Developments in EU Financial Assistance from the Euro crisis to the Covid-19 pandemic

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Since the beginning of the Euro crisis extraordinary financial support in the Euro Area has been institutionalised through new tools and bodies with significant firepower to assist Member States in difficulties. After a first leap into this new area of Eurozone support with temporary assistant tools, the Euro Area continued to adjust the structure repeatedly through new rules and practices and advanced deeper into the area of financial assistance introducing a permanent Euro Area support mechanism and instruments for bank recapitalisation, often subject to intense negotiations between core EU countries.

Scholars have gained interest in the negotiation process finding explanatory merit in the strategic interaction between two ideational camps representing export and demand-led states (Hall, 2014), in hard intergovernmental bargaining and brinkmanship between creditors and debtors (Schimmelfennig, 2015), in the shift away from market policy to the state's core interest (Genschel & Jachtenfuchs, 2018) or in the previous institutional setting framing the choices at hand at the peak of the crisis (Verdun, 2015). Puetter (2012) acknowledged that the decision to govern new eras of EU activity was as much driven by national interest as by the willingness to find common solutions for common problems. These studies often account for complementary explanations but emphasise different explanatory variables in the intergovernmental process. Whereas strategic constructivists find the cause of action on EU-level in the governments' rationale based on the ideational foundation of their respective political economies (e.g. Hall, 2014; Schäfer, 2016), more rational approaches emphasise the aggregate welfare cost-benefit consideration by countries on the European level (e.g. Moravcsik, 2018; Schimmelfennig, 2015, 2018).

Scholars find that the post-crisis governance structure has put the adjustment costs predominantly on the economies of the countries receiving assistance with a strong emphasis on austerity being the fruit of ordoliberal German politics (e.g. Blyth, 2013; Matthijs, 2016). However, less attention was given to the actual design of financial assistance and its adjustment in the last decade. This paper complements these studies by putting an emphasis on the concrete adjustments occurring to the financial assistance formula and the role Member States played in its continuous development.

The article provides an explanation on how the last decade of Eurozone financial assistance reforms can be understood. In this area of EU politics the distinction between Member States interests is mostly oriented along a creditor-debtor divide. Whereas Germany and other potential

creditors repeatedly favoured an assistance formula with limited liabilities, cost reduction, high disincentives and the exclusion of bank support, France and other potential debtors favoured mutualisation of debt, low disincentives and inclusion of bank support in assistance. Often the result of negotiations between these two coalitions favoured the creditors' design, shifting the adjustment burden on potential receivers of assistance. However, as debtors had repeatedly difficulties to adjust, continuous adaptation of the formula was necessary in order to achieve the common interest of Eurozone stability. This led to a tug of war between the two camps over the adjustment burden and costs of reform for each step of the way. It is argued that this mixed preferences situation of common Euro Area interest and diverging interests along the creditor-debtor divide explains best how the Euro Area reformed financial assistance.

Creditors' preferences were decisive for reforms in terms of disincentives, limited liability for common debt and the adherence to intermediary borrowing and lending in order to minimise direct costs. They repeatedly favoured national safeguards and the use of loans. Control and some disincentives were held on to, which reduced the effectiveness of the assistance formula and only partially allowed for a slow de-nationalisation of assistance in the case of bank-related support. Through the enabling factor of common EU and Euro Area interests, debtors were able to push for softening of moral hazard elements and an expansion of the assistance into areas of banking sector support. The common interest was also decisive for Germany and other creditors to support grants.

This explains why financial assistance, even though increasing in size and in areas of applicability since 2010, was often accompanied with a reduced involvement for creditors, a temporary form of instruments and reinforced disincentives for debtors. Apart from disagreement on detailed application of EU and Euro Area assistance, one should however not ignore the increased volume of assistance available since the beginning of the Euro crisis, which today stands at a total capacity of around €1.3 trillion and is at least partially permanent. While some instruments are certainly more appealing for debtors than others, assistance continued to be provided to a larger extent in the form of loans. The combination of loans and grants, as well as the general risks carried by all Member States associated with assistance, indicates the commitment to the European project and underlines the institutionalised shared European and Euro Area interests.