virus in Germany. Due to their different fiscal positions, EU member states had a different fiscal leeway to mitigate the economic damage, support their companies and workers, and start the economic recovery. For example, Italy and Spain – the two EU countries that in terms of absolute infection numbers were worst-hit by the pandemic – at the end of 2019 had a government gross debt of 135 and 96 per cent, respectively. Rising public expenditures due the coronavirus crisis would further increase their debt levels, making borrowing ever more expensive and difficult. One important characteristic of the coronavirus crisis was that many of the worst-hit countries also had been in a difficult fiscal position already before the crisis.

LI therefore would expect that, due to the generally felt impact of the crisis and the threat it posed to the EU, there was an overall interest among national policymakers to find a common response and provide some form of European fiscal support to the worst-hit countries. On the other hand, however, LI would also expect different national preferences about the adequate form of the support measures: While the more affected and fiscally weaker EU countries would have a strong interest in quick and jointly financed measures and would ask for extensive and direct support, the less affected and fiscally more solid countries would be more reluctant towards such measures and would insist on smaller-scale and conditioned support.

It must be noted that at the beginning of the crisis, EU member states took foremost national initiatives, most of which had not been announced beforehand, let alone coordinated with other states. This in particular relates to the sudden reintroduction of border controls within the Schengen area. For instance, after Austria had closed its border with Italy on 11 March, traffic queues up to 80 kilometers were reported, temporarily bringing the free circulation of people and goods to an end and disrupting supply chains in the European single market (Financial Times, 2020a). Also, the European Commission and other national governments criticized the decision by Germany and France, the week before, to ban the export of medical equipment such as face masks to other EU countries (Reuters, 2020).

Not surprisingly, the Italian prime minister Giuseppe Conte was the most outspoken policymaker coming out in favor of a common European response to the crisis. Both in terms of absolute infection and death numbers, by March 2020 Italy was the worst-hit EU country. Due to its high public debt and

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vulnerable banking sector, Italy itself had little leeway for a national fiscal stimulus. In mid-March, ten-year Italian government bonds yields raised to 2.4 per cent – almost three percentage points above German rates, – making government borrowing ever more costly (Financial Times, 2020b). As a consequence, the fiscal impulse of €16 billion for its shut-down economy that the Italian government issued on 17 March was well short of the impulses issued little later by France worth €57 billion and Germany worth €356 billion (Bruegel, 2020). Moreover, until late April, Germany alone accounted for 52 per cent of the state aid approved by the European Commission, prompting complaints in Southern EU countries that their economies would face an unfair competition and a weaker recovery due to the smaller fiscal leeway of these governments (Financial Times, 2020h).

Irrespective of these different national initiatives, the EU’s heads of State and Government soon started calling for decisive and common political action at the EU level. National leaders saw the stability and future of the Economic and Monetary Union (Eurozone) and the Schengen area as well as citizen’s support for the EU in danger, while some trade associations warned of business failures, the interruption of supply chains, and lasting damages to the European single market (see, for example, BDI, 2020a). Notably, in their joint statement after the virtual European Council meeting on 26 March – the third one within only 17 days –, the national leaders acknowledged ‘the unprecedented nature of the COVID-19 shock affecting all our countries’. Furthermore, they invited the Eurogroup – the group of finance ministers of the 17 Eurozone countries – to present proposals within the next two weeks for how best to support member-state economies in order ‘to deliver a comprehensive response’ (European Council, 2020a). Little later, on 6 April, the German chancellor Angela Merkel called the coronavirus pandemic the EU’s ‘biggest test since its foundation’. Since every country was equally affected, she argued that it must be in everybody’s interest ‘that Europe should emerge strongly from this test’ (Politico, 2020d). After some initial national reflexes, thus, member-state governments acknowledged – to some extent, at least – that it was in their self-interest to show a common response, mitigate the economic and political damages caused by the coronavirus, and avoid a major crisis of European integration from further unfolding.

At the same time, however, there were large divergences amongst policymakers about the size, financing, and allocation of possible European fiscal support measures. Already at the European Council meeting on 17 March, the Italian prime minister Conte urged the other national leaders to take extraordinary measures and do ‘whatever it takes’ to support the European economy. Conte suggested the emission of Corona bonds, that is, the joint issuing of government bonds to counter the economic damages caused by the coronavirus (Euractiv, 2020a). This proposal was similar to the Eurobonds discussed, but ultimately not introduced, during the Eurozone crisis. In a joint letter dated 25 March 2020, nine EU member-state governments, including those of Italy, France and Spain, backed the proposal for Corona bonds (Euractiv, 2020b).

By contrast, Corona bonds met with strong disapproval in foremost Northern EU countries like Germany, the Netherlands and Austria, where policymakers and voters traditionally are much more reluctant when it comes to greater financial burden and risk-sharing at the EU level. Indeed, governments in the Northern EU countries saw Corona bonds as a mean to communize debt and a step towards a permanent European transfer union. Like Eurobonds before, the German government rejected Corona bonds, with the German minister for economic affairs Peter Altmaier calling such demands ‘a phantom debate’ (Politico, 2020a). Speaking after the European Council meeting of 26 March, the Dutch prime minister Mark Rutte said that under ‘no circumstances’ would his country accept Corona bonds, since such ideas ran ‘against the design of Economic and Monetary Union’ (Financial Times, 2020d).

Instead, this latter group of countries preferred making use of the European Stability Mechanism. The ESM is the Eurozone’s €500 billion permanent bailout fund, which was created in 2012 during the Eurozone crisis and can provide credits to crisis-hit banks and countries. In exchange for the financial support, the respective countries usually must sign economic adjustment programs and assure that the money is spent for ex ante agreed purposes. Speaking after the European Council meeting of 26 March, German chancellor Merkel said that with the ESM EU member states had available an adequate and
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The actor constellation in the early stages of the coronavirus crisis thus strikingly resembled the one witnessed during the Eurozone crisis, with foremost Southern EU countries calling for large, jointly-financed and mostly unconditional fiscal support via the creation of new EU policies and instruments, while foremost Northern countries insisted on smaller-scale, conditional measures and the use of existing EU institutions.

Intergovernmental bargaining

Based on their preferences, national governments enter negotiations at the EU level. In the bargaining process, they seek to obtain agreements which maximize their own gains and put possible adjustment burdens to other governments (Moravcsik, 1999). LI assumes the negotiation outcomes to reflect member states’ bargaining power and their asymmetrical interdependence: Those countries that are more vulnerable to interdependence and would win more from integrative steps will be more ready to give in and make compromises. By contrast, those countries that are less vulnerable and would win less from integration can exert pressure and set the terms for an agreement (see also Schimmelfennig, 2015).

The bargaining power results from member states’ relevant power resources. Since a common European fiscal response to the coronavirus crisis would make necessary the mobilization of national fiscal resources, national material resources such as the size of a country’s economy, the state of their public finances, and their international creditworthiness were member states’ most important power resources. In addition, the institutional environment, and most notably the prevailing decision-making rules, influence a country’s bargaining position. Both for the provision of credits from the ESM and the introduction of Corona bonds, the agreement of all member states was necessary, thus giving those countries less in need of European fiscal support more bargaining power.

Despite the declared interest in finding a common fiscal response to the coronavirus crisis, power and bargaining resources were distributed quite unevenly across member states. Some EU countries like Italy and Spain were particularly badly hit by the crisis. Their numbers of people dying from the virus exceeded those in the other member states, making their lockdown measures more rigorous and hence their economic damages even larger. As outlined above, their high government debt levels and vulnerable banking sectors put these countries in a weak fiscal position and provided little leeway for national fiscal stimuli. Moreover, crucial industry branches for these countries such as tourism and hotel business would suffer particularly hard and long from the travel and outdoor activity restrictions. As a consequence, these foremost Southern EU countries depended more on European fiscal support measures than the Northern countries, which were less affected by the virus and found themselves in a better fiscal position.

LI therefore would expect that due to the overall impact of the coronavirus crisis and the threat it posed to the EU and the future of European integration, national governments would agree on some sort of European fiscal support. However, LI would further assume that in tough intergovernmental bargaining rounds, member states would negotiate on the size and precise terms of the support measures, with each trying to obtain an agreement closest to its own preferences. Since interdependence was asymmetrical, those states that were less affected by the crisis and in a better fiscal position would dominate the bargaining process and set the room for agreement.

There is much empirical evidence for these intergovernmental bargaining dynamics. From 10 March until 23 April 2020, when the first European fiscal support package was endorsed, four virtual European Council meetings took place. In addition, the Eurogroup held three virtual meetings between 16 March and 9 April, both in an exclusive format with only the finance ministers of the 19 Eurozone countries being present and more inclusively with the involvement of the finance ministers from all 27 EU countries. At first, it seemed that two camps of EU countries with irreconcilable positions were facing each other: On the one side, there was a group of foremost Southern EU countries that asked for quick,
extensive and unconditional support measures in the form of non-repayable grants. On the other side, there were foremost Northern EU countries that called for smaller-scale measures in the form of credits, which then would also be subject to specific spending conditions.

The first group of countries notably included Italy, Spain, France, and Portugal. The Italian prime minister Conte early on had made clear that he would insist on the introduction of Corona bonds to finance Europe’s economic recovery from the crisis. In their joint letter from 25 March, eight other EU member states had joined this demand (see above). Conte also stated that he considered the ESM unsuitable to help financing the response to the coronavirus crisis. The Italian government feared that lending from the ESM would, as it did during the Eurozone crisis, come along with strict conditions such as austerity measures and economic reform programs. The ESM was deeply unpopular in Italian domestic politics. Matteo Salvini, the leader of the anti-EU League party, which until September 2019 had been part of the national government and now was the largest opposition party, called the ESM an instrument of the ‘loan sharks’ from Berlin and Brussels (The Economist, 2020).

For domestic political reasons, the coalition government of Social Democrats and the populist Five Star Movement, headed by Giuseppe Conte, needed negotiation successes at the EU level. It was widely expected that in the case of a break-up of the government and early elections, the League party would emerge as the biggest party in parliament and Salvini could become the new prime minister. At the opening of the European Council meeting on 26 March, Conte even threatened not to support the leaders’ concluding statement if the other countries did not agree to the introduction of Corona bonds. He was supported by the Spanish prime minister Pedro Sánchez who warned of a permanent damage to the EU in the case of a missing, powerful common fiscal response. In the end, it reportedly took a lot of personal effort by European Council president Charles Michel to obtain a joint statement, which included a call upon the Eurogroup finance ministers to present proposals for a European recovery plan within the next two weeks (Politico, 2020b).

The second group of countries notably comprised Germany, the Netherlands, Austria, and Finland. From the start, these countries had made clear that they would reject the introduction of Corona bonds and that any form of European fiscal support must come with clear commitments that the money would be spent only for corona-related expenditures. The Netherlands, in particular, at various occasions underlined their insistence on the conditionality of fiscal support. A fierce clash of words happened after the Dutch finance minister Wopke Hoekstra reportedly called for EU institutions to investigate why some EU countries had not built enough ‘financial buffers’ during the past years to now be able to provide a powerful fiscal response to the coronavirus crisis. A few days later, the Portuguese prime minister António Costa branded Hoekstra’s comments ‘repugnant’ and accused the Netherlands of a lacking spirit of European solidarity (Politico, 2020c).

Regarding Corona bonds, the German government claimed that they were at best an instrument for the future since their implementation would take years. Fiscal policymakers from the Christian Democrats, the largest party in the German coalition government, argued that Corona bonds would go against the German constitution and the current EU treaties and that, if necessary, they would vote against them in parliament, thus making the introduction of Corona bonds in Germany very unlikely (CDUCSU, 2020). According to an internal paper from the German finance ministry, compiled in preparation for the Eurogroup meeting on 9 April, member states should instead focus their discussions on existing EU institutions and instruments ‘for which solutions can be quickly implemented’ (Der Spiegel, 2020b). Already at the European Council meeting on 26 March, chancellor Merkel had praised the ESM and called upon the Italian prime minister Conte, among others, not to reject its possible use from the start. In turn, Merkel now was signaling that other than in the Eurozone crisis, credits from the ESM in the fight against corona should not come with strict conditions (Der Spiegel, 2020b).

In early April, the French government proposed a temporary EU corona rescue fund on top of the other fiscal support measures that were being discussed. The French proposal did not mention Corona bonds, but still foresaw the common borrowing of debt. In order to preempt objections from other EU
countries like Germany, Austria, and the Netherlands, the French finance minister Bruno Le Maire said that this fund should be limited to five or ten years (Financial Times, 2020d). A few days later, the Spanish prime minister Pedro Sánchez, for his part, also called for the creation of ‘a new debt mutualization mechanism’ to finance member states’ rising expenditures due to the coronavirus crisis. At the same time, Sánchez for the first time publicly conceded that credit lines from the ESM could be an instrument ‘in the initial stages’ to inject the much-needed liquidity into the national economies (Sánchez, 2020).

When the Eurogroup finance ministers met on 7 April for the third time since the outbreak of the crisis, a number of different measures had been presented and were under discussion: First, on 2 April the European Commission had proposed a fund of €25 billion guaranteed by the EU member states, which then could provide loans of up to €100 billion to support short-time working schemes in countries particularly hard hit by the pandemic (European Commission, 2020a). Second, on 20 March, the European Investment Bank (EIB) had announced the creation of a European guarantee fund worth €25 billion, which could provide up to €200 billion of guarantees to European companies (EIB, 2020). Third, the ESM stood ready to provide €240 billion of precautionary credit lines to Eurozone member states of up to two per cent of a country’s yearly economic output (Financial Times, 2020e). And fourth, Southern EU countries like Italy, Spain, and France were advertising the creation of new European funds and different versions of joint borrowing.

Speaking on the eve of the Eurogroup meeting of 7 April, Conte once again called credits from the ESM ‘absolutely inadequate’ and made the argument for the introduction of Corona bonds (Financial Times, 2020e). On the other side, Northern EU countries like Germany and the Netherlands continued to oppose the mutualization of government debt and made clear that they were only ready to accept credits from the ESM as the adequate measure of fiscal support. Since both the introduction of Corona bonds and the provision of credits from the ESM required the approval by every member state, the latter countries, which were less in need of European fiscal support, were in a much better position to move the other countries to make concessions. The declared minimum goal of Eurogroup president Mario Cénteno was to hand over a commonly backed report to the heads of State and Government, who would then decide on and approve the definite measures. But in their meeting on 7 April, which lasted over 16 hours, the finance ministers still failed to reach an agreement, reportedly due to some ongoing disagreements over the use of the ESM and the idea of pooling national government debt through Corona bonds (Politico, 2020e).

Resuming on 9 April, the Eurogroup finance ministers finally reached an agreement on a €540 European fiscal support package, consisting of the Commission’s short-time working program, guarantees from the EIB, and credit lines from the ESM. Eurozone countries requesting ESM support would commit to use the credits lines to cover ‘direct or indirect healthcare, cure and prevention related costs due to the COVID 19 crisis’. The latter was a rather soft condition given that countries badly hit by the corona crisis should easily be able to identify expenditures related to health care of up to two per cent of their economic output. The finance ministers also discussed a future temporary European recovery fund to relaunch the national economies which could be financed through the next EU budget or ‘innovative financial instruments’ (Council of the EU, 2020a). The details, notably the size and financing of such a fund, however, were left to be decided by the national leaders at a later date. The Eurogroup’s final report did not entail a reference to Corona bonds or any other form of joint borrowing.

Institutional and policy choice

Policy and institutional innovations reflect EU member states’ bargaining outcomes and their willingness to make credible commitments and ensure the enforceability of their reached agreements. States want to make sure that other states in the future will stick to these agreements. Like the bargaining process, the policies and institutional design usually follows the preferences of the states with the greater bargaining power (Moravcsik, 1999).
In the coronavirus crisis, the policies and institutional design concerned, first, the size of the European fiscal support measures. Demands and proposals during the March and April negotiations ranged from a few hundred billion to more than a trillion euro. Secondly, the choice was about the financing of the support package. While the EU countries most badly hit by the crisis and in a fiscally weaker position asked for joint borrowing via new EU instruments such as Corona bonds, the fiscally more conservative countries refused any mutualization of government debt and insisted on the use of existing EU institutions like the ESM. And third, the choice concerned the allocation and spending conditions of the support package. While the fiscally weaker countries pushed for grants and no conditions for the way the money would be spent, the fiscally stronger countries insisted on credits and expenditures only for corona-related issues. LI therefore would expect the policies and institutional design of the fiscal support package to reflect member states’ shared preference for a decisive, common European response to the coronavirus crisis. At the same time, however, the policies and institutional design were likely to be of a rather limited size, be built upon existing EU institutions, and take the form of credits rather than grants.

There indeed is ample empirical evidence for these LI expectations. In the run-up to the European Council meeting following the Eurogroup’s agreement, scheduled for 23 April, the Italian prime minister Conte once again sought to pile the pressure, calling the ESM ‘a completely inadequate and inappropriate instrument’ and threatening to block any agreement unless the other national governments would consent to the introduction of Corona bonds (Politico, 2020f). This announcement was preceded by a coalition summit between the two government parties at which the populist Five Star Movement reportedly had made the further existence of the government dependent on the rejection of credits from the ESM (Tagesschau, 2020).

Meanwhile, the French president Emmanuel Macron stressed his country’s demand for the creation of a €400 billion fund to issue common government debt, in addition to the fiscal support package agreed by the Eurogroup. Warning of a populist backlash in Southern Europe, Macron also argued that EU countries should be given financial support according to their needs rather than the size of their economies (Financial Times, 2020f). And in a non-paper in preparation of the European Council meeting of 23 April, the Spanish government suggested the creation of a European economic recovery fund. In order not to further raise national government debt levels, this fund, with a volume of up to 1.15€ trillion, should be financed through perpetual EU debt and provide grants to the EU countries most badly hit by the coronavirus (Financial Times, 2020g).

On the other hand, German chancellor Merkel repeated that Corona bonds would not be practical since it would take too long to make them operational. Merkel again advertised European fiscal support measures that were possible within the scope of the current EU treaties and referred to the availability of the ESM. For the first time, however, she also publicly signaled that in a future scenario the European Commission could temporarily issue bonds based on financial guarantees which would be provided by EU member states through the EU budget. In that case, debt would not be mutualized since every member state would be liable only for its share on the EU’s budget (Politico, 2020g). Merkel’s idea was supported by other Northern EU countries like Austria, whose government, however, again stressed that an EU country must not take on responsibility for the debt of another country (Politico, 2020f).

At the European Council meeting on 23 April, the heads of State and Government endorsed the European fiscal support package worth €540 billion, as agreed by the Eurogroup on 9 April, and called for the package to be operational by 1 June 2020 (Council of the EU, 2020b). Compared to the original demands by member states like Italy and Spain, the support package thus was of a rather limited size. In addition, its policies and institutional design were more about adapting and making use of existing EU instruments than about creating new ones. To start with, the European scheme to support short-time work, suggested and promoted by the European Commission and worth up to €100 billion, provides loans to supplement corresponding national programs and is due to expire once the pandemic is over. And with its relatively small fund of €60 billion, the EIB can provide guarantees up to €200 billion to European companies.
The intergovernmental negotiations primarily had focused on the fiscal support by and for the member states themselves. Within the frame of the endorsed European fiscal support package, the ESM can provide credit lines of up to €240 billion for the worst-hit Eurozone countries but not exceeding two per cent of a country’s economic output. In contrast to the Eurozone crisis, the Northern countries conceded that these credit lines come along with relaxed conditions. However, they can only be used for health-related expenditures in the fight against the coronavirus. In addition, the credits from the ESM must be repaid at a later point in time and will thus be added to a country’s current debt levels. Demands for joint borrowing and the allocation of the fiscal support in the form of grants, by contrast, did not make it into the European Council’s conclusions.

In sum, the EU’s first fiscal support package of 23 April consists of elements which largely reflect the preferences of the fiscally more solid and conservative EU member states. This outcome was the immediate result of the asymmetrical interdependence that existed between member states since the outbreak of the coronavirus crisis. Because the fiscally more conservative, foremost Northern EU countries were less affected by the pandemic and depended to a far lesser extent on European support to tackle the crisis’ ramifications, they were in a better bargaining position than the more crisis-hit and fiscally weaker Southern countries. Due to their higher bargaining power, the fiscally more conservative countries successfully removed Corona bonds, the idea of joint borrowing, and the allocation of the fiscal support in the form of grants from the political agenda. Instead, they promoted and ultimately enforced the use of existing EU institutions like the ESM and the allocation of the fiscal support in the form of credits.

Conclusions

The coronavirus crisis is the latest in a series of crises that the EU has been facing over the past decade. As in previous instances, LI once again has proven to be a useful theoretical framework to explain the big bargains and outcomes in European integration. National preferences reflected member states’ political and economic interdependence, the different impact the coronavirus had on their economies and public finances, and their very different fiscal position and leeway to provide national fiscal stimuli. Given the magnitude of the crisis and the threat it posed to the EU and the European integration process, member states agreed that a common European fiscal response was necessary. However, since the less affected and fiscally stronger Northern EU countries depended less on European support measures than the more affected and fiscally weaker Southern EU countries, the former had available more power resources and were in a better bargaining position. Consequently, the policies and institutional design of the EU’s first fiscal support package, endorsed by the European Council on 23 April 2020, largely reflect the preferences and bargaining position of Northern EU countries like Germany, Austria, and the Netherlands, which had insisted on the use of existing EU institutions and the allocation of the fiscal support in the form of credits.

At the same time, LI misses some important aspects about the making and adoption of the EU’s fiscal response to the coronavirus crisis. First, as has been noted in previous studies, LI hardly takes into account the endogenous elements and features of the European integration process (Schimmelfennig, 2018). Most notably in the case of the coronavirus crisis, LI does not appreciate the importance of previously created EU institutions like the ESM, which, however, did have an important impact on member states’ bargaining power and hence also on the eventual negotiation outcome. Quite paradoxically, the already operational ESM helped fiscally conservative countries like Germany, which during the Eurozone crisis had rejected the creation of the ESM in the first place, to successfully remove more ambitious, and more expensive, instruments like Corona bonds from the political agenda.

Second, with regards to the formation of national preferences, LI very much focuses on domestic economic actors and the transmission of interests from economic actors to government circles. In the early stages of the coronavirus crisis, however, economic actors were widely absent from the debates about European fiscal support measures. Actually, it took economic actors quite some time to assess the
impact and further implications of the pandemic and to formulate their specific interests and demands towards the political actors. For example, it was only on 12 May 2020 – thus three weeks after the European Council had endorsed the first EU fiscal support package – that the leading employers’ associations of France, Italy and notably Germany issued a joint statement in which they stated the ‘unprecedented economic shock’ triggered by the coronavirus, outlined the economic damages that the pandemic was about to cause, and called their governments to establish a ‘European recovery fund’ consisting of a mix of credits and grants (BDI, 2020b). Thus, at least in the early stages of the coronavirus crisis, member states’ preferences depended less on domestic economic actors and their interests, as suggested by LI, but they foremost derived from and reflected a country’s fiscal resources and its ability to cope with the crisis.

Third and relatedly, other domestic actors than economic interest groups contributed to the formation of national preferences. As for the refugee crisis, scholars have shown that the attitudes and stances of voters and political parties towards refugees determined a government’s bargaining stance on that issue (Zaun, 2018). Similarly, in the coronavirus crisis, national electoral calculations and party politics mattered. While in countries like Germany and the Netherlands policymakers from the ruling conservative and liberal parties, respectively, strongly opposed the introduction of Corona bonds, leading opposition figures in Italy called for the rejection of ESM credits and exerted political pressure on their prime minister to take a tough stance in EU-level negotiations. Thus, domestic party politics at various occasions during the coronavirus crisis constrained the national leaders’ room for maneuver. Due to the specific national economic and fiscal imperatives in the fight against the coronavirus and its ramifications, however, leaders from the fiscally weaker EU countries more often had to give in and compromise when negotiating with their European peers. This paper has not systematically assessed the importance of domestic and party politics, let alone identity issues for national governments’ bargaining stances during the coronavirus crisis. Yet, it stresses that LI should widen its focus beyond economic actors and their interests when accounting for member states’ preference formation and the subsequent intergovernmental bargaining rounds.

This paper has analyzed the making and form of the EU’s first fiscal support package which was endorsed by the European Council on 23 April 2020. In their Conclusions of that meeting, the heads of State and Government also agreed to work towards establishing a ‘European recovery fund’ and tasked the European Commission to present a timely proposal (Council of the EU, 2020b). On 27 May, the Commission submitted a plan for a second European fiscal support package in the form of European recovery instrument, which would allow the Commission to borrow up to €750 billion on the financial markets to further assist crisis-hit EU member states. Crucially, the Commission suggested to provide almost two-thirds of this assistance via grants and the rest via credits and guarantees. In addition, the Commission also submitted a revised proposal for the EU’s next seven-year budget, which must be adopted by the end of 2020. The budget would comprise €1.1 trillion and allow for higher EU-wide expenditures for corona-related issues (European Commission, 2020c).

Importantly, one week before the Commission presented its plan, France and Germany had issued a joint proposal in which they called for the creation of a European recovery fund worth €500 billion, to be financed through Commission borrowing and consisting entirely of grants for the most hardly-hit EU member states. This proposal marked a remarkable deviation from the former German stance (France Diplomacy, 2020). On 21 July 2020, after four days of negotiations, the heads of State and Government approved the EU’s second fiscal support package and the EU’s next seven-year budget, both of which have a total volume of €1.82 trillion (European Council, 2020b). At the insistence of Northern EU countries like Austria and the Netherlands, the share of grants in relation to credits in the second support package has been reduced to €390 against €360 billion. Nevertheless, the right for the European Commission to borrow money on such a scale is without precedence in the history of European integration. In subsequent analyses LI theory will have to make sense of these most recent bargains and outcomes.
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