The option of last resort: Analysing the German preference shift on the European recovery fund in the COVID-19 pandemic

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Abstract

Despite its long-held preference against EU-wide fiscal burden-sharing, the German government changed course in the context of the COVID-19 pandemic by supporting the creation of a European recovery fund. To explain the German government's fiscal policy U-turn, this article carries out a process-tracing analysis of the German government's preference shift from February to May 2020. It finds that the German government's support for EU-wide fiscal burden-sharing during the Corona pandemic resulted from two endogenous mechanisms of preference change: First, in the face of insufficient EU capacities, the German government supported a joint European fiscal response to avoid the 'common bad' of a large-scale economic contraction throughout the EU. Second, the framing of the crisis as a natural disaster that was nobody's fault rendered calls for EU-wide solidarity through fiscal burden-sharing increasingly uncontested. Consequently, the German government accepted a fiscal response that entailed a burden-sharing component. The paper contributes to the growing literature on fiscal burden-sharing in the EU by showing how material and ideational processes interact and complement each other to explain member state preferences in times of crisis.

Keywords: European integration, Corona crisis, Next Generation EU, burden-sharing, interdependence, framing

1 Introduction: The Berlin-puzzle

On May 18, 2020, Germany's Chancellor Angela Merkel surprised policymakers and observers alike. Together with France's President Emmanuel Macron, Merkel called to set up an EU-wide recovery package to help member states to offset the socio-economic damages caused by the Corona pandemic. The Franco-German initiative envisioned the creation of a debt-financed and grants-based fund amounting to €500 billion administered by the Commission, which would be tasked with borrowing capital on financial markets. This initiative provided a breakthrough for what would subsequently become Next Generation EU (NGEU), a comprehensive spending package, which contains €390 billion in grants and €360 billion in loans. NGEU marks a significant break with the austerity-based EU response to the Euro crisis, which was championed by the German government at the time.

The German government's support for such an ambitious fiscal instrument is puzzling to say the least. For decades, German governments have projected their 'ordoliberal tradition and stability culture' (Matthijs and McNamara 2015: 234) on the EU's economic and monetary integration agenda. During the Euro crisis, Germany was among the first governments to rule out joint debt instruments, such as Eurobonds. Instead, the German government insisted that loan-based financial assistance had to be conditional on austerity and structural reform programs in debt-ridden Eurozone countries. Chancellor Merkel and Germany's finance minister Wolfgang Schäuble both stressed in 2012 that there would be no Eurobonds and thus no joint debt instrument during their lifetimes. Angela Merkel's volte-face in the context of the Corona pandemic is thus ever more remarkable. Only weeks before the Franco-German announcement on the fiscally ambitious recovery fund, the German government had still sided with like-minded, fiscally conservative member states, the so-called 'frugal four', who opposed an EU-wide grant-based fiscal stimulus package (Fleming et al. 2020). What, then, explains Germany's fiscal policy U-turn in the EU against the backdrop of the Corona pandemic?

We argue that the German government's support for EU-wide fiscal burden-sharing in the context of the Corona pandemic results from two endogenous mechanisms of preference change. First, against the backdrop of a looming pan-European recession and socio-economic crisis, existing EU policy measures proved inadequate to muster an effective crisis response. The German government thus came to support an EU-wide fiscal response to avoid a 'common bad.' Second, to explain why the German government accepted a fiscal response that entailed a burden-sharing component, what it had ruled out categorically during the Euro crisis, we focus on the framing of the Corona pandemic as a natural disaster – a crisis that was no one's fault –, which rendered calls for EU-wide solidarity through fiscal burden-sharing increasingly uncontested. Taken together, the first of the two mechanisms explains why the German government supported a bold fiscal response (because of negative interdependence and insufficient EU capacities); the second mechanism explains why the

German government supported fiscal burden-sharing as part of this fiscal response (because of the uncontested 'European solidarity' frame). Our analysis also allows us to identify important similarities and differences with the German government's response to the Euro crisis. In both crises, the German government supported EU-wide fiscal measures to overcome negative interdependence and deficient EU capacities. Yet, during the Euro crisis the government did not become tired of citing fiscal profligacy and economic mismanagement as the main sources of the crisis and was adamant that the countries hit hardest by the crisis had only themselves to blame (Matthijs and McNamara 2015). During the Euro crisis, crisis frames remained vigorously contested amongst the states calling for fiscal burden-sharing and European solidarity and those claiming national responsibility and opposing fiscal burden-sharing. In the course of the Corona crisis, in contrast, national responsibility-frames – arguments blaming member states for their own shortcomings – became increasingly untenable. Actors supporting joint debt argued that since the crisis affected everyone and was nobody's fault, an EU-wide display of financial solidarity was the only appropriate course of action. While the German government changed course to act in line with the EU solidarity frame during the Corona pandemic, it did not change its underlying preferences for fiscally conservative policies in the EU.

This paper contributes to the growing literature on fiscal burden-sharing in the EU in times of crisis. We can distinguish two main strands in this literature. One strand, which draws on liberal intergovernmentalist premises, focuses on EU member states' economic interests and argues that preferences for burden-sharing relate to a state's position in patterns of international economic interdependence. States that are either less affected by a crisis or possess the resources to deal with it unilaterally lack an incentive for joint action. By contrast, states that are more affected and less able to deal with the crisis' negative externalities are more likely to promote a multilateral response (Schimmelfennig 2018: 973). During the Euro crisis, for instance, fiscally challenged states that were in a debtor position had a strong incentive to demand fiscal burden-sharing, while creditor states, less affected by the crisis, preferred austerity (Schimmelfennig 2015; Biermann et al. 2019). Germany – a creditor state – possessed a better fiscal position and hence favoured a fiscally conservative European response (as much as was needed to avoid the breakdown of the Eurozone). Debtor states, by contrast, called for more extensive joint European action, among others through the introduction of Eurobonds. In the context of the Corona pandemic, the German government's preferences for a tight European fiscal policy seemed to have remained largely intact (Schramm 2021) as it (initially) belonged clearly in the camp that opposed fiscal burden-sharing (Krotz and Schramm 2021). The German government only came to support a fiscally more ambitious response as the Corona pandemic unfolded, since it was considered to incur enormous economic damage domestically: 'its high level of fiscal (and political) interdependence made a common crisis response necessary' (Schramm 2021: 15). What seems striking from this perspective, though, is the rapidity with which the government changed its (economic)

assessment and course in the spring of 2020, at a time when the vast majority of potentially affected domestic economic interest groups was vocally sceptic of fiscal burden-sharing measures. Was Chancellor Merkel's fiscal policy U-turn then simply the consequence of the government's assessment that Germany's economic environment was taking a turn for the worse?

Another strand of literature highlights that states' preferences for EU-wide fiscal burden-sharing are shaped by economic ideas held by domestic and transnational political and economic elites (Blyth 2011; Matthijs 2015; Matthijs and McNamara 2015). According to this perspective, 'ideational power' (Carstensen and Schmidt 2018) – not positional or material attributes – is constitutive for actors' preferences. In the context of the Euro crisis, for instance, economic ideas were widely employed to (de-)legitimize fiscal risk-sharing proposals, exemplified in the 'Northern saints' versus 'Southern sinners' metaphor (Matthijs and McNamara 2015). Matthijs (2015) argues, for instance, that the power intrinsic to ideas can even lead to material self-harm: By clinging to its ordoliberal creed the German government actually exacerbated the Euro crisis. If we conceive of economic preferences shaped by deeply entrenched and institutionalized economic ideas, explaining the German government's fiscal burden-sharing U-turn during the Corona pandemic is puzzling, to say the least. Ideas do not change overnight and neither does the domestic coalition supportive of ordoliberal ideas suddenly disappear. Could new or alternative ideas have come to the fore? Genschel and Jachtenfuchs (2021) argue that, unlike in the Euro crisis, the Corona crisis paved the way towards fiscal risk-sharing because the idea of solidarity was effectively 'debordered' from its national container: Unlike in the Euro crisis, transnational solidarity with fellow Europeans became a widely supported and legitimate idea in the context of the Corona pandemic. But why? And did the notion of transnational solidarity overwrite or side-line the ordoliberal policy consensus?

Both strands of literature thus offer only partial accounts for the German government's fiscal policy U-turn during the Corona pandemic. Interdependence- and material interest-based explanations about preference formation and change can plausibly explain why governments demanded a joint EU-wide response to the Corona pandemic. Yet, the particular design of that fiscal policy response remains elusive. Ideational accounts, by contrast, fail to explain why and how – in the context of the Corona pandemic – the notion of transnational solidarity became influential so as to override the German government's long-held opposition to fiscal burden-sharing. Most recently, Crespy and Schramm (2021) have argued that an explanation for why the German government broke the 'budgetary taboo' has to take into account material interests and crisis discourse since both are 'co-constructed' and 'intertwined' (Crespy and Schramm 2021: 6). Yet, the thrust of their argument suggests that in times of existential crisis, such as the Corona pandemic, crisis perceptions and framing (cognitive and ideational factors) causally precede material considerations, that is, they render material interests intelligible. Our argument differs. First, we highlight how both material and non-material mechanisms

influence the German government's Corona crisis response. Material factors thus exercise causal force in their own right, as do non-material factors. Second, by drawing on comparisons between the Corona crisis and the Euro crisis, we can actually demonstrate that crisis perceptions and frames can influence preference formation processes *under certain conditions*. When framing contests remain unresolved, as in the Euro crisis, governments are unlikely to change their preferences, but stick to their preferred crisis framing. When a dominant frame emerges, however, governments are more likely to shift their preferences in the direction of the dominant frame. Moreover, framing success crucially depends on the nature of the crisis, and is hence endogenous to the crisis. Our article thus offers both, an explanation for the 'Berlin puzzle' and it contributes to theory-building by exploring when and how crisis framing contests affect processes of preference formation.

2 Theory: Endogenous interdependence, crisis framing and burden-sharing

To explain why the German government came out in support of fiscal burden-sharing in the context of the Corona pandemic, we need to take a closer look at the process of preference formation in times of crisis. We draw on work on the Euro crisis to shed light on different mechanisms of preference formation in order to unpack the German government's preferences in the context of the Corona crisis.

Endogenous interdependence: avoiding a replay of the Euro crisis

International interdependence is the main driving force behind EU integration in two of the main integration theories, liberal intergovernmentalism and supranationalism. To reap the benefits of transnational exchanges, such as cross-border trade and investment, or to avoid negative policy externalities, e.g. through regulatory dumping, states engage in policy coordination. The more dependent a state is on other states to obtain its desired policies or to avoid undesired policies, the stronger the demand for policy coordination. In short, interdependence affects integration preferences. Consequently, when levels of interdependence change, so do states' integration preferences (see Leuffen et al. 2022: 11–13). Integration theories differ in the analytical status they ascribe to interdependence. For liberal intergovernmentalism, changes in interdependence result from exogenous shocks and trends (Moravcsik 1998); for supranationalism, changes in interdependence are endogenous to prior steps of integration (see, for instance, Stone Sweet and Sandholtz 1997). This is because international dependence triggers processes of self-reinforcement (Pierson 1996) or 'spillover' (Haas 1968), which breed further integration. As integration progresses, international interdependence increases and '[i]ntegration preferences become more endogenous.' (Leuffen et al. 2022: 398)

The argument about the endogenous quality of integration preferences has been demonstrated in the context of the Euro crisis. Research on the Euro crisis has shown that the Euro and its flanking policies created endogenous interdependence, which rendered certain policy options, such as renationalizing monetary policy and abandoning the common currency, too risky and costly for states to entertain. Keeping the Euro was thus a policy preference that all Eurozone members shared because of the joint desire to avoid a 'common bad'. Avoiding negative interdependence – the breakdown of the Eurozone – made governments that initially opposed fiscal integration give in to more centralized fiscal policy measures as well as more centralized financial market and banking regulations (Schimmelfennig 2014; Jones et al. 2016).

We expect the Corona pandemic to unleash endogenous, path-dependent preference-formation processes of a similar kind. To the extent that EU member states do not possess the economic and fiscal capacities to unilaterally cope with the economic consequences of the pandemic, they will have to turn to existing EU policy instruments to avoid negative externalities, such as the contraction of cross-border trade, private and corporate solvency problems, another banking crisis and spiralling public debt. The Euro crisis has given rise to unprecedented fiscal and financial integration because of the deficiencies of existing EU policies: the Eurozone has 'failed forward' (Jones et al. 2016). Yet, fiscal integration remains partial and contested. The ECB's bond-buying programmes, which it introduced in the wake of the Euro crisis, are subject to political and legal challenges. Likewise, issuing common European debt continued to be anathema as the Euro crisis gradually abated. Yet, the Euro crisis example shows that unless the member states were ready to risk a systemic challenge – the breakdown of the Euro – they had to advance supranational integration in another area to stabilize the system – by moving ahead with fiscal policy integration. Drawing on neofunctionalism, we would thus expect that when confronted with a systemic crisis, member states are likely to take the less costly option and advance integration to mitigate negative interdependence. Consequently, member states, such as Germany, that initially insisted on limited (fiscal) integration during the Euro crisis may feel compelled to advance fiscal integration to the extent that they deem existing levels of integration deficient in the context of the Corona pandemic. The argument about endogenous preference formation in the Corona pandemic can help us explain why governments opposed to fiscal integration would eventually acquiesce to demands for fiscal assistance. It does not, however, help us to explain why the member states agreed on issuing common debt and introducing over €300 billion worth of grants, alongside loans that would have to be paid back eventually. To answer this question, we need to look at a second mechanism of endogenous preference-formation, one that is ideational rather than material: crisis framing.

Crises as framing contests: national responsibility or European solidarity?

Crises are highly disruptive events. They can unleash negative interdependence, calling into question the problem-solving capacity of a polity. Moreover, their distributive implications tend to be asymmetric since not everyone is equally affected. How should the uneven crisis affectedness of the community's members be addressed? An answer to this question inevitably requires guidance from social norms and values shared by those affected by the crisis: Who deserves our solidarity? What does solidarity entail in this context? Crises thus render community values salient and can even 'constitute urgent threats to core community values' (Boin et al. 2009: 83–84). During the Euro crisis, *solidarity* became a widely debated and hotly contested value amongst and within EU member states: To whom should it apply? How should it be practiced (Genschel and Hemerijck 2018; Wallaschek 2020; Hobbach 2021)? Several, mainly 'Southern' EU member state governments insisted that a break-up of the Eurozone could be best prevented by a show of transnational, European solidarity, practiced by fiscal risk-sharing. Addressing the root causes of the crisis and finding solutions were portrayed as a European responsibility that required European solidarity. Other, mainly 'Northern' governments counter-claimed that one of the key problems that led to the crisis in the first place was fiscally irresponsible behaviour on the part of indebted ('Southern') member states, which required fiscal prudence and domestic reforms rather than solidarity defined as transnational risk-sharing. Their emphasis thus lay on states assuming national responsibility before they can demand European solidarity. In sum, all governments were in agreement that solidarity was an important value to uphold, especially in such taxing times, yet there was strong disagreement across member states about what solidarity entailed.

When does disagreement prevail and when can it be overcome? To answer this question, the public framing of a crisis is a crucial factor. Crises are public 'framing contests' (Boin et al. 2009). To frame a problem or crisis is 'to promote a particular problem definition, causal interpretation, moral evaluation, and/or treatment recommendation' (Entman 1993: 52). One crucial aspect of political framing contests in times of crisis revolves around the question of responsibility: *Who* is responsible and hence to blame for a policy failure? *Why* did the failure come about? *How* can it be redressed? Returning to the Euro crisis, the proponents of the 'European solidarity' frame and those of the 'national responsibility' frame both appealed to solidarity but came to very different conclusions about what solidarity entailed. For supporters of the national responsibility frame, European solidarity had to be earned by those demanding it, for instance, through a policy of privileging structural fiscal and economic reforms. For supporters of the European solidarity frame, solidarity should be unconditional since demanding (or rather imposing) austerity for solidarity did nothing to address the root causes of the crisis (see Matthijs and McNamara 2015; Matthijs 2016; Wallaschek 2020). Solidarity frames remained politically contested throughout the Euro crisis. Absent a dominant solidarity frame – one that could have enjoyed high and widespread legitimacy among the community's members – the

compliance-pull of calls for or against fiscal solidarity and risk-sharing remained weak. If there is no community-wide agreed-upon understanding of who deserves fiscal solidarity – if no frame wins the framing contest – social mechanisms of enforcement, such as shaming and shunning, are bound to fail (see Schimmelfennig 2003; Rittberger and Schimmelfennig 2006). Under such conditions, framing contests come to be reflections of states' material power resources and hence of asymmetric interdependence, defined by factors such as relative fiscal prowess, as well as financial and economic vulnerability. In the Euro crisis, then, proponents of European solidarity lost out against demands for austerity policies, as propagated by the proponents of the national responsibility frame (Schimmelfennig 2015).

Like in the Euro crisis, the question of European solidarity through fiscal risk-sharing became a central theme during the Corona pandemic. With the pandemic's social and economic effects reverberating across the Union, demands for EU-sponsored financial support were voiced, in particular by the member states hit hardest by the socio-economic consequences of the pandemic. As was the case in the Euro crisis, fiscal risk-sharing and the meaning of solidarity were hotly contested: Among the opponents of a fiscal risk-sharing policy and proponents of a national responsibility frame, the so-called 'frugal four' (the governments of Austria, Denmark, the Netherlands and Sweden) were the most vocal. This initially included the German government. Supporters of a European solidarity frame, which included France as well as several Southern and East European member states, propagated a European recovery fund, which included a strong element of fiscal risk-sharing through debt mutualization.

We argue that the key difference between the framing contests in the Euro and Corona crisis relates to the different 'causal frames' (Boin et al. 2009) that underpin both, the European solidarity and national responsibility frames. The question of who can claim fiscal solidarity is answered differently by proponents of each frame because of different causal interpretations of the crisis: Proponents of the national responsibility frame emphasize that crisis-induced domestic fiscal and economic challenges should not be redressed through fiscal risk-sharing, but through fiscal and economic reforms. EU-wide pooling of fiscal risks only breeds moral hazard (Genschel and Hemerijck 2018: 3–4). This rationale rests on a 'causal frame' (Boin et al. 2009: 87), which purports that fiscal and economic hardship is caused by bad policies and is thus *endogenous*. According to the national responsibility frame, the actions leading to socio-economic hardship are portrayed as controllable, which puts the brunt of responsibility on domestic policymakers. Following this logic, fiscal solidarity would reward fiscally irresponsible behaviour and is therefore considered counterproductive. By contrast, proponents of the European solidarity frame emphasize *exogenous* crisis sources, such as actions of outside groups or uncontrollable forces (Boin et al. 2009: 87). During the Euro crisis, indebted countries pointed to uncontrollable forces, such as the institutional design flaws of EMU, and outside groups,

such as irresponsible bankers. Calls for transnational fiscal solidarity were thus justified by externalizing the responsibility for the crisis and its consequences.

The distinction between frames that emphasize endogenous or exogenous causes of a crisis should be crucial to explain why, in the course of the Corona pandemic, proponents of the national responsibility frame, which initially included the German government, eventually succumbed to accept fiscal solidarity, the central demand of the supporters of the European solidarity frame. To the extent that the Corona pandemic could be effectively framed as an unforeseeable and uncontrollable event, it would fall into the same category as a natural disaster or any accident with an exogenous cause. From this purview, the social and economic hardship that is brought about by the pandemic and mitigating measures, such as lockdowns and various other restrictions, is not the result of bad policies. It rather follows a causal narrative that stipulates 'yes, this is big, bad and urgent, but this is not our doing; all of us need to unite to cope with this unfortunate tragedy.' (Boin et al. 2009: 88) A crisis that can be framed as accidental should thus be 'an easy issue for European solidarity because such disasters have exogenous causes' (Genschel and Hemereijck 2018: 4). Withholding fiscal solidarity from those most affected by an accidental crisis lack a justificatory basis because allegations about moral hazard are no longer tenable. Framing the Corona pandemic as accidental, as a natural disaster should thus be conducive to a display of European solidarity. Moreover, highlighting the 'one-off' character of such types of disasters should render European solidarity more likely, because it eases concerns about long-term financial commitments (Genschel and Hemereijck 2018: 4).

Crisis framing, then, constitutes a second, *ideational* mechanism of endogenous preference-formation. The mechanism is ideational because it delineates how the construction of a dominant frame – the European solidarity frame in the case of the Corona pandemic – legitimizes a particular understanding of solidarity that foresees substantive burden-sharing and delegitimizes the notion of solidarity underpinning the national responsibility frame. The demand for unconditional solidarity does not only render financial aid imperative, it also makes it highly plausible, if not compelling, that fiscal aid is granted unconditionally, e.g. through grants, rather than loans. Taken together, the two mechanisms about endogenous preference formation – one material and one ideational – should help us explain the 'Berlin puzzle'.

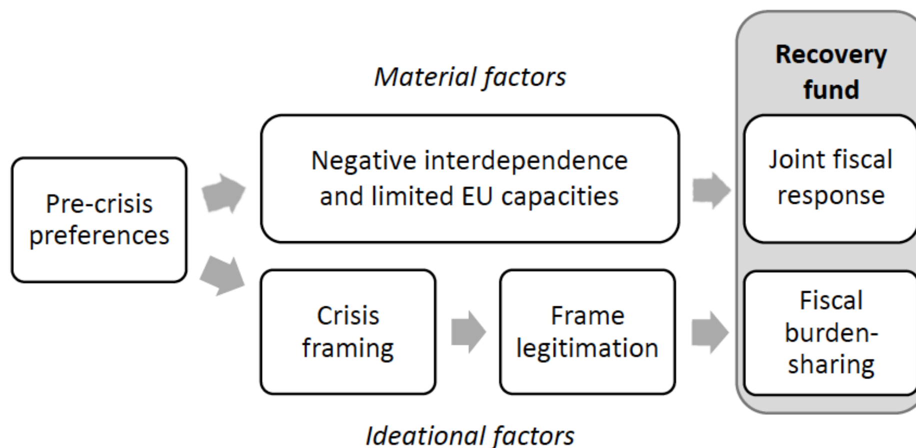

Figure 1 Endogenous preference-formation in times of crisis

3 Analysis: Why Germany supported the European recovery fund

In the following, we conduct a process-tracing analysis to explore the two mechanisms of endogenous preference formation of the German government's fiscal response to the COVID-19 pandemic. Process-tracing is particularly well-suited to analyse the German government's change of preference as it allows for within-case inferences about the presence or absence of causal mechanisms in single case studies (Bennett and Checkel 2014: 4). By closely tracking the change of the German government's preferences over time, it reveals the sequences and mechanisms that caused Germany to propose the Corona recovery fund. To probe the causal mechanisms, the article employs different sources. First, we analyse the information gained in nine semi-structured interviews held between April and June 2021.[1] The interviewees were selected to represent a wide range of policymakers from both German and European institutions. On the national level, interviews were conducted with public officials from the German Federal Chancellery, the Finance Ministry, and the Bundestag. On the European level, interviewees included officials from the Commission and European Parliament (EP). To obtain candid accounts, interviewees were guaranteed confidentiality. We triangulate the evidence gained from the interviews with information drawn from official policy documents, speeches and news sources.

In the following, we will demonstrate that the German government's support for the Corona recovery fund can be explained by the two causal mechanisms formulated in the preceding section. The empirical analysis will be organized along the two sequences of endogenous preference-formation. Tables 1a and 1b provide a summary overview of the two causal mechanisms as well as of the observable implications of the two mechanisms.

[1] The authors are happy to make the interview transcripts available upon request.

Table 1a Endogenous preference formation I: negative interdependence and spillover

Causal chain	*Pre-crisis preferences*	*Negative interdependence and limited EU capacities*	*Joint fiscal response*
Conceptualization	Governments hold initial preferences about fiscal integration in the EU	Joint member state preference to avoid ‘common (economic) bad’ and realization that EU fiscal capacities are insufficient	Member states support a joint fiscal response
Observable implications	German government initially opposed to advance fiscal integration beyond the status quo	German governments fears crisis repercussions on domestic economy & sees necessity to activate EU-wide response	German government supports joint policy measures, including more fiscal integration

Table 1b Endogenous preference formation II: crisis framing and legitimation

Causal chain	*Pre-crisis preferences*	*Crisis framing*	*Frame legitimation*	*Fiscal burden-sharing*
Conceptualization	Governments hold initial preferences about fiscal burden-sharing in the EU	Framing contest about the nature the crisis: is the crisis endogenous or exogenous?	Frame predominance through inter-subjective agreement about nature of crisis	Member states support fiscal burden-sharing measures
Observable implications	German government initially opposed to fiscal burden-sharing measures in the EU	European solidarity and national responsibility frames reflect government’s underlying preferences for/against fiscal burden-sharing	European solidarity-frame becomes predominant frame. German government shows growing support or remains silent	German government supports burden-sharing measures; highlights their temporary nature

3.1 From pre-crisis preferences to a joint fiscal response

Pre-crisis preferences: a unilateral fiscal response is viable

In the spring of 2020, the quick spreading of the Coronavirus throughout Europe caught health systems and policymakers off guard. Health measures and lockdowns resulted in an economic slowdown across the EU, affecting cross-border trade, supply chains, labour migration as well as depressing levels of consumption. Yet, the ability of different EU member states to provide an immediate fiscal response to cushion the socio-economic challenges produced by the pandemic proved to be uneven. This state of affairs was strikingly similar to the Euro crisis, where 'northern' member states were less affected economically and possessed better fiscal capacities than many of the 'southern' member states, who faced unsustainable debt burdens and prohibitive refinancing costs. Not only was the assessment of the similarity of the two crises shared by public officials and economists (Interview 8), according to a senior official from the German Chancellery, the government was initially convinced that it was well capable of cushioning the economic damage caused by the pandemic on its own (Interview 7). Having the resources to deal with the economic fallout of crisis unilaterally, the German government showed no interest in an EU-wide fiscal response at the outset of the pandemic. On March 16, German Finance Minister Olaf Scholz even dismissed loans from the ESM as unnecessary and 'premature' (Greive and Hildebrand 2020, own translation).

Only by the end of March did the German government embrace the notion that some sort of European assistance was needed. Even then, Germany sided with the 'frugal four'. While several member states from southern and eastern Europe called for comprehensive fiscal rescue measures early on, the 'frugal four' sought to minimise the EU's role in combating the crisis' impact (see Krotz and Schramm 2021). As was the case in the Euro crisis, German government officials started lobbying for the activation of existing EU instruments. Moreover, the government envisioned the ECB to become a key actor to combat the economic impact of the Corona crisis. According to a German official quoted in the *Financial Times*, the prevalent notion was that 'member states didn't need to do any fiscal stuff because the ECB would always save the day' (Mallet et al. 2020). In fact, the ECB appeared to have heeded to these expectations when it announced the launch of the Pandemic Emergency Purchase Programme (PEPP), a temporary asset purchase programme of private and public sector securities to counter the risks that the pandemic posed to the Eurozone on March 18.

Meanwhile, the German government took extraordinary fiscal measures to support its national businesses, proposing funds to support small businesses as well as big companies, totalling several hundreds of billion euros. Facilitated by the prospect of low borrowing costs, the German Bundestag passed legislation on these funds, a supplementary budget as well as a suspension of the debt brake,

the so-called *Schwarze Null*. Germany thus appeared well placed fiscally to cope with the economic fallout of the crisis and saw no reason for a joint EU-wide fiscal response. Rather, the government hoped that the ECB would once again step in as the 'savior of the day' (for the rest) just as it had done during the Euro crisis. On March 26, during a video conference call of EU heads of state and government, the different assessments about the necessity for joint action became glaringly visible (Fleming et al. 2020). According to a Commission official, the discussions were 'painful' and resulted in an 'ugly, ugly atmosphere where [...] bad things were said to each other' (Interview 6). What, then, changed for the German government to agree to a joint European fiscal response?

Negative interdependence and limited EU capacities: avoiding a 'common bad'

As the pandemic unfolded, concerns that the associated economic crisis would threaten the stability of the Eurozone resurfaced. For the Eurozone as a whole, the massive plunge projected by several economic and manufacturing indices suggested that the Eurozone economies were expected to contract faster in the second quarter of 2020 than they did during the financial crisis of 2008-09. Despite Germany's privileged fiscal and economic position, its economic well-being is nevertheless tied to the block's economic situation and the stability of the common currency. Fear was looming that Italy would become the EU's latest 'construction site that could not be saved' (Interview 2, own translation).

By early April, not only the risk of a Eurozone breakdown became real, the prospect of a significant contraction of EU-wide trade was equally perceived as increasingly damaging for Germany's economy. According to a senior official from the German Chancellery, it was 'not up to debate' (Interview 4, own translation) that something had to be done. The unparalleled economic implications of the pandemic heightened the consequences of negative interdependence. As such, the economic impact of the Corona crisis was perceived to be even more severe than during the Euro crisis. Marking an economic downturn of 'historic proportions' (Interview 7, own translation), the pandemic was seen to pose the 'greatest economic difficulty since World War II' (Interview 1, own translation). Even for Germany, economists predicted a deeper economic recession than at the height of the Euro crisis (Karnitschnig 2020). Regarding its economic implications, one Chancellery official said that the pandemic was 'massively different in its breadth and depth than the Euro crisis' (Interview 4, own translation). This assessment also necessitated a reconsideration of the adequacy of existing fiscal policy instruments at the EU's disposal. The pandemic thus presented a challenge to develop instruments that would 'provide sufficient financial assistance and be effective in the end' (Interview 1, own translation). As explained by a senior official from the Federal Chancellery, the instruments introduced in the context of the Euro crisis were considered insufficient: It was simply impossible to 'continue to work in a pandemic with the … instruments and the procedures that apply in normal life' (Interview 4, own

translation). Avoiding the 'common bad' of yet another episode of currency instability, the looming threat of an EU-wide economic contraction coupled with insufficient EU level capacities to effectively address these challenges, the German government came to re-evaluate its stance on supranational fiscal integration.

Joint fiscal response: financial support without burden-sharing

By mid-April 2020, it was clear that there was no way around a joint European fiscal response if the German government wanted to avoid the contraction of EU-wide trade. Endorsing a joint European fiscal response in principle, the Chancellery engaged in an intensive bilateral dialogue with the *Élysée* to discuss what form this joint fiscal response should take (Krotz and Schramm 2021). While the French advocated an ambitious EU response involving shared debt, they were aware of Germany's aversion to fiscal burden-sharing (Crespy and Schramm 2021). Thus, both governments sought to develop a proposal that would be acceptable to both sides (Interview 7). The first results of these deliberations became visible on April 9, when the Eurogroup released a statement on the comprehensive economic policy response to the pandemic in which the Euro area finance ministers decided on an emergency Eurozone rescue package worth €540 billion consisting of loans and guarantees for workers, companies, and health-related state expenditures (European Council 2020). The close working relationship between Finance Ministers Olaf Scholz and Bruno Le Maire was particularly crucial in overcoming Dutch and Italian resistance to some aspects of the emergency rescue package (Chazan et al. 2020). As such, the Franco-German 'embedded bilateralism' (Krotz and Schramm 2021) enabled the balancing out of divergent member state interests. The package served to ensure rapid market stabilization (Interview 5) and even led observers to judge that the pandemic 'revives Franco-German relations' (Chazan et al. 2020).

However, the Franco-German relationship remained strained due to their different positions on a joint debt instrument (Chazan et al. 2020). While the French government continued lobbying for the introduction of Eurobonds, Germany still followed its 'anything but fiscal burden-sharing' approach. Still in late April, Chancellor Merkel publicly rejected debt mutualisation (The Federal Government 2020b). As aptly described by an EU diplomat quoted in the *Financial Times* in response to the first emergency Eurozone rescue package: 'After a somewhat slow start, the Franco-German engine worked at full speed during the last few days and did its magic [...]. But we should not pretend that the deeper debate over debt mutualisation is resolved.' (Chazan et al. 2020).

In sum, even though Germany possessed the fiscal capacities to cushion the socio-economic impact of the pandemic domestically, concerns about an EU-wide economic contraction and a replay of the Euro crisis rendered a joint EU-wide fiscal response a salient issue amongst EU member state governments, including the German government. Negative interdependence rising to a critical level, then, accounts

for the government's shift to support a joint fiscal response to the pandemic. Yet, neither negative interdependence, nor the close-knit bilateral exchanges with the French government, can conclusively explain why the German government came to endorse fiscal burden-sharing measures.

3.2 From a joint fiscal response to fiscal burden-sharing

Crisis framing: sinners or saints?

To explain the German government's turnaround on fiscal burden-sharing and shared European debt, it is necessary to look at another development taking place simultaneously, namely the framing of the Corona crisis. During the Euro crisis, it had been relatively easy for the German government to defend its preference for tight fiscal policy as the debtors could be blamed for their dire financial situation due to their own unsustainable budgets and previous economic mismanagement. By contrast, the fact that no member state could be plausibly blamed for the pandemic was crucial for changing the framing of shared debt during the Corona crisis. Unlike in the Euro crisis, the European solidarity frame and associated demands for EU-wide shared debt became the dominant crisis frame during the Corona pandemic. According to a senior official from the German Finance Ministry, the central aspect in making a debt-financed and grants-based recovery fund politically viable was the general impression both among the political elite and the population that the crisis was no one's fault: 'The pandemic wasn't anyone's fault. That is a completely different reading than the one that very quickly prevailed in the Euro crisis. […] Back then, serious accusations came from both Germany and Greece in the form of: Who is actually to blame? And this question never came up during this pandemic.' (Interview 5, own translation) A senior official from the Chancellery highlighted that until the pandemic, Germany was always able to blame the debtor states for their own financial malaise (Interview 7). Whereas a 'saints versus sinners' dichotomy characterized the overarching discourse during the Euro crisis (Matthijs and McNamara 2015), no sinners were to be found in the Corona crisis.

Several member states were quick to emphasize that the pandemic was no one's fault and beyond control, using these points to frame the question of shared European debt. On March 25, nine member states, including France, Italy and Spain, sent a letter to Council President Charles Michel demanding that European solidarity be put into action through a common debt instrument: '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.' (Governo Italiano 2020, italics added). An official from the German Finance Ministry and an official from the Commission identified the letter as critical in reframing the debate on a joint European debt instrument (Interviews 6 and 8).

To be sure, member states supporting shared debt were not the only ones attempting to influence the framing of the crisis. The 'frugal four' sought to buttress the national responsibility frame, which stipulates that member states could very well be held responsible for their own economic shortcomings and lack of capacities, placing the onus for economic recovery squarely onto each member state. These attempts were quickly scandalized. At the forefront of the 'frugal four', Dutch Finance Minister Wopke Hoekstra demanded the EU should investigate why some states had insufficient financial capacities to effectively tackle the economic impact of the pandemic, especially since the European economy had been in growth-mode for the past several years (Hecking and Lüdke 2020). In response, the Dutch government faced a barrage of criticism from several directions. Portugal's Prime Minister António Costa called Hoekstra's demand 'disgusting', the Italian newspaper *La Repubblica* accused the Netherlands of 'cruelty', and the Spanish newspaper *El País* spoke of a 'betrayal of the European spirit' (*ibid*., own translation). Shared debt ceased to be a fighting pit between potential debtor and creditor states and instead became a morally charged 'weapon of the weak' that found expression in claims for European fiscal solidarity.

Moreover, the shared perception of being collectively affected instigated a shift in the way shared debt was framed. As described by a senior official from the Chancellery, some countries were certainly hit harder by the pandemic than others, but this was not the impression that prevailed: 'We were all shocked when we saw the pictures from Italy. We realized: This could be us!' (Interview 7, own translation) Whereas the migration crisis and Euro crisis resulted in 'we' versus 'them' narratives (Börzel and Risse 2018; Hooghe and Marks 2018; Hutter and Kriesi 2019), the Corona crisis-induced no such distinctions: Everyone was 'we' – member states identified with each others' respective burdens.

The notion that the pandemic was no member state's fault enabled a crisis framing linking shared debt to European solidarity. By mid-April 2020, the meaning of what European solidarity entailed was no longer a matter of widespread contention. Member states supporting shared debt became much more open and vocal in shaming the 'frugal four' as well as the German government. France, in particular, increased the pressure on the German government (Crespy and Schramm 2021; Krotz and Schramm 2021). French President Macron criticized the German position on various occasions in public, saying that it would be a historic mistake to say that 'the sinners must pay' as they did in the Euro crisis (Mallet and Khalaf 2020). Moreover, EU institutions gathered behind the notion that European financial solidarity was the appropriate course of action, resulting in an unprecedented outpouring of plans for common fiscal sharing in April (Genschel and Jachtenfuchs 2021: 360). Speaking before the EP, Commission President Ursula von der Leyen declared the EU to be the 'world's beating heart of solidarity' (de la Baume 2020). ECB President Christine Lagarde urged finance ministers to go further than the ESM and embrace the idea of shared European debt as a sign of European solidarity (Dombey et al. 2020). By pointing to the exogenous origin of the Corona crisis, actors supporting a

comprehensive European response succeeded in changing the framing on fiscal integration in the EU, from being conditional on national responsibility to one that emphasized (unconditional) European solidarity.

Frame legitimation: the imperative for European solidarity

As the European solidarity frame became the predominant crisis frame, the question of fiscal aid became discursively removed from the national responsibility frame and linked to the European solidarity frame. As a matter of European solidarity, fiscal aid was no longer predicated on deservingness and political conditionality but amounted to a shared sense of moral duty. In short: Providing fiscal assistance with no strings attached was the appropriate and legitimate thing to do. Unless the German government (and the governments of the 'frugal four') wanted to appear as pariahs violating the emerging moral consensus, fiscal assistance had to be stepped up considerably compared to what was envisioned in early April. Consequently, the German government's opposition to a debt-sharing instrument waned and it embraced the European solidarity frame.

The available evidence supports this interpretation: By late April, the German government noticeably refrained from legitimizing its minimalist approach, and itself started employing the European solidarity frame when discussing the EU's response to the Corona crisis. Already in early April, Foreign Minister Heiko Maas and Finance Minister Olaf Scholz addressed the readers of five European newspapers from France, Italy, Spain, Portugal and Greece in a joint guest article to assure Germany's solidarity: 'We need a clear sign of European solidarity in the Corona pandemic. Germany is ready to do this.' (Spiegel 2020) Furthermore, Chancellor Angela Merkel came to emphasize the importance of the EU in countering the impact more frequently and decisively. In a session of the German *Bundestag* on April 23, she announced that Germany would be willing to pay significantly higher contributions to the next European budget for a limited period 'in a spirit of solidarity' (The Federal Government 2020a). Notably, she followed the argument of the letter from nine member states to Charles Michel from late March in arguing that the Corona crisis was nobody's fault: 'Europe is not Europe if it does not show solidarity when times are hard through no fault of anyone's.' (*ibid*.) Whereas she did not mention the EU a single time in her televised address to the nation on March 18, the words 'Europe' or 'European' were now mentioned a total of 39 times.

Moreover, there is evidence that moral shaming tactics employed by the proponents of shared debt vis-à-vis the German government were at work. The French government, which was one of the staunchest supporters of a shared debt instrument, left the German government stupefied with its coordinated call for fiscal solidarity in their letter to Charles Michel. According to a Commission official, the German government was 'surprised and upset' (Interview 6) about the French move. It is even reported that the Chancellery was furious (Chazan et al. 2020). The supporters of shared debt

employed the European solidarity frame to claim moral authority, making the German government appear petty and lacking solidarity. The importance of the German government being denied moral authority becomes evident in interviews with officials from the Chancellery. A senior official emphasized that the government gained considerable 'political capital' (Interview 4, own translation) when it showed its goodwill to its southern neighbours. 'A signal to the outside world' (ibid.) was needed that 'would be perceived as being legitimate' (Interview 7, own translation). Thus, especially after witnessing the opprobrium directed against the Dutch government's position, the German government was well aware that there was no politically viable alternative to the European solidarity frame. The government was thus facing a dilemma. It still opposed shared debt as an instrument of EU fiscal integration more generally, while at the same time it had committed to the exigencies of the European solidarity frame, at the heart of which lay the proposal for a shared debt instrument. Against the backdrop of the predominant crisis framing and looming charges of moral bankruptcy, the German government felt morally compelled to subscribe to the European solidarity frame and its corollary: a shared EU-debt instrument.

Fiscal burden-sharing: Shared debt without Corona bonds

The Franco-German proposal for the Corona recovery fund presented a way out of this dilemma: It allowed the German government to act in line with the moral standard defined by the European solidarity frame in proposing shared European debt. At the same time, the way the shared debt instrument was supposed to be designed heeded to the government's concerns about shared debt more generally. The government insisted that the proposed measures remain both limited and temporary through the recovery fund's coupling with the next Multiannual Financial Framework (MFF). Thus, the German government acted in line with demands associated with the European solidarity frame while not having to submit to fiscal sharing indefinitely.

When it became clear that some form was debt sharing was inevitable, the German government quickly started to investigate different design options of shared European debt by mid-April, according to a senior official from the Chancellery (Interview 4). When Chancellor Merkel and President Macron called for a debt-financed and grants-based recovery fund on May 18, their proposal became an instant success. The proposal initially suggested that €500 billion be handed out as grants, which was deemed 'historic' (Hall et al. 2020) and led Finance Minister Olaf Scholz to declare that the EU is experiencing a 'Hamiltonian moment' (Finke 2020). The German government thus satisfied the calls for a strong display of European solidarity.

However, the design of the initiative also reveals the German government's aversion to long-term fiscal sharing. When examining the design of the Franco-German proposal, it becomes apparent that through its linkage to the next MFF, it was explicitly crafted to avoid long-term lock-in effects. First,

the proposed Corona recovery fund is only a temporary instrument to cushion the socio-economic impact of the Corona crisis. The German government did not get tired of stressing the one-off nature of the recovery fund. According to Chancellery officials, the fund was a 'one-off action in a one-off or – at any rate – absolutely exceptional constellation' (Interview 4, own translation) and 'unique because the situation was unique' (Interview 7, own translation). Second, the proposal envisaged only a limited form of financial liability. The German government insisted that the negotiations about the recovery fund be linked to the negotiation of the next MFF (Interview 9). The result was that member states will have to repay the loans according to their share of the EU budget, thereby limiting the liability of individual countries (see Krotz and Schramm 2021).

Overall, the recovery fund initiative was a 'trick' (Interview 3) that satisfied the 'Southern' member states and France without committing to long-term fiscal sharing. The German government gave in to the demands for shared European debt. However, the limited and temporary aspects of the design of the Franco-German proposal and the NGEU, which ensued from it, still reflect Germany's continued opposition to European fiscal burden-sharing.

4 Conclusion

The aim of this paper was to establish the drivers behind the German government's support for the EU recovery fund during the Corona crisis. A process-tracing analysis of the events from February to May 2020 revealed that the German government's unexpected support for EU-wide fiscal burden-sharing resulted from two endogenous mechanisms of preference formation. First, in the face of a perilous economic recession, existing EU capacities were considered insufficient to deal with negative crisis externalities. In reminiscence of the Euro crisis and in order to avoid the 'common bad' of a potential Eurozone breakdown, the German government agreed to a joint EU-wide fiscal response. Second, the framing of the Corona pandemic as an exogenous crisis for which no one is to blame was crucial for the proponents of a European solidarity frame to set the tone of the debate over fiscal assistance. Acceptance of this framing rendered support for a shared debt instrument a moral imperative, even though it ran counter the German government's long-heeded opposition to precisely this kind of fiscal centralization-move. Taken together, both mechanisms complement each other to explain the 'Berlin puzzle'. While the first mechanism explains that the German government supported a bold fiscal response due to negative interdependence and insufficient EU capacities, the second mechanism is needed to understand why it supported fiscal burden-sharing as part of the fiscal response.

The findings contribute to the theoretical debate on fiscal burden-sharing in the EU in times of crisis (e.g. Biermann et al. 2019; Carstensen and Schmidt 2018; Matthijs and McNamara 2015; Schimmelfennig 2015). First, they reveal monocausal explanations based on solely material or

ideational factors to be insufficient for explaining burden-sharing in times of crisis. Both material factors (avoiding huge economic costs due to negative interdependence) and non-material factors (adhering to the normative expectations raised by the crisis framing) are needed to fully explain the German initiative on the EU recovery fund. Thereby, our argument differs from existing explanations by showing how material and ideational factors complement each other rather than assuming that crisis perceptions causally precede material considerations (Crespy and Schramm 2021) or ignoring ideational considerations altogether (Schramm 2021). Furthermore, by comparing the Corona crisis to the Euro crisis we were able to reveal the conditions under which perceptions and frames influence member state preferences. During the Euro crisis, framing contests remained unresolved, which enabled governments to stick to their distributive preferences. By contrast, during the Corona crisis, a dominant frame emerged, which empowered actors whose preferences were aligned with the dominant crisis framing, and constrained those actors – including the German government – whose preferences were at odds with the crisis response associated with the dominant European solidarity frame. Furthermore, we were able to show that framing success crucially depends on the nature of the crisis itself, i.e. whether its origins are perceived to be endogenous or exogenous.

The paper explores the role that negative interdependence and crisis framing played in Germany's decision to agree to the centralization of fiscal capacities at the EU level. Future research could probe our argument's external validity by exploring the process of crisis-induced preference formation of the other frugal member states. As Austria, Denmark, Sweden and the Netherlands initially also preferred minimal European fiscal assistance, one might ask whether the desire to avoid a 'common bad' and the emergent European solidarity frame were crucial for reaching their agreement to NGEU as well.

Finally, it is safe to say that the German government's position on fiscal centralization at the EU level has not fundamentally changed as a result of the Corona crisis. Rather, the German government changed course to stabilize the Eurozone and act in line with the EU solidarity frame. Considering that Germany only contributes to the fund's repayment in proportion to its budgetary contribution to the EU, the material costs are moderate in the face of considerable legitimacy gains. Any instrument that would encompass the development of a European fiscal union would significantly increase Germany's financial commitments. Unless the EU is confronted with further exogenous crises, it is unlikely that Germany will push for a transfer of fiscal competencies to the EU- level anytime soon. Hamilton will have to wait some more.

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