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European Integration in the Pandemic Era: A "Critical Junctures" Analysis of EU Financial Crisis Management following the outbreak of COVID-19

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Table of Contents

Acknowledgements

Research often overtakes events; in this case, it caught up with a historic one. I had been interested for quite some time in the study of EU economic governance. Indeed, my first intention for a PhD thesis was to compare the European Stability Mechanism with the Single Resolution Mechanism to draw insights into the governance of financial assistance and its evolution following the Eurozone crisis. But there is nothing like a global pandemic to disrupt all plans – and to force a student to get a move on. I hope I was up to the task.

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AC

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List of Abbreviations

CAQDAS	Computer-Assisted Qualitative Data Analysis Software
CEO	Chief Executive Officer
CEPS	Centre for European Policy Studies
CFSP	Common Foreign and Security Policy
CM	Causal Mechanism
CP	Comparative Politics
ECB	European Central Bank
ECSC	European Coal and Steel Community
EEC	European Economic Community
EJC	European Court of Justice
EFSF	European Financial Stability Facility
EFSM	European Financial Stabilisation Mechanism
EMU	Economic and Monetary Union
EP	European Parliament
ESM	European Stability Mechanism
EU	European Union
GDP	Gross Domestic Product
GNI	Gross National Income
HI	Historical Institutionalism
IMF	International Monetary Fund
IR	International Relations
JHA	Justice and Home Affairs
MEP	Member of the European Parliament
MFF	Multiannual Financial Framework
MoU	Memorandum of Understanding
NGEU	Next Generation EU
NRRP	National Recovery and Resilience Plan
OECD	Organisation for Economic Co-operation and Development
OLP	Ordinary Legislative Procedure
QCA	Qualitative Content Analysis
QMV	Qualified Majority Voting

RQ	Research Question
RQMV	Reversed Qualified Majority Voting
RRF	Recovery and Resilience Facility
SGP	Stability and Growth Pact
SLP	Special Legislative Procedure
SMV	Simple Majority Voting
SPV	Special Purpose Vehicle
SSE	Significant, Swift and Encompassing (Change)
TEU	Treaty on the European Union
TFEG	Task Force on Economic Governance
TFEU	Treaty on the Functioning of the European Union
VTC	Video Teleconferencing
WHO	World Health Organisation
WTO	World Trade Organisation

List of Figures

List of Tables

1. Introduction

1.1. Key Concepts and Research Objectives

On 11 March 2020, the World Health Organisation (WHO) declared COVID-19 – the infection caused by the novel SARS-CoV-2 virus – a global pandemic. Less than a week later, the European Council advanced 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. In his conclusions of 17 March, 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 2020). In the immediate aftermath of its outbreak, the COVID-19 pandemic was thus perceived as an unprecedented exogenous shock for the European Union (EU) and in fact brought about large-scale if asymmetric socio-economic effects across its Member States.

As such, the pandemic crisis opened up a ‘window of opportunity’ for institutional change in EU economic governance (Ladi and Tsarouhas 2020), and especially in EU financial crisis management (Quaglia and Verdun 2023a; 2023b), leading up to the adoption of the innovative Recovery and Resilience Facility (RRF) within NextGenerationEU (NGEU). Broad as it is, the concept of crisis management has been applied to several distinct policy fields in the study of the EU, including banking (Garcia and Nieto 2005; Pisani-Ferry and Sapir 2010), foreign and security policy (Hynek 2011), defence (Blockmans and Wessel 2009), and migration (Attinà 2016). Following Wessels *et al.* (2022), this work applies the concept of crisis management to the governance of financial assistance. Specifically, this work conceptualises financial crisis management as the set of ‘formal and informal rules, practices and bodies’ governing the disbursement and withdrawal of ‘extraordinary financial assistance to EU Member States’ (Rehm 2022, 1647). It thus adopts the concept of financial crisis management to indicate the practice and governance of financial assistance in the EU. Financial crisis management is operationalised as the decision-making procedure (or governance system) of the major financial instrument the EU relies on in response to a specific economic crisis. To this effect, the RRF stands as the single major financial crisis-management instrument the EU has adopted in response to the pandemic crisis, complementing monetary policy measures of the European Central Bank (ECB) as well as national fiscal efforts. Hence, for anyone interested in the EU and its institutions, understanding the functioning of this instrument, its implications on the EU governance system at large as well as the institutional dynamics it has set into motion is of the utmost importance.

Against this backdrop, this work seeks to contribute to three strands of the literature on EU studies. First, to make sense of the EU's economic governance approach to the COVID-19 crisis, research on the RRF has focused on such aspects as the unprecedented provision of 'grants' financed through common debt (de la Porte and Jensen 2021), increased economic solidarity (Genschel and Jachtenfuchs 2021), and the establishment of fiscal capacity (F. Fabbrini 2022). When it comes to the issue of governance change the RRF involves for EU financial assistance, however, the literature is still contested. While some agree that it largely reproduces consolidated decision-making procedures (Vanhercke and Verdun 2022; see also Ladi and Wolff 2021), others find in the RRF an instance of 'paradigm change' or a 'critical juncture' (Buti and Fabbrini 2022; Fabbrini and Capati 2023; Schelkle 2021; Schmidt 2020). By drawing on a comparative analysis of the governance mechanisms behind the ESM and the RRF (the major financial instruments adopted in the EU's response to the Euro crisis and the COVID-19 pandemic respectively), this work sheds light on the nature of change in EU financial crisis management following the pandemic outbreak.

Second, most academic research has so far examined the establishment of the RRF under numerous aspects, while neglecting the specific issue of governance change it entails for EU financial crisis management. Studies on the RRF have thus focussed on such diverse factors as the ownership of the Member States in the implementation of the National Recovery and Resilience Plans (NRRPs) (Ladi and Wolff 2021), the impact of the instrument on the functioning of the European Semester (Crum 2020; D'Erman and Verdun 2022), or the decision-making role of single EU institutions in its elaboration (Smeets and Beach 2022; Wessels *et al.* 2022). While Smeets and Beach (2022) have also recently studied the negotiations for the approval of the recovery fund, taking into account the role of institutions at different levels and at different stages of the process, their analysis nonetheless concerns the speed and scope of the reform rather than the governance of the established instrument. In this light, while the institutions involved in the process might well be the same, the relevant activities they carried out (hence, their roles) and the relations between one another may differ significantly if looked from the perspective of understanding the governance of the RRF. This is all the more so as 'governance was arguably the most controversial issue of the recovery package and a compromise was only reached at the European Council [meeting] on the very last day of negotiations, on 21 July [2020]' (Interview I). This work seeks to fill this research gap and explain, from a governance perspective, the exact form of institutional change in EU financial crisis management following the outbreak of the COVID-19 pandemic.

Third, the literature has found the causes behind the establishment of the RRF in the exogenous and symmetric nature of the pandemic crisis as opposed to the endogenous and asymmetric Eurozone crisis (Buti and Papaconstantinou 2021), political entrepreneurship by powerful EU institutions (Kassim 2023) and Member States (Becker 2022; Krotz and Schramm 2021) or national material interests (Schramm 2023). However, while these factors can explain the innovative character of the RRF as a supranational EU instrument based on common debt, they fail to account for its governance mode. At a closer look, the RRF overcomes the ESM's governance mechanism that proved controversial in the response to the Euro crisis, thus suggesting the EU has learnt from the previous financial management experience. Although the literature on policy learning is extensive, few attempts have been made at exploring whether and how policy learning occurs in the EU and its potential to induce policy change.

In examining the causes behind institutional change in the EU following the COVID-19 pandemic, existing research has either focused on learning by single institutions, like the ECB (Quaglia and Verdun 2022) and the European Commission (Mirò 2020), or withing single countries, like Germany (Schoeller and Heidebrecht 2023). Thus, whether the EU as a whole has actually undergone a process of 'collective learning' is still much underexplored. This research gap is all the more relevant in that, while learning might concern single actors, conceived of as either individuals (e.g. the German Chancellor) or institutional actors (e.g. the European Commission), the response to any major crisis in the EU arguably involves, and depends upon, a 'network of responders' (Moynihan 2009) rather than a single decision-maker. Individual learning does in fact not automatically bring about collective learning and policy change (Heikkila and Gerlak 2013). An exception to this is Ladi and Tsarouhas' (2020) and Radaelli's (2022) study on collective learning in the EU. Though perceptive, these works put forward broad theoretical claims on how policy learning drives European integration in times of crisis that deserve to be empirically substantiated. The present work takes on this endeavour.

The work thus aims to study the politics of the pandemic in the EU along three main lines of investigation: *a)* the nature and form of institutional change in EU financial crisis management following the outbreak of COVID-19, with specific reference to the implications of the RRF; *b)* the process through which institutional change in EU financial crisis management came about, with a focus on both its structural and agent-based components; and *c)* the causes or main drivers behind institutional change in financial crisis management, with a focus on policy learning. With respect to the first line of investigation, it examines the scale, scope and pace of institutional change in EU financial crisis management as brought about by the RRF, assessing whether the temporal sequence from the pandemic crisis to the adoption of the instrument has the features of ‘path dependence’, ‘incremental change’ or of a ‘critical juncture’. Building on that, the work analyses the exact form of institutional change by looking at the governance of the RRF. To this effect, it examines the decision-making process behind the activation, disbursement, monitoring and suspension of financial assistance vis-à-vis EU Member States, with a focus on institutional relations between the European Council, European Commission, Council and European Parliament. The work seeks to understand the new ‘policy paradigm’ emerging from the establishment of the RRF. Drawing on Hall, a policy paradigm is defined as a ‘framework of ideas and standards that specifies not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing’ (1993, 297). In this light, the RRF is provided with a set of decision-making institutions with clear mandates, powers and procedures, giving shape to a coherent governance system with an underlying ‘policy paradigm’.

Having examined the nature and form of institutional change in EU financial crisis management following the COVID-19 pandemic, the work investigates the process through which that change came about and the institutional dynamics it has set into motion. It does so by focussing on both ‘structure’ (rules) and ‘agency’ (action). In terms of structure, it looks at longstanding institutions, and in particular at the EU institutional system before the pandemic outbreak. In a historical institutionalist vein, institutions are sets of formal rules and established procedures that shape the performance of political actors by providing them with incentives and disincentives on how to behave (Elgie 2012). Not only do institutions lay down the so-called ‘rules of the game’, but they are historical structures that originate, and develop, independently of the actors that operate within them. Institutions stem from, and give rise to, a logic of path-dependence which is occasionally punctuated by ‘critical junctures’, heavily constraining future choices and institutional developments (Capoccia and Kelemen 2007). This work conceives of the EU as a ‘political system’ with a ‘stable and clearly defined set of institutions for collective decision-making and a set of rules governing relations between and within these institutions’ (Hix and Høyland 2022). Along these lines, the EU institutional system itself is expected to affect the range of possible choices available to EU decision-makers in response to the COVID-19 pandemic in that it provides agents with a set of institutional pathways for potential responses to the exogenous shock.

In terms of agency, the work analyses the political dynamics taking place at the EU level between March 2020, when COVID-19 turned into a global pandemic, and July 2020, when the governance features of the RRF were ultimately defined over the course of the second-longest European Council meeting in the history of the EU. The work looks at the relevant 'agents of change' (including Member State governments and EU institutions), their ideas and roles at the various stages of discussions, and the impact of their ideas on the policy outcome. To this effect, the work seeks to assess the causal relevance of agency in bringing about institutional change through the establishment of the RRF in the aftermath of the exogenous shock provided by the pandemic crisis. This requires reconstructing the institutional context in which change unfolds, identifying the key decision-makers and their ideas, investigating their interactions and bargaining power, and examining the selected choice in comparison with discarded alternatives (Capoccia and Kelemen 2007).

Finally, to explain why the relevant agents brought about a change in the governance of financial crisis management following the outbreak of the pandemic crisis, the work puts forward a 'putatively explanatory narrative' (Mirò 2020) based on collective policy learning. It defines policy learning as the 'updating of beliefs or policies based on lived or witnessed experiences, analysis or social interaction' (Dunlop and Radaelli 2013, 599). As this definition might also apply to learning by single actors or institutions, collective learning includes 'the collective identification and embedding of practices and behaviours' leading to policy change (Moynihan 2009). While policy learning and policy change are analytically distinct (e.g. actors might learn without inducing change just as change might occur without learning), learning is understood as likely to produce change (Radaelli 2022) and 'is indicated when policy changes as the result of such a process' (Hall 1993, 278). The work thus adopts a macro-level approach to policy learning (Moyson *et al.* 2017) and deals with 'governance learning' (Challies *et al.* 2017), or how policy actors learn about the appropriateness of different modes of governance.

Specifically, the work tests whether the EU, as a collective institutional framework based on the systemic interaction among policy actors (i.e. EU institutions and Member State governments), learnt from financial assistance failures during the Euro Crisis in its response to the COVID-19 pandemic, leading to a change in the EU's financial assistance regime. It argues that, following the pandemic outbreak, EU institutions and Member State governments were collectively able to learn policy lessons about the governance of financial crisi management from the Euro Crisis, leading to institutional change. The work then seeks to understand what kind of collective policy learning process took place with respect to its time frame, scope and nature, and discusses implications for the European integration project at large.

In examining institutional change in the EU governance of financial assistance, this work focuses on a time of crisis, with the COVID-19 outbreak as marking the beginning of a ‘pandemic era’ (Peters 2022). This is for two reasons. First, in normal times, the policy paradigm underpinning a stable institutional system may be very difficult to contest. However, abrupt exogenous shocks may open the door to paradigm shifts by fostering agency and political entrepreneurship. In crisis situations, relevant political actors may endorse a new set of ideas to favour specific institutional innovations and, capitalising on the apparent ‘inadequacy’ of the previous institutional setting, put them forward during negotiations with other political actors. Macro-economic crises may thus serve as ‘policy windows’ for institutional change (Kingdon 2003). Policymaking in times of crisis is generally subject to negotiations, political mobilisation, coalition formation and the exercise of political pressures. Thus, actors may give in to some pressure but oppose others based on their initial ideas as well as the effects of their interactions. The resulting institutional outcome may not mirror the preferences of any single agent nor even those of a coalition of actors as these preferences are themselves mediated and synthetised throughout the decision-making process (Tsebelis 2002). Second, by its very nature, financial assistance in the EU is generally activated to provide Member States with the financial resources needed to recover from an economic crisis. Thus, the governance of financial assistance and its underlying policy paradigm are subject to potential contestation and change especially following large-scale economic crises (such as the COVID-19 pandemic) requiring the adoption of crisis-management instruments of an adequate nature and size (such as the RRF).

The following sections delineate this work’s research strategy to provide a detailed account of institutional change in EU financial crisis management following the COVID-19 pandemic.

1.2. Research Questions

This work aims to address two main research questions related to the nature and form of institutional change in EU financial crisis management as well as to the process through which that change came about following the outbreak of COVID-19. It does so by focussing on the establishment and governance of the RRF as the single major financial crisis-management instrument the EU has adopted in response to the pandemic.

The two research questions are formulated as follows:

[RQ1] What kind of institutional change in EU financial crisis management does the establishment of the RRF bring about in the immediate aftermath of the pandemic outbreak?

and:

[RQ2] How and why did institutional change in EU financial crisis management take place in the immediate aftermath of the pandemic outbreak?

The first research question deals with the nature and form of institutional change in EU financial crisis management. It investigates the type of change the EU governance of financial assistance underwent with the adoption of the RRF in response to the COVID-19 crisis, asking what the new policy paradigm underpinning the RRF is and how it compares to the previous policy paradigm for EU financial crisis management as embodied in the European Stability Mechanism (ESM). In this respect, the historical institutionalist literature has shown that institutional change could take the form of an incremental or gradual change (i.e. an instance of 'displacement', 'layering', 'drift', or 'conversion') (Mahoney and Thelen 2010; Thelen 2004) or of a radical and abrupt one (such as a 'critical juncture') (Capoccia 2016; Capoccia and Kelemen 2007) depending on the nature of the shock as well as on the scale, scope and pace of the institutional innovation itself. Investigating the nature of institutional change in EU financial crisis management necessarily involves examining the very form of that change by shedding light on the policy paradigm underpinning the new crisis management instrument and how different it is with respect to the policy paradigm at the core of the previous major crisis-resolution tool, namely the ESM.

After explaining the nature and form of institutional change in EU financial crisis management, this work investigates its dynamics with a focus on both 'structure' (rules) and 'agency' (action). In terms of structure, the work examines the options available to EU policymakers for the governance of the RRF. The research examines the structural component of change through an analysis of the institutional system of the EU, how it evolved over time, the governance mechanisms that came to be consolidated and how they constrained the negotiations for the establishment of the RRF. In this respect, the research asks whether and how pre-existing, consolidated institutional structures can affect institutional or policy outcomes even across long time intervals (Slater and Simmons 2010). In terms of agency, the work focusses on the relevant 'agents of change' (including Member State governments and EU institutions), their roles at the various stages of discussions, their positions during negotiations and the motivations behind their decisions (see Schmidt 2020). In particular, the work investigates the process taking place between the outbreak of the COVID-19 pandemic and the establishment of the RRF to explain the exact form of institutional change in EU financial crisis management (i.e. the new policy paradigm underpinning the RRF) as well as the drivers of that process.

By addressing these research questions, the work aims to provide a comprehensive account of institutional change in the EU following an exogenous shock. To this effect, such questions are addressed through the elaboration of a sophisticated analytical framework that allows deriving a set of specific research hypotheses steering the empirical analysis. The analytical framework combines historical institutionalism with insights from the 'ideational change' and 'policy learning' literatures (see Chapter 2). The general argument of the work is presented in the following section.

1.3. The Argument

This work makes the following arguments. First, it argues that the temporal sequence between the outbreak of COVID-19 and the establishment of the RRF constitutes a 'critical juncture' in EU financial crisis management. This is for two reasons. On the one hand, the magnitude and scope of the macro-economic crisis following the pandemic outbreak was such that it opened a 'window of opportunity' for relevant 'agents' to bring about an institutional change in the governance of financial assistance. On the other, the RRF represented an instance of institutional change that was significant in its scale, swift in its pace and encompassing in its scope. The RRF thus involved a third-order institutional change moving the policy paradigm of EU financial crisis management from 'intergovernmental coordination' (as exemplified by the ESM) to a form of 'limited supranational delegation'.

Once the temporal sequence between the pandemic outbreak and the establishment of the RRF is identified as a critical juncture, the work carries out a fully-fledged critical junctures analysis focusing on the two components of institutional change – that is, 'structure' (rules) and 'agency' (action). In terms of structure, the research looks at the factors or conditions preceding the critical juncture and how such factors combined with causal forces during the critical juncture to produce the outcome of interest. These antecedent conditions or 'critical antecedents' constrain the options available to agents by defining the range of possible values (i.e., forms) of the outcome of interest (i.e., institutional change). This work argues that the differentiation of the EU into two distinct but co-existing governance systems or decision-making regimes – i.e., a system of supranational delegation and a system of intergovernmental coordination – delimited the range of possible choices available to EU decision-makers in response to the COVID-19 pandemic, thus standing as a critical antecedent for institutional change in EU financial crisis management.

While critical antecedents temporally precede a critical juncture, they become relevant during a critical juncture in that they provide agents with a set of institutional pathways for potential responses to the exogenous shock. Hence, critical antecedents act as blueprints for agency. In normal times, the policy paradigm underpinning a stable institutional system may be very difficult to contest. However, abrupt exogenous shocks may open the door to paradigm shifts by fostering agents-based ideational change. To this effect, ideational change is what ultimately determines the exact form of the new institutional order. Along these lines, this work argues that an ideational change about financial crisis management occurred in the EU following the COVID-19 pandemic, resulting from the collapse of the prevailing policy paradigm (i.e., intergovernmental coordination) and the concomitant consolidation of a new policy paradigm (i.e., limited supranational delegation) by means of different types of agents. Ideational change was made possible by the exogenous shock (i.e. the pandemic crisis), came about within the boundaries of the critical antecedent (i.e. the EU governance differentiation between a system of supranational delegation and a system of intergovernmental coordination) and eventually determined the exact form of institutional development in EU crisis management (i.e. the establishment of the RRF around the new policy paradigm of 'limited supranational delegation').

Finally, the work argues that ideational change about EU financial crisis management during the COVID-19 pandemic was driven by a collective policy-learning process based on a consolidated knowledge of past crisis experiences. Specifically, it argues that relevant agents (including EU officials and Member State governments) were able to collectively learn from past crises experiences and policy failures (i.e. the Euro Crisis and the performance of the ESM) and adjust their institutional, crisis-management practices accordingly. The research shows that policy learning about EU financial crisis management only took place following the outbreak of COVID-19, concerned the core policy paradigm for crisis management that had consolidated starting from the Euro Crisis, and required bargaining and negotiations to fully come about.

In order to prove the above arguments, this work relies on a qualitative methodological approach which the following section sets out to illustrate.

1.4. Data and Methodology

Driven by a sophisticated analytical framework which identifies specific research hypotheses, the analysis in this work is carried out through a combination of qualitative research methods based on a wide range of qualitative data, including primary and secondary sources. First, the work relies on an original set of 15 in-depth, semi-structured elite interviews with EU and Member State government officials selected among those directly involved in the negotiations for the establishment of the RRF. A semi-structured interview is a method of data collection based on asking both 'open-ended' and 'close-ended' questions to a set of non-random participants within a pre-defined thematic framework. Semi-structured interviews allow the researcher to reconstruct the origins and development of a process in a theoretically informed way through 'the knowledge, experience, and perspectives of research subjects' (Kelly 2010, 309). In other words, they allow for pre-defined research hypotheses to be tested based on the understandings of the participant (Bellamy *et al.* 2021). Through elite interviews, researchers can 'shed light on the hidden elements of political action that are not clear from analysis of other primary sources' and 'gain data about the political debates and deliberations that preceded decision making with first-hand testimony' (Tansey 2007, 485).

Semi-structured elite interviews were conducted between March and July 2022 and lasted 40 minutes on average, ranging from 20 minutes to 80 minutes. A common framework for interview questions was drawn up which allowed asking similar questions to each participant in line with pre-defined research hypotheses (Appendix A). While the sections and topics of the questions' framework remained unaltered, the questions' phrasing was tailored to each interviewee based on their role and institutional affiliation. Based on a purposive (rather than random) sampling approach, interview participants were selected among insiders with first-hand knowledge on the events under investigation. This allowed the collection of relevant insights from 'the key actors that have had most involvement with the process of interest' (Tansey 2007, 766).

To ensure the validity of interviews, the sample was diversified on the basis of the participants' role and institutional affiliation. Respondents included senior and lower-level EU civil servants from the European Council (*n*=2), European Commission (*n*=5), Council of the EU (*n*=5) and European Parliament (*n*=1), as well as Member State government officials from the French Permanent Representation (*n*=1) and the German Finance Ministry (*n*=1). In addition, respondents served in a number of different capacities, such as policy officer (*n*=7), legal officer (*n*=3), policy advisor (*n*=4) and policy assistant (*n*=1). In order to maximise the number and quality of the interviews, the respondents were granted confidentiality. Therefore, in Appendix B, quotes are not attributed to proper names but to letters. While the number of interviews conducted (*n*=15) is not very large if one considers the personnel involved in such a large-scale effort as the establishment of the RRF, the interviewing process stopped when 'theoretical saturation' was reached, that is 'the point in data collection and analysis when new information produces little or no change to emerging findings and themes' (Tracy 2020, 174).

Because of the ongoing spread of COVID-19 at the time the research was conducted, all interviews were carried out through Video Teleconferencing (VTC) platforms, notably Zoom and WebEx. Interviews were recorded upon consent of the interviewee and transcribed to ensure transparency and reliability. The transcription involved an inevitable reduction of the material collected as the final transcript only includes evidence and quotes cited in the work. For each transcript entry, an extended excerpt of the interview treated as evidence is included (Appendix B). Where consent for audio recording was not granted, the transcript was replaced with a structured narrative written from notes taken during the interview. The framework for interview questions as well as the list and full transcript of the interviews are included in Appendix A and Appendix B to this work.

While elite interviews provide the researcher with precious insights into the process under investigation, they have their own limitations. Interview participants might tend to either emphasise or downplay their role in the decision-making process on the basis of personal convenience. For instance, as argued by George and Bennett, EU and national civil servants might have incentives to twist their narratives to present a 'careful, multidimensional process of policymaking' to the public (2005, 99). In this work, interviews are thus not examined in isolation. They are combined and confronted with other primary and secondary sources to ensure data triangulation, that is the process through which 'collected data is cross-checked through multiple sources to increase the robustness of the findings' (Tansey 2007, 484).

To begin with, interviews have been checked against policy briefings and notes by Peter Ludlow, a close observer of EU affairs with privileged access to oral and documentary sources from the Antici group and European Council meetings. Moreover, some of the respondents have provided confidential material, including unpublished draft documents, e-mails and WhatsApp texts to corroborate their testimonies. Other primary sources included official documents of EU institutions and Member State governments, such as European Council's conclusions, Council's preparatory works and reports, European Commission's meeting reports and legislative proposals, European Parliament's resolutions, international treaties, EU legislation, press releases and public statements by EU and national decision-makers.

Secondary sources consisted of secondary literature (books, books' chapters and journal articles) as well as of relevant international media and policy reports retrieved from the electronic depository of *Factiva*.

Based on a triangulation of *a)* 15 semi-structured elite interviews, *b)* official documents of EU institutions and Member State governments and *c)* relevant international media and policy reports, this work carries out a process-tracing analysis of the political dynamics taking place at the EU level between the pandemic outbreak (March 2020) and the definition of the governance features of the RRF (July 2020), with a focus on the relevant 'agents of change' (including Member State governments and EU institutions), their roles at the various stages of discussions, their positions during negotiations and the motivations behind their decisions. Process tracing is a case-study methodology that involves tracing the causal mechanism or causal process between an initial cause (acting as 'independent variable') and the final outcome (acting as 'dependent variable') (George and Bennett 2005, 206-207). To this effect, a causal mechanism is defined as 'a complex system which produces an outcome by the interaction of a number of parts' (Glennan 1996, 52, as cited in Beach and Pedersen 2013, 1). Process tracing allows the researcher to 'reconstruct, in a systematic and rigorous fashion, each step of the decision-making process, identify[ing] which decisions were most influential and what options were available to the actors who took them' (Capoccia and Kelemen 2007, 354-355) as well as elucidating the causal relation between such decisions and the final outcome. As it attempts to make causal inferences based on within-case evidence about how a theoretical mechanism or process played out in the real world, process tracing generally 'require[s] enormous amounts of information' (George and Bennett 2005, 223).

The process tracing conducted in this work is of the 'theory-testing' type (Beach and Pedersen 2013). In theory-testing process tracing, both the initial cause (independent variable) and the final outcome (dependent variable) are known in advance, and the aim is to explain the process taking place between the former and the latter. This requires three successive methodological steps. First, a sophisticated analytical framework is built through which to unpack the process under investigation into several (i.e. two or more) theoretical mechanisms consisting of entities (e.g. actors) engaging in specific activities (e.g. taking decisions). Second, an operationalisation of the causal mechanism is carried out so that each theoretical component of the hypothesised mechanism is translated into 'observable implications', or 'empirical fingerprints' that the mechanism – if present in its hypothesised form – should have left in the empirical record. Third, empirical material is collected in relation to the specific case and the analysis is conducted to trace the observable implications of each theoretical component of the hypothesised mechanism (Figure 1). Theory-testing process tracing allows the researcher to establish whether the hypothesised process as a whole as well as its theoretical components were present in the case at hand and whether they actually contributed to the production of the outcome of interest (Beach and Pedersen 2013).

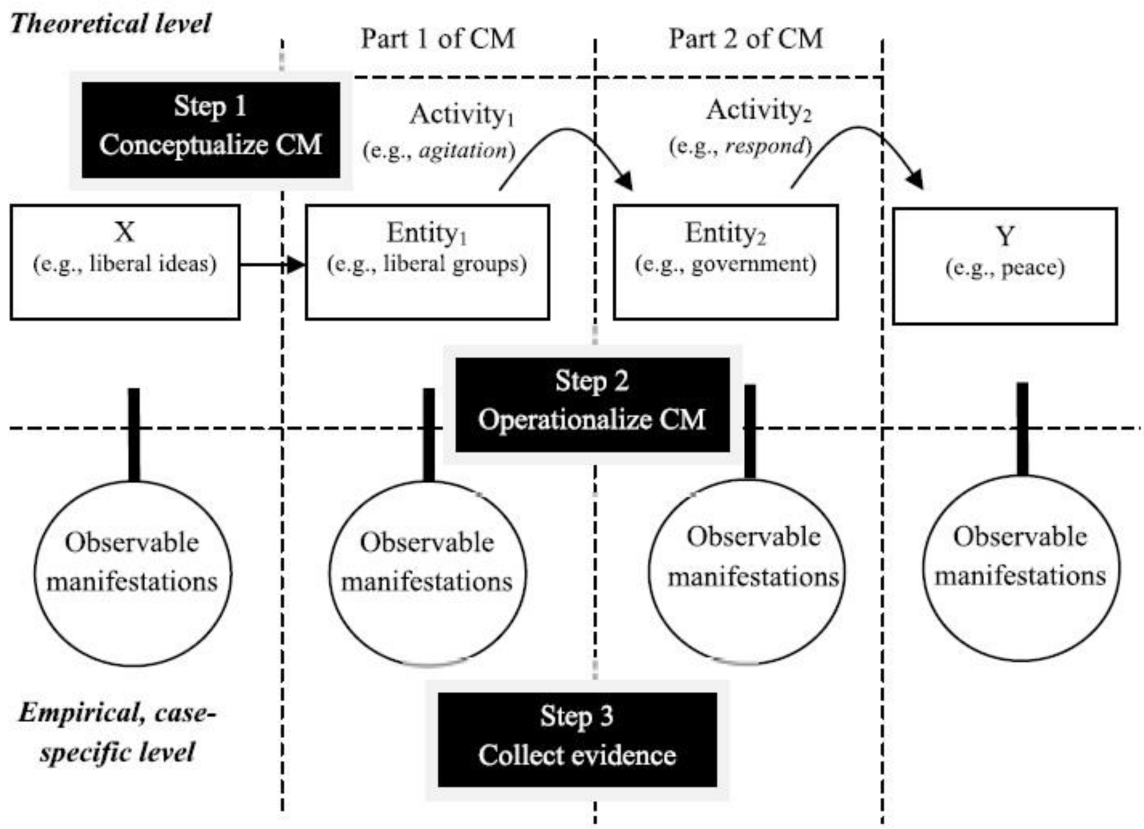

Figure 1 Theory-testing process tracing. Source: Beach and Pedersen 2013.

Process tracing in this work takes the form of a 'plausibility probe' of the hypothesised theoretical mechanisms as it consists in building around them a 'putatively explanatory narrative' (Mirò 2020) through the identification and testing of the aforementioned observable implications. As such, it does not imply a competitive theory testing of the kind Blatter and Haverland (2012) conceptualise as 'congruence analysis'. To this effect, finding empirical traces of the hypothesised temporal sequence turns the argument into a plausible causal mechanism that deserves further assessment against alternative or complementary hypotheses (Ferrera *et al.* 2021).

Consistently with a theory-testing process-tracing design, this work elaborates a sophisticated analytical framework which conceptualises the hypothesised causal process through the identification of discrete theoretical components (or mechanisms) and empirical fingerprints (see Chapter 2). Since every institutional or policy outcome might in principle originate from a number of different initial causes, each giving rise to their own causal processes, the work does not claim that the hypothesised causal process is the only one taking place between the initial cause (i.e. the outbreak of the COVID-19 pandemic) and the final outcome (i.e. the establishment of the RRF around the new policy paradigm of 'limited supranational delegation'). However, it does aim to shed light on *a)* whether the hypothesised process was present in the case under investigation and *b)* how it actually contributed to the outcome of interest. Beyond the specific case study under investigation, the process-tracing analysis carried out in this work seeks to provide a broader, theory-driven account of how institutional change may take place following an exogenous shock. To this effect, the process theory is at a level of abstraction that allows unpacking the components of the mechanism at play in the specific case study, while not precluding generalisation to other cases of crisis-induced institutional change that meet the same contextual (or 'scope') condition (see Chapter 6).

Theory-testing process tracing in this work is complemented by a qualitative content analysis (QCA) carried out through the assistance of the latest version of *NVivo*, a Computer-Assisted Data Qualitative Data Analysis Software (CAQDAS). QCA is adopted to map out the options available to the relevant 'agents of change' in the EU's response to the COVID-19 pandemic and their initial preferences during negotiations leading up to the establishment of the RRF (see Chapter 5). QCA is also conducted to provide an interpretation of change in EU financial crisis management governance during the COVID-19 pandemic based on policy learning (see Chapter 6).

QCA is 'a method for systematically describing the meaning of qualitative material' and it is performed 'by classifying material as instances of the categories of a coding frame' (Schreier 2012, 1). In this light, QCA allows for the interpretation of texts as well as verbal and visual data by 'reading' them deductively through the lenses of a pre-established analytical framework, with the epistemological assumption that data does not speak for itself. QCA is a method in that it involves following a set of systematic steps that ensure the validity and reliability of results (Selvi 2020). The first step of QCA is the elaboration of a coding frame (or 'codebook'). The coding frame is perhaps the key component of QCA as it constitutes the structured framework of rules that govern the interpretation of relevant data. As such, the coding frame includes codes (or 'analytical dimensions', hierarchically organised in categories and sub-categories), definitions (of each code, including all categories and sub-categories) and coding examples (that is, excerpts of data coded under categories or sub-categories).

The categories of the coding frame are the main dimensions the QCA focusses on. Categories can be concept-driven (that is constructed deductively, starting from a theoretical or analytical framework) or data-driven (that is constructed inductively, starting from the relevant material), but in most cases categories are sketched out deductively and refined inductively after a first overview of the data (Lynggaard 2019). Sub-categories are specifications of the main categories and often refer to the values that the main categories can assume. The elaboration of codes (main categories and sub-categories) in a coding frame must follow the requirements of unidimensionality (whereby each category of the coding frame only captures one aspect of the material), mutual exclusiveness (meaning that each coding unit can only be coded under one category of the coding frame), exhaustiveness (whereby each coding unit is assigned to at least one category of the coding frame) and saturation (meaning that all categories of the coding frame have at least one coding unit assigned to them). Definitions and coding examples of a coding frame finally illustrate the method or logic whereby segments of the material are coded under main categories or sub-categories, thus becoming 'coding units' (Schreier 2012). The coding frame adopted for QCA in this work is included in Appendix C.

Once the coding frame is built, the second step in QCA is 'segmentation'. Segmentation consists in the division of the data into small units which can be easily associated (that is, 'coded') to one category of the coding frame (Schreier 2012). More often than not, a single source (an official document, an interview, etc.) makes reference to a number of different themes and concepts, which would make it problematic to code the entire piece of data to the same category of the coding frame. This is why the material is fragmented into smaller units, which can be then separately associated to main categories or sub-categories of the coding frame. To this effect, the size of the coding units (or 'segments') depends on the structure and level of abstraction of the codebook itself. In principle, a less structured, more general coding frame allows for larger segments of text to be coded to the same category or dimension, while a more structured, specific coding frame forces the researcher to unpack data into shorter units of meaning. Consistently with the coding frame included in Appendix C, segmentation was performed of the relevant material (semi-structured elite interviews, official documents of EU institutions and Member State governments and international media and policy reports) so as to derive coding units short enough to adequately fit into one of the codes of the coding frame.

The third step in QCA is the main analysis. After a first, trial coding of a little sample of the material is carried out in the so-called 'pilot phase', which allows to conduct a consistency check and to make adjustments to the coding frame if necessary, the main analysis begins. This involves coding all the relevant material, already segmented in coding units, to one of the codes in the coding frame, as well as comparing codes and drawing conclusions through an interpretation of the findings. During the main analysis, the coding frame cannot be modified as already coded units would have to be re-analysed on the basis of the new codebook. After the main analysis is over, the last step concerns the presentation of research results. This can be done in three different ways. First, the findings can be illustrated qualitatively in the form of continuous text with a focus on either relevant categories or cases. These are summarised through direct references to the data and depending on the objectives of the research. Second, the findings can be presented qualitatively through so-called 'framework matrices', that is tables summarising large amounts of information, including categories, cases and references to the data. Third, the findings can be formulated quantitatively, for instance providing frequency information related to categories or cases in the form of charts or tables. This work presents the results of QCA qualitatively in the form of a framework matrix (see Chapter 5) and continuous text (see Chapter 6).

In this work, QCA was supported in all of its phases by the use of *NVivo*. *NVivo* offers a number of tools that facilitate moving back and forth between the coding frame and the data in a flexible and interactive way. First, in the elaboration of the coding frame, *NVivo* was particularly useful to organise the relevant codes in a hierarchical structure and to revise the relation between main categories and sub-categories through the use of 'concept maps' and 'project maps'. Second, in the collection of the relevant material, it allowed categorising different types of sources such as interviews, official documents and reports through the use of 'file classifications'. Third, in the identification of the cases under investigation, it similarly facilitated dividing them into different types, such as EU institutions and Member State governments, through the option of 'case classifications'.

Fourth, during the 'pilot phase' of coding trial and the subsequent main analysis, *NVivo* was used to write down notes about the coding of the relevant material in the form of 'analytic memos' (separate documents with information about the coding frame or the material) and 'annotations' (comments linked to segments of the data for coding purposes). Fifth, throughout the main coding, it allowed for the systematic exploration of emerging patterns or relationships between categories, cases and the material through the use of all sorts of queries, such as 'word frequency', 'crosstabs' and 'matrix coding' queries. Sixth, once the main analysis was over, *NVivo* made possible visualising the findings through 'diagrams' and 'charts' as well as presenting them in the form of a 'framework matrix'. Finally, it allowed to check the coding frame against unidimensionality, mutual exclusiveness, exhaustiveness and saturation as well as to evaluate the reliability and validity of the content analysis by displaying the coding frequencies and the individual coding units associated to all selected categories and cases.

To lay the groundwork for theory-testing process tracing and QCA, this work preliminarily conducts a 'structured and focused' comparative analysis of the two major crisis-management instruments adopted by the EU in its response to the Euro Crisis and the COVID-19 pandemic respectively, namely the ESM and the RRF (see Chapter 3 and Chapter 4). With a focus on the relevant 'policy paradigm' on which the two instruments are based, the comparative analysis aims to understand how the governance of EU financial crisis management changed during the COVID-19 pandemic with respect to the previous Euro Crisis. For one thing, the ESM is the permanent successor to the temporary European Financial Stability Facility (EFSF) and European Financial Stabilisation Mechanism (EFSM). It was established in September 2012 to provide Member States with financial assistance with a view to preserving the stability of the Euro Area. For another, the RRF is an innovative if temporary instrument which provides direct financial support to Member States in the form of non-repayable contributions (or grants) and loans for up to €672.5 billion. It was adopted in February 2021 as the flagship programme of Next Generation EU (NGEU), and integrated into the Multiannual Financial Framework (MFF) for 2021-2027.

The method of 'structured, focused' comparison (George and Bennett 2005) requires that the cases selected for comparison are all instances of the same phenomenon. To this effect, as the work deals with EU financial crisis management, the comparison concerns the two single major crisis-management instruments adopted by the EU in response to the Euro Crisis and the COVID-19 pandemic respectively. The method is 'structured' when the same aspects are investigated and the same data are collected for all compared cases, so as to make cumulation of the findings possible. Moreover, the method is 'focused' when the comparison only deals with one or very few aspects of the compared cases, which necessarily depend on the analytical framework and, more generally, the research objectives of the work (George and Bennett 2005). The comparative analysis of the ESM and the RRF is 'structured' because it investigates the same aspects across the two cases, that is the role of EU institutions in the negotiations leading up to the establishment of the two instruments, and in the governance system of the two instruments once established. It is 'focused' because it is driven by a clear analytical framework and has a clear research objective, that is understanding the logic (or policy paradigm) underpinning the ESM and RRF, and what kind of institutional change they constitute in terms of EU financial crisis management.

1.5. Research Structure

This work has the following structure. Chapter 2 builds an analytical framework to explain institutional change in EU financial crisis management following the COVID-19 pandemic. It does so by elaborating on the conceptual tool of 'critical junctures' and integrating it with insights from the 'ideational change' and 'policy learning' literatures. The chapter reviews the concept of 'critical juncture' and puts forward a conceptualisation of it based on a set of necessary and sufficient conditions. It then provides an operational definition of a critical juncture's constitutive elements which allows testing them on the case of the COVID-19 pandemic and the adoption of the RRF as the major financial crisis-management instrument for the recovery of the EU. The analytical framework accounts for both 'structure' and 'agency' in explaining institutional change. In relation to structure, it elucidates the role of 'critical antecedents' in defining the range of options available to decision-makers following the pandemic outbreak. As for 'agency', it spells out the role of ideas, entrepreneurial politics and policy learning in the establishment of the RRF around an innovative policy paradigm of EU financial crisis management.

Chapter 3 tests the 'critical junctures' conditions against the Euro Crisis and the establishment of the ESM as the major crisis-management tool in the EU's response to it. It argues that the temporal sequence between the Euro Crisis and the adoption of the ESM does not constitute a critical juncture, but rather an incremental change in EU financial crisis management. For one, the Euro Crisis has the features of an endogenous shock with asymmetric effects, impacting some Member States much more than others. For another, because of its scale, pace and scope, the ESM has the features of a gradual change of the displacement type. The chapter shows that the analytical framework is nondeterministic and able to capture differences in the nature of institutional change from case to case.

Similarly, Chapter 4 tests the 'critical junctures' conditions against the COVID-19 pandemic and the establishment of the RRF. It argues that the COVID-19 pandemic and the adoption of the RRF do constitute a critical juncture for EU financial crisis management. On the one hand, the COVID-19 pandemic is a formidable exogenous shock with large-scale effects across all Member States. On the other, the RRF has the features of a third-order change which is both swift and encompassing. The chapter shows that, following the COVID-19 pandemic, EU crisis management underwent a policy paradigm shift, moving from 'intergovernmental coordination' *à la* ESM to a form of 'limited supranational delegation' with the RRF.

Chapter 5 focuses on the structural component of the critical juncture and makes two inter-related arguments. First, drawing on official documents as well as the relevant literature, it argues that the EU is internally differentiated into two co-existing governance systems: a system of supranational delegation for the low-salience policy areas linked to market regulation, such as trade and competition policies; and a system of intergovernmental coordination for the high-salience policy areas linked to the so-called 'core state powers', such as the economic governance of Economic and Monetary Union (EMU) as well as the Common Foreign and Security Policy (CFSP). Second, by means of a thematic analysis of official documents, relevant international reports and a set of original semi-structured elite interviews, the chapter argues that such internal governance differentiation delimited the range of options available to decision-makers for institutional change in EU financial crisis management as a response to the COVID-19 pandemic, thus acting as a 'critical antecedent' for the establishment of the RRF as an instrument of limited supranational delegation.

Chapter 6 focuses on the agency component of the critical juncture and seeks to explain the exact form of institutional change in EU crisis management following the COVID-19 pandemic with the establishment of the RRF as an instrument of limited supranational delegation. Specifically, it carries out a process-tracing analysis of the relevant 'agents of change', their roles at the various stages of discussions, their positions during negotiations and the motivations behind their decisions. This chapter argues that, between the pandemic outbreak and the adoption of the RRF, an 'ideational change' occurred about crisis management in the EU which was driven by an underlying policy-learning process. It shows that, in their quest for institutional reform, relevant actors were able to learn lessons from past crisis experiences, notably the EU's management of the Euro Crisis, and actively built on those lessons in devising an institutional response to the COVID-19 pandemic.

The Conclusion summarises the argument and findings of the work, clarifies its theoretical and empirical contribution, and draws implications for future research.

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2. A 'Critical Junctures' Analysis: Insights from Ideational Change and Policy Learning

2.1. Introduction

As the study of European integration moved from its original roots in international relations (IR) on to comparative politics (CP) approaches, historical institutionalism (HI) established itself as a valuable alternative to both neo-functionalism and liberal intergovernmentalism (Christiansen and Verdun 2020). While these latter seek to conceptualise the main drivers of European integration either in terms of transnational actors or Member State governments, HI scholars are interested in the institutional outcome of European integration as well as the nature and shape of the integration process.

The term 'historical institutionalism' itself points to the relative analytical importance the theoretical framework places on both history and institutions. First, HI adopts explanatory patterns where sequence and time matter. Generally refraining from cross-sectional explanations, HI scholars deal with specific cases or events. Such events are, however, embedded in a historical context which conditions their outcome. Thus, in HI causality and time are closely related. Scholars in this tradition seek to identify causal conditions at multiple points in time and emphasise the causal unfolding of historical processes (Steinmo 2008). To take history seriously means exactly attributing a causal leverage to the time variable with respect to the outcome of interest. To that effect, HI scholars tend to treat causes in terms of *necessary* and *sufficient* conditions. This logic-based approach allows for the identification of a temporal sequence in which some events make the outcome possible in the first place, while others combine to produce the outcome altogether (Mahoney *et al.* 2016).

Time in HI is not for its own sake. It applies to the study of institutions, which are believed to provide agents with formidable constraints, in the form of incentives and disincentives, on how to go about collective action. In particular, by applying the time dimension to the analysis of institutions, HI scholars aim to identify generalisable patterns of institutional development and make hypotheses as to when and why either pattern is more likely to occur. Defining institutions as a set of formal and informal rules that shape actors' behaviour, the focus of HI is thus on institutional construction, maintenance and adaptation (Sanders 2006). More specifically, historical institutionalists have investigated the mechanisms of institutional continuity and change through such concepts as 'path-dependence', 'incremental change' and 'critical junctures'. Path-dependence goes a long way to explain periods of institutional stability, where self-reinforcing dynamics produce increasing returns and eventually secure institutional reproduction. To this effect, institutions are supposed to be 'sticky' – that is, once they are established, they tend to persist over time and condition the choices of decision-making actors. 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, scope and pace of change itself. While speaking to each other, the study of gradual change and critical junctures entails different conceptual and methodological choices, contributing to a variegated HI scholarship.

By relying and elaborating upon the conceptual tool of 'critical junctures', this chapter builds an analytical framework to understand (first) and explain (then) institutional change in EU financial crisis management following the COVID-19 pandemic. Such endeavour is structured as follows. Section 2.2 engages in a meta-theoretical debate around the role of 'structure' and 'agency' in accounting for institutional change. It shows that a comprehensive account of institutional change can only be provided by an integrative analytical framework that combines both structural and agent-based factors. Section 2.3 reviews the concept of 'critical juncture' and puts forward a conceptualisation of it based on a set of necessary and sufficient conditions, namely a 'generative cleavage' and the occurrence of 'significant', 'swift' and 'encompassing' change. Section 2.4 provides an operational definition of a critical juncture's constitutive elements which allows testing them on the case of the COVID-19 pandemic and the adoption of the RRF. Section 2.5 focuses on 'structure' and elucidates the role of critical antecedents in defining the range of options available to decision-makers following the generative cleavage. Section 2.6 sheds light on 'agency' and discusses the role of ideas and entrepreneurial politics in determining the outcome of institutional change. Section 2.7 integrates insights from the policy learning literature to explain the drivers behind ideational change. The last section summarises and concludes.

2.2. Meta-Theoretical Approach: An Integrative Agenda vis-à-vis the Agency-Structure Dichotomy

The study of institutional and policy change is at a meta-theoretical level caught up in what is commonly referred to as the 'agent-structure' dilemma (Almond and Genco 1977; Giddens 1979; Giddens 1984). It stems from two indisputable truths about social life that are at the basis of social research. First, that human action (agency) is the only driving force behind social events, outcomes and change. Second, that human action can only take place in pre-established historical and institutional settings (structure) that constitute the conditions for it and constrain its course (Dessler 1989). At a minimum, then, the analysis of agency requires an at least implicit awareness of the structural framework in which human action comes about (the so-called 'rules of the game') just as much as the study of structure calls for an understanding of the actors who operate and are influenced by that structural framework (Wendt 1987). Better yet, the agent-structure paradox presupposes a relationship of sorts between structure and agency, and demands a conceptualisation of the relative explanatory weight behind each component. To what extent is an instance of institutional change the product of system structures or human action? How much is institutional change the result of agents' power, preferences and ideas, and how much is that instead the result of structural factors, such as culture or the institutional system?

The agent-structure dilemma has witnessed the development and consolidation of two distinct analytical approaches to the study of institutional change, each with its own epistemological paradigm and mode of explanation. The structural/institutionalist approach emphasizes the structural component of institutional change and conceives of structures as all-encompassing conditions that define not only actors' preferences and ideas, but their very identities. In this light, human action is not even conceivable apart from its relation to a pre-existing structural context that determines actors' behaviour. In other words, structural theory aims at explaining the incentives and disincentives, interactions and functioning of a system structure setting aside discussions on agency and how it might be linked to institutional outcomes if at all. On the contrary, the voluntarist/individualist approach – which over time superseded the structural one – stresses agent-based factors, such as the choices, strategies and ideas of the key actors involved in a process of change. This approach conceives of agency as the capability of actors to shape institutional change regardless of social, institutional or historic structures of any kind. Accordingly, actors are believed to pre-exist structures as they hold ideas, preferences and interests irrespective of structural constraints. The voluntarist approach considers the structural context as an exogenous variable that might or might not be related to actors' behaviour at all (Mahoney and Snyder 1999).

These two analytical approaches to the study of institutional change differ along a number of dimensions which are relevant for social science research – that is, their primary explanatory variable, temporal scope, level of analysis and methodological toolbox (Mahoney and Snyder 1999). The voluntarist approach identifies human action as the key explanatory variable for institutional change and denies that structural factors can have any bearing on actors' interests and choices. The structural approach, by contrast, focuses on ‘objective’, structure-based variables, positing that agents are significantly constrained by the key social, institutional or historical context in which they are embedded. To analyse processes of institutional or policy change, voluntarist approaches consequently favour short-term, cross-sectional analyses that find the potentially relevant causes of change very close in time, consistently with the assumption that agency is not influenced by pre-existing structures (O’Donnell and Schmitter 1986). Conversely, structural approaches tend to engage in longitudinal, time-series analyses of policy processes that harken back to the formation, evolution and functioning of the structural context in which change itself occurs. In other words, these studies have a larger time scope as they focus on factors that precede the actors responsible for institutional transformations (Moore 1966). This also has repercussions on the level of analysis the two approaches select. While structural and voluntarist approaches may retain the same unit of analysis as dependent variable – for example, change in institutions or policies –, they place their emphasis on independent variables at different levels of abstraction (Sartori 1970). In other words, these approaches seek to assess ‘the relative importance of causal factors at different levels of aggregation’ (Wendt 1991, 387).

Structural approaches thus tend to consider independent variables that operate at a macro-level, such as institutional systems, social cleavages, culture and economic development. Voluntarist approaches provide instead explanations based on a micro-level, including political parties, business groups, military organisations, trade unions and individuals in leadership positions. Finally, voluntarist and structural approaches come with a differentiated methodological toolkit. Whether qualitative or quantitative, structural studies pursue empirical generalisations through the establishment of law-like propositions or rules that allow explanation and prediction (Sartori 1999). They are, that is, nomothetic in nature. For this reason, structural approaches rely on large-N research designs including the use of the comparative method and variants of the statistical method. In contrast, voluntarist studies are more interested in gaining an in-depth knowledge of a contingent and often unique event, specifying its conditions and causes. These studies aim at a comprehensive understanding of their object of research while not aspiring to generalisation. Thus, they are idiographic in nature. Voluntarist approaches employ small-N research designs or single case studies by adopting such methods as process-tracing, congruence analysis and co-variational analysis (Blatter and Haverland 2012).

Studies of institutional change have thus over time developed and consolidated around two different conceptions of the agency-structure dichotomy – one (the voluntarist/individualist) resolving their relationship in favour of the former, the other (the structural/institutionalist) in favour of the latter. Importantly for social research, the choice between a meta-theoretical voluntarist or structural approach to the agent-structure paradox resulted in a research bias in terms of selection of primary explanatory variables, temporal scope, levels of analysis and research methods. Because of their unequivocal choice between two opposite extremes of the abovementioned dimensions, each of these meta-theoretical approaches lends itself to severe criticism from the other when it comes to providing compelling accounts of institutional change. When taken alone, both agency and structure are indeed only a necessary but insufficient condition for a cogent scientific explanation. As a matter of fact, actors' decisions tell us little about institutional change in the absence of any significant understanding of what choices were possible in the first place. At the same time, structural variables can shed light on the range of potential constrains on agents and available courses of action, but do not produce policy outcomes directly (Wendt 1987).

As is often the case in social science research, when two rival approaches to the same object of study compete for primacy in the academic debate, it is good practice to integrate both in a more sophisticated analytical narrative, for instance adopting the logic of 'multiple working hypotheses' (Chamberlin 1965). By elaborating on the concept of 'critical junctures' as well as defining the scope of a thorough critical junctures analysis, this chapter builds an integrative analytical framework where structural and agent-based factors are synthetised in order to provide a comprehensive explanation of institutional change. In such an integrative framework, structure and agency serve two analytically distinct but inter-related functions. Structural factors deal with the 'domain of the possible', that is the realm of what can possibly happen *in principle*, while agent-based factors deal with the 'domain of the actual', that is the realm of what happened in *practice*. Agency and structure thus need to be seen as operating simultaneously to understand and explain institutional change. This can be done by 'constructing a causal pathway', or historical sequence, that links institutional outcomes to the role of key policy actors, all the way back to temporally remote structural conditions (Mahoney and Snyder 1999, 16).

Any such analytical attempt has two core objectives. First, to break down the origins, nature and effects of those institutional structures that are hypothesised to have shaped agents' behaviour in bringing about the outcome of interest, thus elucidating their explanatory leverage.

Second, to balance that against the causal role of agents, seen as not just passive recipients of a sweeping superstructure, but as active 'carriers of change' that make sense of the relevant constraints and options, devise their policy strategies and pursue their goals. Overall, the challenge is thus one of building a 'historical narrative to trace the interaction of agency and structure over time' (George and McKeown 1985, as cited in Mahoney and Snyder 1999), one which avoids treating institutional structures as pre-determined, exogenous monoliths that turn history into a mere 'deliverer of the inevitable' (Arthur 1994, 27). To this effect, the remainder of this chapter builds an integrative analytical framework that goes beyond the many short-lived accounts of institutional change based on either structure or agency by combining voluntarist and structural approaches into a critical junctures narrative of institutional change in EU financial crisis management following the COVID-19 pandemic.

2.3. Critical Junctures: A Conceptualisation

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. While HI scholarship has traditionally used the concepts of critical juncture and path-dependence interchangeably (Capoccia 2015; Collier and Munck 2017), more recent and sophisticated critical junctures accounts suggest focussing on the brief phase of institutional change rather than on the longer period of institutional equilibrium that precedes (and may follow) a critical juncture. Indeed, critical junctures do not necessarily initiate path-dependent processes. As Hogan (2006) argues, critical junctures may give rise to relatively persistent institutional settings due to sources of stability other than path-dependence.

The HI literature has proposed many and varied definitions of critical junctures, each emphasising some dimensions of the concept. Mahoney (2002) has defined critical junctures as 'choice points when a particular option is adopted among two or more alternatives'. He emphasises the existence of several potential courses of action that progressively narrow as the critical juncture unfolds. Similarly, Hogan (2006, 664) claims that 'a critical juncture must be an event prior to which a range of possibilities must exist, but after which these possibilities will have mostly vanished'. In this light, agency or contingency during critical junctures close off alternative options and lead to the adoption of one institutional path among alternatives. To be sure, the set of viable alternatives to decision-makers is not unlimited. It rests on structural conditions that constrain agency while leaving it some room for manoeuvre. To that effect, a critical juncture perspective requires identifying the 'choices that were *historically* available and not simply *hypothetically* possible' (Capoccia 2016, 92).

On a different note, Capoccia and Kelemen (2007, 439) have conceived of critical junctures as 'relatively short periods of time during which there is a substantially heightened probability that agents' choices will affect the outcome of interest'. This definition points to three related aspects of a critical juncture. First, the time horizon, that is the time span between the initial shock and the ensuing change, must be relatively brief. Critical junctures have been applied to both instantaneous moments, i.e. 'explosive crises' (Braun 2015) which start and wear out quickly, and to short phases of turbulence that might last several years. The origin of a critical juncture could thus be either a sudden shock or a short-term crisis. As Capoccia and Kelemen (2007) suggest, long-term causes are far worse candidates for the application of a critical junctures framework. Time horizons that include drawn-out processes may in fact entail an accumulation of causes, thus indicating that the probability of an outcome increases incrementally rather than suddenly. Hence, a critical juncture is better understood as a short-term cause leading up to a 'temporal separation' between such a cause and the ensuing outcome (Pierson 2004).

Second, previous constraints on actors' choices are eased during critical junctures, thus fostering agency. The causal relevance of agency increases during critical junctures with respect to periods of path-dependent institutional reproduction as actors 'face a *broader than normal* range of feasible options [that] are *likely to have a significant impact* on the development of an institution' (Capoccia 2016, 92). Agency-based accounts of critical junctures delve into the decision-making process that takes place between the initial shock and the subsequent phase of institutional formation. On this basis, a critical junctures analysis requires reconstructing the institutional context in which the critical juncture unfolds, identifying the key decision-makers and their positions, investigating their interactions and bargaining power, and assessing the selected choice as well as discarded alternatives (Capoccia and Kelemen 2007). To be sure, decision-making during critical junctures is generally subject to negotiations, political mobilisation, coalition formation and the exercise of political pressures of varying degrees. Thus, actors may decide to give in to some pressure but oppose others based on their interpretations and preferences. Most interestingly, as Tsebelis (2002) points out, the resulting institutional outcome may not mirror the preferences of any single agent nor even those of a coalition of actors as these are mediated and synthetised throughout the decision-making process. Along these lines, the study of agency during critical junctures is defined as 'the choice (within given constraints) of triggering a specific process among many possible, rather than ensuring a particular outcome (Kalyvas 1996, 262-3).

Finally, change during critical junctures is relative to an outcome of interest, that is the unit of analysis with respect to which the juncture is expected to be critical. However wide the array of potential units of analysis, HI has traditionally dealt with institutions and institutional systems. By incorporating the time variable, historical institutionalists have investigated the alternation between phases of institutional continuity and institutional change and concentrated on single organisations (a branch of government, a political party, a public policy), structures (social cleavages, demography, technology) or outright institutional settings (political regimes, party systems, systems of interest intermediation). Importantly, a historical event may well constitute a critical juncture for an institutional setting (e.g., an electoral system) while leaving another completely unaltered (e.g., the party system), regardless of their proximity (Capoccia and Kelemen 2007). Thus, a critical junctures framework needs specifying the outcome of interest or unit of analysis which is affected by change.

However useful to grasp the general contours of critical junctures, these definitions and their theoretical implications do not provide a clear blueprint for empirical analysis. What exactly *is* a critical juncture? What is it *not*? What *constitutes* a critical juncture? And what can a critical juncture *do without*? To address such questions, this chapter singles out a set of necessary and sufficient conditions for critical junctures. It then identifies two further dimensions, namely *structure* and *agency*, which help assess how a critical juncture unfolds as well as the form of institutional change it leads up to. Borrowing from Hogan (2006), a critical juncture can be conceptualised as amounting to two *constitutive* elements: *a)* a generative cleavage, and *b)* change that is significant, swift and encompassing (SSE) at the same time. Such constitutive elements are *separately* a necessary condition, and *jointly* a sufficient condition, for a critical juncture to take place (Figure 2).

Critical Juncture

[Generative cleavage]	+ [Change] (Significant; swift; encompassing)	= [Critical juncture]

Figure 2 Conceptualisation of a critical juncture. Source: Hogan (2006).

Importantly, this conceptualisation emphasises 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., *significant*) 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 recognising critical junctures *as they happen*, rather than in hindsight. In short, the logic behind this conceptualisation is that rather than (necessarily) initiating a path-dependence process, a critical juncture (surely) ends one.[1]

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

Table 1 Institutional pathways originating from the presence/absence of a generative cleavage and institutional change. Source: own elaboration.

Depending on the presence or absence of a generative cleavage and of institutional change, four different institutional pathways may emerge (Table 1). First, in the absence of both a generative cleavage and of 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 (Gocaj and Meunier 2013; Verdun 2015). 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 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

[1] In a similar vein, see Soifer (2012, 1577) and Stark (2018, 26).

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 SSE change does *per se* 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 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 (Streeck and Thelen 2005; 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). Displacement entails the establishment of a new instrument that either substitutes or adds up to the existing one. Layering consists in revisions or additions to an existing instrument but does not lead to the establishment of a new one. Drift and conversion do not envisage formal amendments to existing instruments but informal changes in their impact or interpretation due to shifts in the external environment or agency.

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 SSE 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 to yet another path-dependent phase of institutional stability. This work raises the following research hypothesis:

> *[H1, critical juncture]: The outbreak of the COVID-19 pandemic and the ensuing establishment of the Recovery and Resilience Facility constitute a critical juncture for EU financial crisis management*

Since a critical juncture is a composite concept including a generative cleavage and a certain type of institutional change, H1 can be unpacked as follows:

[H1a, generative cleavage]: The outbreak of the COVID-19 pandemic stands as a generative cleavage for institutional change in EU financial crisis management

and:

[H1b, institutional change]: Following the outbreak of the COVID-19 pandemic, the establishment of the Recovery and Resilience Facility qualifies as a significant, swift and encompassing (SSE) institutional change in EU financial crisis management

Chapter 3 and 4 of this work test the critical juncture hypothesis against the EU's response to the Euro Crisis through the ESM (as a counterfactual) and to the COVID-19 pandemic through the RRF. For these hypotheses to be tested, however, a preliminary operational definition (i.e. operationalisation) of generative cleavage and SSE change is in order next.

2.4. Generative Cleavage and Institutional Change: An Operationalisation

2.4.1. The Generative Cleavage

The literature on critical junctures has emphasized their strong ties with the concept of crisis (Cortell and Peterson 1999). Critical junctures are conceived of as originating from a political, economic or social cleavage that becomes pressing and urges for accommodation through some sort of change. In this light, a generative cleavage is the exogenous shock or tension that opens 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). Importantly, 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).

Specifically, in a critical junctures framework, the generative cleavage stands as a 'permissive condition' (Soifer 2012). In Soifer's words, 'permissive conditions can be defined as those factors that change the underlying context to increase the causal power of agency or contingency and thus the prospects for divergence' (2012, 1574). While reducing the relative importance of structural constraints on agency and subsequent change, permissive conditions define the time frame of a critical juncture. To this effect, a critical juncture is bound by the emergence and disappearance of permissive conditions, such that the event of institutional innovation can take place as long as permissive conditions are present and the window of opportunity stays open. However, in and of itself, a generative cleavage does not necessarily ensure institutional change. It most reasonably represents a call for change, which *may* or *may not* be followed up. Along these lines, a generative cleavage acts as a necessary but insufficient condition for a critical juncture.

Research on critical junctures has focused, *inter alia*, on wars, revolutions, constitutional revisions, economic crises, electoral turmoil, and demographic development as preferred generative cleavages (Cortell and Peterson 1999). This work identifies the macro-economic crisis due to the COVID-19 pandemic its candidate to qualify as a generative cleavage. Indeed, a macro-economic crisis may well undermine the stability of existing institutional arrangements, thus fostering change (Tilly 1975). While many may agree on a broad definition of economic crisis as ‘a protracted economic situation which is characterised by low growth or stagnation’ (Kindleberger 1987), what ultimately constitutes an economic crisis is not clear-cut in operational terms. Drawing on Hogan and Timoney (2017), we propose an operational definition of economic crisis based on a combination of objective and subjective factors (Table 2).

Factors	Dimensions	Operationalisation
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 macro-economic crisis
	Perception of international monitoring institutions	Institutions such as the ECB, OECD, IMF, WTO perceive macro-economic crisis
	Perception of civil society	Analysts and the media perceive macro-economic crisis

Table 2 Macro-economic crisis: Operational definition based on a set of objective and subjective factors. Source: re-elaboration from Hogan and Timoney (2017).

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). 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. Inflation is not selected as an economic indicator for a macro-economic crisis here as price dynamics may remain stable if the fall in industrial production is balanced by an equal fall in consumption. Subjectively, a macro-economic crisis also needs to be *perceived* as such by political decision-makers (EU institutions and Member States governments), the civil society (analysts and the media) and international monitoring institutions (such as the ECB, IMF and OECD). Indeed, crises are at least in part the product of perception and are framed into socially constructed narratives about their nature, scale, causes and implications (Boin *et al.* 2009). Such narratives eventually have a great bearing on how the crisis is 'governed' that goes beyond its mere objective impact. Thus, if all aforementioned actors perceived the COVID-19 pandemic as an economic crisis, then it is also likely that it was.

2.4.2. Significant, Swift and Encompassing Change

To qualify as a critical juncture, the generative cleavage should be followed by institutional change – specifically, by a kind of change that is significant, swift and encompassing at the same time. This chapter provides an operational definition of SSE change that allows to empirically test for these criteria. It suggests that the institutional pattern for the establishment and governance of the RRF is an instance of SSE change. In this light, the COVID-19 pandemic (as a generative cleavage) and the establishment and governance of the RRF (as an instance of SSE change) serve as *separately necessary* and *jointly sufficient* conditions for a critical juncture. Hence, the research hypothesis is that the COVID-19 pandemic and the establishment and governance of the RRF constitute a critical juncture for the institutional pattern behind the establishment and governance of EU crisis-management instruments (as the unit of analysis).

The notion of *significant change* is key to any theoretical account of critical junctures. And yet, by itself, the concept remains quite blurred, lending itself to a wide range of potential applications. To be sure, 'significant' refers to the *scale* (or *magnitude*) of institutional change. But still, how to empirically assess the degree of institutional innovation? As Hogan points out, the operational definition of 'significance' ultimately depends on a researcher's interpretation of their topic, 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 do so, this section 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 *orders*. His attempt is to understand the nature of policy change and see whether that typically has the characteristics of incremental evolution or punctuated equilibrium (Baumgartner 2012). Specifically, 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). 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 1973, 279). Finally, a third-order change is the 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 this understanding of 'orders of change', we propose an operational framework which can be more consistently applied to our unit of analysis – i.e., the institutional pattern for the establishment and governance of EU crisis-management tools. To that effect, a first-order change consists in the modification of an instrument's settings, or the introduction of new settings within an existing crisis-resolution instrument, which do not however alter the policy paradigm of the instrument itself nor lead to the establishment of *de novo* instruments. This is typical of a gradual change of the *layering* kind. A second-order change relates to the establishment of a new crisis-management instrument, which however reproduces the same policy paradigm of the previous. The newly established instrument can either totally replace or only add up to the existing one. This is, in turn, typical of an incremental change of the *displacement* kind (Mahoney and Thelen 2010). Finally, and most importantly, a third-order change implies the establishment of a new crisis-management tool, and one with a different policy paradigm compared to the previous. Along these lines, while a first- and a second-order change are often the result of incremental transformations, a third-order change is associated with critical junctures. Thus, when testing for 'significant change', the work seeks to find evidence of a third-order change in the establishment and governance of the RRF.

In addition to its scale (or magnitude), the *pace* of institutional development 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*. Indeed, 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. Just like 'significant change', the notion of 'swift change' should be tailored to the specific unit of analysis it is being applied to. When applied to an electoral or party system, an exogenous shock may well lead to institutional change in a matter of a few months. However, when it is applied to an overarching institutional system, 'swift change' may be conceived of as a longer period. As we focus on the institutional pattern for the establishment and governance of crisis management tools, 'swift change' is fairly one that occurs within, and no later than, twelve months of the proposed generative cleavage.[2]

Along with its scale and pace, critical junctures speak to the *scope* of institutional innovation 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). To wit, the large-scale swift change originating from critical junctures also needs to be comprehensive with respect to those who are part of the institutional system being changed. The scope of change again depends on the topic under examination and, more specifically, on the unit of analysis. Thus, in case of a critical juncture for party families' positions on a given policy issue, all political parties of a given party family would need to undergo equal change. In the same way, and in our case, a critical juncture for crisis-management in the EU requires that a change in the pattern behind the establishment and governance of crisis-resolutions tools applies to the EU27, rather than to a subset of Member States. In other words, the change should not lead to 'differentiated integration' (Schimmelfennig *et al.* 2015).

To sum up, a critical juncture consists of a generative cleavage followed by significant, swift and encompassing change. A significant change is a third-order change that implies the adoption of a new crisis-management instrument based on a different policy paradigm with respect to the previous. A swift change is one that takes place within, and no later than, twelve months of the generative cleavage. Finally, an encompassing change is one that applies to the EU27 and leads to no differentiated integration (Table 3). Importantly, such a conceptualisation of critical junctures is based on the scale (significant change), pace (swift change) and scope (encompassing change) of institutional change, rather than on potential long-term implications which speak to path-dependence.

[2] Hogan (2006), who identifies the 1987 Irish macro-economic crisis as generative cleavage and the Irish Congress of Trade Union's influence over public policy as an instance of SSE change, also defines 'swift change' as one occurring within twelve months of the exogenous shock.

Requirement	Operationalisation
Significant change	Third-order change: change in the crisis-management instrument and in its functioning logic
Swift change	Taking place within, and no later than, twelve months of the generative cleavage
Encompassing change	Applying to the EU27, with no opt-outs or differentiated integration

Table 3 Critical junctures: Operational definition of significant, swift and encompassing change following a generative cleavage. Source: own elaboration.

While the generative cleavage and SSE change are constitutive elements of a critical juncture, and help us empirically distinguish between critical junctures and other forms of institutional development, a fully-fledged critical junctures analysis also needs to account for 'structure' and 'agency'. Indeed, theories based on exogenous shocks alone fail to account for the exact shape that the new institutional order takes – they are, to wit, indeterminate as to the subsequent institutional outcome. As Blyth argues, 'theoretically, no exogenous factor can in and of itself explain the specific forms that institutional change takes. While the destabilisation of existing institutions can be exogenously driven, moving from such a position to a new stable institutional order must be seen as an endogenous process' (2002, 8). An analytical focus on structure and agency thus allows us to identify the causal sequence between the generative cleavage and institutional change, and to determine why an institutional path was selected among alternatives. It is to these aspects that the chapter now turns.

2.5. The Critical Antecedent

Critical junctures analyses have generally emphasised the relative importance of either 'structure' *or* 'agency' (Capoccia 2016) in determining the outcome of interest. To this effect, the concept of *structure* refers to factors or conditions preceding a critical juncture. In a seminal article, Slater and Simmons (2010) called these factors 'antecedent conditions' and identified four types thereof. A first type of antecedent conditions represents the *descriptive context* that precedes the exogenous shock but that has no causal relation with the outcome of the critical juncture. A second type of antecedent conditions consists of *structural causes* that directly determine the outcome of the critical juncture and are not mediated by any form of agency taking place during the critical juncture itself. A third type of antecedent conditions refers to *background similarities* between cases which serve as control variables rather than causal variables for the outcome of the critical juncture. Finally, a fourth type of antecedent conditions, defined as *critical antecedents*, help cause the outcome of interest. Importantly, unlike descriptive contexts, critical antecedents have a causal relation with the outcome of interest; but, unlike background similarities, they imply variation or divergence, either across cases in a cross-case analysis or across time in a case study; and, unlike structural causes, their effect on the outcome of interest is indirect and complementary. Critical antecedents can thus be defined as 'factors or conditions preceding a critical juncture that combine with causal forces during a critical juncture to produce long-term divergence in outcomes' (Slater and Simmons 2010, 889).

By focusing on critical antecedents, critical junctures analyses can account for structure while also leaving room for agency (Mahoney and Snyder 1999). Indeed, critical antecedents combine in a causal mechanism with factors operating during the critical juncture (agency and/or contingency) to produce the outcome of interest (Rinscheid *et al.* 2020). This can play out in two different ways. First, critical antecedents can act as *successive causes* (or causes of causes), exercising a direct effect on a later cause operating during the critical juncture. In this light, agency or contingency during critical junctures would not emerge without a critical antecedent. Or, critical antecedents can stand as *conditioning causes* (or conditions of causes), contributing to the effect of agency or contingency on the outcome of interest (Slater and Simmons 2010). To this effect, critical antecedents define the range of possible values (i.e., forms) of the outcome of interest (i.e., institutional change). This kind of critical antecedent often depends on, and derives from, past critical junctures. Importantly, critical antecedents are analytically different from, and temporally prior to, the permissive condition represented by the generative cleavage. The latter emerges exogenously and stands as a constitutive element of the critical juncture, while critical antecedents have an endogenous nature and operate *before* the critical juncture (Soifer 2012). Although critical antecedents are unrelated to the permissive condition, they are part of a causal chain along with the 'productive condition' to determine the value of the outcome of interest (see section below).

This chapter suggests that the critical antecedent in the hypothesised critical juncture is the differentiation of the EU into two distinct but co-existing governance systems or decision-making regimes – i.e., a system of *supranational delegation* (the so-called 'Community method), pre-eminent in the period between the Treaty of Rome (1957) and the Treaty of

Maastricht (1992), and a system of *intergovernmental coordination*, pre-eminent in the period from the Treaty of Maastricht (1992) to the COVID-19 pandemic (2020). The argument is that such a critical antecedent served as a structural constraint on agency during the critical juncture, delimiting the range of possible choices available to decision-makers in response to the generative cleavage. Specifically, the hypothesis reads as follows:

> *[H2, critical antecedent]: The differentiation between a supranational and an intergovernmental system of governance delimited the range of options available to decision-makers for institutional change in EU financial crisis management as a response to the outbreak of the COVID-19 pandemic*

Chapter 5 of this work tests the critical antecedent hypothesis and shows how the pre-existing differentiation between the two systems of governance in the EU influenced decision-makers during the window of opportunity opened by the COVID-19 pandemic for institutional change in EU financial crisis management.

2.6. Ideational Change

While critical antecedents temporally precede the generative cleavage, they become relevant during the critical juncture in that they provide agents with a set of institutional pathways for potential responses to the exogenous shock. Hence, critical antecedents act as blueprints for *agency*. To this effect, ideational change, or the ‘politics of ideas’ (Capoccia 2015), is what ultimately determines the exact form of the new institutional order (Culpepper 2005). Importantly for our critical junctures framework, an analytical focus on ideas contributes to ‘endogenizing’ the study of a critical juncture, as ideational change constitutes an *endogenous* shock which steers the impact of the generative cleavage (i.e., the *exogenous* shock) on institutional development.

Drawing on Hall, this work defines a policy paradigm as a ‘framework of ideas and standards that specifies not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing’ (1993, 297). In normal times, the policy paradigm underpinning a stable institutional system may be very difficult to contest. However, abrupt exogenous shocks may open the door to paradigm shifts by fostering agency. In crisis situations, relevant political actors may endorse a new set of ideas to favour specific institutional innovations and, capitalising on the apparent 'inadequacy' of the previous institutional setting, put them forward during negotiations with other political actors (Posner 2007). Along these lines, while macro-economic crises may shake the foundations of an existing institutional order, they are also interpreted by powerful political actors 'to be crises of a certain type' and, thus, to require a certain type of response (Capoccia 2015). Through a battle of ideas, political actors promote new institutions to address the macro-economic crisis, and only 'when such ideational battle is won, collective action to build new institutions is undertaken' (Blyth 2002, as cited in Capoccia 2015, 97).

While the generative cleavage is the permissive condition for institutional change, ideational change constitutes its 'productive condition' (Soifer 2012). The productive condition determines the outcome of the critical juncture from among the options given by the critical antecedent. In short, the permissive condition eases structural constraints on, and allows for the emergence of, a productive condition to steer institutional change. Drawing on Soifer (2012), productive conditions can thus be defined as the aspects of a critical juncture that shape the outcomes that diverge across cases or across time. In this light, however large-scale a macro-economic crisis might be, it cannot dictate policy choices, which lie with 'domestic political and ideational processes' (Golob 2003, 375).

As a fundamental productive condition, ideational change consists in 'agents of change reaching a broad consensus upon, and subsequently consolidating around, one particular set of new ideas […], which will determine the path of subsequent policy' (Hogan and Doyle 2007, 891). Ideas are thus the crucial link of a temporal sequence starting from the critical antecedent, passing through the generative cleavage and leading up to institutional change. Importantly, ideational change does not only determine the shape of institutional innovation; at a broader level, it serves as a 'differentiating factor' between crises that culminate in critical junctures and those that vanish as near-misses. That is, following the generative cleavage, the presence of ideational change allows us to predict that a third-order change will take place. Therefore, 'researchers will no longer have to wait years to be able to declare an event a critical juncture' (Hogan and Doyle 2007, 905). That being said, *who* exactly drives forward ideational change, and *what* does ideational change actually consist in?

The literature on ideational change has identified two types of agents of change – namely, 'political entrepreneurs' and 'policy entrepreneurs' (Legro 2000; Hogan and Feeney 2012; Hogan and Timoney 2017). The roles of such agents are empirically intertwined but analytically distinct. Political entrepreneurs are the crucial agents of change (Dahl 1961): they work through the policy ideas proposed by policy entrepreneurs in crisis times and influence the terms of the political debate through agenda-setting efforts. Political entrepreneurs 'exploit moments of instability' and 'invest resources in the creation of a new policy, a new agency, or new forms of collective action', 'having transformative effects on politics, policies, and institutions' (Sheingate 2003, 188-190). In this light, political entrepreneurs act as mediators between those putting forward new policy ideas (e.g., policy entrepreneurs) and those who oppose innovation instead.

On the other hand, policy entrepreneurs challenge the prevailing paradigm by proposing a set of innovative ideas to replace the existing institutional system (Posner 2007). To do so, policy entrepreneurs identify a crisis and the relative policy failure, using ideas to foster specific institutional responses (Verdun 2007). While policy entrepreneurs are largely responsible for producing ideas, it is however political entrepreneurs who ultimately champion those ideas and 'inject' them into the policy process (Hogan and Doyle 2007). To that effect, political entrepreneurs engage in coalition-building activities with a view to fostering a large consensus over a new policy paradigm. Strategically, the political entrepreneur benefits from the support of policy entrepreneurs while the latter gain from the former's 'patronage' of their ideas in the policy-making process (Hogan and Feeney 2012). As a matter of fact, the more powerful a political entrepreneur the greater its entrepreneurial potential (Wallis and Dollery 1997), hence its ability to secure ideational change.

Ideational change has been conceptualised as a two-stage process involving 'ideational collapse' (of the old paradigm) and 'ideational consolidation' (of a new paradigm) (Legro 2000). Despite being very difficult to unravel empirically, these temporal stages remain analytically distinct. Ideational collapse emerges when a set of policy entrepreneurs come to agree that the existing policy paradigm is no longer adequate. This may result from prevailing institutional arrangements' unfulfilled expectations or policy failure, which give rise to pressures for 'collective reflection and reassessment' (Levy 1994, 305). Even with ideational collapse, failure by political entrepreneurs to build consensus over a new paradigm would still produce institutional continuity as no practicable alternative would emerge vis-à-vis existing institutional arrangements. Thus, following ideational collapse, whether ideational change does or does not take place depends on agents engineering a new set of ideas and pushing it forward over the previous policy paradigm, resulting in ideational consolidation. In Sheingate's words, 'this can be seen in political entrepreneurs consolidating their innovations by combining a mixture of interests to produce a *winning coalition*' (2003, 192-193, emphasis added). Only in presence of a political entrepreneur who is willing to sponsor the new policy paradigm will ideational consolidation occur. Otherwise, the new set of ideas will not make it to the institutional domain (Hogan and Feeney 2012). Hence, while policy entrepreneurs are functional to ideational collapse, political entrepreneurs are key to ideational consolidation.

As a contextual (or 'scope') condition for our case, the EU policymaking takes place in a multi-level non-hierarchical institutional framework that fosters ideational innovation and entrepreneurial politics. As there is no fixed or hierarchical mode of governance for dealing with rising policy issues, decision-makers engage simultaneously at different levels and in different formats, exchange views and negotiate to produce policy outcomes (Piattoni 2009). This is increasingly the case during critical junctures. As Flockhart argues, critical junctures create an 'ideational vacuum' as 'previously held stable ideas no longer provide a base for problem-solving and policy-making' (2005, 259). These are moments when 'even deeply held beliefs and convictions can undergo profound and fast transformations' (Risse 2010, 32). In other words, critical junctures provide decision-makers with a variety of options for institutional change that would have previously been unthinkable, by creating 'multiple paths of future development' (Horak 2007, 21). Along these lines, this work argues that an ideational change about crisis-management occurred in the EU following the COVID-19 pandemic, resulting from the collapse of the prevailing policy paradigm (i.e., intergovernmental coordination) and the concomitant consolidation of a new policy paradigm (i.e., limited supranational delegation). Such an ideational change, fostered by the generative cleavage, came about within the boundaries of the critical antecedent, and paved the way for the subsequent institutional development. The research hypothesis is:

[H3, ideational change]: Following the outbreak of the COVID-19 pandemic, an ideational change took place about financial crisis management in the EU

Because ideational change consists of ideational collapse (of the existing policy paradigm) and ideational consolidation (around a new policy paradigm) as separately necessary and jointly sufficient conditions, such a research hypothesis can be unravelled as follows:

[H3a, ideational collapse]: Following the outbreak of the COVID-19 pandemic, an ideational collapse of the existing policy paradigm (i.e. intergovernmental coordination) of financial crisis management in the EU took place

and:

[H3b, ideational consolidation]: In the wake of ideational collapse, an ideational consolidation around a new policy paradigm (i.e. limited supranational delegation) of financial crisis management in the EU followed

Chapter 6 of this work tests the ideational change hypothesis. As ideational change is a temporal process composed of two mechanisms, this chapter proposes an operational definition based on two observable implications, one for each of the mechanisms. If ideational collapse in EU crisis-management took place following the outbreak of COVID-19, there will be evidence of policy entrepreneurs questioning the prevailing policy paradigm and proposing a clear set of alternative ideas for institutional reform soon after the generative cleavage. Likewise, if ideational consolidation around a new policy paradigm followed, there will be evidence of political entrepreneurs championing those ideas and pushing them forward in the negotiating process (Table 4).

Requirement	Operationalisation
Ideational Collapse	Policy entrepreneurs question the existing paradigm and propose alternative ideas for institutional reform soon after the generative cleavage
Ideational Consolidation	Political entrepreneurs sponsor alternative ideas and push them forward in negotiations for institutional reform

Table 4 Ideational change: Operational definition of ideational collapse and ideational consolidation.
Source: own elaboration.

2.7. Policy Learning

If empirical evidence corroborates ideational change, what are the drivers behind it? That is, what moved policy and political entrepreneurs in their quest for institutional reform in response to the COVID-19 pandemic? This work provides an interpretation of ideational change during the COVID-19 pandemic based on collective policy learning. Specifically, it expects political actors (including EU officials and Member State governments) to be able to collectively learn from past crises experiences (i.e. the Euro Crisis) and adjust their institutional, crisis-management practices accordingly.

Although the literature on policy learning is extensive, few attempts have been made at exploring whether and how policy learning occurs in the EU and its potential to induce policy change. In examining the causes behind institutional change in the EU following the COVID-19 pandemic, existing research has either focused on learning by single institutions, like the ECB (Quaglia and Verdun 2022) and the European Commission (Mirò 2020), or within single countries, like Germany (Schoeller and Heidebrecht 2023). Thus, whether the EU as a whole has actually undergone a process of 'collective learning' is still much underexplored. This research gap is all the more relevant in that, while learning might concern single actors, conceived of as either individuals (e.g. the German Chancellor) or institutional actors (e.g. the European Commission), the response to any major crisis in the EU arguably involves, and depends upon, a 'network of responders' (Moynihan 2009) rather than a single decision-maker. Individual learning does in fact not automatically bring about collective learning and policy change (Heikkila and Gerlak 2013). An exception to this is Ladi and Tsarouhas' (2020) and Radaelli's (2022) study on collective learning in the EU. Though perceptive, these works put forward broad theoretical claims on how policy learning drives European integration in times of crisis that deserve to be empirically substantiated.

To this effect, the EU is a breeding ground for policy learning, both across policy fields and in financial crisis management specifically. First, as an ever-evolving incomplete integration process, the EU has generally advanced through piecemeal reforms in a 'failing forward dynamic', engaging in lowest common denominator bargains among Member States between one crisis and the next (Jones *et al.* 2016). Such pattern, based on a series of ad hoc solutions to emerging problems, generally provided by actors with diverging perspectives on the aim of the integration process itself, arguably incentivises change through learning (Dunlop and Radaelli 2016). Second, albeit not immune to hierarchical involutions and dominancebased dynamics (as the response to the Euro crisis shows [Fabbrini 2016]), EU policy-making has increasingly developed into a multi-level, anti-hierarchical institutional framework that fosters ideational innovation and entrepreneurial politics, moving towards 'networked governance' (Schout 2009). In the absence of a fixed, top-down mode of governance for dealing with rising policy issues, decision-makers can work simultaneously at different levels and in different formats, exchange views and negotiate policy outcomes among a range of potential alternatives (Piattoni 2009). This, in turn, inevitably increases the scope for collective learning. Third, crises are believed to be key triggers for policy learning and learning-based institutional change (Ladi and Tsarouhas 2020). While the nature of the causal relation between crisis, learning and change remains debated, the literature agrees that the temporal sequence goes from crisis to change through policy learning (Kamkhaji and Radaelli 2017). To this effect, policy-makers first need to engage in discussions, exchange information and build knowledge based on a crisis-management experience. They thus learn lessons from policy failures associated with crisis management. Finally, policy-makers can draw on those policy lessons to devise a policy response to a crisis (May 1992).

During the COVID-19 pandemic, policy learning may have played a role given the temporal proximity with EU crisis-management efforts in response to the previous Euro Crisis. In this light, and consistently with our historical institutionalist approach, time turns out to be a key intervening variable for understanding institutional change. In Ladi and Tsarouhas' own words, 'it can be claimed that this time proximity [between the COVID-19 pandemic and the Euro Crisis] has enabled quicker and deeper learning' (Ladi and Tsarouhas 2020, 1045). This is all the more so as EU crisis management during the Euro Crisis resulted in a manifest policy failure, both in terms of efficiency and of democratic legitimacy (Fabbrini 2013; Donnelly 2021). Crisis-management experiences associated with policy failures constitute valuable testing grounds for policy learning as policy failures can act as relevant incentives for policy-makers to consider institutional or policy change. As May has argued, 'it is reasonable to presume that acknowledgement of policy failure by the policy elites within the relevant policy domain constitutes the relevant trigger for policy reconsideration and redesign' (May 1992, 342). Thus, the research hypothesis on the underlying cause of ideational change during the COVID-19 crisis is the following:

[H4, policy learning]: Following the outbreak of the COVID-19 pandemic, ideational change about EU financial crisis management was driven by a process of collective learning based on a consolidated knowledge of past crisis experiences

If there ever was policy learning from previous crisis experiences, what kind of policy learning was that? A first theoretical distinction it so be drawn as to *when* policy learning actually occurs, and specifically whether it takes place between one crisis and the next (i.e. *inter-crisis* policy learning) or during a single crisis episode (i.e. *intra-crisis* policy learning). Inter-crisis policy learning entails 'learning from one crisis to prepare for another' (Moynihan 2008). It takes place in-between crisis episodes, and generally has a crisis-prevention function, meaning that it substantiates in policy changes to prevent the same type of crisis to strike again in the future. After all, because it emerges in 'normal times', it cannot have a crisis-management character but only a preventive one. By way of contrast, intra-crisis policy learning occurs during a crisis, that is, as a crisis unfolds. While it is still based on a previous crisis experience, intra-crisis policy learning generally has a crisis-management function, meaning that it substantiates in policy changes directed to put an end to an ongoing crisis situation.

A second distinction refers to the *scope* of policy learning, in particular whether it concerns minor 'divergences and flows in an organisation without touching upon its fundamental normative assumptions' (i.e. *single-loop* learning) or the core 'norms, policies and objectives' of the organisation itself (i.e. *double-loop* learning) (Duverell 2009). Single-loop policy learning is associated with inter-crisis learning processes and generally leads to first- or second-order, gradual policy changes. On the contrary, double-loop policy learning is associated with intra-crisis learning processes and generally leads to third-order, radical changes or 'critical junctures'. Finally, a third distinction can be made as to the very *nature* of policy learning, that is whether the learning process emerges out of consensus, bargaining or domination. The different types of policy learning are summarised in Table 5 below and have each its own implications on the institutional outcome of ideational change.

	Dimensions		
	Time frame	*Scope*	*Nature*
Policy Learning	Inter-crisis or intra-crisis	Single-loop or double-loop	Consensual, bargaining or hierarchical

Table 5 Types of policy learning based on its time frame, scope and nature. Source: own elaboration.

Chapter 6 of the work tests the policy learning hypothesis and applies the above policy learning typology to the EU's response to the COVID-19 pandemic, discussing its implications for institutional change in EU financial crisis management.

To conclude, in addition to testing for the constitutive elements of a critical juncture (i.e., the generative cleavage and SSE change), a full-blown critical junctures analysis requires accounting for critical antecedents that precede the critical juncture, thus delimiting the range of possible forms of institutional development, and for ideational change occurring during the critical juncture, which ultimately determines the exact shape of institutional innovation (Figure 3).

[1]		[2]		[3]		[4]
	+		+		+	
Critical Antecedent		Generative Cleavage		Ideational Change (Ideational Collapse + Ideational Consolidation)		Significant, Swift and Encompassing Change

Figure 3 Fully-fledged critical junctures framework: temporal sequence. Source: own elaboration.

In sum, this work seeks to explain the form and causes of institutional change in EU crisis-management (*dependent variable*) through recourse to the generative cleavage as a permissive condition and to ensuing ideational change as a productive condition (*independent variables*). In this hypothesized relation, the critical antecedent acts as a conditioning cause in that it defines the range of possible options available to decision-makers following the generative cleavage, hence the possible values of institutional change. Table 6 below summarises the analytical relation between independent, dependent, and intervening variables.

Independent Variable	*Intervening Variable*	*Dependent Variable*
▪ **Generative cleavage**: the impact of the COVID-19 pandemic. Role: permissive condition, makes institutional change possible (window of opportunity) ▪ **Ideational change based on policy learning**: ideational collapse of intergovernmental coordination (policy entrepreneurs) and ideational consolidation of limited supranational delegation (political entrepreneurs) because of policy learning. Role: productive condition, determines exact form of institutional change	▪ **Critical antecedent**: EU governance differentiation between a system of supranational delegation and a system of intergovernmental coordination. Role: conditioning cause, defines the range of possible values of institutional change	▪ **Institutional change**: change in EU crisis-management from intergovernmental coordination to limited supranational delegation (test-case: establishment and governance of the ESM and RRF as the single major crisis-management instruments adopted in response to the Euro Crisis and the COVID-19 pandemic respectively)

Table 6 The independent, intervening and dependent variables of the analytical framework.

2.8. Conclusion

This chapter built an integrative critical junctures analytical framework to explain institutional change in EU crisis-management following the COVID-19 pandemic. First, it engaged in a meta-theoretical debate around the role of 'agency' and 'structure' in accounting for institutional change and showed that a comprehensive account of institutional change can only be provided by an analytical framework that combines both structural and agent-based factors.

Second, it provided an overview of the concept of 'critical juncture' and proposed a conceptualisation of it based on two constitutive elements: the generative cleavage and SSE institutional change. Such elements are *separately* a necessary condition, and *jointly* a sufficient condition, for a critical juncture to emerge. Based on the presence or absence of a generative cleavage and change, the chapter then contrasted critical junctures with other forms of institutional development (such as path-dependence, near-misses and gradual change).

Third, it elaborated an operational definition which allows testing for the two criteria on the macro-economic crisis due to the COVID-19 pandemic (as a generative cleavage) and the adoption of the RRF (as an instance of SSE change) respectively. While a macro-economic crisis can be measured through a series of objective (economic indicators) and subjective (perception) factors, change in critical junctures must be third-order in scale, comprehensive in scope, and quick in pace.

Fourth, after establishing what constitutes a critical juncture, the chapter focussed on 'structure' and 'agency' to account for the causal sequence between the generative cleavage and institutional change, thus allowing for a fully-fledged critical junctures analysis. It illustrated how factors preceding a critical juncture, so-called critical antecedents, have a causal relation with the outcome of interest, defining the range of possible forms of institutional innovation. It then suggested that the critical antecedent in the hypothesised critical juncture is the differentiation of EU governance into a system of supranational delegation and one of intergovernmental coordination.

Fifth, the chapter identified ideational change as the causal process that, following the generative cleavage, brings about institutional change. It singled out two mechanisms behind ideational change – ideational collapse and ideational consolidation – and operationalised them based on the role of policy and political entrepreneurs respectively.

Sixth and finally, the chapter suggested that ideational change following the COVID-19 pandemic was driven by a policy-learning process: in their quest for institutional reform in EU crisis management, EU policymakers learnt from past crisis experiences (i.e. the Euro Crisis) and related policy failures (i.e. the ESM), translating them into policy lessons on how to deal with the pandemic crisis.

In sum, a fully-fledged critical junctures argument needs both to *a)* break down a critical juncture, testing for a generative cleavage and SSE change, and *b)* account for how the critical juncture exactly unfolds, with a focus on structure (factors operating *before* the critical juncture, e.g. critical antecedents) and agency (factors operating *during* the critical juncture, e.g. ideational change and policy learning).

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3. The Euro Crisis and the European Stability Mechanism (ESM): A Case of Incremental Change in EU Crisis Management

3.1. Introduction

To show its nondeterministic character, this chapter tests the conditions of a critical juncture as per the analytical framework against the Euro Crisis (as a generative cleavage) and the establishment of the ESM (as an instance of significant, swift and encompassing change). It argues that the temporal sequence between the Euro Crisis and the adoption of the ESM does not constitute a critical juncture, but rather an incremental change in EU financial crisis management. Exploded in 2009, the Euro Crisis is a multi-year sovereign debt crisis which interested several countries of the Euro Area and hampered European economic stability along several years. Some of these countries – including Cyprus, Greece, Ireland, Portugal and Spain – were unable to finance their government debt and/or bail out national banks, requiring financial assistance from third parties. The Euro Crisis started as a crisis of the financial sector on the other side of the Atlantic and grew as a sovereign debt crisis in Europe. Because of its severity, the Euro Crisis was dedicated most of the EU's policy efforts at least until 2012, often to the detriment of other pressing policy issues. However, while the crisis had a major objective impact across the EU in 2009, it then produced asymmetric (or differentiated) effects between 2010 and 2012 both between the Euro area and the rest of the EU as well as within the Euro area itself, with some countries able to register swift gains in terms of economic recovery and others lagging behind. Along these lines, this chapter raises the following question: How did the EU deal with the Euro Crisis? To address such question, the chapter examines the single major crisis-management instrument adopted by the EU, namely the ESM. The ESM is the permanent successor to the temporary European Financial Stability Facility (EFSF) and European Financial Stabilisation Mechanism (EFSM). It was established in September 2012 to provide Member States with financial assistance with a view to preserving the stability of the Euro Area. It has a maximum lending capacity of €500 billion and operates through loans, primary and secondary market purchases.

This chapter argues that the Euro Crisis and the adoption of the ESM do not constitute a critical juncture of EU financial crisis management. For one, the Euro Crisis has the features of an endogenous shock with asymmetric effects that can be blamed on the misconduct of some of the Member States. Because of its diverse economic impact across the EU, the Euro Crisis cannot qualify as a generative cleavage. For another, the ESM has the features of a gradual change of the *displacement* type. The above argument has the following structure. Section 3.2 investigates the Euro Crisis in terms of nature (i.e., origin), distribution of effects across the Member States, economic impact on the EU and perception by political decision-makers, international monitoring institutions and civil society. This section aims to test the Euro Crisis for the 'generative cleavage' criterion. Section 3.3 examines the establishment of the ESM, focusing on *a)* the negotiations behind the adoption of the instrument and *b)* its legal basis. The section tests whether the adoption of the ESM is an instance of *swift* and *encompassing* change. Section 3.4 analyses the governance of the ESM as emerges from *a)* its decision-making institutions and *b)* their voting rules. The section compares the ESM policy paradigm with previous crisis-management instruments to test whether it stands as an instance of *significant* (i.e., third-order) change. The last section summarises and concludes.

3.2. The Euro Crisis: Testing for the Generative Cleavage

In the wake of the global financial crisis (2007), the Euro Crisis exploded in Europe in late 2009 when the Greek government disclosed that its budget deficit was far higher than previously declared, and in any case far higher than the parameters set in the Stability and Growth Pact (SGP). In December 2009, the country saw its credit downgraded by the major rating agencies, which made it increasingly difficult for Greece to finance itself on the financial markets. The crisis worsened in the following months and spread across the Euro area periphery, with Portugal, Ireland, Spain and Italy suffering spikes in their borrowing costs. Due to the severity of the crisis, some of these countries were forced into asking for external help, which mainly came in the form of financial assistance packages subject to strict conditionality schemes (the European Financial Stability Facility and the European Financial Stabilisation Mechanism). In addition, the EU passed a series of legislative packages (the Six Pack and Two Pack) and intergovernmental measures (the Fiscal Compact) to enhance fiscal regulation and macro-economic surveillance, while the ECB started purchasing risky sovereign debt in the secondary markets (Outright Monetary Transactions).

The Euro Crisis has the features of an endogenous, policy-induced shock, originated in countries with unsound public finances. Such countries proved particularly vulnerable to financial speculation and opened a breach in the stability of the whole EMU. The endogenous nature of the crisis was apparent in what later came to be known as ‘Grexit’, a proposal by Germany’s then Finance Minister Wolfgang Schäuble to exclude Greece from the EMU. Importantly, the Euro Crisis had asymmetric economic effects across EMU members. The Euro area periphery – including Greece, Portugal, Ireland and Spain – was particularly hit by the crisis, while Central and Northern Eurozone Member States – including Germany, France, the Netherlands, Austria and Denmark – fared relatively better and served as a financial backstop to countries in economic hardship. The main narrative around the Euro Crisis came to be one based on the confrontation between ‘creditor’ and ‘debtor’ Member States, that is between countries running current account surpluses and countries with budget deficits. A controversy emerged as to who should bear the burden of political and economic adjustments and make the most consistent sacrifices to preserve the monetary union (Frieden and Walter 2017). This contributed to a long-drawn-out and piecemeal response to the crisis by the EU as institutions and Member States engaged in prolonged debates on whether and how to help ailing economies (Copelovitch *et al.* 2016).

This section aims to assess whether the Euro Crisis meets the criteria of a ‘generative cleavage’. To this effect, it evaluates the impact of the crisis on four economic dimensions, i.e. 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, at least two of such dimensions of the economy should register a deterioration in the EU27. It then examines how the Euro Crisis was perceived by EU decision-makers, international monitoring institutions and the civil society. To qualify as a generative cleavage, most of these actors must have perceived the severity of the crisis and the need for a major institutional response to counter its effects.

The real change in GDP accounts for the change in economic output net of inflation. The early 2000s were years of economic growth for the EU, with real GDP rising between 0.9 and 3.9 percent per year. The Euro Crisis suddenly put an end to this positive trend, causing GDP to fall in real terms by 4.3% in 2009 and by 0.7% in 2012. The economy then progressively recovered starting 2013 (Eurostat 2021). The impact of the Euro Crisis was greatly asymmetric if one compares the Euro area with the rest of the EU but also within the Euro area itself. Between 2009 and 2013, some Southern European countries registered big losses in terms of total economic output, including Greece (-29.5%), Cyprus (-9.6%), Spain (-9.8%), Portugal (-8.8%) and Italy (-7.7%). Other Euro area members fared much better, with Belgium (+3.8%), Germany (+3.2%), France (+2.1%) and Austria (+1.6%) among the least impacted[3]. Overall, the Euro Crisis caused the greatest disruption in 2009, with all Member States suffering large GDP setbacks. In the next three to four years, some Euro area members were able to make up for the lost ground and brought their economies to pre-crisis levels, while others struggled to recover.

GDP per capita represents the economic output of a country per person and is obtained by dividing a country's GDP by the size of its population. GDP per capita is commonly used to compare countries with different sizes and gauge the average wealth of a population. GDP per capita in the EU increased from EUR 18 380 in 2000 to EUR 25 260 in 2008, before falling at EUR 24 050 in 2009 due to the impact of the Euro Crisis[4]. Such impact was however limited in time, as GDP per capita steadily recovered starting 2010 and was beyond pre-crisis level as of 2011. Again, huge asymmetries emerged between the Euro area and the rest of the EU, but also between Euro area members. Some countries suffered great losses between 2009 and 2012 in terms of GDP per capita, including Greece (from EUR 21 840 in 2008 to EUR 17 060 in 2012), Ireland (from EUR 41 660 in 2008 to EUR 38 180 in 2012), Cyprus (from EUR 24 170 in 2008 to EUR 22 500 in 2012) and Spain (from EUR 24 130 in 2008 to EUR 22 050 in 2012). Others even managed to improve their economic output per capita, with Belgium (from EUR 32 840 to EUR 34 770), Germany (from EUR 31 530 to EUR 34 130), Denmark (from EUR 43 990 to EUR 45 530) and Austria (from EUR 35 300 to EUR 37 820)[5]. In sum, the impact of the Euro Crisis on GDP per capita in the EU was overall relatively limited in both time and scope but with great asymmetries from country to country.

The government debt to GDP ratio is the gross debt owned by a government to internal and external lenders as a percentage of GDP. As governments are typically required to pay interests on their debts, government debt to GDP ratio is a key indicator for the sustainability of government finance. In the EU, gross government debt to GDP went from 65% in 2008 to 75% in 2009 and up to 84.6% in 2012. Although increases in public debt were registered across the whole EU, some Member States were massively hit by the Euro Crisis in such terms, mostly in the Euro area periphery. Between 2008 and 2012, government debt to GDP increased by 77.2% in Ireland, 52.6 in Greece, 46.6% in Spain, 34.8% in Cyprus, 21.8% in France and 20.3% in

[3] Eurostat Data Browser, https://ec.europa.eu/eurostat/databrowser/view/tec00115/settings_1/table?lang=en, accessed 12 January 2022.
[4] Eurostat Data Browser, https://ec.europa.eu/eurostat/databrowser/view/NAMA_10_PC__custom_1896262/default/table?lang=en, accessed 12 January 2022.
[5] Ibidem.

Italy.[6] However, countries of the Euro area's core also suffered increases in gross government debt to GDP in those four years, including Germany (+15%), Austria (+13.2%), Belgium (+11.6%), Denmark (+11.5%) and the Netherlands (+11.5%)[7].

The government deficit measures the balance of income and expenditure of a government. The government has a surplus if it is a net lender and has a deficit if it is a net borrower. The government deficit is generally calculated as a percentage of GDP. In the EU, government deficit to GDP increased from 2% in 2008 to 6% in 2009 reflecting the impact of the Euro Crisis, before gradually falling at 3.6% in 2012. Compared to 2008, in 2009 the largest increases in government deficit were recorded in Ireland (+6.9%), Finland (+6.7%), Greece (+4.9%), Spain (+6.7%) and Portugal (+6.3%)[8]. Except for Estonia, all other Member States suffered increases in government deficit with the outbreak of the Euro Crisis in 2009, including in the core of the Euro area. In 2012, only Germany was able to take its government finances to pre-crisis levels.

The EU employment rate, that is the share of employed population aged 20-64, went from 69.5% in 2008 to 67.6% in 2012[9]. This, however, hides formidable divergences between EMU members. Some countries suffered hugely in terms of employment, including Greece (-11.3% from 2008 to 2012), Ireland (-9%), Spain (-8.9%), Portugal (-6.8%), Cyprus (-6.3%) and Denmark (-4.4%). Others even saw their employment rate increase during the Euro Crisis, with Germany (+2.9%) and Austria (+0.6%) leading the way.[10]

Industrial production refers to the output of industrial establishments, including mining, manufacturing, electricity, gas and steam.[11] In 2007, industrial production in the EU grew by 4%. It then decreased by 1.6% in 2008 and by a huge 14.4% in 2009 due to the impact of the Euro Crisis. Despite asymmetries between the Member States, industrial production was severely damaged by the crisis throughout the whole EU. Between 2009 and 2012, countries that suffered the harshest setbacks in terms of industrial production were Cyprus (-28.8%),

[6] Eurostat Data Browser, https://ec.europa.eu/eurostat/databrowser/view/GOV_10DD_EDPT1__custom_1884624/settings_1/table?lang=en, accessed 13 January 2022.
[7] Ibidem.
[8] Eurostat Data Browser, https://ec.europa.eu/eurostat/databrowser/view/GOV_10DD_EDPT1__custom_1885021/settings_1/table?lang=en, accessed 13 January 2022.
[9] Eurostat Data Browser, https://ec.europa.eu/eurostat/databrowser/view/LFSA_ERGAN__custom_1885524/settings_1/table?lang=en, accessed 13 January 2022.
[10] Ibidem.
[11] OECD, Industrial production, https://data.oecd.org/industry/industrial-production.htm, accessed 22 December 2021

Greece (-23.7%), Spain (-23.6%), Italy (-17.2%), Portugal (-16.5%) and France (-7.9%).[12] The consequences of the Euro Crisis on industrial production persisted even beyond 2012, with many EU countries recording further declines in 2013 and 2014.

The EU suffered the most dramatic economic shock in 2009 when the Euro Crisis first exploded. In 2009, all EU countries registered a setback across the identified dimensions of economic activity, namely wealth, government finances, labour and industry. However, the overall impact of the crisis was limited in size and scope as well as greatly asymmetric. Between 2009 and 2012, some countries were able to overcome the downturn and record gains in terms of GDP and employment rates. These included, most prominently, Germany and Austria (in terms of both GDP and employment rates), Belgium and Denmark (in terms of GDP). Other countries were among the worst hit across all dimensions of economic activity, including Greece, Spain, Portugal, Cyprus and Ireland. This justifies the emergence of a narrative based on the confrontation between 'creditor' and 'debtor' Member States as to who was to be blamed for the outbreak of the crisis and who should bear the costs of adjustment. In sum, along the first dimension related to its objective economic impact, the Euro Crisis did not cause a consistent deterioration of two economic dimensions among the four identified in the EU27. The impact of the Euro Crisis was, across several dimensions, limited in scope and size as well as highly asymmetric, affecting Euro area countries much more than the rest of the EU and some Euro area countries more than others.

Despite its asymmetric economic impact, the Euro Crisis was widely perceived as a threat throughout the EU. Just a few months into the outbreak of the Euro Crisis, German Chancellor Angela Merkel declared that the Euro area faces 'a very difficult phase for the coming years' as 'the Greece example is putting us under great, great pressure'.[13] In March 2010, in a speech to the European Parliament, Greece Prime Minister George Papandreou could not help but acknowledge the state of emergency of its government, saying 'we are at the centre of an acute and complex crisis, a crisis first of all caused by a number of internal structural problems, which were then exacerbated by global financial problems' (Papandreou 2010). Appreciating the severity of the crisis, as early as of April 2010, French President Nicolas Sarkozy urged the ECB to start purchasing government bonds to cool down credit markets as there was no room left for hesitation. The position of the French President gained support from Italy's and

[12] Eurostat Statistics Explained, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Industrial_production_by_country,_annual_rates_of_change_2005-2020_18-10-2021.png, accessed 17 January 2022.
[13] EUbusiness, https://www.eubusiness.com/news-eu/germany-greece.29a/, accessed 17 January 2022.

Portugal's Prime Ministers Silvio Berlusconi and José Socrates (Barber 2010). On his part, Spanish PM Rodriguez Zapatero defined the Euro Crisis as 'the deepest and most serious since the 1930s', which '[requires] our policy to be one of austerity and cost cutting. There is no other way' (Mallet *et al.* 2010).

EU institutions were just as alarmed of the troubles caused by the Euro Crisis. In February 2019, European Parliament President Jerzy Buzek took stock of the disruption brought by the crisis in front of the Euro Summit, conceding that 'the stability of the eurozone, every separate country in it, is important, but it is also important for those who wish to join the eurozone in the future: we have to share solidarity' (European Parliament 2010). On 19 March 2010, European Commission President José Manuel Barroso issued a statement to recognise the severity of the crisis and to put forward an instrument for coordinated bilateral assistance to Greece, saying 'we cannot prolong any further the current situation' (European Commission 2010a). In May 2020, ECB President Jean-Claude Trichet declared: 'This is not only a problem for one country. It's several countries. It's Europe. It's global. It's a situation that is deteriorating with extreme rapidity and intensity' (Barber 2010). Later in October, European Council President Herman van Rompuy, in his capacity as President of the Task Force on Economic Governance, stated that 'the financial crisis and the more recent turmoil in sovereign debt markets have clearly highlighted challenges in the European Union's economic governance', adding 'to address these challenges, a fundamental shift in European economic governance is needed' (TFEG 2010a).

International monitoring institutions also perceived the risks associated with the Euro Crisis. In its second 'Economic Outlook' of 2010, the OECD made clear that 'near-term growth appears unlikely to gain the momentum seen in earlier cyclical upturns' and that 'downside risks are to a large extent associated with continued fragile financial markets' (OECD 2010, 13). Along the same lines, in its annual report on economic growth, the ECB explained the decisions of the Governing Council to launch a set of non-standard measures in addition to lowering key interest rates as an attempt to react to the 'intensification of the financial crisis' and a 'challenging environment' (ECB 2009, 10). In March 2019, a press release of the WTO defined the Euro Crisis as the 'biggest economic downturn in decades', stressing that 'although the crisis began in the United States, financial institutions and economies throughout the developed and developing world have been severely affected' (WTO 2009). Finally, in its European economic forecast for the autumn of 2009, the International Monetary Fund (IMF) claimed that 'the current recession proved to be the deepest, longest and most broad-based recession in the EU's history' as the estimated output loss is 'three times more than the average loss in the previous three recessions' (IMF 2009).

The great impact of the Euro Crisis was also acknowledged by analysts and the media alike. In December 2009, the Brussels-based think-tank Bruegel argued that the financial crisis was such a huge threat that it 'led policymakers to break with the prevailing consensus' as 'not only did governments and central banks embark upon discretionary monetary and fiscal stimulus, but they also intervened heavily by bailing out banks and by assisting non-financial industries' (Bénassy-Quéré *et al.* 2009). On 29 April 2010, in an article for Carnegie, Uri Dadush claimed that 'Europe will need to enact a credible plan that addresses the situations in both Greece and other vulnerable countries if the Euro area is to survive in the long-term' (Dadush 2010). In a May 2011 working paper for the Centre for European Policy Studies, De Grauwe examined the nature of the financial crisis and its implications for the governance of the EMU, contending that since 'members of a monetary union issue debt in a currency over which they have no control, it follows that financial markets acquire the power to force default on these countries' (De Grauwe 2011, p. 2). Analysing the implications of the Euro Crisis on other dimensions of EU activity, in November 2011 Nico Popescu wrote an article for the European Council on Foreign Relations and argued that 'the economic crisis has huge implications for EU foreign policy. There is less time for it, less money available, and Europe's ability to project soft power is in a coma' (Popescu 2011).

Overall, the Euro Crisis has had a strong objective impact on the economy of all EU countries in 2009, before producing asymmetric effects between the Euro area and the rest of the EU as well as within the Euro area itself in the medium-term. Despite such an asymmetric impact, the Euro Crisis was widely perceived as a threat throughout the whole EU, including EU institutions and Member States, international monitoring institutions, analysts and the media. Because of its effects as limited in size and duration and highly asymmetric, the Euro Crisis cannot qualify as a generative cleavage for our purposes. Following our analytical framework, in the absence of a generative cleavage, the temporal sequence can take the form of either path-dependence or incremental change, but not of a critical juncture (see Chapter 2). Arguably, while falling short of a generative cleavage, the perception of the Euro Crisis as a serious threat triggered a reaction from EU decision-makers and prevented going for 'business as usual' in crisis management terms.

3.3. The Establishment of the ESM: Testing for Swift and Encompassing Change

The EU responded to the Euro Crisis through a series of crisis-management instruments, eventually leading up to the adoption of the ESM in September 2012. Between May and June 2010, the EU had activated two temporary crisis-resolution tools in close succession, namely the European Financial Stabilisation Mechanism (EFSM) and the European Financial Stability Facility (EFSF). As the two instruments proved insufficient to handle the fallout from the Euro Crisis, the Member States were urged to adopt a permanent tool for crisis-management, the European Stability Mechanism (ESM). Negotiations for the establishment of the ESM took place between May 2010 and March 2012. Meetings at the EU level to set up a permanent crisis-management tool replacing the temporary EFSF involved the Eurogroup (and ECOFIN), the European Summit (and European Council) and the European Commission. Such meetings intensified from early 2011 as the sovereign debt crisis escalated in Greece. At that point, the Member States were faced with rising financial instability in European markets and needed to provide a commensurate response. To that effect, the ESM constitutes the product of 'summit diplomacy' (Smeets and Beach 2019), whereby the Heads of State and Government (hereafter, 'Heads') gathered behind closed doors to find a solution to the crisis. Indeed, although the European Commission played a role in the discussions for the establishment of the instrument, it was mostly Member State governments who steered the process. While the Euro Crisis exploded in late 2009, it took Member State governments almost three years to come up with a major crisis-resolution tool. In addition, the ESM was eventually established outside the EU legal framework, as an international financial institution based on an intergovernmental agreement between the Member States of the Euro Area.

EU leaders first floated the idea of a permanent crisis-resolution mechanism at the Eurogroup and ECOFIN meetings of 9-10 May 2010. While finalising the agreement on the adoption of the temporary EFSF and EFSM, Euro Area finance ministers manifested their intention of 'strengthening fiscal discipline and establishing a permanent crisis resolution framework' (Council of the EU 2010, 7). Two days later, in its communication on 'Reinforcing economic policy coordination', the European Commission welcomed the Council's adoption of the EFSM and reiterated that providing financial assistance to Member States through lending (as opposed to assuming debt) is fully consistent with Art. 125 TFEU ('no bailout clause'). On this basis, the European Commission set out 'in the medium-term to make a proposal for a permanent crisis resolution mechanism' and to 'follow-up swiftly with legislative proposals […] to establish a more permanent framework for crisis management' (European Commission 2010b, 10-11).

The setting up of an effective crisis-management tool was identified as one of four top priorities by the Task Force on Economic Governance (TFEG) in its first meeting of 21 May. The TFEG was established by the European Council of 25-26 March 2010 to deal with the fallout from the Euro Crisis and strengthen the EU legal framework. It consisted of representatives from the EU27 (especially Finance Ministers), European Commissioner Rehn, ECB President Trichet, Eurogroup President Juncker, and European Council President Van Rompuy as chairman. On 21 October, in its final report to the European Council, the TFEG acknowledged the need to establish a new mechanism to counter financial instability in the Euro Area and provide the Member States with continued access to financial markets. In the intentions of the TFEG, such mechanism should address the problem of moral hazard by creating incentives for the Member States to pursue sound macroeconomic policies, and include the role of the private sector, the IMF, and strict conditionality rules. The TFEG concluded that the new instrument would require Treaty changes, and passed the definition of its features and operational means on to the European Council (TFEG 2010b).

On 28-29 October, the Heads agreed on the need to set up a permanent crisis-management instrument to preserve the financial stability of the Euro Area, and opened to a limited Treaty change required to do so. They also tasked the European Commission with drafting an outline of such an instrument, defining the role of the private sector, IMF, and conditionality system before the following European Council meeting of December (European Council 2010a). On 28 November, the Eurogroup discussed the European Commission's outline, which was prepared in close cooperation with the European Council President (Smeets *et al.* 2019). The Eurogroup decided that the new ESM would operate with the same framework as the EFSF to secure market access for Member States in financial trouble. The ESM would include participation of private sector creditors on a case-by-case basis and consistently with the policies of the IMF. The finance ministers of the Euro Area also provided that ESM loans would enjoy preferred creditor status and would be issued under strict conditionality rules. To that end, the European Commission and IMF, along with the ECB, would lay down programmes of economic and fiscal adjustment, as well as country-specific debt sustainability assessments. Finally, the Eurogroup agreed that decisions on providing assistance would be taken by unanimity (Eurogroup 2010).

On 16-17 December, the European Council welcomed the Eurogroup statement and launched the simplified Treaty revision procedure as per Art. 48(6) TEU. On this basis, the

Heads unanimously adopted a decision amending Art. 136 TFEU with a view to creating the legal basis for the establishment of the ESM. Specifically, a paragraph was added whereby Euro Area Member States could set up a permanent mechanism to safeguard the financial stability of the Eurozone. The activation of such mechanism would be subject to strict conditionality rules. The European Council also invited the Eurogroup and European Commission to finalise work on the intergovernmental governance of the ESM, and reiterated that the mechanism would be activated, in case of risk to the financial stability of the Euro Area, by mutual agreement (European Council 2010b). In January and February 2011, the European Commission presented a series of option papers to discuss potential arrangements and features of the ESM. These focused on the modalities for the establishment of the instrument as well as on its scope. As for its establishment, the papers envisaged a role for the European Commission as policy initiator and for the European Parliament (EP) and Council as decision-makers, thus securing the involvement of supranational institutions. As for the scope of the fund, the European Commission proposed to combine the traditional precautionary credit lines and primary or secondary market purchases of the EFSF with the provision of guarantees to the recipient Member States (Smeets *et al.* 2019).

Despite the Commission's initiatives, key decisions on the ESM were to be taken by the intergovernmental institutions. The Euro Summit of 11 March decided that financial assistance from the ESM would take the form of loans and, in extraordinary circumstances, primary market operations in the context of strict conditionality programmes. It set the effective lending capacity of the instrument at a maximum of €500 billion and confirmed that any decision on financial assistance would be taken by unanimity in case of serious risks to the economic stability of the Euro Area. The Euro Summit also decided to ease the financing conditions of the ESM loans, lowering their interest rates and increasing their maturity (Euro Summit 2011a). The following European Council meeting of 24-25 March constituted a crucial step in the overall definition of the upcoming ESM. On that occasion, the Heads endorsed a term sheet on the decision-making procedure for its establishment and the governance for the disbursement of its loans. The ESM would be established by the Member States of the Euro Area 'as an intergovernmental organisation under public international law and will be located in Luxembourg' (European Council 2011a, Annex II). Its highest decision-making body would be a Board of Governors, composed of the Finance Ministers of Euro Area Member States as voting members, in addition to the European Commissioner for Economic and Monetary Affairs and the ECB President as observers. The Board of Governors would decide by unanimity on the granting of financial assistance, the terms and conditions of financial assistance, and the lending capacity of the instrument. It would run the ESM along with a Board of Directors, composed of personnel appointed by the Board of Governors. Decisions by the Board of Directors would be taken by a qualified majority of 80 percent of the votes, with voting weights depending on the Member States' subscriptions to ESM capital. The Board of Governors would appoint a Managing Director as chairperson of the Board of Directors, tasked with the day-to-day management of the ESM. The European Council also provided that the ESM would include the participation of the European Commission, ECB and IMF in the activation of financial assistance programmes, monitoring and post-programme surveillance (European Council 2011a).

On such basis, the European Council of 23-24 June 2011 declared that a final agreement on the ESM was reached. The Heads invited the Member States to take all necessary steps to allow the ratification of the ESM Treaty by the end of 2012. They also called on the Euro Summit and Eurogroup to complete work on outstanding elements with a view to signing the ESM Treaty by early July (European Council 2011b). The following Eurogroup meeting of 11-12 July started with the ceremonial signing of the ESM Treaty to set up a permanent mechanism as a response to any future request of financial assistance in the Euro Area. The ESM would replace both the EFSF and the EFSM starting from July 2013. The Eurogroup confirmed that the ESM would have a maximum lending capacity of €500 billion and that its establishment would require amending Art. 136 TFEU (Eurogroup 2011). Such meeting thus finalised the first version of the ESM. However, due to increasing contagion and the deteriorating economic position of Greece, the ratification process was temporarily halted. Intergovernmental institutions soon took the lead in the definition of a second, more powerful version of the ESM before it could come into force (Smeets *et al.* 2019).

On 21 July, the Euro Summit acknowledged that 'the challenges at hand have shown the need for more far reaching measures' (Council of the EU 2011, 1). To that effect, the Heads of Euro Area Member States agreed to improve the effectiveness of the EFSF/ESM by increasing the flexibility of its tools. Specifically, they provided that the two instruments could operate based on precautionary programmes and indirect recapitalisation of banks through loans to governments (including in non-programme countries). Most importantly, following concessions by German Chancellor Angela Merkel in exchange for substantial private sector involvement, the EFSF/ESM would be able to make secondary market interventions upon authorisation from the ECB and ESM Member States, the latter by mutual agreement (Ludlow 2011, as cited in Smeets *et al.* 2019). The Eurogroup of 3 October endorsed the new tools, including secondary market operations, but no formal decision was taken as some Member

States had to wait for national parliamentary approvals (Smeets *et al.* 2019). On 26 October, it was again the Heads of Euro Area Member States to call the shots in the negotiating process. The Euro Summit agreed on increasing the size of the EFSF/ESM through two leveraging options: first, providing credit enhancement to new debt issued by Member States through private sector operations in the primary market; second, maximising the funding arrangements of the EFSF/ESM thanks to a combination of public and private investors through Special Purpose Vehicles (SPVs). The Euro Summit specified that 'the leverage effect of each option [would] vary, depending on their specific features and market conditions, but could be up to four or five' (Euro Summit 2011b, 6).

At the Eurogroup meeting of 29 November 2011, Euro Area finance ministers endorsed the two leveraging options but started exploring other modalities to further enhance the size of the EFSF/ESM. In particular, they thought of increasing IMF resources through bilateral loans, as well as consulting other potential contributors from the international community (Reuters 2011). In the last ESM-dedicated meeting of the year, on 9 December the Euro Summit agreed to anticipate the entry into force of the instrument from July 2013 to July 2012, subject to ratification from Member States until 90% of the paid-in capital is reached. While committing themselves to reassessing the adequacy of the ESM size in due course, the Heads of the Euro Area introduced an innovation in the governance of the facility. To take urgent decisions on financial assistance, they provided for an emergency voting procedure whereby the mutual agreement rule would be replaced by a qualified majority of 85% in case the European Commission and ECB concluded that the economic and financial stability of the Euro Area is threatened (Euro Summit 2011c). The following Eurogroup meeting of 23 January 2012 endorsed such changes and allowed the ratification process in the Member States to start up again (Smeets *et al.* 2019).

On 30 March, the Eurogroup recalled that 'the stability and integrity of the Economic and Monetary Union have required swift and vigorous measures' (Eurogroup 2012). To further promote market confidence, the finance ministers of the Euro Area agreed to temporarily increase the overall size of the combined EFSF/ESM to €700 billion until mid-2013. They reiterated that the ESM would replace the EFSF as the main crisis-resolution instrument starting from July 2012, with a maximum lending capacity of €500 billion, and that the EFSF would continue to operate in financial assistance programmes activated before that date (Eurogroup 2012). On 27 September 2012, following 15 other Eurozone Member States, Germany ratified the ESM Treaty, thus securing the 90% threshold of the instrument's paid-in capital. Eurogroup President Juncker soon welcomed the entry into force of the ESM, adding Estonia would close the ratification process in the next few days. He announced that the ESM would start its operations on 8 October, following the inaugural meeting of the ESM Board of Governors (Juncker 2012). The ESM was formally set up as an international financial institution based in Luxembourg City. The ESM Treaty was concluded outside the EU legal framework as an intergovernmental agreement operating under public international law. The ESM 'Contracting Parties' are the Member States of the Euro Area, while access to the firewall is allowed to any other Member State of the EU subject to their derogation from adopting the Euro (Art. 2.1 ESM Treaty). The legal terms on which EU institutions participate in ESM activities are set by Regulation 472/2013 of the European Parliament and Council. A Memorandum of Understanding (MoU) jointly agreed by the ESM and the European Commission further specifies the working relations between the two institutions in the context of financial assistance programmes based on EU law and the ESM Treay (Memorandum of Understanding 2018).

The negotiations and legal basis behind the establishment of the ESM both point to the distinctive intergovernmental character of the instrument. The negotiating process testified to the pre-eminence of intergovernmental institutions over supranational institutions. A first impetus was given by the Eurogroup and ECOFIN, which manifested the need to establish a permanent crisis-resolution framework to secure the financial stability of the Euro area. The European Council welcomed such initiative and provided political direction to the decision-making process. The Heads acted swiftly at the Treaty level to allow for the adoption of the ESM in compliance with the no bailout clause, and defined the general features of the mechanism's governance. The Euro Summit focussed on the scope and size of the ESM, while setting the working schedule of the Eurogroup. Early in the process, the European Commission announced its intention to come up with a legislative proposal for the establishment of the instrument. However, its contribution was ultimately limited to drafting an outline of the ESM, to be discussed by the Eurogroup, and to presenting a series of option papers on potential arrangements of the facility. The European Parliament was not involved in any stage of the negotiating process.

Overall, negotiations in the EU for the establishment of the ESM took place between the initial Eurogroup and ECOFIN meetings of 9-10 May 2010 and the Eurogroup meeting of 30 March 2012. The ESM was meant to replace two temporary crisis-management instruments adopted in May and June 2010, the EFSF and the EFSM. When the ESM finally came into force in September 2012, almost three years had passed since the outbreak of the crisis. For our purposes, that means that the ESM clearly does not constitute a *swift* change. In setting up the ESM, the Member States combined recourse to EU law instruments and public international law instruments. First, they amended Art. 136 TFEU to create the legal basis for the establishment of the facility. They then had to move outside EU Treaties as the ESM only covered Member States of the Euro Area, thus constituting an instance of differentiated integration. From a legal perspective, the ESM stands as an international financial institution based on an intergovernmental agreement among the Member States of the Euro Area. Membership of the ESM is conditional upon adoption of the Euro, and open to Member States of the EU who decide to withdraw their opt-out from membership of the currency union. For this reason, the ESM does not constitute an *encompassing* change either.

3.4. The Governance of the ESM: Testing for Significant Change

The governance of the ESM is widely predicated upon intergovernmental coordination as was the policy paradigm of its predecessor, the EFSF (Gocaj and Meunier 2013). As an international financial institution, the ESM has its own set of decision-making bodies and voting rules. Its institutional structure consists of a Board of Governors, a Board of Directors and a Managing Director. The Board of Governors and the Board of Directors take decisions by mutual agreement, qualified majority voting (QMV) or simple majority voting (SMV). Decisions by mutual agreement require the unanimity of all members, net of abstentions; the adoption of a decision by QMV requires 80% of the votes cast; while decisions by SMV require the majority of the votes cast. Importantly, the voting rights of each ESM Member in the Board of Governors and the Board of Directors equal the number of their shares in the capital stock of the instrument. In the context of decisions by mutual agreement, an emergency voting procedure may exceptionally be activated in case the European Commission and the ECB conclude that the economic and financial stability of the Euro Area is threatened. Through such a procedure, the adoption of a decision by mutual agreement requires a qualified majority of 85% of the votes cast rather than unanimity (ESM Treaty 2012). Despite the presence of several bodies and voting rules, however, an intergovernmental logic permeates the governance of the ESM. In terms of composition, the Board of Governors and the Board of Directors emanate, directly or indirectly, from Member State governments. Moreover, the provision of financial assistance is subject, almost invariably, to consensus and unanimity.

The Board of Governors is the highest decision-making institution of the ESM. It is made up of the Ministers of Finance of the ESM Members, thus featuring the same composition as the Eurogroup, and is chaired by either the President of the Eurogroup himself or by a

Chairperson and a Vice-Chairperson to be elected from among its members for a two-year term. Representatives of the European Commission and the ECB may also participate in meetings of the Board of Governors as observers. The Board of Governors decides, by mutual agreement, *a)* to provide financial assistance by the ESM to any ESM Members based on a conditionality scheme negotiated in a Memorandum of Understanding (MoU) by the European Commission and the ECB, as well as the choice of instruments and financial terms of each programme; *b)* to mandate the European Commission and the ECB with negotiating the economic policy conditionality of each financial assistance programme; *c)* to make changes to the range of financial assistance instruments available to the ESM; *d)* to revise the authorised capital stock and the maximum lending capacity of the ESM; and *e)* to delegate any of these functions to the Board of Directors (ESM Treaty 2012, Art. 5). By QMV, the Board of Governors decides *a)* whether to be chaired by the Eurogroup President or by a separate Chairperson and Vice-Chairperson; *b)* the election, in the latter case, of the Chairperson and the Vice-Chairperson from among its members; *c)* to appoint and to remove from office the Managing Director of the ESM; *d)* to establish other funds or reserves; and *e)* to set out by-laws of the ESM and the rules of procedure for the Board of Governors and the Board of Directors (ESM Treaty 2012, Art. 5).

The second decision-making institution of the ESM is the Board of Directors. It consists of senior officials from the ESM Members appointed by the Board of Governors and revocable at any time. Usually, top-level officials serving in the Ministries of Finance, such as Director-Generals of the national Treasuries, are selected for the office. Again, the European Commission and the ECB may appoint one observer each with the right to participate in meetings of the Board of Directors. The Board of Directors takes decisions mostly by QMV, while adopting the same voting rules as the Board of Governors for decisions delegated to it by the latter. Its core function is to run the ESM in line with the ESM Treaty and the by-laws issued by the Board of Governors. By QMV, the Board of Directors *a)* approves the financial assistance facility agreement and the disbursement of the first tranche of the financial assistance; *b)* adopts the guidelines on the modalities for the implementation of the precautionary financial assistance of the ESM, of financial assistance for the re-capitalisation of banks in an ESM Member, and of ESM loans; *c)* adopts such guidelines on the modalities for the implementation of primary and secondary market support facility. Exceptionally acting by mutual agreement, the Board of Directors *a)* decides, on a proposal from the Managing Director, whether a credit line should be maintained or replaced by another form of financial assistance; *b)* approves, on a proposal from the Managing Director, the disbursement of tranches of the financial assistance for the re-capitalisation of banks in an ESM Member and for ESM loans following the first tranche; *c)* approves, on a proposal from the Managing Director, the disbursement of such tranches for the financial assistance of an ESM Member through primary and secondary market operations (ESM Treaty 2012, Art. 6).

The Managing Director of the ESM chairs the meetings of the Board of Directors and participates in meetings of the Board of Governors. S/he is the legal representative of the ESM and runs the organisation for its day-to-day business. The Managing Director is appointed by the Board of Governors for a five-year term, renewable once, and from among high-level personalities of ESM Members with international experience in economic and financial affairs. S/he can be dismissed at any time by the Board of Governors. The Managing Director *a)* calls authorised unpaid capital to avoid defaults by the ESM and informs the Board of Directors and the Board of Governors of any such call; *b)* determines the modalities of the borrowing operations following the guidelines of the Board of Directors; *c)* signs the financial terms and conditions of ESM precautionary credit lines, financial assistance for the re-capitalisation of banks in an ESM Member and ESM loans; *d)* signs such financial terms and conditions in relation to primary and secondary market operations; *e)* proposes to the Board of Governors and the Board of Directors the financial assistance facility agreements, including the financial terms and conditions as well as the instruments for each programme; *f)* proposes to the Board of Directors the maintenance of a credit line or its replacement with another form of financial assistance; *g)* proposes to the Board of Directors the disbursement of tranches of the financial assistance for the re-capitalisation of banks in an ESM Member and for ESM loans following the first tranche; *h)* proposes to the Board of Directors the disbursement of such tranches for the financial assistance of an ESM Member through primary and secondary market operations (ESM Treaty 2012, Art. 7).

If necessary to preserve the financial stability of the Euro Area and of its Member States, the ESM provides stability support to ESM Members based on strict conditionality in the form of macro-economic adjustment programmes (ESM Treaty 2012, Art. 12). To this end, an ESM Member may send a request to the Chairperson of the Board of Governors, who may in turn entrust the European Commission and the ECB with assessing *a)* the existence of a risk to the financial stability of the Euro Area or its Member States, *b)* the sustainability of public debt in the ESM Member concerned, and *c)* the financing needs of the ESM Member. Based on such assessment, the Board of Governors may decide to activate a financial assistance facility in support of the ESM Member. In that case, the Board of Governors mandates the European Commission, along with the ECB and the IMF, with negotiating the conditionality scheme of the financial assistance facility in a Memorandum of Understanding (MoU) whose terms reflect the severity of the weakness to be addressed. In negotiating the conditionality rules, the European Commission takes into account the relevant position of the ESM Member in the economic policy coordination cycle of the European Semester. The MoU needs to be approved by the Board of Governors and signed by the European Commission on behalf of the ESM. At the same time, on a proposal from the Managing Director and after consent of the Board of Governors, the Board of Directors approves a financial assistance facility agreement, including the financial terms and conditions of the programme and the disbursement of the first tranche of the assistance. Finally, the European Commission, along with the ECB and IMF, monitors compliance of the ESM Member with the conditionality agreed in the MoU (ESM Treaty 2012, Art. 13). Overall, the decision-making process for granting stability support and the disbursement of the first tranche of financial assistance is spearheaded by the Board of Governors and formally completed by the Board of Directors, while the prevailing logic is based on mutual agreement, consensus, and unanimity.

To provide an ESM Member with the needed financial assistance, the ESM relies on such diverse instruments as precautionary credit lines, financial assistance for the re-capitalisation of financial institutions, loans, a primary market support facility and a secondary market support facility (ESM Treaty 2012, Art. 14-18). The governance for the disbursement of tranches of financial assistance subsequent to the first tranche is the same for the whole range of instruments, and mirrors the governance for the disbursement of the first tranche (illustrated above). The Board of Governors decides to activate a credit line based on one of the ESM instruments. The credit line comes with a conditionality scheme, taking the form of a MoU, negotiated by the European Commission, along with the ECB and IMF, on behalf of the ESM with the Member State concerned. The MoU needs to be signed by the European Commission after approval by the Board of Governors. At the same time, the Board of Directors, on a proposal from the Managing Director and after consent of the Board of Governors, needs to approve the financial assistance facility agreement indicating the instrument chosen as well as the terms and conditions of the financial assistance. The European Commission, along with the ECB and IMF, exercises monitoring functions over the compliance of the ESM Member with the conditionality rules as per the MoU. The governance of the ESM for the disbursement of tranches of financial assistance subsequent to the first tranche is, again, punctuated by the Board of Governors, with the Board of Directors formally completing the decision-making process. Mutual agreement thus stands as the undisputed logic behind the continued provision of financial assistance.

On 9 April 2020, the Eurogroup agreed to set up a new credit line, called Pandemic Crisis Support, in response to the COVID-19 pandemic (Council of the EU 2020a). The Pandemic Crisis Support became fully operational on 15 May. It is open to all ESM Members based on a preliminary eligibility assessment already carried out by the European Commission (European Commission 2020b). The new credit line has a maximum capacity of €240 billion and is available until the end of 2022 with possible adjustments in relation to the evolution of the crisis to be taken by the Board of Governors by mutual agreement. The Pandemic Crisis Support is subject to no conditionality for ESM Members other than using the related financial assistance for sustaining direct or indirect healthcare costs at the domestic level, including cure and prevention of COVID-19. In terms of governance, an ESM may request activation of the credit line to the Chairperson of the Board of Governors. The Board of Governors decides to grant support by mutual agreement based on an eligibility assessment by the European Commission and the ECB. As the European Commission already performed such an assessment for all ESM Members upon establishment of the Pandemic Crisis Support, the Board of Governors has only to formally confirm that evaluation. The European Commission signs the country-specific Pandemic Response Plan with the ESM Member concerned, while the Managing Director prepares its proposal for the financial assistance facility agreement. The Board of Governors approves both by mutual agreement, and sends the financial assistance facility agreement to the Board of Directors for final approval. The European Commission monitors the actual use of the financial assistance by the ESM Member and reports quarterly to the Board of Directors (ESM 2020). The governance mechanism is, again, steered by the Board of Governors and the Board of Directors, with a prevailing consensual logic stemming from mutual agreement and unanimity rules. The newly established Pandemic Crisis Support constitutes an instance of limited or first-order change. While slightly reforming the terms on which a credit line is activated, it applies the same policy paradigm of the older instruments and fully operates within the scope of the ESM, thus per se ruling out the establishment of a new crisis-resolution tool.

On 27 January and 8 February 2021, ESM Members agreed to a reform of the ESM Treaty, making the ESM a backstop to the Single Resolution Fund (SRF). In terms of governance, minor changes were introduced including a more prominent role for the Managing Director. First, following such reform, upon receipt of a request of financial support, the Managing Director is tasked by the Board of Governors – together with the European Commission, ECB and IMF – with assessing *a)* the existence of a risk to the financial stability of the Euro Area or its Member States, *b)* the sustainability of public debt in the ESM Member concerned, and *c)* the financing needs of the ESM Member. Second, in deciding on granting stability support to the requesting ESM member, the Board of Governors must not only take into account the said assessment, but also a separate proposal from the Managing Director. Third, in case stability support is in principle granted, the Managing Director negotiates – together with the European Commission, ECB and IMF – the conditionality rules of the programme, and signs – together with the European Commission – a MoU detailing such conditionality on behalf of the ESM (ESM Treaty 2021). Despite such an increased role for the Managing Director, the decision-making process remains centred on the Board of Governors and, to a lesser extent, the Board of Directors, with an overarching consensual logic.

While the temporary EFSM was placed within the EU budget and given a more supranational governance due to its very limited lending capacity (up to EUR 60 billion)[14], the ESM mirrors the policy paradigm of its closest predecessor, the EFSF (Verdun 2015). The decision-making structure of the EFSF consists of the General Meeting of Shareholders (the equivalent of the Board of Governors), the Board of Directors and the Chief Executive Officer (CEO, the equivalent of the Managing Director). The Board of Directors and the General Meeting of Shareholders approve the activation of loan facilities and the disbursement of loans to Member States in financial difficulty by unanimity, whereas the CEO conducts the daily management and affairs of the instrument (Table 7). The EFSF and ESM also share the same staff and offices located in Luxembourg. Since the establishment of the ESM, the EFSF no longer engages in financing programmes or facility agreements but will remain active to receive repayments from beneficiary countries. The ESM is thus the sole mechanism to serve as a financial backstop to the Euro area. The EFSF will be dissolved and liquidated as soon as the financial assistance and funding instruments issued to Member States have been fully repaid.[15]

[14] 'The European Financial Stabilisation Mechanism: Main Features', *European Parliament Briefing*, available at: https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/645718/IPOL_BRI(2020)645718_EN.pdf, accessed 25 January 2022.

[15] 'European Financial Stability Facility (EFSF)', available at: https://www.esm.europa.eu/sites/default/files/2016_02_01_efsf_faq_archived.pdf, last accessed 25 January 2022.

	Establishment		Governance		Outcome
	Date of adoption	*Legal basis*	*Decision-making institutions*	*Voting rules*	
European Financial Stabilisation Mechanism (EFSM)	11 May 2010	Regulation of the Council adopted through a special legislative procedure and based on European Union law (Art. 122 TFEU)	European Commission and Council	QMV in the Council on a proposal from the European Commission	Limited supranational delegation
European Financial Stability Facility (EFSF)	8 June 2010	Intergovernmental agreement based on public international law	EFSF General Meeting of Shareholders, EFSF Board of Directors, EFSF CEO	Unanimity (General Meeting of Shareholders and Board of Directors)	Intergovernmental coordination
European Stability Mechanism (ESM)	27 September 2012	Intergovernmental agreement based on public international law	ESM Board of Governors, ESM Board of Directors, ESM Managing Director	Unanimity (Board of Governors) and QMV (Board of Directors)	Intergovernmental coordination

Table 7 The EFSM, EFSF and ESM in comparative perspective: establishment and governance. Source: adapted from Verdun (2015).

To sum up, the governance of the ESM is widely predicated on the principle of intergovernmental coordination. First, as an international financial institution, the ESM comes with its own set of decision-making bodies. While relying on the support of EU institutions – such as the European Commission and the ECB – for negotiating and monitoring compliance with the terms of financial assistance by the Member States, the facility operates through a Board of Governors, a Board of Directors, and a Managing Director. The composition of the Board of Governors and the Board of Directors, arguably the main decision-making institutions of the ESM, derives directly or indirectly from Member State governments. The Board of Governors, the highest authority of the facility, consists of the Finance Ministers of the ESM Members, thus borrowing its structure from the Eurogroup. The Board of Governors determines the composition of the Board of Directors, drawing from public officials of the ESM Members. Finally, the Board of Governors also appoints a Managing Director, who chairs meetings of the

Board of Directors. Second, consensus and unanimity are the prevailing norms for the disbursement of financial assistance. Although the Board of Directors approves financial assistance facility agreements by QMV, 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. Specifically, the Board of Governors decides on the activation of a credit line in favour of a requesting ESM Member, approves a MoU including the conditionality rules of the financial assistance programme, and agrees on a financial assistance facility agreement before sending them to the Board of Directors for final approval. Since the governance structure and the decision-making logic of the ESM closely resemble those of the EFSF, the ESM does not constitute a *significant*, or third-order change in EU crisis-management. Rather, as it consists in the establishment of a new crisis-management instrument with the same policy paradigm of the previous, the ESM amounts to a second-order change or gradual change of the displacement type.

3.5. Conclusion

This chapter argued that the temporal sequence between the Euro Crisis and the adoption of the ESM does not constitute a critical juncture. To get to this conclusion, the chapter tested the Euro Crisis for the ‘generative cleavage’ and the ESM for an instance of ‘significant’, ‘swift’ and ‘encompassing’ change. Section 3.2 of the chapter examined the nature and effects of the Euro Crisis. It showed that the Euro Crisis was as an endogenous, policy-induced shock originated in countries with unsound public finances which proved particularly vulnerable to financial speculation and opened a breach in the stability of the whole EMU. It then showed that the crisis had a major objective impact across the EU in 2009, before producing asymmetric effects between 2010 and 2012, with some countries able to register swift gains in terms of economic growth. While failing the test of the generative cleavage, the Euro Crisis was perceived as a fundamental threat by political decision-makers, international monitoring institutions and the civil society alike. This played a role in the alternative between institutional path dependence and incremental change in EU crisis management. Section 3.3 analysed the establishment of the ESM in terms of negotiations leading up to the adoption of the tool and the legal basis on which it was adopted. It showed that negotiations for the finalisation of the instrument took place between the Eurogroup and ECOFIN meetings of 9-10 May 2010 and the Eurogroup meeting of 30 March 2012. The ESM was eventually adopted in September 2012, almost three years after the outbreak of the crisis, thus not constituting a *swift* change. In addition, the ESM was established as an international financial institution by means of an intergovernmental agreement under public international law. It was located outside the EU legal framework as it only applies to Euro Area Member States rather than to the EU27. For this reason, it does not stand as an *encompassing* change. Section 3.4 discussed the governance of the ESM with respect to its decision-making institutions and their voting rules and in comparison with the governance of its closest predecessor, the EFSF. It showed that the governance of the ESM is based on the principle of intergovernmental coordination whereby decisions on the activation of loan facilities are taken by representatives of Member State governments by consensus and unanimity. The governance of the ESM was borrowed from the EFSF both regarding the composition of the main decision-making institutions and the voting rules behind the provision of financial assistance. For this reason, the ESM falls short of a *significant* change. Since it stands as a new crisis-management instrument with the same policy paradigm of its predecessor, the ESM qualifies as a second-order change. Specifically, as it builds on and *de facto* replaces two pre-existing and temporary crisis-management tools, the ESM constitutes a gradual or incremental change of the displacement type (Table 8).

	Change			**Outcome**
	Swift	*Encompassing*	*Significant*	
European Stability Mechanism (ESM)	No – adopted in September 2012 following the EFSM and EFSF after almost three years of the outbreak of the Euro Crisis	No – applies to the Euro Area only	No – is an instance of second-order change (establishment of a new instrument with the same policy paradigm of the previous)	Gradual or incremental change of the displacement type

Table 8 The ESM as institutional change: A gradual or incremental change of the displacement type.

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4. The COVID-19 Pandemic and the Recovery and Resilience Facility (RRF): A Critical Juncture in EU Crisis Management

4.1. Introduction

Along the lines of the previous chapter, this chapter applies the 'critical junctures' framework to the COVID-19 pandemic and the RRF. It tests the COVID-19 pandemic against the 'generative cleavage' [H1a] and the RRF as an instance of 'significant', 'swift' and 'encompassing change' [H1b]. As European economies were finally recovering from the consequences of the Euro Crisis, another economic shock came along. In March 2020, what initially broke out as an epidemic caused by the SARS-Cov-2 virus turned into a global pandemic, giving rise to the greatest health emergency worldwide in recent times. Though a health crisis in nature, the COVID-19 pandemic brought with it harsh economic effects, marking unprecedented annual GDP losses and social disruption throughout the EU (Quaglia and Verdun 2023). It thus raised the need to deploy large-scale financial assistance in the EU. The following question thus arises: How did the EU address the COVID-19 pandemic in terms of financial assistance? The chapter examines the RRF within NGEU as the single major crisis-management instrument adopted by the EU to deal with the crisis. The RRF is an innovative if temporary instrument which provides direct financial support to Member States in the form of non-repayable contributions (or grants) and loans for up to €672.5 billion. It was adopted in February 2021 as the flagship programme of NGEU, and integrated into the Multiannual Financial Framework (MFF) for 2021-2027. The RRF promotes the adoption of structural reforms and public investments in the Member States in relation to their relevant 'milestones' and 'targets', meaning qualitative and quantitative objectives respectively.

This chapter argues that the COVID-19 pandemic and the adoption of the RRF constitute a critical juncture for EU financial crisis management [H1]. First, the COVID-19 pandemic is a formidable exogenous shock with large-scale effects in terms of both economic impact and perception. Second, the RRF has the features of a third-order change which is both swift and encompassing. This argument is structured as follows. Section 4.2 discusses the COVID-19 pandemic focusing on its nature and origin, the distribution of its effects across the Member States, its economic impact on the EU and how it is perceived by decision-makers, international monitoring institutions and the civil society. This section seeks to establish whether the outbreak of the COVID-19 pandemic meets the requirement of a generative cleavage. Section 4.3 analyses the establishment of the RRF by looking at *a)* the negotiations leading up to its adoption and *b)* the legal ground behind its adoption. The section tests whether the establishment of the RRF represents a case of *swift* and *encompassing* change. Section 4.4 investigates the governance of the RRF with reference to *a)* its decision-making institutions and *b)* their voting procedures. This section compares the RRF policy paradigm with the ESM's to assess whether it stands as a *significant* (i.e., third-order) change. The final section sums up and concludes.

4.2. The COVID-19 Pandemic: Testing for the Generative Cleavage

The COVID-19 pandemic is a global pandemic caused by the ongoing spread of the SARS-Cov-2 virus. The first confirmed case of infection in Europe was registered on January 24 in Bordeaux, France (WHO 2022). The coronavirus subsequently spread across the continent so widely as to urge most of the Member States to impose severe restriction on civil liberties, including the freedom of movement, culminating in national lockdowns throughout the EU. Due to its magnitude, the pandemic dramatically undermined European healthcare systems and produced severe but differentiated economic consequences. In light of the different structure and resilience of the economies, some Member States were in fact able to react better than others (Buti 2020).

In Europe, the COVID-19 pandemic thus hit as a common exogenous shock with symmetric health effects and asymmetric economic consequences. This marks two fundamental differences with respect to the Euro Crisis. First, contrary to the Euro Crisis, the COVID-19 pandemic was not an endogenous, policy-induced shock caused by the misconduct of a group of Member States. It was not, that is, as much the product of a policy failure as it was the natural consequence of globalisation. Second, despite the asymmetric distribution of its economic costs, the pandemic significantly affected all Member States to the extent that no meaningful distinction can, in its respect, be drawn between 'creditor' and 'debtor' countries, as was instead the case with the previous Euro Crisis. COVID-19 prolonged the 'seemingly permanent crisis' vexing Europe and urged the adoption of an emergency fund of an unprecedented nature (Voltolini *et al.* 2020).

This section seeks to establish whether the outbreak of the COVID-19 pandemic stands as a generative cleavage, thus serving as a permissive condition for institutional change. 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 monitoring institutions and the 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.

After years of economic downturn from 2008 to 2013, the EU economy gradually recovered between 2014 and 2019, peaking at +2.8% in 2017. In 2020, real GDP fell by a huge 6.1% due to the impact of the COVID-19 pandemic, including 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). 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 GDP dropping by 6.4%. 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).[16] Overall, the COVID-19 crisis led to an unprecedent decrease in economic output in the EU in 2020.

In the EU, GDP per capita steadily increased from EUR 28 200 in 2016 to EUR 31 310 in 2019. In 2020, GDP per capita decreased at EUR 29 890 following the 6.1% fall in total economic output. Again, in terms of change in GDP per capita on an annual basis, Southern European countries were heavily hit by the pandemic, including Spain (-10.34%, provisional), Greece (-9.78%, provisional), Italy (-7.46%) and France (-5.8%, provisional),[17] whereas Northern European countries fared better. In general, following the pandemic, GDP per capita in the EU mirrored the negative pattern of real GDP.

Consolidated gross debt as a percentage of GDP regularly decreased in the EU after the end of the Euro Crisis, reaching a historical low at 77.5% in 2019. The positive pattern was reversed in 2020, with government debt touching 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 points compared to 2019. Most of the other Member States registered

[16] Eurostat Data Browser, https://ec.europa.eu/eurostat/databrowser/view/tec00115/default/table?lang=en, accessed 21 December 2021.
[17] Eurostat Data Browser, https://ec.europa.eu/eurostat/databrowser/view/NAMA_10_PC__custom_750401/bookmark/table?lang=en&bookmarkId=c73fbdc4-3a29-4086-a3f9-873d75a42eb3, accessed 21 December 2021.

increases of at least 10%, while a small minority contained the increase in debt-to-GDP to a few percentage points, including Sweden (+4.8%), the Netherlands (+5.8%), Denmark (+8.5%) and Germany (+9.8%).[18] 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 of negative economic outputs.

In the EU, the general government deficit decreased from 1.4% of GDP in 2016 to 0.5% in 2019. In 2020, the government deficit increased to 6.9% of GDP reflecting the impact of the COVID-19 crisis (Eurostat 2021). Compared to 2019, in 2020 the largest increases in government deficit relative to GDP were recorded in Greece (+11.2%), Malta (+10.2%), Austria (+8.9%) and Slovenia (+8.1%)[19]. 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.

The EU employment rate reached a peak in 2019 at 73.1%. In 2020, employment in the EU decreased to 72.4%, down 0.7 percentage points compared to the previous year.[20] 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%.[21] The general fall in EU employment is the first recorded since 2013. All of 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).

Industrial production registered annual increases from 2014 to 2018 in the EU. This came to an end in 2019, when industrial output fell by 0.8%. The outbreak of the pandemic had a significant impact on industrial production in the EU, leading to a further decline of 8.0% in 2020 (Eurostat 2021). This was largely due to the fall in the manufacturing of motor vehicles,

[18] Eurostat Data Browser, https://ec.europa.eu/eurostat/databrowser/bookmark/d42f336f-b8f1-4bd8-af8c-8e2b79cae42b?lang=en, accessed 22 December 2021.
[19] Eurostat Data Browser, https://ec.europa.eu/eurostat/databrowser/view/GOV_10DD_EDPT1__custom_1040995/bookmark/table?lang=en&bookmarkId=262cdaff-96aa-410b-be58-a21acfe0202f, accessed 22 December 2021.
[20] Eurostat Data Browser, https://ec.europa.eu/eurostat/databrowser/view/LFSA_ERGAN__custom_748975/bookmark/table?lang=en&bookmarkId=6876d080-fcde-4f6c-9000-cfcd79e82619, accessed 22 December 2021.
[21] Eurostat Statistics Explained, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Impact_of_COVID-19_on_employment_income_-_advanced_estimates&stable=1, accessed 22 December 2021.

furniture, machinery, basic metals and metal products.[22] The general decline in industrial production between 2019 and 2020 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%).[23]

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 '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 to the Financial Times on 16 April, French President Emmanuel Macron defined the pandemic as 'a shock, a very anthropological one', adding '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. 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. We must be prepared for the effects of this crisis and not be overwhelmed' (European Parliament 2020a). On 27 April, the President of the Council Andrej Plenkovic stated that 'the EU should be helping […] all of the Member States in this time of crisis. We would show that a common

[22] Eurostat Statistics Explained, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Industrial_production_statistics#Overview, accessed 22 December 2021.
[23] Eurostat Statistics Explained, https://ec.europa.eu/eurostat/statistics-explained/index.php?title=File:Industrial_production_by_country,_annual_rates_of_change_2005-2020_18-10-2021.png, accessed 22 December 2021.

European approach can deliver once it is needed' (Dellana 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 2020a). She stressed that 'the crisis has huge externalities and spill-overs across countries. None of that can be fixed by any single country alone. That is about all of us. And it is way bigger than any of us' (European Commission 2020a).

International monitoring institutions were equally assertive in their forecasts on 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). In quite the same vein, the ECB recognised that 'the coronavirus outbreak and the associated containment measures have paralysed the global economy and trade' and that 'the euro area is facing an economic contraction of a magnitude and speed that are unprecedented in peacetime' (ECB 2020). On 8 April 2020, in a press release, the World Trade Organisation expected global trade 'to plunge as COVID-19 pandemic upends 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 unprecedent 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. The crisis is fundamental, posing a dramatic threat to public health and the life of citizens' and 'will require unparalleled monetary and fiscal measures by central banks and governments' (Emmanouilidis 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). On 13 March, the *Financial Times* titled: 'Traumatic day on global markets spurs central banks to step up action'. Just a few days later, on 19 March, the print edition of *Politico* titled: 'The World "At War"'.

Overall, the COVID-19 pandemic has had both a strong objective and subjective impact in 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 monitoring institutions and the civil society. As a result, the COVID-19 pandemic qualifies as a generative cleavage for large-scale institutional change.

4.3. 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 9 April 2020 and 11 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 France and Germany – also contributed to boosting the process (de la Porte and Jensen 2021). Contrary to the ESM, negotiations for the RRF witnessed a major role of supranational and intergovernmental institutions alike (Fabbrini 2022). Although the European Council and ECOFIN (or Eurogroup) provided impetus and political guidance throughout the course of discussions, the European Commission was able to delineate the general features of the facility early in the process, thus setting the negotiating terms for the other institutions (Kassim 2023). Also, while the European Parliament did not play an active part in the definition of the instrument, its opinion was considered crucial to keep the process going. Importantly, 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.

As the EU started perceiving the COVID-19 pandemic as a European crisis that required a response at the EU level rather than multiple responses at the national level (Capati *et al.* 2022;

Quaglia and Verdun 2023), on 9 April 2020 the Eurogroup first launched the idea of a Recovery Fund (later NGEU) to deal with its economic and social consequences. Such fund would draw on the EU budget and aim to provide funding to the most affected Member States. While anticipating that the Recovery Fund would be temporary and targeted to the fallout from the COVID-19 pandemic, the Eurogroup passed discussions on its legal and practical aspects on to the Heads (Council of the EU 2020a). The following day, in a letter to European Council President Michel, Eurogroup President Centeno stressed that the Recovery Fund should mobilise future-oriented resources, noting that some Member States were willing to base it on common debt issuance and the MFF (Centeno 2020). On 21 April, Michel and European Commission President von der Leyen presented a 'Joint Roadmap for Recovery', taking stock of the unprecedented crisis and suggesting there would be no space for business as usual. The two Presidents acknowledged that the EU 'needs a Marshall-Plan type investment effort to fuel the recovery and modernise the economy […] drawing on public investment at European and national levels and on mobilising private investment' (Von der Leyen and Michel 2020, 4). They emphasised the potential for green and digital transition, and mandated the European Commission to present proposals for a comprehensive package linked to the EU budget.

On 23 April, the European Council welcomed the 'Joint Roadmap for Recovery' and agreed to give the necessary impetus to the establishment of a Recovery Fund to address the COVID-19 pandemic. To that effect, the Heads tasked the European Commission with coming up with a proposal clarifying the link between the fund and the MFF (European Council 2020b). Before the Commission proposal came in, and along the lines of the Franco-German directoire, French President Macron and German Chancellor Merkel presented a joint position for the fund at a press videoconference on 18 May. Recognising the exceptional nature of the crisis, they proposed 'to allow the European Commission to finance such recovery support by borrowing on markets on behalf of the EU under the provision of a legal basis in full respect of the EU Treaty, budgetary framework and rights of national parliaments' (Macron and Merkel 2020, 2). The two leaders envisaged setting up a temporary instrument of up to €500 billion to promote the resilience and competitiveness of the Member States through the provision of 'budgetary expenditure' (i.e. grants). In view of the Commission proposal, they reiterated that a swift agreement on the Recovery Fund and the MFF would be crucial to addressing the consequences of the pandemic, and that it would require raising the EU's Own Resources ceiling (Politico 2020a). On that occasion, Macron and Merkel acted as 'political entrepreneurs', taking the crisis as a window of opportunity to set out a new way of moving forward (Ladi and Tsarouhas 2020). The idea of the Commission borrowing from capital markets, getting to issue a common debt, and providing the Member States with financial assistance in the form of grants was of an unprecedented calibre, and paved the way for the legislative proposal of 28 May.

The Commission proposal constituted the first comprehensive scheme for the adoption of a Recovery and Resilience Facility (to be part of NGEU) as a regulation of the European Parliament and the Council. Such proposal was based on Art. 175(3) TFEU, which allows the European Parliament and Council to adopt measures, outside the Structural Funds, acting in case of necessity under the OLP. The European Commission's plan was even more ambitious than the Franco-German initiative. It envisaged raising the European Recovery Instrument (later NGEU) to €808.984 billion and to reinforce the MFF for 2021-2027 accordingly. It also provided that the RRF would amount to €602.905 billion, divided between €334.950 billion in the form of non-repayable support (i.e. grants) and €267.955 billion in the form of loans. The Commission reiterated that the RRF would be the key programme of NGEU, to be financed through borrowing operations of the Union on capital markets. In terms of governance, the said scheme provided that the European Commission would assess Member States' national recovery and resilience plans (NRRPs) based on, *inter alia*, their compliance with country-specific recommendations issued to Member States in the framework of the European Semester, their contribution to the growth potential and social and economic resilience of the Member State, and their contribution to the green and digital transition. The Commission would decide on any NRRP by way of implementing act. The Council could suspend, on a proposal from the Commission, decisions on NRRPs as well as payments under the RRF in case of significant non-compliance (European Commission 2020b). On the same day, European Council President Michel welcomed the Commission proposal and called on the Council to start analysis of the scheme. He scheduled a regular European Council meeting for 19 June, saying 'everything should be done to reach an agreement before the summer break' (European Council 2020c). The European Commission proposal constituted a benchmark for the establishment of the RRF, and greatly conditioned the negotiating terms among Member State governments thereafter.

On 9 June, building on the Commission proposal, the ECOFIN discussed the general structure of the recovery plan as well as its composition. The Finance Ministers of the Member States stressed the relevance of the green and digital transition and elaborated on the link between the facility and the European Semester (Council of the EU 2020b). On 19 June, the Heads held a videoconference meeting to take stock of the pandemic and discuss the Commission proposal. At the end of the meeting, European Council President Michel officially launched negotiations with the Member States and convened an in-person summit for mid-July (European Council 2020d). On 1 July 2020, Germany succeeded Croatia in the six-month rotating presidency of the Council. Again, Chancellor Merkel was able to act as a political entrepreneur, following up on the Commission's scheme with a draft proposal on the plan's governance. While the former limited the Council's role to suspending decisions or payments on a Commission proposal, the German draft provided that the Council would have a say on any phase of the process and approve the Commission assessments of NRRPs by QMV. The German proposal was debated at the EU Ambassadors meeting on 8 July. On that occasion, Dutch EU Permanent Representative De Groot said the Netherlands still favoured unanimity rules along the lines of the ESM decision-making process. He also suggested that the Dutch government was not quite happy with grants and would not support financing them through the emission of a common debt. Overall, however, the German proposal was hailed as a big progress in the negotiations as it somewhat moved decision-making powers from the European Commission to the Council (Politico 2020b).

On 10 July, one week ahead of a crucial European Council meeting, President Michel summed up ongoing negotiations with the Member States, and presented his proposal for the MFF and the recovery package. He set the size of the MFF at €1,074 billion and of NGEU at €750 billion, while urging to preserve a balance between grants and loans to avoid massive levels of public debt in the EU. In his remark, Michel suggested that the assessment of NRRPs would be approved by the Council by QMV on a Commission proposal, thus confirming the draft of the German presidency (Council of the EU 2020c). It was on this basis that the Heads met on 18-21 July in the context of a long-drawn-out European Council meeting. In their Conclusions to the meeting, European leaders formally committed to integrating the 2021-2027 MFF with an exceptional recovery instrument, NGEU, as the main EU recovery tool. The MFF would amount to €1,074.3 billion, while NGEU would consist of up to €750 billion, divided between €360 billion in the form of loans and €390 billion in grants and guarantees. As the flagship programme within NGEU, a €672.5 billion RRF would be established to provide financial assistance through loans (€360 billion) and grants (€312.5). To that effect, the European Commission would be allowed to borrow on capital markets on behalf of the Union. Such power would, however, be limited in size, duration and scope. Specifically, the Commission would be able to conduct borrowing operations for up to €750 billion by the end of 2026 and for the sole purpose of addressing the economic and social consequences of the COVID-19 pandemic. In terms of governance, the Heads agreed on Michel's proposal, but introduced an 'emergency brake' whereby any Member State could stop the financing line and bring the matter before the European Council in case they found a NRRP to seriously deviate from the relevant criteria. The Heads invited the Council to start negotiations with the European Parliament to finalise work on NGEU and the RRF (European Council 2020e).

On 23 July, the European Parliament came up with a resolution on the European Council's Conclusions. Taking up a tough negotiating line, it stated that such conclusions 'represent no more than a political agreement between the Heads' and stressed that 'the Parliament will not rubber-stamp a *fait accompli*', de facto threatening to withhold its consent for the 2021-2027 MFF (European Parliament 2020b). The European Parliament regretted their intention to set up the RRF by withdrawing resources from other such programmes as ReactEU, Horizon Europe, and EU4Health – all part of NGEU. It proposed raising the budget of NGEU and the MFF through additional own resources mostly stemming from green and digital levies. The Parliament opposed the cuts on the grants component of the RRF with respect to the Commission proposal, saying that would contribute to undermining recovery prospects. The European Parliament also criticised the European Council position on the governance of the facility, 'which moves away from the Community method and endorses an intergovernmental approach' (European Parliament 2020b). It therefore demanded, in its capacity as budgetary authority of the EU (along with the Council), to be involved in both the establishment and governance of the facility in line with the Community method. On 16 September, in her 'State of the Union' address to the European Parliament, European Commission President von der Leyen tried to cool down the EP's temper on the recovery plan by emphasising the importance of a swift agreement. Speaking to MEPs, she said NGEU would combine 'investments with much needed reform'. Von der Leyen emphasised that the 'Council endorsed it in record times' and hoped that the EP would vote on it 'with maximum speed' (Von der Leyen 2020).

On 6 October, the ECOFIN reached a political agreement on the RRF. The Finance Ministers of the Member States confirmed the balance between loans (€360 billion) and grants (€312.5 billion) as provided by the European Council. They also agreed on the governance of the instrument and discussed the possibility to adopt it as a regulation with the European Parliament on the Commission proposal of 28 May. Such agreement was to be formalised by the Permanent Representatives Committee and serve as a mandate to the German presidency of the Council for negotiations with the EP. Following the meeting, Germany's Finance Minister Scholz declared: 'We hope that we will be able to conclude the legislative process with the European Parliament as soon as possible' (Council of the EU 2020d). This confirmed the Ministers' willingness to pursue a supranational-oriented legislative procedure rather than an intergovernmental agreement. Three days after the meeting, EU Ambassadors in Brussels formally agreed the Council's position on the RRF, calling on the Council and the European

Parliament to finalise work on the instrument (Council of the EU 2020e). The Council and EP moved on quickly, and on 10 November reached a political agreement on the long-term MFF and NGEU. Following intensive consultations, the two institutions agreed to reinforce such EU programmes as Horizon Europe, EU4Healt and Erasmus+. The Council conceded greater involvement of the European Parliament as budgetary authority in the revenue oversight of NGEU, including a tentative roadmap to the introduction of additional own resources. After the announcement of the agreement, the German Permanent Representative to the EU said that was 'a well-balanced deal, which addresses the issues raised by the Parliament while respecting the guidance received from the European Council in July' (Council of the EU 2020f).

On 10-11 December, the European Council agreed on a regime of conditionality for the protection of the MFF and NGEU. The Heads' meeting was dedicated to addressing concerns raised by Hungary and Poland over the relation between the EU's long-term budget and the respect of the rule of law (Baraggia and Bonelli 2022). In their Conclusions, European leaders provided that such conditionality would be applied 'in full respect of the national identities of Member States inherent in their fundamental political and constitutional structures', and that it would be 'objective, fair, impartial and fact-based' (European Council 2020f, 1). While conceding that the opening of any formal procedure would be preceded by a dialogue with the Member State concerned 'so as to give it the possibility to remedy the situation', the Heads reiterated that the conditionality mechanism would be an integral part of the new budget (European Council 2020f, 2). On 14 December, the Council took a great step towards finalising adoption of the EU's long-term budget. It approved legislative acts which are an integral part of the package, including the own resources and the 'European Union Recovery Instrument' (or NGEU), of which the RRF is the largest programme. The own resources decision allows the European Commission to temporarily borrow on the capital markets up to €750 billion to fund loans (€360 billion) and grants (€390 billion) to the Member States. It also raises the own resources ceiling from 1.20% to 1.40% of the EU27 Gross National Income (GNI), and introduces a tax on non-recycled plastic packaging waste as a new own resource (Council of the EU 2020g). The Council then called on the Member States to activate their national ratification processes. The decision on the European Union Recovery Instrument establishes NGEU as part of the 2021-2027 MFF. It identifies the measures and sectors to be financed through the €750 billion package, the time limit for the use of the funds, and their allocation to different EU programmes (Council of the EU 2020g). The Council also adopted a formal decision on the new conditionality mechanism and the MFF, which it sent to the European Parliament for approval.

Towards the end of the year, the final steps were taken for the finalisation of 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 MFF would amount to €1,074.3 billion and be integrated with the €750 billion NGEU. Overall, the EU would benefit from a long-term fiscal capacity of up to €1.8 trillion, an unprecedented budgetary figure. 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 2020h). 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 2020i). On such solid basis, on 11 February 2011, the two institutions finalised work and adopted a regulation establishing the RRF as the core programme of NGEU. The RRF would make €672.5 billion available to finance public investments and structural reforms in the Member States and address the economic and social consequences of the COVID-19 pandemic. Portugal's Finance Minister Leão, who had succeeded Germany's Scholz in the rotating presidency of the ECOFIN by January 1st, welcomed the adoption of the RRF as the 'unprecedented possibility of supporting the COVID-19 crisis and of undertaking green and digital transitions in an inclusive way' (Council of the EU 2021).

In terms of establishment, the RRF is far from a purely intergovernmental instrument. The negotiations behind its adoption and, even more so, its legal basis point to a clear move away from intergovernmental coordination towards a form of supranational delegation (Fabbrini and Capati 2023). The process witnessed a balance between supranational and intergovernmental bodies. EU actors were involved in the following number of official meetings or negotiating talks: the Council (mostly ECOFIN) in eight (including the Eurogroup in one); the European Parliament in five; the European Council in four; EU diplomats in two; and the European Commission in one. In addition, the Presidents of the European Commission and the European Council issued one joint statement and one individual statement respectively, while France and Germany contributed a joint political initiative. Beyond its legislative proposal, the European Commission and its President took part in a great deal of informal talks with EU institutions and leaders, thus acting behind the scenes for the establishment of the facility. Moreover, the

Commission proposal first defined the general features of the RRF, thus setting the terms on which other EU actors were to negotiate.

Overall, negotiations at the EU level for the adoption of the instrument unfolded between the Eurogroup meeting of 9 April 2020 and the final regulation of 11 February 2021, covering a period of ten months. Despite the unexpected scale and the unprecedent nature of the shock, EU institutions and the Member States were able to act quickly, providing the Union with a new crisis-management instrument within a year of the outbreak. In addition, the RRF was established as a regulation of the European Parliament and the Council on a legislative proposal from the European Commission. 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. For these reasons, the RRF constitutes a *swift* and *encompassing* change.

4.4. The Governance of the RRF: Testing for Significant Change

Contrary to the ESM, the RRF is an EU Treaty-based instrument. It stands as the core programme of NGEU, which is legally integrated into the 2021-2027 MFF and institutionally integrated into the European Semester (D'Erman and Verdun 2022; Vanhercke and Verdun 2022). As a result, its governance relies on EU institutions. Specifically, two decision-making procedures arise from the RRF – one for the disbursement of financial contributions and the other for the suspension (and lifting thereof) of financial commitments and payments. Both procedures revolve around the European Commission and the Council, but the balance of power leans towards the Council in the former procedure (disbursement) and towards the Commission in the latter (suspension and lifting of suspension). In practice, the Commission assesses Member States' 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 brake 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 authorise the disbursement of the financial contribution until the European Council has discussed the matter. The European Commission can 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). 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. Rather, inter-institutional relations within the governance of the RRF seem to point to a form of limited supranational delegation (Buti and Fabbrini 2022; Fabbrini and Capati 2023). Let us discuss the two decision-making procedures in turn, starting with disbursement of financial contributions.

To receive financial support under the RRF, Member States need to prepare NRRPs including the reforms and investments projects they wish to implement as well as a detailed spending scheme. To this effect, the European Semester is the institutional framework within which the Member States need to identify national reform priorities and ensure their implementation (Vanhercke and Verdun 2022). Member States' NRRPs need to meet both specific and general objectives. The specific objectives consist in the relevant country-specific recommendations issued for each Member State by the European Commission in the context of the European Semester. The general objectives are structured in six pillars: *a)* the green transition; *b)* the digital transformation; *c)* sustainable and inclusive growth, including job creation, competitiveness, research and innovation; *d)* socioeconomic and territorial cohesion; *e)* health and institutional resilience, including crisis-prevention and crisis-management capacities; and *f)* policies for the next generation, such as education and skills. Importantly, Member States are required to earmark at least 37% of their planned expenditures for the climate or green target and 20% for the digital target, while the remaining 43% can be flexibly allocated among the other pillars. NRRPs must be presented, by 30 April, in a single document and explain their contribution to the six pillars and to the country-specific recommendations by the European Commission, whether and how such programmes comprise cross-border or multi-country projects, what are the specific milestones and targets to be completed by 31 August 2026, and the amount of the total costs of the reforms and investments covered by the NRRP. Member States can submit an updated NRRP up to twice a year to request additional disbursements upon reaching the agreed milestones and targets (RRF Regulation 2021, Art. 17-18).

The European Commission assesses the NRRPs and makes a proposal for a Council implementing decision within two months of the receipt of such plans. During the assessment, a dialogue may be initiated between the Commission and the Member States to exchange observations, request additional information, and make adjustments to the plans. The Commission and the Member States may also agree to postpone the deadline for the assessment when deemed necessary. In assessing the plans, the Commission considers the relevance, effectiveness, efficiency and coherence of the recovery and resilience plans. In terms of relevance, the Commission should establish whether the NRRPs meet the six pillars of the RRF and the country-specific recommendations in the framework of the European Semester. In terms of effectiveness, the Commission should decide whether the plans have the needed potential for a longstanding effect on the Member States and whether they include the milestones and targets and related indicators so as to ensure an effective monitoring and implementation. In terms of efficiency, it should agree on the amount of the total costs of the programmes as estimated by the Member States, and establish whether the Member States have done enough to prevent corruption, fraud and conflicts of interests when making use of the funds under the RRF. Finally, in terms of coherence, the Commission should check whether the structural reforms and public investments programmes represent a coherent and long-term project. In case the European Commission gives a positive assessment of a NRRP, its proposal to the Council must include the reforms and investments scheme as synthetised by the relevant milestones and targets, and the amount of the financial contributions. If, in addition to the financial contributions, a Member State requests a loan in its NRRP, the Commission proposal to the Council must also include the amount of such loan as well as the additional milestones and targets attached to the loan support. In case the European Commission gives a negative assessment of a NRRP, it must submit a report detailing the reasons behind the rejection of the plan within two months of the receipt of such plan (RRF Regulation 2021, Art. 19).

Within one month of the Commission proposal, the Council approves the NRRPs on a case-by-case basis and in the form of an implementing decision by QMV. This implies that the Commission needs a qualified majority in the Council to get its proposal passed. The Council decision formalises the amount of financial contributions to the Member States. Specifically, when a NRRP meets the relevant criteria and its estimated total costs equal, or are higher than, the maximum financial contributions allocated to that Member State as per the RRF, the Council concedes to the Member State the maximum financial contribution as per the RRF. When a plan meets the relevant criteria but its estimated total costs are lower than the maximum financial contributions allocated to that Member State as per the RRF, the Council concedes a financial contribution which is equal to the amount of estimated total costs of the plan. Finally, when a NRRP does not comply with the relevant criteria, the Council concedes no financial contribution at all. On a proposal from the Commission, the Council can, at any time, amend its implementing decisions by QMV (RRF Regulation 2021, Art. 20).

The Council adoption of its implementing decision allows the European Commission to proceed with the disbursement of the financial contributions. Before authorising the payment, however, the Commission should ask for the technical opinion of the Economic and Financial

Committee on the compliance of the NRRPs with the relevant milestones and targets. The Economic and Financial Committee delivers its opinion by consensus. In that context, if any Member State finds a NRRP in a serious deviation from the relevant milestones and targets, they may activate an emergency brake to retard the provision of financial assistance. To that effect, one or more Member States may exceptionally ask the President of the European Council to bring the NRRP to the next European Council meeting, in which case the Commission may not authorise the payment until the European Council has discussed the matter (RRF Regulation 2021). The powers of the European Council on NRRPs are, however, limited in both time and scope. On the one hand, the whole process should not take longer than three months since the Commission first asked for the opinion of the Economic and Financial Committee. On the other, Member State governments have no veto power over the disbursement of the financial contributions, and the final decision on authorising such disbursement lies with the European Commission.

A second decision-making procedure concerns the suspension (and lifting thereof) of previously established commitments and payments under the RRF. The Commission may propose to the Council to suspend all or part of any such commitments and payments in one of the following cases: *a)* where the Council decided that a Member State has failed to take effective action to correct its excessive deficit; *b)* where the Council adopted two successive recommendations in the framework of an excessive imbalance procedure for a Member State's failure to submit a sufficient corrective action plan; *c)* where the Council adopted two successive decisions in the framework of an excessive imbalance procedure establishing a Member State's failure to comply with the recommended corrective action; *d)* where the Commission concluded that the Member State has not made adjustments to its initial economic policy conditions in the framework of the facility providing medium-term financial assistance for Member States' balances of payments as per Council Regulation (EC) No 332/2002; and *e)* where the Council decided that a Member State has failed to comply with the macroeconomic adjustment programme as per Article 7 of Regulation (EU) No 472/2013 or with the economic policy guidelines on the coordination and surveillance of budgetary discipline adopted under Art. 136(1) TFEU. The European Commission should, in any case, prioritise the suspension of commitments, and ask for the suspension of payments only in case of significant non-compliance. Following its proposal, the Commission should inform the European Parliament providing a detailed account of the commitments and payments which may be suspended (RRF Regulation 2021, Art. 10). Beyond such consultation, the Commission is not formally constrained by the position of the EP, whose role remains very limited throughout.

The Commission proposal is considered adopted 'unless the Council decides, by means of an implementing act, to reject such a proposal by QMV within one month of the submission of the Commission proposal' (RRF Regulation 2021, Art. 10). In substance, the Council adopts the Commission proposal acting by RQM. This slightly diminishes the decision-making role of the Council, as it needs a qualified majority to reverse the Commission proposal. When deciding upon the Commission proposal, the Council should make sure that the scope of the suspension is proportionate to the Member State's deviation and takes into account the socioeconomic conditions of the Member State, including the level of unemployment, poverty and social exclusion. In addition, the suspension should amount to a maximum of 25% of commitments or 0,25% of GDP in the first case of non-compliance, while it may exceed such thresholds in case of continued deviation. If the Commission proposal is not turned down by a qualified majority in the Council within one month, it applies to requests for financial contributions submitted after the adoption of the decision to suspend, while every previous payment is unaffected. The Council may subsequently lift the suspension of commitments and payments by RQM on a Commission proposal. Specifically, the Commission and Council may decide to lift the suspension in one of the following cases: *a)* where the Member State has caught up with the requirements under the excessive deficit procedure or the Council has closed that procedure; *b)* where the Member State has caught up with the corrective action plan or the excessive imbalance procedure or the Council has closed that procedure; *c)* where the Commission established that the Member State has made significant adjustments to its initial economic policy conditions in the framework of the facility providing medium-term financial assistance for Member State'' balances of payments; and *d)* where the Commission determined that the Member State has made significant progress to implement the macroeconomic adjustment programme or the economic policy guidelines on the coordination and surveillance of budgetary discipline. Similarly, the European Commission should send its proposal to lift a suspension to the European Parliament, which may ask the Commission to explain the motivations behind it (RRF Regulation 2021, Art. 10).

As an EU Treaty-based crisis-management instrument, the RRF operates by means of EU institutions. Its governance includes two decision-making procedures, both of which revolve around the European Commission and the Council. While their role is just as crucial in either procedure, the balance of power between the Commission and Council slightly varies across the two. In addition to such institutions, the European Council may occasionally discuss one or more NRRPs before the Commission authorises the disbursement of financial contributions in case an emergency brake is activated by any Member State government. Finally, the European

Parliament can exchange opinions with the Commission but ultimately exercises a mere consultative role. The two decision-making mechanisms govern the disbursement of financial assistance and the suspension (and lifting thereof) of commitments and payments respectively. The procedure for the disbursement of financial contributions starts off with Member States presenting their NRRPs to the European Commission. Such plans provide for the reforms and investments projects to be implemented by the Member States, and are in turn operationalised in a series of relevant milestones and targets. Within two months, the Commission assesses the plans and makes a proposal to the Council, which adopts it by QMV in the form of an implementing act within one month. Here, the balance of power between the Commission and Council leans towards the latter, as the Commission needs a qualified majority in the Council to get its proposal passed. Differently, the decision-making procedure for the suspension (and lifting thereof) of previously established commitments and payments opens up with the Commission making a proposal in this sense to the Council, which adopts it by RQM in the form an implementing act within one month. In this case, the balance of power between the Commission and Council leans towards the former, as the Council needs a qualified majority to reverse the Commission proposal.

As it turns out, 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, an intergovernmental governance would imply a preeminent role of the European Council and the Council, both acting by unanimity (as per Art. 24 TEU). As we have seen, the European Council is in this case only allowed to discuss a NRRP before the Commission can authorise 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 (Fabbrini and Capati 2023). Table 9 below summarises the establishment and governance of the RRF and draws a comparison with the establishment and governance of the ESM.

In sum, since the RRF represents an innovative crisis-management instrument with respect to the ESM, and one based on a different policy paradigm (limited supranational delegation rather than intergovernmental coordination), it then qualifies as a third-order (or *significant*) change.

	Establishment		**Governance**		**Outcome**
	Decision-making institutions	*Legal basis*	*Decision-making institutions*	*Voting rules*	
European Stability Mechanism	Intergovernmental institutions – mostly the European Council (or Euro Summit) and ECOFIN (or Eurogroup)	Intergovernmental agreement based on public international law	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	Supranational and intergovernmental institutions – mostly the Council (or ECOFIN), European Parliament, European Council and European Commission	Regulation of the European Parliament and the Council adopted through the OLP and based on European Union law	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

Table 9 The ESM and the RRF in comparative perspective: establishment and governance. Source: own elaboration.

4.5. Conclusion

This chapter argued that the COVID-19 pandemic and the adoption of the RRF constitute a critical juncture of EU crisis management, confirming [H1]. It did so by testing the pandemic crisis for the 'generative cleavage' [H1a] and the RRF for an instance of 'significant', 'swift' and ‘encompassing change’ [H1b]. Section 4.2 of the chapter discussed the nature, origin and effects of the COVID-19 pandemic. It showed that the pandemic originated as a common exogenous shock with symmetric health effects and asymmetric economic consequences, and that it had a major objective and subjective impact in 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 monitoring institutions and the civil society. As a result, the COVID-19 pandemic qualifies as a generative cleavage for large-scale institutional change. Section 4.3 examined the establishment of the RRF by looking at the negotiations leading up to its adoption and the legal ground on which it was adopted. It showed that negotiations at the EU level for the adoption of the instrument unfolded between the Eurogroup meeting of 9 April 2020 and the final regulation of 11 February 2021, covering a period of ten months. It also showed that the RRF was established through the OLP as a regulation of the European Parliament and the Council on a proposal from the European Commission, thus applying to all 27 Member States. For these reasons, the RRF constitutes a *swift* and *encompassing* change. Section 4.4 analysed the governance of the RRF with respect to its decision-making institutions and their voting procedures and in comparison with the governance of the ESM. It showed that the governance of the RRF reflects a form of limited supranational delegation that moves away from intergovernmentalism *à la* ESM. Since the RRF represents an innovative crisis-management instrument, and one based on a different policy paradigm vis-à-vis the ESM, it qualifies as a third-order (or *significant*) change (Table 10).

	Change			**Outcome**
	Swift	*Encompassing*	*Significant*	
Recovery and Resilience Facility (RRF)	Yes – adopted in February 2021, within a year of pandemic outbreak (March 2020)	Yes – applies to EU27	Yes – is an instance of third-order change (establishment of a new instrument with a different policy paradigm with respect to the previous)	Critical Juncture

Table 10 The RRF as institutional change: A critical juncture.

Consistently with our analytical framework (see Chapter 2), with the COVID-19 pandemic standing as a generative cleavage and the RRF as an instance of significant, swift and encompassing change, the temporal sequence between the two constitutes a critical juncture for EU financial crisis management.

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5. The Critical Antecedent: Governance Differentiation and Crisis Management in the EU following the COVID-19 Pandemic

5.1. Introduction

By focussing on the ‘critical antecedent’ as defined in the analytical framework, this chapter makes two inter-related arguments. First, drawing on official documents as well as the relevant literature, it argues that the EU is internally differentiated into two co-existing governance systems: a system of supranational delegation for the low-salience policy areas linked to market regulation, such as trade and competition policies; and a system of intergovernmental coordination for the high-salience policy areas linked to the so-called ‘core state powers’, such as the economic governance of the EMU as well as the CFSP. To that effect, governance is defined as the set of ‘interactive processes through which society and the economy are steered towards collectively negotiated objectives’ (Ansell and Torfing 2022). Second, by means of a thematic analysis of official documents and semi-structured elite interviews, the chapter argues that such internal governance differentiation delimited the range of options available to decision-makers for institutional change in EU financial crisis management as a response to the COVID-19 pandemic, thus acting as a ‘critical antecedent’ for the outcome of interest (i.e. the establishment of the RRF as an instrument of limited supranational delegation) [H2]. With the assistance of the software *Nvivo*, a coding frame was built including the coding categories ‘supranational delegation’ and ‘intergovernmental coordination’. Subsequently, relevant references were selected for analysis across the available sources through the following keywords in their stemmed format: ‘supranational’, ‘intergovernmental’, ‘choice’, ‘options’, ‘regulation’, ‘coordination’, ‘unanimity’, ‘qualified majority’. This allowed mapping out the preferences of relevant actors across different phases of the negotiation process.

The above arguments are structured as follows. Section 5.2 traces the institutional development and consolidation of the supranational governance system from its foundation with the Treaty of Rome (1957) up to the Lisbon Treaty (2007), highlighting relevant institutional actors, decision-making procedures and policy scope. Section 5.3 discusses the establishment of the intergovernmental governance system in the ‘critical juncture’ of the Maastricht Treaty (1992), which gave rise to a governance differentiation within the EU based on the intrinsic salience of policy areas. It shows how, since 1992, the intergovernmental regime co-existed alongside the supranational one while adopting a radically different governance method. Section 5.4 tests the differentiation between a supranational and an intergovernmental system against the 'critical antecedent' criterion, and shows its impact across three dimensions: *a)* the choice of the major crisis-management instrument to address the socio-economic consequences of the COVID-19 pandemic, and specifically the choice between the intergovernmental ESM and a new crisis-management tool with a different institutional logic; *b)* the legal basis of the RRF, and specifically whether the RRF would be established as a regulation through a legislative procedure of sorts or as an intergovernmental agreement; and *c)* the governance of the RRF, and specifically whether the RRF would work according to the paradigm of supranational delegation or intergovernmental coordination. The last section summarises the main findings of the chapter and concludes.

5.2. From the Common- to the Single Market and Beyond: Development and Consolidation of the Supranational Governance System (1957-2007)

The European integration process originates as such with the Treaty of Rome (1957), which institutionalised a common market as the pillar of the European Economic Community (EEC). After the Treaty of Paris (1951) had launched the European Coal and Steel Community (ECSC) on largely intergovernmental bases, the Treaty of Rome illustrated the federalist attempt to 'lay the foundations of an ever-closer union among the peoples of Europe' (The Treaty of Rome 1957) through an elite-driven institution-building process of continental reach. European political leaders agreed that it was necessary, at that stage, to build such process on solid supranational grounds to protect it against the Member States' idiosyncratic interests (Fabbrini 2015).

To be sure, the EEC operated through the combination of supranational and intergovernmental institutions. The supranational interest was represented by the European Commission, a high-level technocratic body entrusted with the monopoly over legislative initiative. The Commission immediately took up functions as the key executive and administrative organ of the EEC, to which the Member States permanently delegated portions of sovereignty in order to 'create a Community of unlimited duration' (Goebel 2013, 79). At the same time, the several national interests were protected by the Council of the Union, an intergovernmental body composed of the ministers of Member State governments. Even if the Treaty provided that some decisions could be taken by QMV, the voting system for adopting legislation in the Council mostly required unanimity. Moreover, following the 'empty chair' crisis of 1965, the so-called 'Luxembourg compromise' gave a de facto veto power to every

Member State government within the Council on issues considered 'very important national interests', even when QMV was allowed in principle. The 'Luxembourg compromise' provided that in such cases where a Member State government believes that its vital interests are at stake, 'the discussion must be continued until unanimous agreement is reached'[24].

Early in the process, the European Parliament had very limited (if any) decision-making powers. Until 1979, it was a mere consultative assembly gathering officials selected by national parliaments on the basis of procedures established at the national level (Rittberger 2005). The European Parliament could censure the European Commission and issue opinions on a restricted number of legislative fields (Neuhold 2000). However, law-making powers entirely lay with the Council itself. Beyond supervising the policymaking process, the European Court of Justice (ECJ) directly contributed to the European integration process. Through its decisions, and thanks to the steady support from the legal service of the European Commission, the ECJ established that European law has direct effects on individuals and firms (i.e. *Van 137isagre Loos v Nederlandse Administratie der Belastingen* in 1962) and asserted the superiority of European law over national law (i.e. *Costa v Enel* in 1964). This contributed to turning the EEC into a new legal system in its own right. Thus, despite integrating intergovernmental features, European integration had started on fairly supranational grounds (Cappelletti *et al.* 1986).

Such supranational grounds were magnified once the EEC's common market evolved into a single market with the Single European Act (1986), which celebrated the four fundamental freedoms of movement for goods, services and the factors of production (capital and people). The Single European Act increased the decision-making powers of the European Parliament (directly elected since 1979), whose legislative consent was since required for the adoption of market-related regulatory policies, for enlargements and international agreements. In parallel, the137isagrg procedure of the Council of Ministers switched from unanimity to QMV, thereby diminishing the intergovernmental tone of the EEC. The Single European Act consolidated the institutionalisation of a trilateral decision-making process for market-related policies, whereby the Commission proposed legislation to the European Parliament and Council, who in turn amended and approved it almost on equal footing. The European Council – an informal institution bringing together the Heads of State and government of the Member States – provided political impetus to the decision-making process by setting the policy agenda as well as the general direction of the Union. The policy cycle was finally overseen by the ECJ, which celebrated the consolidation of a supranational system around the principle of 'integration

[24] Luxembourg Compromise, accessible at : https://www.cvce.eu/en/education/unit-content/-/unit/d1cfaf4d-8b5c-4334-ac1d-0438f4a0d617/a9aaa0cd-4401-45ba-867f-50e4e04cf272.

through law' (Cappelletti *et al.* 1986). In light of the above, the Single European Act may be said to constitute the apex of the supranational character of European integration.

In 1992, the Maastricht Treaty consolidated the supranational system of governance for the regulatory policies of the single market through the introduction of the so-called 'co-decision procedure', whereby the European Parliament and Council would stand on equal footing in the adoption of legislation. Finally, in 2007, the Lisbon Treaty turned the co-decision procedure into the OLP, also known as the 'Community method' and, by recognising the European Council as a formal institution of the Union, institutionalised a quadrilateral decision-making system based on a dual executive and a dual legislature (Fabbrini 2015). While the dual executive is represented by the European Council (an intergovernmental institution) and the European Commission (a supranational institution), the legislature is composed by the Council (an intergovernmental institution) and the European Parliament (a supranational institution). In this supranational governance system, the European Council defines 'the general political direction and priorities' of the Union (Art. 15 TEU). It does so by adopting 'Conclusions' of its meetings, where it tasks the European Commission to come up with a legislative proposal that is in line with a set of pre-defined guidelines. The European Commission has the exclusive right to initiate legislation, submitting legislative proposals for approval to the Council and European Parliament. When elaborating legislative proposals, the European Commission builds on the indications of the European Council but maintains a margin of discretion. The European Parliament and the Council amend and approve laws by absolute and qualified majority respectively (Hix and Høyland 2022). The 'Community method' thus came to be recognised as the European mode of governance *par excellence*.

Along with the OLP, the supranational governance system also envisages two different special legislative procedures (SLPs) which, depending on the decision-making role of the European Parliament, take the name of 'consent procedure' (Art. 352 TFEU) and 'consultation procedure' (Art. 103 and 113 TFEU). Under the consent procedure, the Council adopts by unanimity (rather than qualified majority, as in the OLP) an act proposed by the European Commission after obtaining the consent of the European Parliament. The European Parliament can accept or reject the proposal, as amended by the Council, by absolute majority, but cannot itself amend the proposal. In sum, the consent procedure provides the European Parliament with a veto power over proposals of the European Commission as amended and accepted by the Council. The consent procedure is adopted in the cases of new legislation for combating discrimination, the adoption of international trade agreements, the accession of new Member States in the EU, a serious breach of fundamental rights and applications to withdraw from the

EU. Under the consultation procedure, the Council adopts by unanimity an act proposed by the European Commission after consulting the European Parliament. The European Parliament can accept, reject or amend the Commission's proposal but the Council is not legally bound to take the European Parliament's decision into account. The consultation procedure thus does not provide the European Parliament with a veto power over proposals of the European Commission and decisions of the Council. The consultation procedure is adopted in the cases of international agreements negotiated in the framework of the CFSP, specific areas of competition policy and harmonisation of indirect taxation (Best 2008).

In the supranational governance system, the SLPs constitute an exception to the rule, with the rule being the adoption of the OLP or 'Community method'. As part of the supranational regime, however, both the consent- and the consultation procedure provide the four institutions of the 'quadrilateral' system with a say over the decision-making process, with the balance between Council and European Parliament altered in favour of the former. Overall, the supranational governance system works according to a well-defined separation of powers in that the four decision-making institutions are politically independent from one another. The supranational regime does not display an institutional government but a governmental process based on the cooperation and competition between several governing bodies (Fabbrini 2011). Supranational governance is, thus, a sophisticated institutional arrangement characterised by a clear division of competences between decision-making bodies, including both supranational and intergovernmental institutions. These institutions are embedded in a constitutional logic that urges them to concurrently cooperate and compete to make the system work.

5.3. The Maastricht Treaty and EU Governance Differentiation: Establishment and Uprise of the Intergovernmental Governance System (1992-2007)

The Maastricht Treaty (1992) constitutes a 'critical juncture' for the European integration process (Fabbrini 2015). From 1957 to1992, the EU was mostly about the single market and market-related regulatory policies, which it governed by means of the 'Community method' or variants thereof (i.e. the SLPs). As we have seen, the Maastricht Treaty further consolidated this governance method for the regulatory policies of the single market, giving rise to a more balanced power relation between the Council and the European Parliament. However, as the Cold War came to an end, the Soviet Union collapsed and Germany was about to reunify, the EEC was confronted with both external and internal challenges. In 1991-2, the solution to these challenges was found in increasing the political and economic relations among Member States within the framework of European integration.

On the one hand, the debate around an economic and monetary union, initiated in the 1980s, gained new momentum as the old 'German question' resurfaced from the Cold War years. Many Europeans were concerned about the prospects of a united Germany in a fragmented continent, fearing the country could again take a nationalistic course and thus jeopardise the peaceful integration of Western Europe. This led most of the Member States to support a deepening of the integration project, giving a definitive push to monetary union. To this effect, the single currency was thought as a tool to permanently bind Germany to the nascent 'European Union' and to prevent undesirable drifts. At the same time, the project of monetary integration was also supported by EEC officials, especially Commission President Jacque Delors, who considered it to be a necessary step towards a 'European Political Union' (Baun 1996). On the other hand, EEC members were faced with a completely novel strategic and security environment which required institutional and policy adjustments. The fragmentation of Eastern Europe following the dissolution of the Soviet bloc, the bloody break-up of Yugoslavia with the ensuing migration crisis, and uncertainty with respect to the future role of the United States in the military landscape of Europe all paved the way for integration in the fields of security and defence (Christiansen *et al.* 2012).

Some EEC members proved warier of the idea of deepening integration, jealous as they were of their national sovereignty. Such was the case of the British government, who resisted the idea of a 'closer union' and favoured widening to new Member States instead. In the eyes of the United Kingdom, incorporating the countries of the ex-Soviet space into the European project would contribute to stabilising Eastern Europe while at the same time preventing further delegation of powers to supranational institutions. According to this line of reasoning, 'a rapid expansion of the Community would favour its evolution into a looser confederation of independent states rather than a more unified federal Europe' (Baun 1996, 610). Moreover, contrary to France, the British government concurrently sensed that a more integrated Europe would be conducive to a larger German power and, potentially, to German domination. However, this was and remained a minority view among EEC members, who largely proved willing to Europeanise policies that they historically exercised as their 'core state powers' (Genschel and Jachtenfuchs 2014), including foreign policy, security, defence, (i.e. CFSP and CSDP), economic and budgetary policies (i.e. EMU), domestic affairs and justice (i.e. JHA).

At the Intergovernmental Conference on Political Union and Economic and Monetary Union held in Maastricht on 9-10 December 1991, the heads of State and government decided to place these new policy areas under an ad hoc governance system, the intergovernmental regime, to secure continued control over them. In sum, integration would not go the way of supranationalisation, but would proceed through intergovernmental bargaining and policy coordination (Fabbrini and Puetter 2016: Scott and Trubek 2002). The 'Maastricht compromise' led to the consolidation of two systems of governance, each with its well-defined scope in terms of policy areas. The supranational governance system would still apply to the regulatory policies of the single market, while the new intergovernmental governance system would provide the institutional setting for policy coordination in the core state powers (Hix 2005). This was achieved through the establishment of three separate 'pillars' with distinct decision-making procedures. The first pillar was represented by the European Community (EC), with its already existing set of market-related policies and the application of the 'Community method'. The second pillar, the CFSP, dealt with security and defence issues, human rights and democracy protection, foreign aid and peacekeeping. Finally, the third pillar, JHA, included migration policy and judicial cooperation, border controls, drug trafficking and weapon smuggling, terrorism and organised crime. The second and third pillar were built as intergovernmental arenas to allow for the enlargement of EU's Treaty-based competences without the application of the supranational governance system (Christiansen *et al.* 2012).

The intergovernmental governance system revolves around the two intergovernmental institutions of the EU, namely the European Council and the Council. These institutions play a very different role and have different decision-making powers with respect to those exercised in the supranational system (Branch and Øhrgaard 1999). In the intergovernmental system, unanimity rules are the requirement for any political decision within both the European Council and Council. Policy coordination thus takes place by 'deliberation'. This also implies that government representatives within the European Council and the Council retain the power to veto decisions at any time. In this light, policy deliberation becomes a crucial pre-condition for successful EU policy-making in the intergovernmental setting (Puetter 2012). In the policy-based transition from the supranational to the intergovernmental governance system, the European Council is the institution that gained the most in terms of decision-making powers. Previously an informal institution with no legal basis in the Treaties, the European Council gradually became the new 'EU centre of political gravity' (Puetter 2012). As the EU body reuniting the political leaders of Member State governments, in the intergovernmental regime the European Council is no longer limited to agenda-setting tasks (i.e. the definition of long-term objectives and priorities); it became a crucial player in the day-to-day politics of the EU. Especially in relation to highly sensitive and strategic policy areas, the European Council may delegate elaboration and formulation tasks to the Council and its advisory bodies, but it stands as an effective supervisor of the policymaking process and has the final say over the adoption of any decision. The Maastricht Treaty placed the European Council at the helm of the EU’s institutional architecture. Following its coming into force, the Heads assumed ultimate decision-making powers in the newly integrated areas of economic policy, foreign and security policy, migration and judicial cooperation, in addition to standing as the only game in town when it comes to crisis management (Wessels *et al.* 2022).

The intergovernmental union operates according to variants of the so-called ‘open method of coordination’ (OMC), which rests on soft law mechanisms such as benchmarking, peer pressure, naming and shaming (Heritier and Rhodes 2010). In the policy areas of the intergovernmental system, the OMC replaces the legislative process of the supranational system with a policymaking process whose outcome is not legal acts but political commitments on the part of Member State governments. In sum, integration in the intergovernmental system does not have the nature of law, as opposed to the supranational governance system, but has the nature of voluntary agreements and compromises resulting from policy coordination. Thus, while the supranational governance system deals with law-making, the intergovernmental governance system deals instead with policy coordination. Starting from its consolidation and expansion in the early 2000s, the OMC has allowed the Member States to act at the EU level also when dealing with policy areas where the regulatory competence of the Union is limited or non-existent (Szyszczak 2006). As Stone Sweet and Sandholtz (1997) put it, ‘interactions within the framework of European political co-operation, which were completely outside the Treaty structure, generated a body of informal rules and practices that significantly shaped government behaviours and interactions’ (312).

The intergovernmental system greatly downplays supranational bodies – i.e. the European Commission, the European Parliament and the ECJ. The European Commission turns into a technical institution committed to monitoring and surveillance and is no longer able to initiate legislation. It relies on its knowhow and civil service expertise to assist the Heads in the policymaking process. In core state power areas, the European Commission is thus no longer the142isagrent of Brussels’ even if its administrative capacity at the service of the political leaders can prove crucial for dealing with crisis situations behind the scenes. In this governance system, the European Council takes upon itself the role of highest executive body, and the European Commission acts under its authority (Van Middelaar 2019). Along the same lines, the role of the ECJ in the intergovernmental system is mostly limited to the resolution of inter-state disputes. As provided by the Treaties, ‘the Court of Justice shall have jurisdiction in any dispute between Member States … if the dispute is submitted to it under a special agreement between the parties' (Art. 273 TFEU). In the transition from the supranational to the intergovernmental regime, the ECJ loses its adjudication competences over secondary legislation. For one, because of a 'legitimacy constraint' (Mattli and Slaughter 1998), the Court has generally refrained from intervening in areas that the Member States perceive as a matter of national sovereignty over concerns of a potential rollback of its powers (Tsebelis and Garrett 2001). For another, since the outcome of the policymaking is political agreements and compromises rather than legal acts, its leeway is greatly reduced. In the absence of legislation, the ECJ can only step in if explicitly appealed to by the Member States. Finally, the European Parliament's role in the intergovernmental system is cut down with respect to the supranational system for largely the same reason behind the ECJ's downgrade. As a legislative chamber, the EP operates on the basis of legal acts, amending and approving what eventually becomes EU legislation. As there are no laws to be discussed, amended or approved in the intergovernmental regime, the EP retains a mostly consultative role, exchanging views and opinions with the European Council and Council (Crum 2006). In sum, the EP is nowhere near the co-decisional legislative body of the supranational system and is forced to cease ultimate decision-making powers to the intergovernmental institutions of the Union (Puetter 2014).

At last, in 2007 the Lisbon Treaty abolished the pillar structure of the EU but consolidated the governance differentiation between two distinct decision-making systems for dealing with different policy areas based on their intrinsic salience. Low-salience policy areas such as trade policy, competition policy and the environment would still be governed through the supranational or 'Community' method, whereas high-salience policy areas such as economic and foreign policy, security and defence would remain under the control of Member State governments within the intergovernmental system (Genschel and Jachtenfuchs 2018). Thus, in Van Middelaar's (2019) own words, since the 1992 Maastricht Treaty two political systems in Europe have existed alongside each other – the 'Community', with its focus on the politics of rules; and the 'Union', geared towards the politics of events. While rules-politics involves regulation, bureaucratic and administrative capacity, technocracy and expertise, as well as depoliticization and 'permissive consensus', events-politics requires improvisation, political authority, hard bargaining, in addition to mass politics and public legitimacy (Genschel and Jachtenfuchs 2016; Van Middelaar 2021). Ultimately, the consolidation of these two institutional systems, each with its own set of rules and institutions, has given rise to two entrenched ideational 'traditions of governance' (Bevir and Rhodes 2012).

5.4. *Testing for the Critical Antecedent: EU Governance Differentiation and the Crisis Management Response to the COVID-19 Pandemic*

In the EU's response to the COVID-19 pandemic, the differentiation between a supranational and an intergovernmental system of governance affected the mindset of EU policymakers throughout the whole process leading up to the adoption of the RRF as an instrument of limited supranational delegation. As a former civil servant of the Council who was deeply involved in the management of the pandemic admitted:

> In principle, the EU is structured around two different systems of government. When it is about the single currency, the federal system is adopted. If it is trade policy, or agriculture, again the federal system is adopted. If it is foreign policy, the purely intergovernmental system is adopted. We have created a new legal order of a union of states and peoples, and in some areas we function like a federation and in some other areas we function like the United Nations or like any other confederation or international organisation. We have a constant interplay between the various elements. For me the Union is both its institutions but also the Member States. So, in the EU's response to the COVID-19 pandemic, we were thinking about these two systems and how to do the whole thing (Interview L).

A high-profile policy officer of the European Commission confirmed this understanding of the options available to decision-makers in response to the COVID-19 crisis:

> The choice between going intergovernmental or going supranational permeated the negotiations for the establishment of the RRF from March to July [2020]. There were some countries that pushed for an intergovernmental solution to the crisis. Firstly, by advancing the Pandemic Crisis Support [as a new credit line] within the ESM. And, secondly, by demanding a veto power for Member States within the RRF. Other actors pushed for a supranational solution, especially the European Commission and countries who sent the 'letter of the nine', followed by Germany (Interview F).

In particular, the differentiation between governance systems in the EU affected, in close succession, the choice of the recovery instrument through which to address the pandemic crisis, its legal basis and governance mechanism. As soon as the pandemic broke out, policymakers in Brussels were confronted with the choice of the financial instrument to address the socio-economic consequences of the crisis, which was meant to integrate monetary policy efforts by the ECB. The debate soon centred around whether to establish an innovative European common debt instrument or rely on the already existing, purely intergovernmental ESM (Genschel and Jachtenfuchs 2021; Interview O). This choice dominated the first phase of discussions at the EU level up until the European Council meeting of 23 April, when making use of the ESM as the major crisis-management instrument had become politically unworkable (Interview A).

The idea of a new crisis-management tool based on common debt was first launched by nine Member State governments in a letter to the President of the European Council in March 2020 (Letter of the Nine 2020). These governments – most notably France, Italy, and Spain – recognised the unprecedented nature of the crisis and called for an instrument that ‘will allow all European countries to access finance on the same conditions and will put the whole European economy on the best footing to recover rapidly’ (Johnson *et al*. 2020). The Italian government in particular was very clear that it would not accept a solution based on the ESM because of how it fared in the management of the Euro Crisis and the negative sentiments it hence raised domestically (Ludlow 2020a). ECB President Christine Lagarde immediately joined the chorus and argued in favour of a common debt instrument, acknowledging that the ESM ‘was not big enough to do the job’ (Ludlow 2020a, 36). In April, French President Emmanuel Macron insisted that ‘we all face the profound need to invent something new, because that is all we can do’ (Mallet and Khalaf 2020). Along these lines, the European Parliament called on the European Commission ‘to propose a massive recovery and reconstruction package for investment to support the European economy after the crisis, *beyond what the European Stability Mechanism [is] already doing*’ (European Parliament 2020a, emphasis added). On 21 April, in their joint ‘roadmap for recovery’, European Council President Charles Michel and European Commission President Ursula Von der Leyen followed up on the call and supported ‘a Marshall-Plan type investment effort to fuel the recovery’, stressing ‘there is no place for business as usual’ (Von Der Leyen and Michel 2020).

At the same time, a group of Member State governments opposed any European common debt instrument and suggested relying on the ESM instead. The day after the ‘letter of the nine’ was sent, the self-defined ‘Frugal Four’ – including the Netherlands, Austria, Denmark, and Sweden – published a non-paper ruling out ‘any instruments or measures leading to debt mutualisation or significant increases in the EU budget' (Dutch Government 2020). These countries suggested offering favourable loans to the most hit Member States within the framework of the ESM. As a legal officer of the Council observed, 'the Frugal countries preferred sticking to the ESM even during the COVID-19 pandemic because they wanted to retain their veto power over the disbursement of financial assistance' (Interview D). The idea of using the ESM as the principal safety net against COVID-19 was also advocated by ESM Managing Director Klaus Regling, who argued that European solidarity should take shape by activating existing instruments. In a post published on the ESM website on 2 April, Regling said:

> There are proposals to create new institutions or new instruments, but this takes time that we do not have right now … Therefore it is best to make ready use of all existing institutions and instruments that have been raising large amounts successfully for years already (Ludlow 2020a, 45).

At the Eurogroup meeting of 9 April, the idea of using the potential of the ESM to address the COVID-19 pandemic was still prevalent, not least because of the position of the German government (Genschel and Jachtenfuchs 2021; Interview L). Chancellor Angela Merkel claimed that the ESM already allowed for borrowing capital on favourable conditions. She declared that 'what we need is quick and targeted relief. The ESM can provide precisely that' (Ludlow 2020a, 46). Such a statement was praised by the governments of the Frugal Four as much as it was questioned by France, Italy and the President of the European Commission. In addition to the activation of the health-related 'Pandemic Crisis Support' within the ESM, the Eurogroup of 9 April thus also floated the idea of a 'Recovery Fund' to prepare the economic recovery (Council of the EU 2020). In the following weeks, the Recovery Fund gained momentum and eventually superseded the ESM thanks to the active role of Macron and the gradual persuasion of Merkel (see Chapter 6). At the European Council meeting of 23 April, the political leaders decided to formally task the European Commission to come forward with a proposal for a new crisis-management tool. 'Once they did that, they sent a political signal: it can be done, and it will be done' (Interview L). By the end of the meeting, the idea of relying on the ESM as the major crisis-management instrument to address the COVID-19 pandemic had become old-fashioned, and discussions moved on to the legal basis of the new recovery tool.

Aspects related to the legal ground of the new recovery instrument became prevalent between 23 April and 28 May 2020, when the European Commission proposal for the establishment of the RRF as a regulation of the European Parliament and Council finally came out. The differentiation between a supranational and an intergovernmental governance system in the EU also affected this phase of talks. As suggested by a European Commission officer:

> At least initially there was a choice to be made between a supranational and an intergovernmental option. The intergovernmental option was for sure there. It was almost the default option. If we didn't change approach to crisis management, we would have gone intergovernmental (Interview H).

However, discussions on the legal basis of the new crisis-management tool were much less salient with respect to both the previous choice of instruments and the following governance issue. Indeed, even if the option of an intergovernmental treaty was initially explored, that was never really on the table. In this respect, the speed of the crisis played a significant part. In the EU circles, there was a good argument against an intergovernmental instrument that would require ratification across all Member States and that 'would take too long' (Interview A, E, O). By the end of April, the President of the European Commission had started pushing for an instrument within the legal framework of the EU, to be integrated into the 2021-2027 Multiannual Financial Framework (Interview F, L). To make the point stronger, the Commission was represented at meetings with EU ambassadors by its Secretary General Ilze Juhansone rather than her deputy, who is the usual Commission's representative at Coreper meetings (Ludlow 2020a). She reiterated that, given the size and scope of the new recovery instrument, the best solution would be to finance it through a higher ceiling on EU revenue and to adopt it through a legislative procedure consistent with the supranational framework. German Chancellor Angela Merkel agreed that the recovery tool should be adopted as a regulation and fully integrated into the multiannual budget of the Union (Ludlow 2020a). That turned out to be enough to overcome a tepid resistance from the Frugals, who had expressed a lukewarm preference for an intergovernmental agreement which would lead to no great increase in the EU budget.

On 18 May, after repeated bilateral phone calls between representatives of the two governments (Interview B, M), France and Germany officially disclosed their joint political initiative for the 'European Recovery from the Coronavirus Crisis'. Such an initiative was key for the legal basis of the recovery instrument as it envisaged to ‘allow the European Commission to finance such recovery support by borrowing on markets on behalf of the EU under the provision of a legal basis in full respect of the EU Treaty [and] budgetary framework’ (French Presidency 2020; German Federal Government 2020). The Franco-German declaration soon paved the way for the European Commission proposal of 28 May, which identified Art. 175 TFEU as the legal basis for the RRF. Art. 175 provides for the adoption of a regulation by the European Parliament and Council in accordance with the OLP (European Commission 2020, 4). As the European Commission itself clarified in its legislative proposal:

> The goals [of the RRF] cannot be reached through a harmonisation of legislations, or by voluntary action of the Member States. Only a regulation would allow them to be achieved. A regulation applicable to all Member States is also the most appropriate legal instrument to organise the provision of financial support with a view to ensure equal treatment of Member States (European Commission 2020, 5).

The Commission’s proposal was indeed very similar to the French-German political initiative (Genschel and Jachtenfuchs 2021; Interview B) and for the first time excluded an intergovernmental solution to the COVID-19 crisis by clarifying what the legal basis of the RRF would be. As a legal officer of the Council recalled:

> Before issuing that proposal, the European Commission exchanged views with the legal service of the Council to understand whether setting up the RRF in the form of a regulation approved through the ordinary legislative procedure would be possible (Interview G).

The European Commission thus activated the OLP, which placed the legal basis of the RRF on solid supranational grounds. By all accounts, even if the two options – intergovernmental and supranational – were initially present, once the Commission proposal was issued ‘you have a legal document that is the basis on which to work’ (Interview E) and ‘it is very difficult that that proposal is significantly altered’ (Interview B), especially when it comes to the legal basis. Indeed, the RRF was eventually approved with no changes in the legal ground with respect to the European Commission proposal (Interview O; RRF Regulation 2021).

The differentiation between a supranational and an intergovernmental regime within the EU finally affected negotiations on the very governance of the RRF, 'the single most important and difficult question' which the Heads of State and government would have to address following the presentation of the Commission's plan (Ludlow 2020b, 6; see also Drachenberg 2020). With respect to the governance mechanism of the RRF, 'the supranational and the intergovernmental option were both discussed' (Interview I). With its legislative plan of 28 May, the European Commission set the terms of negotiations. It provided that national recovery plans would be assessed by the Commission and that the Commission would decide on the disbursement of financial assistance to the Member States. The Commission scheme limited the Council's role to suspending payments under the RRF on a Commission proposal and in case of significant non-compliance (European Commission 2020). Such a scheme had an extremely supranational, comitology-like character, with little if any involvement of the Council (Ludlow 2020c). While supported by France and the countries of the so-called 'solidarity coalition', the Commission proposal for the governance of the RRF was strongly opposed by the Frugal Four, who insisted to provide the Council with decision-making powers over the approval of national recovery plans, to be exercised by unanimity. The Frugals thus pushed for an intergovernmental governance whereby they could retain a veto power over the disbursement of financial assistance (Ludlow 2020c).

On 10 July, just a few days ahead of the crucial meeting among the Heads of State and government of 17-21 July, Charles Michel built on an earlier German Presidency draft and circulated a 'negotiating box' to serve as a blueprint for discussions on the governance of the RRF (Interview I; Ludlow 2020b, 23). The European Council President envisaged that national recovery plans would be assessed by the European Commission and approved by the Council by QMV on a Commission recommendation (European Council 2020b). European Commission representatives welcomed that proposal, stressing that 'the Commission was not opposed in principle to enlarging the Council's role' in the governance of the RRF (Ludlow 2020c, 28). During the European Council meeting of 17-21 July, the countries of the 'solidarity coalition' followed suit, appreciating the preservation of a supranational governance for the disbursement of financial assistance. However, the Frugal Four once again demanded the adoption of unanimity rules in the Council. As a policy officer of the Council testified, 'Mrs Von der Leyen got a bit angry here, seeing [the Dutch] insistence as an expression of mistrust against the Commission' (Interview L). Eventually, the compromise was reached around a hybrid governance system tilting towards supranationalism (see Chapter 4). Specifically, the governance of the RRF would be based on QMV in the Council and the introduction of an 'emergency brake' whereby any national recovery plan could be sent on to the European Council for the political leaders to 'exhaustively' discuss the matter (European Council 2020a, 6)[25]. After the European Council meeting of 17-21 July, the European Parliament made an attempt to re-open the governance dossier of the RRF, claiming for itself a greater involvement in the procedure for the disbursement of financial assistance (European Parliament 2020b). However, it eventually accepted concessions in terms of increased resources for other NGEU-based programmes (Interview L).

The confrontation between a supranational and an intergovernmental option for the governance of the RRF thus characterised negotiations at the EU level from the European Commission proposal of 28 May up until the European Council meeting of 17-21 July, when a political agreement among the Heads of State and government was reached (European Council 2020a; see Chapter 6). A policy officer of the European Commission argued that 'the option of going intergovernmental was much more significant with respect to the governance of the instrument [as] some countries wanted to retain control over the disbursement of financial assistance and were sceptical of the Commission prerogatives' (Interview C). Along the same lines, a policy assistant at the European Parliament confirmed that 'there was the question of whether and how far there could be a blocking power on individual national plans and how that veto was to be exercised', adding 'it was the same folks as always to stand behind the veto option, namely the Dutch, Austrians, Danish and Swedish' (Interview J).

Overall, following the outbreak of the COVID-19 pandemic, the pre-existing differentiation between a supranational and an intergovernmental governance system in the EU provided the range of options available to policymakers in the negotiations leading to the adoption of the RRF, thus standing as a critical antecedent for institutional change in EU crisis management. Table 11 below summarises the positions of the relevant actors involved in those negotiations with respect to the choice of the major financial instrument to address the crisis, the legal basis of the new recovery tool and its governance mechanism.

	Choice of instrument	**Legal basis**	**Governance**
ECB President	Preference for common debt instrument rather than the ESM: 'The ESM	Supranational regulation, special legislative procedure	

[25] For a comprehensive, actor-based analysis of the final compromise on the governance of the RRF, see Chapter 6.

	alone [is] not big enough to do the job.'	(not requiring EP's consent)	
ESM Managing Director	Preference for exploiting the full power of the ESM: 'What else can be done immediately at the European level?'		
European Commission	Call for 'a new Recovery instrument geared to the special circumstances created by the [pandemic] crisis.'	Supranational regulation, ordinary or special legislative procedure	Comitology. The European Commission assesses and decides on NRRPs. The Council is limited to suspending payments on a Commission proposal in case of significant non-compliance
European Council President	Call for a Marshall-Plan type investment to face an unprecedent crisis: 'There is no place for business as usual.'		Supranational. The European Commission assesses NRRPs and Council decides by QMV on European Commission's proposal
European Parliament	Call for a massive recovery and reconstruction package which goes 'beyond what the European Stability Mechanism [is] already doing.'	Supranational regulation, OLP	Supranational. The European Commission assesses NRRPs. Council and European Parliament decide by QMV and absolute majority (respectively) on European Commission's proposal
Frugal Four	Strong resistance to a European common debt instrument. Preference for exploiting the full power of the ESM	Intergovernmental treaty	Intergovernmental. The European Commission assesses NRRPs and Council decides by unanimity

Germany	From mid-March to late-April: Preference for an adjusted version of the ESM: 'What we need is quick and targeted relief. The ESM can provide precisely that if we adjust it sensibly.' From mid-May: Call for a European common debt instrument financed by the operations of the European Commission on the financial markets	Supranational regulation, special legislative procedure (not requiring EP's consent)	Supranational. The European Commission assesses NRRPs and Council decides by QMV on European Commission's proposal
Solidarity Coalition	Early call for a European common debt instrument to face an unprecedented crisis. Reluctance to use the ESM	Supranational regulation	Supranational

Table 11 Positions of the relevant actors with respect to the choice of the major financial instrument in response to the COVID-19 crisis, legal basis and governance mechanism of the new recovery tool. Source: own elaboration.

5.5. Conclusion

This chapter relied on official documents, secondary literature and a set of original semi-structured elite interviews with selected EU and Member State officials to advance a two-fold argument. First, that the EU is internally differentiated into two co-existing governance systems for dealing with distinct policy areas based on their intrinsic salience. Such governance systems operate through the same institutions, but those institutions exercise very different roles and have very different powers in the transition from one governance system to the other. On the one hand, the supranational governance system, founded in 1957 with the Treaty of Rome, successively consolidated through the Single European Act (1986), the Maastricht Treaty (1992) and the Lisbon Treaty (2007). It applies to the low-salience policy areas linked to market-regulation, such as trade and competition policy, and involves a quadrilateral decision-making process with a two-fold executive (consisting of the European Council and the European Commission) and a two-fold legislative structure (consisting of the European Parliament and Council). The policy outcome of the supranational system consists in the adoption of legislation through the OLP (or 'Community method'). The supranational regime is based on a rigid separation of governmental powers whereby each governmental institution has clearly defined decision-making powers and is politically autonomous from the other institutions. On the other hand, the intergovernmental governance system originated in 1992 with the Maastricht Treaty to allow for the European integration of 'core state powers' while avoiding the delegation of those powers to supranational institutions acting beyond the control of Member State governments. The intergovernmental regime applies to high-salience policy areas such as the economic side of the EMU and the CFSP and its decision-making process revolves around the two intergovernmental institutions, namely the European Council and Council, acting by unanimity. The policy outcome of the intergovernmental systems is not legal acts, but political compromises and inter-state agreements through the OMC. Here, hard bargaining and voluntary coordination are a fundamental pre-requisite for the adoption of any decision. As in the intergovernmental system the European Council and the Council have no specific executive or legislative function, this governance regime has been defined as one of 'confusion of powers' (Fabbrini 2017). Arguably, the consolidation of these two institutional systems, each with its own set of rules and institutions, has given rise to two entrenched ideational 'traditions of governance'.

Second, the chapter argued that such governance differentiation between a supranational and an intergovernmental system delimited the range of options available to decision-makers for institutional change in EU crisis management as a response to the COVID-19 pandemic, thus acting as a 'critical antecedent' for the outcome of interest (i.e. the establishment of the RRF as an instrument of limited supranational delegation) [H2]. In particular, the EU governance differentiation conditioned *a)* the choice of the major crisis-management instrument to address the socio-economic consequences of the COVID-19 pandemic, and specifically the choice between the intergovernmental ESM and a new crisis-management tool with a different institutional logic; *b)* the legal basis of the RRF, and specifically whether the RRF would be established as a supranational regulation through the OLP or as an intergovernmental agreement; and *c)* the governance of the RRF, and specifically whether the RRF would work according to the logic of supranational delegation or intergovernmental coordination.

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6. Ideational Change and Policy Learning during the COVID-19 Pandemic: Process and Causes behind Institutional Change in EU Crisis Management

6.1. Introduction

This chapter seeks to explain the exact form of institutional change in EU financial crisis management following the outbreak of the COVID-19 pandemic with the establishment of the RRF as an instrument of limited supranational delegation. Specifically, it analyses the policy dynamics at the EU level between March and July 2020 with a focus on the relevant 'agents of change' (including Member State governments and EU institutions), their roles at the various stages of discussions, their positions during negotiations and the motivations behind their decisions. In doing so, it raises two inter-related questions: First, what kind of process took place at the EU level between the outbreak of the pandemic crisis and the establishment of the RRF? Second, why did that process take place? At a broader level, that is beyond this specific case study, the chapter aims to provide a theory-driven account of how institutional change may take place following an exogenous shock.

This chapter argues that, between the pandemic outbreak and the adoption of the RRF, an 'ideational change' occurred about crisis management in the EU [H3]. Such ideational change consisted in two concomitant phases – a first phase of 'ideational collapse' of the existing policy paradigm of financial crisis management (i.e. intergovernmental coordination) [H3a] and a second phase of 'ideational consolidation' around a new policy paradigm (i.e. limited supranational delegation) [H3b]. Ideational change was made possible by the generative cleavage (i.e. the pandemic crisis), came about within the boundaries of the critical antecedent (i.e. the EU governance differentiation between a system of supranational delegation and a system of intergovernmental coordination) and eventually determined the exact form of institutional development in EU crisis management.

By relying on *a)* official documents of EU institutions and Member State governments, *b)* a set of semi-structured elite interviews with senior EU and government officials selected among those directly involved in the negotiations for the RRF and *c)* relevant international reports as well as newspaper articles for the sake of triangulation, the chapter carries out a process-tracing analysis of ideational change through the identification of discrete theoretical expectations and empirical fingerprints. The process theory is at a level of abstraction that allows unpacking the components of the mechanism at play in the specific case, while not precluding generalisation to other cases of crisis-induced institutional change that meet the same contextual (or 'scope') condition. In particular, the contextual condition for the hypothesised 'ideational change' mechanism is the presence of a multi-level non-hierarchical institutional framework that allows for exchanges of ideas and entrepreneurial politics (see Figure 4). In the EU, as there is no fixed or hierarchical mode of governance for dealing with rising policy issues, decision-makers can engage simultaneously at different levels and in different formats, exchange views and negotiate policy outcomes among a range of potential alternatives (Piattoni 2009).

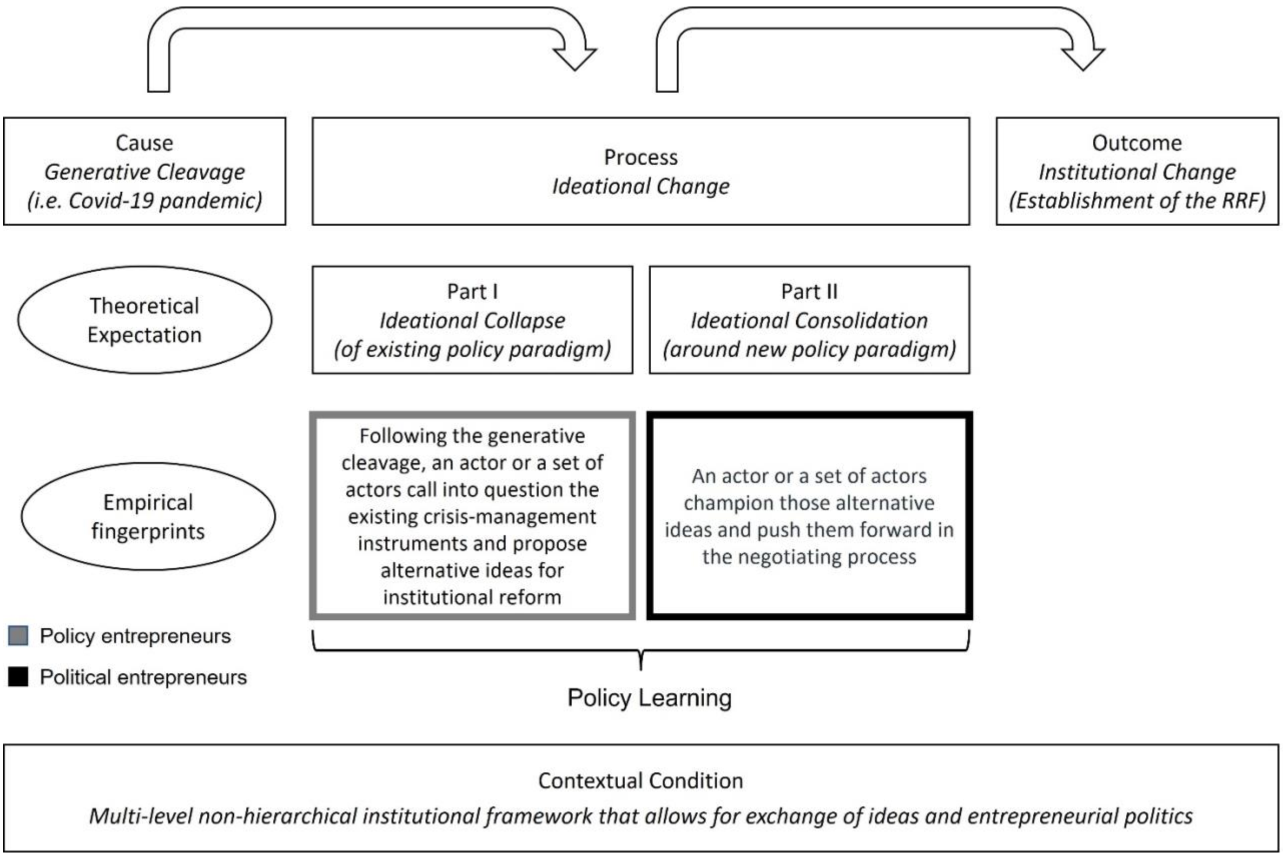


Figure 4 Process-tracing framework: Theoretical expectations and empirical fingerprints for ideational change in EU crisis management between the outbreak of COVID-19 and the establishment of the RRF.

For the purposes of process tracing, ideational change as a causal process shall be broken down into its two theoretical mechanisms, namely ideational collapse (of the existing policy paradigm) and ideational consolidation (around a new policy paradigm). In order to test the occurrence of ideational change, the chapter investigates the empirical fingerprints (or 'observable implications', see Beach and Pedersen 2013) related to both ideational collapse and ideational consolidation. As illustrated in the analytical framework (see Chapter 2), if ideational collapse took place, there will be evidence of agents (identified as 'policy entrepreneurs') questioning the existing crisis-management instruments and proposing alternative ideas for institutional reform soon after the generative cleavage. Similarly, if ideational consolidation followed, there will be evidence of agents (identified as 'political entrepreneurs') championing those alternative ideas and pushing them forward in the negotiating process, thus determining the final form of institutional change (i.e. the establishment of the RRF around the new policy paradigm of limited supranational delegation) (see Figure 4). The chapter thus builds around ideational change a 'putatively explanatory narrative' (Mirò 2020) to explain institutional change in EU financial crisis management, and puts that narrative to a plausibility test through the identification and testing of the aforementioned observable implications. As such, the process-tracing analysis conducted here does not imply a competitive theory testing of the kind Blatter and Haverland (2012) conceptualise as 'congruence analysis'. Hence, finding empirical traces of the hypothesised temporal sequence turns the argument into a plausible causal mechanism that deserves further assessment against alternative or complementary hypotheses (Ferrera *et al.* 2021).

Finally, this chapter advances an interpretation of ideational change following the COVID-19 pandemic based on policy learning. It argues that, in their quest for institutional reform, policy and political entrepreneurs learnt lessons from past crisis experiences, notably the EU's management of the Euro Crisis [H4]. To do so, with the assistance of the latest version of the software *Nvivo*, the chapter conducts a thematic analysis of official documents, semi-structured elite interviews and international reports by using the following keywords in their stemmed format: 'learning', 'lesson', 'past', 'experience', 'exchange', and 'information'. It finally concludes that policy learning following the COVID-19 pandemic was of the intra-crisis, double-loop and bargaining type (see Figure 4 for a summary).

The above arguments have the following structure. Section 6.2 focuses on ideational collapse and shows how, between March and May 2020, by putting forward an interpretation of the pandemic crisis as 'exceptional', policy entrepreneurs (i.e. the French President, later on the French President along with the German Chancellor) were able to call into question the existing policy paradigm of financial crisis management (i.e. intergovernmental coordination) and propose alternative ideas for institutional reform, despite resistance from others (i.e. the self-defined 'Frugal Four'). Section 6.3 deals with ideational consolidation and examines the role of political entrepreneurs (i.e. the European Commission in a first phase, European Council President Charles Michel and German Chancellor Angela Merkel in a second phase) in sponsoring those alternative ideas and pushing them forward in the negotiations between May and July 2020, thus resulting in institutional change. Section 6.4 shows that ideational change following the COVID-19 pandemic was due to a policy learning process. It singles out the policy failures associated with past crisis experiences and shows how such policy failures translated into policy lessons for agents to bring about institutional change during the COVID-19 crisis. Section 6.5 summarises, draws implications and concludes.

6.2. Ideational Collapse and the Role of Policy Entrepreneurs: From March to May 2020

On 13 March 2020, two days after declaring COVID-19 a global pandemic, the WHO stressed that 'Europe has now become the epicentre of the pandemic, with more reported cases and deaths than the rest of the world combined, apart from China' (WHO 2020). This statement by the WHO signalled that the COVID-19 pandemic had become, by that time, a major European crisis in its own right. As a reaction, on 25 March, in a letter to European Council President Charles Michel, the political leaders from nine Member State governments – including France, Italy, and Spain– acknowledged the exceptional nature of the crisis and advanced the proposal for the establishment, at the EU level, of a new crisis-management instrument based on the emission of common debt (Dombey *et al.* 2020). Such an instrument would constitute the major fiscal response by the EU to the COVID-19 crisis and integrate the ECB monetary policy measures as well as national fiscal efforts.

> The case for such a common instrument Is strong, since we are all facing a symmetric external shock, for which no country bears responsibility, but whose negative consequences are endured by all. And we are collectively accountable for an effective and united European response. This common debt instrument should have sufficient size and long maturity to be fully efficient and avoid roll-over risks now as in the future (Letter of the Nine 2020, 3).

The so-called 'letter of the nine' represents the very first joint political initiative at the EU level to move beyond already existing crisis-management tools, especially the ESM, and to launch an inter-institutional debate around a common debt instrument as a response to the pandemic crisis (Interview D, F, K; Schelkle 2021). Stressing the nature of the pandemic as a common external shock, these governments started calling into question the then prevailing policy paradigm of crisis resolution and to put forward a viable alternative (Interview C, F, G, H). France was the main political actor behind the letter and strong advocate of the initiative (Interview I, J, K, N). As a policy officer of the European Commission had to say, 'France was really the one behind the scenes … the first to go to the others and say, "we need something bigger"' (Interview H). The French presidency was able to build a coalition with 'the countries that would have benefitted the most from the creation of a new instrument', especially Italy and Spain but also Portugal and Greece, and such a coalition-building endeavour resulted in the 'letter of the nine' (Interview C, D; see also Interview M). In this early phase of the pandemic, Emmanuel Macron interpreted the COVID-19 crisis as a window of opportunity to get other like-minded countries in Europe behind his prospects of economic governance renovation in the EU (Clegg 2022).

To be sure, because Italy was the first Member State to suffer the consequences of COVID, already on 19 March, in an interview to the *Financial Times*, Italian Prime Minister Giuseppe Conte had called on the EU to expand its financial firepower. At that point the ESM was the only game in town beyond monetary policy and a reform of the instrument in light of the new crisis had been discussed in an earlier Eurogroup meeting on 16 March (Eurogroup 2020a). Asked about the likelihood of Italy activating an ESM credit line, Conte stressed that 'the ESM was crafted with a different type of crisis in mind' (Johnson *et al.* 2020). He emphasised the unprecedented nature of the pandemic and argued that 'the best, probably the only way to stave off large-scale economic damage in Europe would be the creation of a common European debt instrument to fight against the socio-economic consequences of the pandemic' (Johnson *et al.* 2020). Conte made clear that the EU had to show unity and solidarity in a moment of truth, and that failure to do so would give space to a nationalist and populist backlash in the continent.

However, the Italian government's outcry did not raise as much attention as the French-led joint political initiative behind the 'letter of the nine' did. In the European Council video-conference of 26 March, a group of Northern countries self-defined as 'Frugal Four' – including the Netherlands, Austria, Denmark and Sweden – plus Germany voiced opposition to the letter and to the idea of a new crisis-management instrument based on the issuance of common debt (Euractiv 2020; Herszenhorn *et al.* 2020a; Von Der Burchard *et al.* 2020). The Frugals' most reticent member was the Dutch government (Verdun 2022), who rejected the idea of a common debt because of the lack of an institutional architecture and clear rules at the EU level on how to manage it, fearing an uncontrolled power by the European Commission (Interview A, B, C, G, H, L). Leaving aside the thorny issue of common debt, however, at the behest of France, Italy and Spain the European Council conclusions acknowledged that 'the time has come to put into place a more ambitious and wide-ranging crisis management system within the EU' and invited the European Commission to make proposals in that respect (Interview D; European Council 2020a). That was a huge achievement if one considers that early in the meeting German Chancellor Angela Merkel had argued that 'the ESM, which already existed, could be a highly effective instrument in the present situation … It would be a mistake to arouse expectations which cannot be satisfied' (Ludlow 2020a, 38-39).

In the meantime, on 1 April, the Frugal countries advanced a counter-proposal for an emergency fund of around a billion euros based on a one-off tranche of financial assistance to the Member States most hit by the COVID-19 crisis. Dutch Finance Minister Wopke Hoekstra presented the proposal as a 'healthcare emergency fund to which the Netherlands would make a very substantial contribution … That would be a gift as a sign of solidarity intended for countries dealing with the coronavirus' (Deutsch and Sterling 2020). Dutch Prime Minister Mark Rutte soon reiterated that the Netherlands would prefer making a one-off 'gift' to European countries in economic trouble rather than have a common debt instrument at the EU level (Deutsch and Sterling 2020). In the run-up to the Eurogroup of 9 April, the idea of using the ESM as either a safety net or indeed the major crisis-management tool in the EU's response to the pandemic re-gained momentum because of the strong support by Germany and the Frugal countries. This Northern group claimed that 'proposals to create new institutions or new instruments [take] time that we do not have right now. Therefore it is best to make use of all existing institutions and instruments that have been raising large amounts successfully for years already' (Ludlow 2020a). Domestically, members of the German government insisted that 'what we need is quick and targeted relief. The ESM can provide precisely that if we adjust it sensibly'[26]. However, the French government continued to push for the establishment of an outright 'Recovery Fund' based on the emission of common debt (Mallet and Khan 2020). This idea attracted backing from the European Commission, especially in the persons of Paolo Gentiloni and Thierry Breton (Ludlow 2020a).

On 9 April, the Eurogroup finally presented its report on the economic policy response to the COVID-19 pandemic. In addition to the activation of the health-related 'Pandemic Crisis Support', a credit line within the ESM devoid of conditionality, and the establishment of a loans-based financial assistance programme to sustain employment called 'SURE', the

[26] Typescript memo dated 2 April 2020, entitled: Für eine starke gemeinsame europäische Antwort auf die wirtschaftichen Herausforderungen der Corona-Krise. Available at: https://www.politico.eu/wp-content/uploads/2020/04/EU_Corona_Massnahmenpapier-31.3.2020.pdf?utm_source=POLITICO.EU&utm_campaign=f370af3e0c-EMAIL_CAMPAIGN_2020_04_02_05_10&utm_medium=email&utm_term=0_10959edeb5-f370af3e0c-189860241.

Eurogroup put forward a major Recovery Fund that would be 'temporary, targeted and commensurate' (Council of the EU 2020a). Even so, because of a confrontation mostly between France, Italy and Spain on the one hand and the Frugal Four on the other, the Eurogroup had to refer a decision on the specific features of the Recovery Fund to the heads of State and government sitting in the European Council (Interview B, C, L). Such features concerned the size of the fund, its composition (i.e. the distribution between grants and loans), its governance, financing mechanism and its relation to the MFF. The following day, in a letter to Charles Michel, President of the Eurogroup Mario Centeno revealed that 'some Members were of the view that [the Recovery Fund] should be based on common debt issuance, while others advocated alternative solutions' (Centeno 2020).

After the Eurogroup meeting, Macron brought things to a head publicly in an interview to the *Financial Times*. The French President insisted that the EU needs to show solidarity and that solidarity should come in the form of financial assistance based on the emission of common European debt. He argued that European integration is 'at a moment of truth, which is to decide whether the European Union is a political project or just a market project. I think it's a political project . . . We need financial transfers and solidarity, if only so that Europe holds on' (Mallet and Khalaf 2020). Shortly, a series of Member State governments and EU institutions took sides with the French proposal for a more ambitious recovery instrument. On 16 April, in her speech at the European Parliament plenary, European Commission President Ursula von der Leyen claimed that 'we need a Marshall Plan for Europe's recovery and it needs to be put in place immediately' (European Commission 2020a). Von der Leyen argued that the symmetric nature of the crisis, along with the asymmetric economic impact it has across Europe, requires 'innovative solutions and more headroom in the MFF to unlock massive public and private investment' (European Commission 2020a). Along the same lines, on 17 April, the European Parliament passed a resolution in which it called on the European Commission to propose a massive recovery package to support the European economy 'beyond what the European Stability Mechanism, the European Investment Bank and the European Central Bank are already doing' (European Parliament 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 to 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' (Dombey 2020). Finally, on 21 April, in their joint 'roadmap for recovery' Von der Leyen and Charles Michel stressed there was 'no space for business as usual' and that the EU's response to the pandemic should be based on solidarity, cohesion and convergence to limit the asymmetric consequences of a symmetric crisis. The two Presidents backed a 'Marshall-Plan type investment effort' drawing on both public and private investment at the EU and national levels. To that effect, they jointly tasked the European Commission with elaborating a 'comprehensive recovery package with the EU budget at its heart' defining the amount, nature and objectives of the new instrument (Von Der Leyen and Michel 2020).

Against this backdrop, the European Council members met again in a videoconference on 23 April. Thanks to an intense preparatory work by Michel's team – including cabinet chief François Roux and Frédéric Bernard[27] – as well as Jeppe Tranholm Mikkelsen[28] and Jim Cloos[29], the political leaders swiftly agreed to move forward together towards the establishment of a recovery fund 'which is needed and urgent'. At this point, the idea of relying on the ESM as the major tool to address the COVID-19 crisis, along with a one-off 'gift' to Member States in economic difficulties, had completely vanished. However, because of lasting internal disagreements on the exact size and shape of the new instrument (Interview D; Fabbrini S. 2022), the European Council once again asked the European Commission to 'analyse the exact needs and to urgently come up with a proposal that is commensurate with the challenge we are facing' (European Council 2020b). It was during this summit and its immediate aftermath that Emmanuel Macron was able to goad Angela Merkel into supporting a large recovery fund consisting in non-repayable grants to the Member States and to be financed through operations of the European Commission on the financial markets, thus leading to the establishment of a European common debt. In finding an agreement with Angela Merkel, the French President acted on the conviction that 'an agreement between Germany and France is not an agreement of the 27 [Member States], but there can be no agreement among the 27 if there is not already a Franco-German agreement' (Krotz and Schramm 2021, 1).

Policymakers and civil servants from France and Germany had stepped up bilateral meetings starting from the Eurogroup of 9 April (Interview K, M; Ludlow 2020b). Crucially though, on 5 May the German Federal Constitutional Court (*Bundesverfassungsgericht*, hereafter bVerfG) had ruled that the ECB's Public Sector Purchase Programme (PSPP) launched in 2015 as a reaction to the Eurozone crisis went beyond the ECB's Treaty-based competencies and contravened the prohibition of monetary financing (bVerfG 2020). The

[27] Diplomatic adviser to Michel, replaced François Roux as Michel's head of cabinet starting 12 June 2020.
[28] Secretary-General of the Council of the European Union.
[29] Deputy Director-General for General and Institutional Policy at the Council of the European Union.

ruling of the bVerfG represents a tipping point for the adoption of the RRF (Bulmer 2022). As a legal officer of the Council admitted:

> That sentence is crucial because, before that, the lack of a central EU fiscal capacity had to be compensated by other institutions, in particular the few supranational institutions such as the ECB, which had made the most of its mandate trying to fill the gap of political inactivity. Once the sentence of the German Constitutional Court was published, it was clear [to the German government] that a solid alternative to the ECB monetary policy had to be found to address the consequences of the COVID-19 pandemic (Interview D).

On 18 May, after repeated bilateral meetings between the sherpas of the two governments as well as phone calls between their national treasuries (Interview B, M), the French President and the German Chancellor published their joint 'French-German Initiative for the European Recovery from the Coronavirus Crisis', which formalised the German positional shift on the recovery path from the Frugal Four to the 'solidarity coalition' of Southern Europe (Financial Times 2020; Fabbrini S. 2022). Recognising that the COVID-19 pandemic was 'unprecedented in the history of the European Union' and committing themselves to 'pav[ing] the way out of the crisis', they 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 (French Presidency 2020; German Federal Government 2020a). The two countries suggested a swift agreement on the MFF and Recovery Fund to adequately counter the negative socio-economic effects of the pandemic as well as speed up the green and digital transitions. Despite dodging such issues as the composition of the recovery instrument (i.e. whether it would consist in the concession of grants or loans to the Member States) and its governance, the French-German initiative was key to boosting the recovery effort at the EU level as 'historically when there is an initiative from France and Germany it generally determines the path of European integration' (Interview F) and 'without [such a joint proposal] probably nothing would have happened' (Interview B; see also Interview O). For this reason, the French-German proposal was on the spot hailed as a 'Hamiltonian moment' of European integration (Hall *et al.* 2020; Schelkle 2021).

To be sure, the French-German initiative was a game changer in the negotiations for a recovery instrument in response to the COVID-19 crisis (Ladi and Tsarouhas 2020; Stamouli and Herszenhorn 2021). As BBC journalist Katya Adler (2020) put it:

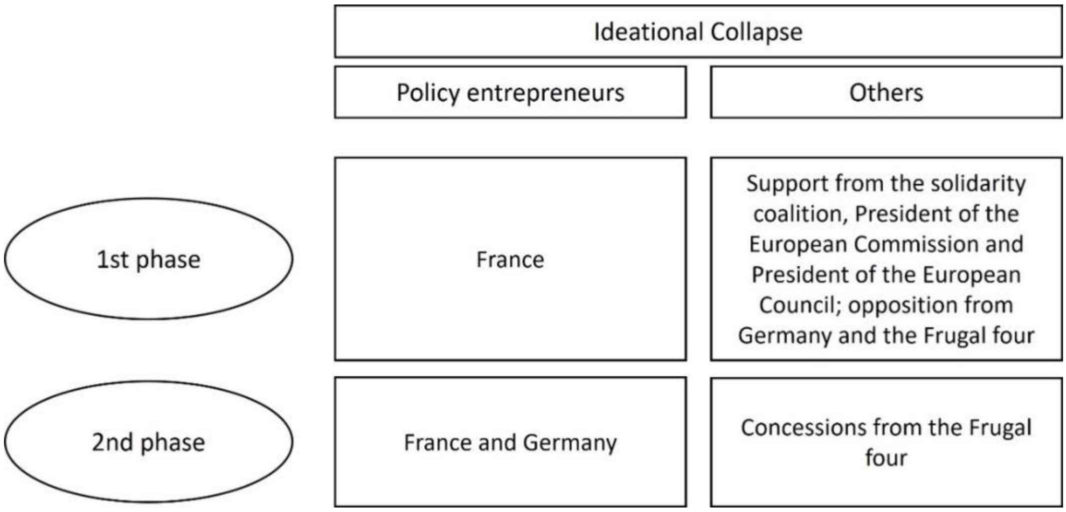
> After a shambolic, acrimonious display at the start of the COVID-19 pandemic, the E''s main players are now on a mission to demonstrate that the European dream is not dead or dying. To prove that solidarity, common values and a unity of purpose are, in fact, the order of the day.

As such, the Franco-German manifesto triggered an immediate reaction from the Frugal Four. Alarmed as they were by the sudden twist of the German government (Interview F, Ludlow 2020b), who had strongly resisted French initiatives for greater fiscal burden-sharing in the past, Austria, Denmark, Sweden and the Netherlands presented on 26 May a counter-proposal for an 'Emergency Recovery Fund' to be based on a loans-for loans approach, thus rejecting the possibility of grants. The word 'emergency' in the name of the instrument was intended to emphasise its temporary and one-off nature. The Emergency Recovery Fund would have offered favourable loans to the Member States most severely hit by the pandemic for a non-extendable two-year time. While calling for 'European solidarity and a common recovery strategy', the Frugal Four made clear that 'what we cannot agree, however, are any instruments or measures leading to debt mutualisation nor significant increases in the EU budget' (Dutch Government 2020). The Emergency Recovery Found would thus have had to be financed through limited supplementary national contributions to the MFF rather than through large-scale borrowing operations by the European Commission (Reuters 2020).

On this occasion, the existence of two very different visions or approaches on how to deal with the crisis became all the more apparent and led to an explicit confrontation between well-defined groups of countries or 'coalitions' (Interview F). On the one hand, at the helm of a 'solidarity' coalition of Southern European Member States, France and Germany had become the architects (read 'policy entrepreneurs') of an ambitious reform path including the establishment of a crisis-management instrument of a considerable size, financed through the issuance of common European debt by the European Commission and likely to provide Member States with non-repayable financial assistance (i.e. grants). On the other, the Frugal Four first opposed the establishment of any recovery instrument whatsoever, proposing instead the disbursement of a financial one-off 'gift' to the Member States most severely hit by the crisis (in addition to using ESM funds). Subsequently, as the French presidency was able to build a large consensus around its ideas for an innovative crisis-management tool, the Frugal countries conceded the adoption of a recovery instrument on the condition that it should be small in size, loans-based and not financed through the emission of any European common debt. In fact, 'confronted with the prospect of an alliance between the Commission, Germany and France, Rutte and his colleagues [appeared to acknowledge that the current crisis would require a very different response than what was provided for in the past]' (Ludlow 2020b, 8).

In sum, between March and May 2020, the idea of having to rely on the ESM and its intergovernmental logic as the major response to the pandemic was first called into question and then completely ruled out, pointing to an ideational collapse of the existing policy paradigm for financial crisis management in the EU. To this effect, the French presidency acted as the main policy entrepreneur, followed by the German government. In a first phase, leading a joint political initiative that resulted in the 'letter of the nine', France emphasised the exceptional nature of the crisis and launched the idea of a new crisis-management instrument based on the emission of common European debt to address the socio-economic consequences of the COVID-19 pandemic. Signed by a group of other Member States – including Italy, Spain and Portugal –, the so-called 'letter of the nine' constituted the first attempt to move beyond the ESM as the major crisis-resolution tool. While advocating the need for an innovative recovery instrument in the several European Council and Eurogroup meetings between March and April, France received the support of the President of the European Commission, the President of the European Council and the European Parliament, despite continued opposition by Germany and the Frugal Four.

In a second phase, the French presidency eventually persuaded the German government into supporting a more ambitious recovery path based on common debt as well as the provision of grants to the Member States. Emmanuel Macron and Angela Merkel thus advanced a bilateral initiative for a €500 billion Recovery Fund financed through borrowing operations of the European Commission on the financial markets. The French-German initiative forced the Frugal Four to forego the ESM and accept the adoption of a new recovery instrument for dealing with the socio-economic consequences of the pandemic crisis. However, these countries – notably the Dutch government – continued opposing any common European debt. At this stage, as the intergovernmental coordination policy paradigm epitomised by the ESM was obliterated, a consensus had yet to emerge on a different paradigm for financial crisis management in the EU (Figure 5 below).



[30]

Figure 5 The two phases of ideational collapse: policy entrepreneurs and others. Source: own elaboration.

After ideational collapse came about between March and May 2020 – with policy entrepreneurs (the French President, later on with the German Chancellor) questioning the existing policy paradigm for crisis management (i.e. intergovernmental coordination in the ESM) and proposing alternative ideas for institutional reform soon after the generative cleavage –, a subsequent ideational consolidation around a new policy paradigm for crisis management followed between May and July 2020.

6.3. Ideational Consolidation and the Role of Political Entrepreneurs: From May to July 2020

Ideational consolidation around a new policy paradigm for crisis management started off with the European Commission's legislative initiative of 28 May, which largely built upon the Franco-German initiative of 18 May (Interview B, F, G, N). The European Commission proposal constituted the first comprehensive scheme for the adoption of a Recovery and Resilience Facility (to be part of NGEU) as a regulation of the European Parliament and Council. In light of that, not only does it formalise, on behalf of the EU, the willingness to go beyond existing crisis-management tools to counter the COVID-19 crisis, but it also attempts to bring order to the reform paths advocated by the 'solidarity' coalition and the Frugal Four.

[30] When generic reference to a country is made (such as 'France' or 'Germany'), that indicates the country's head of State or government.

Moreover, while the European Commission was tasked by the heads of State and government to present a plan for a recovery instrument, because of persisting quarrels among them the political guidelines for the legislative proposal were deliberately vague. The European Commission thus exploited its room for manoeuvre to set up a recovery instrument whose size and composition could be accepted by all but that provided the European Commission itself with large decision-making powers in terms of disbursement of financial assistance (Interview A, C, F, L; Herszenhorn *et al.* 2020b). As Ludlow reported:

> Amongst the commissioners, Paolo Gentiloni was probably the closest to the action, but most of the groundwork on the overall strategy in the early stages at least was done by a small group of senior officials headed by Maarten Verwey in DG ECFIN and Gert-Jan Koopman in DG Budget. As time went by, Björn Seibert, von der Leyen's chef de cabinet, the Commission's secretary general [Ilze Juhansone] and their official became even more important. For obvious reasons. They were very close to the president and […] uniquely well positioned to talk confidently and effectively with senior officials in Berlin (2020b, 6).

The proposal from the Commission reiterated that the RRF would be the key programme of NGEU, to be financed through borrowing operations of the Union on capital markets, thus leading to the emission of common European debt. In terms of size and composition, the Commission's draft scheme mirrored the French-German initiative but also tried to accommodate the preoccupation of the Frugal countries for the nature of financial assistance as non-repayable support, that is, grants. It provided that the RRF would amount to EUR 602 905 billion (EUR 102 905 billion greater than the French-German initiative), divided between EUR 334 950 billion in the form of grants (EUR 165 050 billion less than the French-German initiative) and EUR 267 955 billion in the form of loans. However, with its legislative initiative, the European Commission made clear that the recovery instrument would follow the path indicated by France, Germany and their 'solidarity' coalition as it confirmed the RRF's financing mechanism through common debt, its large size and the grants component of fundings (Herszenhorn *et al.* 2020b; Van Middelaar 2021).

What is more for the purpose of this work, for the first time the European Commission proposal also defined the features of the RRF in terms of governance, that is, the decision-making powers of EU institutions over the activation, and withdrawal of, financial assistance to the Member States. In this respect, the Commission's scheme was 'amongst the most imaginative and ambitious proposals it has ever published' (Ludlow 2020b, 8). It envisaged that the Commission itself would assess and decide on the NRRPs and that the Council would suspend, on a proposal from the Commission, decisions on NRRPs as well as payments under the RRF in case of significant non-compliance. The European Commission thus provided itself with considerable decision-making powers and limited the Council's role to the suspension of decisions or payments under the RRF on a Commission proposal (European Commission 2020b). This constituted a major breakthrough vis-à-vis the governance system of the ESM, which was based on unanimity voting and permeated with a purely intergovernmental logic. Capitalising on the Franco-German momentum, the European Commission thus paved the way for the consolidation of a new policy paradigm for crisis management in the EU, one with remarkably supranational features. It thus acted as an early 'political entrepreneur', greatly conditioning the negotiating terms among Member State governments thereafter (Interview B, L; Barigazzi 2020).

Between 27 May and 13 June, the Commission's plan was the object of exploratory conversations between the permanent representatives of the Member States and the European Commission in the persons of Björn Seibert, Ilze Juhansone and Gert-Jan Koopman. Throughout the discussions, a first coalition, led by France and Germany and including most of the countries from Southern Europe, by and large endorsed the presented draft scheme for the establishment of the RRF. A second coalition, led by the Dutch government and comprising the Netherlands, Austria, Denmark, Sweden and Finland, opposed the Commission proposal for what concerned the financing mechanism, composition and governance of the RRF (Interview B, C, D, G. I, J, K, L, M, O). It was thus clear that several rounds of negotiations would be needed to find a comprehensive agreement on it. Against this backdrop, Angela Merkel (as President of the Council) and Charles Michel (as President of the European Council), took the lead as later 'political entrepreneurs' (see Interview B, F, G, H, I), bringing the process of ideational consolidation around a new policy paradigm for crisis management in the EU to an end. In doing so, they followed up on the foundations laid by Ursula von der Leyen, with whom they formed what was called a 'Team Presidency', but had to win opposition from the Frugal Four (Interview I).

Aware of the need to provide a rapid response to the crisis, on the same say as the Commission's plan came out, European Council President Michel called on the bodies of the Council to start analysing the scheme. He urged 'all Member States to examine the Commission's proposal swiftly' and scheduled a regular European Council meeting for 19

June, saying ‘everything should be done to reach an agreement before the summer break’ (European Council 2020c). The European Council meeting of 19 June, held via videoconference, was the first occasion on which the political leaders discussed the plan presented by the European Commission. 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 mid-July 2020. Acting as a mediator between the two coalitions in ‘close consultation’ with Ursula von der Leyen (Interview I), he then officially launched negotiations with the Member States and started bilateral talks with the governments with the help of his closest associates, Jeppe Tranholm Mikkelsen and his former-sherpa newly-appointed cabinet chief, Frédéric Bernard. Between 24 June and 2 July 2020, Michel held videoconference meetings with all political leaders to work towards a draft compromise based on the Commission proposal to be presented ahead of the European Council meeting scheduled for 17-21 July (European Council 2020e; European Council 2020f).

In the meantime, a few days away from taking up the rotating presidency of the Council, German Chancellor Angela Merkel sat down for a joint interview with six major European newspapers on the EU’s economic response to the COVID-19 pandemic and the priorities of the German upcoming six-month presidency. Merkel stressed the unprecedented and indiscriminate character of the pandemic and characterised the French-German initiative of 18 May as an act of solidarity towards countries suffering the loss of many human lives. The German Chancellor reiterated that ‘what needs to be done in this case is something extraordinary’, adding: ‘I am counting on it, though I am under no illusions about how difficult th173isagree173onons will be’ (Oltermann 2020). On 29 June, Merkel welcomed Macron in the Federal Government’s guest house at Schloss Meseberg for a bilateral meeting on the planned economic recovery programme. They showed unrelieved unity in backing the ambitious recovery path formalised by the European Commission (Krotz and Schramm 2021). Setting the stage for her mediation role in the upcoming negotiations among the leaders, the Federal Chancellor claimed that ‘together, Germany and France want to play a role that makes it clear that Europe is our future’ (German Federal Government 2020b).

Upon assuming the Council presidency on 1 July 2020, the German government wore the shoes of the broker and circulated a draft proposal on the RRF’s governance, ‘the single most important and difficult question’ which the political leaders would have to deal with following the presentation of the Commission’s plan (Ludlow 2020c, 6; see also Drachenberg 2020). The German scheme provided that the Council wound not only suspend payments on a proposal from the Commission, but it would have a say on any phase of the process and approve the Commission assessments of NRRPs by QMV. While marking a clear departure from intergovernmental coordination *à la* ESM, the German proposal somewhat reduced the extremely supranational character of the Commission's plan, finding a middle ground between the position of the 'solidarity' coalition and the Frugal Four (Interview K). The German draft was debated at the EU Ambassadors meeting on 8 July. On that occasion, Dutch EU Permanent Representative De Groot appreciated Germany's effort but said the Netherlands favoured unanimity voting in the Council on a Commission proposal. He also suggested that the Dutch government was not quite happy with grants and would not support financing them through the emission of a common debt (Politico 2020). Before the diplomatic meeting, the Dutch Prime Minister had discussed his position with his colleagues from Austria, Denmark and Sweden as part of a coordination strategy in view of the leaders' meeting of 17-21 July[31]. Overall, however, the German proposal was hailed as a big progress in the negotiations by the Frugals as it somewhat moved the balance of decision-making powers under the RRF from the European Commission to the Council (Politico 2020).

On 10 July, one week ahead of a crucial European Council meeting, President Michel summed up ongoing discussions with the Member States and the fresh German draft by launching a 'negotiating box' as the official blueprint for the upcoming European Council negotiations (Interview I; Ludlow 2020b, 23). Along the lines of the German plan, he proposed to preserve the size of the RRF and the balance between grants and loans as per the Commission's plan while giving concessions to the Frugal Four in terms of governance. Specifically, Michel suggested that the NRRPs should be approved by the Council with a QMV on a Commission recommendation (European Council 2020g). Michel's negotiating box was presented to Coreper by his cabinet chief, Frédéric Bernard, on the same day. The European Commission's representative, Gert-Jan Koopman, welcomed it and said that 'the Commission was not opposed in principle to enlarging the Council's role' in the governance of the RRF (Ludlow 2020b, 28). Government representatives of the solidarity coalition appreciated the preservation of an overarching supranational system of financial assistance, while the Frugal Four and Finland held their fire. In sum, thanks to their daily phone talks[32] and coordinated diplomatic efforts, Angela Merkel and Charles Michel were able to provide the incoming European Council meeting of 17-21 July with a more solid basis for compromise (Interview B, I, K; European Council 2020h).

[31] https://twitter.com/sebastiankurz/status/1280880213317111809.
[32] As reported by Ludlow (2020b, 30-31).

As Barend Leyts, Michel's spokesperson, reported, meetings between Merkel and Michel continued during the European Council of 17-21 July[33] – mostly bilaterally, often with Macron and sometimes with von der Leyen. Michel was always accompanied by Tranholm Mikkelsen or Bernard, Merkel was often accompanied by her chief adviser Uwe Corsepius and Macron by the French Secretary of State for European Affairs Clément Beaune. The Merkel-Michel duumvirate also worked in parallel with leaders from Southern European governments and the Frugal countries, especially Conte and Sanchez on the one hand and Rutte and Kurz on the other, to bridge the existing divergences on outstanding aspects of the RRF (Ludlow 2020b). These mostly concerned the size of the RRF (along with the whole NGEU recovery package), the balance between grants and loans, the financing mechanism (whether through common debt or other) and the governance system for the disbursement and suspension of financial assistance to the Member States (Interview A, D, I, K, L, O; Eder 2020).

The first day of plenary discussions was reportedly quite unsuccessful. At the end of a 9-hour round of negotiations, everyone stuck to their pre-summit position, and the manifest discord between Conte and Rutte over the governance of the recovery instrument was received as old news. Before the end of the short working dinner between 9.20PM and 11.40PM on 17 July, however, the leaders agreed that 'the Commission will be authorised to borrow funds on behalf of the Union on the capital markets' but that the 'powers granted to the Commission to borrow are clearly limited in size, duration and scope' (European Council 2020i). The RRF would thus be a common debt instrument, though a temporary and targeted one. The second day was mainly dedicated to the size of the RRF as well as the balance of grants and loans. It started at around 11.15AM with a plenary session of just over 2 hours, following which the Team Presidency engaged in closed-door conversations and small working groups with the leaders of the different coalitions. After yet another short working dinner between 9.05PM and 11.10PM on 18 July, Michel chaired a meeting with Merkel, Macron, the leaders of the Frugal Four plus Finland but failed to bridge the gap and closed discussions at 1.30AM on 19 July. While nobody ever suggested reducing the size of the instrument, the Frugals insisted on loans but said they would be willing to concede up to €150 billion in grants. For others at the table, such a figure was still too small to provide a comprehensive response to the pandemic (Ludlow 2020b).

Negotiations on the size and balance between grants and loans resumed the following day and a compromise was eventually reached on 20 July. The size of the RRF would increase from

[33] https://twitter.com/BarendLeyts/status/1284174161951313927.

EUR 602 906 billion (as per the Commission's plan and Michel's negotiating box) to EUR 672 500 billion, but the grants component would decrease from EUR 334 950 billion to EUR 312 500 billion. As part of the agreement, the Frugal Four in general were also given concessions in terms of MFF-related rebates[34] (Interview D, G; Drachenberg 2020) and the Dutch government in particular obtained an increase in the retention of collection costs at the ports[35]. That was not yet the end of dealings however, as the issue of governance required until the very last minute on 21 July to be settled.

In his pre-summit negotiating box, Michel had already provided that the disbursement of financial assistance would be approved by the Council by QMV on a proposal from the European Commission, rather than by the Commission alone (as per the original regulation proposal of 28 May). However, the Dutch government now insisted that the Member States should have continued control over the national recovery plans, claiming for them the power to stop the activation of financial assistance in case a NRRP appeared not to be in line with the established criteria. Such argument was decisively opposed by both the Italian government (along with the solidarity coalition) and the Commission, who feared this could jeopardise the supranational structure of the recovery instrument (Ludlow 2020b). Particularly during the first two days of the meeting, the Frugal Four had entrenched themselves behind the adoption of unanimity voting so as to retain a veto power over any national recovery plan. That turned out to be the single most intractable issue of the whole package. To keep everyone around the table when discussions failed to progress, after consulting with Angela Merkel, on 18 July Michel circulated a draft with the following clause:

> If, exceptionally, one or more Member States consider that there are serious deviations from the satisfactory fulfilment of the relevant milestones and targets, they may request the President of the European Council to refer the matter to the next European Council. The respective Member States should also inform the Council without undue delay, and the Council should, in turn, without delay inform the European Parliament. In such exceptional circumstances, no decision authorising the disbursement of the financial contribution and, where applicable, of the loan

[34] The Danish rebate increased from €197 million to €377 million, the Dutch rebate from €1.576 billion to 1.921 billion, the Austrian rebate from €237 million to €565 million, and the Swedish rebate from €798 million to €1.069 billion.
[35] Member States would be able to retain 20% rather than 15% of collection costs at the ports, which favoured Rotterdam as the largest port in Europe by annual cargo throughput).

> should be taken until the next European Council has exhaustively discussed the matter.

Working side by side with Merkel, Michel thus put forward an amendment providing that, in case of doubts or concerns, Member States could ask to discuss any NRRP at the next European Council meeting before the Commission could recommend the activation of financial assistance. In this way, he was able to open a breach in the Northern coalition without shaking the supranational nature of the governance system. The Presidency's move made the trick, but not quite. Conte and Rutte reportedly continued their bargain over a single word of the clause – that is, whether the matter should be 'exhaustively' or 'decisively' discussed by the European Council before the Commission's recommendation (Interview L). While Conte favoured the former phrasing, Rutte endorsed the latter as it suggested the remote possibility of a veto. On 21 July, after the Italian government – backed by Merkel and Michel – managed to have the final say, the deal was closed. As one policy officer of the European Council argued:

> [The] clause – which became known as the 'emergency brake' – was intended to give a reassurance to the Frugal Four and it led to a very long discussion between the Netherlands and Italy in particular. However, thanks to this innovation, its architects, Angela Merkel and Charles Michel, were able to prevent the collapse of negotiations during the first day of the meeting (Interview I).

Angela Merkel's imprint behind this final compromise was so manifest that a senior official of the European Commission went as far as to say that the emergency brake 'was mostly a deal between the Germans and the Dutch' (Interview A; see also Interview N). In any case, and by all accounts, the emergency brake represented the fundamental compromise that allowed coalitions of Member States with very different visions on the governance of the instrument to strike a deal for the recovery of Europe (Interview A, B, C, D, F, G, I, K, L, M, N, O). While losing the exclusively supranational character envisaged by the Commission proposal of 28 May, the RRF escaped the intergovernmental logic of its predecessor (i.e. the ESM). Under the mediation of Angela Merkel and Charles Michel, the heads of state and government agreed on a governance based on 'limited supranational delegation' (see Chapter 4) whereby decisions on the activation and suspension (or lift thereof) of financial assistance would be taken on a proposal from the European Commission by the Council, acting by QMV and RQMV respectively. The European Council would be able to discuss NRRPs when asked to do so by a government representative, but without veto powers. The final say over the assessment of NRRPs would thus lie with the European Commission.

In sum, following the ideational collapse of the policy paradigm based on intergovernmental coordination, ideational consolidation around the new policy paradigm of limited supranational delegation for crisis management in the EU took place between May and July 2020. The process opened up with the European Commission's legislative proposal of 28 May for the establishment of the RRF. To this effect, the European Commission acted as an early 'political entrepreneur' in that, building on the French-German initiative, not only did it formalise the willingness to go beyond the already existing ESM as the major crisis-management tool in response to the COVID-19 crisis, but it also provided the RRF with strongly supranational governance features. The Commission's plan, which relegated the Council to a watchdog role in the suspension of financial assistance and provided the Commission itself with exclusive decision-making powers over the activation of financial support, was to be the object of intense discussions among political leaders, ambassadors and EU civil servants for almost two months. On the one hand, the countries of the solidarity coalition of Southern Europe got behind the Commission's plan as it stood. On the other, the Frugal Four opposed the governance of the instrument and demanded the adoption of unanimity voting in the Council instead.

In this context, Germany's Angela Merkel and European Council President Charles Michel acted as later 'political entrepreneurs', pushing the European Commission's proposal forward in the negotiations while rallying the other Member States to secure a deal. Before the European Council meeting of 17-21 July 2020, they both came up with draft revisions of the Commission's governance scheme to give concessions to the Northern countries. Such revisions, which provided for the adoption of QMV in the Council on a Commission recommendation for the disbursement of financial assistance, were to serve as a blueprint for negotiations among the leaders in the weeks ahead. During the European Council meeting of July, they played the mediators role engaging in bilateral or small working group meetings with the leaders of the different coalitions and eventually devising the 'emergency brake' as a key solution to the controversy over the governance of the instrument.

In conclusion, the European Commission in the person of Ursula von der Leyen first and the German Chancellor and President of the European Council later – what came to be known as Team Presidency – formed a 'winning coalition' and facilitated ideational consolidation around the new policy paradigm of limited supranational delegation. Specifically, they *a)* sponsored ideas for the establishment of a new crisis-management instrument in the EU as a response to the COVID-19 pandemic, one with a very different logic than the intergovernmental ESM; and *b)* pushed such ideas forward in the decision-making process while securing a compromise with a coalition of countries who resisted the institutional change (Figure 6 below).

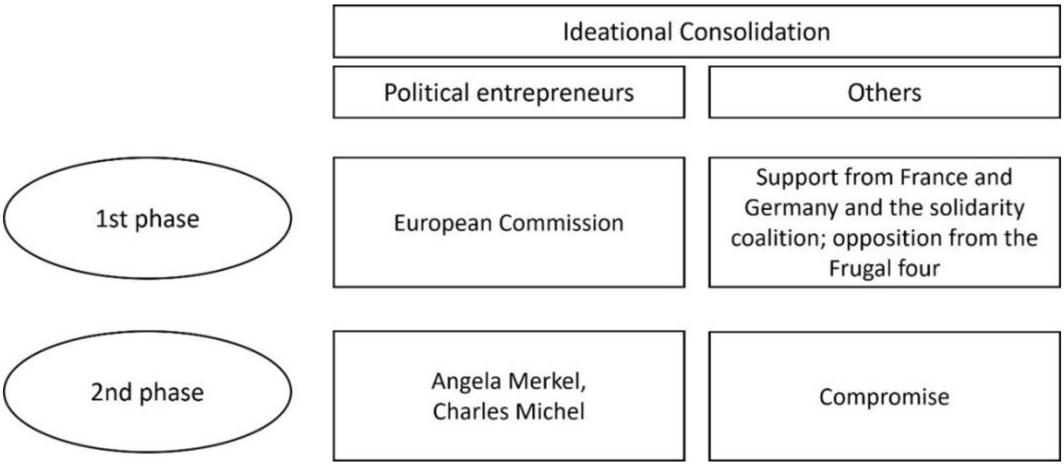


Figure 6 The two phases of ideational consolidation: political entrepreneurs and others. Source: own elaboration.

While the RRF regulation was only approved on 11 February 2021, the governance dossier was officially closed at the July 2020 meeting, to the partial dismay of the European Parliament (which briefly tried to force its hand and claim a role in the procedure for the disbursement and suspension of financial assistance, but eventually accepted concessions in terms of increased resources for other NGEU instruments: see Interview L)[36]. Subsequent steps taken at the EU level to complete the recovery package concerned the own resources decision[37], the European Union Recovery Instrument (or NGEU)[38] and the MFF for 2021-2027[39], all of which finalised

[36] See European Parliament resolution of 23 July 2020 on the conclusions of the extraordinary European Council meeting of 17-21 July 2020. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020IP0206&from=EN.
[37] See Council Decision (EU, Euratom) 2020/2053 of 14 December 2020 on the system of own resources of the European Union and repealing Decision 2014/335/EU, Euratom. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020D2053.
[38] See Council Regulation (EU) 2020/2094 of 14 December 2020 establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 crisis. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32020R2094.
[39] https://www.consilium.europa.eu/en/press/press-releases/2020/12/14/next-multiannual-financial-framework-and-recovery-package-council-moves-to-finalise-adoption/pdf.

on 14 December 2020, as well as the establishment of a conditionality regime based on the respect for the rule of law[40], enacted on 16 December 2020.

6.4. A Case of Policy Learning?

This chapter has so far showed that the establishment of the RRF around a new policy paradigm of EU crisis management in response to the COVID-19 pandemic followed a process of ideational change consisting of two concomitant mechanisms: ideational collapse of ‘intergovernmental coordination’ and ideational consolidation around ‘limited supranational delegation’. Ideational change was driven by policy entrepreneurs in the first mechanism of ideational collapse and by political entrepreneurs in the later mechanism of ideational consolidation. This section seeks to identify what factors moved policy and political entrepreneurs in their quest for institutional reform. Specifically, it provides an interpretation of ideational change during the COVID-19 pandemic based on policy learning.

As anticipated in the analytical framework (see Chapter 2), there are structural pre-conditions favouring change through policy learning in the EU. As an incomplete integration process with yet no clear destination or aim (Fabbrini and Schmidt 2019), the EU advances in a ‘failing forward dynamic’ (Jones *et al.* 2016), that is through lowest common denominator bargains that produce piecemeal reforms and partial solutions. This may sometimes result in manifest policy failures, which is exactly what happened with EU crisis management during the Euro Crisis. As the EU was once again urged to engage in financial crisis management during the COVID-19 pandemic, the scope for collective learning from the previous crisis was inevitably large (Ladi and Tsarouhas 2020). Second, despite lending itself to dynamics of domination when crises with distributional effects emerge (Fabbrini 2016), the EU policymaking process is embedded into a multi-level, anti-hierarchical institutional framework that fosters ideational innovation and entrepreneurial politics, leading to a form of ‘networked governance’ (Schout 2009). Without any fixed mode of governance, policymakers can thus work together at different levels and with varying formats, engage in informal deliberation practices and negotiate policy outcomes. This inevitable increases the scope for collective learning. Third, crises are believed to be key triggers for policy learning and learning-induced

[40] See Regulation (EU, Euratom) 2020/2092 of the European Parliament and of the Council of 16 December 2020 on a general regime of conditionality for the protection of the Union budget. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.LI.2020.433.01.0001.01.ENG&toc=OJ:L:2020:433I:TOC.

institutional change (Kamkhaji and Radaelli 2017; Ladi and Tsarouhas 2020). To this effect, policy-makers first need to engage in discussions, exchange information and build knowledge based on a crisis-management experience. They thus learn lessons from policy failures associated with crisis management. Finally, policy-makers can draw on those policy lessons to devise a policy response to a crisis (May 1992).

Starting from this structural pre-condition, this section builds the policy learning argument in three steps. First, it identifies the policy failures associated with the EU's management of the Euro Crisis, focussing on the 'intergovernmental coordination' paradigm that permeated the functioning of the ESM (see Chapter 3). Those policy failures laid the seeds for a collective policy learning process to emerge with respect to the institutional practice of crisis management in the EU. Second, it examines how the shortcomings of the ESM during the Euro Crisis translated into policy lessons for policy and political entrepreneurs in the EU's response to the COVID-19 pandemic, leading to the establishment of the RRF around the new policy paradigm of 'limited supranational delegation (see Chapter 4 and above in this Chapter). Third and finally, building on the typology illustrated in the analytical framework (see Chapter 2), the section discusses what type of collective policy learning emerged and what implications this has for institutional change in EU financial crisis management.

When the COVID-19 pandemic exploded in March 2020, the ESM still was the single major crisis-management instrument in the EU. It thus stood as a 'default option' for Eurozone countries in need of financial assistance (Howarth and Quaglia 2021, 7). In fact, prospects of relying on the ESM as the major response to the pandemic crisis were still prevalent in EU circles at least until early April 2020 (see above in this Chapter; Bufacchi 2020). However, no Eurozone member opted for activating the instrument in their response to COVID-19, not even when its new health-related conditionality-light credit line (i.e. the *Pandemic Crisis Support*) became operational in May (see Chapter 3). After all, the ESM had come out of the experience of the sovereign debt crisis scratched and ailing. Owing much to its intergovernmental logic, the ESM had failed to meet the criteria of efficiency and legitimacy in dealing with the Euro Crisis (Fabbrini 2013; Donnelly 2021).

In terms of efficiency, unanimity rules in the ESM decision-making system created multiple veto players, each virtually able to stop the adoption of any solution to the crisis. This allegedly contributed to slowing down the EU's reaction to the financial turmoil and made it difficult to stop the spread of the crisis from Greece across the Southern periphery of the Eurozone (Interview G, see also Interview L). In addition, decisions based on intergovernmental coordination are liable to sudden withdrawals from any of the contracting parties as resources are decentralised and no supranational authority is able to enforce compliance with established commitments.

In terms of legitimacy, and again due to their intergovernmental character, decisions in the ESM were taken with little (if any) consideration for the European Parliament and national parliaments despite having implications for Eurozone citizens as a whole, thereby producing a vacuum of democratic accountability (Interview M; Howarth and Spendzharova 2019). On top of that, the asymmetric vulnerabilities of Eurozone members to the Euro Crisis and the ensuing divide between 'creditor' and 'debtor' countries allowed the most powerful actors at the time – notably Germany – to 'weaponize' the ESM as a way of imposing 'practical authority over other institutions, core EU policy principles, programmes, institutions and regulations and [placing] conditions on other countries' (Donnelly 2021, 1576; see also Fabbrini 2016). Over time, this greatly contributed to increasing levels of public distrust towards the EU in general and its crisis management practices in particular (Interview M; Schmidt 2020).

As a result, the shortcomings of the 'intergovernmental coordination' paradigm (embodied by the ESM) in dealing with the Euro Crisis clearly provided EU policymakers with relevant hints on how (not) to go about financial crisis management during the COVID-19 crisis. But was any lesson learned from the past? To be sure, the COVID-19 pandemic was handled by a whole different elite than those who governed the Euro Crisis, if one excepts German Chancellor Angela Merkel and ECB President Christine Lagarde. However, as one EU officer had to say:

> Even if leaders between the two crises changed, governments and EU institutions have a living memory and especially within the DG ECFIN of the European Commission I think they realised what the huge repercussions of how they dealt with the previous crisis were (Interview E).

In fact, when the pandemic broke out in March 2020, the experience of the Euro Crisis was still very fresh in the minds of EU policymakers, as were the policy failures in the EU's response to it. Looking at official documents of EU institutions and Member State governments from March 2020 – when the pandemic crisis exploded – to February 2021 – when the new crisis-management instrument (i.e. the RRF) was officially established around the new policy paradigm of 'limited supranational delegation' – it is striking how frequent the reference to 'learning from the past' was. And this both during the ideational collapse and the subsequent ‘ideational consolidation’ process. As for the former, soon after the COVID-19 infection was declared a global pandemic by the WHO, in their joint statement of 26 March, the members of the European Council stressed the importance of ‘drawing all lessons from the crisis’ and ‘reflecting on the resilience of our societies when confronted with such events’, concluding that ‘[in] that respect, the time has come to put into place a more ambitious and wide-ranging crisis management system within the EU’ (European Council 2020a, 6). On 16 April 2020, in her speech at the European Parliament on the EU coordinated action to combat the coronavirus pandemic, European Commission President von der Leyen put forward the idea of a ‘Marshall Plan for Europe’s recovery’, saying ‘this is the lesson we need to learn from this crisis’ (European Commission 2020a). Along the same lines, upon presenting their joint ‘roadmap for recovery’ on 21 April, von der Leyen and Charles Michel urged: ‘[the EU] should draw lessons from the crisis’ (Von der Leyen and Michel 2020).

The reference to ‘learning from the past’ was also frequent during the subsequent process of ideational consolidation. On 28 May 2020, in its legislative proposal for the establishment of the RRF, the European Commission emphasised among the ‘grounds for the proposal/initiative’ exactly the ‘lessons learned from similar experiences in the past’ (European Commission 2020b, 34). A few days later, on 9 June 2020, the German, Portuguese and Slovenian governments presented the 18-month programme of the Council Presidency for the period from 1 July 2020 to 31 December 2021. The programme suggested that the Presidency would be ‘drawing all lessons from the crisis and tackling its socio-economic consequences’ (Council of the EU 2020b). On 10 July, in his ‘negotiating box’ ahead of the European Council meeting of 17-21 July, Charles Michel urged ‘it is essential to learn the lessons’ (European Council 2020g). On 9 September, in its *Strategic Foresight Report*, the European Commission explained that:

> *The COVID-19 crisis has exposed a number of vulnerabilities in the EU and its Member States* (…), thus underlining the need for more ambitious crisis management for large-scale emergencies at the EU level (European Commission 2020c, 5, emphasis in the original).

Finally, the final RRF regulation published on 10 February 2021 reported:

> The Facility should be a dedicated instrument designed to tackle to adverse effects and consequences of the COVID-19 crisis in the Union. *It should be comprehensive and should benefit from the experience gained by the Commission and the Member States from the use of other instruments and programmes* (RRF Regulation 2021, 5, emphasis added).

In addition to official documents, international reports and newspaper articles also concurrently pointed to policy learning as the negotiations leading to the RRF unfolded. Already on 16 April 2020 the *European Policy Centre* published a discussion paper identifying several 'key lessons [that] can be learned and applied from [the Euro Crisis], not least since there is a similar systemic and persistent effect on Europe's economies' (Emmanoulidis and Zuleeg 2020, 3). One month later, when France and Germany came up with their joint initiative for a common debt instrument, the *Financial Times* acknowledged that:

> The lesson of past crises is that inadequate measures sharpen184isagreements among governments, stimulate public frustration with the EU and sow doubts in financial markets about the eurozone's stability. The French-German initiative stands out from crisis-fighting measures deployed in the sovereign debt and bank turmoil of a decade ago, or adopted earlier in the pandemic (Financial Times 2020).

The policy learning argument also finds validation in the semi-structured elite interviews conducted with senior policy and legal officers, policy advisors and policy assistants involved in the negotiations for the establishment of the RRF. Of all participants who were asked about the factors that led to the establishment of the RRF (n=15), learning from past crisis experiences was identified as one of the main such factors by everyone but two. In particular, policy learning emerged from the interviews as one of three competing – but by no means mutually exclusive – narratives on the causes behind institutional change during COVID-19, the other two narratives revolving around the nature of the pandemic crisis as 'exogenous' rather than 'endogenous' (as was instead the Euro Crisis) and the effects of the pandemic crisis as 'partly symmetric' rather than 'fully asymmetric' (as was instead the case with the Euro Crisis) (Interview A, B, C, E, F, G, H, I, J, K, L, M, N). A minor narrative, who a few participants also mentioned as a potential cause of change in crisis management, concerned Brexit and the constraining effects of the ‘British veto’ in the past (Interview A, F, I). One of them was more explicit and suggested that

> [The] United Kingdom has traditionally favoured an intergovernmental method for governing European integration in general and crises in particular, with its reluctance to give up portions of its national sovereignty to supranational institutions operating beyond its own control. This may well be part of the reason why we ultimately able to set up the RRF with clear supranational features (Interview A).

As for the relative explanatory weight of policy learning in relation to the other competing narratives, no unanimous view came out from the interviews. While some posited that policy learning was conditional upon the different nature and effects of the COVID-19 pandemic compared to the Euro Crisis (Interview A, C, G), others argued that the experience of the Euro Crisis would have urged EU policymakers to learn key policy lessons anyway (Interview E, F, J). Be that as it may, this debate further contributes to suggesting that, whether or not facilitated by the different nature and effects of the two crises, an underlying policy-learning process emerged that pushed EU policymakers to change the EU’s governance approach to crisis management during the COVID-19 pandemic, moving away from intergovernmental coordination towards a form of limited supranational delegation.

The final question this section (and chapter) thus sets out to address is: what kind of policy learning was that? To do so, we here build on the typology elaborated in the analytical framework (see Chapter 2) based on the *time frame*, *scope* and *nature* of policy learning (Table 12).

	Dimensions		
	Time frame	*Scope*	*Nature*
Policy Learning	Inter-crisis or intra-crisis	Single-loop or double-loop	Consensual, bargaining or hierarchical

Table 12 Types of policy learning based on its time frame, scope and nature. Source: own elaboration.

First, in terms of time frame, policy learning took place fully within the window of opportunity opened up by the pandemic crisis. No signs of such a process were present any time before COVID-19. Indeed, before the pandemic, 'the distributional effects of the Euro area [crisis] could not be addressed, at least explicitly, for fear of exacerbating tensions between northern and southern Member States' (Ladi and Tsarouhas 2020, 1044). Also, in 2019, ESM Members did agree to a reform of the ESM Treaty, making the ESM a backstop to the Single Resolution Fund (SRF). In terms of governance, however, minor changes were introduced, including a slightly more prominent role for the Managing Director. These did not alter the policy paradigm of the instrument, which remained purely intergovernmental. The adoption of the RRF as an instrument based on limited supranationalism thus followed an intra-crisis policy learning, with clear crisis-management rather than crisis-prevention ambitions. Despite the failures of intergovernmentalism in the EU's response to the Euro Crisis, the ESM remained the major crisis-resolution tool up until the coronavirus outbreak, marking a long period of institutional path-dependence (Verdun 2015). The persistence of an intergovernmental logic was only challenged when COVID-19 had turned into a global pandemic, which resulted in a sudden and radical change from intergovernmental coordination to a form of limited supranational delegation (Fabbrini and Capati 2023). As a policy officer of the Council stressed, 'without the pandemic crisis nothing would have happened as there would have been no need to learn any lessons from the past' (Interview L). As a result, EU crisis-management between the Euro Crisis and the pandemic crisis followed a pattern of institutional path-dependence interrupted by a critical juncture (see Chapter 4). For the sake of argument, an inter-crisis policy learning would have instead entailed gradual and continuous adjustments in crisis-management governance taking place between the Euro Crisis and the COVID-19 pandemic. Overall, this may suggest that the EU is only able to learn from past crisis experiences and free itself from established institutional constraints when the next crisis is already well underway.

Second, in terms of scope, policy learning pertained to the core policy paradigm for financial crisis management that had consolidated starting from the Eurozone crisis. As shown above, during the COVID-19 pandemic, EU policymakers gave rise to a radical change, moving from intergovernmental coordination with the ESM to limited supranational delegation with the RRF. The unanimity rule that so heavily impaired the EU's response to the Euro Crisis was abandoned in favour of QMV and RQMV, which gave greater decision-making space to the European Commission and deprived Member State governments of their veto power (Interview K, L). A double-loop policy-learning process emerged during the critical juncture of the COVID-19 pandemic (Ladi and Tsarouhas 2020) whereby political leaders and EU institutions called into question the fundamental crisis-management system in the EU and eventually set up a new financial crisis management system with a whole different governance or policy paradigm. This may indicate that, while unable or unwilling to alter its entrenched institutional practices during the long periods of 'normal' time between one crisis and the next, the EU is actually able to radically do so when confronted with existential challenges that require immediate and comprehensive responses (Fabbrini F. 2022; Rhodes 2021).

Third and finally, in terms of nature, the policy-learning process behind the adoption of the RRF was hardly consensual, as some Member States initially resisted abandoning intergovernmental coordination along with their veto powers (Buti and Fabbrini 2022; Schelkle 2021; see above in this Chapter). At the same time though, policy learning was not a hierarchical one either, as the establishment of the RRF along the lines of limited supranational delegation was not imposed by any single policy actor (a prevalent pattern in the EU's management of the Euro Crisis, see Donnelly 2021 and Fabbrini 2016) but rather emerged throughout several rounds of proposals, discussions and negotiations. The policy-learning process behind the RRF was thus more of a bargaining one. While learning through bargaining might sound odd, negotiations can produce information and shed light on alternative courses of action which would otherwise remain uncharted (Dunlop and Radaelli 2016). To this effect, many interview participants concurred that policy learning during the COVID-19 pandemic was not so much about the countries that suffered the most severe consequences from the Euro Crisis, as much as it was about the countries that suffered the least along with the institutions and governments that ended up steering the solutions to it (Interview A). Aa a policy officer of the European Commission admitted:

> One crucial leader during the Euro Crisis, German Chancellor Angela Merkel, was no longer the same. She changed ideas based on the experience of the 2010s, but she did so only after several meetings at the EU level as well as informal bilateral government talks had already taken place (Interview F).

Along the same lines, a top-level policy advisor working in the European Council argued that during negotiations for the establishment of the RRF 'Merkel has learned and has chosen a different coalition' (Interview I; see also Interview N, O). In addition to the German Chancellor, other participants also pointed to officials within DG ECFIN of the European Commission, in particular its Director-General during the Euro Crisis, who 'also contributed to the drafting of the RRF from a position of power' (Interview J; see also Interview E, L, M). As discussed in the first part of this chapter, the shift in the German position from leader of the Frugal Four to advocate of a more ambitious recovery path turned out to be key to the establishment of the RRF as an instrument of limited supranational delegation because of the role the German government played both in terms of ideational collapse from March to May and in terms of ideational consolidation from May to July 2020.

In conclusion, Table 13 below summarises the features of the policy-learning process behind the establishment of the RRF in the EU's response to the pandemic crisis.

	Dimensions		
	Time frame	*Scope*	*Nature*
Policy Learning	Inter-crisis or intra-crisis	Single-loop or double-loop	Consensual, bargaining or hierarchical
Establishment of the RRF	Intra-crisis	Double-loop	Bargaining

Table 13 Features of the policy-learning process behind the establishment of the RRF in the EU's response to the COVID-19 pandemic. Source: own elaboration.

6.5. Conclusion

To explain the establishment of the RRF as an instrument based on limited supranational delegation following the COVID-19 pandemic, this chapter has looked at the policy dynamics at the EU level between March and July 2020. It has investigated the role of different agents at the various stages of discussions, their positions during negotiations, and the motivations behind their decisions.

The chapter has made two overarching arguments. First, following and due to the pandemic crisis, a process of 'ideational change' occurred about financial crisis management in the EU which consisted in two concomitant mechanisms – a first mechanism leading to 'ideational collapse' of the existing policy paradigm (i.e. intergovernmental coordination as embodied by the ESM) and a second mechanism leading to 'ideational consolidation' around a new policy paradigm (i.e. limited supranational delegation as exemplified by the RRF). In this respect, the chapter has showed how, from March to May 2020, a group of countries led by France and later joined by Germany proposed moving beyond existing crisis-management tools, such as the ESM, and launched a political initiative to establish a new recovery instrument based on the emission of common debt. These actors, identified as 'policy entrepreneurs', managed to call into question the then prevailing policy paradigm for financial crisis management in the EU and to put forward a viable alternative. Building on that, from May to July 2020, a 'winning coalition' consisting of the European Commission (especially in the person of her President), the President of the European Council and the German Chancellor championed the establishment of the RRF as a new crisis-management instrument based on a largely supranational governance. These actors, identified as 'political entrepreneurs', were able to sponsor the new policy paradigm for financial crisis management and push it forward in the negotiations, ultimately resulting in a compromise around a form of limited supranational delegation. In sum, ideational change was made possible by the generative cleavage (i.e. the pandemic crisis), came about within the boundaries of the critical antecedent (i.e. the EU governance differentiation between a system of supranational delegation and a system of intergovernmental coordination) and eventually determined the exact form of institutional development in EU financial crisis management.

Second, this chapter has advanced an interpretation of ideational change following the COVID-19 pandemic based on policy learning. It has argued that, in their quest for institutional reform, policy and political entrepreneurs learnt lessons from past crisis experiences, notably the EU's management of the Euro Crisis. In this other respect, the chapter has first identified in the EU's institutional system and integration dynamics a structural pre-condition favouring policy learning. It has then singled out the policy failures associated with the ESM during the Euro Crisis in terms of efficiency and democratic legitimacy. Finally, it has showed how those policy failures translated into policy lessons for agents to bring about institutional change in EU crisis management following the 'window of opportunity' opened up by the COVID-19 crisis. By applying a typology of policy learning based on its time frame, scope and nature, the chapter has concluded that the policy-learning process behind ideational change in the EU was of the intra-crisis, double-loop and bargaining type.

Beyond the specific case study analysed here, the chapter seeks to provide a broader, theory-driven account of how institutional change may take place following an exogenous shock. It has showed that, while macro-economic crises may serve as a window of opportunity for institutional change, they are also interpreted by powerful political actors ‘to be crises of a certain type’ and, thus, to require a certain type of response. Through a battle of ideas, political actors promote new institutions to address the exogenous shock, and the ultimate form of institutional change is the result of such ideational confrontation. In other words, however large-scale a macro-economic crisis might be, it cannot in and of itself dictate policy choices, which invariably lie with agency and ideational processes. Back to our analytical framework, ideational change thus rests on a generative cleavage and determines the outcome of a critical juncture from among the options given by the critical antecedent. To this effect, ideas are the crucial link of a temporal sequence starting from the critical antecedent, passing through the generative cleavage and leading up to institutional change. As such, not only does the occurrence of ideational change serve as a differentiating factor between crises that culminate in critical junctures and crises that vanish as near-misses; it also, most importantly, determines the exact shape of institutional innovation from a range of available alternatives.

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7. Conclusions

7.1. Findings

This work sought to provide a detailed account of institutional change in EU financial crisis management following the COVID-19 pandemic by focussing on the establishment and governance of the RRF as a test case. It did so through the elaboration of a sophisticated analytical framework that integrates HI with insights from the 'ideational change' and 'policy learning' literatures. Specifically, the work conducted a 'critical junctures' analysis of institutional change in EU financial crisis management with a focus on both 'structure' and 'agency', thus shedding light on both the nature and form of change as well as on its process. The research relied on a triangulation of *a)* a set of original semi-structured elite interviews with EU and Member State government officials selected among those directly involved in the negotiations for the establishment of the RRF, *b)* official documents of EU institutions and Member State governments and *c)* relevant international media and policy reports.

Chapter 3 argued that the temporal sequence between the Euro Crisis and the adoption of the ESM does not constitute a critical juncture for EU financial crisis management but rather an incremental change of the displacement type. The chapter tested the Euro Crisis for the 'generative cleavage' and the ESM for an instance of 'significant', 'swift' and 'encompassing' change. On the one hand, it showed that the Euro Crisis was as an endogenous, policy-induced shock originated in countries with unsound public finances, one which produced asymmetric effects across the EU, eventually leading to a marked differentiation between 'creditor' and 'debtor' Member States. While some countries suffered severe consequences, others were able to recover and registered swift gains in terms of economic growth. The Euro Crisis thus did not qualify as a generative cleavage for radical institutional change. On the other hand, the chapter examined the negotiations leading up to the establishment of the ESM as the major crisis-management instrument in response to the Euro Crisis as well as its governance system. First, the ESM was only adopted in September 2012, almost three years after the outbreak of the crisis, thus not constituting a 'swift' change. Second, the ESM was established as an international financial institution by means of an intergovernmental agreement under public international law. It was located outside the EU legal framework as it only applies to Euro Area Member States rather than to the EU27. For this reason, it did not stand as an 'encompassing' change. Finally, the governance of the ESM is based on the policy paradigm of 'intergovernmental coordination' whereby decisions on the activation of loan facilities are taken by representatives of Member State governments by consensus and unanimity. The governance of the ESM was borrowed from its close predecessor, the EFSF. For this reason, the ESM fell short of a 'significant' change. Since it stands as a new crisis-management instrument with the same policy paradigm of its predecessor, the ESM qualifies as a second-order change.

Chapter 4 argued that the COVID-19 pandemic and the adoption of the RRF constitute a critical juncture for EU financial crisis management. It did so by testing the pandemic crisis for the 'generative cleavage' and the RRF for an instance of 'significant', 'swift' and 'encompassing change'. On the one hand, it showed that the pandemic originated as a common exogenous shock with symmetric health effects and asymmetric economic consequences, and that it had a major objective and subjective impact in 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 monitoring institutions and the civil society. As a result, the COVID-19 pandemic qualifies as a generative cleavage for large-scale institutional change. On the other hand, the chapter examined the establishment of the RRF as well as its governance system. It showed that negotiations at the EU level for the adoption of the instrument unfolded between the Eurogroup meeting of 9 April 2020 and the final regulation of 11 February 2021, covering a period of ten months. It also showed that the RRF was established through the OLP as a regulation of the European Parliament and the Council on a proposal from the European Commission, thus applying to all 27 Member States. For these reasons, the RRF constitutes a 'swift' and 'encompassing' change. Finally, the chapter showed that the governance of the RRF reflects a form of limited supranational delegation that moves away from intergovernmentalism *à la* ESM. Since the RRF represents an innovative crisis-management instrument, and one based on a different policy paradigm vis-à-vis the ESM, it qualifies as a 'significant', third-order institutional change.

Once the temporal sequence between the outbreak of the COVID-19 pandemic and the establishment of the RRF was identified as a critical juncture, moving EU financial crisis management from the policy paradigm of 'intergovernmental coordination' to the new policy paradigm of 'limited supranational delegation', the work set off on a fully-fledged critical junctures analysis with a focus on both the structural and the agents-based component of institutional change. Starting from the structural component, Chapter 5 argued that the EU is internally differentiated into two co-existing governance systems for dealing with distinct policy areas based on their intrinsic salience. Such governance systems operate through the same institutions, but those institutions exercise very different roles and have very different powers in the transition from one governance system to the other. On the one hand, the supranational governance system, founded in 1957 with the Treaty of Rome, successively consolidated through the Single European Act (1986), the Maastricht Treaty (1992) and the Lisbon Treaty (2007). It applies to the low-salience policy areas linked to market-regulation, such as trade and competition policy, and involves a quadrilateral decision-making process with a two-fold executive (consisting of the European Commission and the European Council) and a two-fold legislative structure (consisting of the European Parliament and the Council). The policy outcome of the supranational system consists in the adoption of legislation through the OLP (or 'Community method'). The supranational regime is based on a rigid separation of governmental powers whereby each governmental institution has clearly defined decision-making powers and is politically autonomous from the other institutions. On the other hand, the intergovernmental governance system originated in 1992 with the Maastricht Treaty to allow for the European integration of 'core state powers' while avoiding the delegation of those powers to supranational institutions acting beyond the control of Member State governments. The intergovernmental regime applies to high-salience policy areas such as the economic side of the EMU and the CFSP and its decision-making process revolves around the two intergovernmental institutions, namely the European Council and Council, acting by unanimity. The policy outcome of the intergovernmental systems is not legal acts, but political compromises and inter-state agreements through the OMC. Here, hard bargaining and voluntary coordination are a fundamental pre-requisite for the adoption of any decision. As in the intergovernmental system the European Council and the Council have no specific executive or legislative function, this governance regime has been defined as one of 'confusion of powers' (Fabbrini 2017). Arguably, the consolidation of these two institutional systems, each with its own set of rules and institutions, has given rise to two entrenched ideational 'traditions of governance'.

The chapter showed that such governance differentiation between a supranational and an intergovernmental system delimited the range of options available to decision-makers for institutional change in EU financial crisis management as a response to the COVID-19 pandemic, thus acting as a 'critical antecedent' for the outcome of interest (i.e. the establishment of the RRF as an instrument of limited supranational delegation). In particular, the EU governance differentiation conditioned *a)* the choice of the major crisis-management instrument to address the socio-economic consequences of the COVID-19 pandemic, and specifically the choice between the intergovernmental ESM and a new crisis-management tool with a different institutional logic; *b)* the legal basis of the RRF, and specifically whether the RRF would be established as a supranational regulation through the OLP or as an intergovernmental agreement; and *c)* the governance of the RRF, and specifically whether the RRF would work according to the logic of supranational delegation or intergovernmental coordination.

On the agency side, Chapter 6 argued that, following and due to the pandemic crisis, a process of 'ideational change' occurred about financial crisis management in the EU which consisted in two concomitant mechanisms – a first mechanism leading to 'ideational collapse' of the existing policy paradigm (i.e. intergovernmental coordination as embodied by the ESM) and a second mechanism leading to 'ideational consolidation' around a new policy paradigm (i.e. limited supranational delegation as exemplified by the RRF). In this respect, the chapter showed how, from March to May 2020, a group of countries led by France and later joined by Germany proposed moving beyond existing crisis-management tools, such as the ESM, and launched a political initiative to establish a new recovery instrument based on the emission of common debt. These actors, identified as 'policy entrepreneurs', managed to call into question the then prevailing policy paradigm for financial crisis management in the EU and to put forward a viable alternative. Building on that, from May to July 2020, a 'winning coalition' consisting of the European Commission (especially in the person of her President), the President of the European Council and the German Chancellor championed the establishment of the RRF as a new crisis-management instrument based on a largely supranational governance. These actors, identified as 'political entrepreneurs', were able to sponsor the new policy paradigm for financial crisis management and push it forward in the negotiations, ultimately resulting in a compromise around a form of limited supranational delegation. In sum, ideational change was made possible by the generative cleavage (i.e. the pandemic crisis), came about within the boundaries of the critical antecedent (i.e. the EU governance differentiation between a system of supranational delegation and a system of intergovernmental coordination) and eventually determined the exact form of institutional development in EU financial crisis management.

The chapter finally advanced an interpretation of ideational change following the COVID-19 pandemic based on policy learning. It argued that, in their quest for institutional reform, policy and political entrepreneurs learnt lessons from past crisis experiences, notably the EU's management of the Euro Crisis. In this other respect, the chapter first identified in the EU's institutional system and integration dynamics a structural pre-condition favouring policy learning. It then singled out the policy failures associated with the ESM during the Euro Crisis in terms of efficiency and democratic legitimacy. Finally, it showed how those policy failures translated into policy lessons for agents to bring about institutional change in EU financial crisis management following the 'window of opportunity' opened up by the COVID-19 crisis. By applying a typology of policy learning based on its time frame, scope and nature, the chapter concluded that the policy-learning process behind ideational change in the EU was of the intra-crisis, double-loop and bargaining type.

7.2. Theoretical Contribution

This work makes both a theoretical, empirical and methodological contribution.

Theoretically, the work builds a sophisticated analytical framework that opens up the 'black box' of critical junctures, allowing us to clearly distinguish between actual critical junctures and other types of institutional change. Through the identification of a set of necessary and sufficient conditions, this analytical framework helps us address such questions as: What exactly *is* a critical juncture? What is it *not*? And what can a critical juncture *do without*? Following a detailed conceptualisation of critical junctures, the analytical framework integrates HI with insights from the 'ideational change' and 'policy learning' literatures to assess how a critical juncture originates, how it unfolds, the mechanisms at play during a critical juncture as well as the forms of institutional change it may lead up to. In doing so, the work shows the added analytical value of combining HI, with its focus on exogenous shocks and time, with concepts closer to discursive institutionalism (DI), such as ideas and agency, which allow 'endogenizing' the analysis of institutional change in times of crisis. Specifically, while HI is functional to understanding the nature and form of institutional change, DI allows unpacking the process through which institutional change comes about by looking at ideational mechanisms taking place between the initial exogenous shock and the final institutional outcome.

At a meta-theoretical level, the work builds on an integrative approach where structural and agent-based factors are synthetised in order to provide a comprehensive explanation of institutional change. In such an integrative framework, structure and agency serve two analytically distinct but inter-related functions. Structural factors deal with the 'domain of the possible', that is the realm of what can possibly happen in principle, while agent-based factors deal with the 'domain of the actual', that is the realm of what happened in practice. This can be done by 'constructing a causal pathway', or historical sequence, that links institutional outcomes to the role of key policy actors (i.e. agency), all the way back to temporally remote structural conditions (i.e. critical antecedents).

Beyond the specific case of the RRF as a response to the COVID-19 pandemic, the work seeks to provide a comprehensive, theory-driven account of how institutional change may take place following an exogenous shock. It shows that, while macro-economic crises may serve as a window of opportunity for institutional change, they are also interpreted by powerful political actors 'to be crises of a certain type' and, thus, to require a certain type of response. Through a battle of ideas, political actors promote new institutions to address the exogenous shock, and the ultimate form of institutional change is the result of such ideational confrontation. In other words, however large-scale a macro-economic crisis might be, it cannot in and of itself dictate policy choices, which invariably lie with agency and ideational processes. Ideational change thus rests on a generative cleavage and determines the outcome of a critical juncture from among the options provided by the critical antecedent. To this effect, ideas are the crucial link of a temporal sequence starting from the critical antecedent, passing through the generative cleavage and leading up to institutional change. As such, not only does the occurrence of ideational change serve as a differentiating factor between crises that culminate in critical junctures and crises that vanish as near-misses; it also, importantly, determines the exact shape of institutional innovation from a range of structurally available alternatives.

7.3. Empirical Contribution

Empirically, this work sheds light on institutional change in EU financial crisis management following the COVID-19 pandemic as well as on the process and drivers behind that change. It shows that the RRF represents a paradigm change (Buti and Fabbrini 2022; Schelkle 2021) as it moves the governance of financial assistance from 'intergovernmental coordination' *à la* ESM to a new form of 'limited supranational delegation'. Specifically, 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, an intergovernmental governance would imply a preeminent role of the European Council and the Council, both acting by unanimity. Under the RRF, the European Council is only allowed to discuss a NRRP before the Commission can authorise 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.

Such a change in the governance of financial assistance was due to an ideational process taking place at the EU level between the outbreak of the pandemic in March 2020 and the European Council meeting of July 2020 and consisting of two concomitant phases. First, from March to May 2020, a group of countries led by France and later joined by Germany called into question the ESM and launched a political initiative to establish a new recovery instrument based on the emission of common debt. These actors contested the intergovernmental logic underlying EU financial crisis management and put forward a viable alternative based on a greater role of supranational institutions (especially the European Commission). Building on that, from May to July 2020, the European Commission (especially in the person of her President, Ursula von der Leyen), President of the European Council Charles Michel and German Chancellor Angela Merkel championed the establishment of the RRF as a new crisis-management instrument based on a largely supranational governance. These actors sponsored the new policy paradigm for financial crisis management and push it forward in the negotiations, ultimately resulting in a compromise around a form of limited supranational delegation. In sum, ideational change was triggered by the generative cleavage (i.e. the pandemic crisis), came about within the boundaries of the critical antecedent (i.e. the EU governance differentiation between a system of supranational delegation and a system of intergovernmental coordination) and eventually determined the exact form of institutional development in EU financial crisis management.

Finally, the work shows that ideational change about EU financial crisis management following the COVID-19 pandemic was driven by a collective policy-learning process whereby, in their quest for institutional reform, EU policymakers and Member State government leaders learnt lessons from past crisis experiences, notably the EU's management of the Euro Crisis. This work explains how the EU's institutional system and integration dynamics offered a structural pre-condition favouring policy learning. It singled out the policy failures associated with the ESM during the Euro Crisis in terms of both efficiency and democratic legitimacy and showed how those policy failures translated into policy lessons for decision-makers to set up the RRF upon a different governance system with respect to the ESM.

7.4. *Methodological Contribution*

The work finally proves the added value of combining a set of qualitative research methods through the collection of different types of qualitative data. While the analysis extensively relied on first-hand insights by means of a set of original semi-structured elite interviews with EU and Member State government officials selected among those directly involved in the negotiations for the establishment of the RRF, these were triangulated with official documents of EU institutions and Member State governments and relevant international media and policy reports. In addition, the work benefitted from access to policy briefings and notes by Peter Ludlow, a close observer of EU affairs with privileged access to oral and documentary sources from the Antici group and European Council meetings, as well as to confidential material provided by some of the interviewees, including unpublished draft documents, e-mails and WhatsApp texts to corroborate their testimonies. Along these lines, although elite interviews surely provide the researcher with precious insights into the process under investigation, they have their own limitations. Interview participants might tend to either emphasise or downplay their role in the decision-making process on the basis of personal convenience, or contribute to framing a narrative that flies in the face of empirical evidence. For this reason, interviews were never examined in isolation. Rather than relying on interview material to put forward ground-breaking arguments as to the mechanisms at play in the establishment of the RRF, interviews were employed to support evidence from other primary and secondary sources as well as to add empirical depth to the emerging narrative.

Triangulation of the sources was accompanied by triangulation of the methods. The analysis in this work relied on a combination of comparative analysis, process tracing (Beach and Pedersen 2013) and qualitative content analysis (Schreier 2012), each functional to investigating one dimension of the object of study. To this effect, this work preliminarily conducted a ‘structured and focused’ comparative analysis (George and Bennett 2005) of the two major crisis-management instruments adopted by the EU in its response to the Euro Crisis and the COVID-19 pandemic respectively, namely the ESM and the RRF. With a focus on the relevant ‘policy paradigm’ (Hall 1993) on which the two instruments are based, the comparative analysis aimed to understand how the governance of EU financial crisis management changed during the COVID-19 pandemic with respect to the previous Euro Crisis. Such a comparative analysis allowed assessing the nature and form of institutional change in EU financial crisis management with specific reference to the RRF, thus setting the stage for theory-testing process tracing. Theory-testing process tracing aimed to explain the process through which institutional change in EU financial crisis management took place. This required three successive methodological steps. First, a sophisticated analytical framework was built through which to unpack the process under investigation into several (i.e. two or more) theoretical mechanisms consisting of entities (e.g. actors) engaging in specific activities (e.g. taking decisions). Second, an operationalisation of the causal mechanism was carried out so that each theoretical component of the hypothesised mechanism could be translated into 'observable implications', or 'empirical fingerprints' (Beach and Pedersen 2013) that the mechanism – if present in its hypothesised form – should have left in the empirical record. Third, empirical material was collected in relation to the specific case and the analysis was conducted to trace the observable implications of each theoretical component of the hypothesised mechanism. To complement process tracing, a qualitative content analysis was adopted to map out the options available to the relevant 'agents of change' in the EU's response to the COVID-19 pandemic and their initial preferences during negotiations leading up to the establishment of the RRF as well as to provide an interpretation of change in EU financial crisis management governance during the COVID-19 pandemic based on policy learning.

The work also showed how a computer-assisted software for data analysis can be exploited to carry out qualitative research. Qualitative content analysis in this work was supported in all of its phases by the use of *NVivo*. *NVivo* provided several tools that allowed moving back and forth between the coding frame and the data in a flexible way. It was adopted in the elaboration of the coding frame to organise and revise the relation between main categories and sub-categories through the use of 'concept maps' and 'project maps'. *NVivo* helped organise the material into different types of sources such as interviews, official documents and reports through the use of 'file classifications'. It equally facilitated identifying the relevant cases by dividing them into different types, such as EU institutions and Member State governments, through the use of 'case classifications'. Throughout the main analysis, *NVivo* was used to write down notes about the coding of the relevant material in the form of 'analytic memos' (separate documents with information about the coding frame or the material) and 'annotations' (comments linked to segments of the data for coding purposes) and allowed for the systematic exploration of emerging patterns or relationships between categories, cases and the material through the use of all sorts of queries, such as 'word frequency', 'crosstabs' and 'matrix coding' queries. Once the main analysis was over, *NVivo* made possible visualising the findings through 'diagrams' and 'charts' as well as presenting them in the form of a 'framework matrix'. Finally, it allowed to check the coding frame against unidimensionality, mutual exclusiveness, exhaustiveness and saturation as well as to evaluate the reliability and validity of the content analysis by displaying the coding frequencies and the individual coding units associated to all selected categories and cases.

7.5. Implications for Future Research

In response to the COVID-19 pandemic, EU institutions and Member State governments have embarked on a rapid path of institutional innovation concerning the overarching architecture of the EMU (Fabbrini 2022; Quaglia and Verdun 2023). The RRF is the flagship instrument of NGEU, a recovery programme with a financial capacity of €750 billion, integrated into the 2021-2027 MFF to address the socio-economic consequences of COVID-19. In addition to breaking with the longstanding austerity orthodoxy based on the commitment to balanced budgets, NGEU allows the European Commission to raise funds on the financial markets on behalf of the Member States, thus leading to the establishment of a European common debt unprecedented in scale. The governance of these funds under the RRF is unprecedented too. While the European Parliament still plays no significant role in the activation, monitoring and withdrawal of financial assistance, the European Commission has acquired decision-making powers that have no parallel in the history of EU financial crisis management, where representatives of Member State governments traditionally called the shots alone (Fabbrini and Capati 2023).

Having shed light on the evolution of the governance of financial assistance in the EU following the global pandemic, further longitudinal research will be needed to assess the nature of such changes. While the RRF might be a temporary instrument (expiring December 2026), its underlying governance system based on ‘limited supranational delegation’ may become a stable policy paradigm of EU financial crisis management for years to come (Buti and Fabbrini 2022). In light of the historical institutionalist framework adopted in this work, institutions are ‘sticky’ and give rise to paths that are very difficult to alter. When discussing future crisis management measures, EU policymakers and Member State governments will have to follow on from the newly established policy paradigm and would need to engage in all-round bargaining if they want to impress a different course. As Mario Draghi and Emmanuel Macron observed in the *Financial Times*, ‘[as] we will have to discuss a sensible new fiscal framework, the Next Generation EU programme … offers a useful blueprint for the way forward’ (2021).

Along these lines, the recent communication from the European Commission setting out orientations for a reformed EU economic governance framework follows up from the governance model of the RRF. It envisages a simpler and more efficient decision-making process, with enhanced responsibilities for the Commission itself, while preserving the authority of the Council for final approval of the national budgetary plans (European Commission 2020a). The Commission's blueprint for reforming EU economic governance has sparked criticism from German Finance Minister Christian Lindner, who fears the reform could incentivise solidarity to the detriment of financial stability in the framework of a supranationalised SGP. Whether the Commission's proposal will garner the necessary support from national capitals is yet to be seen (Politico 2023), but the implications of the RRF for the future economic governance model in the EU are already apparent.

At the same time, the RRF has recently been placed at the heart of REPowerEU, the European Commission's plan to address the disruption of the global energy market caused by Russia's unjustified and unprovoked military aggression against Ukraine. In particular, with a view to phasing out dependence on Russian fossil fuels through a swift transition towards renewables, Member States are required to integrate dedicated REPowerEU chapters into their NRRPs, making use of the remaining RRF loans and grants plus additional resources (European Commission 2022b). Will thus be possible for the EU to go back to the *status quo ante* the COVID-19 pandemic and the policy paradigm it gave rise to?

The pandemic crisis and the establishment of the RRF around a form of limited supranational delegation have ushered in debates about institutional reform in other policy fields too, from budgetary policy to foreign policy and defence (Genschel 2022; Genschel *et al.* 2023) and urged EU institutions to consider the need for treaty change (European Parliament 2022). To this effect, further cross-sectional analyses will have to test the scope of the changes induced by COVID-19. Will it be possible for the EU to resist pressures to move from intergovernmental coordination towards increased supranationalism in its governance system?

Finally, the establishment of the RRF at the EU level has immediately set into motion a process of institutional adaptation at the Member State level. The RRF regulation requires the Member States to provide themselves with the institutional capacity to manage the resources activated under the instrument. To this effect, the Member States need to clarify the institutional system dedicated to the management of those resources through the identification of clear individual and collective responsibilities and decision-making powers (Domorenok and Guardiancich 2022; Fabbrini 2022). Against this backdrop, governance factors are key to explaining efficiency variations in the several national responses to the COVID-19 pandemic. Indeed, research has shown that the quality of governance at the national level has a significant impact on the pace of economic recovery following the pandemic crisis as well as on an economy's capacity to resist future shocks (Sapir 2020). Further comparative studies are thus needed to account for variations in the governance models the Member States have set up to deal with financial contributions under the RRF. What implications will the RRF have for institutional adaptation at the national level, especially in terms of elaboration and implementation of NRRPs?

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Appendix A – Framework for Semi-Structured Elite Interview Questions[41]

- Aim of the interview
- Confidentiality
- Consent for audio recording (for transcription only)

Section 1: Agency – Policy and Political Entrepreneurs

1. Could you identify an actor or a set of actors (i.e. Member State governments or EU institutions) who pushed for the establishment at the EU level of a new crisis-management instrument in response to the COVID-19 pandemic before the official European Commission legislative proposal of May 28th, 2020?

2. Could you identify an actor or a set of actors who pushed the European Commission proposal forward in the negotiating process?

3. Could you identify an actor or a set of actors who tried to resist/oppose such a proposal?

4. Was the proposal successful?

(a) If so, what was the compromise?

(b) If not, what was the issue?

Section 2: The Critical Antecedent – Differentiation between a Supranational and an Intergovernmental Governance System

1. Could you explain what were the options discussed and/or taken into consideration for the establishment (legal basis) of the Recovery and Resilience Facility (e.g. regulation, intergovernmental treaty, etc.)?

2. Could you explain what were the options discussed and/or taken into consideration for the governance of the Recovery and Resilience Facility (e.g. inter-institutional relations, unanimity, qualified majority, etc.)?

[41] While the sections and topics of the questions' framework remained unaltered, the questions' phrasing was tailored to each interviewee based on their role and institutional affiliation.

Section 3: Causes behind Agency

1. What factors do you believe favoured the adoption of the Recovery and Resilience Facility to address the COVID-19 pandemic?

(a) How relevant was the nature of the crisis as exogenous?

(b) How relevant was the impact of the crisis as partly symmetric rather than fully asymmetric?

(c) How relevant was policy learning from past crisis experiences (e.g. the ESM and the Euro Crisis)?

Appendix B – List and Transcript of Semi-Structured Elite Interviews

Entries are provided for interview evidence and quotes cited in the work. For each entry, an extended excerpt of the interview treated as evidence is included.

Interview A – 18.03.2022. Senior Policy Officer, DG ECFIN, European Commission

Interview B – 22.03.2022. Senior Policy Officer, ECOFIN, Council of the EU

Interview C – 29.03.2022. Policy Officer, DG GROW, European Commission

Interview D – 31.03.2022. Legal Officer, Council of the European Union

Interview E – 31.03.2022. Senior Policy Officer, Council of the EU

Interview F – 05.04.2022. Policy Officer, DG ECFIN, European Commission

Interview G – 06.04.2022. Legal Officer, Council of the EU

Interview H – 22.04.2022. Senior Policy Officer, DG ECFIN, European Commission

Interview I – 28.04.2022. Senior Policy Advisor, European Council

Interview J – 10.05.2022. Policy Assistant, German MEP

Interview K – 10.05.2022. Senior Policy Advisor, German Permanent Representation

Interview L – 23.06.2022. Former Senior Policy Officer, GIP, Council of the EU

Interview M – 1.07.2022. Policy Advisor, French Permanent Representation

Interview N – 13.07.2022. Former Senior Policy Advisor, European Council

Interview O – 20.07.2022. Legal Officer, European Commission

Abbreviations:

- Interviewer: I
- Participant: P

Interview A – 18.03.2022. Policy Officer, European Commission

I: Could you identify an actor or a set of actors (i.e. Member State governments or EU institutions) who pushed for the establishment at the EU level of a new crisis-management instrument in response to the COVID-19 pandemic before the official European Commission legislative proposal of May 28th, 2020?

P: As soon as the pandemic stroke and people realised that it would have a major recessionary impact and would raise many issues, there were debates in many different fora at the same time. Inside the Commission, ECFIN was very relevant. So, very quickly after the beginning of the crisis we started preparing some papers raising attention of the Commissioners and the President [of the European Commission] on what were the risks and the solutions [to the crisis].

At the same time, there we discussions among the Ministers in the Eurogroup, there were discussions between the French, the Italians, the Germans and the Spanish. In fact, it is extremely difficult to identify the *moment or* the *person that puts on the table ideas because they germinate from many parallel discussions at the same time. I think this is a crucial aspect. There is a set of players acting at the same time through a very continuous dialogue in which ideas are tested here and there and ideas germinate from that. So, [the RRF] is a project that has many fathers and mothers, individually and institutionally. The Commission was relevant, several Member States were also relevant.*

I: Could you identify an actor or a set of actors who tried to resist/oppose such a proposal?

P: I would indicate probably two or three Member States, in particular The Netherlands and Austria, that were against some of the details [of the RRF] and wanted some more protection through caveats in the details to be clarified. And this is illustrated by some specific aspects that the Dutch and the Austrian imposed and required and were agreed in some European Council meetings. Example: in the European Council [it was agreed that] if we realise that a Member State is not doing what it committed to do and if the Commission is not being strict *enough, then a Member State can always stop the procedure and raise the attention before the European Council. This resulted from some objections raised by the Dutch and the Austrian, also other Member States but the Dutch and the Austrian in particular. [These countries favoured] the Pandemic Crisis Support of the European Stability Mechanism which was brought to completion but then nobody wanted this money. The Dutch said: 'we are okay if you want to use this money without conditions but only for healthcare spending and nothing more than healthcare spending'. So, it was not a matter of countries that were opposed, but countries that put more or less restrictions in the procedure.*

I: Could you identify an actor or a set of actors who pushed the European Commission proposal forward in the negotiating process? How about the role of Germany?

P: I don't think Germany was never an obstacle in fact. There are occasions at the very beginning in which a country may be very prudent in the public statements because they need to prepare their own audiences, they need to prepare their own Parliament, they need to prepare their own public opinion. I don't think the Germans were ever against the instrument, they were more prudent. Also, the perception of the problem was not immediate in Rome or in Berlin or in Paris and this explains why in the first dialogues there is not a quick alignment.

I: What was the final compromise?

P: These restrictions saying that if a country believes that in the process of the RRF something is going wrong, a country can stop and say 'I want this to be discussed by the leaders'. This was effectively put there at a given moment. So, we can consider this to be part of a compromise. Also, initially, the full amount of the RRF was expected to be defined, then it was agreed that 70% of the amount would be defined and 30% would have to be defined at a later stage – so, the size of the RRF was also part of the compromise. The [distribution between] grants and loans is also part of the compromise. In some cases it is [about] a government that is ready to *play ball but they cannot go to their country and say 'we have accepted everything'. Finally, the most important part of the compromise was probably the governance of the RRF. Probably on the initiative of Angela Merkel and Charles Michel, it was agreed that the Commission could suspend funds if the Council did not oppose it by qualified majority voting. It was also agreed that the European Council could have a say over plans presented by the Member States in case one of them raised doubts on its quality. This was called the 'emergency brake' and was mostly a deal between the Germans and the Dutch.*

I: Could you explain what were the options discussed and/or taken into consideration for the establishment (i.e. legal basis) and governance (i.e. inter-institutional relations) of the Recovery and Resilience Facility?

P: Very often in the EU and in the Commission there exists this perception that there are two options: one which is called the 'Community method' and the other is the intergovernmental approach. There is a consolidated perception that the first one is good and the second is bad. I don't agree. Indeed, the solidarity among the Member States can be organised in a manner or another. Of course, we can have everything under the umbrella of the EU Treaty and we can have parallel tracks. I think that the only difference is the involvement of the European Parliament. Can the ESM act without the Commission? No. Can the ESM act without the Council? No. So, if we leave asides aspects related to the Parliament, the two [governance systems] are the same.

The circumstances [of the response to the pandemic crisis] were fundamentally different from the circumstances of a decade ago. And because of that the option of going intergovernmental was never really explored. The option of going intergovernmental was necessary more than a decade ago because we did not have the tools to do many things that we needed to do.

Before the RRF was invented, there was a tool which effectively was the embryo of the RRF, called BICC, Budgetary Instrument for Convergence and Competitiveness, and it was a tool which had some similarities with the RRF. This tool, even if it was small, never took off.

The establishment of the legal basis with a regulation was always necessary. What we could have is the management of this money by the ESM. At some point the ESM said 'we can manage *that' and some countries agreed that the ESM could manage that. However, just as nobody activated the Pandemic Crisis Support of the ESM because it was considered politically poisonous, to give the ESM power to manage these funds would again be adding political poison.*

I: What factors do you believe favoured the adoption of the Recovery and Resilience Facility to address the COVID-19 pandemic?

P: The perception of the crisis as an exogenous shock was very relevant. So, very often with compare the pandemic crisis with the Euro Crisis. The perception that the pandemic crisis is exogenous, the perception that some countries are not at fault, the perception that this concerns all of us, the perception that a problem in a country or several countries at the same time has implications for all of us is very relevant. It is very different when we realise that there is a problem in one country which may extend to another and another, and this is the situation of 2010, than a situation when all countries experience the same shock at the same time.

In terms of policy learning, no doubts there were major mistakes in 2010-11. Is there a learning? Yes, there is. And it is not the learning by countries that were fragile, it is the learning by the countries that were not fragile. It is obvious that if we had followed a mechanism like the ESM which was purely intergovernmental included a lot of policy conditionality, the response to the pandemic crisis would have been perceived as poisonous. In the RRF there is also a lot of conditionality, but this conditionality is discussed with the Member States, is based on their own plans, they put forward their own ideas. In the adjustment programmes for Greece or Portugal in 2010-11 it was not exactly like that. So, policy learning occurred because we are in this all together. If the pandemic had concerned Italy only, the response would have been much more similar to what happened during the Euro Crisis.

Finally, I would not downplay the role of Brexit. During the Euro Crisis some decisions had to be taken outside the framework of the Treaties because of the British opposition to those decisions. Moreover, the United Kingdom has traditionally favoured an intergovernmental method for governing European integration in general and crises in particular, with its reluctance to give up portions of its national sovereignty to supranational institutions operating *beyond its own control. This may well be part of the reason why we were ultimately able to set up the RRF with clear supranational features.*

Interview B – 22.03.2022. Policy Officer, Council of the European Union

I: Could you identify an actor or a set of actors (i.e. Member State governments or EU institutions) who pushed for the establishment at the EU level of a new crisis-management instrument in response to the COVID-19 pandemic before the official European Commission legislative proposal of May 28th, 2020?

P: If you remember, the Commission proposal followed a joint proposal by the French and German proposal a bit earlier in May. And, well, that was the crucial thing to be very clear. That was de facto Merkel giving in or Macron convincing her but that was the crucial moment and before that the German government and also other governments – notably the Dutch – had opposed such a joint debt issuance and then from that moment onwards it all took its course. The Commission proposal was very similar, not identical but the principles were the same and then all the rest just followed from the legislative proposal and then we had this 4-day [European Council] meeting when the final green light was given.

Other countries [Italy, Spain, Portugal] were exercising a lot of pressure that something extraordinary had to be done to counter the crisis [before the Commission legislative proposal]. And in these discussions the typical split was visible, with Southern European countries arguing in favour of more instruments and possibly common debt. Also, in the run-up to this decision [approval of the RRF], definitely we had intense discussions in the Eurogroup and in the ECOFIN along the typical dividing lines.

[But] the fact that the French and German made a proposal in May is the crucial point, otherwise probably nothing would have happened. All these things were pre-discussed and pre-cooked in small circles. The Commission president is German, which make it unsurprising that the Commission proposal was quite similar to the Franco-German proposal.

I: Could you identify an actor or a set of actors who pushed the European Commission proposal forward in the negotiating process?

P: The negotiations that followed the Commission proposal did not dramatically change the governance [of the RRF] compared to what the Commission proposed. And the Commission clearly proposed something where it could have a strong role. And I think people here in the Brussels machinery accepted the idea that if you want such an instrument to work you need a relatively strong Commission because of the disparity of resources between the Commission administration and the General Council Secretariat. So that was not contested in the negotiations.

Of course, during the crucial summit meeting in July [2020], the European Commission proposal was defended and adjusted by Angela Merkel first and then Charles Michel. They were respectively President of the Council and of the European Council, so they really were the ones chairing talks within the European Council back then.

I: Could you identify an actor or a set of actors who tried to resist/oppose such a proposal?

P: Notably the Dutch government resisted. The Dutch were the leaders of a sort of coalition of like-minded countries, which are the Scandinavian countries, the Baltic countries, probably Austria – the typical coalition. The others gave in a bit earlier or just hit behind the Dutch. The key players are definitely the German and the French government but also the Dutch who basically were holding out until end of July.

I: What was the final compromise?

P: They agreed to allow for the suspension of financial assistance once activated. This should be done by the European Commission, with the Council acting by reversed qualified majority.

They then agreed on an emergency brake whereby in case the implementation of a national plan does not go well, it can be referred to the highest level. So, the Dutch were those who wanted to negotiate the longest, because the Germans had de facto given in in mid-May.

I: Could you explain what were the options discussed and/or taken into consideration for the establishment (i.e. legal basis) and governance (i.e. inter-institutional relations) of the Recovery and Resilience Facility?

P: Before the Commission proposal, the idea of an intergovernmental treaty à la ESM [for the establishment of the RRF] was perhaps discussed between stakeholders and think tanks, but once the Commission proposal was issued you have a legal document and that is the basis on which to work. Also, the speed of the crisis was relevant. To fight the pandemic you have a good argument against an intergovernmental instrument that requires ratification in 27 member states and national Parliaments and that would definitely take a too long time.

I: What factors do you believe favoured the adoption of the Recovery and Resilience Facility to address the COVID-19 pandemic?

P: It certainly helped that it was an exogenous crisis that affected everybody. So, there was this widespread conviction that we needed an instrument with a strong solidarity element. And that is what the RRF does.

The [Euro] crisis was also different in nature, which is something that we always underline. The ESM was set up for the 19 [members of the Euro Area], while the RRF is for the 27 [members of the European Union]. So, the intergovernmental instrument [as a response to the Euro Crisis] was the one that you could do. So, what has been learnt is that it is important that we react fast to a crisis and that there is a reaction at the European level. You can make the *argument that from the nature of the crisis derives the kind of response adopted to address the consequences of that crisis.*

Interview C – 29.03.2022. Policy Officer, European Commission

I: Could you identify an actor or a set of actors (i.e. Member State governments or EU institutions) who pushed for the establishment at the EU level of a new crisis-management instrument in response to the COVID-19 pandemic before the official European Commission legislative proposal of May 28th, 2020?

P: When we started talking about a new crisis-management instrument, the countries that realised that there was a problem [with the existing crisis-resolution tools] were also the countries that would have benefitted the most from the creation of a new instrument. At all levels, especially within the Eurogroup, the delegates of these countries [Italy, Spain, Greece, and Portugal] were those who made the greatest pressures to establish a new crisis-management tool. So, the countries that had already supported the creation of a European budget before the pandemic crisis were also those who pushed for the establishment of this new crisis-management tool.

Also the Commission made repeatedly clear that what the EU had [in terms of crisis-management] would not be enough. So, the Commission had a bias in favour of these 'unionist' countries because [the new crisis-management instrument] would empower the European Commission. In this way, the Commission was ultimately able to sideline the ESM, building upon the previous BICC proposal.

I: Could you identify an actor or a set of actors who tried to resist/oppose such a proposal?

P: Other countries, traditionally the countries of northern Europe [the Netherlands, Austria, Denmark, Sweden] initially resisted this initiative because they feared going towards debt *mutualisation. They didn't want a European budget because there is no common political structure [at the EU level] to manage a European budget.*

I: What was the final compromise?

P: The RRF is the result of a negotiation between the different parties and it took shape over time. The role of Germany was crucial. They were actually able to deal with four interrelated dossiers at the same time. The compromise on the RRF was found around an emergency brake whereby every country can block the RRF funds [based on the respect of the milestones and targets], but also a counter emergency brake whereby every country can block the funds based on the rule of law issue. In this respect, the role of the European Parliament was also important because it exercised pressure on the Germans. The European Parliament claimed that its position should be heard otherwise it would veto the regulation until the next Portuguese presidency so that Germany could not have claimed the RRF was its success. So, the German ambassador worked hard to find a compromise on the phone at night with all relevant parties. Also, after the European Council meeting of July 2020, the RRF regulation was adjusted in successive drafts by the German presidency of the Council. Formally, it is always the General Secretariat of the Council to do this work but Germany had a lot of staff and a great deal of the work was done in Berlin. And it all came down to the emergency brake and to the fact that the European Parliament was given the power to question the work of the European Commission. Every week the President of the European Commission should go to the European Parliament and address questions, and in general the European Parliament can ask a lot of questions to the Commission so as to push the Commission to think about things before taking a decision. So, the European Parliament gained a structured dialogue framework with the European Commission. To be sure, the institutional power of Germany as the rotating presidency of the Council helped a lot, because the power of the rotating presidency is mainly agenda-setting.

I: Could you explain what were the options discussed and/or taken into consideration for the establishment (i.e. legal basis) and governance (i.e. inter-institutional relations) of the Recovery and Resilience Facility?

P: I think that even if the option of going intergovernmental was considered in a first phase of the talks, the supranational option gained ground thanks to the formal European Commission proposal of May 2020. When you have a formal Commission proposal, it is very difficult that that proposal is significantly altered. The option of going intergovernmental was much more significant with respect to the governance of the instrument. As we were saying, some countries wanted to retain control over the disbursement of financial assistance and were sceptical of the Commission prerogatives.

I: What factors do you believe favoured the adoption of the Recovery and Resilience Facility to address the COVID-19 pandemic?

P: It surely helped that the pandemic was an exogenous shock with partially symmetric effects. This allowed the European Commission to create a homogenous instrument for all Member States. There is no longer a single country under the spotlight [as was the case in the Eurozone crisis] because everyone needed financial assistance during the COVID pandemic.

Then, there is always a bit of learning. The European Commission was able to adopt a language that was acceptable for both Southern European countries and Northern European countries. So, for sure there was an institutional learning from the European Commission that stole the ball from the European Stability Mechanism. But that learning process was probably made possible by the different nature of the pandemic crisis, for which no Member State could be considered responsible.

Interview D – 31.03.2022. Legal Officer, Council of the European Union

I: Could you identify an actor or a set of actors (i.e. Member State governments or EU institutions) who pushed for the establishment at the EU level of a new crisis-management instrument in response to the COVID-19 pandemic before the official European Commission legislative proposal of May 28th, 2020?

P: On 25 March, in a famous letter to the President of the European Council, nine leaders of Southern European countries led by France for the first time invoked the necessity to create a common debt [in response to the COVID-19 pandemic] to finance the spending mechanisms of the EU. The European Council meeting of 26 March witnesses the traditional contrapositions stemming from the Euro Crisis between the 'Frugal countries' – the net contributors to the EU budget – and the Southern European countries. At the time, the former leader of the Frugal countries, Germany, was still on the position that they were not willing to transfer resources [from the national to the EU level] and, mostly, they were not willing to create a new financing mechanism to directly finance COVID-related spending. What was discussed at that European Council meeting was instead a financing mechanism for loans, the SURE, which did not involve grants. So, the European Council of 26 March still thinks in these terms, adopts these first provisional measures, does not find an agreement on how to go about the major response to the pandemic crisis, and tasks the ECOFIN to assess the problem and come up with solutions.

To be sure, when such an emergency strikes and there is a strong impetus from the top political level [the European Council], it is in everyone's interest that there is a cooperation between EU institutions and governments already in the phase when different alternatives in terms of response are considered, because nobody wants the official proposal [of the new crisis-management instrument] to be sabotaged.

The Eurogroup of 9 April 2020 still did not come up with a clear solution to the crisis. The conclusions of the Eurogroup leave open all the main lines of discussion. There is a first clear idea of establishing a new fund to counter the crisis, but the fund could have very different features from the current RRF. For example, it could all be about a new SURE based on loans only. The features of the fund were referred to the next European Council meeting of 23 April.

Here comes the politically crucial moment, that is Germany's change of position. This change of position was officialised through the French-German political initiative of 18 May 2020 where the two countries launched an innovative financing mechanism that would work on the basis of grants. One week before, the German Constitutional Court had adopted a sentence *against the ECB's quantitative easing, saying that the European Court of Justice had acted beyond its powers. That sentence is crucial because, before that, the lack of a central EU fiscal capacity had to be compensated by other institutions, in particular the few supranational institutions such as the ECB, which had made the most of its mandate trying to fill the gap of political inactivity. Once the sentence of the German Constitutional Court was published, it was clear [to the German government] that a solid alternative to the ECB monetary policy had to be found to address the consequences of the COVID-19 pandemic. So, one week after this sentence, Germany completely changed its position, causing dismay in the Frugal coalition due to the loss of the German point of reference, and negotiations for the setup of NGEU were initiated.*

I: Could you identify an actor or a set of actors who pushed the European Commission proposal forward in the negotiating process?

P: The European Parliament soon pushed for doubling the budget of the EU so that enough resources could be dedicated to the response to the pandemic crisis. However, the Frugal countries preferred sticking to the ESM even during the COVID-19 pandemic because they wanted to retain their veto power over the disbursement of financial assistance to the Member States. They didn't want the European Commission's power of legislative initiative and the Council acting by qualified majority. Clearly, the related negotiation on the EU budget required unanimity but the Frugals wanted to have a veto power also in the governance for the disbursement of financial assistance. France presented a paper arguing in favour of a EU-based instrument with a supranational governance. A few days later, the European Commission issued a proposal for the new crisis-management instrument fully within the scope of EU treaties. Part of the compromise with the Frugal countries concerned the temporary nature of the instrument, in addition to reduced size [with respect to the Commission proposal] and governance system. This allowed to channel the increased resources at the EU level towards a new crisis-management instrument, the RRF.

In the July 2020 European Council meeting, there are two visions that confront each other. One the one hand, the Frugals, led by Dutch Prime Minister Mark Rutte, who wants the RRF *to be based on loans only and wants to reduce the size of the RRF with respect to the Commission proposal. The other hot topic is the governance of the mechanism. They want to find a way to have a control over the disbursement of financial assistance to the Member States, and thus ask for unanimity rules within the Council. The other countries want to preserve the functioning of the EU and thus support the qualified majority rule within the Council and the fact that payments, and the evaluation of the national plans, are a responsibility of the European Commission. These other countries are led by Italy and want to defend the prerogatives of the European Commission.*

I: What was the final compromise?

P: During the negotiations, the Dutch accepted the role of the European Commission and the qualified majority voting within the Council but asked that the European Council could also have a say over the disbursement of financial assistance to the Member States by unanimity. The Italian-led coalition turned down this proposal and suggested establishing for the European Commission a duty of consultation of the Economic and Financial Committee representing the positions of the Member States. So, the final compromise was found around a so-called 'emergency brake' whereby the national governments can ask that a national plan be discussed at the level of the European Council before the final European Commission green light. The emergency brake, however, is not a formal part of the procedure for the disbursement of financial assistance under the RRF and does not block the Commission proposal to the Council. In addition, a procedure for the suspension of financial assistance was introduced. The European Commission could decide to suspend funds to the Member States and the Council could oppose it by reversed qualified majority. The rebates were also confirmed, despite Brexit, as a concession made to the Frugal countries to accept the RRF.

Interview E – 31.03.2022. Legal Officer, Council of the European Union

I: Could you identify an actor or a set of actors who pushed the European Commission proposal forward in the negotiating process? And what was the final compromise?

P: After the European Commission proposal, since it held the rotating presidency of the Council, Germany played a crucial role in the negotiations. It was Germany that came up with this 'emergency brake' compromise that was necessary for the Dutch to accept the agreement. Also, the Dutch claimed that the RRF be associated with the European Semester and that the Commission country-specific recommendations also applied to the RRF for the disbursement of financial assistance to the Member States. When the European Council agreed on the size of the instrument and the governance mechanism in its July meeting, that was it. When the actual Commission proposal came to the Working Parties [of the Council], everyone wanted it to go through after the European Council meeting.

Before the RRF, there was another instrument that was called BICC. The RRF was a re-draft of the BICC. And in the BICC, there was this confrontation between the 'Frugals' and the 'cohesion' countries, in particular Portugal, Spain, Italy. These countries were super vocal and really wanted it. For them it was to be the embryo of a future fiscal capacity.

I: Could you explain what were the options discussed and/or taken into consideration for the establishment (i.e. legal basis) and governance (i.e. inter-institutional relations) of the Recovery and Resilience Facility?

P: Even if probably the two options – intergovernmental and supranational – [for the governance of the RRF] were initially present, then it was suddenly clear that the European Commission would have to take care of it because of the huge amount of resources and the scope of the instrument. Also, timing mattered a lot because the European Commission proposal was swift and could be approved in relatively short time [whereas an intergovernmental treaty would take too long].

I: What factors do you believe favoured the adoption of the Recovery and Resilience Facility to address the COVID-19 pandemic?

P: The approval of the RRF was facilitated by the fact that the COVID-19 pandemic was partly asymmetric in its effects. You could not make an argument of the South vs. the North. It also helped that it was exogenous and nobody was to be blamed for that. So, that surely helped. And this is a huge difference compared to the Eurozone crisis.

I also believe that there was a lot of learning. We learned from the management of the Eurozone crisis, which brought populism, extreme right parties, North vs. South narrative, and basically a further divergence between countries. So, obviously, when you need to [engage in crisis-management on a large scale] again, you do that differently. We had a huge price to pay if we look backwards at how we managed the previous crisis. Even if leaders between the two crises changed, governments and EU institutions have a living memory and especially within the DG ECFIN of the European Commission I think they realised what the huge repercussions of how they dealt with the previous crisis were.

Interview F – 05.04.2022. Policy Officer, European Commission

I: Could you identify an actor or a set of actors (i.e. Member State governments or EU institutions) who pushed for the establishment at the EU level of a new crisis-management instrument in response to the COVID-19 pandemic before the official European Commission legislative proposal of May 28th, 2020?

P: The first group of actors that I would identify is the group of nine countries who sent the famous 'letter of the nine' on 25 March 2020. That was the first public move to go beyond existing tools to manage to COVID crisis. It was not only composed by the countries who suffered the most during the Eurozone crisis. It comprised other countries, including France. The day after, there was a European Council meeting where leaders agreed that a common exit strategy was necessary through a comprehensive recovery package including unprecedented investments.

On 21 April, the President of the European Commission and the President of the European Council present a 'joint map for recovery'. They presented ideas on principles on how to get out of the crisis through a massive investment at the EU level. That joint map concealed a disagreement on what measures to adopt, including the size of the package and the form of this initiative. So, this signalled that in the EU there was a general consensus to go beyond existing mechanisms of crisis-management, but there was yet no agreement on which exact instrument to pursue. The President of the European Commission pushed for creating an instrument within the legal framework of the EU, one to be integrated into the Multiannual Financial Framework. So, the idea was to enhance the firepower of the budget to allow the recovery.

On 18 May 2020, France and Germany came up with a joint proposal to issue common debt in the form of grants to the Member States. This proposal was unprecedented in terms of the scale of common debt to be issued and the form (i.e. grants). The Franco-German proposal was crucial because historically when there is an initiative from France and Germany it generally determines the path of European integration. And this proposal came as a surprise because Germany did not sign the 'letter of the nine' in March. Once the French-German initiative came out, the so-called 'Frugals' remained without the leading country.

Soon after the French-German proposal, the Frugal Four published a non-paper rejecting the idea of grants in favour of loans, and they make clear they are against any significant increase in the EU budget. This is the first time in which the divisions between coalitions in the negotiation of the EU response to the pandemic became explicit.

I: Could you identify an actor or a set of actors who pushed the European Commission proposal forward in the negotiating process? And what was the final compromise?

P: On 28 May 2020, the European Commission builds on the French-German initiative to issue a formal legislative proposal for the Recovery and Resilience Facility. It defines the size of the instrument, even greater than France and Germany had envisaged, and it adds a loan component to the grants. The European Commission comes at a time when there was no consensus on the content of the instrument, thus taking sides with the more ambitious countries to the detriment of the Frugal Four. The European Commission also formulated its proposal in *a way as to provide itself with large decision-making powers in terms of disbursement of financial assistance to the Member States.*

The German presidency of the Council [starting July 2020] is important. It poses a challenge to Germany because the Member State will want to achieve important results and also it was clear that it would be the last time for German Chancellor Angela Merkel as president of the Council. So, Angela Merkel finds herself faced with an unprecedented crisis and wants to achieve great results. In the European Council meeting of July 2020 there is a confrontation between countries who favoured the European Commission proposal and countries who opposed the grants component of the instrument and the role of the European Commission in the disbursement of the funds.

At least equally important was Charles Michel, who really called the representative from the European Commission and Member State governments innumerable times before and during negotiations in July 2020. It was mostly thanks to his cooperation with Angela Merkel that a deal could be struck after 5 days of negotiations.

I: What was the final compromise?

P: The final compromise [with the Frugal Four] consisted in reducing the grants component and increasing the role of the European Council in the governance of the instrument through the emergency brake. The emergency brake allows the European Council to discuss a given national recovery plan upon request from the Member States, but then it is the European Commission who has the final say over the approval of that plan. Also, the European Parliament was given concessions on the size of NGEU and the rule of law conditionality. Usually, compromises are seen as something that worsens the quality of the initial proposal. However, in fact, negotiations can shed light on results that otherwise would have been deemed unthinkable.

I: What factors do you believe favoured the adoption of the Recovery and Resilience Facility to address the COVID-19 pandemic?

P: One crucial factor is that this crisis was exogenous, that it concerned all Member States and thus it required a common response at the EU level. So, the nature of the crisis helped a lot and determined the kind of reaction that was given.

Also, there were lessons learnt from the previous experience of the Eurozone crisis. Even if the nature of the pandemic had been similar to the nature of the Eurozone crisis, the management of the Eurozone crisis and the failures associated with that paved the way for important lessons to be learnt by the EU after the outbreak of the pandemic. Thus, probably the result would not have been a repetition of the intergovernmental logic that dominated the previous crisis. During the pandemic crisis, there were politicians and decision-makers who remembered the experience of the Euro Crisis. One crucial leader during the Euro Crisis, German Chancellor Angela Merkel, was no longer the same. She changed ideas based on the experience of the 2010s, but she did so only after several meetings at the EU level as well as informal bilateral government talks had already taken place.

Finally, there was Brexit in between the two crises. During the Eurozone crisis, the Member States had to move outside the EU treaties and adopt measures for the Eurozone only because of the British veto. During the pandemic crisis, the EU was allowed to act together because there was no British veto anymore.

I: Could you explain what were the options discussed and/or taken into consideration for the establishment (i.e. legal basis) and governance (i.e. inter-institutional relations) of the Recovery and Resilience Facility?

P: The choice between going intergovernmental or going supranational permeated the negotiations for the establishment of the RRF from March to July. There were some countries that pushed for an intergovernmental solution to the crisis. Firstly, by advancing the Pandemic Crisis Support [as a new credit line] within the ESM. And, secondly, by demanding a veto *power for Member States within the RRF. Other actors pushed for a supranational solution, especially the European Commission and countries who sent the 'letter of the nine', followed by Germany [starting from May 2020].*

Interview G – 06.04.2022. Legal Officer, Council of the EU[42]

I: Could you identify an actor or a set of actors (i.e. Member State governments or EU institutions) who pushed for the establishment at the EU level of a new crisis-management instrument in response to the COVID-19 pandemic before the official European Commission legislative proposal of May 28th, 2020?

P: Before the European Commission proposal, the crucial factor was the French-German political initiative of 18 May 2020 and the 'letter of the nine' of March 2020. Germany was not among the signatories of the 'letter of the nine' but sided with France later on in May, probably because of the German Constitutional Court's sentence of 5 May on the unconstitutionality of the ECB's monetary policy [i.e. the Public Sector Purchase Programme]. That sentence discredited the monetary policy of the ECB, thus by itself highlighting the need for fiscal policy to play a greater role in crisis-management.

The European Commission proposal was very similar to the French-German political initiative and for the first time it rejected an intergovernmental solution to the COVID-19 pandemic by clarifying what the governance of the new recovery instrument would look like and what the legal basis would be. Before issuing that proposal, the European Commission exchanged views with the legal service of the Council to understand whether setting up the RRF in the form of a regulation approved through the ordinary legislative procedure would be possible.

I: Could you identify an actor or a set of actors who pushed the European Commission proposal forward in the negotiating process? How about the role of Germany?

[42] This interview was not recorded and its transcript is thus not to be taken as a direct quotation.

P: Italy played a leading role in the negotiations during the July 2020 European Council meeting in defence of the European Commission proposal, probably even more than the Commission itself, which sometimes seemed in favour of giving concessions to the Frugal countries. Germany also played a great role, both because of the rotating presidency of the Council and because of the French-German political initiative of May 2020. Perhaps, overall, it was mainly Angela Merkel and Charles Michel, as President of the European Council, who led negotiations and facilitated an agreement among everybody.

I: Could you identify an actor or a set of actors who tried to resist/oppose such a proposal?

P: The Netherlands and the other 'Frugal countries' pushed for an intergovernmental governance where Member States could decide by unanimity on the disbursement of financial assistance and tried to resist the inclusion of a grants component in the package.

I: What was the final compromise?

P: The compromise envisaged an emergency brake whereby the European Council could discuss a national recovery and resilience plan in case a Member State requested it. The size and the rebates were also part of the compromise. Soon after the European Council meeting, the European Parliament obtained concessions on the size of other programmes within Next Generation EU, the rule of law conditionality system and so-called 'structured dialogues'.

I: Could you explain what were the options discussed and/or taken into consideration for the establishment (i.e. legal basis) and governance (i.e. inter-institutional relations) of the Recovery and Resilience Facility?

P: Once the pandemic crisis exploded, the debate on the choice between intergovernmentalism and supranationalism was there since March 2020. One important intergovernmental option was to retain the European Stability Mechanism to address the consequences of the pandemic. A second option was to create the Recovery and Resilience Facility while providing the Member States with a veto power over the disbursement of financial assistance, along the lines of the European Stability Mechanism. Importantly, the intergovernmental option re-emerged when some countries of Eastern Europe threatened to veto the whole recovery package over the rule of law conditionality system.

I: What factors do you believe favoured the adoption of the Recovery and Resilience Facility to address the COVID-19 pandemic?

P: The policy learning argument is very reasonable. There has been a learning process in the EU after the failure in the management of the Eurozone crisis. The response to the Eurozone crisis was slow and inappropriate, and this contributed to the spread of the crisis from Greece to other countries in Europe. However, if the pandemic crisis had had the same nature as the Eurozone crisis, a learning process would have been much more difficult to occur. In March, the Dutch Finance Minister tried to sell the story that the pandemic crisis became a crisis because some Member States did not have enough fiscal pace to counter it because of past fiscal irresponsibility. Then, because the crisis had a different nature, it had to apologise and make a step back.

Interview H – 22.04.2022. Policy Officer, European Commission

I: Could you identify an actor or a set of actors (i.e. Member State governments or EU institutions) who pushed for the establishment at the EU level of a new crisis-management instrument in response to the COVID-19 pandemic before the official European Commission legislative proposal of May 28th, 2020?

P: Notably [before the European Commission proposal] there was the Franco-German initiative. But before that, there were a lot of discussing ongoing between many Member States, especially the biggest Member States. I would for sure stress the role of France, more than Germany [at this stage]. France was really the one behind the scenes before even the Franco-German proposal, before anything. France was the first to go to the others and say 'we need something bigger [with respect to existing crisis-management tools]'. In particular, France pushed for the grants option, and the Franco-German proposal came from there. So, the main drivers are Paris, then Paris and Berlin, then the European Commission taking sides with France and Germany. Anytime there is a crisis, the European Commission wants to be at the centre. We always talk about not wasting a good crisis in these terms.

I: Could you identify an actor or a set of actors who tried to resist/oppose such a proposal?

P: Back in February-March 2020 there was a lot of resistance to the idea of 'we need something new, we need something big'. But certainly by May there was no Member State saying 'we don't need anything, we've got enough'. So, in terms of adopting a new facility, no, there was no Member State against. I think where there was a lot of discussion and some Member States were against, at least initially, was the concept of grants. Some Member States wanted it all grants and no loans, including Italy, whereas others preferred the loans option, particularly the so-called 'Frugals'.

I: Could you identify an actor or a set of actors who pushed the European Commission proposal forward in the negotiating process?

P: The European Parliament was not too involved before the European Commission proposal. But clearly after the European Commission proposal comes out, the European Parliament as a co-legislator with the Council, plays a great role in this.

Germany was a crucial player in the July European Council negotiations. When you have the Council presidency, your job is to seek a compromise. So, your national position becomes less strong because you cannot as presidency come out and say 'we insist on this solution but now we need to try and find a compromise'. So, whoever has the presidency needs to be more in a listening mode and try to find compromises. Germany has traditionally sided with the so-called Frugals. And the fact that Germany had the Presidency undermined the Frugals, who lost their main point of reference in the coalition. And then of course, for the same reason, Charles Michel, the President of the European Council, was very important during the July negotiations, and he has most of the credits if a deal was eventually reached.

I: Could you explain what were the options discussed and/or taken into consideration for the establishment (i.e. legal basis) and governance (i.e. inter-institutional relations) of the Recovery and Resilience Facility?

P: Well, at least initially there was a choice to be made between a supranational and an intergovernmental option. The intergovernmental option was for sure there. It was then quickly dismissed but it was there. It was almost the default option. If we didn't change approach to crisis management, we would have gone intergovernmental. Over the last ten years, I think we really regretted the intergovernmental approach that was dominant back then. I am not saying it would have been impossible to choose an intergovernmental option but the European Commission thought if it is possible to act within the realm of the supranational system then we should do so.

So, following the European Commission proposal in May 2020, in terms of governance clearly the Commission wanted to decide over the disbursement of financial assistance to the Member States. The Council said no, we want to decide over the disbursement of financial assistance to the Member States. And also the European Parliament wanted to have a role. The only reason *why the European Parliament did not get anything in terms of governance in the end was about a legal argument that under the Treaties this is not the European Parliament's responsibility. Clearly, the European Parliament took this very badly that they did not have as much say as the Member States in this document. So, as a partial solution this mechanism was introduced about a 'recovery and resilience dialogue' through which the European Parliament can discuss the status of fulfilment of milestones and targets.*

I: What factors do you believe favoured the adoption of the Recovery and Resilience Facility to address the COVID-19 pandemic?

P: There was with the Eurozone crisis a kind of moral judgement put over the top. With the moral judgement being 'it is your fault you are in debt'. This created a resentment on both sides. On the 'creditor' side, the resentment was about 'we are having to give up money because you have been spending too much'. And there was a resentment on the 'debtor' side because they did not feel like they had been spending too much. The COVID crisis absolutely was not like that. Everybody felt the opposite and nobody was blaming. You cannot say to a country 'it is your fault that you are having a lot of COVID cases'. So, there were of course disagreements and different positions but without that moral overtone to the discussion to say 'well, it is your fault'. And that really helped the negotiations. So, the fact that it was an exogenous shock that came from the outside really helped.

Interview I – 28.04.2022. Policy Advisor, European Council

I: Could you identify an actor or a set of actors (i.e. Member State governments or EU institutions) who pushed for the establishment at the EU level of a new crisis-management instrument in response to the COVID-19 pandemic before the official European Commission legislative proposal of May 28th, 2020?

P: It was mainly France, and then also France and Germany. Of course there was a dialogue with other Member States, especially the countries of Southern Europe, but it was mainly a Franco-German initiative. As soon as you have the Franco-German initiative, the European Commission worked on the concrete package. Key actors were the European Commission, especially the cabinet of the President of the Commission.

I: Could you identify an actor or a set of actors who pushed the European Commission proposal forward in the negotiating process?

P: After the European Commission, I think the compromise was mainly the result of teamwork. The President of the European Council played a great role, because when we negotiate with different groups of countries, the President is always in the middle and has the role of defending a group's position when talking to other groups of countries. During June and the first week of July, the President of the European Council held videoconferences or phone talks with all Member State governments, trying to understand the different positions and smooth divergences. And he did so in close consultation with the President of the European Commission. But he also needed those talks to come up with some kind of tentative draft compromise that could be presented at the beginning of the European Council meeting in July.

At some point in the negotiations we held a meeting of the 'Washington group', including Germany, France, the Netherlands, Spain and Italy, that has triggered some positive momentum. Germany has strived to create some positive momentum, but France too. At the crucial European Council meeting in July 2020, it was mainly Merkel and Michel, but eventually the compromise was the result of teamwork.

I: Could you identify an actor or a set of actors who tried to resist/oppose such a proposal?

P: The so-called 'Frugals', including Austria, the Netherlands, Denmark, Sweden and later Finland. They were not happy at all [with the idea of an instrument leading to debt mutualisation]. In the negotiations they eventually accepted it, Austria being the toughest one on this. The Frugal countries wanted the instrument to be intergovernmental, with a decision-making power for the European Council that would have implied the adoption of national plans by unanimity.

I: What was the final compromise?

P: The final compromise was about the so-called 'emergency brake', because the Netherlands and the Frugal countries were worried about the size of the instrument but also about the governance of it. This clause – which became known as the 'emergency brake' – was intended to give a reassurance to the Frugal Four and it led to a very long discussion between the Netherlands and Italy in particular. However, thanks to this innovation, its architects, Angela Merkel and Charles Michel, were able to prevent the collapse of negotiations during the first day of the meeting.

I: Could you explain what were the options discussed and/or taken into consideration for the establishment (i.e. legal basis) and governance (i.e. inter-institutional relations) of the Recovery and Resilience Facility?

P: Governance was arguably the most controversial issue of the recovery package and a compromise was only reached at the European Council on the very last day of negotiations, on 21 July. The supranational and the intergovernmental options were both discussed. At some point the intergovernmental solution was the most likely option for this new crisis-management instrument because of the strong will of the Frugal countries.

I: What factors do you believe favoured the adoption of the Recovery and Resilience Facility to address the COVID-19 pandemic?

P: First, it was a crisis concerning everyone. So, it was symmetric and exogenous. I remember discussions with Greece saying, 'this time you cannot blame this on us, we need to avoid a financial crisis in the EU27'.

I also believe there was a learning process. The response to the COVID-19 pandemic was less technocratic with respect to the response to the Euro Crisis. I think we managed to give a response in a few months while the Euro Crisis took years because the nature of the crisis was different. A financial crisis is quite different than a global pandemic and everyone was affected, Germany included. I think that during the negotiations for the establishment of the RRF Merkel has learned and has chosen a different coalition. The Frugal countries lost the reference point so they had a lower bargaining power without Germany. This also contributed to the final compromise on the size and the governance of the RRF.

Let us not forget that the COVID-19 pandemic broke out when Brexit had already occurred. One cannot know for sure but there is a possibility that things could have taken a different direction [in terms of EU's response to the pandemic crisis] had Britain not left the EU.

Interview J – 10.05.2022. Policy Assistant, German MEP

I: Could you identify an actor or a set of actors (i.e. Member State governments or EU institutions) who pushed for the establishment at the EU level of a new crisis-management instrument in response to the COVID-19 pandemic before the official European Commission legislative proposal of May 28th, 2020?

P: I think of course Macron's government has always been around with that [proposal]. The European Parliament has also played its part and really pushed for this to become part of the *future EU [crisis-management] instruments. Then of course there was this meeting between the Germans and the French which really mattered but that scheme had already been drafted by the European Commission. Germany shifted position because it became clear at that point because of the magnitude of the crisis that if you don't [something bigger] then the all ordo-liberal concept of relative balance of economic means collapses, making the issue of Eurozone stability worse.*

The European Commission was also very important and pushed really hard for [the adoption of the RRF]. So, it was not only about national capitals but it was also something that Brussels wanted.

I: Could you identify an actor or a set of actors who tried to resist/oppose such a proposal?

P: There was actually the question of whether and how far there could be a blocking power or veto on individual [National Recovery and Resilience Plans] and how that veto was to be exercised. So, different people had different ideas on the veto power. And it was the same folks as always to stand behind the veto option, namely the Dutch, Austrians, Danish and Swedish.

I: What factors do you believe favoured the adoption of the Recovery and Resilience Facility to address the COVID-19 pandemic?

P: The nature of the crisis played a great role in the adoption of the RRF because it was much more difficult to blame anyone, which many governments during the Euro Crisis were very happy to do.

And of course another factor is that this was not just a Eurozone crisis, this was bigger than the Eurozone and then also non-Eurozone countries very much needed help as well.

The [institutional outcome] from the COVID crisis was also due to a learning process. [In the Euro and COVID-19 crisis] there was the same German Chancellor, the General Director of

DG ECFIN during the Eurozone crisis also contributed to the drafting of the RRF from a position of power. The very negative experiences from the ESM bailouts in Portugal, Spain, Ireland and Greece helped really much and contributed to the greater role by the European Commission rather than the ECOFIN Task Force.

Interview K – 10.05.2022. Policy Officer, German Finance Ministry[43]

I: Could you identify an actor or a set of actors (i.e. Member State governments or EU institutions) who pushed for the establishment at the EU level of a new crisis-management instrument in response to the COVID-19 pandemic before the official European Commission legislative proposal of May 28th, 2020?

P: Before the proposal from the European Commission, [the RRF] was mostly a French initiative. France led the political initiative in March for a common debt instrument in response to COVID-19 and France persuaded Germany to back the common debt instrument in the famous initiative in May. Actually, bilateral meetings between the two countries started after the Eurogroup meeting of 9 April 2020, but the process for Germany to shift position took a while, perhaps also because of internal opposition of German parties.

I: What role did Germany play in securing a compromise on the RRF between the leaders at the European Council of July 2020?

P: The German shift of position was crucial in the negotiations during the European Council meeting of July because Germany was previously the main Member State siding with the Frugal coalition, including Austria, Denmark and Finland. So, Germany surely played a role in securing a compromise in those negotiations. However, at that point also the Frugal countries realised that the pandemic was having such huge consequences that an unprecedented response

[43] This interview was not recorded and its transcript is thus not to be taken as a direct quotation.

at the EU level was needed if the EU wanted to retain some political credibility. The President of the European Council also held informal meetings with Member State representatives to try and find a common ground on the issues of size, composition and governance of the fund. It was indeed Angela Merkel and Charles Michel who together prepared drafts of the compromise before the European Council of July 2020 even started.

I: What was the final compromise?

P: The final compromise was the so-called 'emergency brake'. The emergency break is just a safety net that allows political leaders in the European Council to discuss a national plan in case of doubts. However, the emergency break is very unlikely to be ever activated, because if any Member State does not fulfil one of the milestones and targets, it can change its National Recovery and Resilience Plan rather than present the plan with missed objectives to the European Commission. I think this governance solution points more towards a sort of European response, a supranational response, rather than intergovernmentalism. The ESM provided a veto power to the financial ministers of Eurozone countries, here [in the RRF] there is no such veto.

I: What factors do you believe favoured the adoption of the Recovery and Resilience Facility to address the COVID-19 pandemic?

P: I think a lot can be explained by the different nature of the two crises [i.e. the Eurozone crisis and the COVID-19 pandemic]. During the Eurozone crisis, some countries, particularly Germany, blamed others for the bad management of public finances. With the pandemic that was impossible. The fact that the crisis had a different nature can explain the spirit of solidarity that permeated the European response to the pandemic.

I also think it is possible to argue that there was a policy-learning process if we compare the two crises. The policy-learning process is evident when one looks at the conditionality systems of the ESM and RRF and at the governance for the disbursement of financial assistance, with Member State governments losing their veto powers in favour of qualified majority.

Interview L – 23.06.2022. Former Policy Officer, Council of the European Union

I: Could you identify an actor or a set of actors (i.e. Member State governments or EU institutions) who pushed for the establishment at the EU level of a new crisis-management instrument in response to the COVID-19 pandemic before the official European Commission legislative proposal of May 28th, 2020?

P: Soon after the COVID-19 pandemic broke out, the countries that pushed for the establishment of a new crisis-management instrument were those who were suffering the most from COVID-19 and the countries that were weaker economically, had a bad debt situation like Italy and other, and were more vulnerable to this kind of shock. So, initially you could say countries like France and Italy and all the other signatories of the 'letter of the nine' contributed a lot on the debate for launching a new crisis-management instrument.

I: Could you identify an actor or a set of actors who tried to resist/oppose such a proposal?

P: Obviously, particularly in the early stages of the pandemic, there was a lot of opposition towards the idea of a new-crisis management instrument based on the emission of common debt. There was a clear, strong opposition on the part of the so-called 'Frugals'. Also Germany was reluctant because that was looking like creating common debt or a mutualisation of common debt, which they never accepted.

At the Eurogroup meeting of 9 April, the idea of using the potential of the ESM to address the COVID-19 pandemic was still prevalent. But the Italians never accepted that possibility *because of the conditionality, the control from other Member State governments and how the ESM played out during the Euro Crisis. So, the Italians were adamant with respect to the ESM. The Eurogroup did not agree on a new recovery instrument.*

There was then a crucial meeting between Merkel and Macron on 18 May in Meseberg, and they called for a recovery instrument of up to €500 billion. This allowed the Commission to be daring and paved the way for the ambitious European Commission proposal of 28 May.

At the European Council meeting of 23 April, the political leaders moved forward and decided to task the European Commission to come forward with a proposal for a new crisis-management tool. So, once they did that, they sent a political signal: it can be done, and it will be done. Without this the Commission could not have done anything.

I: Could you identify an actor or a set of actors who pushed the European Commission proposal forward in the negotiating process?

P: The Commission then has a very important role in determining how to do it. The Commission has a greater role in saying how to do things than what to do. So, it basically was in charge of the sort of recovery instrument that would come out. The Commission did a good job, they fleshed out the details on the financing mechanism and the governance of the instrument. In particular, the Commission proposed that the decision on the disbursement of financial assistance would be taken by the Commission itself. That of course would not fly in the Council.

During the European Council meeting of 17-21 July 2020 there was the same confrontation between the Frugals on the one hand and the Italians and the French on the other on the size of the instrument, the balance between grants and loans and the governance. On the governance, the European Council immediately agreed that the Council would have a say on the disbursement of financial assistance along with the European Commission. That was an absolute condition for a lot of governments, not just for the Frugals. However, the Dutch wanted unanimity in the Council. But this was completely unacceptable for the Italians but also for the legal service of the Council, which believed that was not reasonable in a situation like *a global pandemic. Mrs Von der Leyen got a bit angry here, seeing [the Dutch] insistence as an expression of mistrust against the Commission. In the end, the leaders agreed on a mechanism that will allow the Dutch or indeed any delegation, if they have really strong issues with a project or payment, to raise the point at the European Council who then will 'exhaustively' discuss the matter. 'Exhaustively' is a bit weird, but it is definitely better than 'decisively' which had been floated in the course of the discussion. So, a solution was found around qualified majority and the 'emergency brake', with no veto powers for the governments. The Union is built on compromises. And I was convinced from the beginning that this would be the outcome, I mean this kind of deal, because it was too much to ask for either unanimity in the Council or a monopoly by the European Commission.*

After the compromise at the European Council meeting, the European Parliament tried to start yet another round of negotiations to ask for a role in the decision for the disbursement and suspension of financial assistance under the RRF. The EP believes, or pretends to believe, that after the agreement at the level of the European Council a completely new negotiation starts with the EP. This is not so, in reality. And throughout all negotiations in the Council there have been frequent exchanges with European Parliament representatives, and the European Parliament position has had some influence on some important issues like climate change, like own resources, and indeed the recovery package. But at that stage, the changes [with respect to the 17-21 July meeting] could only be marginal. The European Parliament started off requesting increases for 15 programmes amounting to more than a hundred and twenty billion euros, which was of course out of question. They then graciously lowered their bid to 39 billion while at the same time requesting more flexibility (hence more expenditures) and changing the rules that unused money returns to the Member States. Eventually, they accepted the heads' deal, obtaining some smaller increases in other programmes financed under Next Generation EU.

I: Could you explain what were the options discussed and/or taken into consideration for the establishment (i.e. legal basis) and governance (i.e. inter-institutional relations) of the Recovery and Resilience Facility?

P: In principle, the EU is structured around two different systems of government. When it is about the single currency, the federal system is adopted. If it is trade policy, or agriculture, again the federal system is adopted. If it is foreign policy, the purely intergovernmental system is adopted. We have created a new legal order of a union of states and peoples, and in some areas we function like a federation and in some other areas we function like the United Nations or like any other confederation or international organisation. We have a constant interplay between the various elements. For me the Union is both its institutions but also the Member States. So, in the EU's response to the COVID-19 pandemic, we were thinking about these two systems and how to do the whole thing. And then we said 'well, if we create something completely intergovernmental, we'll have to create new mechanisms outside the EU legal order'. And then we thought it would be useful to link the whole debate on the recovery instrument to the EU budget, the negotiations on which had just failed in February 2020. So, the supranational option prevailed.

I: What factors do you believe favoured the adoption of the Recovery and Resilience Facility to address the COVID-19 pandemic?

P: If you look at the handling of the Euro Crisis, we have learnt a lot. For example, we have become faster. Obviously, without the pandemic crisis nothing would have happened as there would have been no need to learn any lessons from the past. Even if leaders between the two crisis changed, we have institutions with civil servants who are in charge. Second, the European Council and the Council have a Council Secretariat which prepares the briefings for the rotating presidency and the European Council and knows the agenda and what is to be discussed.

Now, of course we could also do this because in this particular crisis you could not blame anyone for COVID-19. You could not blame the Italians or the French. It was not like the Euro Crisis, when the Germans felt like they were asked to bail out countries who were responsible for the spread of the crisis. And it also had symmetric effects

So, there was a lot of learning. But there was also a combination of factors, and the situation changed because the crisis offered an opportunity to do something at the Community level.

Interview M – 1.07.2022. Policy Advisor, French Permanent Representation

I: Before the European Commission proposal of 28 May 2020, what role did France play towards the establishment of the Recovery and Resilience Facility as a new crisis-management instrument in response to the COVID-19 crisis?

P: France played a very important role. We produced two papers that we sent to the European Commission where we explained what we could do in terms of new-crisis managements instruments, why it was necessary for this crisis, which was obviously a symmetric crisis. We explained that everybody would benefit from a common debt instrument. And finally the aspect that the European Commission changed was the link to the EU budget. I mean in the first paper we identified several options, in the second paper we focused on the legal aspects. But we did not take a firm position in terms of having the new instrument within the EU budget, and that is what the European Commission added with respect to the French papers.

France played an important role along with a coalition of like-minded countries – basically Italy, Spain, Portugal – but I must say that on the establishment of a new crisis-management instrument based on common debt we really did it ourselves and fed into the European Commission.

The French-German initiative of 18 May 2020 was then a crucial moment. It all started from a French initiative, and I have to say it is difficult now to say this because Olaf Scholz has claimed the fatherhood of the instrument but at the time he was prudent also because he was part of a government coalition. And I remember the phone call with Jörg Kukies, the head of the German Finance Ministry, where he shifted from a position which was 'no common debt' to the position that 'we will never accept 1000 billion euros' and I remember the head of the French Finance Ministry turning to me and saying 'well, he just accepted the common debt instrument'. He phrased that negatively but that was a huge concession. So, this was really a historic moment. And then a few days later he accepted the 750 billion proposal from the European Commission, *and he did so positively. This was indeed the result of bilateral talks between the French and the German governments from early April 2020, so when the German shifted its position in early May, it almost came as a surprise for us.*

I: In the negotiations during the European Council meeting of 17-21 July 2020, what was the French position on the European Commission proposal for the establishment of the Recovery and Resilience Facility? And how did those negotiations unfold?

P: France supported the European Commission proposal, just like Germany and the President of the European Council. The European Commission proposal was opposed by the Frugal countries, and the governance of the instrument was the major obstacle in the negotiations. So, the Frugals wanted to retain a veto power over the concession of financial assistance to the Member States, while we wanted to limit to the maximum the power of Member State governments in the governance of the instrument. So, the final compromise was the adoption of the 'emergency brake' where you can trigger discussion in the European Council but without veto powers. And there is the European Council President that decides because the agenda of the European Council is not set by the General Secretariat of the Council but by the European Council President himself, who acts as a filter for the requests coming from the Member States.

I: What factors do you believe favoured the adoption of the Recovery and Resilience Facility to address the COVID-19 pandemic?

P: First of all, the crisis was exogenous. Contrary to the Euro Crisis, the COVID-19 pandemic could not be blamed on any Member State, it was an external shock that hit everybody and it was nobody's fault.

I also think there was a lot of learning from past crisis experiences. First, from the experience of the Euro Crisis. There were institutions that already dealt with the previous sovereign debt *crisis, for instance the European Stability Mechanism. During that crisis, there were in fact a lot of intergovernmental instruments like the European Financial Stability Facility and the European Stability Mechanism which also posed challenges in terms of democratic legitimacy because they were very complex and very difficult to understand for ordinary citizens. They were simply a horror in democratic terms. The financial crisis in fact gave rise to a crisis of confidence in the EU but confidence was gradually rebuilt. Second, the Budgetary Instrument for Competitiveness and Convergence, which was a little instrument linked to the EU budget which nobody wanted in the end but in a sense served as a blueprint for the elaboration of the Recovery and Resilience Facility. It also helped the learning process that many leaders were in positions of power during both the Euro Crisis and the COVID-19 pandemic. Angela Merkel was there, people in the national treasuries were mostly there, people in the DG ECFIN of the European Commission, Christine Lagarde from the International Monetary Fund to the European Central Bank etc.*

Interview N – 13.07.2022. Former Policy Advisor, European Council

I: Could you identify an actor or a set of actors (i.e. Member State governments or EU institutions) who pushed for the establishment at the EU level of a new crisis-management instrument in response to the COVID-19 pandemic before the official European Commission legislative proposal of May 28th, 2020?

P: I remember there was a letter which was signed by nine Member States. The three people who were pushing the most on this idea of a common debt instrument were Giuseppe Conte, Pedro Sanchez and of course Emmanuel Macron. After that there was a Spanish proposal and, in the end, the joint Franco-German proposal where the main business started. After that, the European Commission came up with its legislative proposal for the establishment of the Recovery and Resilience Facility, drawing a lot on the contents of the Franco-German initiative.

I: Could you identify an actor or a set of actors who pushed the European Commission proposal forward in the negotiating process?

P: I would say that twenty-two Member States, but especially France and Germany, pushed that very hard in the negotiating process. Germany had a very prominent role in the July negotiations in particular. We could say that the final compromise on the governance was a German idea.

I: Could you identify an actor or a set of actors who tried to resist/oppose such a proposal?

P: The Frugals. Four countries plus one. The ones that were actually very tough were the Netherlands, Sweden, Denmark, Austria, and Finland. Finland was less outspoken but very tough as well. First, these countries wanted to spend as little as possible, which is in line with their fiscal policy tradition. Second, they opposed any European common debt instrument whatsoever. Third, they wanted to preserve their veto powers over disbursement of financial assistance.

I: What was the final compromise?

P: The final compromise concerned the size of the RRF, the composition of grants and loans, and the governance. In particular on the governance issue, the compromise was reached around an 'emergency brake' whereby the European Council could discuss any NRRP if so requested by a Member State government representative sitting within the Economic and Financial Committee.

I: What factors do you believe favoured the adoption of the Recovery and Resilience Facility to address the COVID-19 pandemic?

P: I think we felt that what we were dealing with here was totally different. The nature of the crisis was different. It was completely exogenous. This time was not only a matter of money, it was also a matter of health.

The crisis was also partially symmetric, which made it easier to provide a collective response, because we could no longer make a moral distinction between 'creditor' and 'debtor' countries as pretty much everyone needed financial assistance.

Finally, I think and hope there was a policy-learning process. And I think the most important lesson learned from the past was the time of reaction, which is crucial to respond to a crisis effectively. In the response to the Eurozone crisis, the main response [the ESM] was finalised after years, whereas in the response to the pandemic it was finalised within one year of the crisis outbreak. It is also clear that in comparison with the ESM, the RRF is much more supranational. So, clearly, something was also learned with respect to the governance of crisis-management and how the ESM fared in its management of the Euro Crisis. Moreover, I think Angela Merkel also realised at some point, in fact very late, what the huge consequences of a mismanagement of the COVID-19 pandemic would be, and in that sense the experience of the Euro Crisis was undeniably important.

Interview O – 20.07.2022. Legal Officer, European Commission

I: Could you identify an actor or a set of actors (i.e. Member State governments or EU institutions) who pushed for the establishment at the EU level of a new crisis-management instrument in response to the COVID-19 pandemic before the official European Commission legislative proposal of May 28th, 2020?

P: There was a Franco-German agreement in May that gave the Commission the ground to move forward with the proposal of a new crisis-management instrument as a response to COVID-19. Germany is traditionally a Member State that, whenever it comes to common fiscal *capacity, issuance of Eurobonds or anything that leads to fiscal integration, it was always opposed to. So, this was a political moment of recognition by Germany and France that something different had to be proposed with respect to the existing ESM. And it was important because it signalled that Germany and France would support the European Commission proposal in the Council. When you have support from France and Germany, it is an indication that the proposal can go forward in the Council.*

I: Could you identify an actor or a set of actors who pushed the European Commission proposal forward in the negotiating process?

P: I would say mainly Germany. I think it was beneficial to have a German presidency of the Council between July and December 2020. This greatly facilitated the process and the coordination between the different positions. Germany acted as a mediator and as a safeguard for the most reluctant Member States that this proposal [for the RRF] was not going to imply giving money for free to those mostly hit by the COVID-19 pandemic. It also helped to have a German president of the European Commission and the German presidency of the Council. Surely, having Germany as the sort of 'honest broker' in the negotiations mattered a lot, at least psychologically, to keep everyone on board.

I: Could you identify an actor or a set of actors who tried to resist/oppose such a proposal?

P: The so-called 'Frugals', including the Netherlands, Austria, Denmark and Sweden. These countries were more vocal in expressing concerns about the whole structure of the new recovery instrument. They pushed for several changes here and there, especially with respect to the size of the instrument, the balance between grants and loans and the governance. The leader of the opposing block was definitely the Netherlands.

I: What was the final compromise?

P: The final compromise was found on the size, balance between grants and loans, and governance of the instrument. On governance, the initial proposal was that the Commission would take care of everything, including the assessment of the national plans and the decision on the disbursement of financial assistance. This then changed towards the Council endorsing the Commission proposal by qualified majority following the opinion of the Economic and Financial Committee and the possible discussion by Member State governments within the European Council if asked by a member of the Economic and Financial Committee. This last aspect of the governance procedure became known as 'emergency brake', and constituted the most important compromise of the European Council meeting of July 2020.

I: Could you explain what were the options discussed and/or taken into consideration for the establishment (i.e. legal basis) and governance (i.e. inter-institutional relations) of the Recovery and Resilience Facility?

P: In terms of legal ground, we could either go the supranational or the intergovernmental way. In fact, we had a precedent. The first thing we look at in these situations is the precedent, and the precedent was the intergovernmental ESM. However, in our response to the COVID-19 pandemic, we in the Commission decided to start from scratch rather than find a solution along the lines of the ESM. So, the idea in the Commission has always been that of a regulation. The intergovernmental treaty would have taken a lot of time and would not have been the best in terms of efficiency. However, when Hungary and Poland threatened to veto the instrument over issues concerning the rule of law, then the option of an intergovernmental treaty became a viable alternative. Finally, the plan was approved with no significant legal changes with respect to the European Commission proposal for a regulation in May..

I: What factors do you believe favoured the adoption of the Recovery and Resilience Facility to address the COVID-19 pandemic?

P: First of all, the COVID-19 pandemic was very different from the Euro Crisis. There was a horizontal, symmetric shock, and it was a Union problem rather than a problem related to one single Member State that would then affect the whole Union. This time, you cold not blame any Member State specifically. So, there was the need to find a horizontal solution to a horizontal problem. So, definitely the nature of the crisis as exogenous and the effects of the crisis as symmetric rather than asymmetric helped in the definition of the instrument and its differences with the ESM.

There were specific lessons learnt from the functioning of the ESM. If you think about it, the ESM was reformed during the COVID-19 pandemic to support Member States in financial needs, but nobody activated it. Plus, there was the recognition, on the part of Germany, that things were not done properly in the management of the Eurozone crisis.

Appendix C – Codebook for Qualitative Content Analysis (QCA)

Codes	**Description**	**Coding Example**
Negotiation phases	Includes references to the different phases of negotiations based on the policy issue under discussion	
Choice of instruments	Includes references to the choice of the main instrument for crisis-management	‘Obviously, particularly in the early stages of the pandemic, there was a lot of opposition towards the idea of a new-crisis management instrument based on the emission of common debt. There was a clear, strong opposition on the part of the so-called Frugals.’
Governance	Includes references to the governance system of the crisis-management instrument under discussion	‘That was why the Commission believed that comitology constituted the best framework within which to implement the spending plans: ‘it is a good combination of national ownership and EU objectives’. Expenditure would be closely monitored and disbursements would be contingent on progress.’
Legal basis	Includes references to the legal basis of the crisis-management instrument under discussion	‘Merkel and von der Leyen agreed that Article 122 was the most relevant article for present purposes, but von der Leyen preferred Article 122.1, which was consistent with the EU’s normal procedures, while Merkel argued in favour of Article 122.2, partly because, as she observed during the meeting, paragraph 1 was linked in the Treaty itself with supply problems “in the area of energy”, whereas the present crisis had much wider ramifications, but also, one suspects, because under paragraph 2 the Council was obliged to do no more than “inform” Parliament, rather than seek its assent.’
Options	Includes references to the policy option supported by a given actor during negotiations	
Intergovernmental coordination	Includes references in support for intergovernmental coordination	‘The Frugal countries wanted the instrument to be intergovernmental, with a decision-making power for the European Council that would have implied the adoption of national plans by unanimity.’
Supranational delegation	Includes references in support for supranational delegation	‘Recalls that Parliament is the budgetary authority together with the Council; demands, in this regard, to be fully involved in the recovery instrument, in line with the Community Method.’