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Department of Political Science  
Double Degree in Policies and Governance in Europe  
Chair of EU Institutions and Decision-Making

*The European Union response to the Covid-19 pandemic: (the emergence of)  
a solidarity-based approach. An analysis of the role of Germany.*

**Prof. Tomasz P. Woźniakowski**

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SUPERVISOR

**Prof. Stefano Vella**

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CO-SUPERVISOR

**Alberto Dal Bianco**  
649972

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CANDIDATE

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## List of Abbreviations

**EC:** European Commission

**EMU:** European Monetary Union

**EU:** European Union

**MSs:** Member States

**NGEU:** Next Generation EU

**NPI:** Non-Pharmaceutical Interventions

**SDC:** Sovereign Debt Crisis

**SQP:** Status Quo Power

# *The European Union response to the Covid-19 pandemic: (the emergence of) a solidarity-based approach. An analysis of the role of Germany.*

## **Introduction**

On the 24<sup>th</sup> of January 2020, the European Union (EU) registered its first Covid-19 case in Bordeaux, France. Less than a month later, on the 21<sup>st</sup> of February, Italy reported the virus' first major European outbreak. Soon Covid was spreading to the entire continent (Sharma, 2021). In the absence of the time needed for a proper risk assessment of an unknown virus, most Member States' (MSs) national governments decided to act independently. They adopted more or less stringent lockdowns and other Non-Pharmaceutical Interventions (NPI) to curb the contagion (Agosto et al., 2021). However, it soon became apparent that these restrictions would have also produced a massive economic impact on an EU that was still recovering from the Eurozone crisis (European Commission, 2020).

After some initial hesitations (Reuters, 2020) and attempts to resort to protectionist measures (Anderson et al., 2020; Greer & de Ruijter, 2020; Simon, 2020), EU countries shifted towards a more solidarity-based approach in response to the Covid-19 pandemic, compared to the previous crises' response. In particular, it was possible to witness the design and creation of European policy instruments based on solidarity and mutual support (Echebarria Fernández, 2021), something that was not present during the other major crisis that impacted the EU: the Eurozone Sovereign Debt Crisis (SDC). A key example is Next Generation EU (NGEU), funded through the first issuance of joint public debt on such scale, the so-called Eurobonds (European Commission, 2020b; Fabbrini, 2020).

Nevertheless, not all MSs have adopted this position immediately. Drawing on a decades-long dispute, at the very outbreak of the crisis, some of them (i.e., Frugal Four) tried to blame the peripheral countries for the more significant impact they were experiencing, framing it as a direct consequence of their failure to adopt structural reforms and substantial investments in the health sector. Thus, they suggested the adoption of a response based on the existing conditionality-based support framework. Only later, things changed (Amaro, 2020).

The main objective of this dissertation is to investigate what has contributed to this shift in the approach adopted in the Covid-19 pandemic response. The aim is to comprehend

whether, how, why, and to what extent the Covid crisis, and subsequent reaction, have been different compared to the previous crises – particularly the SDC – and suggest that we moved towards a solidarity-based response. In particular, I will align with the part of the literature that believes that such a shift has been determined by the Status-Quo Power (SQP), Germany, which previously favoured and supported fiscal responsibility over the moral hazard that might come from debt mutualisation (Becker, 2022). This was illustrated by the presentation of a joint draft proposal of a 500 billion euro recovery fund presented with France on the 18<sup>th</sup> of May 2020, which would lay the foundation for the European Commission’s (EC) ‘official’ proposal of NGEU (Mallet et al., 2020).

As the deepening of European integration seems to have slowed down in the current poly-crisis context (Juncker, 2016; Zeitlin et al., 2019), it is worthwhile to look at the Covid response and how it originated to draw some possible implications for the future of the EU – and the European Monetary Union (EMU) specifically. I wish to critically engage with the existing literature to assess whether this shift could represent a ‘Hamiltonian moment’ for the EU – a critical juncture that might lead to the creation of a common fiscal capacity or fiscal union – or whether it has just been the result of temporary and extraordinary circumstances (Halász, 2022; Issing, 2020).

To this end, I will engage with the following research question:

**RQ** *What explains Germany’s shift towards a more solidarity-based approach in the European response to the Covid-19 pandemic (compared to the previous crisis responses)?*

Theoretically, this dissertation will combine liberal-intergovernmentalist and discursive preference formation theories within the traditional European solidarity/conditionality debate. By resorting to this embedded liberal-intergovernmentalist perspective, I will look at the traditional core/periphery clash over the solidarity/conditionality cleavage. My main unit of analysis will be EU MSs, institutions and policies, and – regarding domestic preferences formation – domestic electorates and commercial interest groups. Using a process-tracing methodology (Beach & Pedersen, 2019), I will conduct a qualitative analysis of German preference formation in the early months of 2020. As MSs’ national preferences are shaped by a combination of economic material interests and communicative processes of problem construction, I will hypothesise that:

*H As the German domestic commercial actors pushed for a solidarity-based EU common response to the crisis, the German government adopted such an approach and used problem construction (perception and framing) to secure public support.*

To this end, I will rely mainly on qualitative analysis drawing from the existing literature, international press, and interview and survey data such as the ‘EUI-YouGov survey on Solidarity in Europe’ (Chicchi et al., 2020).

In Chapter 1, I will frame my research by specifying its boundaries and purposes. I will outline the dissertation's theoretical framework and background, briefly synthesising the theoretical lenses adopted – mainly an embedded liberal-intergovernmentalist perspective – and the rationale for such choice. The key terms and units of analysis will be defined as well as the methods used for this research. Chapter 2 presents the traditional debate between core and peripheral countries over the tension between solidarity and conditionality/responsibility and the deepening of fiscal integration. I will pick up on the definitions from the first section to present the state of the literature on the debate in the previous stages of the European integration process. I will focus particularly on the SDC to provide meaningful parallelisms with the Covid-19 crisis (see also Buti, 2021; Talani & De Bellis, 2023; Tooze, 2018, 2021).

Then, in Chapter 3, I will move towards the Covid-19 specific case. First, I will examine the unfolding of the Covid-19 crisis in Europe, from the very outbreak of the pandemic to the adoption of NextGenerationEU. I will be primarily focusing on the initial stages to see whether there have been changes in the perception and framing at the EU and national levels and examine the evolution in MSs’ reactions and stances. I will then resort to the liberal-intergovernmentalist perspective to suggest that it has been the change in the position of Germany that, in light of its role as the leading SQP (Becker, 2022), has determined the practical shift towards solidarity. In Chapters 3 and 4 the domestic preference formation in Germany will be analysed, considering how the pandemic contributed to a change in the position of the leading socio-economic groups and German public opinion, and the rationale behind the subsequent decision of the German government to adopt such approach. Then, I will examine how Germany behaved in intergovernmental discussions and how it has been able to dictate its view to other MSs, leading to a first agreement with France in a pure power-politics fashion (Tesche, 2022). Finally, in Chapter 5, the final compromise on the design of the response instruments will be scrutinised to see how the different positions of MSs have been

incorporated. I will focus mainly on NGEU and assess the remaining conditionalities to critically evaluate the extent of the shift in the position of core countries (de la Porte & Jensen, 2021; European Council, 2020; Fabbrini, 2020).

To conclude, I will engage with the suggestions that the paradigmatic nature of the Covid-19 response could represent a ‘Hamiltonian moment’ to finally create a political/fiscal union. I will conclude that, as it also emerges from the final design of the policy-response instruments, more contingent interests have been pursued. Creating a permanent solidarity-based fiscal union is not likely, especially considering that a treaty change would be required. Indeed, the EU is still divided on this issue (Issing, 2020).

# Chapter 1 – Theoretical Framework

## *1.1 Literature Review*

Since the first major outbreak of the virus in the Italian villages of Codogno and Vo' Euganeo in February 2020 (Sharma, 2021), it soon became apparent that the Covid-19 pandemic would have represented arguably the most significant addition to the poly-crisis context that has defined the last decades of European integration (Juncker, 2016; Zeitlin et al., 2019). Unsurprisingly, the unprecedented approach adopted by the EU in its response to the pandemic has attracted the interest of numerous European Political Economy and European Integration scholars wondering how and why such a shift in the solidarity/conditionality debate took place and what impact it could possibly have on the future of the EU. In this dissertation, I will delve into this debate, suggesting that it has been the 'U-turn' of Germany (Mallet et al., 2020) to determine this move towards a more solidarity-based response.

Scholars in the social sciences have resorted to numerous disciplines and several theoretical perspectives to analyse the role of Germany in the European response to the Covid-19 pandemic and the reasons for this change. Schmidt (2020: 1184) associates Merkel's "cognitive shift" with the "political dangers of rising populist discontent," while Matthijs (2022: 21) refers to "a shift brought about by a new finance minister". Others present "policy learning" (de la Porte & Jensen, 2021: 5; Ladi & Tsarouhas, 2020: 1052), economic and "national material interests" (Crespy & Schramm, 2021; Schramm, 2021: 15), the pervasive influence of ordoliberalism (Howarth & Schild, 2021), and the risks for the integrity of the single market and EMU (Baccaro et al., 2021) as possible explanatory factors. On the other hand, some authors such as Freudlsperger and Jachtenfuchs (2021: 127) do not even witness an indication of "a fundamental shift in German preferences", while others do not expect a durable shift (Howarth & Schild, 2021: 224) or did not see a paradigmatic change (Bulmer, 2022).

In order to thoroughly analyse and critically assess the motivations behind the German position, I will engage with an analysis of its national preference formation. By bringing together two perspectives that have traditionally been represented as competing if not even contradictory (namely liberal intergovernmentalism and constructivism/discursive institutionalism) (Crespy & Schramm, 2021), I will suggest that

**H** *As the German domestic commercial actors pushed for a solidarity-based EU common response to the crisis, the German government adopted such an approach and used problem construction (perception and framing) to secure public support.*

In light of its role as SQP, I will claim that this change has subsequently informed Germany's European-level negotiations, resulting in the Franco-German joint proposal of the 18<sup>th</sup> of May 2020 (Mallet et al., 2020) and, eventually, the European Commission's 'NextGenerationEU' proposal of the 27<sup>th</sup> of May 2020 (European Commission, 2020b).

## ***1.2 Theoretical Background***

From the theoretical point of view, this dissertation combines liberal-intergovernmentalist and discursive preference formation theories within the traditional European solidarity/conditionality debate. Liberal-intergovernmentalism sees European integration as the result of the EU MSs leaders' rational choices in response to international interdependence (Moravcsik, 1998; Schimmelfennig, 2015). Accordingly, it divides the policy-making process into three key steps by combining institutionalist accounts of intergovernmental bargaining with a liberal theory of domestic preference formation (Hooghe & Marks, 2019).

- (1) Powerful interest groups shape domestic preference formation. In particular, government preferences are determined by domestic commercial and economic interests (Moravcsik, 1998; Moravcsik & Schimmelfennig, 2018).
- (2) National governments serve as aggregators and 'transmission belts' of domestic commercial actors' interests when heading to EU-level intergovernmental bargains.
- (3) Then, to further MSs' national interests – which are economic and issue-specific – European institutions and policies are created (Hooghe & Marks, 2019).

National governments are essential to this process. They put into policy the national preferences derived from national economic interest groups' demands and the country's macroeconomic stance before engaging in EU-level negotiations (Moravcsik, 1998).

Essentially, liberal-intergovernmentalism assumes that, in the EU context, national governments, as rational actors, pursue the material (economic and financial) interests of influential economic groups. When and to the extent that such groups believe that the gains from integration will outweigh the associated costs and risks, they will push the government towards deeper integration (Crespy & Schramm, 2021).



The same holds true in case of a crisis. Because the government acts as a conduit for domestic business interests, the former will modify its European strategy if the latter does so in reaction to the changed environment. Liberal-intergovernmentalism, therefore, presupposes that a state's preference change can be linked to the domestic objectives of powerful commercial interests. Thus, it is the best theory to account for Germany's essential role in the Covid-19 European response and explain its move from its traditional position (Becker, 2022).

Nevertheless, traditional accounts of liberal-intergovernmentalism present some limits in explaining how preferences are formed in EU politics, especially in the Covid-19 pandemic's case.

First, as Moravcsik (1998: 36) claims, liberal-intergovernmentalism performs better when societal interests are more "intense, certain and institutionally represented and organised" and when the costs and benefits of a particular choice are clearer. However, in the context of a crisis (defined by high degrees of threat, uncertainty and urgency), commercial actors and the public might struggle to agree on possible common positions (Boin et al., 2016).

Second, the cost-benefit calculations produced by influential domestic interest groups that inform political leaders' rational choices in intergovernmental bargains, are far from being straightforward. Particularly in the initial phases of an unfolding crisis of unprecedented magnitude (such as Covid), the policy problems and solutions were unclear and often difficult to communicate. Therefore, policymakers had to balance between the urgency to act and respond to commercial interests' demands on one side, and the need to frame and communicate the pandemic and the subsequent response in a way that would guarantee the public (and parliament) support on the other (Crespy & Schramm, 2021). In fact, as a vote-seeking and office-seeking actor, the government needs to carefully take into account the impact of public opinion (and of the parties that represent such public) when forming its preferences (Moravcsik, 1993, 2018). Thus, especially in the context of a crisis – when the government acts first, and the public only reacts to the government's choices by promoting or rejecting them – material interests cannot exist without discourses (Heermann et al., 2023).

That is why I will also introduce some accounts of constructivism, especially in relation to the national government's framing of the crisis and the public opinion's perception of it, and how these might have influenced their policy positions and preference formation (Miró, 2022). I contend that the pandemic's construction as a political issue demanding a coordinated EU response determined how the preferences of the German public shifted throughout the crucial

spring 2020 months (Crespy & Schramm, 2021). This deliberative process takes the name of problem construction. It entails how crucial political actors, such as Merkel and the German federal government, perceive (perception) and frame (framing) the events. Determining ‘what the problem is’, especially during crises, significantly impacts how various actors perceive threats and opportunities, which in turn affects their rational cost-benefit calculations about ‘what to do’ and determines their preferences (Jones, 2009).

In particular, Vivien A. Schmidt (2008: 310-313) distinguishes between two types of discourses that will come in handy when looking at how they interact with material interests in Germany’s preference formation. ‘Coordinative’ discourses refer to the collaboration of powerful domestic interests and governmental policy spheres to understand the unfolding events and formulate appropriate policy responses. On the other hand, to communicate and determine the necessity, appropriateness and legitimacy of such policies, governments engage in ‘communicative’ discourse by interacting with the broader public (and political parties that represent such public). The latter has been especially relevant in the German process of preference formation.

### ***1.3 Methodology***

As a first-stage methodology, individual qualitative case studies are still crucial to examine preference formation in a contextualised form (Kassim et al., 2020). Therefore, I will conduct a qualitative analysis of German preference development throughout the Spring of 2020 and, in more detail, between the emergence of the first Covid cases in Europe at the end of February, and May 2020, when the Commission presented its NGEU recovery instrument (with few references to the European Council discussions and adoption in July 2020).

Using a process-tracing methodology (Beach & Pedersen, 2019), I will pay close attention to the specific order of events, the positions taken by key actors (first and foremost in the German context), the pandemic’s perception, and the policy consequences of its framing (Crespy & Schramm, 2021). In fact, process tracing is the main method used in European Politics to qualitatively analyse the within-case cause-effect dynamics that lead to a specific outcome (Beach & Pedersen, 2019; Checkel, 2005). In particular, I will examine how the combination of national material interests with the perception and framing of Covid-19 as a shared threat – concerning all MSs and needing a solidarity-based response – has influenced

the German domestic preference formation process and the German government's 'U-turn' in its fiscal policy stances (Crespy & Schramm, 2021).

For this analysis, I will use different qualitative and quantitative sources including the existing scholarship, official governmental and parliamentary documents, interviews, the international press, letters and position papers of relevant German domestic actors, public speeches, as well as survey data and opinion polls. The main actors and units of analysis considered, particularly regarding domestic preference formation, are the German government, commercial interest groups, the public, and political parties. In particular, I will trace how these actors behaved and interacted in the domestic preference formation process and hypothesise that the commercial interest groups, as influential and rational actors, have been able to impose their views on the government. The latter has then, in turn, resorted to communicative strategies to frame the public perception of the crisis and of the adequate response, raising support for the commercial actors' demands. Moreover, I will also look at the other MSs and at the EU institutions to assess the construction of the crisis and the EU-level negotiations on the recovery package.

## **Chapter 2 – Solidarity/Conditionality Debate in Europe**

### ***2.1 Traditional Solidarity/Conditionality(responsibility) Debate in Europe***

The European integration process has been historically characterised by the debate between core and peripheral countries over the inherent tension between solidarity and conditionality. On one side, fiscally conservative, core, frugal, northern, saints, net-contributors countries such as Germany, Austria, the Netherlands, Denmark and Sweden, have been able to upload and maintain their regulatory and growth model to the design of the EU (and EMU particularly). These MSs, which typically adhere to budgetary restraint and embrace supply-driven growth strategies (Schimmelfennig, 2015), have historically been reticent to accept solidarity measures because of the potential free-riding and moral hazard risks (Lindner, 2022). On the other hand, peripheral, southern/eastern, sinner, and net-creditors MSs like Italy, Portugal, Greece, and Spain typically embrace demand-driven growth strategies that are supported by more expansionary fiscal policies and advocate for potential forms of debt mutualisation and policies based on solidarity (Hall, 2018).

But what can be defined as solidarity? In this dissertation, I will refer to interstate fiscal solidarity, which is defined as “financial support to another EU MS facing severe financial and economic problems” (Vasilopoulou & Talving, 2020: 926) or “citizens’ willingness to support indebted MSs financially” (Gerhards et al., 2018: 4). This subcategory of the more general concept of financial solidarity is primarily transactional, hence built on reciprocity (adopting a specific behaviour under the prospect of obtaining an equivalent treatment in the future) or enlightened self-interest (adopting a specific behaviour only if, and to the extent which, it pursues MSs’ own interests) (Porschlegel, 2021). The most significant downside of the transactional nature of interstate solidarity is that it requires national governments' desire to “act in solidarity” (Porschlegel, 2021: 12). Fortunately, in the case of Covid, MSs rapidly grasped that a cooperative economic recovery would fulfil their interests (enlightened self-interest) and that they may soon find themselves in a similar situation to the one of the most affected countries (reciprocity) (Porschlegel, 2021).

Accordingly, the Franco-German joint proposal in May 2020, and the subsequent NGEU adoption, represent an analytically significant departure from prior policy postures. Germany, in particular, had previously excluded any form of EU debt mutualisation and accepted financial transfers between MSs only in the form of loans (Crespy & Schramm, 2021). Common bonds were frowned upon in Germany and other core creditor nations as it was

thought that a system enabling larger fiscal risk-sharing would lead to moral hazard and wasteful spending (Crespy & Schramm, 2021). To prevent this, Germany and the other northern/core MSs have typically placed stringent conditionalities as a mandatory requirement for their involvement in any type of solidarity demand of southern/peripheral nations.

In this dissertation, the term conditionality refers to the approach traditionally adopted by core countries – and usually referred to as fiscal responsibility (or austerity) – which is opposite to fiscal solidarity (Lehner & Wasserfallen, 2019; Miró, 2022). This is useful when looking at NGEU’s final compromise to highlight how, despite a shift towards solidarity, significant conditionalities remain (thus not signalling a foundational and permanent shift in German and core countries’ EMU policy). In fact, there is no “solidarity without conditionality” (Lindner, 2022).

Conditionality can be defined as subordinating financial aid deliveries to national governments to specific policy requirements (Babb & Carruthers, 2008: 15). By resorting to strong conditionalities in maintaining their fiscal responsibility-based position, core countries successfully avoided large and long-term fiscal transfers to the periphery of the Union (Freudlsperger & Jachtenfuchs, 2021). As a result, rather than reducing, the imbalances and asymmetries between the core and the periphery that have defined the EU (and especially the EMU) since its foundation have increased, eventually contributing to the outbreak of the SDC (Talani, 2016). However, Covid represents a turning point in this dynamic.

## ***2.2 The Solidarity/Conditionality Debate in the Eurozone SDC***

The conventional policy-response approach used by EU MSs prior to the Covid epidemic is probably best illustrated by the Eurozone crisis. Germany and the other budgetary-disciplined countries were able to impose their conditionality/responsibility approach to the common European response. Peripheral MSs in financial distress only received conditional loans dependent on the adoption of austerity-based structural reforms and, generally speaking, the fiscal hurdles imposed on the financing of 'reckless debtor' countries were made more stringent by the hardening of EU economic governance (Dyson, 2014; Ronchi, 2021). Since the outbreak of the crisis, the initial reaction was not to intervene. After the Greek government's announcement in November 2009 that the budget deficit was expected to be more than two times higher than the previous estimates (Lane, 2012; Reuters, 2009), the emergency was framed as induced by southern MSs' fiscal profligacy (Talani, 2014). Northern countries

significantly increased profits thanks to foreign capital flooding as investors shifted to safer sovereign bonds. Nonetheless, they were hesitant to support their peripheral neighbours due to the already-mentioned risk of moral hazard (Pop, 2011).

According to Schimmelfennig (2015), the more powerful budgetary-soundness negotiating position of 'creditor' MSs surrounding Germany allowed them to shift adjustment costs to 'debtor' countries. Only when a risk of contagion in the Euro-area emerged (BenSaïda, 2018) did the Eurogroup eventually decide to intervene, albeit through intergovernmental solutions.

During the discussions on the strategy to adopt in response to the SDC, Germany systematically maintained a highly restrictive approach (Howarth & Schild, 2021). The prevalence of German preferences clearly emerges when looking at the unfolding of the events and at the policy solutions adopted, which were based on domestic commercial and material interests.

For instance, in the context of the first Greek bailout, economic interest groups like the Federation of German Industry BDI (*Bundesverband der Deutschen Industrie*) advocated for financial support for Greece to secure its export markets (Degner & Leuffen, 2020). However, they obtained that this (limited) fiscal support would only be granted in exchange for comprehensive fiscal and economic reforms. The joint European bailout scheme reflects this position. In fact, among all Eurozone MSs, Germany almost systematically took the most restrictive stance (Wasserfallen et al., 2019), supported private sector solutions and overall did “too little, too late” (Webber, 2019: 56–105).

The same applies to the creation of the European Financial Stability Facility (EFSF) and, later, the European Stability Mechanism (ESM). In 2010 (when it was still the EFSF), Germany argued for an instrument that would be only temporary and without guaranteed public debt (Gocaj & Meunier, 2013). Then, in 2011, Germany obtained it to be limited to €500bn, with strong conditionalities and governed through intergovernmental institutions (guaranteeing their veto power). Furthermore, any country would guarantee only its share of the bond issue (a limited in time and amount of emission of common debt bonds was foresaw) based on the contribution to the ECB capital. This would have resulted in just “several” rather than “joint and several” guarantees, hence limiting the ESM’s lending ability (Schelkle, 2013: 110). This reflects BDI's demands for tightening rules and conditions for ESM’s borrowing (Bruegel, 2012).

All the bail-out programmes were built on adopting a Memorandum of Understanding, which subordinated the funds' disbursement to the adoption of austerity-based fiscal reforms. These would have been monitored and assessed by the Troika (International Monetary Fund, European Commission and European Central Bank).

Germany (and the other core countries) insisted on opposing any form of fiscal solidarity that could possibly lead to any suggestions of a common fiscal capacity and exposing its domestic interests to the risk of moral hazard. Even when, in 2012, the newly formed Samaras government asked for a two-year extension to its reform roadmap, Germany framed the request as the attempt of a lazy and sinful country to obtain more money (Reuters, 2012).

The Eurozone crisis thus exposed the lack of solidarity of Germany and the other core countries (Porschlegel, 2021), strengthening the Union's internal fracture between the 'saints' and the 'sinners' (Dyson, 2014).

### ***2.3 Germany, Europe's Status-Quo Power***

As we will see in the following chapters, during the Covid-19 pandemic, not only Germany but also the other core/northern countries have shifted in their policy positions, although at different times and different degrees. At the same time, some authors argue that France, not Germany, led the decision-making process during the first months of the spring of 2020 while Germany only passively reacted to France's decisions (Howarth & Schild, 2021: 221). Then why Germany?

Due to the size of its population and economy, and its geopolitical and historical relevance, Germany's role has traditionally been considered key in the process of European Integration. In addition to the analyses related to its European policy, Germany has inspired academic debates over its role as a European hegemon. Some scholars consider Germany an ordinary EU country (Hyde-Price & Jeffery, 2001) which has a European ambition (Paterson, 2010). Others as a 'semi-Gulliver' European hegemon (Bulmer & Paterson, 1989), albeit a 'reluctant' (Bulmer & Paterson, 1989; Paterson, 2011), 'hobbled' (Webber, 2019b: 1146) or an 'embedded' (Crawford, 2007) one.

For this dissertation, I will draw from the strand of hegemonic stability theory (Donnelly, 2018; Webber, 2019a). According to this strand, the hegemon is a "primus inter pares" who "reconciles its interests with those of other states in the system" to preserve a stable political and economic international order (Webber, 2019b: 1145). When there is a financial

crisis, the dominant stabiliser's policymakers "narrate the crisis in their broad discourse and communication to the public" by drawing on their economic theories (Matthijs, 2022: 8).

In particular, Germany can be considered a peculiar example of hegemonic stabiliser. During the integration process, Germany successfully shaped the European order, institutional structures and policies in a way that supported its interests (Bulmer et al., 2000). In essence, Germany helped shape the EU to fit its needs and preferences. Thus, it obviously aims at maintaining or only slightly changing the current EU integration status-quo (Becker, 2022).

Therefore, we can use Becker's (2022) concept of Status-Quo Power to best describe the role of Germany. Conversely to hegemonic stabilisers, Germany aims to preserve, uphold, and safeguard the current order under which it acts, as it reflects its own domestic preferences and national interests. Unlike the hegemonic stabiliser, the SQP pursues a strategy characterised by rational cost-benefit comparisons with the current status-quo. Germany – as SQP – will thus only accept substantial changes if they provide cooperation gains respect to the status-quo, especially in the event of unprecedented crises that could represent a danger to the survival of the existing order (Freudlsperger & Jachtenfuchs, 2021; Howarth & Schild, 2021; Schoeller & Karlsson, 2021).

In the case of my dissertation, the focus is mainly on the fiscal dimension of the debate over the EU response to the Covid-19 pandemic. Being Germany the largest and economically dominant EU MS, as well as the biggest net-contributor to the EU budget, its dominant role as Europe's economic and political powerhouse clearly emerges. While, as some authors have suggested, it is true that Germany cannot act on its own without a coalition supporting its policy proposals (Freudlsperger & Jachtenfuchs, 2021; Zaun & Ripoll Servent, 2021), it still retains a significant veto and obstruction power. As highlighted by the corona-crisis, Germany is essential for any fundamental EU development, and no coalition can hope to achieve a majority without its support (Schild, 2020; Schimmelfennig, 2021). That is why this dissertation aims to analyse the process of German domestic preference formation to draw possible conclusions for the future of the EMU. Because it has been precisely the shift in the position of Germany, among all MSs, that has determined the shift in the overall EU approach towards solidarity.

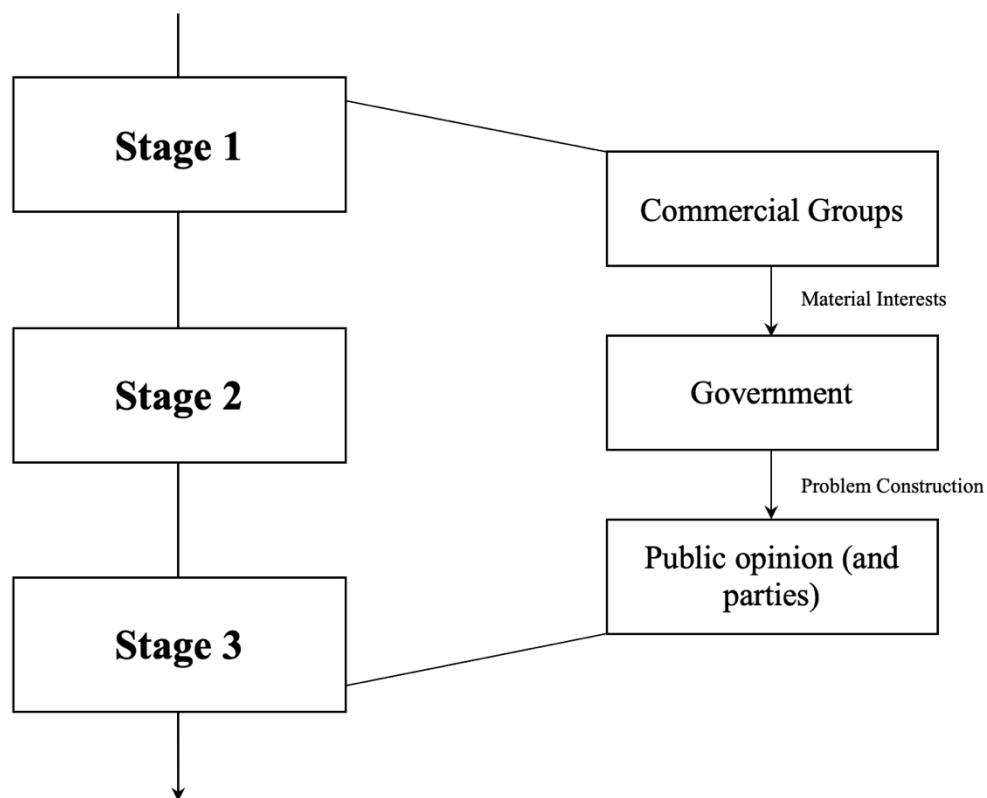


## Chapter 3 – German Domestic Preference Formation during Covid-19

To answer our research question and test our hypotheses, I will now carefully trace the unfolding of the Covid-19 crisis, looking at the evolution of the position and stances of Germany and other European countries.

I will trace German preference formation from early March 2020, when the pandemic began spreading throughout Europe after the first major outbreak in Italy, until late May 2020, when the European Commission presented its ‘NextGenerationEU’ recovery proposal built on the Franco-German joint proposal for a common EU’s financial response.

This period, which was arguably the pandemic’s most critical phase, will be divided into three main stages (see Graph 1).



**Graph 1** – *The Three Stages of German Preference Formation during the Covid-19 pandemic*  
(Source: Author’s own elaboration)

### ***Stage 1 – Among uncertainty, the traditional solidarity/conditionality divide opens up***

When Covid-19 started spreading throughout Europe in early March 2020, EU MSs decided to act independently by resorting to protectionist measures for its containment (Anderson et al., 2020; Greer & de Ruijter, 2020; Simon, 2020). For instance, Germany and other MSs decided to prohibit the export of healthcare equipment to the hardest-hit southern nations. One country after the other adopted more or less stringent solutions, closing their borders, imposing lockdowns and other NPIs to stop the contagion (Agosto et al., 2021).

However, these restrictions caused significant disruptions to the European single market's economic supply chains and labour migration, in an EU that was still recovering from the Eurozone crisis. The dramatic socioeconomic impact quickly emerged with a projected sharp decline in the growth rate and a spike in unemployment (European Commission, 2020; International Monetary Fund, 2020). Yet, apart from some relatively symbolic assistance (such as welcoming intensive care patients from the hardest-hit countries), no significant signs of European financial solidarity were displayed, even from a discursive standpoint. On March 18<sup>th</sup>, in a television address to the nation, Merkel did not once mention Europe while it was describing the corona-crisis as Germany's greatest challenge since World War II. Only two days earlier, Finance Minister Scholz even rejected conversations regarding ESM loans as “premature” and “inadequate” during EU-level negotiations (Reuters, 2020b), while Germany provided fiscal support to its national economy and citizens.

At this point, MSs governments' position on a European pandemic support mirrored their affectedness and financial condition. At the European Council on the 17<sup>th</sup> of March, the traditional solidarity/conditionality divide quickly opened up, with peripheral countries advocating for a common fiscal action, while core MSs proposed a more careful response. On one side, on the 25<sup>th</sup> of March, nine southern MSs – among them Italy and France – wrote a letter to the President of the European Council calling for the creation of ‘corona-bonds’ (Michalopoulos, 2020). On the other side, at the European Council on the 26<sup>th</sup>, northern countries vigorously dismissed such idea (Salvati, 2021; Schramm, 2021). Germany's federal government “responded with a familiar *nein*” (Hornig et al., 2020) and Merkel remained tough on the issue, saying to Italy's Prime Minister Conte: “If you wait for Corona-bonds, they will never arrive” (de Miguel & Cué, 2020). However, to respond to this perceived ‘battle

declaration' from peripheral countries, Germany timidly opened to using existing instruments such as ESM loans (Berschens et al., 2020; Khan, 2020).

The Dutch Finance Minister Wopke Hoekstra even tried to reactivate some of the specific frames adopted during precedent stages of the European Integration, particularly during the SDC, at a Eurogroup meeting in late March. He tried to attribute the scale of the crisis in Southern countries to the latter's failure to implement structural reforms and significant investments in the health sector (von der Burchard et al., 2020). However, it soon became apparent that, due to the emotive spring 2020 environment, the general perception was of an unprecedented crisis with no possible responsible to blame.

### ***Stage 2 – Commercial interests influence the government***

As infections and fatalities increased, German authorities started to talk more about the EU. Covid-19 was now framed (and perceived) as a symmetric threat demanding a coordinated response. This framing reflected domestic economic interests' position, which progressively shifted in favour of a substantial European financial response. In fact, already in the March 16<sup>th</sup> statement of the umbrella organisation BusinessEurope, BDI demanded the Council and Commission for a European recovery plan based on solidarity, allowing for ambitious fiscal stimulus coordinated between MSs and EU institutions (BusinessEurope, 2020).

In a joint article published on April 5<sup>th</sup> in the European press, Scholz and the Foreign Affairs Minister Maas advocated for coordinated EU action "in the spirit of solidarity" (Auswärtiges Amt, 2020). On the 9<sup>th</sup>, after intensifying bilateral consultations, the German government got closer to France and agreed to adopt a corona support package of €540bn for employees, businesses and health-related spending (Eurogroup, 2020).

This second-stage pandemic has fundamentally changed domestic economic groups' demands. Due to the fear of a 're-bordering' of the European single market and uncertainties regarding the Eurozone's cohesiveness and stability (Genschel & Jachtenfuchs, 2021), the pandemic was seen as a danger to Germany's economic interests by domestic commercial and business actors. Particularly, the safeguarding of supply chains, trade, and the operativity of German industry were at risk due to the prolonged free-movement restrictions (BDI, 2020). Therefore, three major business associations – the German BDI, the French MEDEF, and the Italian Confindustria – published a common policy statement on the corona-crisis' economic effects, which they believed could endanger fair competition in Europe, on May 12. A

substantial European investment “with a balanced ratio of loans and grants” was especially required by BDI, which also called for “a level of public support previously unknown in times of peace” (BDI et al., 2020; Chazan, 2020). In fact, the corona-crisis, unlike the SDC, was threatening Germany's own economic stability and export markets. According to the first estimates, German sales to fellow MSs fell by 11% in March 2020, the most significant drop in 30 years (Reuters, 2020c).

The German government’s unprecedented steps in EMU policy towards a solidarity-based approach thus reflected domestic commercial groups’ demands (Schramm, 2021), as shown by the fact that the Franco-German proposal builds upon the industry demands by providing “financial solidarity” through a “European collective response” (Macron, 2020)

### ***Stage 3 – German government’s problem construction, the key to public support***

Thanks to the repositioning of domestic economic actors and the new perception of the crisis (as an unprecedented crisis), the idea of, and the demand for, greater EU solidarity was now more present than ever in Germany’s political debate. In her speech to the Bundestag on April 23<sup>rd</sup>, Angela Merkel called for European ‘solidarity’ (particularly in financial terms) to justify the government's U-turn and raise public support, since the crisis was threatening German material interests and was now framed as “no one's fault” (Bundeskanzlerin, 2020). On the 20<sup>th</sup>, Merkel also made her first public indication that she was in favour of issuing EU bonds, provided that they remained within the bounds of the treaties and were incorporated into the EU budget (von der Burchard, 2020). As a result, by the end of April, political rhetoric and behaviour in Germany had significantly shifted. In addition to the financial worries over the unparalleled recession, perception was now crucial as the crisis was seen as symmetric and externally induced, with no one to blame. Free-riding and moral hazard arguments, which had previously dominated discussions on EU fiscal risk-sharing, were neither relevant nor used. Instead, a widespread consensus emerged in favour of a comprehensive EU fiscal stimulus among the German government, domestic economic interests, and the general public.

The Merkel administration tried to persuade domestic public opinion and political actors by framing Covid-19 as a common threat and public health emergency that required a coordinated response. German parliamentarians and the domestic electorate were sympathetic to the rationale of this communicative discourse due to the high death toll and the directly observable effects of the corona-crisis on businesses and individuals (Bremer et al., 2020). As

a result, there was no political or public recoil despite Germany's extraordinary pledge to EU fiscal policy and the breaking of its long-standing budgetary taboos on joint debt and financial transfers between MSs.

After initially finding themselves on opposing sides of this debate, since early April the Franco-German governments made the 'embedded bilateralism' that has traditionally fostered European integration work again (Krotz & Schramm, 2022). The two countries' joint proposal of the 18<sup>th</sup> of May of a €500bn recovery fund funded through common debt instruments (Bundersregierung, 2020), was welcomed across the German political spectrum. The CDU/CSU conservatives' parliamentary group endorsed the recovery fund as Merkel had reassured them that it would have been a one-time policy limited to the fight against Covid-19 and would not require Germany to take on other MSs' debt. Less than ten days later, on the 27<sup>th</sup>, the EC introduced its 'official' recovery fund proposal, NGEU, which added €250bn in loans to the Franco-German proposal. With their proposal, France and Germany gave the impending EC proposal political weight and momentum, setting the stage for intergovernmental bargains at the EU level (Krotz & Schramm, 2022).

However, although German preferences may have changed, this does not imply that the government stopped pursuing its own interests. On one side, the government perceived and constructed EU-wide coordinated and solidarity-based financial support as the most suitable and effective response in light of the nature, immediate impact, and potential consequences of Covid-19 on its national material interests. The proposed recovery fund's limitations in terms of size and duration, on the other side, reflect well-known German economic interests and EU fiscal policy stances.

## Chapter 4 – Why such shift?

### *4.1 Why such shift? An Analysis of German Preference Formation*

In Chapter 3, I traced the German preference formation process during the unfolding of the Covid crisis and confirmed that, as suggested by liberal-intergovernmentalism, the shift in the approach of the German national government has been primarily the result of domestic commercial actors' interests (Moravcsik, 1998). Due to the restrictions imposed to prevent the spread of the virus and safeguard the health and safety of European citizens, Germany, a traditionally export-driven economy with a supply-side growth strategy (Hall, 2018), has seen an 11% drop in its intra-EU exports during the pandemic first stages (the largest decline in 30 years) (Reuters, 2020c). Consequently, when the repercussions of national borders' closures on the German industry supply chains became visible, domestic commercial groups' preference for a European Response grew quickly. However, conversely to what Schramm (2021) and Crespy and Schramm (2021) have suggested, the German domestic commercial interest groups neither “jumped on the government bandwagon” (Schramm, 2021: 11) nor co-constructed or aligned their position with the government's (Crespy & Schramm, 2021). As shown by the sequencing of the events, the government did not form its position irrespectively of the German industries, which were supposedly persuaded by the government's coordinative discourses (Crespy & Schramm, 2021). On the contrary, the commercial groups, in light of the perceived threat to their material interests, started to advocate for a solidarity-based European recovery plan – encompassing ambitious fiscal stimuli coordinated between MSs and EU institutions – already on the 16<sup>th</sup> of March (BusinessEurope, 2020). At that time, the German government was still locked in its traditional responsibility-driven stance, even refusing to support the usage of existing support mechanisms (Reuters, 2020b). BDI perceived the high economic and social damage resulting from the pandemic and the lockdowns as a threat to German material interests. They advocated for a European response safeguarding the cohesiveness and stability of the EU single market and, particularly, the economic supply chains on which the German industry relies, as demonstrated by the 12<sup>th</sup> of May joint position paper presented with the French MEDEF and the Italian Confindustria.

Only afterwards, the government started to use a ‘deservingness’ communicative discourse (Alesina & Angeletos, 2005) to frame the pandemic as an exogenous common threat, aiming at the public opinion's support and legitimation for this paradigmatic shift. In fact, a national government stance cannot simply reflect its domestic interest groups' positions. It needs to raise public support to legitimise its approach. According to liberal-

intergovernmentalism, as vote-seeking and office-seeking actors, national governments require electoral support to stay in power (Moravcsik, 1993). Thus, when making their decisions they must turn to their constituencies (Iversen & Soskice, 2006). However, conversely to what Heerman et al. (2023) suggest, the German government solidarity shift is not the result of the policy corridors constraints imposed by the public and the parliament. The sequencing of the events shows that, only once the government determined its policy position based on domestic commercial interests, it resorted to discursive practices of problem construction (framing and perception) to steer the public (and the parliamentary parties that represent such public) and obtain legitimacy and support for its positions. While the impact of public opinion on the German executive's European policy choices is undeniable (Degner & Leuffen, 2016; Hager & Hilbig, 2020), in times of crisis the government acts first and the public only reacts to the government's choices by promoting or rejecting them.

In the case of Covid, problem construction was key in influencing public perception and determining its support. In fact, as the EUI-YouGov survey conducted in April 2020 (Chicchi et al., 2020) has shown, EU solidarity is issue-specific. Regardless of national differences, European solidarity is strong for exogenous shocks. More than 50% of voters in every EU country, including Germany, favour solidarity during a pandemic, even if their country is anticipated to suffer a net loss because of such solidarity (Chicchi et al., 2020). Hence, contrary to the strategies pursued to fight the Eurozone crisis, the Covid-19 pandemic recovery tools received broad support from the German population. 51% of respondents backed the joint Franco-German recovery fund plan (Hassenkamp, 2020), and the electorate of all parties (except for AfD) largely approved NGEU (Heermann et al., 2023).

The impact of the government's problem construction clearly emerges from the fact that it was able to influence the German public over an issue – the one of fiscal solidarity – that has traditionally little support among the German electorate (Freudlsperger & Jachtenfuchs, 2021). In the pandemic's early phases, in fact, prior to the communicative efforts of the government, although overwhelmingly supportive of emergency aid, only 26% of the German public supported Corona-bonds (Cicero, 2020; Koos & Leuffen, 2020).

The same dynamic applies to the German government's coalition political parties. On one side, the SPD aimed to take advantage of the corona-crisis to break existing taboos and support, over the medium term, the creation of a European fiscal union with mutual debts. On the other side, the CDU/CSU coalition initially strongly opposed the proposal. This was the result of both the traditional policy position of Merkel's party in terms of European integration

of fiscal core state powers, and the pressure coming from the right-end of the political spectrum by the Eurosceptic challenger party AfD (Meijers, 2017). Merkel's government used precisely the need of the Christian Democrats to distance themselves from AfD as a negotiating leeway. The CDU/CSU parliamentary group's sceptics could only hesitantly express their criticisms as their electorate broadly supported the proposal, and they needed to strictly distance themselves from AfD's positions (Becker, 2022). The final compromise reconciled all parties' positions by postponing far-reaching changes with a quick, one-off, debt-based and targeted recovery fund (Becker, 2022), and reflected the public's opinion, which supported Merkel's policy change.

In this way, through problem perception, problem framing and communicative discourses, the national government was able to raise public and political support for its previously inconceivable "enormous shift in principle", which reflects, safeguards, and protects, the interests of German domestic commercial actors (The Economist, 2020).

#### ***4.2 What is different from the previous crises?***

Although in the last decades the EU has been characterised by a poly-crisis context (Juncker, 2016; Zeitlin et al., 2019), Covid-19 is different from any previous crisis, even the SDC.

First, the pandemic risked disintegrating the core element around which the European integration process has developed, the European single market. As Chancellor Merkel highlighted, the extraordinary socio-economic and political impacts of the pandemic, "are the greatest challenges in the history of Europe" and pose a real danger of a possible Eurozone's breakdown and single market disintegration (Genschel & Jachtenfuchs, 2021; Merkel, 2020a). She argued that "we must not allow the pandemic to lead to a drifting apart of the economic perspectives of the EU member states and thus weaken the internal market, a core element of Europe" (Merkel, 2020b: 20639). While the threat of moral hazard has long been a major source of worry for northern MSs and their domestic economic actors, the possibility of the EU's collapse is even more concerning because it would destroy all the benefits the Union has brought about, and upon which German domestic industries have expanded.

Second, regardless of a never completely symmetric impact (in the early phases of the pandemic net-debtors were much more impacted, for instance in terms of death tolls, than net-contributors), Covid-19 was framed and internalised as an exogenous, symmetric shock (Crespy & Schramm, 2021). Even though it is true that the impact is asymmetric, such



variations are due to the inherent differences in the growth models and fiscal exposure of MSs, as well as bad luck and the unpredictability of the disease's spread patterns. It soon became clear that the negative shock was externally-induced and symmetric and that no one could reasonably be held responsible. That's why the Dutch Finance Minister Wopke Hoekstra had to publicly apologise only a few days after trying to blame peripheral countries for their hardship (Crespy & Schramm, 2021).

Being EU solidarity issue-specific, in the case of an exogenous crisis such as the pandemic, a significant majority supported solidarity-based responses (Chicchi et al., 2020). By employing a 'deservingness' rhetoric (Alesina & Angeletos, 2005) and framing the pandemic as an exogenous symmetric shock with no responsible, Merkel was able to make the domestic public (and the parliament) receptive to its communicative discourses about the need for a solidarity-based common European response. For this reason, despite the fact that this shift would break long-established taboos on joint debt and financial transfers between MSs, there was no public nor parliamentary recoil (Crespy & Schramm, 2021). As a result, the pandemic was framed and perceived as something different from anything the EU had ever faced, requiring unprecedented solutions. The extraordinary nature of this exogenous shock, however, also meant that the recovery response had to be "pandemic-focused and temporary" (Merkel, 2020a), an exceptional and one-off solution (Becker, 2022).

#### ***4.3 Status-quo in Covid***

Germany's role as SQP can explain this restrictive, hesitant and rather defensive response. Being Germany the largest and economically dominant EU MS, as well as the biggest net-contributor to the EU budget, its dominant role as Europe's economic and political powerhouse clearly emerges (Schild, 2020; Schimmelfennig, 2021). However, this role also indicates that Germany agrees to change the current EU order only reluctantly and insofar as the existence of the EU or its core elements – such as the internal market – are at risk (Becker, 2022). Therefore, Germany's 'U-turn' was primarily intended to safeguard the stability of the EU and the existing status-quo (Becker, 2022). In particular, the potential status-quo and material costs – in terms of impact on the single market and EMU – urged Germany to shift its traditional approach in response to the domestic economic interests' demands for extraordinary recovery support measures (Howarth & Schild, 2021).

However, Germany only agreed to do as much as necessary to save the EMU but as little as possible to limit changes in the existing (favourable) status-quo, only advocating for the usage of existing financial support instruments (such as the ESM) to avoid major adjustments and only after coming under the pressure of commercial interests (Becker, 2022).

## Chapter 5 – A ‘Hamiltonian’ moment?

### 5.1 NGEU, *what conditionalities remain?*

The final version of the NextGenerationEU recovery facility, approved by the European Council at the 17-21 July meeting, reflects the German shift towards a solidarity-based approach anticipated by the Franco-German joint proposal. Nevertheless, the ‘frugal four’ (Austria, Denmark, the Netherlands and Sweden), together with Finland, succeeded in maintaining some of their traditional position and watering down the proposal. As a result, NGEU’s final compromise did not come without conditionalities. Despite the German unusual role of pace-setter between core and peripheral positions (Howarth & Schild, 2021), they succeeded in averting substantial rises in the MFF and the EU budget and reducing grants’ portion from 500 to 390 billion. Furthermore, the funding will only be distributed if reforms are macroeconomically sound. This will be determined by country-specific recommendations made during the European Semester. Additionally, a grant emergency brake – that even a single MS can activate – has been added in the event of significant departures from the agreed targets and milestones (de la Porte & Jensen, 2021; European Council, 2020; Fabbrini, 2020).

Moreover, despite its extraordinary and historic support for common-debt-backed grants, Germany has been successful in limiting its liabilities and restricting the scope, volume and time frame of the recovery instrument (Becker, 2022). The instrument (extraordinary and temporary) has been integrated into the EU’s Own Resources, maintaining Germany’s veto power and avoiding the creation of a permanent ‘transfer union’ (Howarth & Schild, 2021). To prevent the mutualisation of the debt contracted by MSs, the Merkel government required that debt issuance take the form of common European debt raised through EC’s borrowing. In fact, German diplomats always stressed that Germany would not have accepted to guarantee Italian debt with its budget (Le Monde, 2020). This solution also guarantees the needed certainty and robustness to the recovery fund’s legal basis after the 5<sup>th</sup> of May’s ruling by the German Federal Constitutional Court (Bundesverfassungsgericht, 2020). In addition to the “exceptional and temporary” nature of the chosen measures (Council of the European Union, 2020: 4), in fact, the integration of the recovery instrument into the EU’s Own Resources, and its framing as adherent to the crisis situation’s special legal basis (Art.122.2 TFEU, 2012), were essential constitutional requirements for the national government success.

As common debt issuance avoids the German fear of both joint and several liabilities, the path chosen implies an equitable distribution of fiscal risks and costs at the EU level.

Germany's risk share is restricted to how much it contributes to the EU budget. By avoiding direct transfers between national budgets, the funds' inclusion into the EU budget thus minimises domestic legal and political expenses (Howarth & Schild, 2021).

## ***5.2 Can it become permanent?***

The unprecedented shift in the German approach to fiscal solidarity during the pandemic crisis has prompted academics, practitioners and observers to define the initiative as a 'Hamiltonian moment' (Halász, 2022; Issing, 2020). In particular, the German Finance Minister (and now Chancellor) Olaf Scholz first used this historical comparison with the attempt of US Treasurer Alexander Hamilton to assume national debts and issue joint bonds at the federal level after the American War of Independence (Dausend & Schieritz, 2020). In an interview with *Die Zeit* (2020), the leader of SPD used this parallelism to comment on the newly released Franco-German joint proposal, suggesting that NGEU and the recovery instruments could represent a first step towards the mutualisation of debt and the creation of a fully-fledged fiscal union at the European level.

As Issing (2020), Georgiou (2022), Crespy and Schramm (2021), and others have highlighted, the historical comparison is not well found. The US 'Hamiltonian moment' was a multifaceted, highly complex and context-specific example, which makes it difficult to apply to the current EU context, both at the institutional and political levels. However, the use of this reference as a synonym for an institutional and political-economic integration effort in the fiscal realm highlights the historical significance of NGEU and the German shift. Nonetheless, as we have seen in the previous section, the final version of the NGEU still retains significant conditionalities. To what extent can this shift thus become permanent?

On one side, some authors, who adhere to Jean Monnet's idea that crises are key in pushing Europe towards progress in integration (Issing, 2020; Jones et al., 2016), see the German support for a debt-financed and solidarity-based recovery instrument as a 'paradigmatic change' and a significant departure from Germany's traditional approach and EMU policy (de la Porte & Jensen, 2021; Schmidt, 2020; Schneider, 2023). Especially as the German 'traffic light' coalition launched in December 2021, led by the Social Democrats and Greens, might be more willing to support EU fiscal capacity building (Heidebrecht, 2020).

Conversely, in this dissertation, I align with the other side of the scholarship which instead sees a consensus in favour of continuity rather than change in the long-term German

approach. Accordingly, although they represent a significant ‘U-turn’ from the traditional examples, NGEU and the German pandemic-response approach are only an unavoidable one-off emergency measure to which Germany agreed only when the very existence of the internal market (and its domestic status-quo and material interests) were at risk (Heermann et al., 2023; Howarth & Schild, 2021; Schoeller & Karlsson, 2021). There is no evidence of a lasting foundational shift in German policy preferences regarding fiscal integration and redistribution in the Eurozone. Apparently conflicting evidence, such as NGEU and the Franco-German proposal, can be rationalised as a temporary and contingent reaction to unforeseeable external shocks (Freudlsperger & Jachtenfuchs, 2021; Schoeller & Heidebrecht, 2023). The initiative's debt-financed grant component is rooted in response to the most significant economic crisis since WWII, which was framed and perceived as symmetric and triggered by a natural catastrophe rather than moral hazard. The European Council's conclusions reflect this position: “Given that NGEU is an exceptional response to those temporary but extreme circumstances, the powers granted to the Commission to borrow are clearly limited in size, duration and scope” (European Council, 2020).

The German government was even able to restrict the use of the recovery fund to the containment of the socio-economic consequences of Covid and to investments in common EU objectives such as the European New Green Deal and digitisation (Becker, 2022).

Portraying this as a stride towards a 'transfer union' or an acknowledgement of such by Germany would be problematic as this is not a substantial policy change of the established foundational German preferences on EU fiscal capacity building. In fact, Germany only agreed to do as much as necessary to save the EMU but as little as possible to limit changes in the existing (favourable) status quo by strictly avoiding unlimited and unconditional European financial assistance that could represent an advancement towards a permanent ‘transfer union’ or mutualised debt (Howarth & Schild, 2021).

Therefore, despite the German shift towards a solidarity-based approach in response to the Covid-19 pandemic, the remaining conditionalities and the exceptional and temporary nature of the adopted instruments suggest that this shift will not be permanent. Hence, the NGEU will not push the EU towards a fiscal union in the short term, especially as this would require a treaty change at the EU level, and a constitutional change in the SQP, Germany. As Europe's dominant SQP, in fact, it is less costly for Germany to adopt temporary ad hoc firefighting when and to the extent that a crisis threatens the single market and the existing status quo than agreeing to permanent fiscal redistribution. Until a crisis hits, the other MSs

are left to deal with fiscal constraints and macroeconomic imbalances on their own. Enderlein and Guttenberg (2020) have called this German strategy for the EMU governance ‘federalism by exception’. As this ad hoc response strategy suits the interests of the most powerful country, more integration in the fiscal realm remains unlikely (Schoeller & Heidebrecht, 2023).

## Conclusion

After the marathon 17-20 July 2020 European Council, the European Union MSs finally agreed on the adoption of a Recovery Instrument (NextGeneration EU) worth 750 billion euro to counteract and mitigate the exceptional and unprecedented consequences of the Covid-19 pandemic. This largely grant-based instrument, funded by common debt raised by the European Commission, represents a significant departure from the traditional conditionality-based approach and austerity-driven responses that MSs agreed upon in response to previous crises (i.e., the Eurozone SDC). The German national government, in particular, after an initial attempt to resort to the traditional responsibility framing and after suggesting the use of existing instruments such as the ESM, shifted from its traditional stances and acted for the first time as a promoter of financial solidarity and fiscal capacity-building.

By adopting a process-tracing methodology, I analysed the unfolding of the EU pandemic response in the key initial stages from March 2020 (when Covid began spreading in the EU) to May 2020, when the European Commission presented its NGEU recovery instrument proposal based on the Franco-German proposal presented just a week earlier.

Drawing from Becker's concept of Status-Quo Power, I confirmed that the shift towards a solidarity-based approach has been possible thanks to the mutated position of the SQP, Germany, which previously favoured and supported fiscal responsibility over the moral hazard that might come from debt mutualisation (Becker, 2022). Being Germany the largest and economically dominant EU MS, as well as the biggest net-contributor to the EU budget, it has been precisely its shift, among all MSs, that has determined the shift in the overall EU approach towards solidarity (Schild, 2020; Schimmelfennig, 2021). Germany, which has historically been able to successfully shape the European order, institutions and policies according to its national interests, aims at safeguarding, protecting and preserving such status-quo. Hence, the German 'U-turn' in the pandemic response's context has been the response to a fundamental crisis that could result in a significant threat to the existence of the current order. The perceived potential status-quo and material costs – in terms of impact on the single market and the EMU – urged Germany to adopt unprecedented recovery support measures to accommodate domestic economic interests' demands.

In particular, I adopted an embedded liberal-intergovernmentalist perspective, which combines liberal-intergovernmentalist and discursive preference formation theories within the traditional European solidarity/conditionality debate. By relying mainly on qualitative analyses

drawn from the existing literature, international press, and interview and survey data, I confirmed that **(H)** *coming under pressure from domestic commercial actors' demands for a solidarity-based response to the crisis, the German government adopted such approach and used problem construction to secure public support*. Powerful domestic commercial interests were very vocal and influential in demanding a common European response to the German national government to safeguard their material interests. In fact, due to the restrictions, German intra-EU exports to fellow MSs in the first stages of the pandemic experienced an 11% drop, the largest decline in 30 years (Reuters, 2020c). Meanwhile, the German government, through both coordinative and communicative discourses, has been able to frame the pandemic as an exogenous symmetric shock. The public perception of Covid-19 as a public health emergency requiring a common European response gave legitimacy and support to Merkel's U-turn. As a result, more than 50% of the German electorate supported a solidarity-based response (Chicchi et al., 2020), with 51% being in favour of the Franco-German joint proposal (Hassenkamp, 2020). In this way, through problem perception, problem framing and communicative discourses, the national government was able to obtain public and political support for its previously inconceivable "enormous shift in principle", which reflects, safeguards, and protects the interests of German domestic commercial actors (The Economist, 2020). Therefore, discourse and material interests were intertwined, with problem construction underlining and raising support for economic concerns (Crespy & Schramm, 2021).

However, the German framing of the pandemic as an extraordinary and unprecedented crisis, also meant that the shift towards a solidarity-based response had to be an exceptional, "pandemic-focused and temporary", one-off solution (Merkel, 2020a). Therefore, in contrast with Scholz's comparison of the recovery instrument with a 'Hamiltonian moment', I contend that this change does not signal a long-lasting shift in favour of the creation of, and the German support for, a fully-fledged transfer union. In line with its role of SQP, in fact, Germany has shifted its approach only as the economic impact of the pandemic was threatening the very existence of the EU's internal market and existing status-quo (as well as its own domestic and national material interest). Regardless of NGEU's historical significance, the remaining conditionalities and the exceptional and temporary nature of the adopted instruments suggest that this shift will not be permanent, especially as this would require a treaty change at the EU level, and a constitutional change in the SQP, Germany.

To conclude, as the European integration process appears to have set back in the current poly-crisis context, it was essential to thoroughly understand how, why, and to what extent, the



shift towards a solidarity-based approach has taken place, to draw possible conclusions for the future of EMU and fiscal integration. The analysis of German domestic preference formation, problem construction, and international stance, during the first stages of the Covid-19 pandemic, served precisely this purpose.

Although I believe that NGEU will not translate into a permanent shift towards fiscal integration, it is also true that once a taboo has been broken, it is easier to resort to the same solution in the future if needed (Buti, 2023). Therefore, the recovery experience will determine whether this instrument could represent a critical juncture in the EU's socio-economic governance. Future research should thus carefully evaluate the evolution of the recovery experience, especially in the mutated context with surging inflation and the war in Ukraine. Whether this new environment will increase the economic and political costs of supporting fiscal solidarity or create a favourable environment for EU's crisis-induced state-building is up for discussion.

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