

The COVID-19 Pandemic and the Establishment of the Recovery and Resilience Facility: A “Critical Junctures” Analysis of the European Union’s Financial Assistance Regime

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Abstract

The COVID-19 pandemic was an unprecedented exogenous shock for the European Union (EU) and its Member States, one that demanded a joint response at the EU level rather than several differentiated responses at the Member State level. As such, the pandemic crisis opened up a “window of opportunity” for institutional change in the EU’s financial assistance regime. This change pertains to the development of a set of rules governing the disbursement and withdrawal of funding to Member States in the context of crisis management. The paper thus aims to answer the following question: How did the COVID-19 pandemic affect the EU’s financial assistance regime? Drawing on a revisited historical institutionalist framework that allows for the examination of different types of institutional development, the paper argues that the COVID-19 pandemic constitutes a “critical juncture” for the EU’s financial assistance regime, resulting in a shift from intergovernmental coordination (with the European Stability Mechanism) to a form of limited supranational delegation (with the Recovery and Resilience Facility).

Keywords

Critical junctures; COVID-19 pandemic; Financial assistance regime; Institutional change; Recovery and Resilience Facility (RRF)

Introduction

On 11 March 2020, the World Health Organisation (WHO) declared COVID-19 a global pandemic. Less than a week later, the European Council started advancing an interpretation of the pandemic as a European emergency that demanded a joint response at the EU level rather than several differentiated responses at the member-state level (Capati et al. 2022). On 17 March 2020, European Council President Charles Michel voiced the need “to work together and to do everything necessary to tackle the crisis and its consequences” and invited the Eurogroup to “adopt without delay a coordinated policy response” to the socio-economic consequences of the pandemic (European Council 2020a). In the immediate aftermath of its outbreak, the pandemic crisis was thus perceived as an unprecedented

exogenous shock for the European Union (EU) and brought about large-scale socio-economic effects across its Member States.

As such, the pandemic crisis opened a “window of opportunity” for institutional change in EU economic governance (Ladi and Tsarouhas 2020), and especially in the EU’s financial assistance regime, that is the set of rules governing the disbursement and withdrawal of funding to the Member States in the context of crisis management (Rehm 2022). As a matter of fact, while the financial response to the Eurozone crisis was mainly provided through the European Stability Mechanism (ESM), with a lending capacity of up to €500 billion, the pandemic crisis led to the adoption of Next Generation EU (NGEU) and, within it, of the innovative Recovery and Resilience Facility (RRF), a new financial instrument that replaced the European Stability Mechanism (ESM) as the major crisis-management tool in the EU (Buti and Fabbrini 2023). While the ESM has remained fully operational following the outbreak of the pandemic, and even inaugurated a pandemic-related credit line without conditionality to provide financial support against COVID-19, no Member State has ever applied for it and financial assistance has mostly been provided through the RRF (Fabbrini and Capati 2023), which amounts to €723.8 billion out of NGEU’s €800 billion.

This paper thus raises the following question: How did the COVID-19 pandemic affect the EU’s financial assistance regime? To answer it, the paper adopts a revisited historical institutionalist framework of “critical junctures”. While the literature has widely referred to critical junctures to account for radical changes (Ferrera et al. 2023; Schelkle 2021; Verzichelli and Edinger 2005), what makes them “critical” often remains unexplored. Building on Hogan (2006), the paper opens the black box of critical junctures through a reconceptualization and subsequent operationalization, before testing the concept to the outbreak of the pandemic crisis and the establishment of the RRF. The paper argues that the COVID-19 pandemic does constitute a critical juncture for the EU’s financial assistance regime as it moved from intergovernmental coordination (with the ESM) to a form of limited supranational delegation (with the RRF), resulting in a swift and comprehensive third-order change.

The above argument has the following structure. The first section illustrates the paper’s historical institutionalist framework of critical junctures. It conceptualizes critical junctures as consisting of “swift,” “encompassing,” and “third-order” change following a “generative cleavage.” It then operationalizes such criteria to set the stage for the empirical analysis. The second section discusses the economic impact of the COVID-19 pandemic and how it was perceived by decision-makers and civil society to test for the “generative

cleavage”. The third section investigates the establishment of the RRF to test for “swift” and “encompassing” change. The final section examines the governance system of the RRF in comparison with that of the ESM to test for “third-order” change. Based on the outcome of such tests, the last section qualifies the temporal sequence going from the outbreak of the COVID-19 pandemic to the establishment of the RRF as a critical juncture for the EU’s financial assistance regime and discusses potential implications for the European integration project at large.

Analytical Framework and Research Hypotheses

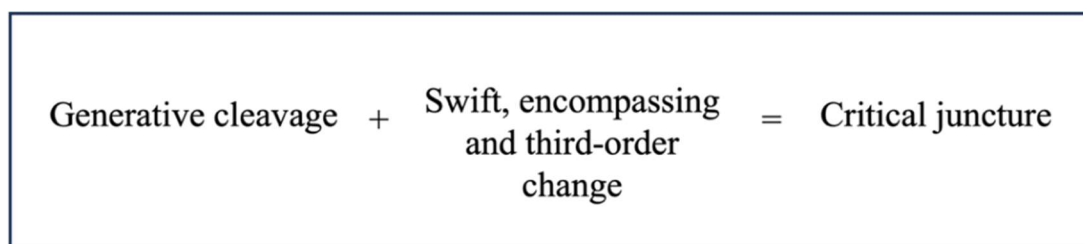
As the study of European integration spread from its roots in International Relations to Comparative Politics, historical institutionalism (HI) established itself as a viable alternative to both neo-functionalism and liberal intergovernmentalism (Christiansen and Verdun 2020). While these latter seek to conceptualize the main drivers of European integration either in terms of transnational actors or Member State governments, HI scholars are more interested in the institutional outcome of European integration as well as the nature and shape of institutional transformations. By broadly defining institutions as “a set of formal and informal rules that shape actors’ behaviour” (Christiansen and Verdun 2020, 1), the focus of HI is thus on institutional construction, maintenance, and adaptation (Sanders 2006). To explain institutional development, HI scholars traditionally relied on such concepts as “path dependence,” “incremental change,” and “critical junctures.” To this effect, institutions are supposed to be “sticky”: once they are established, they tend to persist over time and condition the choices of decision-making actors, resulting in long path-dependent processes. However, endogenous or exogenous shocks may open the door to institutional change. This may take the form of incremental or gradual change or of a critical juncture depending on the nature of the shock as well as on the scale and scope of the change itself.

This paper builds on a critical junctures framework of institutional change to understand the impact of the COVID-19 pandemic on the EU’s financial assistance regime. As a conceptual tool, critical junctures point to a model of institutional development based on “punctuated equilibrium,” whereby periods of relatively long institutional stability and self-reinforcing path dependence are, every now and then, interrupted by phases of radical and abrupt change. To this effect, critical junctures are defined either as “choice points when a particular option is adopted among two or more alternatives” (Mahoney 2002, 6) or as “relatively short periods of time during which there is a substantially heightened probability that agents’ choices will affect the outcome of interest” (Capoccia and Kelemen 2007, 438).

However useful to grasp the general contours of critical junctures, these definitions and their theoretical underpinnings do not provide a clear blueprint for empirical analysis. What exactly *is* a critical juncture? What is it *not*? And what can a critical juncture *do without*?

Borrowing from Hogan (2006), this paper conceptualizes critical junctures in terms of two constitutive elements: a generative cleavage and change that is swift, encompassing and third-order. Such constitutive elements are separately a necessary condition, and jointly a sufficient condition, for a critical juncture to occur. This conceptualization emphasizes what critical junctures are about, rather than what they might give rise to (e.g., path dependence, legacies, heritage, etc.). In particular, the kind of change associated with a critical juncture is radical (i.e., third-order) in its scale, comprehensive (i.e., encompassing) in its scope, and quick (i.e., swift) in its pace, regardless of how enduring it might be. This allows for recognizing critical junctures as they happen rather than in hindsight (Figure 1).

Figure 1. Conceptualization of a “Critical Juncture”



Source: Adapted from Hogan (2006, 664)

A generative cleavage is an exogenous shock or tension which opens up a “window of opportunity” for institutional change. Such an exogenous shock, generally a large-scale unanticipated crisis, constitutes the first step of a causal mechanism through which previous self-reinforcing dynamics are eased and change becomes possible (Stark 2018). The generative cleavage is not itself a critical juncture: the latter being “an episode of institutional innovation” that follows from, and is permitted by, the generative cleavage (Collier and Munck 2017). Research on critical junctures has focussed, *inter alia*, on wars, revolutions, constitutional revisions and economic crises as preferred generative cleavages (Cortell and Peterson 1999). For our purposes, the proposed generative cleavage is the macroeconomic crisis produced by the COVID-19 pandemic. Drawing on Hogan and Timoney (2017), we propose an operational definition of economic crisis based on a combination of objective and subjective factors.

Objectively, the COVID-19 pandemic qualifies as a macro-economic crisis if it leads to the deterioration of at least two dimensions of the economy in the EU27 among wealth (real GDP, GDP per capita), government finances (government debt to GDP, government deficit to surplus), labour (employment) and industry (industrial production) (Hogan and Doyle 2007). The rationale behind this operational definition is the following. While a worsening of just one dimension might be part of the normal ebbs and flows of the business cycle, a simultaneous deterioration of two or more dimensions of economic activity arguably points to an economic downturn. Subjectively, a macro-economic crisis also needs to be perceived as such by political decision-makers (EU institutions and Member States governments), civil society (analysts and the media) and international institutions (such as the IMF, OECD and WTO). Indeed, following a securitization logic whereby an actor names a certain development a “problem” and claims the right to address it (Murphy 2020), a crisis is at least partially a product of threat perceptions and is framed accordingly into narratives about those perceptions’ nature, scale, causes and implications (Boin *et al.* 2009). Such narratives eventually influence how the crisis is governed beyond objective economic indicators (Table 1). To assess whether the COVID-19 pandemic was perceived as a large-scale economic crisis, the paper combines qualitative evidence from primary sources between March and October 2020, including official documents of EU institutions and public statements by EU and national policy-makers, newspaper articles, policy briefs, and economic reports. If the COVID-19 pandemic was perceived as a macroeconomic crisis, there should be evidence of this in the discourses of policy-makers, international institutions and civil society (Lynggaard 2019).

Table 1: Operationalisation of “Generative Cleavage” as a Macro-Economic Crisis

	Dimensions	Operationalization
Objective factors	Wealth	Fall in real GDP, fall in GDP per capita
	Government finances	Increase in government debt to GDP, increase in government deficit to GDP
	Labour	Fall in employment
	Industry	Fall in industrial output
Subjective factors	Perception of EU decision-makers	EU institutions and Member State governments perceive a macro-economic crisis
	Perception of international institutions	Institutions such as the IMF, OECD, and WTO perceive a macro-economic crisis
	Perception of civil society	Analysts and the media perceive a macro-economic crisis

Source: Adapted from Hogan and Timoney (2017, 72)

Based on this operationalization of a generative cleavage in the form of a macro-economic crisis, we can empirically test the following research hypothesis:

[H1, generative cleavage]: The COVID-19 pandemic qualifies as a generative cleavage for change in the EU's financial assistance regime.

For a critical juncture to emerge, the generative cleavage should be followed by institutional change – specifically, by a kind of change that is third-order (in scale), swift (in pace) and encompassing (in scope) at the same time. A third-order change is a radical, large-scale change. As Hogan points out, the operational definition of a radical change ultimately depends on a researcher's interpretation of their research subject, but “standards must be employed in measuring the level of change, and these should be clearly defined, and logical to the subject under examination” (2006, 665). To operationalize a radical change, this paper borrows from Hall's (1993) account of so-called “orders of change”. In an analysis of economic policy paradigms, Hall identifies three possible kinds of policy change, which he defines as *orders*. According to Baumgartner (2013), Hall's attempt is to understand the nature of policy change and determine whether that typically has the characteristics of incremental evolution or punctuated equilibrium. A first-order change is “a process whereby instruments settings are changed [...] while the overall goals and instruments of policy remain the same” (Hall 1993, 278), whereas a second-order change occurs “when the instrument of policy as well as their settings are altered [...] even though the overall goals of policy remain the same” (Hall 1993, 279). Finally, a third-order change is an occasional and simultaneous change “in all three components of policy: the instrument settings, the instruments themselves, and the hierarchy of goals behind policy” (Hall 1993, 279). Drawing on Hall's orders of change, we operationalize a third-order change as a radical change that concerns not only the instrument's settings but the instruments themselves and their logic of functioning. In our case, a third-order change implies the establishment of a new financial instrument in lieu of the existing one, with a different governance system (or logic of functioning).

In addition to its scale, the pace of change is also crucial to our understanding of critical junctures. While it needs to be large-scale, the institutional innovation stemming from a critical juncture must take the form of a swift change. Contrary to the long-drawn-out process of institutional evolution associated with incremental (or gradual) change, critical junctures bring about abrupt transformations that quickly follow the exogenous shock. As opposed to instances of gradual change, in a critical juncture, the generative cleavage is also

part of the causal mechanism leading up to institutional innovation. When applied to an electoral or party system, an exogenous shock may well lead to an institutional change in a matter of a few months. As a case in point, the Italian corruption scandal of 1992, known as *Tangentopoli*, brought about a swift reconfiguration of the governing parties (Waters 1994). However, when it is applied to an overarching institutional system, a swift change may be conceived of as occurring over a longer timeframe. Similar to Hogan (2006), this paper focuses on the institutional pattern for the establishment of a financial instrument in response to a macro-economic crisis, hence a “swift change” is the change that occurs within, and no later than, twelve months of the proposed generative cleavage.

Finally, critical junctures depend on the scope of institutional change too. In this respect, encompassing change is only achieved when the institutional transformation has “an effect upon all [...] of those who have an interest in the institution or institutions it is impacting upon” (Hogan 2006, 666). In other words, the third-order, swift change originating from critical junctures also needs to be comprehensive with respect to those actors who are part of the institutional system undergoing change. To be sure, the notion of encompassing change depends on the specific research subject. If applied to the features of a given model of political economy following an exogenous shock, as it is in the tradition of comparative political economy, an encompassing change entails that all countries adopting a given political economy structure would undergo analogous change (Parker and Tsarouhas 2018). In this paper, an encompassing change is operationalized as one that applies to the EU27 and thus leads to no opt-outs or “differentiated integration” (Schimmelfennig and Winzen 2023) (Table 2).

Table 2: Critical Junctures: Operationalisation of Third-order, Swift and Encompassing Change Following a Generative Cleavage

Requirement	Operationalization
Third-order change	Resulting in the establishment of a new financial instrument based on a different governance system
Swift change	Taking place within twelve months of the generative cleavage
Encompassing change	Applying to the EU27, with no opt-outs or differentiated integration

Source: Author

The proposed instance of a third-order, swift and encompassing change is the adoption of the RRF as the new major instrument in the EU's financial assistance regime. The above operationalization allows us to empirically test the following research hypotheses:

[H2a, swift change]: Following the outbreak of COVID-19, the establishment of the Recovery and Resilience Facility qualifies as a swift change in the EU's financial assistance regime.

[H2b, encompassing change]: Following the outbreak of COVID-19, the establishment of the Recovery and Resilience Facility qualifies as an encompassing change in the EU's financial assistance regime.

[H2c, third-order change]: Following the outbreak of COVID-19, the establishment of the Recovery and Resilience Facility qualifies as a third-order change in the EU's financial assistance regime.

Depending on the presence or absence of a generative cleavage and institutional change, four different institutional pathways may emerge. First, in the absence of both a generative cleavage and institutional change, the temporal sequence simply configures itself as institutional path dependence. In normal times, institutions produce self-reinforcing lock-in mechanisms which are inherently difficult to alter. Through the logic of positive feedback, institutions yield increasing returns as they serve such fundamental tasks as providing public goods or solving collective action problems by favouring coordination (Pierson 2004). Path dependence fosters a condition of institutional equilibrium or reproduction, the reversal of which is associated with high costs. Second, in the absence of change, a generative cleavage leads to so-called "near-misses" (Capoccia and Kelemen 2007). A near-miss occurs when the outcome of a generative cleavage is not a change, but institutional continuity. In such cases, "a window of opportunity opens quickly, permissive conditions allow for the possibility of change but the status quo reasserts itself and no change occurs" (Stark 2018, 36). Near misses can be studied in a critical junctures perspective that seeks to account for how and why an exogenous shock leads to institutional persistence (Capoccia and Ziblatt 2010). However, the non-occurrence of institutional change does prevent the emergence of a critical juncture.

Third, in the absence of a generative cleavage, institutional development takes the form of incremental or gradual change rather than a critical juncture. Existing historical institutionalist accounts show that gradual change does not originate from an exogenous

shock (i.e., a generative cleavage) but is more often the result of endogenous processes of institutional transformation (Thelen 2004). Contrary to critical junctures, gradual change is either minor in scale, slow in pace, or limited in scope. Consequently, to explain institutional evolution, contemporary theories of gradual or incremental change have refrained from a critical junctures framework and resorted to such conceptual tools as *displacement*, *layering*, *drift*, and *conversion* (Mahoney and Thelen 2010). Finally, when a generative cleavage is combined with institutional change, the temporal sequence leads up to a critical juncture. Specifically, a critical juncture consists of an exogenous shock followed by a swift, encompassing and third-order change. As opposed to incremental change, critical junctures are abrupt and large-scale transformations that terminate long periods of path-dependent institutional reproduction. To that effect, when a critical juncture concludes, it might leave room for yet another path-dependent phase of institutional stability (Table 3).

Table 3 Institutional Pathways Originating from the Presence/Absence of a Generative Cleavage and Institutional Change

		Change	
		NO (institutional continuity)	YES (institutional transformation)
Generative Cleavage	NO	Path-dependence	Gradual (or incremental) change
	YES	Near-miss	Critical juncture

Source: Author

The COVID-19 Pandemic: Testing for the Generative Cleavage

This section seeks to establish whether the COVID-19 pandemic qualifies as a generative cleavage. To do so, it first examines the impact of the crisis in the EU on such economic dimensions as wealth (real GDP, GDP per capita), government finances (government debt to GDP, government deficit to GDP), labour (employment) and industry (industrial production). To qualify as a generative cleavage, a deterioration of at least two of such dimensions must follow. Second, it discusses how the COVID-19 pandemic was perceived by EU decision-makers, international institutions and civil society. To qualify as a generative cleavage, all or most of such actors must perceive the crisis as a real threat to the stability of the Union, one requiring a major institutional response.

In 2020, real GDP fell by 6.1% due to the impact of the COVID-19 pandemic, especially due to the health emergency and national lockdowns. This was an even larger shock compared to 2009 when the Euro crisis was at its height (-4.3%) (Eurostat 2021). GDP per capita concurrently dropped to €29,890 from €31,310 of the previous year. The economic impact of COVID-19 was, however, slightly asymmetric across the EU. Euro area countries were relatively more affected vis-à-vis non-Eurozone countries, with real GDP dropping by 6.4%. According to the data collected by Eurostat (Eurostat Data Browser 2021), countries from Southern Europe suffered the most severe impact, including Spain (-10.8%, provisional), Greece (-9.8%, provisional), Italy (-8.9%), Portugal (-8.4%, provisional) and France (-7.9%, provisional). Among the least impacted countries were Denmark (-2.1%), Finland (-2.8%), Sweden (-2.9%), the Netherlands (-3.8%, provisional) and Germany (-4.6%, provisional). Overall, the COVID-19 crisis led to an unprecedented decrease in the EU's total and per capita economic output in 2020.

Following the pandemic outbreak, government debt in the EU touched 90.7% of GDP, up 13.2 points compared to 2019. In 2020, the largest increases in debt to GDP were recorded in Greece, Spain, Cyprus and Italy, each up at least 20 percentage points compared to 2019. Most of the other Member States registered increases of at least 10 percentage points, while a small minority contained the increase in debt-to-GDP to a few percentage points (Eurostat Data Browser 2021). The dramatic increase in the government debt to GDP ratio in 2020 is the combined result of Member States relying on public debt as a key tool to counter the impact of the COVID-19 pandemic and negative economic outputs. Along the same lines, government deficit increased to 6.9% of GDP in 2020 reflecting the impact of the COVID-19 crisis (Eurostat 2021). All Member States registered a general increase in government deficit relative to GDP in 2020, going from Denmark (1.1%) to Spain (11.0%) (Eurostat 2021). This also results from the need for the Member States to address the impact of the COVID crisis through drastic increases in government expenditure relative to income.

In 2020, employment in the EU decreased to 72.4%, down 0.7 percentage points compared to the previous year (Eurostat Data Browser 2021). The COVID-19 pandemic led to a dramatic rise in the number of absences, reduced working hours and jobs lost. The income loss was concentrated in vulnerable sectors, with food and accommodation recording a decline of almost 20% (Eurostat Data Browser 2021). The general fall in EU employment is the first recorded since 2013. All the Member States registered a drop in their employment rate in 2020 except for Malta, Croatia and Poland. The country that suffered the largest

decline in terms of employment rate was Spain (2.3%) (Eurostat 2021). Similarly, the outbreak of the pandemic had a significant impact on industrial production in the EU, causing it to fall by 8.0% in 2020 (Eurostat 2021). This was largely due to the fall in the manufacturing of motor vehicles, furniture, machinery, basic metals and metal products (Eurostat Data Browser 2021). The general decline in industrial was quite heterogeneous and mostly concerned large manufacturing countries, including Italy (-11.4%), France (-11.1%) and Germany (-10.2%). The impact of the crisis on industrial output was less perceived in Malta (-0.2%), Latvia (-1.7%) and Greece (-2.1%) (Eurostat Data Browser 2021).

Beyond its objective economic impact, the COVID-19 pandemic was also widely perceived as a large-scale crisis in the EU. On 19 March 2020, Italian Prime Minister Giuseppe Conte declared: “We are confronted with an exogenous, global shock that has no precedents in modern history. And as political leaders we are called to make the necessary, bold, yet tragic choices” (Johnson *et al.* 2020). On 4 April, at a press conference ahead of a Eurogroup meeting on the response to the pandemic, German Chancellor Angela Merkel said that “Europe, the EU, is facing its biggest test since its foundation” and “everyone is equally affected so it must be in everyone’s interest that Europe should emerge strongly from this test” (Posaner and Mischke 2020). On the same note, in an interview with the *Financial Times* on 16 April, French President Emmanuel Macron defined the pandemic as “a shock, a very anthropological one”, adding that “we have put half the planet on hold to save lives, it is unprecedented in our history” (Mallet and Khalaf 2020). On 19 April, Hungary’s Prime Minister Viktor Orbán talked of “a time of war” (Reuters 2020). Along the same lines, on May 1st Dutch Prime Minister Mark Rutte conceded that “the present situation calls for unusual forms of multidisciplinary and international cooperation, and for solidarity. Because we can only fight this crisis by working together and sharing our knowledge” (Rutte 2020).

Such rhetoric was shared by the leaders of EU institutions. On 16 March, in his remarks after the G7 videoconference on COVID-19, European Council President Charles Michel admitted that “this crisis is serious” and “it is going to be long and difficult”, adding “all of us are fully determined to do everything necessary, everything that must be done” (European Council 2020a). On his part, in early April, European Parliament President David Sassoli claimed that “we need the tools to overcome this emergency and start with a reconstruction plan” and “we must be prepared for the effects of this crisis and not be overwhelmed” (European Parliament 2020). Upon the presentation of the Recovery Fund to the European Parliament on 27 May, European Commission President Ursula von der Leyen said the EU was facing “its very own defining moment” as “what started with a virus

so small your eyes cannot see it, has become an economic crisis so big that you simply cannot miss it” (European Commission 2020). She stressed that “the crisis has huge externalities and spillovers across countries” and hence “none of that can be fixed by any single country alone” and “it is way bigger than any of us” (European Commission 2020).

International institutions were equally assertive in their forecasts of the impact of COVID-19. In a policy brief published in March 2020, acknowledging that “COVID-19 has profoundly changed our lives, causing tremendous human suffering and challenging the most basic foundations of societal well-being”, the Organisation for Economic Co-operation and Development (OECD) suggested that “immediate short-term government responses are needed to save lives and livelihoods” (OECD 2020). On 8 April 2020, in a press release, the World Trade Organisation (WTO) expected global trade “to plunge as the COVID-19 pandemic upends the global economy”, with such a decline “explained by the unprecedented nature of this health crisis and the uncertainty around its precise economic impact” (WTO 2020). In its regional economic outlook for Europe in autumn 2020, the International Monetary Fund stated that “the coronavirus disease has caused dramatic loss of life and major damage to the European economy” (IMF 2020). While praising the unprecedented measures taken at the EU level to counter the effects of the pandemic, the IMF suggested that “the outlook for 2020 remains bleak and the recovery will be protracted and uneven” (IMF 2020).

The severity of the pandemic was consistently pointed at by both analysts and the media throughout 2020. In a May policy brief, Bruegel contended that the containment measures adopted by European governments to curb the spread of the pandemic “have led to a severe recession” and that the “impact of COVID-19 on the European economy might ultimately turn out to be even greater than currently estimated” (Anderson *et al.* 2020). In April, the European Policy Centre published a discussion paper claiming that “the coronavirus is an unprecedented external shock that is challenging the EU and its Member States,” a “fundamental” crisis that poses “a dramatic threat to public health and the life of citizens” and “will require unparalleled monetary and fiscal measures by central banks and governments” (Emmanoulidis and Zuleeg 2020). In September, the Centre for European Policy Studies (CEPS) claimed that the recovery of the European economy “is likely to be incomplete for some time, not least because of the substantial degree of social distancing measures still in place” (Gros 2020). The key media outlets mirrored this narrative. As such, *The Financial Times* titled its issue on 13 March “Traumatic day on global markets spurs central

banks to step up action.” A few days later, on 19 March, the print edition of *Politico* came out with the headline “The World ‘At War’.”

Overall, the COVID-19 pandemic has had both a strong objective and subjective impact on the EU. For one, the severity of the crisis was registered by all key macroeconomic indicators, including GDP, government finances, employment and industrial production. For another, the crisis was widely perceived as such by political decision-makers, international institutions and civil society. As a result, the COVID-19 pandemic qualifies as a generative cleavage for large-scale institutional change, confirming H1.

The Establishment of the RRF: Testing for Swift and Encompassing Change

The COVID-19 outbreak turned into a global pandemic on 11 March 2020 as the SARS-Cov-2 virus reached “alarming levels of spread and severity” (WHO 2020). The RRF was negotiated and adopted within a year from that date. Negotiations for the establishment of the facility took place between late March and mid-February 2021. These involved just about every EU institution, including the European Council, the European Commission, the ECOFIN (and Eurogroup), and the European Parliament. In addition, political initiatives of individual Member States – notably Germany and France – also contributed to boosting the process. The RRF was eventually established by means of the ordinary legislative procedure (OLP) and integrated into the MFF 2021-2027. Contrary to the ESM, it thus applies to the EU27 as a whole. The adoption of the RRF followed three different policy-making phases: an agenda-setting phase in March 2020; a policy-formulation phase between April and early May 2020; and a decision-making phase between late May and mid-July 2020. While the RRF regulation was only approved on 11 February 2021, steps taken at the EU level to complete the recovery package after July 2020 concerned the own resources decision, the NGEU, the MFF for 2021-2027 and the conditionality regime for the protection of the Union’s budget, all of which were finalised between 14 and 17 December 2020.

The agenda-setting phase started with the European Council meeting of 17 March, where President Charles Michel framed it as a European crisis that needed to be addressed at the EU level more than it could be addressed by Member States on their own (Zgaga *et al.* 2023). On 26 March, the European Council remarked the exceptional nature of the crisis affecting all EU countries and committed itself to a “comprehensive response”, asking the Eurogroup to present proposals “in light of developments” (European Council 2020b). This framing of the pandemic was echoed, on 25 March, by the political leaders from nine

Member State governments – including France, Italy, and Spain – in a letter to Charles Michel. The letter acknowledged the unprecedented nature of the crisis, binding the member states to a common future, and argued that “we are collectively accountable for an effective and united European response” (Letter of the Nine 2020, 3).

This set the stage for the subsequent policy formulation phase. On 9 April, the Eurogroup presented its report on the economic policy response to the COVID-19 pandemic, putting forward the proposal for a major Recovery Fund that would be “temporary, targeted and commensurate” (Council of the EU 2020a). On 20 April, Spanish Deputy Prime Minister for the Economy Nadia Calviño urged EU leaders to agree to a €1.5 trillion recovery instrument entirely based on grants (i.e., non-repayable financial support). In an interview with *The Financial Times*, Calviño said that the monetary policy of the ECB needed to be complemented by common fiscal policy tools and that Spain supported the option of an instrument “funded through permanent debt issued by the European institutions”. Calviño argued that the choice between the already existing ESM and a new coronavirus fund was “not only about financial stability” but rather about “providing a common European response to the crisis” (Dombey 2020).

On 23 April, the European Council agreed to move forward towards the establishment of a recovery fund “which is needed and urgent.” However, because of lasting internal disagreements between France, Italy and Spain on the one hand and the self-defined “Frugal Four” (including Austria, Denmark, the Netherlands and Sweden) on the other, the European Council asked the European Commission to “analyze the exact needs and to urgently come up with a proposal that is commensurate with the challenge we are facing” (European Council 2020c). To build momentum for an ambitious response to the crisis, on 18 May France and Germany announced the “French-German Initiative for the European Recovery from the Coronavirus Crisis.” Recognizing that the COVID-19 pandemic was “unprecedented in the history of the European Union” and committing themselves to “paving the way out of the crisis,” the two governments proposed a €500 billion “Recovery Fund” to be financed by borrowing operations of the European Commission on the financial markets on behalf of the EU (German Federal Government 2020a).

Drawing on the French-German initiative, on 28 May the European Commission initiated the formal decision-making process, presenting its legislative proposal for a “Recovery and Resilience Facility” to be approved as a regulation by the European Parliament and Council through the OLP. The European Commission’s proposal constituted the first comprehensive scheme for the adoption of the RRF, defining its size,

composition (between grants and loans) and governance mechanism. The Commission's plan was the object of exploratory conversations among the permanent representatives of the Member States until 13 June and of hard bargaining among the top political leaders in the European Council meeting of 19 June. At the end of the meeting, while observing that on some elements of the proposal "there is an emerging consensus", President Michel admitted that "it is necessary to continue to discuss" (European Council 2020d) and convened an in-person summit for July 2020. It was on this basis that government leaders met on 17-21 July in what turned out to be the second-longest European Council meeting in the history of the EU. In their *Conclusions* to the meeting, European leaders committed to establishing the RRF as the major financial instrument to address the socio-economic consequences of the pandemic, reaching a compromise on the Commission's proposal in terms of size, composition and governance. The European Council thus invited the Council to start negotiations with the European Parliament to finalize work on NGEU and the RRF (European Council 2020e).

Towards the end of the year, the final steps were taken for the EU's long-term budget. After two days of discussion, the European Parliament gave its consent to the package. On 17 December, the Council was thus able to adopt a regulation laying down the MFF for 2021-2027. The Council finally urged the Member States to speed up national processes for the ratification of the Own Resources Decision, a necessary condition for the implementation of NGEU (Council of the EU 2020b). The following day, negotiators of the German presidency and the European Parliament reached a provisional agreement on the RRF, including the scope of the facility, horizontal principles, eligibility rules for the NRRPs, the structure and content of each plan, and the Commission's assessment criteria. Such provisional agreement was then sent to the Council and European Parliament for final endorsement (Council of the EU 2020c). On such basis, on 11 February 2021, the two institutions finalized work and adopted a regulation establishing the RRF as the core programme of NGEU.

The RRF regulation identifies the main goal of the recovery instrument in the provision of financial assistance to the Member States with a view to mitigating the socio-economic consequences of COVID-19. To that effect, funding under the RRF is made available to help Member States elaborate investment and reform programmes on policy areas of European relevance, including the green and digital transition, economic and social cohesion, resilience and policies for the next generation. As both national financial backstops and the existing ESM were perceived as inadequate to address the costs of the pandemic

crisis as well as to achieve the above goals, the RRF regulation was adopted as a measure at the EU level in accordance with the principles of subsidiarity and proportionality as set out in Article 5 TEU (RRF Regulation, 37). The adoption of the RRF leads to a dramatic increase in the level of solidarity in the EU through the introduction of non-repayable funds (or “grants”) and the unprecedented emission of large-scale common European debt. By endowing the EU with a fiscal capacity to stabilize the economy in the face of cyclical recession or unprecedented shocks, the RRF constitutes a key step in the deepening of the Economic and Monetary Union (EMU) (Fabbrini 2022; Schmidt 2020).

Overall, the policy-making process at the EU level for the adoption of the instrument unfolded between the European Council meeting of 17 March 2020 and the final RRF regulation of 11 February 2021, covering a period of less than eleven months. Despite the unexpected scale and the unprecedented nature of the shock, EU institutions and the Member States were able to act quickly, providing the Union with a new financial instrument within a year of the pandemic outbreak. Adopted through the OLP, the RRF falls within the legal scope of the EU Treaties and stands as an integral part of NGEU and the 2021-2027 MFF. Contrary to the ESM, the RRF applies to the EU27 with no exceptions or opt-outs, resulting in no “differentiated integration”. For these reasons, the RRF qualifies as a *swift* and *encompassing* change, confirming H2a and H2b.

The Governance of the RRF in Comparison with the ESM: Testing for Third-Order Change

The ESM, which was responsible for the EU’s response to the Eurozone crisis, provides financial assistance to ESM members through macroeconomic adjustment programmes based on strict conditionality. To this end, if an ESM member is in need of financial support, the ESM Board of Governors mandates the Commission, along with the ECB and the IMF, to negotiate the conditionality scheme of the financial assistance facility in a Memorandum of Understanding (MoU). At the same time, on a proposal from the ESM Managing Director and after the consent of the Board of Governors, the ESM Board of Directors approves a financial assistance facility agreement, including the financial terms and conditions of the programme and the disbursement of financial assistance. Finally, the European Commission, along with the ECB and IMF, monitors the compliance of the ESM member with the conditionality agreed in the MoU (ESM Treaty 2012, Art. 12 and 13). Overall, the decision-making process for granting stability support and the disbursement of financial assistance is spearheaded by the Board of Governors and finalized by the Board of

Directors, while the prevailing logic is based on mutual agreement, consensus, and unanimity. Indeed, although the Board of Directors may approve financial assistance facility agreements by a qualified majority, it is the Board of Governors that initiates and steers the decision-making process for providing stability support, and it does so by mutual agreement. This arguably makes the ESM an instrument based on the intergovernmental coordination among Member State governments (Smeets *et al.* 2019).

Contrary to the ESM, the RRF moves the EU's financial assistance regime towards a form of "supranational delegation." The RRF operates on the basis of two decision-making procedures: one for the disbursement of financial contributions and the other for the suspension (and lifting thereof) of financial commitments and payments (RRF Regulation 2021). Both procedures revolve around the European Commission and the Council, but the balance of power leans toward the Council in the former procedure (disbursement) and towards the Commission in the latter (suspension and lifting of suspension) (Fabbrini and Capati 2023). In practice, the Commission assesses Member States' National Recovery and Resilience Plans (NRRPs) based on a specific list of criteria. On a proposal from the Commission, the Council approves such an assessment by QMV, paving the way for the Commission's decision on the disbursement of the financial contribution. An emergency break allows Member States to exceptionally ask the President of the European Council to bring any NRRPs to the next European Council meeting, in which case the Commission cannot authorize the disbursement of the financial contribution until the European Council has discussed the matter. The powers of the European Council on NRRPs are, however, limited in both time and scope. On the one hand, the European Council cannot take longer than three months to discuss the national plan. On the other, Member State governments within the European Council have no veto power over the disbursement of financial contributions, and the final decision on authorizing such disbursement lies with the European Commission. The European Commission can also propose to the Council to suspend all or part of the financial assistance under the RRF or to lift such suspension, with the Council acting by reversed qualified majority voting (RQMV). This slightly diminishes the decision-making role of the Council compared to the Commission with respect to the procedure for the activation of financial assistance, as here the Council needs a qualified majority to reverse the Commission proposal.

The institutions involved in the decision-making process and their voting rules suggest the governance of the RRF is not fully supranational and by far not intergovernmental. A fully supranational procedure would entail the Council and European

Parliament sharing decision-making powers on a Commission proposal, with the Council acting by QMV and the Parliament by simple or absolute majority. That is, in a fully supranational procedure, the power of Member State governments within the Council would be counterbalanced by a supranational institution, the EP, as a co-decision-maker (as per Art. 294 TFEU). Under the RRF, the Commission has the monopoly of policy initiative, while the Council decides on a Commission proposal alone. At the same time, intergovernmental governance would imply a preeminent role of the European Council and the Council, both acting by unanimity (as per Art. 24 TEU). In the governance of the RRF, the European Council is only allowed to discuss an NRRP before the Commission can authorize the payment if explicitly requested by a Member State government. Moreover, Member State governments within the Council and, even more so, within the European Council can exercise no veto power at all with respect to the activation or withdrawal of financial assistance. Hence, the governance of the RRF constitutes a form of “limited supranational delegation.” Table 4 below summarises the governance features of the RRF in comparison with those of the ESM.

Table 4 Governance of the ESM in Comparison with the RRF

	Governance		Outcome
	Decision-Making Institutions	Voting Rules	
European Stability Mechanism (ESM)	ESM Board of Governors, ESM Board of Directors, ESM Managing Director	Unanimity (Board of Governors) and QMV (Board of Directors)	Intergovernmental coordination
Recovery and Resilience Facility (RRF)	European Commission and Council	Disbursement of financial contributions: QMV in the Council on a proposal from the European Commission Suspension (and lifting thereof) of commitments and payments: RQMV in the Council on a proposal from the European Commission	Limited supranational delegation

Source: Adapted from Fabbrini and Capati 2023

As the RRF represents an innovative financial instrument with respect to the ESM, and one based on a different governance system (limited supranational delegation rather than intergovernmental coordination), it qualifies as a third-order change, confirming H2c. The occurrence of a swift, encompassing and third-order change with the establishment of the RRF, leading to a critical juncture for the EU's financial assistance regime, is synthesized in Table 5 below.

Table 5 Occurrence of Swift, Encompassing and Third-order Change in the EU's Financial Assistance Regime with the Establishment of the RRF

	Change			Outcome
	Swift	Encompassing	Third-order	
Recovery and Resilience Facility (RRF)	YES: Adopted in February 2021, within a year of the pandemic outbreak (March 2020)	YES: Applies to EU27	YES: Leads to the establishment of a new instrument with a different governance system with respect to the previous one	Critical juncture

Source: Author

Conclusion

This paper argued that the COVID-19 pandemic and the adoption of the RRF constitute a critical juncture for the EU's financial assistance regime. To support this argument, the paper relies on a revised framework rooted in historical institutionalism. The paper examines the macro-economic crisis caused by the pandemic as the generative cleavage, and the adoption of the RRF as the primary financial response to the crisis as a swift, encompassing, and third-order institutional change.

Theoretically, the paper provides a framework for analyzing different types of institutional development beyond critical junctures. Depending on the presence and/or absence of a generative cleavage and ensuing change, various institutional pathways can be observed, such as path-dependence (lack of both generative cleavage and change), near-misses (presence of generative cleavage but no change), and incremental change (absence of generative cleavage but presence of change). This framework enables more accurate analyses of critical junctures and exploration of potential explanatory factors behind different types of institutional development. Empirically, the paper qualifies the temporal sequence between the pandemic outbreak and the adoption of the RRF as a critical juncture for the EU's financial assistance system, capturing the event as it unfolded rather than in hindsight. This

analysis is independent of the long-term implications it may or may not have for EU economic governance in the future. The paper demonstrates that the macroeconomic crisis resulting from the COVID-19 outbreak imposed significant economic costs on Member States and was seen as an unprecedented challenge by EU decision-makers, international institutions, and civil society. Furthermore, it shows that the change associated with the adoption of the RRF, as the new major financial instrument in the EU, was swift in pace (as it took place within one year from the pandemic outbreak), comprehensive in scope (as it applies to the EU27 with no opt-outs) and radical in scale (moving financial assistance in the EU from “intergovernmental coordination” to “limited supranational delegation”).

Finally, a fully-fledged critical junctures framework that is able to explain how institutional change comes about requires accounting for the structural context in which the critical juncture emerges as well as the agency-driven mechanisms taking place between the generative cleavage and the manifestation of change. To this effect, further research is needed to theoretically formulate and methodologically organize the plausible causal link between structural antecedents and ideational processes underpinning institutional development during critical junctures.

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