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50 YEARS OF CRISES: THE DEVELOPMENT OF THE EUROPEAN FINANCIAL ASSISTANCE REGIME

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Abstract

This dissertation provides a comprehensive historical study of extraordinary financial assistance in the European Economic Community and European Union, a topic with growing relevance in political science. The analysis covers the development of the European financial assistance regime from 1968 until 2023 using a combined historical institutionalist approach. The built theoretical framework for this study is composed of a critical juncture and a legacy analysis and is applied to four typical cases of crisis-induced change in the regime's development. These four cases are the monetary instability of 1968-1969, the first oil shock of 1973-1974, the international financial crisis starting in 2008 and the Covid-19 crisis starting in 2020. Through the application of the theoretical approach of 'actor-centred historical institutionalism', this dissertation explains first, the necessary conditions for the occurrence of punctuated change, and second, the long-term implications of punctuated change in the form of processes of piecemeal adjustment. The findings demonstrate that crisis-induced change is facilitated by exogenous and endogenous factors linked to the financial impact of crisis and the resilience of the *ex ante* assistance regime, as well as by rationalist considerations of relevant actors reflected in a mix-preference game. In addition, this dissertation argues that crisis-outcomes need to be analysed in subsequent periods to fully grasp their causal force and to uncover legacy mechanisms accounting for continuity and piecemeal adjustment of punctuated changes. Based on the findings presented in the four cases, this dissertation furthers the understanding of crisis-induced integration in financial assistance and provides a detailed explanation of the development of financial assistance instruments since 1971.

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List of Abbreviations:

APP – Asset Purchase Programme
BE – Belgium
BIS – Bank of International Settlement
BoP – Balance of Payments (mechanism)
Bps – Basis points
CAP – Common Agricultural Policy
CLM – Community Loan Mechanism
CY – Cyprus
DE – Germany
DK – Danmark
DRI – Direct Recapitalisation Instrument
EC – European Communities
ECB – European Central Bank
ECCL – Enhanced Conditions Credit Line
ECU – European Currency Unit
EEC – European Economic Community
EFC – Economic and Financial Committee
EFSF – European Financial Stability Facility
EFSM – European Financial Stabilisation Mechanism
EIB – European Investment Bank
EMA – European Monetary Agreement
EMCF – European Monetary Cooperation Fund
EMS – European Monetary System
EMU – Economic and Monetary Union
EPU – European Payments Union
ERM – Exchange Rate Mechanism
ES – Spain
ESM – European Stability Mechanism
EU – European Union
FR – France
FRS – Federal Reserve System
GAB – General Agreements to Borrow
GDP – Gross domestic product
GLF – Greek Loan Facility
GNI – Gross national income
GR – Greece
HI – Historical Institutionalism
IMF – International Monetary Fund
IRL – Ireland
IT – Italy
KfW – Kreditanstalt für Wiederaufbau
LI – Liberal Intergovernmentalism
LU – Luxembourg
LV – Latvia
MC – Monetary Committee
MCA – Monetary Compensatory Amounts
MFF – Multiannual Financial Framework
MoU – Memorandum of Understanding

MTFA – Medium-Term Financial Assistance

NF – Neofunctionalism

NGEU – Next Generation European Union

NL – Netherlands

OECD – Organisation for Economic Co-operation and Development

OMT – Outright Monetary Transactions

OPEC – Organization of the Petroleum Exporting Countries

PA – Principal Agent

PCCL – Precautionary Conditioned Credit Line

PEPP – Pandemic Emergency Purchase Programme

PSPP – Public Sector Purchase Programme

PT – Portugal

QMV – Qualified Majority Voting

RCI – Rational Choice Institutionalism

RO – Romania

RRF – Recovery and Resilience Facility

SDR – Special Drawing Rights

SGP – Stability and Growth Pact

SMP – Securities Market Programmes

SURE – The European instrument for temporary Support to mitigate Unemployment Risks in an Emergency

TFEU – Treaty of the Functioning of the European Union

U.A. – Unit of Account

UK – United Kingdom

US – United States (of America)

CHAPTER 1: INTRODUCTION

Introduction

This chapter introduces the dissertation with the title *50 years of crises: the development of the European financial assistance regime* and serves as overview for this dissertation. The first part of this chapter introduces the topic of crisis-induced change and states the purpose of this study as well as the research question. The second part of this chapter summarises the historical institutionalist approach applied in this dissertation. The third part provides the operationalisation of the different parts of the actor-centred historical institutionalist framework, which constitutes of a twofold analysis of crisis moments and their legacy. The fourth part of this introduction summarises the theory-building process tracing method applied in this dissertation, including the abstracted mid-range causal mechanism for the critical juncture analysis. The fifth part explains the case selection and the sixth part outlines the structure of this dissertation.

1.1 European integration and the study of crisis outcomes

"*[…] recent processes of European economic integration […] and the mounting world currency crises have made it absolutely indispensable for us to go beyond the letter of the Rome Treaties towards an economic and currency union*."

Pierre Werner, 1971

"*J'ai toujours pensé que l'Europe se ferait dans les crises, et qu'elle serait la somme des solutions qu'on apporterait à ces crises."*

Jean Monnet, 1976

Economic crises are a recurring phenomenon of modern capitalism. Scholars of European integration have analysed these situations by focusing on the causes of crises as well as the crises' impact on the European political landscape. They attribute moments of crisis relevance in the process of institutional change and European integration in general. Literature in political science has considered crises more generally as formative moments arising from the necessity to react to a situation of uncertainty, which threatens the political system in place (see, e.g., Riddervold, Trondal & Newsome, 2021). A crisis can be defined as an 'extraordinary moment when the existence and viability of a political order are called into question' (Ikenberry, 2008: 3; see also Cross & Ma, 2015; Riddervold & Newsome; 2018). Thus, a crisis moment constitutes a

> historical juncture at which conflict within the political order has risen to the point that the interest, institutions, and shared identities that define and undergird the political system are put into jeopardy (Ikenberry, 2008: 3).

D'Erman & Verdun (2018: 2) consider crises as occurring on a spectrum between 'a problem [and] full chaos' comprising the potential of disaster and opportunity. They include the progression of (European) integration as a response to crises. They further argue that this progression is not necessarily moving towards a finality of the European project and rather means change to the status quo than completion of the integration process. The general thesis of crisis-induced change is a major theme in the study of European integration. Jean Monnet famously wrote that 'Europe will be made in crises and that it would be the sum of solutions adopted in response to these crises' (Monnet, 1976: 488; author's translation).

Crisis-induced integration continues to be a timely topic for present and future research on European integration. When analysing crisis moments, researchers have focused on different units of analysis and explanatory variables.[1] Research on continuity and change in European integration, in particular in the area of EMU, gained momentum with each apparent crisis. Scholars have focused on the way the EU has responded to these crises, and on how these moments produced significant policy-outcomes, also in the longer-term.

1.1.1 Purpose of the study and research question

Since 1971, the European Economic Community (EEC) and later the European Union (EU) had several instruments at their disposal to provide financial assistance to governments, many of which were created during periods of major economic difficulties. These instruments not only increased in size and number but worked in parallel to international structures such as the International Monetary Fund (IMF) — the international lender of last resort since 1944. Most notably, EEC and later EU financial assistance shifted its focal area from balance of payments support for monetary purposes to fiscal problems. Assistance increased in size and scope, often in the context of economic shocks. Stieber (2015) provides one of the few historical accounts of the development

[1] Note: For different angles and an overview of the topic see, e.g.: Pandemic Politics and European Union responses, *Journal of European Integration*, Volume 42, Issue 8 (2020); European integration in times of crisis: theoretical perspectives, *Journal of European Public Policy*, Volume 22, Issue 2 (2015); the Palgrave Handbook of EU crises by Riddervold, Trondal and Newsome (2021); or The Politics of Crisis Management: Public Leadership Under Pressure by Boin et al. (2017).

of what he calls 'macro-financial solidarity' with a detailed overview of the assistance instruments. He argues that monetary instability and the oil shock in 1973 triggered the creation of two EEC instruments and provides a detailed description of how assistance was used by European Communities (EC) countries (Stieber, 2015). The creation of the Greek Loan Facility (GLF) and the European Financial Stability Facility (EFSF) in 2010, and the establishment of the intergovernmental European Stability Mechanism (ESM) in 2012 also fall into this category of 'crisis-triggered' creations for financial assistance instruments, as do the SURE and Recovery and Resilience Facility (RRF) instruments of 2020.

Even though the apparent connection between crisis and the adjustment of financial assistance appears obvious — crisis results in change — the question of how economic crises impact the structure of the financial assistance regime requires further study, as not all economic crises effectively brought about new assistance instruments or even any change. More importantly, trigger events in the 1970s, 2010 and 2020 took place in substantially different contexts, and constitute different forms of shock. It is unclear how and if at all, these moments are equivalent, what makes a crisis decisive for change, and if there are re-occurring patterns of crisis-induced change. At the same time, financial assistance instruments from the past and present have indisputable similarities, which illustrate the continuity of specific elements of financial assistance over longer or shorter periods of time. This raises the question of how specific elements of assistance endure and how they find their way into apparently new constructs. And lastly, some change to financial assistance happened out of the scope of apparent crises, suggesting that crises alone do not provide the full picture of the development of financial assistance. So, while crises are undeniably relevant for the development of assistance, a thorough understanding of this development should provide an insight into the factors linking crises to change and answer what role periods outside of the scope of crises play for assistance.

This study is first and foremost motivated by the lack of a comprehensive study of the development of financial assistance in the European Union, and the role economic crises played in this development. The aim of this study is twofold. First, it is intended to explain the development of financial assistance in the EU from its origins in 1971 until today. Second, and building on the first part, this study seeks to contribute to European integration theory by building a new eclectic framework for the institutional analysis of crises and their outcomes, which allows us to theorise how economic crises contribute to change of financial assistance instruments in the EEC and later EU. The central research question of this dissertation is:

Under what conditions did European financial assistance develop between 1968 to 2023?

To answer this question and to uncover the role of crises in this development, the following secondary research question serves to guide the research:

How and under what conditions did economic crises contribute to the development of the European financial assistance regime?

1.2 Theoretical Approach: Actor-centred historical institutionalism

This study has the purpose to explain institutional change to financial assistance in moments of crises and in periods outside of the scope of such moments. Therefore, this dissertation utilises an eclectic theoretical framework based on two streams of historical institutionalism which focus on different forms of change in the institutional development.[2] The first part of the framework is focused on the punctuated change model. This model considers that change happens comparatively fast and alters the *ex ante* institutional structure to a substantial degree, often in the context of crises (Mahoney, 2010). Punctuated change is contrastive to adjustment occurring in periods of relative stability of the institutional structure. This part is based on the analytical framework of the study of critical junctures. The second part is focused on incremental or gradual forms of change often inherent in periods of relative stability. This form of change is piecemeal and cumulative.

Critical junctures are episodes of structural indeterminacy which allow a larger range of choices available for actors (Mahoney, 2001; Capoccia, 2016). Most studies consider critical junctures as relatively short moments in comparison to their subsequent path dependent development (Capoccia & Kelemen, 2007; Mahoney, 2010). The main argument for the existence of a critical juncture is that it carries significant change from the previous status quo, which was only possible in this specific moment (see, e.g., Collier & Collier, 1991; Soifer, 2012). Mahoney (2000) emphasises contingency, as the change happening within a critical juncture is not explained by

[2] Note: Part of this study has been published in two articles Rehm (2021) and Rehm (2022). In addition, results from this research have been presented at the Council of European Studies Conference in Lisbon in 2022, and at the UACES conference in Lille in 2022. The four case studies and the historical institutionalist approach resemble closely Rehm (2022). This dissertation refrains from referencing these works in the text in order to maintain readability.

prior conditions. The critical juncture framework is particularly promising for the analysis of crisis-induced change, as periods of crises are potential facilitators of extraordinariness which allows for coalition-building with the aim of inducing change (Hall, 2016). This study applies a consequentialist understanding of critical junctures as periods or moments of increased agency which carry punctuated change, i.e., substantial deviation from the *ex ante* structure, and which account for legacy of this punctuated change in subsequent periods. In addition, it accepts that heightened contingency is required for the availability of an increased range of choices for this change (Capoccia & Kelemen, 2007).

The conditions that are needed for the existence/occurrence of a critical juncture can be divided into two categories. The first category regroups permissive conditions, which account for increased agency due to factors that exert pressure on actors to adjust the institutional construct (Soifer, 2012). These factors include the contextual uniqueness of (economic) crises, occurring in the form of exogenous shocks to the system (see also Collier & Collier, 1991). Next to the exogenous factors, permissive conditions also account for the internal institutional preparedness and/or vulnerability vis-à-vis the exogenous shock (Mahoney, 2010; see, e.g., Braun, 2015). The presence of permissiveness defines the frame in which punctuated change can occur and is also the carrier of increased agency (Soifer, 2012).

The second category regroups productive conditions, which act within the margin of increased agency, in which they can deploy their causal forces. In the absence of increased agency, however, they are unable to significantly alter the institutional picture (Soifer, 2012; see also Mahoney, 2010). Productive conditions account for actor preferences and actions within the frame provided by the permissive conditions. These conditions have been analysed by scholars using ideational (e.g., Soifer, 2012; Hall, 2014) or more rationalist approaches (see, e.g., Büthe, 2016a). This study chooses a rationalist approach to explain outcomes of moments of increased agency, in line with liberal intergovernmentalist studies that emphasise material interests of governments and their respective bargaining power (Schimmelfennig, 2018a; Moravcsik, 2018; see also Scharpf, 1997; Zürn, 1992). The analysis of critical junctures is based on these two building blocks that include permissive and productive conditions. While the permissive conditions explain the emergence of increased agency, the productive conditions account for the choices and the detailed outcome.

The second part of the framework is based on the analytical frameworks of path dependence and incremental (or gradual) change. These frameworks are used to analyse the legacy of critical junctures. Legacy is an inherent part of the concept of critical junctures, given that the core argument of a critical juncture is the presence of a causal force with an impact on the subsequent path of the institutional structure, also referred to as distal causation (Capoccia, 2015; see also Pierson, 2000). For the analysis of path dependence, scholars have used mechanism of reproduction to account for the stability of the critical juncture outcomes (Collier & Collier, 1991; Greener, 2005). The novelty of the approach applied in this dissertation is the combination of path dependence with insights from the gradual change literature. Gradual change literature argues that change is not just distinguishable between institutional stasis and phases of abrupt change, but rather that enduring small doses of change can equally result in major change, which tends to be overlooked in the punctuated model (Streeck & Thelen, 2005). The analysis of gradual change is orientated around works by Streeck and Thelen (2005; see below) referring to specific modes of change and actor strategies in the gradual change process (Mahoney & Thelen, 2009).

The advantage of combining a critical juncture framework with a legacy analysis focusing on gradual change and path dependent mechanisms helps to explain parallel institutional change and continuity in moments of crises as well as in periods of relative stability.

1.3 Operationalisation

The phenomenon researched in this study is defined as financial assistance regime within the EEC and later EU. The ‘financial assistance regime’ is defined as the formal rules, practices and bodies accompanying the provision of *extraordinary* financial assistance to Member States of the EC and later the EU. The regime is operationalised as a composite of three main features: i) the formal policy elements, ii) the financing elements, and iii) the procedural elements. The formal policy elements define the purpose, legal rights and obligation, as well as the eligibility of assistance for Member States. The financing elements of assistance refer to the forms of assistance as well as the structure of the financial instruments used. The procedural elements include the implementation of assistance in practice, including the conditions that are part of the provision of assistance.

This dissertation operationalises the two forms of change in the development according to the theoretical concepts and mechanisms derived from literature of historical institutionalism. Crisis-induced punctuated change is explained with the help of a critical juncture analysis using permissive and productive conditions. The longer-term consequences of punctuated changes are operationalised in the legacy analysis using mechanism of gradual change and path dependence.

1.3.1 Permissive conditions

Permissive conditions are operationalised as the financial impact of exogenous shocks and as the impediment of the institutional structure. The first permissive condition is linked to the financial pressure exerted from the exogenous shock. The financial impact of these shocks is assessed based on *the increased need for public financial assistance*. Only if one or several EC/EU Member States actually or potentially require public financial assistance, the first permissive condition is present. The reason Member States request assistance can be linked to constraints arising from common policies, a lack of a domestic lender of last resort, a lack of market financing, or the form of government indebtedness. The (expected) use of public assistance shifts the actors' attention towards the application of assistance, and thus to the potential vulnerability of the assistance regime in the new context. Differently put, if no need for assistance exists, the assistance regime will not be (expected to be) used and therefore cannot (potentially) fail to deliver.

The second permissive condition is the endogenous impediment of the assistance regime, which prevents the institutional structure to effectively provide financial support. This dissertation distinguishes impediment according to the three main features mentioned above. These impediments are expected to occur due to the breakdown of specific mechanisms of reproduction proposed by Mahoney (2000; see below). Simultaneously, this dissertation expects that regime elements are equally maintained by these mechanisms. In short, these mechanisms can be summarised to build on 1) the availability of formalised regulations of financial assistance, 2) the functionality of the financing instruments in place, and 3) on the adherence to the regime's practice in the provision of assistance. If one or more regime elements are impeded, e.g., due to legal or functional constraints or reluctance of Member States to engage in assistance, the assistance regime is impeded.

1.3.2 Productive conditions

The productive conditions are operationalised in line with a mixed-preference game by which governments agree to solve the economic difficulties collectively but disagree about the distribution of adjustment costs (Scharpf, 1997; Zürn, 1992). These conditions are separated between the shared and the individual Member State preferences. The productive condition of shared EEC, EU or euro area preference is based on the interdependence derived from economic integration for these countries (Moravcsik & Schimmelfennig, 2019; Schimmelfennig, 2015). Countries are expected to follow a cost-benefit consideration and favour joint crisis resolution over the potential breakup of common policies.

The individual preferences are operationalised based on the diverging preferences in the reform process based on rationally derived national cost-benefit considerations (e.g., Copelovitch, Frieden, & Walter, 2016; Schimmelfennig, 2018a). Those individual national preferences are formed domestically, and, in a situation of economic shock, are linked to the general welfare of the society and autonomy (Moravcsik, 2018). In the context of financial assistance, these rationalist considerations are related to specific elements of assistance, including the financial involvement by each country, the decision-making competences, as well as the rules and control mechanisms of the institutional structure. The negotiation process is analysed based on the governments' positions and their respective bargaining power linked to their financial involvement in assistance (Moravcsik, 1993; Schimmelfennig, 2018a; see also 2018b). In the context of financial assistance, states with expected higher financial involvement and lower direct benefits from a joint solution are expected to have an increased bargaining position, as the assistance regime is asymmetrically dependent on their participation.

1.3.3 Path dependence

This dissertation assesses the longer-term outcomes of critical junctures and the continuity of regime elements based on mechanisms of reproduction elaborated by Mahoney (2000). This dissertation retains two of these mechanisms in line with the theoretical assumptions linked to a rationalist approach in the operationalisation of productive conditions. The first of these mechanisms is the *utilitarian mechanism,* which focuses on the cost-benefit calculation of reproduction by rational actors to maintain the institutional construct (Mahoney, 2000). Thus, stability occurs due to the rational interest of actors to keep the institution going. Reversely, change occurs if the institution does no longer serve the interests, or change can prevent otherwise negative consequences or achieve increased benefits. The second mechanism is the *functional mechanism,* which relies on reproduction based on the role an institution plays in the overall system (Mahoney, 2000). Stability emerges from the need that the institution serves. If an institutional construct no longer serves the need envisaged for it, actors will resort to change. Change is often linked to a changing environment and thus to exogenous influences changing the need of the institution (Beyer, 2010). Therefore, the functional mechanism is expected to play an important role for crisis-induced change.

1.3.4 Gradual change

In parallel, critical juncture outcomes are analysed based on mechanisms of gradual change. This dissertation borrows from the gradual change framework from Streeck & Thelen (2005; see also Mahoney & Thelen, 2009) using the four ideal types of gradual change: *layering, displacement, drift,* and *redirection*. This typology is also used to assess punctuated change in the critical juncture analysis (Mahoney, 2010; see also Salines, Glöckler & Truchlewski, 2012; Verdun, 2015), according to its immediate and longer-term impact. Conferring the logic of simultaneous continuity and discontinuity, be it gradually or abruptly, helps to build a more encompassing model of institutional development. This model merges punctuated and small doses of change, and links stability with parallel gradual change.

Thus, the proposed framework constitutes a veritable dual mode of development. Understanding an institution as a composite of several elements does not only give a better insight into which elements are prone to change in which contexts and through which factors, but also helps to explain how these elements are, even though forming an institutional whole, differently experiencing (significant) discontinuity in one and continuity in another element over time. This combined theoretical framework of 'actor-centred historical institutionalism' is operationalised based on the permissive and productive conditions for the critical juncture analysis and on mechanisms of reproduction and gradual change for the legacy analysis.

1.4 Method: Theory-building process tracing

The historical analysis in this dissertation aims to unravel the development of the European financial assistance regime between 1968 and 2023 and to explain and highlight the role of economic crises in this development. The main part of the research is therefore dedicated to moments of crisis, i.e., economic shocks. This dissertation applies theory-building process tracing methodology. This form of process-tracing compares empirical observations in two or more typical cases (see below) in order to build a mid-range causal mechanism (Beach & Pedersen, 2019: 274).

In an outcome-explaining or theory-building approach of process-tracing, the predicted causal mechanism is built from the empirical findings in an iterative fashion, which implies that the mechanistic evidence is often gathered before the theorised mechanism is put forward. Despite the empirics-first approach, using a mid-range causal mechanism can help to make the theoretical claim more robust through the application and testing of the mechanism in several typical cases.

This dissertation uses theory-building process tracing (PT) to build a mechanism which explains the causal link between economic shocks and punctuated change. Thus, this method serves the first part of the analysis of this study. Theory-building PT starts with the gathering of empirical data from cases in which the trigger cause (economic shock) and the outcome (punctuated change) were present and compares the findings to existing theories (Beach & Pedersen, 2019). As outlined in the operationalisation, this dissertation adopts a historical institutionalist approach and works with permissive and productive conditions in the critical juncture framework, which are translated into parts of the mid-range causal mechanism called 'critical juncture mechanism'. In the first part of the analysis, the critical juncture mechanism is tested for mechanistic homogeneity in four typical cases (see below). The purpose of this exercise is to test the presence of the causal mechanism and thus the validity of an approach combining permissive and productive conditions for the analysis of punctuated change.

The second part of the analysis tests the longer-term outcomes of punctuated change for mechanisms of reproduction and gradual change. This part tests the theoretical complementarity of the punctuated and gradual change models, as well as the reciprocity of path dependence and gradual change. The results from these tests help to state the validity of the eclectic theoretical framework, as well as the overall theoretical value of the concept of critical junctures in historical analysis.

This dissertation refrains from the formulation of hypotheses considering that case-related (theoretical) assumptions derive from the extensive pre-screening of empirical observations and not from theory itself. Thus, the research question outlined above does not strive to confirm or disconfirm theories of European integration as such but serves the purpose of explaining the development of financial assistance and allows to academically enrich the theoretical debate about crisis-induced change.

1.5 Four case studies

The case selection for this dissertation follows a simple set theoretical approach. Cases with the presence of economic shocks and legal change are typical cases and good candidates of critical junctures. However, legal change is not necessarily punctuated change, therefore this dissertation works with an iterative process of empirical-informed selection to refine typical cases with a more nuanced interpretation of change as punctuated change. Punctuated change is assessed based on the adjustment/change in the three main features of assistance, as well as the longevity of this change. Out of several moments of economic shock, this dissertation identifies four relevant moments in which economic difficulties co-occurred with punctuated change: 1) the monetary crisis in the EEC beginning in 1968, 2) the first oil shock of 1973, 3) the international financial and the subsequent euro area crisis beginning in 2008, and lastly, 4) the Covid-19 crisis beginning in 2020. In the context of the monetary crisis, the EEC introduced the first intra-EEC assistance instruments for short- and medium-term financial assistance. The first oil shock brought about a new financing instrument in the form of Community loans. In the context of the international financial crisis the euro area introduced assistance for countries participating in the single currency, and in the public health crisis non-repayable assistance was used for the first time.

These cases share the trigger cause of some form of economic shock. These shocks were different in symmetry, coverage, and origin, but they all carried some form of a rapidly worsening financial position of one or more EC/EU Member States. These cases also share punctuated change in the financial assistance regime as outcome. For the assessment of the significance and longevity of change, i.e., legacy, the entire timespan of the institutional development is relevant.

If the critical juncture mechanism is present in a translated form in all typical cases, the confidence in the first part of the proposed theoretical framework is strengthened, including the rationalist assumptions regarding government preferences. If, in the following periods, mechanism of reproduction and mechanism of gradual change are present and work in parallel, the confidence in the actor-centred historical institutionalist framework is increased. The purpose of this selection is on the one hand to explain crisis-induced change, and on the other hand to highlight the longer-term impact of this change, which allows to designate these cases as critical junctures.

1.6 Structure of the dissertation

This introduction stated the purpose and research question of this study and summarised the theoretical approach, the operationalisation, and the method applied in this dissertation. Chapter 2 will provide a brief introduction into the topic of financial assistance, and a selection of theoretical approaches tackling the study of crisis-induced change in European integration. A large part of this chapter is contributed to the summary and review of several streams of historical institutionalism as theoretical approach of European integration, and the operationalisation of a comprehensive form of HI called ‘actor-centred historical institutionalism’, which is used in this dissertation. Chapter 3 will discuss the methodology. This chapter explains the use of eventful analysis as the overall historical approach of the dissertation and the theory-building process-tracing method applied to the case studies. This variant of PT starts from the empirical manifestations and intends to construct a theoretical framework from these findings, which is then tested in the form of a causal mechanism. Further, this chapter provides the case selection and the data used for this dissertation. The following chapters 4 to 7 constitute the analytical parts of this dissertation. These chapters will test the mid-range causal mechanism and provide a legacy analysis of the punctuated change introduced in moments of crisis. The four case studies will be presented in chronological order according to eventful analysis (Kreuzer, 2023). Chapter 4 presents the case of the monetary crisis of 1968-1969. Chapter 5 presents the case of the first oil shock. Chapter 6 presents the case of the international financial crisis, and chapter 7 presents the case of the Covid-19 crisis. The conclusion in chapter 8 summarises the main findings and provides an assessment regarding the theoretical innovation, as well as an outlook regarding financial assistance in the EU.

CHAPTER 2: CRISES AND EUROPEAN INTEGRATION – LITERATURE REVIEW AND THEORETICAL FRAMEWORK

Introduction

This chapter introduces the study of crisis-induced European integration and outlines the theoretical framework applied in this study. The chapter is separated into four main parts. Part one provides a brief introduction to the topic of financial assistance. It gives an overview of the relation between government financing and financial assistance, and a basic breakdown of government financing possibilities in the EU. Part two presents two theoretical streams for crisis-induced European integration, namely scholarship using rationalist and neofunctionalist approaches. Part three introduced the theoretical frameworks of historical institutionalism (HI). This part is organised according to the two main streams of HI and their relevant conceptual frameworks.

The second part of this chapter discusses two main theoretical frameworks of European integration and how they explain integration in moments of crises, as well as their respective shortcomings. This dissertation focuses on rationalist and neofunctionalist theories as exemplary explanatory framework of European integration. First, liberal intergovernmentalism as the main rationalist approach to European integration is discussed, as well as its advantages and disadvantages in explaining crisis-induced change. Then rational choice institutionalism is presented, and specifically the principal-agent approach. Next neofunctionalism as pertinent theory of crisis-induced change is presented. This section first identifies the main concepts of neofunctionalism in the form of spill-over mechanisms, and then gives an overview of how scholars have adapted the approach to fit a crisis-focused analytical framework. In the following the merits as well as the shortcomings of neofunctionalism are discussed.

The third part of this chapter provides a selective in-depth review of the main streams of historical institutionalism and is organised according to the main concepts. First the core streams of studies focussed on punctuated and on gradual change are outlined as supposedly opposing explanatory approaches of HI. The following section discusses the concept of critical juncture, which is the main element of the HI analysis applied in this dissertation. This section provides the main, but also different conceptualisations of critical juncture, distinguishing between *ex post* and *ex ante* concepts. It then provides further terminological clarification for this dissertation. The third section introduces the concept of path dependence and the respective mechanisms of reproduction applied in the literature to explain the causal link between institutional outcomes. The last section on HI discusses the gradual change literature and the four main forms of gradual change applied in this stream of historical institutionalism.

Part four of this chapter explains the selection of historical institutionalism as the most promising analytical approach for this dissertation, and how its application can contribute to the literature focused upon European integration as crisis-induced. This part introduced the analytical framework of 'actor-centred historical institutionalism', and its operationalisation for this study. This part justifies the compatibility of punctuated and gradual change analyses and outlines the possibilities of how to combine them. It further provides the definition of the institutional elements analysed in this work and explains how gradual change is assessed. This part then continues to discuss the main building blocks of the critical juncture analysis in this dissertation, namely permissive and productive conditions. Here, the use of permissive conditions as enabling factors which bound the potential critical juncture, and which increase agency is illustrated. Further, the role of Member States and their preferences are discussed as part of the productive conditions, which emphasise agency and economic interdependence.

2.1 A brief introduction to financial assistance

2.1.1 Financial Assistance and in the European Union

Financial assistance in the European Union (EU) can be broadly separated into two types of assistance: first, financial assistance with the purpose to support a country's socio-economic development and second, financial assistance with the purpose to mitigate episodes of economic difficulties. The first form of support is integrated in more permanent policies with the application of financial resources over a prolonged period, while the second type is used in extraordinary episodes of economic difficulties. Thus, this dissertation will refer to these different forms of support as 'permanent policies', and 'financial assistance' respectively.

EEC and later EU permanent policies occurred in the form of long-term objectives or permanent financial envelopes either integrated in the budget covered by the Multiannual Financial Framework (MFF), funded through the collection of Own Resources, or provided via the European Investment Bank (EIB). The main share of the MFF, around 68 per cent for the 2020-2027 envelope, is attributed to cohesion and agricultural policies. This share is covered by several agricultural and structural development funds – both policies forming substantial parts of the overall EU budgetary expenditure. These permanent policies use non-repayable support to directly fund projects and farmers in EU countries through a collection and transfer of resources between countries being net contributors and net recipients of the EU's Own Resources.

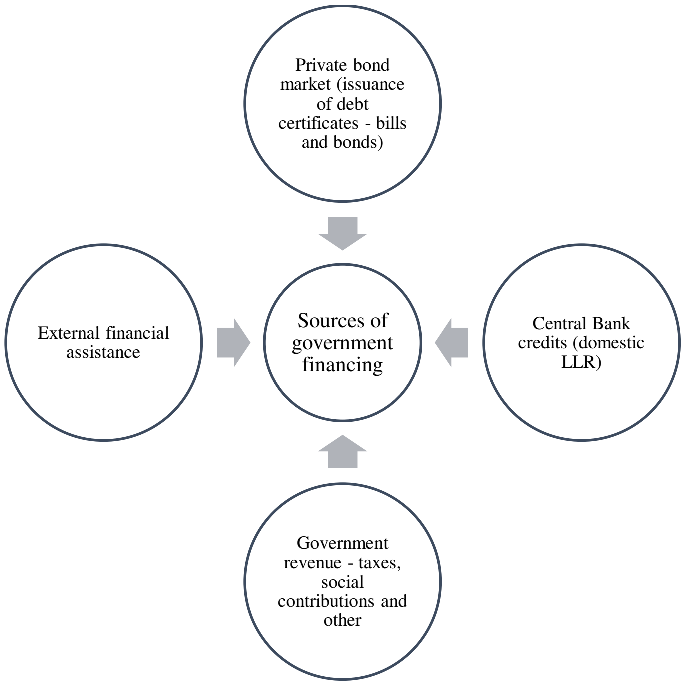
In addition to more permanent project related financing policies, the EU and the euro area have several exceptional financial assistance instruments targeted directly at Member States facing economic difficulties. These support instruments are generally not a permanent budget position of the EU, but either work within the margin available between the MMF and the Own Resources, or are financed directly by Member States, or a common extra-budgetary instrument. As extraordinary support is targeted at mitigating episodes of economic difficulties, its funds are directly allocated to governments to improve their financial position. Using financial assistance between governments is one possible way to counter the impact of economic crises and thus a potential integral part of a crisis-resolution mechanism. Studying extraordinary financial assistance between EU Member States is one way of understanding how governments with integrated economies respond to economic crises. This intergovernmental assistance is, however, also an interesting case as it constitutes the only explicit policy targeted to mitigate sudden economic difficulties controlled directly by EU national governments. This dissertation will focus on this latter form of support in episodes of economic difficulties and defines financial assistance as the extraordinary financial support between EEC and EU Member States, which is directly allocated to governments with the purpose of mitigating economic difficulties.

2.1.2 The relation between government deficit financing and assistance

In moments when governments of advanced developed countries generate insufficient revenues to cover their expenditures, they tend to run deficits instead of fully adjusting their current account balances. OECD national governments' main source of income derives from the collection of taxes and social contributions (OECD, 2019). In case a government spends more on investment in, for example, infrastructure or for the provision of automatic fiscal stabilisers, it can resort to the issuance of debt via the selling of government bonds and bills (debt certificates) to balance its accounts. As of 1 January 2022, all national governments in the EU have debt. The raising of capital via debt is an important tool for governments to cover costs occurred through the refinancing of existing debt and investments, but also through the maintaining of welfare in periods of lower revenue, without decreasing expenditure. Before the introduction of the euro, the stability of exchange rates, which was considered fundamental for the functioning of trade-related growth, was another factor. The access to the private market is fundamental for the functioning of government financing, as euro area governments' borrowing is entirely channelled via private institutions without having recourse to direct central bank last-resort lending or currency devaluation (Parguez, 1999; Kelton, 2011). The latter can have an easing impact on balance of payments imbalances (Copelovitch, Frieden & Walter, 2016)

The difference between internal sources of financing (e.g., via revenue, private markets, and in some instances central bank credits) and financial assistance is that the latter is neither determined by market actors nor by political institutions or the governments from within the economy that receive it. The funding either comes from other governments or from supranational institutions (see figure 1). Theoretically, default on public debt is not possible for a government that denominates its debt in its own currency and has monetary autonomy (Greenspan, 1997). Some scholars argue that euro area governments face the possibility of sovereign default (and in fact Greece has had a large debt restructuring during the euro area crisis), due to the lack of unlimited last-resort lending via the ECB, which makes the euro area countries — in their vocabulary — not the issuers of their own currency, but rather the users (see, e.g., Kelton, 2011; Parguez, 1999).

Figure 1: Sources of government financing



(Source: the author)

If a government has no access to domestic last-resort lending and the access to private market capital is impeded, only two roads are available to balance the accounts, to finance public debt, and to avoid (partial) default: first, external financial assistance, or second, increased revenues from taxes and social contributions. For the second road, governments can either reduce their expenditure or increase their revenues (Williamson, 2002). Reducing expenditure and increasing the tax burden comes with internal devaluation to the detriment of the citizen, both being somewhat unpopular, and can create a vicious circle of decreasing expenditure and income in times of crisis. External financial assistance can reduce the burden the government has to shoulder and smooth the potential adjustment that is necessary to regain access to the private markets. It can also help to avoid unnecessary currency depreciation (Kindlerberger & Aliber, 2011). The last point only holds in a system where exchange rates are adjustable, and states retain autonomy over their monetary and fiscal policies. Similarly, financial assistance could be used to bridge a dysfunctional debt market where funding rates exceed sustainable and adequate interest rates represented by economic fundamentals. Generally, assistance for balance of payments deficits could also reduce the actual costs of governmental borrowing as it prevents a run due to the availability of potential safeguards.

In moments where government revenue is diminished, policy makers largely have two options.[3] The first option is to use monetary policy to service government obligations, assuming the debt is denominated in the domestic currency. In this instance, central banks could take the role of a domestic lender of last resort to ensure reserves via monetary financing of government deficits. Prior to the introduction of the euro, German governments had been especially concerned with the potential inflationary impact of last resort lending via the central bank and thus granted the Bundesbank (the German central bank) only limited intervention possibilities (Bundesbank, 1995). If debt is denominated in a foreign currency, which was especially the case for dollar-denominated debt in the 1970s, the central bank's role of lender of last resort is dependent on its foreign currency holdings, as monetary financing can have an inflationary pressure on the domestic currency. The second option is to use fiscal policy such as reducing expenditure and or increasing taxes to generate more revenue. When no external financing is available, one or both options are necessary, independent of the size of the deficits. Thus, having the possibility to finance deficits via external financial assistance allows governments to maintain welfare and employment rates on the prospects of future government income. Such a deficit support system was envisaged in 1944 in the Bretton Woods agreement.[4]

In this international monetary cooperation, countries tried to establish stable exchange rates and capital mobility to foster trade among one another and to achieve balanced growth (De Vries, 1969). Originally, the International Monetary Fund was designed to be both a regulatory actor and an emergency fund for its member states in payment difficulties (De Vries, 1969). Indeed, the IMF was seen by White as a mechanism to facilitate trade and balance international payments (Boughton, 2002). The IMF worked as institutional guarantor for balance of payments assistance. Its agreement states that:

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[3] Note: These options apply especially to countries with open economies. In addition to fiscal and monetary measures, governments could introduce capital controls and import/export quotas to avoid balance of payment deficits.

[4] Note: It was meant for reversable financing needs, provided that the economy did not have structural deficiencies creating overspending.

> To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity (IMF Agreement Article 1; IMF, 2020a).

While today the private market plays an important role for countries to finance deficits and roll-over debt, financing from public bodies was the dominant *modus operandi* until the first oil shock in 1973 (Cohen, 1982). Market financing only became an actual alternative to official public financing, when the recycling process of surplus petrodollars from oil exporting countries by private international banks accelerated the rise of private institutions as international liquidity provider to states (Aliber & Kindleberger, 2015; Cohen, 1982). Thus, assistance in itself was the *availability* of funds, not the cheaper pricing of credits nor direct transfer. The original role of the IMF as lender to its Member States was in this regard uncontested as no comparable mechanism existed. Spiro (1999: 4) underlines that

> without the balance-of-payments adjustment financing, the resort to protectionist or nationalist policies that violate the international monetary order is too attractive for politicians to avoid.

As conceptualised above, assistance can be provided via an institutional setting or between states. After the Second World War, Western European economies were organised around the Bretton Woods exchange rate system and membership in the IMF.[5] Apart from Luxembourg and Germany, all founding EEC countries made use of the Fund at least once. Private debt markets became relevant in financing increasing government expenditures in Europe in the 1970s (Braun, Krampf & Murau, 2021; Landsberg, 1976). With the rise of the Eurocurrency markets, public debt in European countries increased in parallel, as many funds were channelled through this market to banks, which were lending money to governments to finance their deficits due largely to the increased prices of petroleum products. In this period the composition of publicly held government debt shifted significantly to private creditors (Panizza, Sturzenegger & Zettelmeyer, 2010).

[5] Note: Germany being the last of the EEC six to join the IMF in 1952.

2.1.3 The market and financial assistance

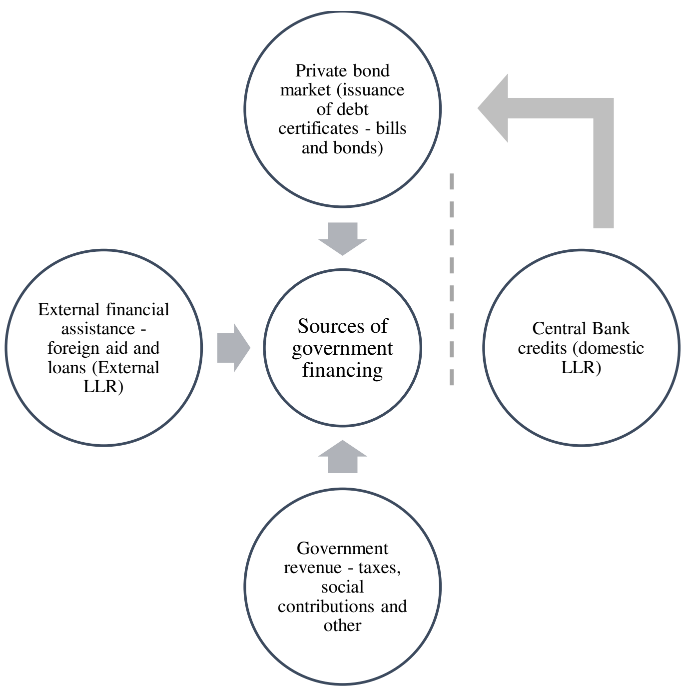
The composition of a government debt gives an indication where and from whom its financing comes. In 2017 the Bundesbank published the composition of German BUNDs,[6] stating that almost a quarter (23.5 per cent) of German public debt is held by the Bundesbank, 16.5 per cent by the private sector of the euro area, and 44.6 per cent outside of the euro area (Bundesbank, 2018).[7] Altogether, the public sector (in and outside the euro area) held about 48.6 per cent of German federal securities in 2017 (Bundesbank, 2018). Thus, Germany's public debt was, even though only slightly, in its majority held by the private sector — specifically, financial institutions, including pension and investment funds. After the restructuring of Greek public debt, bond holders of Greek public debt shifted from 84 per cent of private sector in 2010 to 85 per cent of public sector creditors in 2013 (Public Debt Management Agency, 2021). The share of privately held Greek public debt grew steadily since then and represented almost a quarter in the composition of debt in 2021. In the euro area in 2021 around 30 per cent of the total public debt was held by private financial institutions and around 20 per cent by euro area central banks, including the ECB; while in 2010 the former held about 40 per cent and the latter far below 5 per cent of government debt (Pavot & Valenta, 2021). The share of public creditors increased in the euro area since 2010 because of the impact of the international financial crisis and the introduction of purchase programmes (Pavot & Valenta, 2021). These examples are to illustrate that the private market plays a major role in the financing of governments and that disturbances in the market can pose a threat to a country's possibility to refinance its deficits. The first, and so far, only time an EU Member State defaulted occurred with the restructuring of Greek debt in the wake of the debt crisis in 2012 (Colasanti, 2016).

In the euro area, the ECB does not have the possibility to use monetary financing to support governments directly through the primary purchase of sovereign debt due to Art. 123(1) TFEU prohibiting monetary financing (see figure 2). Therefore, starting from 2010, the ECB acted in the private, secondary, markets instead. The ECB did so by using several bond-purchasing initiatives on the secondary market and low-priced long-term refinancing operations for financial institutions. Euro area central banks have to go via the private market in order to purchase government debt,

[6] Note: BUND is the denomination of the common German government bonds.
[7] Note: Federal securities holdings of the ECB and euro area central banks are not registered in the statistics of the Bundesbank.

which means the initial purchase of new-issued bonds has to be undertaken by private operators in the primary market putting a market component between the central bank and euro area governments. However, in a situation where the primary market of government debt is impeded from providing financing, due to either no or low demand and high yields, the central banks have no possibility to ensure immediate stability on the bond market and relief for governments. Governments can in this case only rely on internal revenue and external financial assistance. Assistance can, for example, be provided by other governments of the euro area, or international institution like the IMF.

Figure 2: Sources of government financing with monetary financing prohibition



(Source: the author)

Balanced accounts are technically not necessary within a currency union, as the common central bank cannot run surpluses and deficits within its own account. In the euro area a formal distinction between national capital flows is registered within the TARGET2 system, showing liabilities of central banks vis-à-vis the system, while the general euro area account is balanced, illustrating that the balance of payments within the euro area is always balanced. In other words, balance of payments deficits can only occur towards the exterior and thus do not require financial adjustment mechanisms within a currency union (see also Marzinotto, Pisani-Ferry & Sapir, 2010; Merler &

Pisani-Ferry, 2012). However, countries within a currency union can face fiscal difficulties and as mentioned above, require support to stabilise their fiscal position if the market is not providing the needed funds to finance these deficits.

Thus, countries use financial assistance to secure first and foremost financing to bridge the gap between increased financing needs and the availability of funds — a situation that arises in the context of economic difficulty. These financing needs can be due to diverse causes requiring increased public spending, such as exogenous economic shocks in the form of intense market speculation against a specific currency peg, a financial crisis, or from an economic crisis creating high levels of unemployment and lower state revenue (see, e.g., Falkner, 2016). Often these situations arise from exogenous shocks to the economy, which countries try to absorb via financing safeguards. In public discourse, moments of such economic difficulty are frequently equated with economic crises, a concept frequently used by policy makers.

2.2 Theoretical approaches of European integration in the study of crises

The following sections provide an overview of rationalist and neofunctionalist theories of European integration. After summarising their main approaches, their contribution to the study of crisis-induced change, as well as their explanatory shortcomings are discussed.

2.2.1 Rationalist scholarship and crises

Rationalist approaches offer a useful take on understanding steps in European integration in critical moments such as presented by economic crises as they use first and foremost a state-centred lens, putting utility maximisation and actor preferences in the centre of their analytical framework. This calculous premise works with bounded rational actors (Keohane, 1984; Braun & Guston, 2003; Pollack, 1997; 2007; Tallberg, 2002; Moravcsik & Schimmelfennig, 2019), only restricted in their relative cognitive limitations. In the policy area of financial assistance, the role of Member State governments is also particularly relevant as the European legal framework either designated an exclusive competence to national governments in providing assistance, or it did not include assistance in the EU framework at all, in which case national governments were to find agreements on how to accommodate financial assistance in the European institutional setting. Importantly, rationalist approaches do not see structural shifts, such as crises, as the carrier of change, but rely on government preferences as the cause for stability and change.

Liberal Intergovernmentalism (LI) has often been used for analysing the impact of economic crisis in the development of Economic and Monetary Union (EMU), presenting the state as a bounded rational actor at the centre of the analysis (Moravcsik, 1998; Moravcsik & Schimmelfennig, 2019), as resolution of these crises were often handled by Member States outside of the ordinary decision-making procedure of the EU. What Moravcsik (2018) designates as the baseline integration theory-role of LI is linked to the validity of its premise in moments of major integration steps in the EU, which in the case of EMU since 2008 often coincide with economic crises (see, e.g., Schimmelfennig, 2015). LI is an explanatory approach using domestically formed preferences and leverage of governments in intergovernmental bargaining to account for the institutional outcome of the negotiations. This approach emphasises that states act according to their respective preferences with the general objective of achieving the most preferred outcome in the least costly way (Knight, 2018).

Moravcsik (1998) provides a three-stage framework for assessing the outcomes of intergovernmental negotiations. First, governments form their preferences domestically. This process is dependent on the issue at hand and the respective constituency at the national level (Moravcsik & Schimmelfennig, 2019). This can, on the one hand, mean that the government assumes the position of a small number of stakeholders in a very specialised area (e.g., agriculture). On the other hand, preference merge with the 'macro-economic preference of the ruling coalition' in specific areas such as monetary and fiscal policy (Moravcsik, 1998: 3), which do not have clear implications for specific constituencies (Schimmelfennig, 2015), but which are associated with the broader interest of the tax-payers (Moravcsik & Schimmelfennig, 2019). Thus, in a moment of economic crisis, which is generally associated with a threat to a broader base of interested parties, democratic governments focus on and favour general welfare and autonomy to protect their taxpayers' financial interest (Moravcsik, 2018), as clientelism could cause a loss of the popular support of the government. As the implications of financial assistance are more predictable in terms of potential expenses and certain in financial terms, this issue-specific area fits well into a liberal intergovernmentalist framework. National governments respective interests in the financial assistance regime would therefore represent their general financial interest, derived from the cost-benefit and risk assessment in consideration of their future involvement and role in the assistance structure.

The second stage focuses on the negotiation between national governments for a joint European solution. LI emphasises the relative actors' bargaining power and asymmetric interdependence in this process (Moravcsik & Schimmelfennig, 2019). Governments with lower gains at this stage have lower incentives to compromise and enjoy a stronger bargaining position (Moravcsik, 1993; Schimmelfennig, 2018). Especially in a situation of economic interdependence, as it is the case for integrated market, financial and monetary policies, interests for joint solutions merge with national preferences in a two-level mixed-preference game (Scharpf, 1997; Zürn, 1992), in which national governments agree to resolve the common difficulties at hand, but disagree about the modalities, which represent different costs and benefits for Member States (Moravcsik & Schimmelfennig, 2019; Schimmelfennig, 2015). In the context of financial assistance, national governments with expected higher financial involvement and lower direct benefits from a joint solution have therefore a strengthened bargaining position, as the assistance regime is asymmetrically dependent on their participation. At the third stage, governments pool or delegate power to the European level in the form of specific institutional constructs (Moravcsik, 1998). This delegation is generally limited and under the control of national governments (Moravcsik, 1993). Due to the leverage of countries with more bargaining power, solutions tend to reflect their positions more than others.

Schimmelfennig (2015) uses a liberal intergovernmentalist approach to explain the outcome of the euro area crisis. In his contribution, he argues that a mixed motive situation of common preferences for safeguarding the currency union,[8] resulting from negative interdependence, and diverging national preferences based on Member States' respective fiscal positions, led to hard bargaining and solutions largely corresponding to Germany's preferences. The dominance of the German position is explained by its *de facto* leadership role in designing core features of EMU (Heipertz & Verdun, 2010; Verdun, 1999), and its asymmetric bargaining position in the context of several core moments of economic difficulties. In these moments other countries were more dependent on Germany's agreement than vice versa.

LI, but also other actor-centred approaches were used for studies concentrated on reforms in the euro area, emphasising the role of Member State governments. Dinan (2011) argues that the European Council cemented its role as crisis manager during the euro area crisis and that the

[8] Note: This dissertation refers to 'shared preferences' and 'mixed-preference' in its own theoretical framework, which is equivalent with Schimmelfennig (2015) 'common preferences' and 'mixed motive' concepts.

Franco-German partnership was crucial for advancing joint solutions. Similar Boin & Rhinard (2022) argue that the EU's crisis management is done on the national level by governments, and as a second order by the political class at European level, often including the European Council and the Council of the EU.

One point of criticism of LI is often the stable set of preferences that rationalists assume for the state as unitary actor, leaving little space for dynamics of endogenous institutional and social effects of earlier choices (Pierson, 1998). This point is particularly relevant as crises are not solely exogenous shocks to the system in place, which is what LI studies assume (see, e.g., Schimmelfennig, 2018). The reason that shocks, in particular economic ones, become crises is by equal measure explained by conditions of the institutional setting in place which were not able to absorb the shock or to defuse the situation in an adequate fashion, attributing LI an episodic explanatory value regarding the negotiation part of the handling of crisis, but not a time-sensitive understanding of why an economic shock led to a crisis for a specific institutional construct in the first place. Bulmer (2009) criticises that an approach focussing on dramatic moments, such as LI, misses out on the relative stable non-dramatic moments which are part of the explanation of long-term processes in institutional development as well. With regard to change to institutional elements which are part of policy arrangements, stability and change would in LI depend on the agreement reached at the moment of negotiation and thus on the preferences of the state or coalition of states with the highest leverage. Stability is thus the result of a stable coalition or the preference of the states with more powerful bargaining position in favour of the status quo. Lastly, Heipertz & Verdun (2010) stressed in their work on negotiations of the SGP that, even though LI had its merit in explaining dominance and preferences, it had equally shortcoming in pinpointing the form of negotiation between Member States and defining the origins of national preferences.

To address some of these shortcomings, scholars have combined LI with other approaches of European integration such as neofunctionalism to account for changing preferences due to endogenous integration dynamics. Jones, Kelemen, and Meunier (2016) developed an approach, which argues that intergovernmental bargaining led to an incomplete EMU due to diverging preferences only allowing for policy and institutional outcomes that reflect the lowest common denominator. This incompleteness causes the occurrence of crises, which themselves are again resolved by incomplete solutions, which furthers a step-by-step deepening of integration (see, e.g., Howarth & Quaglia, 2021). Through a more advanced combination of neofunctionalism with intergovernmentalism, this failing forward thesis tried to allow for endogenously derived preferences (Riddervold, Trondal & Newsome, 2021), which are linked to the in-between solutions adapted coupled with their inherent problems, and diverges to some extent from the exclusive exogenous shock understanding of crisis that is inherent in LI.

In addition, institutional structures can change without explicit choices by decision-makers, e.g., through contextual shifts which impact the status quo structure and as a consequence actors favour other solutions, or the expected impact of the structure changed. Here, the concept of bounded rationality is too broad to meaningfully explain how gradual, apparently small changes, take place, or how choices in critical moments impact later developments of arrangements. Answering research questions with a long-term timeframe might prove difficult with a solely LI-based research approach, as it takes no account of changing contexts and slow-moving institutional adjustments which are not based on explicit negotiation between national governments and is less adequate for analysing processes of integration taking place outside of the realm of episodic government decision-making. Most importantly, LI does not take into account previous ineffective or deficient institutional structures as part of the cause for crises, as shocks are considered exogenous (Moravcsik, 2018; Schimmelfennig, 2015; 2018; 2021). Despite these restrictions LI is well suited to analyse the short, episode-like resolution of crisis in those policy areas controlled by EU Member State governments, accounting for the explanation and consolidation of preferences.

Another often-used theoretical approach to EU policy making and EU developments is rational choice institutionalism (RCI), which is one of several new institutionalisms that emphasise the role of institutions in the actor's choices and the process or origin and change of institutions themselves (see, e.g., Hall & Taylor, 1996: 5). Shepsle (2006: 23) separates RCI's understanding of institutions into two forms: 1) externally given rules working with constraints, which set the actors in a structured environment for interaction leading to a structural-induced equilibrium, and 2) institutions as the outcome of actors' way of interacting leading to equilibrium institutions. The determining factor in the 'selection, persistence and decline' of institutional settings is linked to fixed (materialist) preferences of actors (Kassim, Saurugger & Puetter, 2020: 467). A policy or polity outcome in an RCI framework is therefore the equilibrium of strategic interests of states (Schneider & Ershova, 2018). RCI approach on crisis-induced change or institutional change per se is linked to the actors' preference to change the structure due to their interest to achieve utility maximisation. The defining element which distinguishes it from intergovernmentalist views, is the expected role institutions play and how they constrain actors and create unintended consequences (Pollack, 2012).

On the other hand, RCI is not particularly interested in providing an explanation of crises as such. It is rather focused on how state actors resolve these moments and what institutional structure arises that ensure their utility maximisation (Pollack, 2006). While scholars have used several forms of game constellations to explain the dynamics of actor interactions (see, e.g., Scharpf, 1997), the institutional outcome in EU integration focuses in particular on how new bodies and agencies are designed and what competences are delegated and what control mechanisms are in place for Member State governments. In this principal-agent model, governments pool or delegate competences to supranational bodies to better cope with certain problems, which are difficult to resolve unilaterally or at the national level (Tallberg, 2002; Pollack, 2010). The design of an institution (here synonymous with institutional body) therefore reflects the preferences and expectations of the principal(s) (Pollack, 1997). A post-crisis institutional setting in financial assistance is therefore expected to be an equilibrium of the actors' preferences in terms of delegation of competences and the expected material and non-material costs. Tallberg (2002) also emphasised that the process of delegation is dynamic and ongoing through feedback loops, which allow states to learn from their delegation and allow them to adjust the system in place to meet their expected objectives.

The principal-agent model presents a useful tool to analyse the relationship between the Member State governments and the executive agencies of assistance, mostly the Commission and later the EFSF and the ESM. A principal-agent analysis helps to determine the constraints for the institutional body, its margin of manoeuvre, as well as the loss of agency by the principal. The focus of this model is often to explain to what extent a common body is able to formulate and follow its own preference in an opportunistic fashion, so-called 'shirking', and how the delegation contract enables the agent to behave contrary to the principal's preferences, so-called 'slippage' (Pollack, 1997; see also Delreux & Adriaensen, 2017). Analyses are therefore particularly interested in how principal(s) ensure the intended action by the agent. McCubbins and Schwartz (1984) conceptualised 'police-patrol' and 'fire-alarm' as control mechanism, the former requires the principal to monitor the agent through hearings, reports and other constant forms of surveillance, while the latter is outsourced to stakeholder to signal any wrongdoing by the agent. Fontan and Howarth (2021) use this approach to explain the German Federal Court's role in ECB oversight. While the use of this analysis can help to understand the tasks delegated to financial assistance institutions (EFSF and ESM, but also the Commission), and the control mechanisms in place for the collective principal (EU or euro area governments) to ensure the proper execution of this policy, it is less well suited to explain the emergence of the crisis, nor when an institutional construct undergoes adjustment outside of explicit governmental decision-making.

Further allows RCI to theorise change to the institutional construct as well as decisions within the constraints of the very same. While RCI is helpful to understand constraints and rationality of the actors' behaviour, it does not explain when actors have the possibility to dramatically change an institutional structure and when an institution is in fact in equilibrium. Given the fixed set of preferences, RCI appears less well suited to explain an institutionally induced preference shift in newly unfolding contexts. If preferences were indeed flexible the institutional structure would require constant change in order to meet the equilibrium. However, legal barriers pose clear institutional constraints, which equally are meant to ensure some form of stability. Especially in gradual and unexpected institutional adjustments, this form of analysis appears less meaningful. Overall, the RCI framework is much better suited to model the everyday business of the implementation of EU policy via institutional and national actors (Pollack, 2010).

2.2.2 Neofunctionalism

As one of the earlier foundational theories of European integration, neofunctionalism has re-emerged in the study of crises in the European Union. Neofunctionalism works with a continuant process of integration driven by functional spill-over, a functional pressure leading to a sort-of chain reaction of integration from one policy area to another, and cultivated spill-over, a process in which supranational actors facilitated positive sum outcomes in favour of integration (Niemann & Schmitter, 2009). With this notion of continuous and automatic spill-over, neofunctionalism implicitly favoured an integration by gradual or incremental steps, being somewhat less open to a crisis-induced approach to institutional change. However, from this automaticity, neofunctionalist contributions reconsidered the concept of spill-over to include the possibility of reverse (spill-back) or the possibility to avoid the increase of power to supranational institutions by attributing power to intergovernmental agencies (spill-around) (Niemann & Schmitter, 2009). They also emphasised the conditions under which spill-over is possible, arguing that functional spill-over is only possible where the functional pressure is also perceived and subsequently translated by actors into more integrated outcomes (Niemann & Schmitter, 2009). In this regard, Schmitter (1970) identifies crisis as issuant from internal progress in integration, thus as inherently endogenous, even though the initial shock might have exogenous roots (Bergmann & Niemann, 2018). Niemann & Ioannou (2015) argue convincingly that functional pressure between asymmetric integrative steps in EMU and parallel national policies led to crisis where these pressures were not diffused through further integration. In this regard, neofunctionalism could use these functional pressures to explain the emergence of crisis, which then had to be resolved by the diffusion of pressure. This can be achieved through integration, or, and this makes it different to the first version of the theory, dis-integration as well. NF accounts of the euro area crisis point to functional dissonances in the integration of financial markets and monetary policy and national fiscal and national banking regulations, which ultimately had to be resolved through integrative steps (Niemann & Ioannou, 2015).

Similar to rationalist literature, NF argues for rational actors with self-interest, who, and here it diverts from traditional rational accounts, are able to adjust their preferences according to learning processes (Niemann, 2021). It also opposes rationalist views in their understanding of states as non-unitary actor and argues in favour of plurality of actors (Niemann, 2021). One element of NF is the emphasis on elites in the process of reform. In the context of the euro area crisis the arguments of business and banking representation as the basis for change appears less tenable. What is called political spill-over, is less able to explain the detailed outcomes of euro area crisis resolution tools or banking union. Niemann and Ioannou (2015) argue that Brussels based interest representation was decisive in the framing of the six-pack because its position was in sequence issued before the Commission's proposal and demands about the fiscal compact were found in the final document. This illustrates one weakness of NF in terms of crisis resolution, as it deliberately exaggerates the role of elites and does not explain the process of influence of elites on the final position of governments. In the case mentioned above the simple congruence of preferences might be a potential case of equifinality, and the position of non-governmental elites could coincidently be equivalent with governments' rationally derived preference. Similarly, it is argued that the banking sector, even though not organised as unitary actor, was the 'revealer' of functional pressure in the case of the sovereign-bank doom loop (Niemann, 2021). While this is a useful illustration of the translation of functional pressure, and thus functional spill-over, it is much less in terms of active influence of elites in the banking sectors on government positions. Other examples including the crisis management of the ECB are better suited for an elite or supranational institutional lens, as they are by design less intergovernmental, the dynamic between non-governmental elites in parliament and other supranational institutions are illustrated in theoretical distinct studies as well (see, e.g., Fontan & Howarth, 2021).

Overall, NF is well-suited to inform about the resilience of an institutional structure in terms of functional pressures arising between rapid shifts in the environmental conditions due to internal dysfunctionalities. Also, the argument of incomplete integrative steps leading to subsequent functional pressures, which are again resolved through further incomplete integrative steps put forward by the failing forward approach is based on this functional premise and gives insights into the step-by-step movement applicable in subsequent crises. As mentioned before, scholars of other approaches have repeatedly borrowed the concept of functional pressure in their studies of crises (see also Genschel & Jachtenfuchs, 2018; Falkner, 2016). It appears that the validity of NF relies predominantly on the concept of functional spill-over, which without the automaticity, is easily extracted and used by other theories without undermining their core assumptions (see, e.g., 'functional mechanisms of reproduction' in Mahoney, 2000). In addition, the reliance on non-governmental and supranational elites as drivers of integration is simply overemphasised as their interaction is part of the previously designed political process of the EU and do therefore not contradict nor eliminate state-centred theories (see, e.g., the role of the Monetary Committee in Heipertz & Verdun, 2010). NF accounts on explaining the emergence of the ESM e.g., conveniently disregard the intense negotiations between governments (see, e.g., Niemann & Ioannou, 2015), as this case contradicts the supranational interest and elite action as illustrated by other case studies (see, e.g., Gocaj & Meunier, 2013) or even institutional own accounts (ESM, 2019). Heipertz and Verdun (2010) argue similarly, when emphasising that the development of the SGP does bear evidence of neo functionalism, it also lacks the explanation for intergovernmental decision-making and German dominance. Thus, the theory is useful to some extent in explaining the dynamics of crisis resolution in the area of financial assistance and might be porous in explaining its developments as the policy area is predominantly in the hand of government actors.

2.2.3 Choice of theory and contribution to the literature

As financial assistance is a policy targeted at mitigating economic difficulties, studies of how this policy emerged and how it developed should take episodes of economic difficulty and their impact on the design of assistance into account. Such an approach requires on the one hand a focus on the resilience of the financial assistance regime vis-à-vis these episodes, or shocks, and on the other hand an explanation when and how the assistance regime underwent change. Financial assistance in the European Communities and later the EU was, and still is, predominantly based on a support structure fuelled by direct Member State contributions or guarantees, which was decided by and given to national governments. Even though assistance was partially channelled via the EEC and later EU, it, for most of the time, had some form of budgetary implication for governments, either in the form of risks or direct expenditure, or in the form of favourable financial terms for recipients of assistance. This point underlines the importance of the national governments' respective interests in the design of assistance. In addition, financial assistance is not a typical policy area with a well-defined domestic interest group such as the Common Agricultural Policy (CAP) and the farming sector, instead it is a macro-economic tool, bearing risks and distributional costs as well as benefits for the general welfare of the provider and recipient alike, underlining the overall societal interest on the domestic level in terms of its welfare impact and strengthening the societal-cleavage between taxpayers of potential providers and recipients of assistance. Furthermore, financial assistance has existed within the EEC and later the EU for over half a century. Conditions surrounding financial assistance have significantly shifted in these years, while the EEC and later the EU have faced several episodes of economic distress. The relevance of context and its development over time supports an analytical framework that takes temporality into account. Such a framework helps to connect the re-occurring economic shocks in a broader picture of the regime's development and explains how episodes of economic difficulty impacted the financial assistance regime, including national government preferences and interactions in these episodes. One way of doing this is via an historical institutionalist approach.

Historical institutionalism (HI) is traditionally interested in explaining the impact of formative historical moments on institutional developments and how these moments initiate path dependent processes, which are difficult to reverse (Pierson, 2004). Often, they identify crises as critical junctures carrying significant change in the institutional construct (Collier & Collier, 1991). Episodes of economic difficulties in general are thus preferred research targets for scholars of this tradition. The emphasis of historical institutionalism in the study of crises is threefold: First, HI explains the emergence of crisis via the emergence and disappearing of specific conditions marking the start and end points of crisis moments. Second it uses several theoretical premises to explain the process of policy adjustments within the dynamics of the arising junctures, emphasising agency, but not limiting itself to ideational nor rational accounts (Hall & Taylor, 1996). Third, HI analyses how decisions in these moments impact the later development of the specific policy, often explicitly linked to path dependency. HI can emphasise, other than most theories of European integration, as much stability in crisis as change, helping to highlight when an institutional structure undergoes more superficial and in-depth reform. Lastly, state preferences and agency are not per se limited to purely rationalist approaches and can be integrated in versions of historical institutionalisms (Büthe, 2016a; Mahoney & Thelen, 2009). In these forms Member State governments and other private and institutional actors are designated ‘change agents’ whose preferences are centred around self-preservation, power and material considerations (Büthe, 2016b). Different to rationalist approaches, these preferences are however not fixed and are adaptable with the development of the institutional structure (Büthe, 2016b).

The advantage of historical institutionalist studies in episodes of economic difficulties, is the openness of the theoretical framework to concepts and analytical tools from other strands of European integration and its emphasis on gradual and critical change. HI can therefore not be considered a full-blown integration theory as it allows for bricolage of concepts and fundamental elements from other theories. Thus, the strength of HI lies in its theoretical adaptability and case-specific focus, which is reversely its most accentuated weakness, as one can only limitedly derive more general theoretical insights from a case-specific application, nor can one presume universality of its claims.

As the objective of this dissertation is to provide an analytical explanation of the development of financial assistance within the European Union, including the conditions under which economic shocks contributed to its design, applying an HI approach is expedient. In order to answer the research question, this work combines theoretical elements of a rationalist approaches in an in-depth historical institutionalist analysis. The broader historical institutionalist framework combines continuity and change in episodes of economic shock, as well as the processes following these episodes. Even though some HI studies have used the insights from the literature of gradual institutional change in their analysis of crises, this study develops its own, more integrated theoretical framework of tools form gradual and punctuated change literature, with the purpose to further the understanding and use of historical institutionalist tools in the study of European integration. In addition, it attempts to widen the compatibility of rationalist elements for institutional choice, while equally emphasising the structural and institutional constraints. This case study thus engages in bricolage (Kreuzer, 2023; see also Heipertz & Verdun, 2010), with an innovative eclectic theoretical framework, able to better explain and shed light on the last fifty years of the European financial assistance regime's development.

2.3 Historical Institutionalism as theoretical framework of change and continuity

The following section provides a review of the theoretical elements of the broader historical institutionalist theory. After introducing its main concepts, this section provides an operationalisation of HI using elements of both main streams of the theory, and the way this dissertation intents to apply a combined analytical framework of critical juncture and legacy mechanisms.

History matters is a slogan recited by some advocates of historical institutionalism (see, e.g., Steinmo, 2008; Schwartz, 2004; Pierson, 2004). What is meant by this statement is not so much that the thickly spread narrative of history is *all* that matters, but rather that political processes should and must be analysed within their temporal embeddedness. This emphasises that the moment when something happens has a significant impact on how it happens (Pierson, 2004: 71). On the one hand the temporal context is thus the core element of HI, which also separates it from other branches of new institutionalisms (Hall & Taylor, 1996). On the other hand, this allows HI to borrow theoretical building blocks from other theories, such as rationalism or constructivism without abandoning its main premise. It can thus by the same token use actor preferences for a calculous analysis as well as belief systems for a cultural analysis (Fioretos, Falleti & Sheingate, 2016). Some approaches of HI use an explicit rationalist and agent-centred approach (e.g., Büthe, 2016a), while others research the role of belief systems and ideas in historical processes (Hogan & Doyle, 2007; Verdun, 2007). What combines these somewhat distant ontological foundations is the role of historical processes in the explanatory framework of the tradition, which, fittingly, developed a rich set of broadly applicable temporal concepts over time, allowing to look at the evolution of single policies as much as entire systems. Fioretos, Falleti & Sheingate, (2016: 3) state that '[HI] is a research tradition that examines how temporal processes and events influence the origin and transformation of institutions that govern political and economic relations'. A historical institutionalist explanation is therefore as much interested in the causal relationship between the process and the final outcome, as in the sequencing of events or steps situated along the timespan.

Historical institutionalists used several different concepts by which institutional developments and outcomes can be analysed and hypothesised. Often these concepts are attached to specific approaches on how to analyse institutional developments. Critical juncture and path dependence literature understands the historical development as a process initiated by punctuated formative moments, which through mechanisms of reproduction causally link the origin and further evolution of the institution (see, e.g., Capoccia, 2016). Literature on gradual institutional change, understand institutional development as a less abrupt process, entailing longer processes of gradual transformation which significantly alter the institutional structure through constant interaction of actors within the institutional structure (Streeck & Thelen, 2005; Mahoney & Thelen, 2009). These approaches are often treated as opposed to each other by scholars (e.g., Streeck & Thelen, 2005; Capoccia, 2016), even though their mutual benefit has been demonstrated by several studies (Ackrill & Kay, 2006; van der Heijden, 2011; Thelen & Conran, 2016). Lastly, scholars of US politics problematised the variety of overlapping institutional structures within a political system (Orren & Skowronek, 1994). They emphasise that many different institutions, created in different moments in time and which function according to a variety of rules and norms, exist in parallel and form a mosaic of multi-layered, sometimes conflictive structures within a polity (Orren & Skowronek, 2004: 108; Fioretos, Falleti & Sheingate, 2016: 13). The following section introduces the main concepts and building blocks of historical institutionalism and puts forward a possibility to consolidate separate forms of change in a detailed institutional analysis.

2.3.1 Punctuated vs gradual change

When analysing the impact of economic crises in the EU, the concept of critical juncture is prevalent. As mentioned above, many scholars have used this concept to explain changes in moments of crises. Surprisingly the choice by many scholars of EMU or European integration to use the critical juncture lens in recent studies was done within a few years after crises, without giving much insight into the path dependent processes the juncture might have triggered, nor to the previous structure to which it was supposed to be critical.

Traditionally, critical junctures were linked to the punctuated equilibrium model, in which periods of short institutional creation were followed by long periods of institutional stasis (Krasner, 1984; see also Katznelson, 2003). The concept assumed stability linked to the chosen equilibrium at a critical moment, resulting from an exogenous shock, constraining subsequent evolution, and leading to path dependent endurance of the institutional construct. The 'comparatively big and comparatively fast change' linked to punctuated change was mainly associated to critical juncture analysis (Mahoney, 2010). The subsequent path dependent institutional development is piecemeal and comparatively slow-moving. Literature conceptualises path dependence as the process following a critical juncture 'in which institutions exert their causal force' (Fioretos, Falleti & Sheingate, 2016). This causal force is often associated with the endurance of institutional constructs and their stickiness through time.

The inherent connection between critical junctures and path dependent outcomes assists in showing how formative moments created divergence across cases or how they disrupted institutional stability and reoriented the subsequent development. In their work on the labour movement in Latin America, Collier and Collier (1991: 29) define critical junctures as 'significant change, which typically occurs in distinct ways in different countries […] and which produces distinct legacies'. For them, critical junctures were thus inherently comparative and consequentialist. Thus, apparent change and a comparative case with deviation in the outcome were decisive requirements for a critical juncture analysis. In the following scholars fine-tuned their understanding of critical junctures as 'moments of structural indeterminacy and fluidity during which several options for radical institutional innovation are available', (Capoccia, 2016: 101; see also Mahoney, 2001). In these relative brief moments, the range of choices for policymakers is increased through the relaxation of previous constraints, making change, even though not necessarily an outcome of the critical juncture, more probable (Capoccia & Kelemen, 2007). Similarly, Mahoney (2000; 2001) emphasised the importance of the availability of choices and subsequent closing-off of the non-chosen alternatives. Thus, agency plays a decisive role in critical junctures. Soifer (2012) adds to the understanding that critical junctures can equally shape divergence from the past and are not solely applicable across cases but also across time. This understanding of critical junctures allows an application of this type of development in many non-comparative studies and broadens the focus on eventualities and also decisive moments of inaction by policymakers. Hence, critical junctures are explicitly contextual through the easing of constraints. However, most scholars would, for good reason, analyse moments of significant change, because even though the concept of 'near miss critical juncture' is an interesting theoretical exercise, it offers little insights into actual institutional outcomes in the real world.

The path dependence, or the legacy, resulting from the critical juncture (Collier & Collier, 1991), was seen by scholars predominantly as a process of positive feedbacks or increasing returns (see, e.g., Mahoney, 2010; Fioretos, Falleti & Sheingate, 2016), which through continuous investment in the institutional structure made its reverse unlikely (Pierson, 2004; Skocpol & Pierson, 2002). This feedback process was conceptualised as a sequence of events, reinforcing the initial choice via each step. Traditionally, gradual change was associated with path dependent developments emphasising the relevance of rather small contingent events as causal factors for later outcomes (Pierson, 2000). While small steps and change were possible parts of a path dependent sequences (Mahony, 2000; Pierson, 2004), scholars also emphasised continuity carried via the path dependent process since the occurrence of the critical juncture (Collier & Collier, 1991). Overall, path dependent processes would not account for significant abrupt change, but for small steps along a long-lasting gradual development (Pierson, 2004). The dynamic that makes a process path dependent is the sequence of causally linked events that cannot be explained differently than by the precedent event, which ultimately leads to the critical juncture as initial cause (Mahoney, 2000). In other words, critical juncture outcomes carry causal weight in the subsequent institutional development, often studied as a sequence of change causally linking the initial outcome of the juncture to subsequent ones (Capoccia, 2015), which can lead to continuity or transformation in equal measure (Mahoney, 2000; Mahoney, Mohamedali & Nguyen, 2016).

The new literature of gradual change emerged out of lack of alternatives to the punctuated equilibrium model propagated by scholars of critical junctures (Streeck & Thelen, 2005). Its main premise was that institutions for the most part did not follow the prominent punctuated mode of change and that transformation was a continuous process, which, over time, led to significant change without exogenous shocks rupturing the institutional equilibrium in one decisive moment (Mahoney & Thelen, 2009). Gradual change literature emphasises the role of both, endogeneity and exogeneity of change-inducing factors in the institutional development. The central argument is that actors within the institutional setting are continuously working to shape the outcome and that the objective of a gradual change analysis is to 'understand […] the way actors cultivate change around elements they cannot change while attempting to harness and utilise others in novel ways' (Streeck & Thelen, 2005: 19). This allows for significant transformation in the long-term and can be considered as opposing dynamic to path dependence as theorised through increasing returns (see table 1).

Table 1: Types of institutional change

		Result of Change	
		Continuity	Discontinuity
Process of Change	Incremental	Reproduction by adaptation	Gradual transformation
	Abrupt	Survival and Return	Breakdown and Replacement

(Streeck & Thelen, 2005: 9)

However, scholars have also theorised that path dependence is rather an 'inherent logic' of sequence, equally allowing for reactive processes leading to discontinuity (Mahoney, 2001). The presumably core difference between the two approaches lies within the argument of path dependence that the *ex ante* institutional construct is (co-)causing the subsequent outcome (Mahoney, 2001), while in gradual change the piecemeal steps are regarded as intermediary outcomes in a process of constant interaction between the involved parties. Instead of focusing on constraints that ease in critical ruptures, gradual change focuses on the continuous constraints on actors and on their different strategies of transforming the institutional construct (Mahoney, 2010; see also Thelen & Conran, 2016). Gradual change models do however consider the endurance of institutional elements, as only some forms of change allow for an overall institutional construct to remain relevant. Hence, making a clear separation between these two streams of analysis would certainly fall short of the complex nature of actual institutional evolution, as abrupt and piecemeal change are neither mutually exclusive nor logically opposed.

Scholars have pointed out that gradual change and path dependence are 'two sides of the same coin' as mechanisms explaining continuity conversely give insights into how the breakdown of reproduction processes create change (Thelen & Conran, 2016). Scholars also pointed out that theorised types of gradual change work well within path dependency, in particular to explain how elements of the institutional framework experience change while the core institutional structure remains in place (see, e.g., Ackrill & Kay, 2006; van der Heijden, 2011; Collier & Collier, 1991). Mahoney, Mohamedali, and Nguyen (2016) argue that continuity requires change and goes therefore hand in hand with institutional stability. The typology of gradual institutional transformation can equally be useful in analysing forms of punctuated change (Mahoney, 2010; Salines, Glöckler & Truchlewski, 2012; Verdun, 2015), according to its imminent and long-term impact. Verdun (2015) has implicitly pointed to this parallelism by proposing 'copying' as form of institutional development, even though the idea in her analysis was that institutional forms were borrowed from other institutional structures. North (1990: 6) argues in a similar direction when pointing out that informal constraints on societies often change incrementally and survive apparently critical episodes such as revolutions, which are never *completely* disruptive. A similar thought is to situate an institution within an interdependent construct of several institutions, or to embed the institution within a broader institutional configuration or system (Lieberman, 2002; Ackrill & Kay, 2006; see also Büthe, 2016b).

Conferring the logic of simultaneous continuity and discontinuity, be it gradually or abruptly, allows to form a more encompassing model of change, which merges both approaches. Thus, applying such a model would provide a veritable dual-mode of development combining punctuated and gradual change and allowing for continuity and change to occur in parallel. Understanding an institution as a composite of several elements, formal and informal rules, and procedures, does not only give a better insight into which elements are prone to change in which contexts and through which factors, but also helps to explain how these elements are, even though forming an institutional whole, differently experiencing (significant) discontinuity in one and continuity in another element over time, while the core constructs endures.

2.3.2 Critical junctures

The critical juncture is probably the centre piece of many historical institutionalist analyses and marks the end and beginning of path dependent developments, by significantly altering the institutional outcome or introducing a completely new one. A critical juncture analysis requires however much more than simply the juncture itself. Scholars have pointed to several relevant conditions and to the following path dependent process as important parts to pay attention to. An

HI analysis employing this framework is thus concentrated on two larger parts with several building blocks, the study of the critical juncture and the study of its subsequent institutional development.

Critical junctures are defined as episodes of structural indeterminacy with increasing ranges of choices available for actors (Mahoney, 2001; Capoccia, 2016). It is generally assumed that critical junctures are relative short moments in comparison to their subsequent path dependent development (Capoccia & Kelemen, 2007; Mahoney, 2010) and that substantial deviation from the previous status quo is possible and often the outcome. Kickert and van der Meer (2011) argue that the initial choice at the outset of an institutional development should also be considered a critical juncture, given that the original choice at the beginning of an institutional construct, even if occurred in context of comparatively little upheaval, can be considered a relatively significant change. This underscores the quality of a critical juncture in its respective contexts, which might not require the same degree of contextual stress to force structural indeterminacy in the earlier stages of the development than in the later ones (Pierson, 2004). The structural indeterminacy eases the constraints on actors, thus attributing a crucial role to agency and underlining the increased range of choices including substantial alteration to the status quo (Capoccia & Kelemen, 2007; Capoccia 2016; see also Peters, Pierre & King, 2005).

Critical junctures can be seen as contextual marker for subsequent legacies (Fioretos, Falleti & Sheingate, 2016). In this regard, many accounts of historical institutionalism emphasised the role of Member State governments in the resolution of crises. Ladi and Tsarouhas (2020) adopted an approach by combining historical institutionalism with policy learning and argued that the 2020 public health crisis presented a critical juncture for the EU, in which fundamental change occurred to economic governance. In their analysis coalition of Member States in favour and against grant-based assistance led to a compromise combining both. The question of fundamental change was in this case differently answered by scholars, e.g., Howarth and Quaglia (2021) argue that the change introduced did rather contribute to existing asymmetries, while Fabbrini (2022) understands the outcome of the pandemic as transformative for economic governance. This underlines the importance of setting the analytical lens and defining the institutional level to which the change is significant to.

Scholars emphasised the role of contingency, seen as the occurrence of outcomes, which are not explained by prior conditions (Mahoney, 2000). For Capoccia and Kelemen (2007) increased agency as the range of choices available to actors, as well as the potential impact of these choices, are defining characteristics of contingency. In their eyes the counterfactual argument derived from this allows to draw conclusions on potential alternative choices and their potential consequences. At the same time, this part of the analysis gives insights into the actual context and how political actors understood the situation underscoring the relevance of temporality of the analysis. Agency within critical junctures can be conceptualised as the agreement and action of relevant actors to change the institutional construct. Here HI is particularly open to integrate insights from rationalist approach or other actor-centred approaches, which explain positions of actors and their respective preferences. While Büthe (2016a) emphasises self-interest of supranational institutional and individual actors as part of the explanation for further integration, policy areas which are almost exclusively in the hand of Member State governments are better analysed through an analytical lens focusing on national governments and their preferences. As outlined above, stage two of liberal intergovernmentalism is a good candidate to explain national government preferences and the negotiations in these episodic moments of agency through a rationalist lens.

Soifer (2012: 1575) argues that heightened contingency is not enough for a critical juncture, because these moments do not necessarily carry substantial change, or an immediately following second moment of heightened contingency wipes out the first choices. This understanding of critical junctures in line with Collier and Collier (1991) is consequentialist and slightly different to the notion introduced by Capoccia and Kelemen (2007). They point out that change is not necessarily part of a critical juncture, and this 'no-change' can equally carry legacy:

> Contingency implies that wide-ranging change is possible and even likely but also that re-equilibration is not excluded. If an institution enters a juncture, in which several options are possible, the outcome may involve the restoration of the pre-critical juncture status quo. Hence, change is not a necessary element of a critical juncture (Capoccia & Kelemen, 2007: 352).

In addition, while institutional legacy is a substantial part of a critical juncture analysis, the timeframe of how long an institutional element has to endure to be considered legacy, is fairly open and depends on the analytical framework adopted. The succession of moments of heightened contingency is only then to be discarded as multiple critical junctures, if the previous moment did not carry any enduring element reproduced, and the interval between the moments did not allow for any consequence to unfold before the subsequent juncture. So, if moments of heightened contingency succeeded each other rather swiftly, but each moment can bring new enduring elements to the institutional construct, we have a situation of a common legacy from multiple or a longer-enduring critical juncture. A thorough critical juncture analysis can then be equally relevant in explaining institutional ricketiness, as much as path dependence, especially if the choices replacing or reversing previous ones occur within the broader institutional framework and keep core aspects of the institution in place. A focus on heightened contingency in the form of factors easing the constraints on actors, are thus good candidates (to test) for critical junctures.

In order to identify moments of increased agency, Soifer (2012: 1574) defines permissive conditions as 'those factors or conditions that change the underlying context to increase the causal power of agency, or contingency and thus the prospect for divergence'. Similarly, Mahoney (2010: 21) sees permissive conditions as vulnerabilities and opportunities within the institutional construct, making it susceptible to significant change. The contextual significance of permissive conditions is the opportunity provided via the shift in the institutional environment. Permissive conditions are thus the necessary conditions which ease the constraints on agency, accounting for the 'temporal bounds' of critical junctures (Soifer, 2012). Soifer (2012: 1574) argues that these conditions bound a window of opportunity for divergence that can be quite lengthy, even if the change itself is produced in a more punctuated manner. Thus, appearance of permissive conditions equals the opening of a potential critical juncture and their disappearance the closure. These conditions occur as the reproductive mechanism (see below) of the previous institutional construct is temporally impeded (Soifer, 2012). The use of permissive conditions is also concomitant with the selection of the unit of analysis, as the conditions are linked to the institutional construct under investigation.

By using a package of necessary conditions for the permissive conditions, the critical juncture analysis allows for the combination of several contextual exogenous and structural endogenous conditions, whose co-occurrence might be comparatively short, but which individually might persist for longer time, and allows to be more precise in the definition of what constitutes a potential critical juncture. It should be noted that an (abstract) permissive conditions may take different values, along the timeline of the institutional construct, some of which will be sufficient for the re-occurrence of the condition (e.g., economic crisis), or that several combinations of unnecessary conditions form a different sufficient permissive condition (see also Mahoney, Kimball & Koivu, 2009). These conditions are often associated with crisis moments (Collier & Collier, 1991), as major change in an institutionalised setting requires exceptional circumstances to facilitate the needed coalition-building (Hall, 2016). Verdun (2007) suggest that economic pressure arising from the asymmetric design of EMU would lead in the face of a major (exogenous) shock to the need of reforming the institutional design. Her approach is thus a combination of endogenous asymmetries and exogenous pressure. Equally, Braun (2015) emphasised the importance of preparedness of crisis resolution tools. These conditions suggest at least partly a functional explanation of endogenous disparities between the shift in the environment and internal preparedness or resilience. The heightened pressure to change or to adjust a structure should therefore be always linked to some form of endogenous vulnerability vis-à-vis the newly unfolding situation.

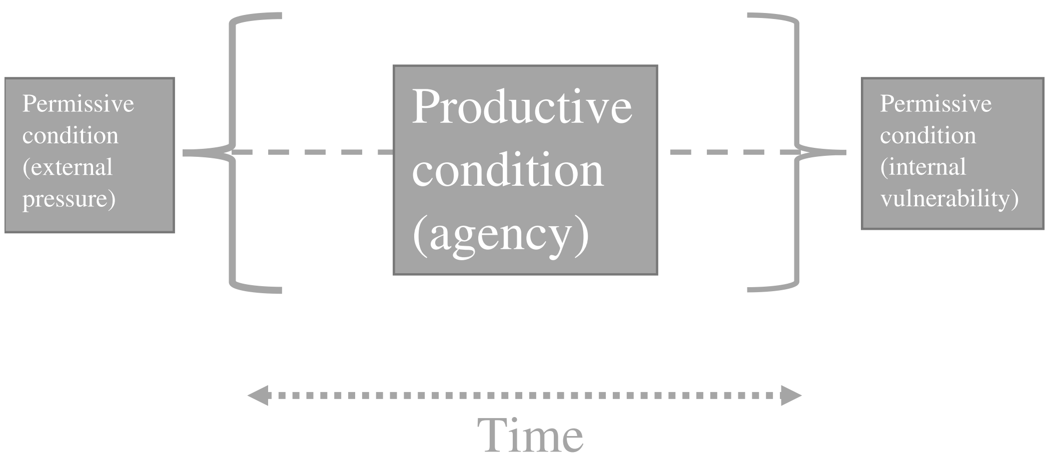
Critical juncture literature discusses missed opportunities or ‘near miss critical junctures’ (Capoccia & Kelemen, 2007), however these terms too readily imply that the institutional construct might continue without change. Even though the premise of path dependence suggests that the cause of change disappears while its effect continues, the environmental conditions in the real world are not likely to fully return to the *ex ante* value. Thus, the *ex post* moment after the presence of permissive conditions is unlikely to be the exact same as the *ex ante* moment. It appears hypothetical that the inaction in a critical juncture does not bear at least some consequences. However, if one accepts the temporal boundness of the potential critical juncture, one will equally accept the temporal nature of permissive conditions, and that the *ex post* moment can through contextual similarity to the *ex ante* moment diffuse the contingency of the potential critical juncture. Thus, return, or better maintenance of the status quo would be possible. Using the concept of permissive conditions, the implied inaction can certainly deteriorate a situation and further increase the permissiveness, and it will also highlight the endogenous vulnerability and reduce the actors’ acceptance of the institutional construct as such. Thus, scholars need to be aware that a designated ‘near miss critical juncture’ could be a good candidate for less explicit forms of change such as punctuated drift (see below). This does not per se question the argument of Capoccia and Kelemen (2007) that change is not a necessary outcome of a potential critical juncture, but it underlines that its occurrence is less likely than at the occurrence of at least some form of change. Caution is necessary in a situation which might be branded a near miss critical juncture, despite it carrying significant change in the applicability of the institution, and thus tick the box of change. If a critical juncture emerges and no difference between the *ex ante* and *ex post* institutional structure in its environment is detectable, the question arises whether the permissive conditions were well enough defined or if the situation caused sufficient pressure on the endogenous condition. A situation that is fully reversable without leaving a trace appears to be a very rare, if not impossible, occurrence. Even if formally restoration happens, an underlying trace might be present.

In addition to permissive conditions, Soifer (2012) defines productive conditions as necessary conditions accounting for the variation or divergence in the case, and the choices taken in the critical juncture. Productive condition act within the margin of eased constraints of the permissive conditions, in which they can deploy their causal forces, but without they are unable to significantly alter the institutional picture (Soifer, 2012; see also Mahoney, 2010). They are necessary for significant change but only sufficient in combination with permissive conditions (Soifer, 2012). Mahoney (2010) similarly theorises generative causes, which unfold their potential for punctuated change only in combination with permissive conditions. He argues that generative causes are agents which produce first and foremost incremental change in small doses and only have the potential to create significant change when met by permissive conditions (Mahoney, 2010). Soifer and Mahoney both understand the outcome of the combination of necessary permissive and necessary productive conditions as critical juncture. This understanding follows the consequentialist conceptualisation introduced by Collier and Collier (1991), in which a critical juncture necessarily carries significant change. Within permissive conditions, agents work as part of the causal chain, adding interests and interaction of political actors to the explanatory framework (Capoccia, 2015). In his analysis Soifer (2012) refers to economic ideas and economic nationalism as productive conditions, while Mahoney (2010) considers particular forms of change agents as generative causes. Both concepts are connected via the understanding that permissive conditions alone are just the window in which change can happen, thus forming the potential critical juncture, and that additional factors, such as ideas or interests, are necessary to produce change. This understanding allows to adopt an ideational as much as a rationalist approach, including agency on the one hand and on the other hand explaining why outcomes are only partially structurally determinate. Lastly, productive conditions are not solely actor preferences per se, but a factor acting within the constraints of the permissive conditions, impacting the outcome. From a rationalist perspective one could argue that interdependence resulting from the process of European integration itself accounts for a productive condition. While from an ideational perspective one could suggest that economic doctrines representing economic core values function as productive condition leading to integration outcomes (see, e.g., Hall, 2014).

As the different interpretation and conceptualisation of critical junctures (either as *ex ante* windows of opportunity, or as *ex post* consequences) have created confusion as to the precise meaning of the concept, this dissertation offers a clarification of the terminology of a critical juncture analysis. A critical juncture should be defined as an outcome of change deviating from the *ex ante* institutional construct in a significant way, and which carries legacy, i.e., a longer-term impact surpassing the moment in which it occurred. If a change does not carry legacy, it should thus not be considered a critical juncture. Researchers should thus ask the question of 'where and how did critical junctures occur', and not 'what the outcomes of critical junctures are', as they are per definition change. The formative moment in which enduring change occurred can be *ex post* designated as critical junctures but should not be confused with the understanding of a critical juncture as the formative moment itself. These formative moments might have the 'potential' to cause a critical juncture and should be defined accordingly as potential critical juncture or windows of opportunity. Using the concept of permissive condition, this dissertation argues that the occurrence of such conditions defines the window of opportunity, or the bounds of the potential critical juncture, which can or cannot lead to an 'actual' critical juncture. While the permissive conditions remain the necessary conditions for a critical juncture, they only set the temporal bounds for productive conditions to have the possibility to cause a critical juncture. Near miss critical junctures are defined as the occurrence of productive conditions, which did not lead to change. Here, this dissertation makes a useful addition to the critical juncture literature by adding the notion of duration to the framework. The occurrence of permissive conditions can only lead to change when the occurrence persists sufficiently long for productive conditions to unfold. This aspect adds a temporal element explicitly into the analytical framework of critical junctures. A premature collapse of permissive conditions before the productive conditions are able to unfold their causal force fails to create punctuated change, as the occurrence of permissive conditions in the potential critical juncture is not sufficiently long, and thus the moment does not fulfil the requirements of a critical juncture in the institutional development.[9] Thus, the explanation of a near miss critical juncture can be attributed to the premature disappearance of the permissive conditions. The permissive conditions do not co-occur sufficiently long for productive conditions to create change. Likewise, the prevailing, or persistence of permissive conditions, even after productive conditions are at work, can help to explain how some solutions do not allow for the resolution of pressure arising from permissive conditions. Thus, the persistence of the permissive conditions (occurrence and disappearance) is key to understanding the difference between the 'near miss' critical juncture and a critical juncture (see figure 3).

From this understanding one can explain, through the disappearance of permissive conditions, why in some instances the outcome decided by decision-makers is short of significant change. The answer is linked to the insufficient temporal nature of the permissiveness, i.e., the duration of the permissive conditions was insufficient to exert (persisting) causal pressure on actors for increased agency.

Figure 3: Depiction of the interplay between conditions in a critical juncture



(Source: the author)

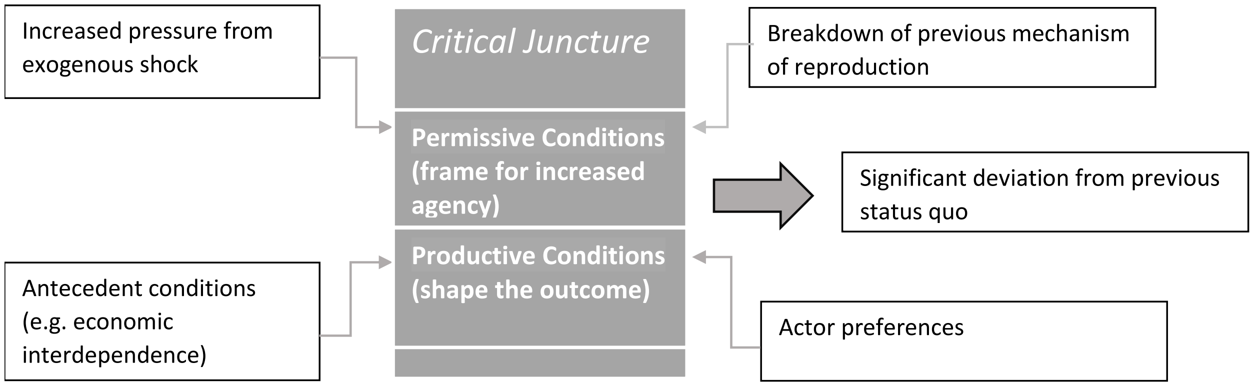
As part of the critical juncture framework, antecedent conditions could be included to not only rule out constant causes that account for equifinality (Collier & Collier, 1991), but also to identify causally relevant critical antecedent conditions that react with causes in the critical juncture to produce the outcome (Slater & Simmons, 2010: 889). Slater and Simmons (2010) define critical

[9] Note: This does not exclude that agency and change per se are excluded in these moments. They would however not carry legacy, if they did, the temporal boundness of the permissive condition was sufficient.

antecedents as ‘factors or conditions preceding a critical juncture that combined with causal forces during a critical juncture produce long-term divergence in outcomes’. These factors or conditions are opposed to causally irrelevant antecedents. Descriptive contexts are seen as solely thickly historical, without providing any additional causal insights, constant causes might be a rival explanation for the outcome, contradicting the critical juncture argument (see above), and background similarities in divergent cases are used as control and not causal variables (Slater & Simmons, 2010). The distinction of critical antecedents from permissive conditions is that the former precedes the latter and that the critical antecedent influences the value of the productive condition (Soifer, 2012). The concept of critical antecedent imports causality from prior conditions into the critical juncture outcome and lends explanatory power to the range of options available in the juncture. Mahoney, Mohamedali, and Nguyen (2016: 79) define it as ‘filters prior to potential critical junctures that play an independent role in directing a case towards an outcome, though secondary next to the critical juncture’. Differently put, they are part of the explanation why actors acted in the way they did in the potential critical juncture but are not the cause of the potential critical juncture as such. Critical antecedents are particularly useful in a comparative research design, as they can contribute to the explanation of divergence across cases in addition to agency. HI analysis of crises included pre-crisis institutional particularities which have a critical contributory impact to crisis moments, in this regard Verdun (2015) identified such a moment in the establishment for EMU, which influenced the actors’ choice in the subsequent critical juncture in the form of the euro area financial crisis.

For this dissertation, the critical antecedents are included in the ‘antecedent conditions’ which contribute to the value of the productive condition. The analytical part of the critical juncture is constructed by the building blocks of antecedent conditions, the permissive conditions, and the productive conditions (see figure 4). While the permissive and productive conditions explain the emergence of agency and choices in a critical juncture, the antecedent helps to explain the choices derived from the productive conditions.

Figure 4: Critical Juncture framework



(Source: the author)

2.3.3 Path dependence and the mechanism of reproduction

Path dependent developments follow the occurrence of a critical junctures and are the outcome of what can be referred to as distal causation (Capoccia, 2015; see also Pierson, 2000). Collier and Collier (1991: 31) understood that this legacy from a critical juncture is a composite of several mechanisms leading to the build-up and stability of the core attributes of the legacy. They also evoked that legacies end at some point or can be disrupted by the re-occurrence of a critical juncture (Collier & Collier, 1991: 771). Path dependence suggests on the one hand that the institutional construct exhibits continuity throughout a longer period, and on the other hand that change, if it occurs at all, is only minor at times in comparison to a potential punctuated change in critical junctures. HI studies have argued how the creation of the EFSF in the height the critical juncture of the euro area crisis led to path dependent developments in the subsequent establishment of the ESM (Gocaj & Meunier, 2013). Scholars emphasise however, that path dependence does not determine subsequent outcomes, it is rather a conceptual tool to illustrate the margin of choices available to political actors in the given time (North, 1990). Scholars have theorised different processes related to path dependency. Most prominent has been the process of increasing returns, which is a self-reinforcing process, which links positive feedbacks issuant from the institutional construct to a decreasing probability to deviate from the chosen path (Mahoney, 2000; Pierson, 2000; 2004). Second, scholars have theorised other processes, which do not necessarily include continuity and can explain the outcome through a chain of causally connected events (reactive sequence), in which each event is the outcome of the preceding and the cause for the subsequent event, or through interference from other processes (Thelen, 1999; Mahoney, 2000; Thelen & Conran, 2016). Reactive and increasing return sequences tend to emphasise the disproportionate impact of earlier events (Pierson, 2004; Mahoney, 2000; see also Mahoney, Mohamedali & Nguyen, 2016), however reactive sequence gives more relevance to these events as the causal chain is much more sensitive to these stages and their potential impact on the subsequent outcomes (Mahoney, 2000). The (from critics) somewhat suggested deterministic nature of path dependence is thus not only errant as the process can as much 'involve elements of both continuity and (structured) change' (Thelen, 1999: 384), but also because the self-reinforcing process has choice-points further down the path, which makes the final outcome unpredictable (Pierson, 2004).

A careful analysis of path dependence should however not rely either on increasing returns, nor on reactive sequences, but should distinguish which part of the institutional development follows which trend and what explains these developments. To understand these dynamics, scholars have theorised mechanism of reproduction which keep institutions on track or lets them deviate from the 'path' (Collier & Collier, 1991; Mahoney, 2000). Thelen (1999) accounts for change in path dependent sequences with the argument that the sequence of positive feedbacks can be interfered with by interactions with other processes, which impede the particular mechanisms of reproduction and thus lead to change. Mahoney (2000: 517) differentiates mechanisms of reproduction and change based on dominant theoretical premises, which illustrates that these mechanisms can find their explanation in various theoretical foundations of political science, allowing researchers a great flexibility in the way they operationalise these mechanisms (see below). Collier and Collier (1991) suggest that a mechanism of production following the logic of a reactive sequence crystallises the legacy, which itself relies on the mechanism of reproduction following the second sequence of increasing returns. This understanding illustrates one important limitation of reactive sequences, which is that an institutional construct is very unlikely to follow this dynamic for a long period of time, making it only useful to assess immediate outcomes of contingency, however not their legacy. As Schwartz (2004) argues, it remains mostly a sequence of events rather than a set of coherent mechanisms, as its causality relies in the sequence, not in an overlying mechanism that keeps it in line. However, an important insight from reactive sequence is the understanding that a backlash process allows for reversal in the institutional development (Mahoney, Mohamedali & Nguyen, 2016).

An implicit element of the use of mechanisms of reproduction is however, that it is not necessarily reinforcing the institutional structure, but can equally sustain it over longer periods of time in a constant fashion (Greener, 2005). Even though it appears that constant institutional development is the bread and butter of a path dependent analysis, the inclusion of a critical juncture framework does not necessitate a reinforcement process to causally link the juncture to the legacy. The punctuated change occurring in a critical juncture replaces a substantial part of the initial gradual process that exclusively gradual path dependent developments normally entail, thus making increasing returns as an explanatory element of the relevant earlier choices, not essential. The large leap in a punctuated change model jumps so-to-speak several steps in the gradual model of exclusive path dependence (see, e.g, Mahoney, 2010). It should be noted that the borrowed concept of increasing returns from economics is mostly concerned about efficiency gains of the initial choice, which is only secondary for political science (Beyer, 2010). The more relevant conceptual tool is the limitation of options available to actors and the mechanism which keep the institutional structure in place.

While often these mechanisms are seen as constant or perpetual processes (see, e.g., Collier & Collier, 1991), one should bear in mind that in practice attention to a particular policy is sporadic and might, in particular if the policy in question is part of European Union politics and not implemented in a permanent fashion, only draw attention to itself in specific moments. For example, attention on the EU's Multi-Annual Financial Framework is mostly centred around its reformulation every seven years and the mid-term review halfway through the framework. Other policy areas might get into the centre of attention due to specific situations as in the example of the Dublin III regulation and the increase of refugee flows to the EU.

Path dependence is therefore a varied concept with several tools to analyse institutional development. However, the general point of using path dependent tools is not simple to show that an institutional development is path dependent, but to unravel the mechanisms behind the development illustrating which elements proved to be continuous and how. By focusing on several elements of an institutional construct, it will be possible to differentiate between path dependent developments of continuity and discontinuity. An institution, which does not follow a path dependent development, will not bear evidence of any legacies, by which is meant that an alternative solution would be congruent to the observed outcomes at any moment in time.

2.3.4 Gradual change and modes of institutional change

When theorising what mechanism keep an institutional construct stable, scholars reversely brought insights into the literature of what accounts for institutional change (Thelen & Conran, 2016). However, scholars saw the emphasis of path dependence as a misplaced assumption of institutional development, in particular in accounting for change in a gradual fashion. Streeck & Thelen (2005; see also Mahoney & Thelen, 2009) conceptualised several modes of change as a response to the historical institutionalists focus on change due to punctuated equilibria. In their interpretation, institutions followed a more gradual form of change which could significantly alter the institution in question over a long period of time. This theoretical approach is per se not new as Pierson and others had already pointed out that discontinuity is also part of institutional developments, however, gradual change scholars argued that path dependence works are better suited to explain resilience rather than change (Streeck & Thelen, 2005). While the work on gradual change did not disregard the possibility of reproduction, nor abrupt change through punctuated change, it provided specific insights into how institutions can change incrementally. Streeck & Thelen (2005: 19) point out that actors' involvement in institutional adjustment is not reduced to moments of institutional indeterminacy 'when agency defeats structure', but that institutions are constantly contested from within and exposed to incremental change. The main argument derived from gradual change literature is that change is not just distinguishable between phases of stability and minor change, and phases of abrupt and major change, but rather that long periods of change can equally result in major change, which tends to be overlooked in the punctuated equilibrium model (Streeck & Thelen, 2005).

The literature on gradual change does not refer to mechanism of reproduction, but rather to forms of change, entailing different strategies of actors and their role in the adjustment process (Mahoney & Thelen, 2009). These forms have been systematically collected and presented in the work of Streeck and Thelen (2005) and slightly changed by Mahoney and Thelen (2009) and discussed in many works on particular modes of change (see, e.g., Thelen, 2003; Hacker, 2005; von Hejden, 2011) or generally on historical institutionalism. The four modes of change focus on incremental, or gradual forms of change, by which it is not explicitly excluded that other forms might also occur:

1) The process of *layering* generally refers to the introduction of new rules to an institutional construct in parallel to already existing ones (Mahoney & Thelen, 2009). Streeck & Thelen (2005) point towards differential growth of the in parallel existing institutional elements, which might over a longer period lead to the replacement of the previous element by the layered element. An interesting insight is that layered parts generally do not immediately and directly undermine the previous structure, and therefore do not generate strong oppositional movements against it (Streeck & Thelen, 2005). The layered element gradually and indirectly can undermine the previous structure. Actors can actively follow the strategy to replace and undermine an institutional structure by layering a new element, or the *ex post* outcome could be an unexpected consequence due to exogenous or endogenous factors not foreseen in the time of the introduction. Mahoney & Thelen (2009) point out that layering neither removes, neglects nor changes the enactment of previous rules, it rather influences the impact of the previous structure in such a way that actors' support for it decreases (Streeck & Thelen, 2005). Thelen & Conran (2016: 63) describe that 'change occurs through seemingly marginal amendments, revisions, or additions to existing institutions or rules that have downstream implications for how the original institutions operate'. One relevant aspect when discussing layering in combination with other forms of gradual change, is that the introduction of the new rules is momentous, which initiates a process that can lead to the displacement of the previous element, but it can also create a situation where two existing elements with the same objectives exist (Streeck & Thelen, 2005).
2) The process of *displacement* is the replacement of older rules with new ones without the continued existing of the former (Mahoney & Thelen, 2009). While punctuated displacement is often an outcome of large-scale changes in critical moments such as represented by critical junctures, displacement can equally occur in a gradual fashion when the rules are introduced to directly compete with previous ones (Mahoney & Thelen, 2009). Thus, one can argue that gradual displacement is the outcome of a process followed by layering, leading to the institutional demise of the previous element. In that sense gradual displacement is always linked to layering, as the previous structure still exists in parallel. While layering refers to the beginning of a process, displacement refers to its potential outcome. This clarification is useful because scholars analysing an institutional

development, which is still unfolding will have difficulty arguing for displacement without knowing the ‘final’ outcome, even though it might very likely be the case. Similar to layering, the actor’s intention can be to undermine the existing institutional structure via layering, or that the outcome of displacement is unintended.

3) The process of *redirection* (also referred to as conversion) is the redeployment of existing rules to steer the institution towards new objectives (Thelen, 2003; Streeck & Thelen, 2005). The formal rules in redirection remain largely untouched while their enactment and interpretation change (Thelen, 2003). Rules can intentionally be formulated in a broader way, or use interpretative concepts, so that political actors are able to keep a margin of manoeuvre in their enactment, or exogenous factors influence the previous implementation of the rules so that the underlying understanding of what the rule should implicitly achieve is changed (Streeck & Thelen, 2005). Endogenously, redirection can be the result of shifting coalition constellations in the decision-making (Thelen, 2003). As rules remain formally mostly unamended, redirection is particularly strong in elements that are not formulated to the detail and which allow interpretation gaps, while very clear formulations are more resistant to redirection. Thus, one would expect redirection in public policy to be more prominent in informal parts of institutional constructs such as procedural or implementation aspects.

4) The process of *drift* occurs when rules remain the same in the face of a changing context, which also alters the impact of the rules (Mahoney & Thelen, 2009). The deliberate neglect of adapting the institution by political actors changes the impact of the institution, which can result in a significant shift in the outcome rendered by the system (Mahoney & Thelen, 2009), leading potentially to the erosion of the institutional construct (Streeck & Thelen, 2005). Streeck & Thelen (2005) argue that institutions require active maintenance in order to remain relevant and that this non-action in the face of a changing context has to be considered an active holding back. In a sequence one should therefore not confuse the drift of the changing context with the process of drift, which only occurs if the actors remain deliberately inactive ‘after’ the changing context has been identified. While the changing context is explicitly focused on exogenous factors, the inaction is an endogenous process linked to the actors in question. To identify drift, scholars need to be aware of the impact

of an institution in the implementation as the rules remain on the surface untouched (Streeck & Thelen, 2005).

The mechanism of change in these modes are based on actors' reaction to the institutional structure. Layering requires 'active sponsorship' of the additional institutional element by the actors (Streeck & Thelen, 2005: 24). Actors having not enough support to overthrow the institution might opt to add new elements, while other actors in favour of the status quo are unable to avoid the addition of new elements for the sake of preservation (Mahoney & Thelen, 2009). Displacement is marked by the actors' cultivation and defection to an alternative institutional structure (Streeck & Thelen, 2005). The mechanism of change can start by the invasion of factors exogenous to the institution, which are subsequently cultivated, or by favouring an alternative already present in the overall institutional configuration (Streeck & Thelen, 2005). For drift the mechanism of change is the deliberate choice by actors not to act in an altered environment. Thus, inaction can be due to neglect as 'the world surrounding an institution evolves in ways that alter its scope, meaning and function', or due to political manoeuvring (Streeck & Thelen, 2005: 25). In redirection, actors exploit the ambiguity inherent to the institution (Mahoney & Thelen, 2009). In public policy, this is particularly fruitful in institutional constructs with margin of interpretation in the formal setting, or generally less formal institutional constructs, which are not based on legislative arrangements (see also Hacker, 2005). These informal 'gentlemen's agreements' should not be confused with informal institutions, such as norms, which carry relevant cultural values and are arguably far less prone to be changed through agent efforts to reinterpret (see also North, 1990).

Hacker (2005) argues that the level of institutional convertibility is linked to actor preferences and the status quo bias created by procedural rules of the institutional structure in place. Depending on the level of procedural barriers and the level of divergent preferences, an institution is more vulnerable to a particular mode of change than another. Mahoney & Thelen (2009: 19) conceptualise this in terms of strong to weak veto possibilities and high to low opportunities for discretion in the interpretation or enforcement of rules. Table 2 illustrates which mode of change is more likely to appear in combination with the above-mentioned characteristics.

Table 2: Modes of change and veto possibilities

	Low level of discretion in interpretation/ enforcement	High level of discretion in interpretation/ enforcement
Strong veto possibilities	Layering	Drift
Weak veto possibilities	Displacement	Redirection

(Mahoney & Thelen, 2009: 19)

In the context of European Union rules and procedures on financial assistance two elements are of particular interest in this research. First, the decision-making modalities for establishing or changing the rules and laws on financial assistance, and second, the interpretation of specific aspects of the laws itself, in particular on implementation of conditionality. As the overall process of integration advanced, the modalities of decision-making changed accordingly and might need to be reconsidered for each adjustment. In this sense, one can associate high veto possibilities with unanimous decision-making in the Council and low possibilities with Simple Majority Voting, while the level of discretion can be associated with the clarity of the decision, regulation or directive, and the level of enforcement with the adherence to the rules by actors.

2.4 Operationalisation of the analytical framework – Actor-centred historical institutionalism

To answer the research question, this dissertation will use a combined historical institutionalist approach. The purpose is first to identify critical junctures in the development of financial assistance and explain how they came about. Second, the legacy of these critical junctures is analysed via mechanisms of reproduction and mechanisms of gradual change, which explain the endurance and the parallel discontinuity of specific institutional elements.

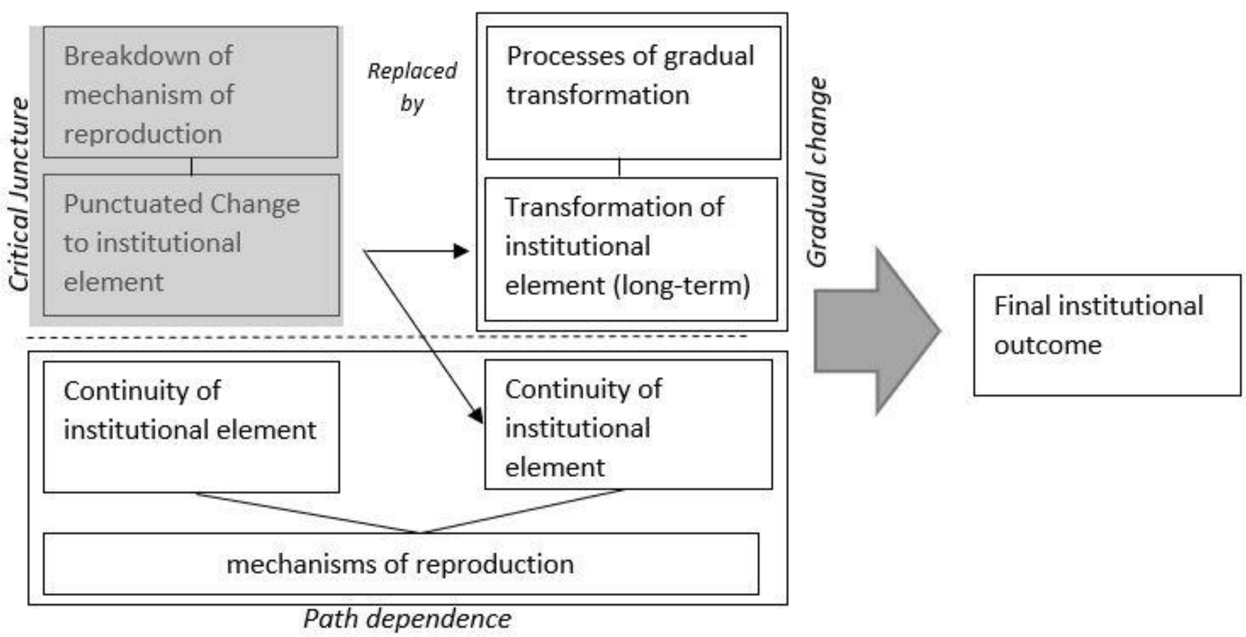
2.4.1 Combining a punctuated and gradual change analysis

This dissertation combines the two larger streams of HI into one coherent analytical framework, including a critical juncture and a legacy analysis of path dependence and gradual change. Mahoney (2010) provided a possible understanding of punctuated change being more significant and far-reaching in comparison to gradual change, which occurs in smaller doses. The significance must be assessed in accordance with the lens applied by the researcher, which could be focused on large scale historical developments of entire state systems or specific legislation or areas of public policy. While the gradual processes of change are clearly the strong suit of a gradual change analysis and generally in the understanding of incremental change, these modes of change can be equally applied to punctuated change. The reader can easily imagine a situation in which policy makers simply add, replace, or redeploy elements of the institutional structure in a critical moment (see also Mahoney & Thelen, 2009) and thus significantly alter the institution in place. Or similarly, that inaction in a critical juncture leads to drift of the institutional construct and can even lead to immediate erosion. Most importantly, using the typology of change for the decisions in a critical juncture complements the further use of this typology for the subsequent gradual development, which carries the impact of the decisions to term. As shown above, path dependence is not opposed to the modes of gradual change, nor is it solely linked to increasing returns. Instead of using the broader concept of path dependence, a more nuanced focus on mechanism of reproduction can be more fruitful in understanding continuity of the legacy.

A combination of these approaches consists of several elements. First, it accepts that institutional development can occur in both critical junctures and legacy processes, while punctuated change is assigned to the first and reproduction and gradual change to the latter. Second, it borrows mechanisms, which account for path dependent reproduction, adaptation, but also for the survival and return of the institutional elements, maintaining the core parts of the institutional structure. Several mechanisms of reproduction can be at play at the same time for different elements of the institutional construct. Identifying the mechanisms of reproduction for these elements can help to explain when reversely abrupt change occurs due to the breakdown of these mechanisms of reproduction. From the critical juncture framework, it borrows the permissive conditions consistent of exogenous factors and endogenous institutional vulnerability leading to the impediment of one or several regime elements, which open the possibility for actors to change these element(s), for which reproduction ceased. Legacy mechanisms are thus inherent parts of the necessary conditions. This is in so far pertinent as no need for change occurs if all mechanisms of reproduction keep working as before. The outcome of the critical juncture is either carried on through mechanisms of reproduction, or is gradually transformed through gradual processes of transformation, which replaced the previous mechanism of reproduction. As the transformative force of critical junctures can be gradual as much as punctuated, the subsequent episodes are analysed for continuity and change. The modes of change borrowed from gradual change literature are used to assess each form in their punctuated variant in the context of critical junctures and in their gradual processes in the episodes following them.

These two main approaches of historical institutionalism are not mutually exclusive, however the literature on both sides has particularly focused on exemplary cases of institutional change, which were either a strong argument for gradual transformation or critical junctures. Studies of crisis-induced change have often resorted to the use of critical junctures to explain the outcomes derived from these moments. This appears reasonable in so far as significant change is often part of the resolution of crises, on the other hand however, visible, and sometimes superficial, adjustments are treated as the outcome of critical juncture, even though the development would have been much better understood through the lens of reproductive mechanisms or gradual transformation. In addition, processes of gradual change can be essential in understanding long-term consequences of critical juncture outcomes. Collier and Collier (1991: 32) theorised that a critical juncture outcome might as well take longer and only crystallises gradually. The advantage of combining both approaches (see figure 5) is inherent in the explanation of continuity and change in critical junctures and the continuity and change in the moments following it.

Figure 5: Actor-centred historical institutionalism



(Source: the author)

The phenomenon researched in this study is defined as financial assistance regime within the EEC and later EU. The institution of financial assistance is conceptualised as a 'regime' (see also Streeck & Thelen, 2005; Dougherty & Pfaltzgraff, 2001), including the legal constructs, actors, and procedures which are part of the European system of assistance. It so defines 'financial assistance regime' as the formal rules, practices, and bodies accompanying the provision of *extraordinary* financial assistance to national governments of the EC and later the EU. The regime is operationalised as a composite of three main features: i) the formal policy elements, ii) the financing elements, and iii) the procedural elements. The elements of the formal policy framework define the legal rights and obligation and the eligibility of assistance for national governments. This feature is the gatekeeper for Member States to be included in assistance and sets the general framework of how assistance is to be provided. It includes the objectives and is the legal surface of the other features. The financing elements of assistance are concerned with the forms of assistance as well as with the structure of the financial instruments used. This feature is linked to the effective allocation of financial means between governments and the practicability of the assistance scheme in place. It is the functional part of assistance. The procedural elements include the implementation of assistance in practice. This feature is linked to the practice of the assistance and the conditions that are included in the provision of assistance. Procedural elements are the bridge between formalised rules and procedures and the actual implementation and interpretation of these rules. Here acceptance or adherence to the intended procedure and workings of assistance are decisive.

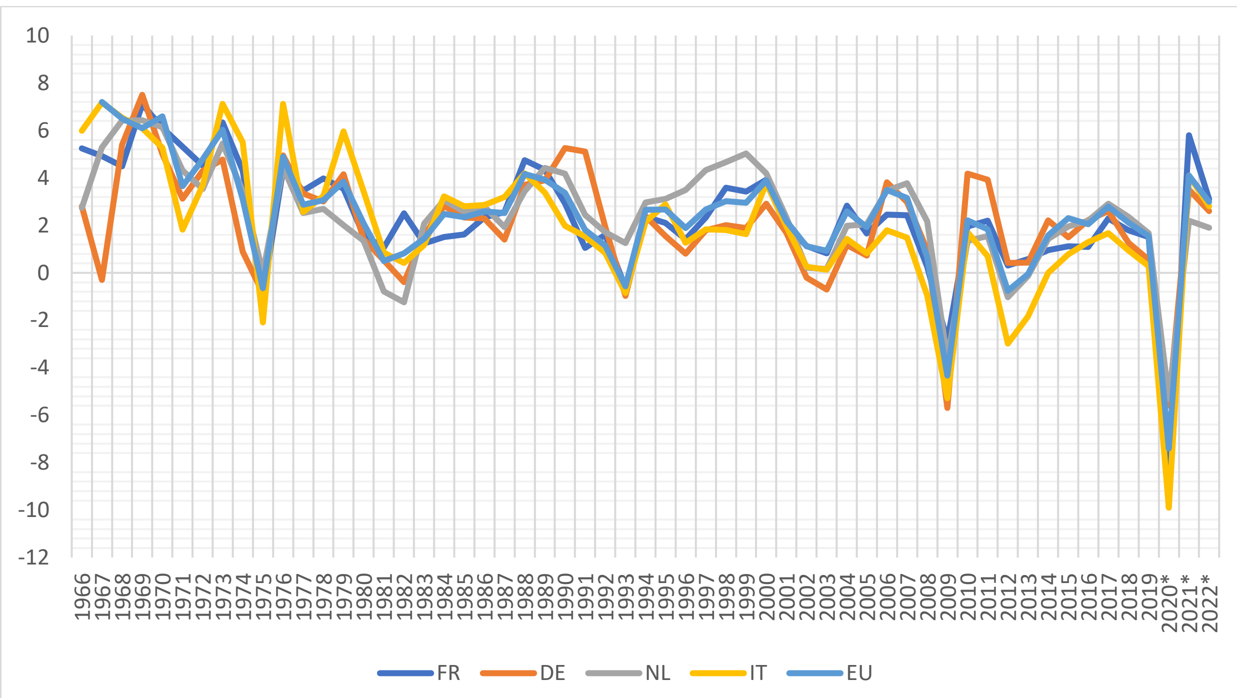
This research begins with the broader distinction of the development of financial assistance into moments of economic shock and moments of relative stability. For practical and analytical purposes, a heuristic approach limiting the timeframe and scope is a reasonable way forward in the use of historical institutionalism. The decision on where to start the analysis should be chosen with caution and mark a point in which the case develops in significant ways (Mahoney 2001; Pierson 2004). In order to study the development of financial assistance in the EEC and later in the EU, the first step is to set a starting point of the respective timeframe. While international financial arrangements did exist in the form of the International Monetary Fund (IMF) and other financial institutions before the EEC introduced mutual support, the most reasonable starting point would be around the introduction of the first formal assistance tool within the framework of the EEC in 1971. This point is around the end of the 1960s, a period of monetary instability that brought about the Werner Plan for closer monetary cooperation between EC Member States including a mechanism for mutual support. Thus, this dissertation will focus on the *timeframe starting from 1968 until 2023*.

2.4.2 Permissive conditions of a critical juncture: exogenous and endogenous elements

Derived from the theoretical foundation of critical junctures as the composition of necessary permissive and necessary productive conditions, this dissertation operationalises the permissive conditions as exogenous and endogenous conditions. As mentioned previously financial assistance is particularly targeted at moments of economic difficulties, which generally result from a trigger event in the form of some sort of shock. According to Boin et al. (2017: 5) the key factors of crisis are *threat*, *uncertainty,* and *urgency*. A threat can be anything from material to physical damage. Uncertainty refers to a situational phenomenon, which is difficult to properly assess nor to mitigate in terms of its potential damage and perseverance. Difficulties arising from contextual shifts carry uncertainty as policymakers might not have historical reference nor experience in reacting in the new setting. Lastly, urgency is the consequence of a concrete threat coupled with uncertainty, which creates high pressure for measures to resolve the crisis at hand. When translating these factors to economic difficulties, one gets a situation of contextual shifts creating a concrete material threat to a one or several Member States of the EU and to the material and eventual physical wellbeing of the people within them, leading to the urgency to react. Urgency suggests a sort of rapid worsening of the economic situation, which embodies an extraordinary material threat. From this point, economic difficulties can be seen as the worsening of the overall economic performance of a polity, often linked to increasing unemployment, increasing state's expenditure for fiscal stabilisers, a lower, or negative GDP growth, or balance of payment difficulties.

Economic indicators have served studies on macro-economic crises to identify appropriate cases for critical junctures (Hogan & Doyle, 2007). Similarly, this work utilises the rapid decline in GDP growth in core Member States and the EU in general as the contextual markers of economic difficulties or 'shocks', which help to identify permissive conditions and potential critical junctures. Even though the measurement of GDP growth is mainly used to grasp the tendency in the economy, it is a useful indicator to understand in which moments rapid movements in the economic output occurred. The causes for the economic shocks are diverse, thus, the use of GDP growth is in so far adequate, as it indicates the decline of a countries' economic output, disregarding the nature of the shock. Other indicators are used to complement the general economic trend and to give a general sense of the economic positions such as inflation rates, balance of payments positions, central bank reserve movements for monetary aspects, public debt, and interest rates on government bond for fiscal aspects. Second, in addition to economic indicators, the assessment of the situation as urgent by relevant political actors is used to identify an economic crisis (see also Hogan & Doyle, 2007). In this way the dissertation avoids the purely numerical definition of an economic crisis, nor the solely political utilisation of the term crisis by relevant actors. As shown in figure 6, GDP growth in four EU core Member States was largely similar, even though not entirely aligned, to consider the overall economic context as an adequate indicator for the situation in the majority of Member States.

Figure 6: GDP growth in per cent by country and average EEC/EU



(Sources: World Bank (2021); Statistisches Bundesamt (2002); European Commission (2020c); *forecast; author's compilation)

The endogenous permissive condition is linked to the resilience of the institutional structure. This resilience is analysed by the impediment of specific elements in the three main features of assistance. The definition of the financial assistance regime previously proposed suggests that different main features compose the regime, and that these features rely on different mechanisms of reproduction (see below). These mechanisms are in dialogue with different elements of an institutional structure. Broadly, the utilitarian mechanism focuses on the support for the overall function the institution severs, as well as on the translation of this function into practice. The functional mechanism focuses on the match between the contextual aspects and the institutional construct.

In more detail, the formal policy element of assistance is based on the legal institutionalisation including the purpose and the availability of financial assistance instruments within the EEC/EU. This element is linked to the utilitarian mechanism reproducing the institutional structure and its objective, but also to the functional translation of this objective into available instruments. The financing elements of assistance are based on the effective application of assistance in the form of practicable financial instruments. This element is linked to the functional mechanism. The procedural elements are linked to implementation of the rules included in financial assistance. This element is linked to the utilitarian mechanism reproducing the implementation of the formalised rules. In short, these mechanisms can be summarised to build on 1) the availability of formalised regulations of financial assistance, 2) the functionality of the financing instruments in place, and 3) on the translation of the formalised rules into practice in the provision of assistance. If one or more elements of the three main features are impeded, e.g., due to legal or functional constraints or loss of support by Member States, the assistance regime is impeded. Table 3 proposes a distinction of the main feature of financial assistance and their *most likely* mechanism of reproduction.

Table 3: Main feature and most likely mechanism of reproduction

Main feature	**Mechanism of reproduction**
Formal policy elements	Utilitarian, functional;
Financing elements	Functional;
Procedural elements	Utilitarian;

(Source: the author)

2.4.3 Productive conditions of a critical juncture: agency and bargaining

In episodes where both permissive conditions occur, agency is increased. Agency derives from the actor's acceptance and willingness to react vis-à-vis the shifting context. Thus, the opening of increased agency is determined by active affirmation by actors. This increased agency is operationalised on the one hand through productive conditions, representing a shared preference of EEC, EU, and euro area national governments, and on the other hand through individual government preferences and positions within the reform process. This operationalisation is based on an intergovernmentalist approach of mixed preferences. The productive condition of shared or common EEC, EU or euro area preference is based on the interdependence derived from economic integration for these countries (Moravcsik & Schimmelfennig, 2019; Schimmelfennig, 2015). Countries are expected to prefer integrative solution over the breakdown of common policies. In moments where this condition is not met, the responses by governments to the challenge proposed by the permissive conditions do not necessarily lead to a joint solution and are more likely to lead to disintegration or standstill of a particular policy. When interdependence is present, it leads to a situation of mixed preferences in which governments agree to solve the economic difficulties collectively but disagree about the distribution of adjustment costs (Scharpf, 1997; Zürn, 1992). This 'coordination game with distributional conflict' (Wolf, 2002: 39) allows Member State governments to follow their national interests, while still supporting the EEC's and later EU's broader institutional configuration without abandoning its common rules.

The individual preferences are operationalised based on the diverging preferences in the reform process. Similar to previous studies on intergovernmental negotiations, the diverging preferences are assessed based on rationally derived national cost-benefit considerations (e.g., Copelovitch, Frieden, & Walter, 2016; Schimmelfennig, 2018). Those individual national preferences are formed domestically, which in a situation of economic shock is linked to the general welfare of the society and autonomy (Moravcsik, 2018). In the context of financial assistance, these rationalist considerations are related to specific elements of assistance including the financial involvement by each country, the decision-making competences, as well as the rules and control mechanisms of the institutional structure. Based on these preferences Member States will engage in negotiations on how to resolve the economic difficulties. States with lower gains in this stage have lower incentives to compromise and enjoy a stronger bargaining position (Moravcsik, 1993; Schimmelfennig, 2018). In the context of financial assistance, states with expected higher financial involvement and lower direct benefits from a common solution have therefore an increased bargaining position, as the assistance regime is asymmetrically dependent on their participation. Lastly, the outcome is expected to favour these countries positions, while still providing a solution for the difficulties at hand. Due to this asymmetry, this dissertation will work with the preferences of representative core-states and their respective coalitions with other Member States in the bargaining processes.

2.4.4 Dual mode of reproduction and gradual change

Outcome of critical junctures will be analysed as punctuated forms of change according to the typology provided by Streeck & Thelen (2005). Their long-term consequences, i.e., legacy, will be operationalised using mechanisms of reproduction and mechanism of gradual change. The mechanisms of reproduction used for this dissertation are borrowed from Mahoney (2000: 517-525). Derived from the rationalist approach in the productive condition, this dissertation focuses on reproductive mechanisms which are compatible with this calculous approach. Thus, reproduction is conceptualised according to the following mechanisms (Mahoney, 2000): the *utilitarian mechanism* focuses on the cost-benefit calculation of reproduction by rational actors to maintain the institutional construct (Mahoney, 2000). Thus, maintenance or continuity occurs due to the rational interest of actors to keep the institution or institutional element going. Reversely, change occurs if the institution does no longer serve the interests, or change can prevent otherwise negative consequence or achieve increased benefits. This mechanism borrows explicitly from the rationalist literature and the concept of equilibrium institutions linked to rational choice institutionalism (see above). The *functional mechanism* relies on reproduction based on the role an institution plays in the overall system (Mahoney, 2000). Continuity emerges from the need that the institution serves. If an institutional construct no longer serves the need envisaged for it, actors will resort to change. Often change is linked to the changing environment and is thus linked to exogenous influence changing the need (Beyer, 2010). The functional explanation is related to what NF conceptualised as functional pressure. While these mechanisms represent ideal types, this dissertation intends to carve out the dominant mechanisms.

In parallel, the mechanisms of gradual change are assessed based on the four forms of change proposed by Streeck & Thelen (2005): *layering, displacement, redirection*, and *drift*. This dual mode of the legacy analysis helps to highlight the potential reciprocity of path dependence and gradual change, and the causal force of punctuated change on subsequent developments.

CHAPTER 3: METHODOLOGY

Introduction

This chapter discusses the method and data used for this research. The first two sections provide the methodological framework of the historical explanation of the overall case (development of financial assistance in the European Union) and the theory-building variant of process tracing methodology for the critical juncture analysis. The subsections discuss the case selection based on set-theoretical mapping. For the selection, necessary conditions and the presence of the outcome are gathered for typical, deviant-consistent, and deviant-coverage cases. The third section explains when and how this dissertation expects to observe mechanism of reproduction outside of critical junctures in other moments of shock and periods of relative stability. The last two sections outline the data used for this work and its respective limitations, as well as the overall limitations of the applied methodology.

Analysing how financial assistance developed and under what conditions economic shocks contributed to this development poses two questions. The first is an outcome-oriented explanation which illustrates how the assistance regime developed, what patterns are visible and how the (intermediary) result came about. The second question emphasises the role of formative moments linked to economic shocks. As depicted in theory building process tracing (Beach & Pedersen, 2019), the second question tries to shed light on the role of economic shocks, and what causal mechanisms connects the emergence of shocks and the institutional change following the shock. The purpose of this research is to theorise a mid-range causal mechanism which explains under what conditions critical junctures were the outcome of moments of economic difficulty, or crises, and explain their respective impact on the institutional structure. The cumulation of these formative moments are then used to build a minimal sufficient causal explanation of the whole development of financial assistance in the EEC and EU.

3.1 Historical explanation and causal ordering

In this historical process, the outcome is a cumulation of several events taking place over time. A suitable depiction of this would be to see each event as a passing-through filter which are necessary for the outcome to occur (Mahoney, Mohamedali & Nguyen, 2016). In the historical process the events work cumulatively to form a sufficient cause for the final (or most recent) outcome.

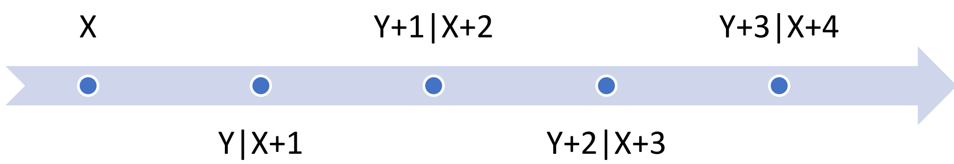
Counterfactually, the exact same outcome would not have occurred if one of these filters was missed by the development. This sequence is the explanation of the outcome of today's regime through history. Derived from the theoretical premise of historical institutionalism, the development is segmented into formative moments, here conceptualised as critical junctures occurring within moments of economic shock and periods of gradual or incremental change. These shocks represent the trigger cause (C) for potential punctuated change to one of the three main features (O). These shocks are selected and causally ordered, by which is meant that the outcome of the regime is sensitive to the sequence of events considered formative moments or critical junctures. This type of ordering is associated with 'eventful analysis'. Kreuzer (2023: 88) emphasises that

> paying attention to chronology makes it possible to describe and establish what is going on during particular events, how those events connect across longer time spans, and at what specific moments those events mark major discontinuities.

As depicted in figure 7 the causal order of the development can be shown with the help of several causal events (here called X-X4) which carry the case across time to a specific outcome. The outcome Y of each event X is part of the cause X+1 leading a case to a subsequent outcome Y+1. This causal order depicts that even in a stable environment, events are unlikely to be the same, as each outcome is part of the context of the next event. The analysis of this particular case is thus first and foremost designed to sufficiently explain the outcome of today's financial assistance regime, without the intention to generalise from this case for the entire process of European integration. The purpose is thus not to explain how policies or financial solidarity mechanisms can generally develop, but how this particular outcome came about in a unique political and temporal environment of the EEC and later EU.

Apart from formative moments triggered by economic shocks, stability of the institutional structure in these moments is equally of relevance in order to explain the resilience and the conditions necessary for punctuated institutional change to occur. In addition, a thorough explanation includes the long-term impact of formative moments on the development of the regime, outside of the scope of punctuated change, but as a process that unfolds gradually over time.

Figure 7: Depiction of causal ordering



(Source: the author)

The segmentation of the development into shorter moments of shock and longer periods of relative stability is on the one hand informed by pre-screening of empirical evidence and on the other hand applied from the theoretical framework of the punctuated equilibrium model of historical institutionalism. This iterative process can be referred to as abduction (Peirce, 1955 in Beach & Pedersen, 2013: 19), a mix of inductive examining of evidence and deductive application of a theorised mechanisms (Beach & Pedersen, 2013: 20).

3.2. Theory building process-tracing method

Process-tracing is a qualitative method for small N or single case studies using causal mechanisms to make within case inference in real world cases (Beach & Pedersen, 2019: 1). The main objective is to identify the 'causal mechanism in between' cause and outcome unravelling the black box of how a cause is linked to an outcome (ibid: 1). Beach & Pedersen (2019: 1) argue that process tracing has three components: first, the theorising of a causal mechanisms, second, the '[analysis of] the observable empirical manifestations' of this mechanism, and third, the generalisation of findings via comparison with similar cases.

In many forms of process-tracing the goal is to connect a cause with an outcome through a causal mechanism. This implies that in many case studies the outcome and suspected cause are already known or expected to be known by the researcher. This is different to other approaches in social science which are interested in testing hypotheses with statistical means. In small N studies of process tracing, the within-case inference is a central building block in explaining how a specific cause and outcome are connected. A causal mechanism in process-tracing needs to identify the key constituent parts of the mechanism leading the cause to the outcome and how these parts are logically connected (Beach & Pedersen, 2019: 70). As it is often not possible to recreate the real-world conditions of a unique case (e.g., the Cuban missile crisis) and then test its outcome, the within case inference is central. Process tracing is ontological deterministic, which makes it different to probabilistic research methods of large N studies in social science (see, e.g., King, Keohane & Verba, 1994: 78ff), which argue about the impact of an explanatory variable on an outcome variable in terms of counterfactual difference or 'mean causal effect'. These different methodological approaches are suited for different research questions, with probabilistic models being better suited to carve out the mean causal effect of X on Y in a randomised population of cases, and deterministic models to explain how an outcome occurred based on a set of reasons (Beach & Pedersen, 2019: 15). Process tracing claims asymmetric causality, which means that the causal process from X to Y, does not reversely make inference about the process of ~X to ~Y (Beach & Pedersen, 2019: 62).

Theory building process-tracing is an iterative exercise between gathering and interpreting empirical findings and adapting and applying a theoretical framework to the case. The objective is to craft a mid-range theoretical mechanism that is also advancing the application of a theoretical framework. By creating an eclectic mechanism from multiple theoretical backgrounds (Beach & Pedersen, 2019), theory building process-tracing is more interested in which concrete mechanism helps to explain the outcome, as on a validation of an existing theoretical framework. Thus, it combines theory building informed by empirical evidence and the application of this theorised causal mechanism on the case in order to explain the causal relationship between cause and outcome. The understanding of causes is often associated with a trigger that starts the causal mechanism (Fontaine, 2020). This dissertation applies theory-building process tracing methodology, by 'compare[ing] empirical narratives in two or more typical cases and [by] attempt[ing] to distil the essence of the operation of a midrange, more abstract mechanism […]' (Beach & Pedersen, 2019: 274). As the depiction of an interactive process is less suitable for the structure of academic work, this dissertation begins with the empirical-informed theorised mid-range causal mechanism (see table 8, p.74) and tests its applicability and validity in the typical cases outlined below. Through the empirics-first approach, the formulation of hypotheses is less relevant considering that case-related (theoretical) assumptions derive from the extensive pre-screening of empirical observations and not from theory itself. Thus, this dissertation choses a research question which does not strive to confirm or disconfirm theories of European integration but serves the purpose of explaining the development of financial assistance and allows to academically enrich the theoretical debate about crisis-induced change.

To explain the causal relationship between economic shocks and punctuated change, this method starts with the gathering of empirical data and its parallel comparison to existing theorisation (Beach & Pedersen, 2019). As outlined in the critical juncture framework in chapter 2, this causal mechanism includes permissive and productive conditions. Even though the dissertation's intention is to explain the development of the European financial assistance regime over time, it uses an abstracted mid-range causal mechanism applicable for the typical cases included in the financial assistance development. To build this mechanism, several cases involving the occurrence of economic shocks are compared based on their conditions and direct outcomes. These cases form the basis for the explanation of and the major factors for the occurrence of punctuated institutional change within the policy area of EEC and EU financial assistance. These cases are then compared for mechanistic homogeneity, via a snowballing-outward strategy of testing the limit of the generalisability of the mechanism in similar cases (Beach & Pedersen, 2019: 278).

3.2.1 Case selection

This dissertation works with several conditions derived from the empirical analysis and the theoretical framework. Economic shocks work as part of the permissive conditions and as trigger cause derived from exogenous (to the institution) pressure. Moments of shock, either to the entire EU or only parts of it, are by default asymmetric as countries are differently resilient and able to cope with these situations. It is therefore reasonable to focus on these moments, as they would not only carry the potential to trigger assistance but test the regime's resilience. The comparison of these moments helps to 'recognise a distinct pattern of change' embedded in the transformation of the regime (Kreuzer, 2023: 88).

In a second step, legal changes are arranged by economic shocks and categorised. The working assumption is that punctuated change can occur for different features of the assistance regime separately, implicitly allowing for significant change and continuity to occur in parallel. This dissertation works with the consequentialist understanding of punctuated change as significant transformation similar to critical junctures. Considering the regularised nature of financial assistance as a formal policy within the EEC and later the EU, the sampling of events is done where moments of economic shocks coincided with legal adjustments. Attention is also given to potential moments of drift, which do not translate into immediate legal change. However, as heuristic tool, the case selection is focused on (formalised/legal) change.

In terms of causal ordering, the shock is treated as the trigger-cause starting the causal mechanism. The combination of exogenous shock and internal vulnerability as necessary conditions deriving from an economic shock are translated as first, the increased need of public financial assistance, and second, as the impediment of the financial assistance to effectively provide this support. The logical connection between the economic shock (cause) and increased public financial assistance (part 1 of the causal mechanism) is explained below illustrating that governments might need to resort to public assistance when other channels helping to serve increased financing triggered by shocks are not available.

The increased need of public financial assistance is not a given result from economic shocks. Governments can tap several sources for increasing their available financial means. Generally, the increase of state revenue via taxes is not feasible as an immediate increase of expenditure in moments of economic shock. However, a state can use several external sources, such as central bank credit or issuing public debt to mitigate the shock's impact, which are then repaid with the increase of revenue in the phase of recovery. Several aspects increase the need of public assistance. In the EEC several attempts existed to align European currencies, these monetary arrangements (pegging of European currencies or the single currency) restrain or unable governments to intervene via re- or devaluation of their currencies vis-à-vis their partner countries in moment of economic difficulties. Equally, the role of central banks as lender of last resort for the governments can be restricted via these policies, or via the national law. Private markets are another source of financing, however, in moments of economic difficulty, market actors might avoid, or price government debt in a way which is extremely costly. The need for public financial assistance increases in moments where a high need of financing cannot be met by these other means of ordinary and/or extraordinary financing arrangements and policies reduce the margin of manoeuvre for governments engaged in monetary arrangements. Thus, the increased need for public financial assistance is a condition that arises out of economic shocks due to several aspects linked to government financing and political arrangements. The reason to include this as a condition is linked to the expected use of assistance and its potential vulnerability vis-à-vis the new context. Differently put, if no need for assistance exists, the assistance regime will not be used and therefore cannot fail to deliver. The increased need for public financial assistance is therefore the first indicative condition to identify formative moments and the first part of the causal mechanism.

The second condition is linked to the internal vulnerability of the existing institutional structure. The *impediment of the assistance regime* would create a situation where governments are unable to secure financing for their policies. As the normal channels of ordinary and extraordinary financing are capped, the reliance on extraordinary public financial assistance is crucial. Without the latter, governments stand the risk of having to scale back their expenditure and, in a situation of unexpected difficulties of rolling over debt, go into (partial) default. This risk and unfavourable situation create an interest and pressure to reform the assistance regime to the level that the financing needs can be met and the risk reduced. Arguably governments do not only have the channel of public financial assistance to rely on and other sources of financing might be tapped in order to tackle the issue. These alternative paths might reduce or even resolve the issue of an impeded financial assistance regime through the adaptation of parallelly affected policy areas, which creates a new environment in which the assistance regime is unblocked. However, due to the heightened contingency, the possibility to react timely through alternative means is limited. Vulnerability can be assessed through the breakdown of mechanisms of reproduction. As operationalised in this chapter, mechanisms of reproduction are assessed regarding the regime's main features. Thus, vulnerability is analysed in terms of the collapse of the functional and utilitarian mechanisms of reproduction linked to specific regime features. The impediment of the assistance regime is the second condition to identify formative moments and part 2 of the causal mechanism. The usefulness of using this endogenous condition helps also to identify episodes in which the regime proves resilient vis-à-vis the exogenous pressure derived from economic shocks.

Interdependence between EC and EU countries results from integration in general and in the area of financial assistance from specific policies of economic and monetary cooperation more particularly. Interdependence is a condition in which Member States of the EC and later EU are mutually benefiting from cooperation in the economic sphere. This means that EEC and later EU Member States engage in common action as they would not be able to achieve an equally beneficial outcome unilaterally (Schimmelfennig, Leuffen & Rittberger, 2015). Reversely, the breakdown or disturbances of these policies have a common negative impact for all integrated countries. The dependencies arising from common policies have been framed as contagion risks in the international financial crisis in 2008 (Colasanti, 2016; Schulz & Verdun, 2022), which had the potential to cause a systemic crisis to the financial sector. This interdependence from economic policies is acknowledged under several formulation in the EEC and EU treaties. In the treaty of Rome (Art. 108) it is referred to situations 'where […] difficulties are liable in particular to jeopardise the functioning of the Common Market or the progressive implementation of the Common Commercial Policy […]', a similar formulation is found in the TFEU Art. 143 for Member States with derogation. More generally the structure of the IMF also refers to the interdependence arising from economic exchange through the instrument to keep exchange rates stable through the use of stand-by arrangements. The interdependence arising from the mutual constitutive nature of monetary cooperation and economic exchange is particularly relevant for EEC and later EU Member States. The condition of economic interdependence is thus linked to the proper functioning of the *acquis communautaire* and its benefits, as well as its potential costs in case of breakup. Even though this condition is practically present to different degrees from the outset of this study, it is a relevant condition to include in the contextual factors, because it helps to explain, on the one hand the rationale for the shared preferences on which punctuated institutional change is founded, and on the other hand on the particular situation in the EEC and EU in comparison to other institutional arrangement through which financial assistance could and can be alternatively channelled. While *interdependence between EC and EU countries* is a somewhat constant condition, it becomes productive in part 3 of the causal mechanism, in which Member State governments root for a joint solution (see table 8).

In order to build a theorised mechanisms of how economic shocks led to substantial institutional adaptation; typical cases, in which the trigger cause, the contextual conditions and the outcome are present, need to be carefully selected. As described above, these cases are unique due to their temporal and political contexts and their sequential dependence on each other. However, a mid-range causal mechanism informed by theory allows to abstract a causal mechanism which can be applicable in each individual case. In a set theoretical table (table 4), presence of economic shocks and legal change are typical cases and good candidates of critical junctures (see table 5). However, legal change is not necessarily significant institutional change, thus this dissertation works with two forms of outcomes to refine typical cases. First, the outcome of legal change as such is considered (outcome 1), and second, a more nuanced interpretation of the change as significant institutional change is used (outcome 2). Typical cases would need to score positive on economic shocks and outcome 2.

Table 4: Case selection – set theory

	Shock present	Shock absent
Punctuated change present	Typical cases	Deviant coverage cases (alternative causal explanation)
Punctuated change absent	Deviant consistency cases (theoretical revision)	Irrelevant cases

(Source: the author)

Table 5: Mapping typical cases for contextual similarities[10]

Case	1969: monetary crisis*	1973 : oil shock	2010: Euro area debt crisis	2020: Covid-19 crisis
Interdependence from EEC/EU policy	+	+	+	+
Increased need for public financial assistance	+	+	+	+
impediment of effective assistance	+	+	+	+
Cause: Economic shock	+	+	+	+
Outcome 1: formal/legal change to assistance structure	+	+	+	+
Outcome 2: Punctuated change	+	+	+	+

(Source: the author)

Cases with a presence of shock but an absence of punctuated change are deviant consistency cases (see table 6). These cases help to identify which conditions in addition to the trigger cause are necessary for the outcome to occur (Beach & Pedersen, 2019) and are good candidates to analyse institutional resilience and mechanism of reproduction accounting for stability. Lastly, cases where the cause is absent and punctuated change is present are candidates for an alternative theoretical explanation (see table 7). These deviant coverage cases (see also Beach & Pedersen, 2019) illustrate the limitations of the theorised mechanism and can be used to find new causes

[10] Note: + = present, - = absent.

for the outcome. From the sampling provided below only one instance fits a deviant coverage case.

Table 6: Mapping of deviant consistency cases

Cause and contextual similarities	1979: second oil shock	1992: EMS collapse	2000s shock	2008: int. financial crisis	2009: int. financial crisis
Interdependence from EEC/EU policy	+	+	+	+	+
Increased need for public financial assistance	+	-/+	-	+	+
impediment of effective assistance	-	-	-	-	-
Cause: Economic shock	+	+	+	+	+
Outcome 1: formal/legal change to assistance structure	+	-	-	+	+
Outcome 2: Significant institutional change	-	-	-	-	-

(Source: the author)

To explain the final outcomes of formative moments, processes of incremental change are used to explain the impact of these moments on the institutional structure in periods of relative stability over a longer term. They illustrate how decisions in formative moments are not simply carried through time, but that they also impact the dynamics within the regime leading to small doses of change and even unintended consequences.

Table 7: Mapping of deviant coverage cases

Cause and contextual similarities	1977	1978	1985	1988	2002	2011	2015
Interdependence from EEC/EU policy	+	+	+	+	+	+	+
Increased need for public financial assistance	-	-/+	-/+	-	-	-	-
impediment of effective assistance	-	-	-	-	-	-	-
Cause: Economic shock	-	-	-	-	-	-	-
Outcome 1: formal/legal change to assistance structure	+	+	+	+	+	+	+
Outcome 2: significant institutional change	-	-	-	-	+	-	-

(Source: the author)

In this dissertation four relevant moments of shock (typical cases) as contextual factors are identified: 1) the collapse of the international monetary system beginning in 1968, 2) the first oil shock of 1973, 3) the international financial and the subsequent euro area crisis beginning in 2008, and lastly, 4) the Covid-19 crisis in 2020. The collapse of the international monetary system is included because of the substantial reserve losses of France. Monetary instability occurred from 1968 and had negative economic impact on Community members, and political actors had a sense of urgency to act in light of the collapsed system and the expected need for a new monetary system in the future. Economic shocks in the 1990s and early 2000s did not trigger legal adjustment and are therefore considered less relevant cases for analysing the potential impact of economic shocks, nor for the development of the assistance regime in general, they are however used to assess continuity. One legal change in 2002 is considered as deviant coverage case (marked in darker grey, table 7), giving that change to the coverage of countries included in financial assistance reduced significantly. As part of eventful analysis, Kreuzer (2023) suggests periodising the timeline from a purely chronological ordering into periods of distinct characteristics that separate particular timespans from each other due to their qualitative difference. This provides a complimentary tool for understanding the development apart from the episodic distinction of shocks and relative stability. In this dissertation a qualitative difference is made between the time before the introduction of the euro and the time after its adoption, due to the important difference of monetary policies available to the participants in the Single Currency.

Table 8: Mid-range causal mechanism: 'critical juncture mechanism'

Scope conditions:
Geographical boundaries (EEC/EU)
Temporal boundaries (1968-today)

Critical Juncture Framework	***Permissive Conditions***		***Productive Conditions***		**Critical Juncture**
Abstracted theoretical form	***Exogenous shock***	***Internal Vulnerability***	***Rationalism: European level***	***Rationalism: national government level***	**Integration outcome**
Abstracted empirical form:					
Trigger Cause	**Part 1**	**Part 2**	**Part 3**	**Part 4**	**Outcome**
economic shock	(Exerted pressure) Increase need for public financial assistance due to counter measures by countries and or increased expenditure / reduced revenue	(Breakdown!) Impediment of the financial assistance structure	(Economic interdependence) Impeded assistance structure endangers common policies	Negotiation of detailed modalities of the reformed regime	Punctuated change to the financial assistance regime
Entities	Member States, European Commission,	Member States, European Commission,	Member States	Member States	
Activities	Use of/Call for public financial assistance by one or several EC or EU Member States	Argue against the usefulness/effectiveness of the current assistance structure	Follow cost-benefit consideration for reforming the assistance regime (shared preference)	Follow their natioanl cost-benefit consideration in the negotations (individual preference)	

(Source: the author)

3.2.2 Observation of causal parts and mechanistic evidence

In order to be able to confirm the posed causal mechanism, the empirical findings need to be assessed according to their empirical uniqueness and certainty (Beach & Pedersen, 2019). Uniqueness refers to the ability by the researcher to justify that the found observations are trustworthy and prove their meaning in a given context (Beach & Pedersen, 2019: 196). In an outcome-explaining or theory-building approach of process-tracing, the predicted causal mechanism is built from the empirical findings in an iterative fashion, which implies that the mechanistic evidence is often gathered before the theorised mechanism is put forward. However, using a mid-range causal mechanism can help to make the theoretical claim more robust through the application and testing of the mechanism in several typical cases. The empirical-informed choice of theory is based on the predetermined high uniqueness of the data. The certainty of this data is linked to the ability to infer from its existence (Beach & Pedersen, 2019) and to be open to theoretical adaptation in order to fit the present observables. While certainty plays a role in confirming the presence of predicted observables in a theory-testing process, in theory-building this process is reversed with certainty being the outset (Beach & Pedersen, 2019: 200). The gathering of empirical data stops when it is considered sufficient in order to provide a valid explanation of the outcome envisaged. While this dissertation relies on a theory-building approach for the causal mechanism in formative moments, the bias to confirm a theory is less acute, as in a theory-driven starting point, however, the danger of this bias is taking into account in the application of the mid-range causal mechanism to the individual typical cases.

3.3 Mechanisms of reproduction

In addition to process-tracing accounting for the emergence of unfolding of a critical juncture, this dissertation also looks at the mechanisms of reproduction which facilitate institutional legacy, and which lead to resilience in moments of economic shock and episodes of relative stability. In order to do so, legacy is analysed based on elements of the three main features and their mechanisms of reproduction. This approach follows a theory testing exercise of confirming the presence of these mechanisms of reproduction based on the *ex ante* structures and the reasoning for keeping them in place. One difficulty in identifying legacy in a historical institutionalist approach is the causal connection between a critical juncture and the ongoing mechanisms of reproduction that account for legacy. Scholars have different stances on how long this period should be in practical terms in order to be able to demonstrate legacy (see, e.g., Boas, 2007). The second difficulty is to identify when mechanisms of reproduction are at play throughout the period of institutional stability, and how one expects them to manifest.

As argued in chapter 2, legacy is recognisable if an element of the critical juncture is reproduced, even if this reproduction is interrupted in an almost immediate second critical juncture. Thus, this dissertation works with the assumption that a reproduced element of the critical juncture constitutes already a sufficient timeline to identify some form of legacy. To tackle the second issue of timing for reproduction, this work relies on several moments to pinpoint these mechanisms. First, the legal texts, e.g., on medium-term financial assistance (MTFA) had built-in renewal clauses which offered the possibility for debate about the law before being renewed or amended. Second, the moments when the assistance regime was used allowed for the evaluation of the regime's application (see table 9). Third, the moments in which developments in the institutional environment took place (i.e., in economic or monetary cooperation), gave opportunity for translating these developments onto the assistance regime. Last, periods of economic difficulty, potentially constituting critical junctures, likewise offer opportunity for policymakers to adjust the regime. Even though these moments are not cases which can be analysed in the same fashion as the critical juncture premise, they all have in common that they direct the attention of policymakers and experts onto the regime and its workings. Thus, they pose plausible points in time which can bear manifestation of mechanisms of reproduction as well as help to assess the form of potential gradual change which occur in parallel. As shown above, legal change to the assistance regime occurred several times without, however substantially changing the regime.

Table 9: Use of assistance by EEC/EU country and year (excl. SURE & RRF funds)

1974	1977	1977	1983	1985	1991	1993	2008	2009	2009	2010	2010	2011	2012	2012	2013	2015
IT	IT	IRL	FR	GR	IT	GR	HU	RO	LV	GR	IRL	PT	ES	GR	CY	GR

(Source: the author)

Similarly, part 2 of the causal mechanism, 'impediment of the financial assistance regime', is also analysed in deviant consistency cases. The legacy arising from formative moments is thus also tested in subsequent moments of shock. This helps to understand how mechanisms of reproduction are concomitant with institutional resilience and to theoretically solidify the necessary conditions of institutional breakdown as part of the endogenous factors leading to punctuated change in the assistance structure. Table 6 illustrates which deviant consistency cases meet the occurrence of shock and the increased need of public financial assistance, while no punctuated institutional change is present. These cases are good candidates to inform about the necessity of permissive conditions and which factors are important to account for institutional resilience.

3.4 Data used for this research and their limitations and drawbacks

In order to ensure high uniqueness, or in other words, high representativeness of the validity of the empirics found (Beach & Pedersen, 2019: 203), this dissertation consulted documents with a high degree of reliability regarding their production, conservation, and trustworthiness. They are also assessed according to their 'historic, situational, and communication contexts' (Beach & Pedersen, 2019: 201). Several different sources are used in this dissertation and are assessed according to their reliability and usefulness to provide sufficient evidence for a causal claim.

Archival material, such as internal documents of public entities or governments, can be considered 'hard primary evidence' (Moravcsik, 1998: 82; Beach & Pedersen, 2019: 215). The reliability of these documents is comparably high as their purpose is to transfer information and discussion points between actors, often forming the basis for subsequent action, and are therefore less likely to be inaccurate or not representative of the account (see also Trachtenberg, 2006: 147 in Beach & Pedersen, 2019: 215). Especially documents such as meeting minutes, draft opinions, proposals, and debates provide valuable account evidence of the internal procedures leading to a decision. The European Union as well as national governmental bodies keep archives of such documents generally open to the public after thirty years. These documents are more difficult to obtain for more recent events, of which two are included in this dissertation (economic shocks starting in 2008 and 2020). The authenticity of archival material is on the one hand supported by actual known outcomes, and on the other hand by findings in other documents and press coverage of that time. Lastly, the institutional rules ensure to a high degree a complete collection and publication of these documents, e.g., through digitisation or via the access of this material in designated reading rooms, both of these options have been used for this research.

The Monetary Committee (MC) was the central European bodies which treated the topic of financial assistance in the Community. This body was composed of high-level representatives from the Member States and of the Commission. The Monetary Committee was charged with the task to advice the Council on matters of monetary and financial issues, and to review and deliver opinions on the economic policies related to balance of payments (Art. 105, Rome Treaty). In this capacity the MC would be expected to exchange views on any situation causing economic difficulty and issues to the balance of payments of the Community countries. Documents from this body are of high relevance to understand the context and reasoning for specific policies and allows to assess, were available, the different viewpoints from national and Community representatives. Due to the nature of the Committee, it also gives insight into the economic and political context and its members understanding how situations of economic difficulty could be resolved. As documents were produced while situations unfolded, they are of high temporal accuracy and allow to retrace the 'at-the-time' sensibility that is required to understand actions *ex post*. In addition, MC meetings were not decision-making per se but more of an advisory nature, which allows to also get an insight into how arguments were formed and delivered to the Council. Lastly, national representatives and their different views on the issues treated by the MC can give an indication of their respective government's preferences and of the points of agreement and contestation.

This dissertation uses meeting documents of the Monetary Committee (from 1967 to 1998), of the Economic and Financial Committee (selected documents of 2008 and 2009), of the German Bundesbank (1968-1974), of the Council of the EU (1969-1974), of the Committee of Governors of the Central Banks of the Member States of the European Economic Community (1968-1993),[11] as well as diplomatic cables from the German Foreign Service (1968-1983). A list of archive documents with their respective source, identification, and extracts from their contents is in the appendix of this dissertation (see Appendix table 1 to 5).

Public communication from official sources such as statements by national governments and European bodies, or press communiqués are 'soft' primary evidence (Beach & Pedersen, 2019, Moravcsik, 1998), as they do not necessarily include information of high relevance, especially if the collective behind it disagrees. Even though these documents are intended for the public and thus unlikely contain highly sensitive information, they are reasonably well suited to grasp a tendency of the national governments' positions, if included, in the respective situation. Speeches from ruling parties in their national parliaments in defence of their action on the European level, or press releases for the public in that regard, can include the position of the government and its reasoning for supporting, or not, the specific legal initiative. This data is helpful to produce limited account evidence, however, the narrative of the source and its interest in framing needs to be taken into account. Within EEC and EU politics it is less likely for a government to straight-out mislead the public and its partners about its position, as the threat that the outcome is then actually not in their interest is rather high. This is true for governments in a minority position, which want their citizens to observe them as defending their interest. However, there might be a situation in which governments have an interest in obscuring their position to avoid public scrutiny of their action.

Data consulted for this dissertation include statements by European bodies such as the Eurogroup, the European Council and Council of the EU, the European Commission and the European Central

[11] Note: Documents from the ECB archives are included in the references and not in the appendix list.

Bank, national statements, such as ‘doorsteps’ before Council and European Council meetings, speeches in parliament and press interviews. In addition, legal documents of the EEC and later EU are consulted. These documents are publicly available in the EUR-lex database, which include laws adopted in the EEC/EU (decisions, directives, and regulations) through the Official Journal as well as the primary law enshrined in the treatise. A full list of these legal documents as well as Memoranda of Understanding and non-papers are separately listed in the references. These documents allow to determine the legal construct and changes of financial assistance within the EEC and later EU.

Next to official documents and archival material, this dissertation also consults newspaper articles, which can contribute to account evidence. Even though it is criticised by some (e.g., Moravcsik, 1998), rigorous journalism done by quality newspapers can be used to reconstruct the contextual conditions and government positions. It could be argued that journalists of relevant newspapers have privileged access to governmental sources (e.g., through interviews) and do not simply rely on the press briefings provided by spokespeople, it is thus helpful to see how quality newspaper assess and evaluate the situation in question and what accounts they present in contrast to public sources. Naturally, the credibility of the newspaper needs to be critically assessed and should only limitedly form the basis of the observation, more fittingly it should be considered an additional source for triangulation. Examples of newspapers consulted for this dissertation are the *Financial Times*, *Le Monde*, *Der Spiegel*, *Süddeutsche Zeitung* and *Handelsblatt*.

Particularly developments after 1993 rely more heavily on official documents and statements, as well as on quality press reporting, which gives this dissertation an asymmetric use of data. As the first two chapters are built through archive material, the last two chapters rely more on reporting and briefings. This lack of access constitutes a limitation regarding the thoroughness of collecting data regarding the debate, negotiation, and deliberation behind closed doors, which this dissertation tries to counter-balance through publicly available reports and information from trustworthy sources.

Statistical data of economic growth can be used as pattern evidence of economic difficulties and to distinguish these moments from other more economically stable periods. This data can be used to construct the contextual conditions. However, this form of data is merely descriptive and often an *ex post* measurement, which helps to situate a specific context, but not enough to accurately retrace events nor how they were perceived by actors. The reverse holds for institutional documents including economic outlooks, which give a good sense of the expectation of economic development at the time but are often subject to changes and might work with provisional statistical data subject to later rectification. This data is a good way to measure specific claims by political actors, such as economic difficulties, and can be used to triangulate these claims with demonstrative measurements such as GDP decline or increase of unemployment. Statistical data consulted for this dissertation on GDP growth, unemployment, debt and deficit, and refinancing rates were retrieved from public institutions such as the World Bank, the OECD, Eurostat, the ECB, and the German Federal Statistical Office.

CHAPTER 4: THE MONETARY INSTABILITY 1968-1969

Introduction

This chapter analyses the establishment of the first intra-EEC financial assistance instruments. These short-term and Medium-Term Financial Assistance (MTFA) instruments were established in the context of monetary instability in the late 1960s and early 1970s. The MTFA marks the origin of the European financial assistance regime and constitutes a critical juncture by organising financial assistance within the EEC, a break with the previous support structure in the international setting. This dissertation chose the beginning of the analysis when the *European* assistance regime begins to significantly develop (see, e.g., Mahoney, 2001; Pierson, 2004).

As pointed out in the case selection in chapter 3, monetary instability of 1968-1969 represents a typical case for the analysis of the critical juncture mechanism. In this case the cause of economic crisis, here in the form of financial difficulties for France, and the outcome in the form of punctuated change for the European financial assistance regime are present. The analysis of this case serves to test and demonstrate the validity of the eclectic theoretical framework of actor-centred historical institutionalism, including the abstracted critical juncture mechanism. Through presence of this mechanism, this case allows to explain how crisis and punctuated change are causally linked. To further the understanding of critical junctures, the punctuated change is analysed by means of path dependent and gradual change mechanisms, which serve to illustrate legacy through the connection between continuity and change of crisis outcomes beyond the crisis momentum itself.

The first section of this chapter provides a summary of the *ex ante* situation including a descriptive part about the forms of financing and financial assistance available to EC Member States. The following sections provide the analysis and are organised according to the two composing parts of the actor-centred historical institutionalist framework.

The second section of this chapter analyses the permissive conditions. It explains how speculative attacks against the French franc and the vulnerability of the international assistance mechanism around the IMF and SWAP arrangements led to increased agency. This section demonstrates the necessity of these conditions as well as the relevance of their persistent co-occurrence.

The third section of this chapter analyses the productive conditions. It explains the role of Member States and their respective preferences in the moment of increased agency. This section demonstrates how economic interdependence between EC Member States formed the shared preference for the establishment of an intra-EEC assistance mechanism. It further illustrates, through the application of a rationalist approach, that the material interests of national governments explain the punctuated change outcome according to diverging preferences and the dominant bargaining position of *economists* countries in the negotiation.

The fourth section of this chapter analyses the long-term impact of the punctuated change using path dependent and gradual change mechanisms. The legacy of the layered intra-EEC assistance is assessed via the reproduction of the economic rationale for assistance. This section also demonstrates how the punctuated layering of EEC assistance onto the international system started a process of *de facto* displacement of the IMF, which is explained through the changing incentive structure provided by the new regime, leading government actors to defect the IMF system and favour intra-EEC assistance. The last section concludes.

4.1 *Ex ante* context and financial assistance structure

This section briefly summarises the embeddedness of EC Member States in international assistance mechanisms and in EEC economic policies, and the economic context linked to capital liberalisation and short-term capital fluctuation. Before the establishment of the European financial assistance regime in 1971, EC Member States were embedded in two institutional settings related to monetary cooperation and financial support. The first institutional setting for all EC Member States was the Bretton Woods monetary system of fixed but adjustable exchange rates and the IMF as the common fund to provide support to keep these parities stable. Through the Bretton Woods system EC Member States currencies were pegged to the US dollar, creating an indirect peg between EC countries, which was further narrowed by the European Monetary Agreement (EMA) allowing a maximum margin of 1.5 per cent fluctuation vis-à-vis the US dollar (Ryan, 1978). The second embeddedness resulted from the integration within the EEC through the establishment of the Common Market, the Common Commercial Policy and the Common Agricultural Policy (CAP). The EEC embeddedness restricted the margin of manoeuvre of its Member States regarding national safeguards such as quotas and tariffs. Through integrating trade, Member States were more exposed to disequilibria in the balance of payments, which could put pressure on the exchange rate and thus on the stability of the common policies itself.

When in 1957 the Treaty of Rome was signed to establish the EEC, the six founding members included a safeguard clause into the treaty (Art. 108),[12] which allowed Member States to provide mutual support in the form of limited credits to each other. As monetary policy, in particular the exchange rate, are linked to the position in the balance of payments, the common policies had the potential to exacerbate imbalances through the reduced possibilities to intervene in exchange rates. Disequilibrium, if not met by other means, requires a state to adjust its peg or to introduce trade restrictions to balance the accounts (Ryan, 1978). The reason to include a mutual support clause was thus linked to the potential negative effect that the common EEC policies might have on the balance of payments and currency reserves:

> Where a Member State is in difficulties or is seriously threatened with difficulties as regards its balance of payments either as a result of an overall disequilibrium in its balance of payments, or as a result of the type of currency at its disposal, and where such difficulties are liable in particular to jeopardise the functioning of the Common Market or the progressive implementation of the Common Commercial Policy[…]the Commission shall, after consulting the Monetary Committee, recommend to the Council the granting of mutual assistance and appropriate methods therefor. (Art. 108(1), Treaty of Rome)

On the international stage, the IMF incorporated the role of international lender of last resort, in particular to provide balance of payments support via its stand-by arrangements (Spitzer, 1969). On the European level, the EMA of 1958 established a fund for balance of payments support within the Bank for International Settlements (BIS) in Basle. The EMA included sixteen European countries and kept a relatively stable amount of $600 million for medium-term balance of payments support from 1958 to 1968, a comparatively small amount in comparison to IMF funds of roughly $21 billion, and availabilities of international SWAP lines of about $19 billion (IMF, 1969). While the EMA funds were used predominantly by developing European countries at the time (Turkey, Greece, Iceland, and Spain), its low amount was kept stable since 1958 and did not follow the international trend of increasing short and medium-term balance of payments support

[12] Note: The full legal reference can be found in a separate list in the references.

(BiS, 1968). Within the Bretton Woods system, most European central banks also participated in several SWAP arrangements with other central banks to allow for short-term borrowing, e.g., with the Federal Reserve in the US, without the necessity to meet or follow specific policy requirements which were demanded by the IMF via its stand-by arrangements (IMF, 1969).

Throughout the late 1960s major European currencies received assistance via these instruments, notably the UK, which faced several speculative attacks until the British pound was devalued in late 1967 followed by an assistance from the IMF (de Vries, 1986; IMF, 1969). The Bank of England used short-term support facilities and its own reserves to intervene in the exchange markets, and together with measures taken to increase economic output, achieved a stabilisation of the pound with announcement of additional external support for the pound by other central banks (IMF, 1968). However, the expected economic recovery failed to appear, and foreign trade issues linked to the Suez Canal closing in June 1967 came on top of internal issues (IMF, 1968). The resulting difficulty to match capital outflows and internal recessionary tendencies through monetary policy exacerbated the flight of capital, leading to a depletion of foreign central bank support, which finally forced the UK to devalue the pound by 14.3 per cent (IMF, 1968). The role of short-term support of central banks towards the stabilisation of the parity were underlined by the momentary easing of speculative attacks on the pound. The UK used most of the IMF funds to reimburse its SWAP obligations under the Federal Reserve system (FRS) (Federal Reserve, 1968). The relevance of these instruments and the increasing need of these tools to counter speculative attacks against Western currencies led the Federal Reserve system (including all EC countries) to increase the amount of short-term support from \$7 billion to over \$9 billion by March 1968 (Bundesbank, 1968).[13] The experience from the UK case illustrated the costs and risks associated with large scale speculation.

4.2 Analysis: Permissive conditions

As part of the critical juncture mechanism, this dissertation uses permissive and productive conditions to analyse the case. The following section applies permissive conditions to the case of the monetary crisis of 1968-1969 and analyses how the combination of increased need for public financial assistance resulting from speculation, and the impediment of the assistance regime

[13] Note: All EC countries participated directly in the Federal Reserve System. Luxembourg was integrated in the currency area with Belgium.

facilitated increased agency in late 1968. The first part of the analysis is focused on the nature and impact of the monetary crisis and how the short-term capital flights in France increased reserve losses. The second part explains how the *ex ante* IMF-based stand-by system and *ad hoc* monetary arrangements did not help to abate speculation. Through the co-occurrence of both conditions, the exerted pressure from the exogenous shock persisted from May 1968 to August 1969.

4.2.1 Financial pressure from speculative attacks against the franc

The first permissive condition for increased agency was the material threat caused by large scale capital flights from France and policymakers' assessment of the necessity to use financial assistance to solve the issues relating to speculation. The pressure on the French financial position prevailed from mid-1968 until August 1969, with changing intensity. This intensity was temporarily curtailed through interventions in the form of several rounds of capital controls and *ad hoc* support. However, these interventions could not abate the persistence of capital flights. The occurrence and persistence of speculation led to material losses for France and simultaneously increased the French government's need for external financial assistance to counter capital flights.

The occurrence of the financial pressure resulting from the exogenous shock of speculation began in May 1968 when France entered a period of social upheaval, leading to a strong reduction of economic output and a current account deficit (IMF, 1969; Howarth & Schild, 2017). The speculation was triggered by the expected losses linked to the almost stand-still of the French economy and continued further in fear of a wage-price spiral resulting from an increase of salaries (Federal Reserve, 1968). In May and June France lost about $500 million of its reserves to defend the franc in the exchange market and started to draw support from the FRS and the IMF of about $1 billion by August 1968 (IMF, 1969; Federal Reserve, 1968). These funds were readily available as they were part of French reserves and of a previous SWAP agreement. Thus, the French government quickly mobilised its claims to these systems to balance capital outflow. The Commission pointed out that the EEC internal de-regulation of capital flows played its part in the accelerated flight of capital from France, which could only take hold of the situation by introducing exchange controls in May 1968 (Federal Reserve, 1968). The increased French deficit was also met by monetary financing and other monetary measures to increase liquidity (IMF, 1969).

However, the drawn funds by the French government were not enough to cover its reserve losses, and thus increased the need for public financial assistance. This need was covered by an *ad hoc* arrangement with several central banks and the BIS increasing their SWAPs to France in July 1968. The Federal Reserve provided $600 million and the Bundesbank $300 million of the total $1.3 billion of credit lines (Bundesbank, 1970). By July the material threat from speculation drew policy makers' attention towards the necessity to provide financial assistance. This is pointed out by a Commission's proposal in June 1968 for a support facility between EC Member States to allow drawing by central banks in moments of increased financing needs. These needs arising from the capital outflows from France was the impetus the Commission used to exemplify the advantages of a system of pooled reserves and simulated how the French government could draw up to 3.3 billion Unit of Account (U.A.) (equivalent to $3.3 billion in 1969) from the system (BAC, 268).[14] The basic idea was that the Member States allocate 20 per cent of their reserves to an EEC mechanism, to which Member State governments could draw up twice as much as their country's quota (BAC, 268). The material threat from speculation shifted national government actors' attention towards financial assistance, which is also underlined by the *ad hoc* solutions agreed between central banks.

After a period of economic recovery, the lifting of exchange control in September 1968 facilitated continued capital outflows by November 1968. (Federal Reserve, 1968). Even though France was able to repay large parts of its short-term credits, with the re-occurrence of speculation in November it required again assistance, and another *ad hoc* solution of SWAPs worth $2 billion was agreed at the Bonn Conference, of which Germany and the US provided each $600 million (Federal Reserve, 1968; Bundesbank, 1969). France then reintroduced capital controls and the situation after November 1968 was again temporarily contained. In 1969 the situation continued to worsen, and France chose to devalue its currency in August 1969, as a continued defence of the franc would have drained the French reserves entirely and would have left the franc overvalued (Federal Reserve, 1969). Throughout this time, France drew from SWAP arrangements and other support facilities, as well as sold several tranches of gold to reimburse its credits under these facilities (Federal Reserve, 1969). These interventions point to the material threat from speculation, which produced high costs for France. Due to the simultaneous reserve loss of France, these support facilities required increasing amounts covering reserve loss and repayment of preceding support credits simultaneously.

[14] Note: The full archive references are in the appendix

At the same time, capital flew into Germany, with German reserves rising by over $2 billion (Gray, 2006). Alone in 1968, the French net reserves dropped by almost 50 per cent from about $7 to $3.7 billion (Bundesbank, 1970). This shift of reserves illustrates the asymmetry of this shock, as it exacerbated deficit and surplus positions, and put the financial burden on France to keep the parity. The pressure from the exogenous shock starting in 1968 remained present until the devaluation of the franc in August 1969 and was only temporarily diffused through exchange controls. The financial pressure from speculation posed a material threat through continued costs to keep the parity, which became untenable for France after losses were judged to completely drain French reserves (Federal Reserve, 1969).

The impact of the exogenous shock on the French financial position is well demonstrated through the loss of reserves and the final acceptance to devalue the franc in fear of draining all French reserves. The increased need for public financial assistance by France put the topic of financial assistance on the agenda, as it is shown by the Commission proposal for pooling reserves in June 1968, and by several rounds of *ad hoc* support for France. The necessity of increased need for assistance is further outlined by the inaction of the Council in regard to a Commission proposal on closer monetary cooperation within the EEC of February 1968. The Council only gave a mandate to the Monetary Committee and the Committee of Central Bank Governors *to report on the possibilities* of closer cooperation in September 1968 (BAC, 804; Ministère d'Etat, 1968), in the context of speculation against the franc. The increased need for public assistance triggered by the exogenous shock thus provided the necessity to deal with implementing financial assistance either through considering the expected needs or through its application in the French case. The increased need for public financial assistance in this case demonstrates the presence of the first part of the critical juncture mechanism.

4.2.2 The impediment of the assistance regime

Different than in other cases analysed in this dissertation, the first establishment of an EEC-internal financial assistance structure is largely permitted due to the impediment of EEC-external assistance, which in the context of the monetary instability in the EEC illustrated significant shortcomings. The impediment was in the formal element linked to availability of assistance at different periods of the speculative attacks against France, as well as in the financing element of stand-by assistance. The following part explains how different assistance mechanisms were impeded in this case and how the co-occurrence of the need for public assistance and its impediment led to increased agency in December 1968.

The support system for EC countries at the beginning of the first severe monetary instability in 1968 was organised outside of the framework of the EEC. EC Member States had access to several facilities. First, stand-by arrangements, which were IMF loans for three to five years and which required the borrower to fulfil specific policy conditions (IMF, 1969). Within the framework of the IMF, Member States could also draw from their gold (reserve) tranche, which allowed for the use of a certain amount of their own quota without the need to follow specific conditionality (Ainley, 1984). Second, Member States were involved in several SWAP arrangements, the largest being the one established around the US Federal Reserve through the Basle Agreement (Ainley, 1984).

4.2.2.1 The impediment of IMF standby assistance

The IMF system, which presented the largest institutional lender of last resort, was functionally impeded in the French case. This impediment was caused by the mismatch between the financing elements of the stand-by credits and the nature of the exogenous shock in the form of short-term capital outflows. This impediment contributed to the practice of using SWAPs for support.

IMF stand-by arrangements were generally designed as less flexible medium-term (three to five year) credits, and their provision were designed to go hand in hand with structural adjustments, which required a more cumbersome *ex ante* process between the government requesting assistance and the IMF. The expectation that the capital flows were rapidly reversed made the use of a stand-by less beneficial for governments, due to its financing design, which had the purpose to provide a buffer for countries undergoing structural reform. Thus, the use of IMF credits was not considered effective to counter speculative flows, which points to an impediment in the financing element. This impediment was a functional mismatch between instrument and purpose (see table 10). This impediment also contributed to the practice of disregarding IMF credits in periods of speculation as outlined below.

As short-term capital flows did not necessarily reflect structural imbalances in a country's economic output, governments were generally less willing to turn to credit facilities with conditionality (IMF, 1969), considering the increasing alternative of unconditional short-term loans. The trend between Group of Ten countries was to offset speculative flows through SWAP arrangements, which had increased in size from $1.7 to $19.8 billion from 1961 to the end of 1968 (IMF, 1969). The typical dynamic of speculation was that capital flows were rapidly reversed (see also IMF, 1969), and thus short-term credits easily reimbursed. This view was advanced by experts in the French case in mid-1968 (ECB, 1968). In line with this practice, French policymakers proposed to use SWAPs from the Federal Reserve and EEC central banks to counter speculative flows, while balance of payments deficits were covered by French reserves. An approach supported by other central banks (Bundesbank, 473/3), and considered an 'appreciable support […] to counter speculation' by the Monetary Committee (BAC, 268: 79; author's translation), which agreed unanimously that the French franc should and could be defended (Bundesbank, 473/3). Thus, the practice of using alternative financial support and the disregarding of the IMF instrument was fuelled by the functional shortcomings of IMF medium-term credits in the context of speculation. This shortcoming explains why the French government did not directly consider an IMF credit, and the latter was more seen as collateral for creditors, if France was unable to reimburse its short-term loans (Bundesbank, 473/2). The only part of IMF financing and support that the French government accessed to counter speculation was the unconditional tranches and reserves. In mid-1968 France withdrew its entire claims from the GAB, and super gold tranche, as well as its gold tranche, amounting to $885 million (Bundesbank, 472/3; 473/1).[15]

4.2.2.2 The impediment of ad hoc monetary arrangements

SWAP arrangements were also functionally impeded. The impediment of the monetary arrangements was situated in the formal element of *ad hoc* SWAP arrangements. While IMF assistance was in practice ruled out to counter large scale speculation, central bank short-term credit lines were an effective way to counter speculation (Bundesbank, 1970). However, their *ad hoc* nature did not pose a credible deterrent against speculation.

The largest share of assistance came through the multilateral SWAP system of the Group of Ten around the Federal Reserve agreed in Basle in 1962, which had the purpose to provide a short-term defence against exchange market fluctuations (Ainley, 1984). Generally, SWAPs were *ad*

[15] Note: The gold tranche represented 25 per cent of the quota that a country could withdraw unconditionally, whereas the super gold tranche represented additional reserves that a country transferred to the IMF. The super gold tranche could thus be drawn without repayment to the IMF as it was like a surplus position vis-à-vis the IMF (Bundesbank, 1970). In addition to these options, the participation of countries in the General Agreements to Borrow (GAB) could be mobilised, which meant that outstanding country claims to the system were transferred back to the creditor in times of need. All these options did not require any further conditions and could be quickly allocated.

hoc, and not permanent, short-term credit lines (normally for three months). In the beginning of 1968, the amount via the FRS stood at roughly $9 billion, of which France had a line of $100 million. Simultaneously with the IMF (surplus and gold tranche) drawings, France made use of the total of this line in mid-1968. This small amount was increased *ad hoc* on two occasions in July and November 1968. In July the central banks increased their SWAP lines to France, to cover the capital outflows. Government actors agreed that a parity adjustment of the franc should and could be avoided with the support at hand (Bundesbank, 473/3), thus governments did not accept the need for reform. A similar solution was agreed in November 1968 at the Bonn conference. However, neither solution helped to abate the speculative outflows. In a Commission communication of November 1968, it was pointed out that a pooled EEC reserve system would have helped France to mitigate the impact of the November speculative attacks, if not entirely avoided their occurrence (BAC, 272). It further pointed to the unwillingness of Community governments to tackle this issue, as the *ad hoc* arrangements used for the $2 billion support in November was agreed in an internationally setting side-lining the EEC and its bodies (BAC, 272). The notable difference between July and November was that the franc was estimated to be overvalued by about 15 per cent by November 1968 (BAC, 271; Gray, 2006), and more action was needed, which led the German government to agree on temporary taxes to favour imports over its exports to help balance the French imbalance (Bundesbank, 477/1; Zimmermann, 2014).

However, these agreements were more rehabilitative than preventive, agreed in moments when monetary pressure was exuberant and already caused significant reserve losses. As short-term facilities had to be reimbursed within several months, continued outflows could only be covered if the reserve position allowed reimbursement of these credits. The increased credit obligations did not allow to create enough buffer to accumulate reserves, as the economic disparities continued. This problem is illustrated by the repeated use of SWAPs by France and a simultaneous reduction of reserves (Federal Reserve, 1969; Bundesbank, 1970). Economic issues linked to a worsened trade position, rising inflation, and an accentuated budget deficit dimmed the economic prospects of France in Autumn of the same year (Bundesbank, 1969).

The speculative movements which first were triggered by social unrest, refocussed on the economy issues of France and the resulting disequilibrium between the franc and the mark (Bundesbank, 1970). Even with the repeated setup of larger SWAPs for France, the French government was unable to restore trust in the parity. The *ad hoc* nature of the SWAP agreements, agreed at emergency monetary meetings, did not provide a credible deterrent to market actors against speculation, but rather pointed to a systemic issue and lack of effective mutual support. This issue was underlined by the Commission, which assessed that unconditional large-scale short-term support could have significantly mitigated or resolved the French difficulties in good time (Bundesbank, 477/2; BAC, 272). The issue of *ad hoc* support points to an impediment in the formal element, as the purpose of monetary stability was not translated into a functional instrument (see table 10).

Before the French devaluation, the Commission judged the international system as less resourceful:

> Certes, comme par le passé, il a été possible à un Etat membre en difficulté de faire appel aux concours nécessaires dans un cadre plus large que celui de la Communauté. Mais ni les possibilités offertes par le Fonds Monétaire International, ni la mise en œuvre d'accords de swap n'ont permis jusqu'ici de prévenir les crises successives du système monétaire international ni la crise récente au sein de la Communauté (BAC 804: 25).[16]

The impediment of the assistance regime in two forms demonstrates the presence of the second part of the critical juncture mechanism.

[16] Note: A similar evaluation was given by the Bundesbank in 1969 arguing that '[t]he multitude of assistance operation, some of which were only organized under the acute pressure of events, have often been considered mere "patchwork" and proof of the fact that the system designed in 1944 at Bretton Woods has become obsolete and stands in need of basic overhaul' (Bundesbank, 1969: 30).

Table 10: Impediment of the regime

Impeded assistance structure	Impeded element	Breakdown of reproduction
Standby credits via IMF	Financing element: instrument not suited to deter speculation	Functional mechanism – the instrument's design was not matched with the purpose.
Ad hoc SWAPs	Formal element: *ad hoc* nature not suited to deter speculation	Functional mechanism: the lack of permanency of the instrument did not achieve its purpose.

(Source: the author)

4.2.3 The persistence of permissive conditions

The necessity of both conditions is demonstrated by the example of Italy in 1963. In this case the Italian government received substantial *ad hoc* monetary support from its partners illustrating that the financial pressure from an exogenous shock increased the need of public assistance.[17] The striking difference between the Italian and French cases, and the supporting argument for the necessity of the endogenous impediment, is that speculation against the Lira immediately ceased after a large *ad hoc* package of SWAPs was agreed and announced by Italy in 1964 (Federal Reserve, 1964). Thus, in the Italian case, the *ad hoc* nature of short-term support was resilient and diffused the pressure from the exogenous shock. This case also illustrates that the occurrence of an exogenous shock causing an increased need of public financial assistance is not sufficient for punctuated change. This within-case comparison of similar contexts contributes to the confidence of the theorised endogenous impediment as necessary permissive condition.

The relevance of the persistence of permissive conditions is illustrated by the *ad hoc* agreements in July and November 1968. Both solutions maintained the system in place with only temporary increased envelopes. Neither of the two *ad hoc* solutions did resolve the pressure from the exogenous shock, which was only diffused through devaluation in August 1969.[18] Thus, even

[17] Note: The Commission compared the French case of 1968 with the Italian case of 1963 (BAC, 268), because of the similarity of speculative flows.

[18] Note: Devaluation came as the French government feared a complete draining of its reserves due to the continuous drop of the French reserves, (on average $500 million per month in the second half of 1968, and $300 million per month in the first half of 1969).

though the combination of permissive conditions led to emergency meetings, the solution found in these meetings did not diffuse the exerted financial pressure as speculation persisted. This persistence supports the theoretical argument that near miss critical junctures can only form the *final* solution of a moment of shock if the permissive conditions disappear prematurely, otherwise the pressure from the combination of the permissive conditions remains, as in the case of the monetary instability in France.

That agency was not increased by November 1968 is demonstrated by a Commission proposal. The Commission used the November difficulties as evidence for the need of pooled reserves within the Community as the speculative attacks were judged to be linked to the absence of a clear intra-EEC monetary commitment via financial assistance (BAC, 269).[19] This view, and the repeated proposal by the Commission for pooled reserves in the EEC, was not shared by central bankers of Germany and the Netherlands (Bundesbank, 477/2). As the adoption of any legal act regarding an EEC financial mechanism was dependent on the agreement of governments, the increase of agency is synonymous with the agreement to act by government actors. Thus, while urgency was evoked by the Commission, government actors did not yet support this assessment, putting a hold on the proposal and effectively limiting agency on that matter, only leading to 'more of the same'.

The presented case demonstrates the presence of both permissive conditions as passing-through filters. As demonstrated below, increased agency was only possible after the need for assistance increased due to speculative flows and after several rounds of *ad hoc* assistance failed to deliver the purpose of monetary stability within the EEC. This dynamic can be described as trial-and-error.

4.3 Analysis: Productive conditions

The following sections analyses agency within the permissive conditions based on a mixed-preference game including shared and individual government preferences. The former presents the bridge between the permissiveness and the agreement on reform. The latter focuses on the individual government preferences and bargaining positions which determined the reform

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[19] Note: The Commission's approach to establish an EEC support structure rested on the idea that a European structure could also ensure the readily availability of funds and present a clear commitment between EEC partners to allocate support, exceeding the envisaged fluctuation of currency support needs within the Bretton Woods system, and thus resolving the impediment of ad-hoc SWAP arrangements.

outcome. First, the role of economic interdependence as productive condition for the shared preferences is analysed. The shared preference provided the economic rationale for establishing a European financial assistance regime. From this outline Member State positions and interests are analysed in the intergovernmental negotiation process, which ultimately determined the details of the design and implementation of the assistance regime.

4.3.1 Economic interdependence and common policies

Whereas capital flows were per se not an issue and even fostered through the liberalisation of capital movements, the rapidity, and the amount of the movements in 1968 were unprecedent for the EEC and posed a risk for monetary stability. The Commission saw in the parity modification a danger for economic expansion due to uncertainty for market actors, jeopardising the functioning and achievement of the Common Market and further integration (BAC, 804). When France introduced exchange controls, the benefits derived from the proper functioning of common policies, i.e., free trade between EC Member States was reduced, and government representatives demanded to keep these safeguards as brief as possible to not compromise the Common Market (BAC, 268).

In addition, the price agreements and subsidies of the CAP worked with a designated unit of account, which were fixed to the gold price.[20] The re- or devaluation of currencies therefore reduced or increased the price of agricultural products in these currencies and required significant subsidies from the government of the country that revalued its currency to compensate for value loss of the U.A. (Bundesbank, 481/2). In the French case, the German and the French government did not accept the responsibility of monetary instability, nor did they accept to bear the costs associated with de-and revaluation of their respective currencies.[21] Not only did the movement to re-or devalue include an underlying responsibility for the imbalances and thus an answer to which government must structurally adjust, it also allocated the costs of the realignment in future trade

[20] Council Regulation (653/68/EEC).

[21] Note: In 1968 and 1969 the German government was not in favour of revaluing the mark due to the negative economic impact, in particular of EEC policies, on the domestic economy, even though the Bundesbank did voice its concern regarding maintaining the disparity between the franc and the mark in 1968 (Bundesbank, 477/1). The German government feared increased compensation for its agricultural and other economic sectors over several billion mark and the signalling effect a German revaluation might have for governments following an inflationist policy (Bundesbank, 481/2). At the same time France was not ready to devalue its currency, similarly regarding the economic and political costs, and blaming the speculative attacks on the German government. While France demanded the revaluation of the mark, the German government saw deficit countries responsible for adjusting (Schwarz et al, 1999/388 & 389).

movements.[22] The potential costs of devaluation for weaker and revaluation for stronger currencies thus contributed to the preference of both governments' positions toward the resolution of instability through the use of financial assistance to maintain the parity. The German government proposed in the Group of Ten that deficit countries should borrow the necessary funds from the financial market of the surplus countries (Bundesbank, 481/1; see also Bundesbank, 479/1), which would create market pressure for deficit countries to adjust their balance of payments (Bundesbank, 5877/1), and at the same time reduce the funds to be provided via the central banks. However, this idea was withdrawn in light of the unreliable financing available on financial markets. This issue illustrates the lack, or unreliability, of market financing as an important contextual factor. This lack made credits to governments predominantly a matter between public entities, a factor which changed over time (see chapter 5).

Whereas the November agreement at the Bonn conference was still 'more of the same', the persistence of speculation provided the needed pressure for government to acknowledge a month later the necessity to […] 'examine the possibilities of an intensified monetary cooperation' after France reintroduced exchange control (BAC, 804: 33). In February 1969 the Commission proposed in its *Memorandum de la Commission au Conseil sur la coordination des politiques économiques et la coopération monétaire au sein de la Communauté* two financial assistance instruments within the EEC, which institutionalised the assistance structure of SWAPs and medium-term credits among EC Member States (BAC, 804), mirroring the international structure of support. The Commission's proposal was based on the predetermined options presented to the Council on December 12, which excluded pooled reserves and only mentioned short-term support between central banks and medium-term support between governments.

The embeddedness of EC countries in common policies and the material costs of parity alignment represented the economic interdependence between Member States. This economic interdependence formed the productive condition to translate the pressure from the permissive

[22] Note: If only one government devalued its currency within the EEC, all other economies would increase their imports from that partner, thus sharing the impact on ex- and imports. If only one government revalued, it alone would reduce its exports to and increase its imports from all partners. Government of countries with strong currencies and capital inflows had thus an interest in sharing the adjustment costs with the other partners by insisting on devaluation of weaker currencies and capital outflows, while governments of countries with weaker currencies had an interest in the revaluation of the stronger currencies to avoid a general decline of purchasing power of their currency vis-à-vis all partner countries and thus reducing the inflationary impact of the realignment.

conditions into institutional change. The involvement of all EC countries in mutual support via international arrangements and the *ad hoc* increase of SWAPs illustrates the overall willingness to engage in financial assistance within the EEC to avoid parity alignments in either direction. The arguments put forward by the policymakers of EC Member States to establish an intra-EEC financial assistance structure evidence this economic interdependence in the form of the negative impact of monetary instability on trade, and on the common commercial and agricultural policies (BAC, 804; Bundesbank 481/2).

> Au stade de développement actuel du Marché Commun, des modifications de parité comporteraient de graves répercussions sur la mise en œuvre des politiques communautaires en particulier de la politique agricole, augmenteraient l'incertitudes des agents économiques, affecteraient sans doute durablement les perspectives d'expansion économique des pays membres et mettraient en péril leur interpénétration progressive. Il convient donc de prendre toutes les mesures nécessaires, pour prévenir une telle éventualité (BAC, 804: 24).

Thus, the support for a common financial assistance structure was linked to the domestic costs of re- and devaluation respectively, and the interdependence derived from common EEC policies for domestic economies, in particular agriculture and trade. In addition, no alternative financial source was sufficiently large and reliable to take over central bank lending (Bundesbank, 481/1). Whereas the treaty referred to assistance in relation to the Common Market and commercial policy, the 1962 introduced CAP deepened this interdependence further. These shared material interests provided thus the *economic rationale* for the establishment of intra-EEC assistance. This rationale was intrinsically linked to the agreement of governments to increase agency on detailed reform and provided the shared preference. This economic rationale explains why EC countries sought a solution within the EEC, and not to reform the international system of assistance, which previously supported France. However, considering the embeddedness of EEC countries in the international monetary system and the IMF as such, the strategy of Community governments and of the Commission was to introduce their own instrument onto the international system, without necessarily abandoning the latter. The presence of the cost-benefit considerations deriving from economic interdependence is demonstrated by respective government preferences linked to common policies and their agreement to reform assistance. This presence confirms the third part of the critical juncture mechanism.

Before permissiveness was diffused through the devaluation of the franc in August, the Council gave its general agreement on establishing a short- and medium-term support system within the EEC on July 17, 1969 (CM2/1969 No.36). Thus, while permissiveness provided the temporal bounds for agency to unfold, economic interdependence formed the bridge between the permissive conditions and increased agency.

4.3.2 A cautious step towards European financial assistance

Based on the shared preference, the Commission proposed a short-term and medium-term assistance instrument. The proposal for short-term assistance between central banks followed the same lines as practices in the international system with unconditional three-month credit lines established between EC central banks. Even though the Commission did not refer to an exact amount, it previously referred to 20 per cent of EEC reserves (BAC, 268), and that the amount should be sufficiently large to effectively deter speculation (BAC, 271). Similar to SWAP lines, each country was to finance to a certain quota the intra-EEC short-term instrument and was allowed recourse to the system to a certain limit (BAC, 804). The use of the instrument was to be activated by a 'simple call' to the other Member States, which should in equal parts shoulder the assistance (BAC, 804). Different than *ad hoc* SWAP agreements, the use of the intra-EEC short-term support should not work with the requirement to have approval of the creditor central banks in the moment of need, but to have a readily available EEC pool of capital that central banks can tap automatically to rapidly react.

The second part of the proposal regarding a medium-term instrument was comparably vague. The Commission's proposal only included a limited allocation of credit to the system by each Member State, but explicitly refrained from setting a limit of usage, as the amount for assistance would also be dependent on potential international support (BAC, 804). The use of the medium-term credits was linked to the previous use of short-term support, thus implicitly setting the debtor's credit limit to the previously received short-term assistance, which was to be rolled over with the medium-term instrument. The risks associated with economic interdependence was incorporated in Art. 108 of the Rome treaty (see above), which allowed for safeguards to shield countries from adverse effects and to provide mutual support through financial assistance.

The Commission's proposal was integrated in the plan for Economic and Monetary Union (EMU) by the Luxembourgish finance minister Pierre Werner in 1970. Whereas the decision on the short-term support was delegated to the EC central banks in 1969, the medium-term support became an integral part of the negotiations between governments in the set-up of EMU. As part of its memorandum, the Commission underlined the necessity to coordinate economic policies to achieve a proper monetary cooperation mechanism. In light of economic disparity within the EC Member States, several governments and the Commission saw the move towards an intra-EEC assistance only in parallel to convergence of economic policy (CM2/1969 no. 36; see also Bundesbank, 480/1). The Belgium representative called this resulting coordination need from economic interdependence 'the point of no return' for EC countries (CM2/1969 no. 36). The parallel coordination of economic policy was the main argument for most governments, in particular the German and the Dutch, as well as for EC central banks, to support financial assistance mechanisms within the EEC in general (CM2/1969 no. 36).

The EC central banks adopted relatively quickly short-term support, as similar instruments were already in place and repeatedly adopted, in particular bilaterally between Germany and its EC partners. The main point of debate was the automatic access to short-term support, which surplus countries feared might prevent necessary reform and could inadvertently lead to a consolidation via medium-term support (BAC, 281). Governments of countries with a strong balance of payments position (mostly Germany, but also the Netherlands) were cautious about the establishment of an assistance regime without any conditions as they feared that the availability of support could undermine some governments' balance of payments discipline, which would create even greater disparities between EC economies (Bundesbank, 5877/1). In addition, surplus countries would be the main creditors for such as system, which also placed the financial risk with their reserves. France previously used its own reserve to finance balance of payments deficits and borrowed reserves to counter speculations (Bundesbank, 473/3), illustrating that deficits were a domestic issue within a country's responsibility and short-term capital flows were a common issue linked to monetary cooperation. Thus, the French position was in favour of an automatic mechanism as the gaps it should finance were either not homegrown or reversible. To keep automaticity in the system, central banks agreed on a rather modest amount of $1 billion, which could be increased by another billion with agreement of the central banks (Bundesbank, 5873/2).

This sum reflected the previous assistance to France. The decision to establish short-term assistance by the central banks was taken in early 1970.

As the establishment of medium-term assistance was coupled to the agreement on EMU, the negotiations were more political and included the fundamental debate between economists and monetarists on how to achieve a monetary union (see also Danescu, 2012). The decision-making barrier for assistance under Art. 108 required officially qualified majority voting (QMV), however, the provision of limited credits worked with unanimity, as it required explicit agreement from each creditor government. This gave governments with stronger currencies (Germany and the Netherlands) a better bargaining position, as potential debtor countries (France and Belgium) were more dependent on their contributions than vice versa.

The individual preferences parted between the line of monetarists and economists, with the *economists* governments (Germany and the Netherlands) fearing an increased financial burden and loss of control over correcting balance of payments disparities. Derived from the design of the IMF as a pool of reserves and provider of medium-term liquidity, Member State governments foresaw that the medium-term instrument would take up the form of a reserve fund for EC countries. However, there was disagreement when this should happen. The German and Dutch governments' position was that the medium-term assistance would only be converted into a reserve fund at a later stage of EMU when economic policies had converged (see also Bundeswirtschaftsministerium, 1970), while France and Belgium preferred the set-up of the fund at an earlier stage (Bundesbank, 5876/2). Balance of payments assistance via a reserve fund would not require credits and would make assistance less dependent on major EC countries as the fund would hold part of the entire EEC reserves outside of the sphere of control of individual governments or central banks, an aspect that France and Belgium saw as favourable considering their dependence on Bundesbank SWAPs. The German government had concerns about moral hazard and feared that the pooled reserves represented an incentive to continue running deficit for other countries, leading to a loss of reserves without gaining control over economic policy (Schwarz et al, 1999/389). Thus, the German government insisted on policy conditionality being attached to the use of medium-term support, which they saw as a driver of harmonisation of economic policies (BAC, 298). It also demanded a conditionality clause, which would make the continuity of medium-term assistance dependent on the progress in EMU (Schwarz et al, 2002/59).

Another issue was the question on how to mobilise funds used for medium-term assistance. Whereas IMF stand-by arrangements were often refinanced via the GAB, which was highly liquid and therefore easy to mobilise in case another country was facing difficulties, an EEC medium-term credit was not as easily refinanced and could dimmish creditors reserves for the period of the assistance. To be certain that claims against the system could be mobilised, the German government proposed that debtors should pledge their gold reserves, IMF gold and credit tranches, as well as other refinancing possibilities at the international level as collateral to the reimbursement of EEC credits (BAC, 298). A similar proposal was put forward by the Belgian government, including the use of IMF-like conditionality for medium-term support (BAC, 290). The Commission saw the exigent mobilisation safeguards as counterproductive as it would make the EEC instrument more stringent than IMF assistance (BAC, 301). Potential creditors to the system were in general more cautious and favoured technical solutions less accommodating than IMF assistance. They preferred interest rates equivalent to respective market rates for credits,[23] a shorter repayment period of three years, and a strict limit of the amount financed by each Member State. Potential debtors were favouring a technical solution more analogue with the IMF, which meant low interest rates and a longer repayment period of five years, following the economic interest of their respective potential roles in an assistance system. The question of policy conditionality for the use of medium-term credits was accepted as the *modus operandi* of similar IMF assistance.

In March 1971 the Council adopted the medium-term financial assistance with an envelope of 2 billion Units of Account (representing about the ceiling of the short-term instrument of $2 billion).[24] The mechanism was built on pre-allocated limited callable credits from Member State governments, which could be drawn upon after a decision by the Council under QMV. The asymmetric bargaining position for governments with stronger currencies gave them the advantage of stipulating specific technical aspects for the established regime. First, the instrument included a conditionality clause for four years, making the continuity dependent on progress in EMU, thus stressing economic convergence as necessary part of assistance in the medium-term. Second, the amount each government was to contribute was set by an individual limit. Third, debtors needed to make use of their reserves, in the form of gold or IMF funds, to reimburse the creditor if need

[23] Note: The reference to 'market rates' in 1970 means financing via public investment and development banks.
[24] Note: 1 U.A. was pegged to 0.88867088 grammes of fine gold, thus changing its value to the dollar after the closing of the dollar gold window and the fluctuation of currencies.

be. Fourth, potential creditors could opt out of assistance in case of financial difficulty. Last, assistance was only provided together with economic conditionality, which was supposed to be at least as strict as the IMF conditions for stand-by arrangements to avoid a systematic preference for EEC support over IMF support (BAC, 281; see table 11).

The establishment of short- and medium-term support constituted punctuated layering of intra-EEC assistance onto the international system of IMF stand-by credits and SWAPs. Even though both support instruments were proposed jointly in the context of monetary instability, they were negotiated and adopted separately, and immediately constituted independent instruments. The former being explicitly a monetary support tool, the latter a credit tool for governments, either to roll-over monetary support, or to directly adjust balance of payments imbalances. The latter represents the first legal instrument and the origin of the European financial assistance regime.

Table 11: MTFA characteristics and respective preferences

Article	Content	Assessment
Art. 1	'Member States shall make available, up to the ceilings set out in the Annex, medium-term credits granted in the form of mutual assistance by directive or decision taken by a qualified majority […].	Limited liability for each government to contribute to mutual assistance; potential creditor preference of providing loans and not pooling reserves.
Art. 1(2)	'This obligation shall apply for a period of four years commencing 1 January 1972, […]'	Conditionality clause; potential creditor preference to limit applicability and ensure convergence.
Art. 3	'[…] the Council shall, acting in accordance with the procedure laid down in Article 1 (1), determine what undertakings in respect of economic policy the recipient Member State must enter into, […]'	Disincentive in the form of conditionality; potential creditor preference to avoid moral hazard and ensure convergence.
Art. 4 Art. 5	'[…] any Member State which maintains that difficulties exist or can be foreseen as regards its balance of payments and/or that there is persistent deterioration of its reserves shall, on the strength of its statement, be exempt from contributing to the financing of that operation.' '[…] If one or more Member States which are creditors under the medium-term financial assistance system experience difficulties or are-seriously threatened with difficulties as regards their balance of payments, the Council shall, acting in accordance with the procedure laid down in Article 1 (1), decide to mobilise the claims of that or those States.'	Safeguard from contributing in times of difficulties; potential creditor and potential debtor preference to avoid overburdening in periods of respective economic difficulties.

(Source: Council Decision (71/143/EEC)[25]; author's compilation)

The shared preference of establishing a European financial assistance in the form of a monetary support framework derived from the interdependence of EC economies linked to the *acquis* of Common Market and agricultural policies (BAC, 804). The concrete proposals for the instruments had, due to the nature of monetary support in a pegged system, a distributional component, which

[25] Note: The full legal reference is provided in the references.

included a lower direct cost-benefit ratio for countries with stronger currencies, as they would expect to contribute more and thus take on more direct financial risks than countries which ran deficits and were expected to make use of assistance. Due to the asymmetric bargaining position for governments of countries with stronger currencies, in particular Germany, the resulting regime included many disincentives for its use by potential debtor countries and safeguards and control mechanisms to financially protect potential creditor countries.

The mixed-preference game provides a convincing explanation how Member State governments on the one hand decided to integrate financial assistance into the EEC, but on the other hand how they formed the outcome including safeguards, limits, and a modest amount for support. The latter part increased the confidence of a rationalist approach regarding the negotiations of a joint system. This approach helps to explain why the amounts were not in line with other more integrative solutions envisaged by the Commission, and why Member States were not ready to pool reserves but insisted on credits of limit size instead. The findings from the negotiation confirms the presence of the fourth part of the critical juncture mechanism

4.3.3 A critical juncture for EEC assistance

This case demonstrates that permissive conditions without increased agency in the form of agreement to reform are not sufficient for punctuated change, and thus for critical junctures to occur. It also demonstrates that conceptualised near miss critical juncture can help to explain why, in the case of France, after government actors found a solution in July and November 1968, permissiveness prevailed, and why these near misses did not constitute the actual outcome of this moment of shock. Finally, focusing on government preferences and their bargaining positions in the negotiation of reform helps to explain how the shared preference for assistance emerged, and how the detailed assistance structure came about. Even though cost-benefit consideration were not the only base for government positions, they constitute the dominant explanatory factors in the outcome presented in this case. Table 12 illustrates how the respective parts of the mid-range causal mechanism are present in the case study and how it explains the outcome of the short and medium-term assistance in the Community.

Table 12: Application of critical juncture mechanism (case 1)

Contextual conditions:
Geographical boundaries (EEC – DE, FR, NL, BE, LU, IT)
Temporal boundaries (1968-1971)

Trigger Cause	**Part 1**	**Part 2**	**Part 3**	**Part 4**	**Outcome**
Speculation against the French franc	Increase need for public financial assistance due to France's use of reserves to counter speculative attacks	France unable to deter speculation with *ad hoc* SWAPs;	France introduces exchange controls and other monetary measures to increase reserves;	Negotiations on the details of short- and medium-term financial assistance	Introduction of the intra-EEC short- and medium-term financial assistance instruments; punctuated change in the formal regime element
Entities	Member State governments, European Commission;	Member State governments, European Commission;	Member State governments, European Commission;	Member State governments,	
Activities	*Ad hoc* SWAPs by Group of Ten and call for EEC internal assistance linked to monetary cooperation to avoid national safeguards and devaluation	Argue against the effectiveness of international instruments to prevent and mitigate the impact of the monetary crisis;	Agree on reforming assistance and on closer monetary cooperation to maintain proper functioning of common policies	Governments defend their respective interests along the line of potential creditor and debtor positions	

(Source: the author)

The punctuated change for assistance was the formal exclusive eligibility for EC countries within an intra-EEC system of support, which derived from the economic rationale of the shared preference for assistance. The mechanism of production for short- and medium-term assistance is thus utilitarian. The utilitarian mechanism of reproduction points to the cost-benefit linked to the potential availability of support for EC countries in need, and the financial underpinning of maintaining the functioning of EEC policies, which have an economic benefit for all Member States. Thus, the economic rationale derives from the purpose to maintain the functioning of the Common Market and other common policies and their resulting economic benefit. As the impediment of assistance was dominantly functional, the solution was to establish a permanent and immediately available credit tool in order to mitigate the short-comings of *ad hoc* SWAPs and to ensure a combination of short- and medium-term support (see figure 8).

Figure 8: Production based on utilitarian mechanism (case 1)

(Source: the author)

The establishment of intra-EEC medium-term assistance marks the beginning of the European financial assistance regime and constitutes the first critical juncture in its development from which point financial assistance in the EEC developed autonomously from the international setting. Broadly, the regime used the economic rationale for assistance as the purpose for the MTFA, while the procedural and financing aspects were taken over from the IMF (as well as from SWAP arrangements for short-term support). As explained in the following section, the decision by the Council in July 1969 and the subsequent establishment of the MTFA created a distinct legacy for the financial assistance regime, which was not the case for other moments of shock as in the case of Italy in 1964, or for France in July and November 1968, which kept the existent assistance framework unchanged with temporary larger envelopes. The establishment of the short-term monetary support and the MTFA constitute change in the form of punctuated layering, as government actors decided to add new financing tools onto the international support system of SWAP arrangements and the IMF. Their strategy was to change the assistance within the EEC as it posed its own embeddedness and economic rationale. In addition, the choice for the EEC was not considered a choice against the existent assistance structure, a typical dynamic for layering.

4.4 Analysis: The legacy of intra-EEC financial assistance

The punctuated layering of EEC-internal assistance impacted the interplay between EEC and international assistance mechanism in the long-term. In the following section these longer-term consequences of the punctuated change are analysed using a dual approach of path dependent and gradual change mechanisms. The first part assesses the reproduction of the utilitarian mechanism for intra-EEC financial assistance based on the economic rationale. The second part explains how the punctuated layering of EEC assistance onto the international system led to *de facto* displacement of IMF assistance over several decades due to repeated defection by Member State governments, which favoured intra-EEC assistance over external support.

4.4.1 Reproduction through the utilitarian mechanism

The punctuated layering in the formal element represented a critical juncture for the European financial assistance regime, accounting for the origin of the common assistance structure. The introduction of EEC-internal support was a significant deviation from the *ex ante* status quo of EEC embeddedness in international monetary and financial assistance centred around Bretton Woods and the US Federal Reserve. With deepening integration over the years, the mutual benefit from the common policies in the EEC and later EU increased substantially. As it will be demonstrated in the following typical cases of this dissertation, the proper functioning of Community economic and monetary policies resurfaces repeatedly in periods of economic difficulty and reproduced the mutual constitutive *economic rationale* for assistance.

Policy makers continuously referred to the purpose of assistance as means to tackle balance of payments difficulties. After the first oil shock in 1973, the Commission claimed that the increased balance of payments deficits caused by this shock jeopardised the proper functioning of the Common Market and that this situation justified the use of assistance within the Community (BAC, 352). The same assessment and reasoning led the Council to prolong the MTFA by another four years in 1975 and several more times thereafter.[26] With the agreement on the European Monetary System (EMS) in 1978, the commitment for monetary cooperation and thus the economic rationale for assistance was strengthened, leading the Council to increase the amount for short and medium-term assistance several times.[27] In 1980, the Monetary Committee stressed in an opinion to the Council that the aftermath of the second oil shock made the use of financial assistance necessary in order to protect the market, monetary cohesion, and economic convergence (BAC, 419). The utilitarian mechanism thus reproduced the purpose of assistance in two following periods of economic difficulty. The benefit from assistance was highlighted in moments where the need for public assistance and the availability of instruments matched and avoided a worsening of the financing position of Member State governments. These moments of individual economic

[26] Council Decision (75/785/EEC).
[27] Council Decisions (78/49/EEC) and (78/1041/EEC).

difficulty occurred before the introduction of the euro for Italy in 1974, 1976 and 1977, for Ireland in 1976, for France in 1983, for Greece in 1985 and 1991, and for Italy again in 1993.

The economic rationale for assistance was only partially overridden once agreement on the Single Currency was reached. However, after the adoption of the euro, Member States with derogation could still require assistance due to balance of payments disequilibria vis-à-vis the euro area (or vis-à-vis other Member States). As most Member States with derogation were expected to join the euro after fulfilling the convergence criteria, including currency stability, the recourse to assistance was also useful for avoiding devaluation in cases where balance of payments difficulties arose in the process of adopting the euro (Commission 1992a; 1992b). This reproduction of the economic rationale kept balance of payments assistance for Member States with derogation in place (Commission, 1992b; Commission, 1996). After 2002, the use of assistance to Hungary in 2008, Latvia in 2009, and Romania in 2009 reproduced the economic rationale for assistance as its use avoided fiscal problems and the devaluation of the lat.

The legacy of the purpose of financial assistance was intended to end with economic convergence and the adoption of the euro (see also Commission, 1992a). The prevalent argument was that balance of payments disequilibria were not possible in the euro area, as the currency union would run a common balance of payments position towards the exterior (Marzinotto, Pisani-Ferry & Sapir, 2010). Governments and market actors expected stability from the introduction of the euro, which itself led to a lowering and harmonisation of refinancing rates for governments, reducing their potential need for financial assistance (Stieber, 2015). This trend reinforced the expectation that balance of payments assistance was not needed for euro area governments. With the adoption of the euro, the formal aspects of the regime reduced the eligibility of assistance significantly. However, as several Member States had and still have not adopted the euro, the assistance regime's purpose for balance of payments support remained intact to this date (for over fifty-one years).

Thus, applying the lens of path dependence on the introduced European financial assistance regime helps to uncover how the overall regime was maintained. The utilitarian mechanism of reproduction based on the economic rationale for assistance ensured continuity of having European assistance available for EC and later EU Member States in subsequent periods of economic difficulty. The emphasis on the assistance's purpose as balance of payments and monetary integration tool also helps to understand the intentional end of the legacy, which phased out euro area countries from eligibility with the introduction of the euro.

4.4.2 Layering and the de facto displacement of the IMF

The adoption of the new regime followed the dynamic of punctuated layering, by introducing an intra-EEC instrument onto the SWAP arrangements in place at the FRS, as well as an instrument onto the medium-term assistance structure of the IMF. The intention by Member State governments and the Commission was not to replace existing international arrangements, but to complement them considering their previous inability in helping to prevent monetary instability in the EEC. The repeated emphasis by national representatives that the medium-term assistance needed to be analogue to the IMF and that potential support from outside of the Community was referred to in the decision on the medium-term instrument underlines this intention of compatibility and complementarity (BAC, 281; 290). The only time the MTFA was used, EEC assistance was provided jointly with IMF and bilateral central bank loans to Italy in 1974, underlying this complementary nature (see also Bundesbank, 6724/2).[28] Another example of this complementarity was a large stand-by for the UK in 1976 which was informally backed by potential recourse to EEC assistance in case needed (Hodson, 2015). In 1976 and 1977 the EEC provided financial assistance to Italy. In the latter case, support of $500 million was paralleled with an IMF stand-by of 450 million SDR, which was however only marginally used as the balance of payments situation of Italy improved significantly (Bundesbank, 1978; IMF, 1978; see also Banca d’Italia, 1979).

The first years after the establishment of assistance within the EEC, the regime worked in parallel to the IMF for medium-term support with no intention to replace or undermine the international system. However, the parallelism gave way to unintentional gradual displacement of IMF support as after the 1977 stand-by arrangement, the IMF ceased to be involved in assistance to EEC and later EU Member States for thirty-one years until 2008. This shift from a dual support approach to a solely EEC/EU support had to do with the changing context after the breakup of the international monetary order and the common float of Community currencies, making the EEC the centre for currency-related interventions.

[28] Note: Financial assistance to Italy was financed by $1.2 billion from the IMF, $1.4 billion from the MTFA, and a 6-month $2 billion renewable bilateral credit-line by Germany (Bundesbank, 1975).

Community governments prioritised their own loans over IMF interventions, which had the advantage to consolidate monetary cooperation and economic convergence in line with EEC policy objectives (BAC, 451), and did not involve the Washington based institution. The active defection of governments from IMF support is well illustrated by the case of France in 1983. The French government made clear that it might need financial assistance after the realignment of March 1983 (Möller, Schöllgen & Wirsching, 2014/148), with Member State representatives considering the economic reform introduced by France already sufficient for the Community assistance (BAC, 448). The French upper house was against requesting IMF support and considered it as a potential 'perilous path', due to strict economic reforms targeted at internal depreciation, which had led to negative consequences in previous IMF interventions (Sénat, 1984: 116). Thus, EEC assistance, despite economic conditionality, was expected to be more accommodating to the French government's proposed structural reform and considered to carry less political costs as IMF support. Thus, the EEC-internal practice of conditionality, even though similar to the IMF, and the economic costs associated with IMF support led governments to defect the IMF stand-by assistance.

While the EEC did not demand parallel IMF recourse in the case of France in 1983, some government representatives voiced their disapproval of a sole-EEC-financed support for Greece in 1985 (BAC, 477). The same occurred in further assistance of 2 billion ECU to Greece in 1991. In this case government officials of the MC demanded Greece to ask for IMF support, but the Greek government refused because of the expected harsh conditions of an IMF loan and the wish for convergence-related conditionality in order to participate in EMU (BAC, 106). The statement by the Greek minister 'if [Greece] wanted to go to the IMF, [it] could have done so earlier' (BAC, 106) clearly indicates the defection of EEC governments in favour of intra-EEC assistance. In 1992 Italy requested a loan for 8 billion ECU and justified it based on EEC-internal monetary unification, which did not include IMF support (BAC, 112). Thus, the defection by governments was the other side of path dependent reproduction of the economic rationale of intra-EEC assistance. While the economic rationale kept the purpose and formal eligibility for assistance in place, governments shifted their loyalty from the international system to the Community regime.

By 1999, IMF assistance was practically displaced. Member States preferred recourse to EEC-internal instruments, with more tailored economic conditionality linked to the purpose of EEC policies, in particular monetary integration. The initial intention was not to replace the IMF, but the new incentive structure in the regime led to unintended consequences in the form of *de facto* displacement. This case highlights the dynamic of layered institutional elements, which, even though without intention, provide different incentives for government actors to shift their loyalty from one assistance mechanism to another.

Thus, assessing the legacy of punctuated change through the lens of gradual change allows to uncover the long-term consequences of the introduction of intra-EEC assistance and the new incentive structure incorporated in the assistance regime. The reproduction of intra-EEC assistance facilitated the gradual displacement of IMF assistance. This finding underlines the theoretical argument that path dependence and gradual change are concomitant of the longer-term impact constituting the legacy of critical junctures and are an inherent part of the analysis of the outcome of crisis-induced change.

4.5 Conclusion

This chapter analysed the monetary crisis of 1968-1969 as the impetus for the establishment of short- and medium-term financial assistance in the EEC and as the first critical juncture in the development of the European financial assistance regime. The case study in this chapter demonstrates the validity of the actor-centred historical institutionalist framework. The analysis demonstrates the presence of the respective parts of the critical juncture mechanisms representing necessary permissive and productive conditions. Further, the findings of the legacy analysis evidence that the longer-term outcome of punctuated change is well explained through a parallel development of path dependence and gradual change.

With the help of permissive conditions, this chapter explains under which conditions the exogenous shock provided increased agency for reform. The exogenous shock of speculation against the French franc increased the need for public financial assistance for France. The persistence of capital flight represented repeated and persisting costs for the French reserve position. As the assistance structure presented by the *ad hoc* SWAP arrangements and the IMF was functionally impeded from providing a credible defence against speculation, government actors agreed to reform the assistance system.

The exogenous shock, through the increased need for public financial assistance, provided the necessity to deal with implementing assistance and tested the internal resilience of this assistance. As illustrated by the example of other bouts of speculation, the exogenous shock exerted the necessary pressure, but was itself not sufficient for increased agency. Combined with the endogenous impediment in the formal and financing element of IMF and SWAP arrangements, the pressure from the exogenous shock was maintained. The internal vulnerability was linked to the *ad hoc* nature of the SWAPs including the lack of commitment among EC Member States for permanent availability of sufficient capital to off-set speculation, and the mismatch of IMF stand-by arrangements to be used to counter speculative movements. Increased agency was marked by the agreement by EC governments on the Commission's assessment to intensify the monetary cooperation between Member States, including the establishment of a common support structure in December 1968.

The analysis of the productive conditions in the dynamics within the permissive conditions helps to capture the economic rationale for governments to favour a joint solution. A focus upon productive conditions also clarifies the main determinants of the negotiations between government actors within the EEC. Through the application of a mixed-preference game, a focus upon productive conditions enabled to distinguish between the shared preferences derived from economic interdependence and the individual government preferences in the detailed design of assistance. The evidence gathered for this dissertation points to the explanatory merits of a rationalist explanation focused on the material interests directing government preferences and their respective positions in the negotiations. The shared preference for setting up intra-EEC assistance were intrinsically tied to the economic interdependence of the functioning of common policies. The shared preferences did however only produce change in the context of persistent permissiveness. The national preferences aligned largely with potential creditor versus potential debtor coalitions, with the German and Dutch governments being more cautions on reserve pooling and insistent on safeguards for funds used for medium-term assistance, and the French and Belgian governments preferring the pooling of reserves at the beginning of monetary cooperation. These findings confirm previous studies on the monetarist versus economists in the negotiations of EMU (see, e.g., Wyplosz, 1997; Maes, 2004; Maes & Verdun, 2005). The negotiations and establishment of short- and medium-term support emphasise the assertion of potential creditor government preferences including policy conditionality and credits instead of pooled reserves.

Lastly, this chapter analysed the legacy of punctuated change, highlighting the duality of path dependence and gradual change. Economic interdependence reproduced the economic rationale of assistance as balance of payments support and as part of monetary cooperation over decades. In parallel, the layered EEC assistance facilitated the gradual displacement of IMF assistance for Community countries. The examination of longer-term consequences proved to be essential to ensure a complete critical juncture analysis, as the significance of the punctuated change is explained by the impact of this change on subsequent developments. The application of the gradual change framework of Streeck & Thelen (2005) and the theorised mechanisms of reproduction developed by Mahoney (2000) helped to uncover the mechanisms of these longer-term consequences. These findings illustrated the usefulness of the actor-centred historical institutionalist framework and its focus on the moment of crisis and on the subsequent gradual processes of change and continuity linked to the outcome of this case.

The long-term legacy of the critical juncture is explained by the reproduction of the economic rationale to maintain financial assistance within the EEC and later EU, to tackle balance of payments and monetary problems. With further integration the economic interdependence, which forms the basis of mutual support, was strengthened and fed into the rationale for assistance. Notably, the purpose of financial assistance was gradual phased out for countries which later adopted the euro, as the economic rationale no longer applied. However, due to the persistence of euro area in- and outsiders, the purpose was reproduced and balance of payments assistance for countries with derogation was maintained to the present day.

The second part of the long-term development explains how the setup of intra-EEC assistance led to *de facto* displacement of IMF support for EC countries. The changing context after the collapse of Bretton Woods, and the prioritisation of EEC assistance by Community governments, led to a relatively quick phasing out of IMF assistance. The latter was not called upon by the EC and EU Member States for thirty-one years. This displacement is explained by the layered EEC regime, which incentivised governments to defect the IMF system and demand assistance from EEC partners, which provided more tailor-made conditions for EEC purposes and were less rigorous in the application of conditions.

This case demonstrated that the exogenous economic shock arising from monetary instability carried causal weight in the development of the European financial assistance regime. This causality is conditioned by the inability of the *ex ante* assistance mechanisms to diffuse the persisting pressure from the exogenous shock. The persistence of the pressure provided the needed frame for government actors to accept reform, and thus to increase agency. This acceptance of reform ultimately based on economic interdependence led to the establishment of European financial assistance and to the economic rationale for intra-EEC assistance.

CHAPTER 5: THE FIRST OIL SHOCK

Introduction

This chapter analyses the establishment of the Community Loan Mechanism (CLM), which was introduced in the context of the first oil shock of 1973 and constituted the second critical juncture in the development of the European financial assistance regime. The CLM introduced intermediary financing of financial assistance by using back-to-back lending via the Community, a break with the previous purely bilateral form of assistance and a decisive change for the regime.

The 1973 oil shock represents the second typical case analysed in this dissertation. In this case the exogenous shock, in the form of rapidly increasing prices of petroleum products, and punctuated change, in the form of an innovative intra-EEC assistance instrument, were present. The analysis of this case serves to test and demonstrate the validity of the eclectic theoretical framework of actor-centred historical institutionalism, including the abstracted critical juncture mechanism, as well as path dependent and gradual change mechanisms. Through presence of the causal mechanism, this case demonstrates how the oil shock and the establishment of the CLM are causally linked.

The first section of this chapter provides a summary of the EEC monetary developments in the early 1970s and of financial assistance available to EC Member States. The following sections are organised according to the two composing parts of the actor-centred historical institutionalist framework, beginning with the analysis of the punctuated change followed by the legacy analysis.

The second section of this chapter analyses the permissive conditions in the context of the oil shock, which constituted a symmetric shock for the entire EEC. This section explains how increasing deficits led to an increased need of public financial assistance for Italy and caused economic difficulties throughout the EEC. While some governments were able to refinance their deficit via external sources, Italy used several assistance instruments in- and outside the EEC. Further, this section illustrates how impediment of short-term assistance and the MTFA represents the second permissive condition. This part of the permissive conditions explains the impediment of bilateral credits in the context of symmetric exogenous shocks. The continued pressure exerted from the exogenous shock led to increased agency in June 1974, after Italy and Denmark chose to use national safeguards to restrict trade.

The third section on productive conditions explains how national safeguards posed a threat for the Common Market and gave the impetus for national governments to agree to reform the assistance regime to match the new context of oil-price induced common imbalances. This section explains how the shared preference based on economic interdependence functioned as a bridge between the permissive conditions and the agreement by governments to reform. The second part of the productive condition illustrates the role of Member State governments economic interest in the design of the Community Loan Mechanism. Through the application of a rational-materialist approach, this part explains the outcome according to diverging preferences and the dominant bargaining position of the German government as potential largest guarantor of the CLM in the negotiation.

The fourth section analyses the legacy of the punctuated change. The layered CLM is assessed via the functional mechanism of reproduction of intermediary financing in the context of commonly experienced shocks. This part of the legacy demonstrates that repeated economic shocks in 1979, 1991-2, 2010, and 2020 led to the solidification of intermediary financing due to its functional resilience in these contexts. While in parallel the form of government financing underwent substantial change, this financing mode proved resilient over almost five decades. As the other side of functional reproduction, the punctuated layering of intermediary financing started a process of displacement of the bilateral MTFA, which, even though government actors actively tried to uphold its use over several decades, was gradually replaced by intermediary financing. Displacement of the MTFA is on the one hand explained by the re-occurrence of similar exogenous shocks after 1973 — thus the similarities of the contexts of economic difficulties — and on the other hand by the incentive structure provided by Community loans, which helped Member State governments to avoid direct costs for financial assistance. The last section concludes.

5.1 *Ex ante* context and financial assistance structure

The financial assistance structure in 1973 was not different to the situation since the establishment of the MTFA in 1971 (see chapter 4), which means that the IMF and SWAPs of the international monetary system existed in parallel with the EEC financial assistance regime. The MTFA was a credit-based instrument to which each EC Member States pledged a specific quota, which could be requested if need be. The maximum contribution by each Member State was limited to this quota, which for France and Germany stood with 30 per cent each at 600 million U.A. In 1971 the

MTFA amounted to 2 billion U.A. representing about $2 billion. The monetary situation had however substantially changed since the closing of the gold window by US president Nixon and the failure of a fixed but adjustable exchange rate system around the dollar in the Smithsonian agreement of 1971. Community governments decided to jointly float against the dollar with a common peg by 1973. However, due to continuous speculation against EEC currencies, the system experienced some instability in 1972 and 1973 with several EC countries (Denmark, the United Kingdom, and Italy) leaving the peg, and others revaluing their currencies by Autumn 1973 (Germany and the Netherlands), effectively creating a tendency of clustered weak and strong currencies (Gros & Thygesen, 1998). This flexible application of the monetary peg reduced the applicability of very short-term monetary support introduced between central banks to keep the new parity (National Bank of Belgium, 1973).

The divergence between strong and weak currencies accrued with the increasing oil prices starting in 1973 (Gros & Thygesen, 1998). With the occurrence of the Yom Kippur war in late 1973, the OPEC countries policy against Israel and its allies caused massive disruption in the supply of oil to the West, leading to a substantial increase of oil prices in the EEC (CVCE, 2022a), and constituting an exogenous shock to Community economies. The economic impact for 1974 was an at-the-time estimated $30-40 billion deficit for OECD countries (Bundesbank, 1975), of which a share of $25 billion was expected to occur in the EEC (BAC, 347). As a direct result of the oil shock, EC countries registered a large reduction in economic output, translated by GDP decline between 1974 and 1975, a significant rise in inflation, an unprecedented unemployment rate, and a rise in the overall Community government deficit (Commission, 1978; see also CVCE, 2022a). The economic difficulties arising in the aftermath of 1973 were different in nature and impact as the previous monetary instability. First, the increase of the oil price was a symmetric shock as it deteriorated the balance of payments position of the overall EEC vis a vis the oil exporting countries, with most countries running a deficit. The monetary instability of 1968 was in comparison asymmetric as it effected EC countries differently. Second, even though the shock was symmetric and the impact for all countries was negative, some governments experienced larger deficits and problems than others.

5.2 Analysis: Permissive conditions

As part of the critical juncture mechanism, this dissertation uses permissive and productive conditions to analyse the case. The following section applies the permissive conditions to the case of the oil shock. It analyses how the co-occurrence of increased need for public financial assistance resulting from the oil price increase, and the functional impediment of the MTFA increased agency in mid-1974, after Italy and Denmark introduced national safeguards. The first part of the analysis is focused on the nature and impact of the oil shock, and how the increase of oil prices caused symmetric economic decline in most EC countries. Italy, France, and the UK required external financial sources or public assistance to cover their financing needs. The second part explains how the newly established MTFA was impeded by the changing context of the exogenous shock, which put a functional limit on the applicability of bilateral credits in a period of symmetric economic difficulties. Through the co-occurrence of both conditions, the exerted pressure from the exogenous shock persisted from March 1974 to March 1975, when Italy prolonged German bilateral loans, and drew its last IMF tranche.

5.2.1 The financial pressure from oil deficits

The exogenous shock of increased oil prices created a significant deficit in the EC and other industrialised countries and a respective surplus in the oil exporting countries. The increase of overall EEC-external deficits reduced the ability to balance the accounts internally and increased the necessity of external capital inflows. The increased need to finance deficits with public assistance resulted from the structural need to attract capital from oil exporting countries. While this recycling need was met by external sources in some EC Member States, others had more problems and turned to public assistance. One of the first institutional responses came from the IMF, which started a process of recycling oil surplus capital in its ‘oil facilities’, which was a lending facility of 3 billion SDR (later extended to 5 billion) financed with capital from oil exporting countries (IMF, 1974; 1975).[29]

[29] Note: At the same time the OECD started a process to set-up a similar fund with a much larger volume of $25 billion, which was however never established and abandoned by 1977 (Cohen, 1997; see also Bundesbank, 6724/2). Internationally, the financing from the private market were not expected to attain the level of funding needed by oil importing countries, which led to a series of recycling initiatives using public sources as the solution to increased financing needs (ECB, 1974c).

In the EEC the pressure from the exogenous shock was most severe for Denmark, Italy, Ireland, France, and the United Kingdom. These countries registered a (exacerbated) current account deficit by 1974.[30] In early 1974 Italy made use of the short-term monetary support from the EEC central banks of 1.562 U.A. (~$1.8 billion), even though Italy was at that time not participating in the monetary snake. The reason to support Italy was to facilitate its fast reintegration into the mechanism (BAC, 338), which was covered by the instrument's objective as a tool to foster monetary cooperation and ensure stable parities. With the pressure from the exogenous shock, the Italian structural deficit became more exacerbated. Therefore, the short-term EEC assistance was renewed until the end of December 1974 and then rolled over by the MTFA with about 1.15 billion U.A..[31]

However, the Italian government still had to borrow an additional $2 billion bilaterally from the German government in September 1974, which in return received an equal amount of Italy's gold reserves as collateral (Bundesbank, 1975). The Italian government, which already ran a significant public deficit before the oil shock, also requested an IMF stand-by arrangements of 1 billion SDR (BAC, 338; BAC, 349),[32] and received additional support from the IMF's oil facility of about $800 million in 1974 (Banca d'Italia, 1979). Thus, the pressure from the exogenous shock exerted on Italy remained constant throughout 1974 and was met by the IMF and EEC assistance facilities, as well as via *ad hoc* bilateral support. Throughout 1974 Italy raised about $5.9 billion of public financial assistance (Bundesbank, 1975).

Simultaneously the exogenous shock put financial pressure on France, which experienced speculative flows in addition to the exacerbated balance of payments deficits, which translated into a significant loss of reserves between September 1973 to early 1974 (about 2.5 billion U.A.) and the decision of the French government to leave the exchange rate mechanism of the snake (BAC, 346).[33] As the Italian government had already stated mid-1973 its need for an exceptional high

[30] Note: The only exceptions were Belgium-Luxembourg and the Netherlands; Germany even increased its current account surplus between 1973 and 1974 (Commission, 1978; Bundesbank 1975).
[31] Council Directive (74/637/EEC).
[32] Note: About $1.87 billion (Federal Reserve, 1974).
[33] Note: After France left the snake, effectively separating the EEC Member States into parity insiders and outsiders, the offsetting of speculative attacks within the EEC was not a concern as the countries with the weakest balance of payments positions had their currencies floating. Due to problems arising with currency fluctuation and the CAP, the EEC had already introduced 'monetary compensatory amounts' (MCA) in 1971, which offset the trade gains from devaluations through the introduction of specific taxes and subsidies (see also CVCE, 2022b). With the separation of

short-term monetary support of 1.57 billion U.A. (ECB, 1974a), the availability of potential short-term support for France was less than 430 million U.A., an amount substantially inferior to the 2.5 billion U.A. losses that France suffered between September until the end of 1973 (BAC, 346). French representatives stressed the need to increase the volume of short-term monetary support and, most importantly, to establish a mechanism to recycle oil surplus capital in the EEC (BAC, 346). Only days later the Commission confirmed these points in a communication to the Council, which referred to the potential harming effect national protectionist policies could have on the common policies and furthered the call to increase the short-term support and an orderly recycling process of oil surplus (BAC, 347). The increased pressure on France was also illustrated when the Banque de France considered to be exempted from participating in short-term support to Italy in March 1974 (ECB, 1974a). While the French and British government were able to offset their increased need for public assistance by attracting unconditional capital inflow through large-scale credits from the private sector, Italy's financing requirement could only be met by public financial assistance.

The pressure of the exogenous shock increased the actual and potential need of financial assistance. This increased need steered the government actors' attention on the actual and potential use of assistance. The empirical observations illustrate that the assistance use by the Italian government throughout 1974 and the move to leave the monetary snake by the French government brought the topic of financial assistance on the agenda in relevant EEC bodies. Monetary Committee experts expected that France, if it had not left the snake, would have required to finance its balance of payments deficit via the use of reserves or a credit line (BAC, 346). Hence, they perceived the situation of France as potentially requiring financial assistance. French experts themselves called for a new assistance instrument to recycle oil-surplus capital in the EEC in the form of a loan provided via the Community (BAC, 346; 347). Thus, the first permissive condition – increased need for public financial assistance – was present as of March 1974 and constituted the first part of the critical juncture mechanism.

EEC countries into parity in- and outsiders, the MCA was adjusted in early 1973 in order to capture and balance the distortions resulting from fluctuation. Even though the rates of MCA were adjusted on several occasions, they reduced the distortion in the CAP linked to fluctuation and thus the necessity to keep the parity aligned for the functioning of this common policy.

5.2.2 The impediment short-term and bilateral credits

As outlined in chapter 4 the economic rationale of assistance was derived from the benefits of maintaining the functioning of common policies and the exchange rate system between EC countries. However, the assistance instruments in place did not help to achieve these objectives, as several EC Member States introduced national safeguards, and the franc started to fluctuate outside the parity already in January 1974. As the shock rapidly deteriorated EC countries' balance of payments, the Italian and Danish governments introduced unilateral safeguards measures for their economies by restricting imports (BAC, 352; see also Bundesbank, 6718/1). These national restrictions reduced the free movement of goods and jeopardised the proper functioning of the Common Market and the Common Commercial Policy (BAC, 352).

The Commission declared in its communication in June 1974 regarding the introduction of national safeguards:

> […]Le développement d'une telle situation, non seulement rendrait dérisoires les engagements pris sur l'Union économique et monétaire; mais, par la répétition de décisions nationales, prises unilatéralement, mettrait en danger une partie très importante de l'acquis même des Communautés, c'est-à-dire la libre circulation des marchandises (BAC, 352: 45).

The reason the financial assistance regime was not able to protect from these safeguards was due to the impediment of the financing elements of EEC assistance. The Italian government utilised the short-term support between central banks and IMF facilities to finance its deficits, which were however not caused by short-term monetary flows, and therefore not expected to reverse rapidly. While the IMF provided credits over a medium-term, the 3-months EEC credits were not effective for this sort of deficit financing. Policymakers were aware of this issue and predestined the MTFA to be used by Italy to roll-over its short-term debt, thus taking the instrument out of reach for other larger economies (BAC, 348).[34] The Italian short-term support was exceptionally prolonged until December 1974, which was linked to the bilateral credit design of the MTFA. Several governments

[34] Note: While the MTFA was discussed already in May 1974, the understanding in the Monetary Committee was that the MTFA was to be used to roll-over the short-term support and given that short-term support was able to be prolonged several times, the MTFA was *de facto* blocked until the short-term support was to be refinanced. This aspect also helps to understand that short and medium-term support were not to be used simultaneously by the same Member State, even though this was legally possible.

considered the use of MTFA not realisable due to their own deficits and preferred a prolonging of short-term support instead of credits (ECB, 1974b). Thus, the high amount of short-term support for Italy *de facto* depleted all EEC assistance (short and medium-term) between March and December 1974. This indicates a breakdown of the functional mechanism of reproduction in the context of symmetric economic difficulties.

This impediment is further demonstrated by the failure to fully roll-over the short-term credit with the MTFA in December by Italy. The Community could only provide 1.15 billion U.A., because the UK did not participate with its share of the bilateral credits.[35] Given that most EC Member States ran balance of payments deficits, the willingness and/or ability to provide credits to other Member States was generally reduced and in extreme cases refused, as done by the UK (BAC, 365; 462), and as contemplated by France (ECB, 1974a). Even a higher amount of the MTFA would not have helped to mitigate the financial difficulties, as Member States running deficits were less likely to participate with larger amounts, considering their own need for reserves. This impediment was also linked to the budgeting design of bilateral credits, as some Member State governments accounted the provision of credits as government expenditure increasing their public deficit (BAC, 462).[36] Italy's patchwork of assistance instruments illustrates this issue as over a half of the financial assistance came not from Community instruments (the MTFA was merely used to roll-over short-term support) and the largest (6-month) credit-line was given by the German government, which was the only Member State increasing its current account surplus in this period (Commission, 1978).

The share of short-term credits to Italy were repeatedly prolonged (EEC and Bundesbank credits) as the structural adjustment to sort out the imbalance required a more medium-term timeframe. However, the amount of available MTFA financing was comparably small. Thus, the initial design of the financing element of assistance in the form of bilateral credit had a significant shortcoming vis-à-vis the new context of common overall deficits and economic decline.

[35] Note: With the use by Italy, and the UK and Italy not being able to allocate their credit quota to the MTFA, the instrument's overall envelope stood theoretically at only 500 million U.A. by the end of 1974, an amount not sufficient to support another larger EEC country.
[36] Note: These countries were France, the Netherlands, and the United Kingdom.

Whereas bilateral credits in a situation of internal asymmetry (surplus vs. deficit) were financially functional to balance the accounts via the return flow of capital, this financing mode did not work well in a situation where the internal situation was mostly symmetric in the form of overall deficits vis-a-vis the exterior. In this situation the only differences were in the financial ability to cope with the difficulties at hand. A bilateral credit in this situation does not balance asymmetries but provides deficit relief from stronger to weaker economies. The symmetry of the shock undermined the functionality of the MTFA, which was dependent on bilateral credit lines from other Member States. The impediment of the assistance regime is not only illustrated by the insufficient size for assistance to Italy, but also by the failure to protect the common policies from national safeguards, which posed an economic threat to all EC countries.

The necessity of the impediment is illustrated by the Council giving a mandate in July only after the Italian and Danish governments had introduced safeguards and the Italian government requested an IMF stand-by which included economic policy conditions. The French government had already in January 1974 proposed the use of Community bodies to recycle the oil surplus with loans with a maturity of five to forty years (BAC, 347). However, the Monetary Committee did not ‘seriously consider’ these Community loans, and the German central bank even considered it a dangerous proposal which would fuel high oil prices and reduce incentives to structurally adjust (Bundesbank, 6714/2). Only with the introduction of trade restrictions by Denmark and Italy, did the German government rally behind the Commission’s proposal of recycling capital through a community instrument and was ready to defend a community instrument towards its tax-payers and the Bundestag. However, the German government was rather reluctant to provide financial help to Italy if the latter was not ready to engage in structural reform (Schwarz et al., 2005/162). Thus, the failure of the assistance regime to safeguard the Common Market was a necessary condition for governments to accept increased agency and reform of assistance.

5.2.3 The persistence of permissive conditions

The presence of the permissive conditions brought the topic of financial assistance to the front in relevant policy bodies. Even though the topic of public support was already on the agenda for Italy in July 1973, and for France in January 1974, permissiveness only emerged with the use of assistance by the Italian government. As the debate about reform of financial assistance was initially not taken seriously by government actors as potential assistance to France and the UK was avoided via market financing, the persistence of the financial pressure on Italy shifted actors' evaluation of the situation. The Italian government requested IMF support in parallel to its drawing from EEC short-term mechanism, as it needed a large sum for its deficit financing. With these two drawings the Italian government used all available financing sources at once, while still requiring assistance to finance deficits and to maintain reserves (IMF, 1975). As the MTFA was foreseen for rolling-over short-term credits, the Italian government had no immediate access to further assistance and thus introduced safeguards. As illustrated below, the introduction of safeguards was the impetus for governments to agree on reform.

The example of France demonstrates that the impediment of assistance was key for the permissiveness to persist. While the French government initially requested monetary support from the Bundesbank,[37] it was able to finance its deficit via market financing and not via public assistance, which allowed it to avoid trade restriction (Schwarz et al., 2005/162). In this case the assistance regime would not have been impeded, even though the initial move from France to leave the exchange rate was also linked to the lack of short-term support available.

While the increased deficits from exogenous shock did not immediately lead to assistance needs, the pressure from the oil shock started its permissiveness with the Italian government drawing its EEC short-term assistance in March 1974. The impediment of the assistance regime was apparent when the Italian and Danish governments unilaterally introduced safeguards in May 1974. In addition, Italy required more assistance, even though it already received public assistance from the EEC and IMF. Thus, the permissive conditions persisted in the case of Italy. With the co-occurrence of the permissive conditions, the Commission send a communication to the Council entitled 'urgent measures in economic and monetary matters' (author's translation), which included a general call to investigate the possibility to recycle capital within the EEC for assistance purposes (BAC, 352). In this communication the Commission proposed a 'dispostif de solidarité communautaire' in the form of a common credit, or Community loans, which was to be guaranteed in a solidary fashion (BAC, 352: 47), and which was to balance the common EEC external deficits.

The present case demonstrates that the permissive conditions worked as passing-through filters. The application of assistance to Italy did not diffuse the financial pressure from deficits and

[37] Note: Which was refused by the Bundesbank in February 1974.

facilitated a sufficient timeframe for European and government actors to push for and accept increased agency (see below). The pressure from the exogenous shock continued until early 1975, when the Italian situation improved and the country received its, for that time being, last short-term support prolonging for its credit from the Bundesbank and it drew the last tranche from the IMF stand-by (Bundesbank, 1975).

The application of different forms of assistance (short- and medium-term EEC loans, IMF loans, and bilateral loans) and the failure of this assistance to provide the needed balance of payments support to ensure the proper functioning of the Common Market can be described as trial-and-error approach.

5.3 Analysis: Productive conditions

The permissive conditions provide the temporal bounds for the productive conditions to unfold. In the following sections the productive conditions of the critical juncture are analysed based on a mixed-preference game including shared and individual government preferences. First, the role of economic interdependence as productive condition is analysed. From this interdependence derived the shared preference and the economic rationale for effective assistance and thus for reforming the impeded financing element of the assistance regime. From this basis Member State government preferences are analysed in the intergovernmental negotiation process, which determined the details of the reformed financing element – namely intermediary financing – introduced with the CLM.

5.3.1 Interdependence: external imbalances and the benefits of common policies

The economic interdependence between EC Member States through the Common Market was similar to the previous period of monetary instability (see chapter 4). The benefits from the common policies were reduced if large balance of payments disparities occurred between countries as it was the case in the late 1960s. The nature of the oil shock was symmetric, by which all economies suffered decline and reduction of output. However, there were disparities in the coping capabilities of national governments, which made the impact asymmetric in severity. Thus, the Italian and Danish government tried to improve their imbalance through trade restrictions within the EEC. These national safeguard measures were a hinderance to trade and thus reduced the benefits derived from EEC-internal trade for other Member States. This situation created a potential beggar-thy-neighbour dynamic. Thus, the need for assistance was twofold, first, it was supposed to balance the account from EEC-external sources, and second, to avoid the distortion of the Common Market.[38] In comparison to 1968-1969, the internal monetary stability carried less weight for the functioning of common policies in general, and governments were more concerned by potential competitive devaluation and the trade losses associated with similar beggar-thy-neighbour policies as a response to the deficits accumulated by EC Member States (BAC, 346; 342).

The Commission emphasised that in the absence of community assistance, the safeguard measures previously introduced by Denmark and Italy represented a threat to the proper functioning of the common policies (BAC, 352). The general argument by the Commission was based on the economic interdependence which derived from the Common Market and the Common Commercial Policy, emphasising the impact on the free movement of goods. The regional government of Bavaria supported this argument and emphasised that more than half of its region's agricultural products were exported to Italy, and since the trade barriers introduced by Italy, the regional agrarian sector suffered large losses (BAC, 351). Similarly, the German federal government considered its export-led growth model threatened by safeguards of Italy and Denmark and potential safeguards of France (Schwarz et al., 2005/162).

The situation was similarly evaluated by the German and British governments, which were concerned by the negative impact these trade barriers could have on their economies. They saw the setup of balance of payments assistance as a way to maintain proper trade between EC countries and thus as a way to pursuing their economic interests by sustaining their economic model (Deutscher Bundestag, 1974; UK Parliament, 1974). The Belgian government brought forward the idea of linking the assistance with ways of re-entering the exchange rate mechanism by Member States (Schwarz et al., 2005/268), thus emphasising the link between assistance and the proper functioning of monetary cooperation.

[38] Note: One could argue that the need to keep a strict parity was reduced through the introduction of MCAs, however, these amounts only balanced the currency fluctuation as long as the disparity between a floating currency was not too high from its initial value. In cases where the disparity worsened, the MCA-used rate of the U.A. had to be adjusted to not overburden the Member States with weaker currencies. An adjustment to the U.A. caused similar problems as in 1968-1969 for countries with stronger currencies, as their products became more expensive in EEC comparison and the value of U.A.-based subsidies meant losses for the agricultural sector.

In addition, governments of countries with increased deficits had an economic interest of recycling capital and having a loan mechanism in place. First, the recycling process allowed access to capital for balancing the accounts and reduce speculation against currencies. Second, a loan mechanism provided a buffer, similar to the MTFA, over a longer timeframe than short-term support or SWAPs, so that Member State governments could accumulate reserves and potential adjust their policies. The French government early on considered the Community deficit as a common issue and was the first to propose the setup of a common loan structure (Sénat, 1975; see also ECB, 1974c). The Italian government, as a clear candidate for medium-term support in 1974, saw the recycling mechanism as one possibility to consolidate its debt from short-term monetary support (ECB, 1974b; see also Bundesbank, 6721/2), considering that the MTFA was justifiably estimated not to be able to roll-over the entire short-term support. The Danish government, which introduced safeguards due to its deficits, requested stronger assistance from potential creditor states (Schwarz et al., 2005/268). The British government considered an EEC instrument as a reinforcement of its potential financing sources (UK Parliament, 1974).

With the UK, France, and Italy being potential users of such assistance, the German government saw community loans predominantly through a German guarantee but estimated the benefits higher than the costs (Schwarz et al., 2005/177). On June 6 the Council invited the Monetary Committee and the Committee of Central Bank Governors to give their opinion on the matter (CM2/1974 022). On July 15 a mandate was given to study the question of community loans (CM2/1974 030; see also Bundesbank, 52/1974). While most governments agreed with this initiative, the German government in principle agreed, but refrained from supporting the proposal without further details (Schwarz et al., 2005/253). The reluctant agreement to increase agency with the aim to reform assistance demonstrates the cost-benefit consideration of governments.

This agreement illustrates how economic interdependence functioned as the bridge between permissive conditions and increased agency. With the mandate in July 1974, the EEC started its internal process of negotiating and setting up the Community Loan Mechanism (CLM) to finance the deficit resulting from the oil shock. The shared preference for reform between potential debtor and creditor countries reproduced the economic rationale of maintaining the functioning of common policies either through providing or receiving assistance.[39] Similar to a few years earlier, a solution within the EEC was the only facility directly linked to the objective of ensuring the proper functioning of EEC policies.

One can therefore state that economic interdependence was a necessary condition which formed the shared preference for governments to accept and justify the move towards community loans. As evidenced in the case of Germany, the acceptance to commit to such an instrument was largely driven by the exposure of the German export-led market to its EC partners. The presence of this productive condition confirms the third part of the critical juncture mechanism and illustrates the validity of using a rationalist approach regarding government preferences.

5.3.2 Community loans: the birth of intermediary financing

The potential new mechanism was not to replace the MTFA, which was considered to still fulfil its purpose as the main instrument under Art. 108. At the same time, public financing from other governments was scarce due to the overall deficit situation, which made governments less able and willing to engage in direct credits. This limitation of bilateral support made the use of a financial intermediary essential for loans on community level. The structure of an intermediary was similar to the IMF oil facility and the (failed) OECD fund, which recycled 'surplus oil funds' via an international financial institution. With the general agreement on the necessity to establish an intra-EEC instrument outside of the realm of bilateral credits, Member State governments began to deliberate on the detailed implementation of community loans, which were intended to be layered onto the already existing MTFA.

The Commission proposed one large loan operation to accumulate capital on behalf of the Community, which could upon decision by the Commission and favourable opinion by the Monetary Committee on-lend to a Member State government in need (BAC, 352). The Commission's proposal referred to a 'considerable amount', which was seen at about \$5 to \$10 billion (Bundesbank, 50/1974; Lemaitre, 1974), and envisaged to be placed as a credit with a

[39] Note: The acceptance of having to balance the large deficits form the oil price increase and the general understanding that this had to be achieved to a significant share by public sources, led the UK also to propose recycling facilities at the level of the IMF, and the United States on OECD level via the so-called Kissinger fund. EC Member States considered the recycling initiative via the OECD as additional safety net to EEC and IMF facilities (BAC 360), even though France was initially sceptical about the role of the United States in European energy policies (see Cohen, 1998).

syndicate of banks (given that the traditional national and international credit markets had reduced absorption capacity for large loans). From this pool the Commission could then draw and on-lend funds (BAC, 352). The loan was supposed to be placed *ex ante* and disbursed to Member States when needed, while being guaranteed jointly and in a solidary fashion (BAC, 352). This proposal included several contested elements including the amount, the form of the loan and its guarantee, and the decision-making for borrowings.

The *ad hoc* expert group on community loans presented several forms of joint borrowing,[40] from which Member State governments were supposed to choose, and which fulfilled the general outline of a recycling mechanism on EEC level (for more detail see BAC, 353). Three of the four options included a common loan via a financial intermediary, while the fourth option (grouped loan) was a loan which the Member States took directly as group borrower. The last option was legally not an EEC loan and labelled as having the 'weakest Community spirit' by the expert group.[41] This option, even though explicitly stated by the group, did not tackle the problem of bilateral credits, and incorporated the same financing issues for borrowers, in particular for those Member State governments which had to include government credits as expenditure on their balance sheet. Other options, including the European Investment Bank (EIB) and the European Monetary Cooperation Fund (EMCF), required substantial legal and financial adjustment, and were ruled out after deliberation in the *ad hoc* group. The choice fell on the Community as intermediary for lending operations with the EMCF as operational agent. This option did not require treaty change nor any new capital subscriptions, while achieving the necessity of having a common intermediary with its own borrowing capacity.[42]

While the choice of the intermediary (i.e., borrower) was financially and legally pragmatic and thus did not run against an opposition from any government, the technical details on how Community borrowing was supposed to look like had several issues for governments of surplus countries, most notably Germany. Experts thought that an internal arrangement was necessary to establish trust for the reimbursement of the loan (BAC, 353). Germany was considered the core guarantor of financial assistance (the UK government had previously opted out of support to Italy,

[40] Note: The group was composed of central bank and government representatives.
[41] Note: The original wording is in French: 'le plus faible contenu d'esprit Communautaire' (BAC 353: 87).
[42] Note: The Community had its own legal personality and with Council Decision 70/243 (ECSC, EEC, Euratom); the Community had its Own Resources which worked as collateral for borrowing operations.

Italy required financial assistance itself, France and Denmark ran significant deficits), an indivisible responsibility for community loans was also implicitly a mostly German guaranteed loan (Lemaitre, 1974). The German government was concerned of setting a precedent for dealing with financing difficulties in the Community, with the German taxpayer providing the financing for overspending of other Member State governments (Schwarz et al., 2005/253; 302). The German government preference was thus linked to fend off, in its view, undue risks and burden arising from community loans, by limiting its use, scope and time, as well as keeping control over its application (Schwarz et al., 2005/253; Bundesbank, 50/1974). The view by the German government was that other governments did not follow economic recommendation to counter the impact from the oil shock, which only exacerbated the difficulties (Schwarz et al., 2005/268). It feared that EEC-channelled support would be used to finance fiscal deficits, not only oil related ones. Thus, the clear eligibility for support linked to the oil deficit, as well as economic conditionality were additional priorities for the German government. Overall, the voices of governments of countries with balance of payments surplus were generally less accommodating of larger lending to deficit countries (ECB, 1974a). In contrast to this reluctant approach, the Danish government was calling for a large contribution by potential creditors and a pooling of reserves (Schwarz et al., 2005/268), and French policymakers for a 'spectacular action' by the Community (ECB, 1974c: 15), and pointed to a range up to $10 billion (ECB, 1974b). The French government was also eager to emphasise that the loan was justified by the necessity to recycle capital and not to finance Member State deficits (BAC, 355). This narrative was not shared by the German government, which wanted to support only countries worst hit by deficits, and not any oil-related deficits, to keep the amount needed to a minimum (Schwarz et al., 2005/253). With the Italian government already prepared to request a loan of about $1.8 billion, the preferences of governments running deficits merged over having a large amount available via the EEC, which meant a substantial guarantee by the surplus countries.

Whereas governments running deficits were not vocal on their preferences regarding the technicalities of community loans, most governments of surplus countries emphasised their preferences for a limited loan amount (see also BAC, 355). In addition, the German government was against an *ex ante* borrowing by the Community and only supported a loan on a case-by-case basis (Bundesbank, 50/1974; BAC, 355). The most divisive element was the guarantees provided by surplus countries. German and Dutch policymakers made it clear that their guarantees for common loans required parliamentary approval and had to be clearly defined (BAC, 355). The German government agreed with the need to commonly guarantee the loan vis-à-vis the exterior but insisted on quotas for internal guarantees and on mobilisation of claims (Schwarz et al., 2005/253). This insistence meant that in case many countries were unable to finance their quotas, the Community was left with an unpaid amount (BAC, 355). In this regard, the German and Luxembourgish governments proposed collateral such as gold by the beneficiary of a loan to ensure repayment (BAC, 355). Dutch representatives had previously made it clear that the Netherland were not willing to shoulder more than double its quota in short-term support for Italy, if France and the United Kingdom were not willing to participate in assistance (ECB, 1974a). The German government supported the Dutch red line with limiting its guarantees to double the short-term monetary support quota and set its limit for common loans at $3 billion (Bundesarchiv, 2022).

In the discussion on the legal base for community loans the Council legal service pointed out that Art. 108 of the treaty was not suitable for assistance, but that Art. 235 (flexibility clause) could be used instead (BAC, 355). Considering that the national guarantees of community loans constituted potential government expenditure, the adoption of community loans required, as in the case of the MTFA, unanimity. After several months of negotiations (beginning in July 1974), the regulation on the Community Loan Mechanism was adopted in February 1975. The German and Dutch governments were able to assert their interest regarding the total envelope for loans ($3 billion), the limited guarantees of twice the quota, and payment of support to the central banks (not to the government – to avoid fiscal support). The eligibility for assistance was exclusively for 'Member States in balance of payments difficulties *caused by the increase in prices of petroleum products*' (Article 1; author's emphasis), which underscored the temporary need and the limited applicability of assistance to avoid a precedence of financing general government deficits. Lastly, the disincentive of economic conditionality was attached to the loan, as it was already the modus operandi for international support and the MTFA.[43]

Through potential vetoes, the bargaining position was asymmetric and stronger for governments of surplus countries as potential debtors required their financial involvement for guaranteeing community loans, while governments of surplus countries did not directly need financial assistance

[43] Council Regulations (397/75/EEC) and (398/75/EEC).

for themselves. This asymmetry made the system more dependent on the approval of the latter. This situation allowed the German and Dutch government to dominate the negotiations on the final form of the Community Loan Mechanism.

Considering the MTFA had never been used before negotiations on the CLM started, the procedural element in regard to conditionality was reproduced and to some extent defined for both instruments at the same time.[44] The economic rationale of supporting EC Member States to maintain the proper functioning of the Common Market was reproduced (see chapter 4), as well as the medium-term lending of four years, which was more effective for a country requiring fiscal space to correct imbalances than short-term support. The CLM constituted punctuated layering in the financing elements of the assistance regime, by introducing intermediary financing, which through the CLM worked in parallel to the MTFA's bilateral system. The intention of governments in layering the CLM was to maintain the assistance via the MTFA.

While governments of deficit countries saw in the CLM a potential instrument to finance deficits, governments of surplus countries saw it as a tool to maintain the functioning of the Common Market and export-led growth. Due to the asymmetric bargaining position for governments of surplus countries, and the large dependence on Germany's guarantee for a common loan system, the resulting regulation followed to a large part German government preference (see table 13). The empirical observation demonstrates that the material interest of governments was to a large part in line with their expected (indirect) financial involvement in the CLM, which supports a rationalist approach with an emphasis on bargaining power for the detailed negotiations on reforms. This finding confirms the presence of the fourth part of the critical juncture mechanism.

[44] Note: In the case of assistance for Italy via the MTFA in 1974 the conditions attached to the IMF stand-by were complemented by the EEC conditions attached to the MTFA by adding to the quantitative benchmark of credit expansion and giving even more restrictive benchmarks for treasury transactions as well as additional requirements such as increased taxation and reduced domestic petroleum use (BAC, 349). The procedure of monitoring the implementation of conditionality was included in the in the legal text on CLM and retrofitted to the Italian use of the MTFA, even though monitoring was not originally part of the MTFA's legal text.

Table 13: CLM characteristics and preference representation

Article	Content	Assessment
Art. 1	'The Community may undertake a series of operations to raise funds, […] with the sole aim of re-lending those funds to one or more Member States in balance of payments difficulties caused by the increase in prices of petroleum products.'	Temporal and eligibility limit; creditor preference of ensuring the use of Community loans for oil-related deficits.
Art. 3	'The Council shall decide on the principle and the terms of loans to be granted to one or more Member States and on the economic policy conditions to be fulfilled by each beneficiary Member State in order to redress its balance of payments. The funds shall be paid only into central banks and shall be used only for the purposes indicated in Article 1.'	Policy conditionality: creditor preference to control *ex ante* the use of funds and to avoid moral hazard.
Art. 5 & Art. 6 (a similar provision is found in Art. 2 of the implementing regulation regarding the case of default)	'The loan operations authorized by this Regulation shall be limited to the equivalent in European monetary units of account of 3 000 million US dollars in principal and interest payments' […]; 'The guarantees designed to ensure that the loans referred to in Article 1 are serviced and repaid in all circumstances shall not exceed the following percentages applied to the total amount of the loan in principal and interest : (per cent) Germany 44,04 United Kingdom 44,04 France 44,04 Italy 29,36 Belgium/Luxembourg 14,68 Netherlands 14,68 Denmark 6,60 Ireland 2,56'	Limited liability for creditors and credits not indivisibly guaranteed; creditor preference of limited amount of assistance.
Art. 7	'The measures referred to in Articles 2, 3 and 7 shall be adopted by the Council acting unanimously on a proposal from the Commission […]'	Control and veto possibilities for each government; creditor preference to ensure proper use of assistance.
Art. 6 (1) implementing regulation	'When a Member State receives a loan from the Community, the Commission, in collaboration with the Monetary Committee, shall take the necessary measures to verify that the economic policy of this State accords with the conditions laid down by the Council […] this verification shall take place at regular and frequent intervals […].	Monitoring of conditionality; creditor preference to ensure proper use *ex post*.

(Source: Council Regulation (397/75/EEC))

The establishment of CLM in 1975 came only four years after the decision on and fifteen months after the final approval of the MTFA.[45] The CLM was the result of a shift in the contextual element, which brought the Community's need for financing from a previously mostly internal disequilibrium to an overall external disequilibrium in the balance of payments. The impediment of the EEC financial assistance regime was the low amount in comparison to the deficit and the ineffectiveness of the short-term support and the MTFA vis-à-vis this new context. The short-term and bilateral nature of support did not allow for an adequate allocation of financing, due to creditors' inability to handle both their own and other countries' financing needs. The introduction of intermediary financing constituted punctuated change in the financing element of assistance and carried legacy for the subsequent development of assistance (see below).

5.3.3 A critical juncture for the financing design of EEC support

This case demonstrates that the persistence of permissive conditions was key for governments to agree on reform. While governments first resorted to the use short-term support, the continuous pressure on Italy to finance its deficits was not tackled sufficiently and led the Italian government to introduced safeguards. These safeguards provided the impetus for EEC governments to agree on reform. The increase of agency in this moment is demonstrated by a mandate to a special expert group which brought forward several potential alternatives of Community loans. The economic interdependence from common policies and the expected involvement in the CLM were strong determinants for government positions, supporting a rationalist explanation in the productive conditions. The mixed-preference game captures this constellation. Thus, the present case demonstrates the applicability of the critical juncture mechanism and the presence of its causal parts (see table 14). This case also underscores the usefulness of combining permissive and productive conditions, as well as shared and individual government preference for the unfolding of a critical juncture.

[45] Note: The MTFA became operational on 24.10.1973 after the last Member State governments made the necessary national arrangements (BAC, 357).

Table 14: Application of Critical Juncture Mechanism (case 2)

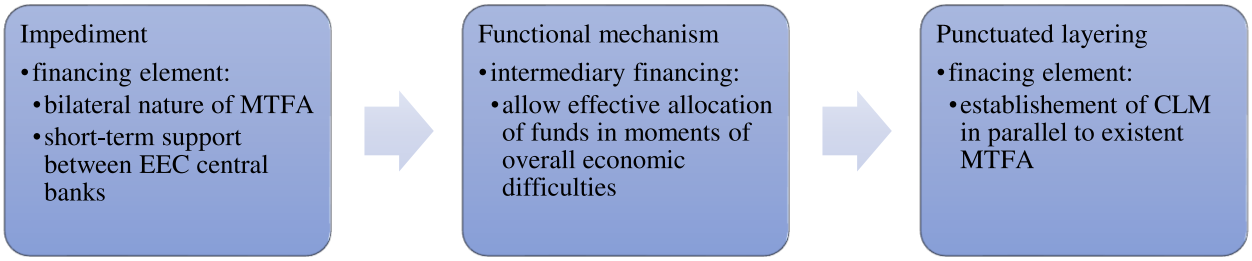
Contextual conditions:
Geographical boundaries (EEC – DE, FR, NL, BE, LU, IT, DK, UK, IRL)
Temporal boundaries (1973-1975)

Trigger Cause	**Part 1**	**Part 2**	**Part 3**	**Part 4**	**Outcome**
Rapid increase of prices of petroleum products (oil shock)	Increase need for public financial assistance due to Italy's increased public deficit	Italy's deficit exacerbated despite assistance from EEC and IMF	Italy and Denmark introduce national safeguards to balance their accounts	Negotiations on the details of Community loans	Addition of the Community loans to the EEC financial assistance regime; punctuated change in the financing element: intermediary financing via the EEC
Entities	Member State governments	European Commission, French government	European Commission, Member State governments	Member State governments	
Activities	EEC short-term and IMF support to Italy to finance its deficits.	Argue for the need to recycle capital from oil-exporting countries to balance the overall EEC accounts.	Agreement to reform assistance and to introduce Communtiy loans to ensure the proper functioning of the Common Market	Surplus vs deficit countries regarding guarantees and amount of the loan mechanism	

(Source: the author)

The punctuated change for the regime was the introduction of intermediary financing in the financing element which used the EEC as vehicle to borrow capital on the market and to lend this capital to Member States (back-to-back lending). This change constituted punctuated layering and was the second critical juncture in the development of the European financial assistance regime, as intermediary financing became the standard form of assistance within the EEC and the EU until this day. The intermediary financing structure derived from the impediment in the financing element of bilateral lending in the context of a symmetric shock and was in line with the structure of 'recycling' capital form oil exporters. The mechanism of production for the CLM is thus functional (see figure 9). The functional adjustment links the *ex ante* purpose of the assistance regime with a new financing element to achieve the formal objective and thus ensured the continuity of the overall institution and purpose of financial assistance. The strategy by governments was to layer a temporary instrument to the assistance regime, which was particularly suited for the extraordinary circumstances of the first oil shock.

Figure 9: Production based on functional mechanism (case 2)



(Source: the author)

5.4 Analysis: The legacy of intermediary financing

The punctuated layering of intermediary financing to the regime had substantial long-term consequences on the subsequent development of assistance. In the following section these consequences are analysed using path dependent and gradual change mechanisms. The first part assesses the functional mechanism of reproduction of intermediary financing in subsequent periods of economic difficulties, as well as in the changing context of increased market financing availabilities. The second part assesses the gradual change of assistance in parallel to path dependence, including the redirection of the temporary nature of the Community Loan Mechanism into a permanent instrument and the displacement of bilateral assistance.

As illustrated in the previous chapter, the formal elements of the assistance regime, which were the purpose and the legal eligibility of EEC support, was reproduced by the utilitarian mechanism based on the shared preferences. The oil shock only shifted the underlying understanding of balancing from internal to common external disparities. This dissertation refrains from arguing of reproduction of other elements as no previous application of assistance occurred before 1974. The negotiation on the CLM happened in parallel to the first use of the MTFA for Italy at the end of 1974, which streamlined the procedural elements of both instruments of the assistance regime. Even though the voting modalities in the Council were different for applying assistance (QMV for MTFA, and unanimity for CLM), the procedural elements were the same and included the decision-making by the Council, definition of policy conditionality and verification of these objectives by the Commission and Monetary Committee.[46] For the formal and procedural features,

[46] Note: The procedure to launch a MTFA was considered more cumbersome as it included a credit operation by each MS, which made it less flexible in credit terms (BAC, 228/2012-365).

the period of the oil shock did not represent a critical juncture, but rather a continuous affirmation for the economic rationale and the translation of it into action.

5.4.1 Path dependence

The legacy of the punctuated change lies within the financing feature of the assistance regime. The introduction of intermediary financing did not only create an EEC precedent of large debt placements on behalf of the Community, but it also introduced the practice of rolling off the burden of support onto the Community to avoid direct financial implications for creditors. A thought-out feature which allowed the allocation of assistance in periods of symmetric economic difficulties without requiring direct financial contributions. This financing element was reproduced by the functional mechanism in reoccurring symmetric shocks and in the changing context of increased external indebtedness.

5.4.1.1 The functional reproduction of intermediary financing

The second oil shock came in 1979 only four years after the adoption of the CLM. In this context, governments considered intermediary financing the most suitable solution. While the second oil shock increased the need for public financial assistance, the assistance regime was able to diffuse the pressure by increasing the envelope of the CLM and disbursing assistance via intermediary financing. Thus, financial assistance was not impeded and diffused the pressure from the exogenous shock. This case demonstrates the necessity of the impediment in the permissive conditions for agency to increase.

Intermediary financing remained an effective financing element as the nature of the second oil shock was contextually similar to the first oil shock. The premise of symmetry was an increase of prices of petroleum products which worsened the current account balance for most EC countries, and the overall EEC balance vis-à-vis the exterior. The functional advantage of intermediary financing over bilateral assistance was explicitly acknowledged by the Monetary Committee in October 1980 stating:

> [i]n the present situation, with all the Member States running current payments deficits, financing by Community borrowing, in accordance with the needs of recycling, may be the only form of Community support which could be mobilised in practice (BAC, 423: 34).

Considering intermediary financing the most effective in this context, Member States re-instated the CLM with an increased amount of $6 billion in 1981 and increased the ceiling further to $8 billion in 1985.[47] The lack of debate about alternatives underlines the missing permissive condition for increased agency and the limited choices available to European and government actors, who stuck to the CLM as the most suitable solution. Thus, the second oil shock was a case of survival and return of the institutional construct, reproduced through the functional mechanism incorporated in the advantage of intermediary financing over bilateral credits.

Economic difficulties of the early 1990s were different from the oil shocks of the 1970s as the external imbalances were not as accentuated. The Community went commonly through economic difficulty with most governments running deficits in 1991 and 1992 while the external position was only slightly in deficit, with several countries recording current account surpluses in 1992 (Commission, 1993). With other sources available (see below), most governments did not require additional financing from the public, with only Greece and Italy having more severe difficulties. Both countries received assistance via the CLM, whose financing mode was again functionally resilient in this economic context. Even though the necessity of recycling was not present, the symmetry of difficulties and increased deficits favoured a response which did not increase the expenditures of potential creditors. Thus, the functional advantage of the financing element of intermediary financing prevailed and prevented an impediment of the regime. The use of assistance and the lack of legal adjustment also illustrates the reproduction of the functional mechanism linked to the financing element.

Even in cases where legal change co-occurred with economic shocks (1981, 2008, 2010, 2020) intermediary financing remained the go-to solution for the assistance regime. In the international financial and the subsequent euro area crisis starting in 2008, Member State governments first increased the amount of the CLM to €25 billion and then to €50 billion in 2009 (renamed to 'facility providing medium-term financial assistance for Member States' balances of payments' in 2002),[48] illustrating that the need for assistance was expected to increase. With the use of assistance

[47] Council Regulation (682/81/EEC) and (1131/85/EEC). Note: The previous contentious aspect of national guarantees was abandoned, first because it was considered that defaults of EEC countries were extremely rare, and second, to avoid a lengthy national adoption process needed for national guarantees (BAC, 423).
[48] Council Regulation (332/2002/EC).

for Hungary, Romania, and Latvia, the instrument proved to be functional in the context of the symmetric economic shock via the financial markets.

The functional advantage of intermediary support was the dominant financing element for newly created tools in the sovereign debt crisis in 2010, including the European financial stabilisation mechanism (EFSM), the European Financial Stability Facility (EFSF),[49] and the European Stability Mechanism (ESM), with an overall support envelope of €560 billion. These instruments were designed as intermediary financing tools so that Member State governments' expenditure would not have to increase even more after having provided substantial support to domestic financial systems. The explanatory merit of the functional mechanism of reproduction also explains how governments rectified the functional issues of the EFSF to achieve intermediary financing by setting the ESM's legal structure as an international financial institution with a paid-in capital of €80 billion as collateral.[50]

The functional mechanism of reproduction was equally observable in the Covid-19 crisis starting in 2020, when governments increased their expenditure to stabilise their economies after the partial shut-down of entire industrial sectors. Furlough and short-working schemes increased the expenditure of countries significantly, while tax income plummeted. The explicit reference to the ESM as emergency assistance for Covid-19-related financing needs, the establishment of the SURE loan instrument of €100 billion, as well as loans under the Recovery and Resilient Facility (RRF) for €360 billion all worked using intermediary financing (the EU or the ESM). This reproduction illustrates the continuity of the functional mechanism of intermediary financing in the context of symmetric shocks. The use of a financial intermediary for assistance without

[49] Note: The EFSF was designed to borrow from the market and on-lend these funds to Member States using the private law framework in Luxembourg. A year later Eurostat decided that the legal structure of the EFSF was not in line with intermediary financing, and governments had to count their guarantee quota of EFSF borrowing as national borrowing on their individual balance sheets, increasing their debt markedly (Eurostat, 2011; Bundesrechnungshof, 2019). The burden for creditors increased from €80 to more than €250 billion. The total support approved by EU/euro area facilities for euro area countries between 2010-2015 was about €500 billion. In addition, the guarantee structure of the EFSF with a total of €440 billion and the adjusted guarantee of 120 per cent, only allowed for an effective lending capacity of €250 billion for EFSF operations, almost half the intended ceiling (ESM, 2019).

[50] Note: The ESM's lending capacity was set at €500 billion euro, with a subscribed capital base of about €700 billion euro, of which 80 billion were paid in capital (ESM Treaty, 2012 version). The permanence and the capital structure allowed the ESM to function as proper intermediary, without euro area countries having to directly increase expenditure for further loans (Eurostat, 2013).

incurring direct costs for Member States remained advantageous, even though the Covid-19 crisis pushed the limits on fiscal sustainability and the general use of loans (see chapter 7).

The actual use of the CLM for Italy, Ireland, France, and Greece in periods of common and individual economic difficulties from the late 1970s to the early 1990s solidified the practice of reverting to the CLM for assistance and underlined the recognised functional advantage of intermediary financing, as no government had to incur direct costs from assistance. These cases of assistance-use before the introduction of the euro showcase the theoretical value of permissive conditions linked to the impediment of institutional elements. In these moments, the increased need of financing was met by the availability and functionality of assistance for EC countries. Adjustments to the CLM occurred dominantly in small doses linked to the amount allocated to assistance, which contributed to the continuity of the structure based on intermediary financing.

The analysis of mechanisms of reproduction as part of the analytical framework helped to identify how exogenous shocks increased the need for public financial assistance in the EEC, but also how intermediary financing after 1975 diffused the pressure from other symmetric exogenous shocks on the financing element of assistance. The use of intermediary financing made the assistance regime more resilient in the financing element. Analysing the first oil shock isolated from its long-term impact would thus not allow to give a comprehensive insight of the consequences of the political decisions of that moment. Thus, combining the mid-range causal mechanism with legacy mechanisms provides a full critical juncture framework, including the contingency of the crisis moment and its consequences, which allow to give meaning to the use of the term critical juncture per se.

5.4.1.2 Continuity in a changing context

Intermediary financing was not only more advantageous in moments of symmetric shock, but also in the general trend of external indebtedness. An important contextual change since 1975 was the increased role of private sources of financing for governments via the Eurodollar market in the EEC. In the wake of the first oil shock, not only the public recycling process started to emerge, but also financial markets increased substantially their role as channels of oil capital towards industrialised countries, as oil exporters placed their excess dollars in banks, which in return lend capital to governments. With this increasingly important supply role of markets as source of financing of government deficits, the state capacities to interact with the market were substantial built up in Europe from the 1980s onward (Preunkert, 2017). Until the adoption of the euro the private and public access to financing existed in hybrid with the private market gaining more and more relevance. Most governments also resorted to foreign borrowing to finance budget deficits, of which most operations were conducted in dollars (only the German government was able to borrow in D-mark) (BAC, 443). This trend was accelerated by the difficulty to balance current accounts via so-called autonomous external flows, and governments resorted to the more stable access via public borrowings on the financial market (BAC, 443). Importantly, external debt was not only used to balance the current account, but also to finance general government deficits. The accumulation of debt in foreign currency was identified as potential danger by the Commission in late 1982. It argued that currency depreciation would not help a country to improve its current account balance as the trade improvements would be offset by increased interest payments abroad, especially in moments of high interest rates on dollars as it occurred since 1979 (BAC, 443).[51]

Whereas financial assistance was previously focused on offsetting internal imbalances for monetary purposes and to balance overall EEC imbalances toward the exterior, it implicitly integrated the possibility of re-financing current account deficits from external borrowing through the use of cheaper Community credits.[52] Even though the availability of private sources increased, community loans were rather frequently used over the years, e.g., for assistance to France in 1983 and Greece in 1985, in periods where these countries' external indebtedness was particularly severe for the public financial position (BAC, 448; 476). The French government used private borrowing to tackle its balance of payments imbalances in the 1980s, and after a realignment of the franc, the French governments requested a loan from the Community to consolidate its external position and decrease the fiscal pressure arising from external indebtedness (BAC, 448). In the case of Greece, the external indebtedness was getting more severe in the 1980s, as debt rose from 9.2 to 43 per cent of GDP and interest payment on this debt represented 40 per cent of the Greek current account deficit, while simultaneously the grace periods on debt elapsed, pushing repayment rates as high as 2.75 per cent of GDP (BAC, 476). The gradual turn from financing trade-related

[51] Note: Stieber (2015: 21f) noted in this regard: 'The ineffectiveness of exchange rate devaluations once a certain level of external indebtedness has been attained is well illustrated by the fact that Greek GDP in US dollar terms in 1985 was only 89 per cent of 1981 GDP. Hence, a significant portion of the increase in the relative exposure of foreign banks to Greece simply resulted from the fact of the falling value of Greek output in dollar terms (which can be seen as a proxy for collateral)'.

[52] Note: Through the Own Resources the EEC had a very good credit rating, which translated into low interest rates on its borrowing, which it passed on to the recipient country.

deficits to a fiscal support instrument came with the realisation that a loan for Greece would be used to also roll-over debt from the private sector, which representatives in the MC in 1985 considered incompatible with the use of financial assistance (BAC, 477).

By the 1980s the face of Community assistance shifted to support countries in financing their external imbalances independent of their origins. In other words, the need for assistance started to have a fiscal aspect linked to external indebtedness, whereas before it was the mechanism to balance current account deficits resulting from trade.[53] The tendencies of governments to increase their debt even in good times was also recognised by monetary experts in the early 1990s (ECB, 1993). Another example of the use of assistance in 1991 by Greece underlines the practice of increased deficit financing via external debt, and the use of Community assistance to stabilise the fiscal position by rolling-over the debt owed to the private sector (Stieber, 2015).

The context had significantly altered from a scarcity of financing in 1973 to a large availability of private sources of financing by the 1990s and with it the practice of governments to finance their deficits. This shift resulted in a non-intended use of financial assistance for fiscal stability in the EEC. However, the intermediary financing via the EEC was equally robust for direct fiscal support as it was for recycling external capital to mitigate the overall EEC external imbalance. Because of larger private sources available, the potential number of lenders to the EEC had equally increased, and the previous public role for support was replaced by a first instance of market financing. As the EEC was able to borrow at very low rates given its financial position, the use of assistance had a fiscal easing impact for Member States, a feature which bilateral credits were only able to achieve with additional direct costs for creditors, as they had to on-lend at lower rates than the market. The advantage of the intermediary financing via the CLM was thus augmented with the changing role of market financing.

5.4.2 Redirection and displacement

The punctuated layering of intermediary financing set in motion a mechanism of gradual change which represents the other side of path dependent developments. With the introduction of the CLM, Member State governments tried to overcome the functional impediment of the bilateral loan structure, which had significant drawbacks in periods of symmetric shocks. The CLM was

[53] Note: External is from the national (currency) viewpoint, not the EEC's.

layered over the bilateral assistance mode with the distinct purpose to help finance balance of payments deficits *directly* resulting from the increase in prices of petroleum products.[54] Even though the regulation made no explicit reference to the period of applicability, some governments understood the CLM as a temporary instrument, justified by extraordinary circumstances. The German government used this view to defend the instrument in parliament (BAC, 394; Bundestag, 1974). In practice the only time the MTFA was used, was also to tackle deficits from oil price increase in the case of Italy in 1974, blurring the formal distinctiveness between the MTFA and the *ex post* adopted CLM.

The second oil shock similarly affected the Community as a whole with Denmark, Ireland, Italy, and Belgium seriously aggravating their already existing deficits in this context (Commission, 1980). As the balance of payments deficits were not clearly distinguishable between oil- and non-oil related deficits, national governments agreed that the reference to the oil price increase in the CLM regulation was rather of political nature. In the CLM amendment of 1981 this reference was broadened to include all difficulties *directly and indirectly* related to the oil price increase (BAC, 420; 423; Stieber, 2015). This merely declaratory aspect was accompanied by a 5-year renewal clause, which was to some extent a clarification of the temporary nature of the CLM. In practice the use of the amended CLM for a 4 billion ECU loan to France in 1983 was not justified by increased oil prices (BAC, 448). While the loan mechanism was amended again in 1985 to increase the ceiling from 6 to 8 billion ECU, Member State governments also agreed to entirely abandon the reference to the oil price increase.

This change facilitated the application of the CLM for purposes initially intended for the MTFA only. Greece received a community loan in 1985 using the procedure under Art. 108, as the Council considered this form an appropriate way of mutual assistance. This made the CLM and the MTFA implicitly congruent. While the Council legal service had the opinion that Art. 108 did not cover operations of the CLM in 1974, leading to the use of Art. 235 as its legal base (BAC, 355), the Commission supported the use of Art. 108 for a joint instrument in 1986 (using bilateral and community loans). It argued that both instruments cover the same objectives anyways (BAC, 228/2012-365). This redirection was formalised in 1988 when both instruments were joint under

[54] Art. 1, Council Regulation (397/75/EEC).

the same Council regulation 1969/88/EEC establishing a single facility providing medium-term financial assistance for Member States, using Art. 108 and 235 as legal basis.

Thus, European, and national government actors gradually redirected the CLM eligibility from oil-related deficits to mere balance of payments deficits without reference to the initial contextual reason why the CLM was created. Notably, this gradual change watered down the initial limitation of the CLM's use intended by the German government. As the CLM was the most functional form of assistance available, and the MTFA included assistance-related costs, the reproduction of intermediary financing facilitated the gradual redirection of the eligibility of CLM-use and the legal merger of both instruments.

Simultaneously with the redirection of the CLM, the process of layering of intermediary financing led to the displacement of bilateral assistance of the MTFA. The re-occurrence of symmetric shocks in the EEC and the increase of private sources of financing preserved the functional impediment of bilateral loans. Governments repeatedly defected the MTFA and preferred the use of the less costly CLM. As mentioned above, governments did not intend to replace the MTFA with the CLM in 1975, and repeatedly increased the ceiling of the MTFA to mirror the short-term assistance instrument between central banks, to remain appropriate in size. The gradual nature of change is well illustrated by the adherence to the MTFA as instrument with the parallel legal adjustments pushing the CLM into the area of application of the MTFA, and with the intention and expectation that the MTFA could still serve its function as medium-term support instrument (see, e.g., the German governments proposal to revive the MTFA in BAC, 458; or BAC, 228/2012-365). In most instances the MTFA ceiling was higher than the envelope of the CLM, illustrating the expectation of the potential use of the MTFA.

However, with the increase of the CLM envelope in 1985, Member States also simultaneously reduced the amount of the MTFA by the corresponding amount, illustrating that the CLM started to take over the area of MTFA applicability and its financial resources. Even though the Commission considered the bilateral instrument as the foundation for the credibility of the EMS (BAC 228/2012-365), the CLM *de facto* replaced the MTFA with the merger of both instruments in 1988. The new regulation gave both instruments a shared ceiling of 16 billion ECU and an individual ceiling of about 14 billion ECU each, of which the Community used 10.2 billion ECU for assistance to Greece and Italy in 1991 and 1993 respectively. These programmes were financed via the Community instrument while no assistance was disbursed using the bilateral instrument.

Thus, the gradual displacement was an unexpected consequence of layering intermediary financing onto a bilateral loan system, which first was considered temporary, but which replaced the MTFA. This replacement came first by redirecting the use of the CLM, and second by the formal merger of both instruments. Even though the end of the bilateral instrument came officially only with the move towards Stage Three of EMU,[55] the actual displacement process began already in 1975 with layering and solidified in *de facto* replacement by 1988.

The gradual change framework demonstrates that the punctuated layering of the CLM in the financing element had consequences for the use of other parts of the regime. The new financing element incentivised governments to favour off-loading assistance onto the Community via the CLM, which over time led from a temporary instrument to the prioritised mechanism of support. By focusing on the punctuated forms of change and their respective gradual implications on the assistance regime, this dissertation explains not only the outcome and legacy of the second critical juncture of the regime, but also how functional reproduction in the financing element led to redirection and finally to displacement. Thus, gradual change accounted for the 'other side of the coin' of path dependence. The gradually change of the element helped the institution to remain relevant and to have a functional instrument available to achieve the regime's purpose. The present case demonstrates the usefulness of a combined historical institutionalist framework. Through the analysis of punctuated change as well as path dependent and gradual change mechanisms, this dissertation helps to identify the second critical juncture, as well as to explain the establishment and impact of the introduction of intermediary financing on the development of the assistance regime.

5.5 Conclusion

This chapter analysed the institutional outcome of the first oil shock of 1973 and explains the emergence of the second critical juncture in the development of the European financial assistance regime. The second critical juncture occurred through punctuated layering of intermediary

[55] Note: Bilateral support by euro area countries to countries with derogation was considered imbalanced as euro area countries did not have access to financial assistance at all (see, e.g., Council Regulation 332/2002/EC).

financing to the financing element of the regime. The case presented in this chapter demonstrates the validity of the actor-centred historical institutionalist framework, including the critical juncture mechanism. By separating the analysis into the composing parts of the theoretical framework, this chapter provides evidence supporting the presence of permissive and productive conditions, as well as their necessity in the unfolding of a critical juncture. It further demonstrates the validity of a parallel analysis of gradual change and path dependence in explaining the relevance of the CLM for the assistance regime.

Through an examination of permissive conditions, this chapter explains under which conditions the exogenous shock increased agency in June 1974. The exogenous shock of the rapid increase of prices of petroleum products increased deficits in the EC countries and increased the need for public financial assistance for Italy. While Italy needed substantial public financial assistance throughout 1974, the European financial assistance regime was functionally impeded in the context of the oil shock. This impediment only allowed for short-term support and a reduced medium-term assistance. As the assistance mechanisms in place were not able to diffuse the exacerbated deficit position, the Italian and Danish governments introduced trade restrictions to reduce their deficits. The introduction of these national safeguards provided the impetus for the Commission to propose changes to the assistance regime and for governments to agree on reform of the assistance regime.

This agreement was intrinsically linked to the economic interdependence of EC economies, and the shared preference of achieving the proper functioning of the Common Market. This interdependence constituted the first productive condition and the bridge between permissiveness and increased agency. From the basis of the shared preference, Member State governments negotiated reforms based on their material interest linked to their potential involvement in the assistance instrument. The German government, as the largest potential guarantor of a common EEC instrument, used its bargaining position to insist upon limiting the use, scope, and time of the CLM, as well as to include monitoring of economic conditions and veto possibilities to avoid moral hazard *ex ante* and *ex post*. With the establishment of the CLM, the Community governments layered intermediary financing on the financing element of the assistance regime.

The application of the path dependence mechanism in this chapter helped to uncover the legacy of the intermediary financing. The functional mechanism of reproduction of the financing element illustrates the resilience of intermediary financing in contexts of symmetric economic difficulties in the EC, which repeatedly occurred after 1973, in 1979, 1991-2, 2008-2010, and in 2020. In each of these periods, the EEC and later EU fell back on the functional advantage of intermediary financing. The advantage was based on intermediary financing not requiring direct contributions from Member State governments, an important characteristic as most governments were running deficits in these periods and were less able to mobilise bilateral credits. In addition, this financing element allowed for fiscal easing which became more relevant with increased external indebtedness. Through the functional mechanism of reproduction, it is possible to understand how the choice for the CLM in 1975 had implications for assistance instrument to this date.

Gradual change mechanisms gave an additional insight of the impact of the layered CLM. Through gradual redirection of the eligibility and purpose, the CLM was interpreted and legally adjusted to be used for purposes previously only ascribed to the MTFA. This redirection also detached the CLM from the initial cause of the oil shock by shifting its eligibility provisions. Simultaneously, the functionally induced practice of giving precedence to community loans throughout the 1970s, 1980s and 1990s, led to the *de facto* displacement of bilateral assistance over time. The application of gradual change mechanisms in the analysis in this chapter highlights the ‘other side of the coin’ of path dependence and explains the further impact of the choice in 1975 on the assistance regime.

Using the actor-centred historical institutionalist approach, this chapter explains how the oil shock in 1973 set the stage for the second critical juncture in the development of the European financial assistance regime. This chapter demonstrates that the co-occurrence of permissive conditions was necessary for increasing agency. In periods of similar economic shocks, the assistance mechanism was resilient and did not facilitate increased agency, which is demonstrated by the reinstating of previously established instruments. The analysis in this chapter further shows that economic interdependence coupled with government preferences and respective government bargaining positions were suited determinants to explain the detailed outcome of the reform process. These factors gave meaning to the aspect of agency in a critical juncture analysis. This chapter thus addresses the conditions under which the 1973 oil shock contributed to the development of the assistance regime. Lastly, this chapter explains the legacy of the critical juncture and how path dependent and gradual change mechanism work in parallel, leading to continuity and change. Gradual change mechanisms help to explain the unintended displacement of the bilateral financing aspect over time. The applied historical institutionalist framework thus gives an insight into how punctuated change in the assistance regime impacted the future development in periods of shock and relative stability throughout the 1970s, 1980s and 1990s.

CHAPTER 6: THE INTERNATIONAL FINANCIAL AND SOVEREIGN DEBT CRISIS

Introduction

This chapter analyses the introduction of euro area assistance in the context of the financial crisis starting in 2008, which constituted the third critical juncture for the assistance regime. The inclusion of euro area eligibility for financial assistance represented a break with the previous coverage of assistance in the EU and brought changes in the implementation of assistance through the inclusion of the IMF.

The financial crisis represents the third typical case analysed in this dissertation. In this case economic shock, in the form of financial sector difficulties, and punctuated change, in the form of enlargement of assistance, are present. As part of confirming the validity of the eclectic theoretical framework of actor-centred historical institutionalism, this case tests the abstracted critical juncture mechanism, as well as path dependent and gradual change mechanisms. Through presence of the causal mechanism, this case demonstrates how the financial crisis, and the establishment of euro area assistance are causally linked.

The first section of this chapter provides a summary of developments in EMU since 1999 and what they meant for financial assistance in the EU. The following sections are organised according to the two composing parts of the actor-centred historical institutionalist framework, beginning with the analysis of the punctuated change followed by the legacy analysis.

The second section of this chapter analyses the permissive conditions in the context of the financial crisis, which constituted a symmetric economic shock to the entire EU. The financial pressure on the fiscal position of several Member States resulted in an increased need for public financial assistance and forms the first permissive condition. While governments of non-euro countries requested assistance from the EU, the governments of Greece and several other euro area countries started to face problems as well, which they tried to tackle through austerity measures and *ad hoc* assistance, as no institutionalised assistance mechanism was in place. The lack of a permanent assistance mechanism for euro area countries impeded the effective application of assistance. This impediment represents the second permissive condition. This part of the permissive conditions explains the unavailability of euro area assistance and how the *ad hoc* solution designed for Greece did not bring about the diffusion of the exerted pressure from the exogenous shock.

The third section on productive conditions explains how contagion posed a financial threat to the euro area and gave the impetus for governments to agree on reforming the assistance regime to ensure financial stability. The shared preference for reform derived from this economic interdependence. The second part of the productive condition illustrates the role of government material interest in the design of euro area assistance. This part explains the outcome according to a rationalist approach based on the financial involvement of governments and the dominant bargaining position of the German government as the potentially largest guarantor for euro area instruments.

The fourth section discusses the long-term impact of the punctuated change. The layered eligibility for euro area assistance is analysed using path dependent and gradual change mechanisms. The formal and procedural elements of euro area eligibility are assessed via the utilitarian mechanism of reproduction. This part of the analysis demonstrates that the formal inclusion of the euro area into the assistance regime paved the way for the permanent ESM. This part also shows that the use of strict conditionality for euro area assistance was reproduced via the adherence and acceptance by governments and EU bodies in subsequent assistance programmes and assistance-related policies. This part further analyses how the functional advantage of intermediary financing, initially introduced in 1975, was reproduced and impacted the structure of euro area assistance instruments. Last, this section analyses the gradual change mechanisms in parallel with path dependence. This part explains the gradual displacement of IMF involvement in euro area assistance, and how financial disincentives in the lending practice were rapidly redirected from disincentives to favourable lending terms. The last section concludes.

6.1 *Ex ante* context and financial assistance structure

Following the ratification of the Maastricht Treaty and the plan to adopt the Single Currency in the Stage Three of Economic and Monetary Union by 1999 at the latest, governments agreed to exclude future euro area countries from assistance. As most major EU economies were joining the euro area in 1999, the Council decided to first delete the bilateral financing mode of the assistance regime. It also reduced the overall envelope from the previous €16 billion to €12 billion to reflect the smaller number of Member States remaining outside the euro area, and to not overburden euro area countries, which themselves were no longer able to request assistance (Commission, 2001).[56] With the introduction of the euro, the European assistance regime was thus separated, distinguishing between in- and outsiders by 2002.

More importantly, however, was the impact of the euro on fiscal policy. Whereas before 1999, Member State governments were technically able to use monetary financing and inflationary tools to 'spend their way' out of sovereign default (to service debt), this possibility was annulled with the euro. The loss of monetary authority forced governments to borrow in a *de facto* foreign currency, which they had no direct control over (Rommerskirchen, 2015; Brunnermeier, James & Landau, 2016), and which made the possibility of sovereign default more probable than before (Kelton, 2011).[57] With the cut from the financial assistance regime, euro area countries only had recourse to the markets for government financing, making them solely dependent on this financing source. The use of market sources for government financing increased over the years from the first oil shock in 1973. Government debt levels were rising continuously from 1973 until the mid-1990s, when a peak in the overall EU indebtedness was reached before 2008 (Commission, 2005). At this time ten out of twelve Member States were concluded to have had an excessive deficit under the new Stability and Growth Pact rules (Commission, 1995). The move to start Stage Three of EMU in 1999 resulted in the reduction of the disincentive of market discipline in the form of higher financing costs for higher indebted countries (Rommerskirchen, 2015). As economic difficulties in 1992-1993 led to higher debt levels in the EU the general understanding was that fiscal consolidation had to occur in order for Member States being able to:

> […]provide the conditions for a strong and durable expansion of investment, output and employment over the short and medium term; *to reduce the burden of government indebtedness and debt-servicing*; and to ensure that budgetary policies can regain their flexibility in response to cyclical fluctuations without causing a continued escalation of government debt. […] Finally, and equally importantly, it is necessary to ensure a

[56] Council Regulation (332/2002/EC).
[57] Note: In 1980, EC's Monetary Committee experts considered the risk from sovereign default for the EEC as 'practically nil' (BAC, 423).

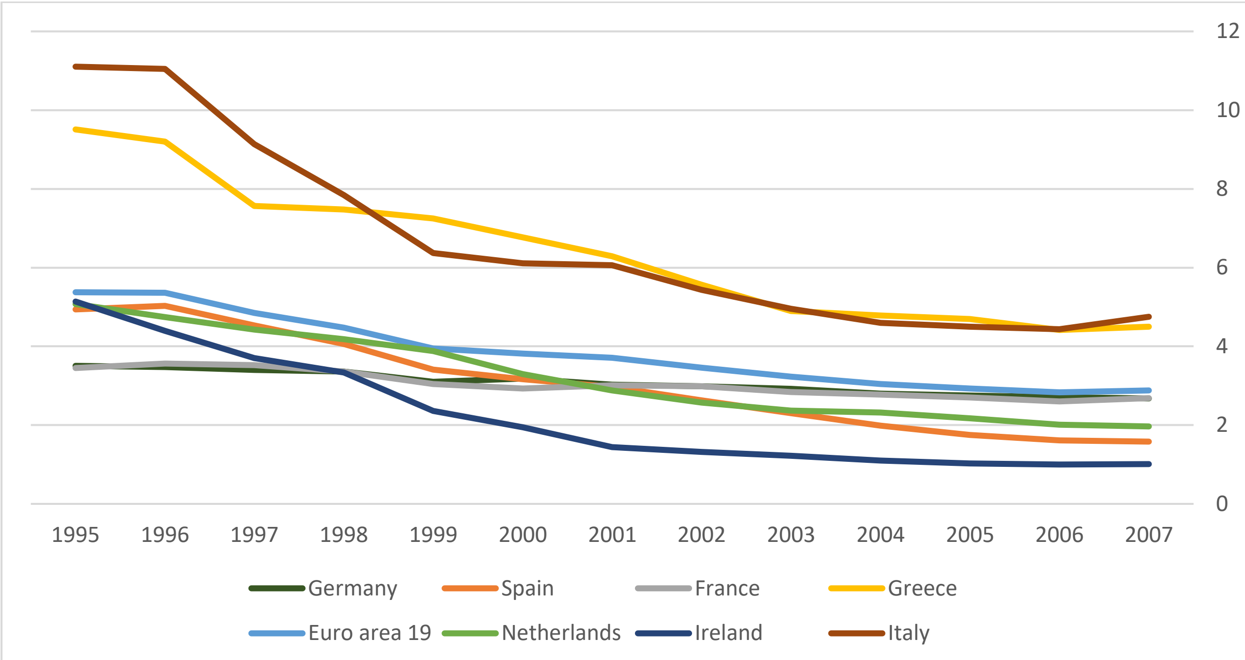
successful transition to, and the lasting success of EMU (Commission, 1997: 63; author's emphasis).

As part of EMU, governments included debt and deficit rules in the SGP, through which the economic harmonisation of convergence should be preserved, and countries forced to remain on a sustainable fiscal path (see, e.g., Heipertz & Verdun, 2010). Between 1995 and the early 2000s most governments ran deficits due to high interest rate payments (Commission, 2005), with Germany, France, and Austria increasing their debt-to-GDP ratio.[58]

After the 1993 turmoil, most governments started a process of consolidating their fiscal position, which paralleled the convergence of inflation and a narrowing of short and long-term interest rates (Commission, 1995). With lower rates, also the rolling-over costs for debt became more affordable (National Bank of Belgium, 1996: 92), and Member State governments reduced their expenditure on interest payments significantly (Commission, 2000; see figure 10), allowing most EU Member States to reduce their debt levels between 1995 and 2004 (Commission, 2000). The generally favourable environment for government borrowing from the private market was based on sufficient demand for government securities with low yields, which helped governments to meet their (re)financing requirements from 1995 to 2007. The general tendency in the early 2000s was a reduction of the debt ratio and fiscal consolidation. Scholars have therefore argued that increasing debt from fiscal spending of Member State governments was not the outset for economic difficulties (Buti & Carnot, 2012; see also Rommerskirchen, 2015).

[58] Note: The general tendency was to increase (at least slightly) the nominal debt. However, due to economic growth, most countries reduced their debt-to-GDP ratios or kept them stable. Between 1993-1994 and 2004, most other EU Member States reduced their debt ratio in this period or kept it stable (the only exception was Greece), with Belgium reducing its ratio from about 137 to 95 per cent, Italy from about 125 to 106, Ireland from about 95 to about 31, Denmark from about 81 to 38, and Spain from its debt ratio peak in 1996 of 68 to about 43 (Commission, 2005).

Figure 10: Interest payable by Member States as per cent of GDP



(Source: ECB; author's compilation)

The private market became fundamental for government borrowing. Although formally EU Member States were all IMF members, the EEC had dealt with their economic difficulties internally from the mid-1970s, with the last IMF support provided in 1977 for Italy. However, with the enlargements of 2004 and 2007, most new EU Member States had previously received medium-term support via the Group of twenty-four industrialised countries in the 1990s, using IMF and EEC/EU support (BAC, 239; see also Appendix table 10). Thus, joint IMF and EEC/EU assistance for these countries was more the rule than the exception. However, the practice of financial assistance was split between Member States of the previous EEC, which had displaced IMF assistance, and the new Member States having had recourse to joint IMF-EEC/EU support. With the elimination of EU assistance for euro area countries, governments refocused the assistance regime on the new EU Member States, and the support they might need to enter Stage Three of EMU (Commission, 2001). Before the international financial crisis reached Europe, the European financial assistance regime was thus composed solely of the intermediary Balance of Payments assistance facility (BoP, former CLM) for non-euro countries, with an envelope of €12 billion available for eleven Member States,[59] thus covering less than half of EU Member States. In contrast to this EU instrument, the IMF was able to provide approximately $200 billion of loanable funds available through the Emergency Financing Mechanism in 2008, and thus remained an important source of financial assistance for potentially all EU Member States (IMF, 2008a). Yet, when the financial crisis unfolded in Europe, euro area countries were not covered by European assistance, and most larger EU countries had not used IMF support for over thirty years.

6.2 Analysis: Permissive conditions

This section applies the theorised permissive conditions to the case of the financial and subsequent euro area crisis. It analyses how the increased need for public financial assistance resulting from this economic shock, and the impediment of the regime led governments to increase agency in May 2010 after the Greek government officially requested financial assistance from the euro area. The first part of the analysis is focused on how the turmoil in the financial markets increased the need for public financial assistance in the EU and euro area. The second part explains how the assistance regime was impeded due to the exclusion of euro area countries from the eligibility of mutual support, and how the combination of both permissive conditions exerted pressure on governments to reform assistance. The pressure from the co-occurrence of both permissive conditions persisted from the end of 2009 to the end of 2010, when the euro area governments established and applied mutual assistance.

6.2.1 Safeguarding the banking sector and increased debt

The international financial crisis as it played out in the European Union was to some extent similar to previous symmetric shocks such as the oil shocks of the 1970s, as all EU Member States faced severe economic difficulties simultaneously. Like these previous events, some countries were better positioned to cope with the shock than others, which resulted in an asymmetric impact of the shock across EU Member States. Policymakers have identified two mutually constitutive aspects in the financial crisis that led to the need for financial assistance: first, the fiscal position of the Member States; and second, the crisis impact on the domestic banking sector. European banks suffered heavy losses when the US real estate bubble burst, which caused liquidity shortages through the freezing of interbank lending (Szczepański, 2019). This shortage created roll-over

[59] Note: With Slovenia, Slovakia, Malta, and Cyprus adopting the euro before 2010.

difficulties and solvency issues for banks (Commission, 2009). After a series of bailouts and bankruptcies, capital drained from the banking sector and led to a reduction of credit (also for trade), which ultimately contributed to the decline in economic output (Commission, 2009). Governments were forced to bail out financial institutions through recapitalisation, and provide credit guarantees, which depending on the banking sectors' size and exposure had hefty fiscal implications.

Non-euro countries were the first to require public support. In Hungary, foreign investment declined rapidly, and the increasing uncertainty about the solvency of banks swept over to the sovereign bond market. The rescue of the banking sector became increasingly difficult as the relatively high *ex ante* debt levels reduced refinancing opportunities for Hungary (IMF, 2008b). Due to the exposure of foreign currency denominated risks (see also Howarth & Quaglia, 2015), several governments of non-euro countries (outside of the ERM II, or with unilateral pegs) requested ECB liquidity assistance via repurchase agreements. These agreements covered Hungary, Poland, and Latvia for €5, €10, and €1 billion respectively (Spielberger, 2023). However, the Hungarian government was not able to ensure the necessary financial means for its banking sector and requested simultaneously financial assistance from the IMF, EU, and World Bank in 2008 for a total of €20 billion (IMF, 2008b; Blustein, 2015; EFC, 127).[60] The EU provided further balance of payments support to Latvia (€3.1 billion) in early 2009 and Romania in May 2009 (€5 billion). In Latvia, the reduction of lending from the external capital markets led to a lack of financing of the Latvian government, which needed foreign currency to bolster its banking system, similar to the Hungarian situation before (IMF, 2009a). At the same time Latvia was already participating in the ERM II and used a significant percentage of its reserves to defend its peg to the euro — which had already depreciated within the unilateral margin of 1 per cent (ECB, 2008).[61] In Romania, the country's current account deficit increased considerably, exacerbated by foreign currency lending in the private sector and a growing public deficit in the years prior to financial distress, which was increasingly financed with instruments with very short maturities (IMF, 2009b). With the economic downturn and capital flight the Romanian currency (leu) depreciated,

[60] Note: Blustein (2015) points out that Hungary was unaware of EU financial assistance and directly approached the IMF. However, under Council Regulation (332/2002/EC) any Member State seeking assistance was to address the EU first — a procedural error that was corrected with the EU deciding to take part in the Hungarian assistance after the IMF request was submitted (see also EFC, 127). The EU contributed €6.5 billion.
[61] Note: Latvia kept a unilateral peg with 1 per cent instead of 15 per cent margin with the euro.

and the refinancing of the government became difficult with worsening credit conditions on foreign currency markets (IMF, 2009b). Following the Romanian assistance programme, the Council increased the envelope of the EU's BoP to €50 billion, mirroring the magnitude of the financial distress in the banking sector and to ensure availability for potential further use.[62]

Thus, until mid-2009, the EU was able to diffuse the exerted pressure from the exogenous shock by meeting the increased need for public financial assistance with BoP and IMF credits. The European financial assistance regime was able to cope with the need by simply increasing the envelope of the assistance instrument. Arguably the dependence on foreign currency denominated external debt made the use of internal monetary policy less useful for these countries (Chang & Leblond, 2015), and in the case of Latvia, even impossible if the objective was to stay within the 1 per cent margin to the euro. In the following years, the EU and IMF approved several more precautionary programmes for Hungary and Romania, which were ultimately not drawn, as government borrowing on the market revived (Commission, 2022a; 2022b).

All EU Member State governments had an increased need to finance deficits between 2008 and 2010, with debt growing substantially in these years. Governments borrowed from the private market to finance expenditures mitigating the economic difficulties, making (re-)financing conditions relevant for their capacity to act (see also De Grauwe & Ji, 2013). While yields harmonised for 10-year bonds until 2007, this picture started to change in mid-2008 and showed strong discrepancies between euro area countries in mid-2010. Fiscally and economically stronger countries had low interest rates while weaker countries had high interest rates. This discrepancy in yields translated into higher expenditure for troubled countries on interest rate payments. Refinancing rates rose for Ireland, Greece, Italy, Portugal, and Spain, while reducing for most other pre-accession Member States. The increased need for government financing was met by the market at the outset of the financial distress, even though the costs related to these funding sources differed increasingly among the Member States.

In 2009, euro area governments started to face fiscal problems due to high borrowing rates. What scholars often refer to as 'sovereign debt crisis' was in most cases not directly linked to the *ex ante*

[62] Council Regulation (1360/2008/EC) and (431/2009/EC).

fiscal position of euro area states (Blyth, 2013; see also Jordà, Schularick & Taylor, 2016).[63] However, the offloading of costs for stabilising the financial sector through government borrowing created a homogenous picture of deteriorated fiscal positions, even though this was rather the translation of the size and vulnerability of the respective financial sectors and of the counter cyclical intervention required (Buti & Carnot, 2012).[64] While the financial pressure exerted via the markets hit several countries, governments of Ireland, Spain, and Greece tried to respond through the introduction of austerity measures in order to regain market confidence (Mallet, 2009). This policy response was repeatedly praised by the Commission and ECB, as well as by the IMF, and was presented as the path to follow for countries in fiscal difficulty, notably Greece.

With the markets becoming cautious in their lending behaviour and reluctant to finance governments with increasingly fragile fiscal positions, Governments of Greece, Ireland, and Portugal started to face difficulties in refinancing their deficits and in rolling-over their increased debt with sustainable rates. The increased need for public financial assistance was present by late 2009, when Irish policymakers stated that the country might need the IMF to step in (Brown, 2009).[65] The need for public assistance also rapidly increased for Greece in late 2009, when the government corrected its deficit to over 12 per cent and markets reacted by demanding higher refinancing rates for Greek 10-year bonds from about 4.5 in October 2009 to 7.8 per cent in April 2010.[66] The benchmark of 7 per cent was also exceeded by Ireland in November 2010, by Portugal in February 2011, reached by Italy in November 2011 and almost reached by Spain in July 2012. In this context the Commission noted that the current circumstances could make the use of the BoP assistance facility for euro area countries possible (EFC, 144). Even though the reasons for these countries refinancing problems originated from different fiscal and financial positions (Chang &

[63] Note: Aside from Greece which significantly misreported its fiscal position and borrowed capital under false preconditions of solvency, three of the five euro area countries that received assistance from 2010 onwards did not have an apparent problematic public indebtedness, only Portugal had a relatively high debt-to-GDP ratio, whereas Ireland, Spain and Cyprus were below the SGP threshold.
[64] Note: The term 'debt crisis' let assume that the origin of the crisis is caused by debt, which would be an erroneous picture regarding Ireland, Spain, and Cyprus (see also Buti & Carnot, 2012; Schimmelfennig, 2018). It would however capture well the *de facto* insolvency of Greece caused by a staggering debt burden fuelled by low overall euro area yields (Barber, 2009), and which was only able to access more financing by misreporting its liabilities, and the already challenging fiscal position of Hungary and Portugal (see also Chang & Leblond (2015) on different types of 'debt crises and typology of euro area countries on private indebtedness).
[65] Note: Legally all euro area countries could request assistance from the IMF, but how such assistance was to be implemented in the euro area was not yet clear.
[66] Note: Chang and Leblond (2015) use a 7 per cent yield as unsustainable for market financing. The ESM uses a 6.4 per cent interest rate as indicator of imminent refinancing difficulties (ESM, 2020).

Leblond, 2015),[67] the translation of these issues was a sudden stop in refinancing, due to unsustainable interest rates (see also De Grauwe & Ji, 2013).[68] The decreasing availability of market financing thus contributed to an increased need of public financial assistance for several euro area governments.

The first permissive conditions were present from late 2009 and remained present for different euro area countries until mid-2012. This necessity of increased need of public assistance is demonstrated by governments starting to deal with the previously excluded possibility of assistance in the euro area, in particular in the case of Greece, but also in the more general sense. This consideration was evidenced by the Commission's note on the potential BoP facility use for the euro area in October 2009, and by the statement of the German government in early 2009 that assistance between euro area countries might be necessary (Benoit & Barber, 2009). Even though no official proposals were provided to integrate euro area countries into the assistance regime, the question of assistance gained increasing momentum from late 2009 to March 2010, when governments agreed to provide bilateral loans to Greece. Thus, the first permissive condition was present, which confirms the first part of the critical juncture mechanism.

6.2.2. No tools at hand: impediment of the assistance regime for Euro Area countries

The impediment of the regime was in the formal element of assistance and was linked to the exclusion of euro area countries from financial assistance within the EU. The SGP and the disciplinary impact of market pricing on government policies were supposed to avoid excessive spending which could lead to solvency issues (Rommerskirchen, 2015). Further, Art. 125 TFEU (no bailout clause) underlined the credibility of this market discipline principle (Lane, 1993), and was to ensure individual responsibility.

Greece started to face a sudden stop from market financing, with yields increasing substantially after the Greek government publicly admitted the fiscal misreporting of its predecessor and stated a worse fiscal position than initially reported (Copelovitch, Walter & Frieden, 2016). Until February 2010, the European Council adhered to the exclusion of euro area countries from assistance and emphasised economic policies to be followed by the Greek government (ESM,

[67] Note: The Greek situation is unique due to the misreporting of deficits by governments before 2009.
[68] Note: The sudden stop of capital flows can create a liquidity crisis in an economy that borrows not in its 'own' currency (De Grauwe & Ji, 2013; see also Brunnermeier, James & Landau, 2016).

2019), and only gave vague commitments on 'safeguarding financial stability in the euro area as a whole' (Council, 2010a; see also Gocaj & Meunier, 2013). The assistance regime had no formal instrument in place allowing only for bilateral and IMF assistance.

Until early April, the Greek government resisted requesting assistance, as it expected that the fiscal measure introduced in late 2009 would translate into better financing conditions (Hope, Hughes & Atkins, 2010). However, the yields on Greek 10-year bonds reached 7.83 per cent (a 477 basis points spread to the German rate), making external financial assistance unavoidable as Greece was close to unable to refinance itself on the market (IMF, 2010). To avoid a Greek default, euro area governments agreed on providing bilateral loans to Greece together with the IMF in March 2010 (Council, 2010c). The Greek government officially requested assistance for a total of €110 billion on 23 April 2010 (Council, 2010b), of which euro area governments provided €80 billion in the form of bilateral loans. These loans were coordinated and channelled through the so-called Greek Loan Facility (GLF). The agreement to support Greece indicated an *implicit* support in favour of euro area assistance by national governments and was the first step in the production of the purpose of assistance to 'safeguarding financial stability in the euro area as a whole' (see below), without, however, formalising it in an instrument.[69]

The reason euro area governments supported bilateral assistance in the case of Greece has to do with timing and context-linked expectations. First, the Greek case was seen as an exception regarding its indebtedness and fiscal policy, and the support for Greece was considered a one-off affair, which was not intended to be used again (Tagesschau, 2010a).[70] This consideration was connected to the expectation that other euro area countries in difficulty would be able to regain stability through austerity measures. Second, the GLF was the first financial assistance adopted specifically for the euro area, and governments expected this programme to revive euro area financial credibility and market normalisation. The use of an *ad hoc* solution also underlined the exceptional nature of support and the adherence to avoiding institutional bailouts.

The *ad hoc* nature of assistance for Greece did not send the right signal to the markets with Ireland and Portugal facing sudden stops after Greece (ESM, 2019). The crisis also showed the first signs

[69] Note: As illustrated in chapter 4, euro area countries were phased out of assistance, which meant that the legacy, as well as the underlying mechanism of reproduction ended.
[70] Note: Jean-Claude Juncker, then chairman of the Eurogroup, did not even expect Greece to use the bilateral loans, as he saw the fiscal consolidation of Greece as highly credible (Tagesschau, 2010a).

of affecting Spain and even Italy (Barber, 2010a; Reuters, 2012). Shortly after the GLF agreement, the German government stated that euro area assistance should be accompanied by orderly default (Tagesschau, 2010b). Given that in the current situation fiscal problems and financial market stability were intrinsically linked, the call for orderly default and thus creditor losses did not appease the market. The reactions on the markets involved a rapid increase of interest rates for the debt of economically weaker euro area countries, undermining access to sustainable government financing (Barber, 2010a; ESM, 2019). Only days after the first Greek bailout, Portugal, Ireland and Spain were threatened by financial market difficulties as well (Barber, 2010a; Pisani-Ferry, 2014).

A bilateral solution could have become rapidly untenable if a larger economy needed assistance.[71] The *ad hoc* bilateral assistance in 2010 had the same shortcoming as in 1973, making assistance dependent on the willingness of other national governments to lend, which itself was influenced by the borrowing position of these governments.[72] Thus, the purpose for euro area assistance was not translated into a functional instrument, but was dependent on bilateral credits. This use of bilateral assistance and the continued formal exclusion of euro area countries from the regime point to a breakdown of the functional mechanism of reproduction. In the case of Greece, the governments of Ireland and Portugal withdrew from further contributing to assistance when they requested assistance themselves, while the Slovak government did not provide a credit line at all, illustrating the shortcomings of bilateral support in a situation of a symmetric shock. The bilateral solution announced in March and clarified in April bridged the gap of formal exclusion of euro area countries from the regime by way of nationally decided support, while avoiding making it an institutional mechanism. Thus, governments stated an explicit purpose for assistance but did not translate this purpose into a functional instrument, thus failing to send the proper stabilisation signal to the market (ESM, 2019). Therefore, the impediment of assistance was in the formal element and permissiveness persisted after April 23. The failure of bilateral *ad hoc* assistance to

[71] Note: In May 2010, commentators of the euro area bailout for Greece argued that if Italy were to require a bailout too, no one would have the means to provide it (Dinmore, 2010).
[72] Note: A similar statement was given by Axel Weber, President of the Bundesbank in 2010 in the German parliament's budgetary committee on the EFSF. Weber argued that the parliamentary approval for each assistance tranche would lead markets to consider the assistance packages as pending invalid, which would not help to calm markets (Bundestag 2010a; author's translation). This statement can be applied to market acceptance of bilateral assistance in general.

diffuse the pressure from the exogenous shock confirms the presence of the regime impediment and thus confirms the second part of the critical juncture mechanism.

The necessity of the impediment for increased agency is illustrated by the continuous financial pressure on weaker euro area countries *after* the adoption of austerity measures and the agreement on bilateral assistance to Greece. The *ad hoc* solution points to a trial-and-error approach, first resorting to the regime-conform measure of austerity, then to regime-external bilateral assistance. The case of Greece demonstrates that the provision of support needed to be credible for the euro area as a whole, including a formal (potentially permanent) resolution mechanism. The persistence of the pressure from the exogenous shock also demonstrates the validity of the temporal dimension of permissiveness to increase agency. In the case outlined above, governments actively engaged in solving the issue, without however resolving the formal impediment of the regime. Agency to reform the assistance regime was not immediately increased and the first solution remained within the range of the institutional constraints. This supports the conceptual claim that a near miss critical juncture can only constitute a step within the process to the final outcome, provided that permissiveness was not prematurely ended. The step towards the GLF was thus a near miss, as the outcome was only of an *ad hoc* nature and did not diffuse the permissiveness.

6.3 Analysis: Productive conditions

The persistence of permissiveness provided the temporal bounds for the productive conditions to unfold and produce reform. In the following section the productive conditions are analysed based on a mixed-preference game including shared and individual government preferences, the former presenting the basis of negotiation for the latter. First economic interdependence in the euro area as a productive condition is analysed. The resulting shared preferences provided the economic rationale for euro area assistance and thus for reforming the regime. From this basis Member State government preferences are analysed in the intergovernmental negotiation process, which ultimately determined how the euro area was to be included in the assistance regime.

6.3.1 Interdependence: contagion, the Single Market, and the Single Currency

The introduction of the euro increased economic interdependence for euro area countries with accelerated financial market integration (Liebscher, 2000). This interdependence carried high potential contagion risks due to market reaction to fiscal difficulties (indiscriminately of their origins) and to the potential default of euro area countries (Colasanti, 2016). Government economic interest in extending public financial assistance to euro area governments was in general to avoid a chain-reaction of defaults which would gravely undermine market confidence in euro area sovereign debt and could cause a large loss of wealth in the EU (Schimmelfennig, 2015; Bundestag, 2010a). While governments of countries with a good fiscal position and thus better credit standing (notably, Germany, Netherlands, and Finland, but also France) might have had less trouble intervening in their banking sectors, the long-term costs of reduced imports from other countries were problematic for their export-led growth models (Schimmelfennig, 2018). In addition, the exposure of the banking sector of these countries to the euro area periphery could carry significant costs for banks and for the government in the case of bailout of those banks (Colasanti, 2016; Fuhrmans & Moffett, 2010; Münchau, 2009).

The increasing refinancing costs in the euro area periphery foreshadowed a much broader problem of market trust in the euro, which required economically strong countries to weigh their options of accepting financial market turmoil with potential contagion and risks for their own economies, or to step in with financial support to stabilise the situation (Plender, 2009). The German government saw it as in Germany's vested interest to support financial assistance for euro area countries in dire financial situations (Bundesregierung, 2010). For governments with worsened borrowing conditions the inclusion of euro area countries in the financial assistance regime promised a normalisation of the markets either through its signalling effect or via direct support for governments (Colasanti, 2016).

The *ad hoc* support for Greece under the GLF is a clear indication for this interdependence. Bundesbank officials emphasised in a hearing before the Bundestag budgetary committee that the problems on the European market bore risks for the entire world economy (Bundestag, 2010a), illustrating that assistance for euro area countries was important for financial stability in general and was about more than helping other governments with their fiscal problems.

> [E]in Zahlungsausfall Griechenlands in dem damals schon sehr fragilen Umfeld […] ein erhebliches Ansteckungsrisiko für andere Länder der Währungsunion bedeuten würde und

es wichtig ist, das Fallen des ersten Dominosteines zu verhindern, um diese Ansteckungseffekte nicht auf den Weg zu bringen (Bundestag, 2010a: 10).[73]

Similar arguments were put forward by the Italian foreign minister and French policymakers that the financial support of euro area governments was in the interest of the entire euro area and not only of those countries in need of financial assistance:

> Il ne devrait y voir aucun doute : si la maison commune est en difficulté, nous devons sauver les murs, car nous sommes aussi dans cette maison commune. […] Ce n'est pas un sauvetage, c'est une consolidation des murs de l'Europe, des murs de l'euro, c'est un sauvetage de chacun d'entre nous (Le Monde, 2010).[74]

The economic interdependence derived from the euro produced the rationale and thus the shared preference to establish financial assistance for the euro area. Euro area governments stated that '[…] Member states will take determined and coordinated action, if needed, to safeguard financial stability in the euro area as a whole' (Council, 2010a). The mechanism of production for euro area support was thus the utilitarian costs-benefit consideration of euro area governments, which on 7 May agreed on:

> '[…] ensur[ing] the stability, unity and integrity of the euro area. All the institutions of the euro area (Council, Commission, ECB) as well as all euro area Member States agree to use the full range of means available to ensure the stability of the euro area' (Council, 2010b).

The 7 May Euro summit statement included the landmark intention in favour of a common financing instrument to support euro area countries.[75] The purpose of the regime was thus formally widened with the objective to safeguard financial stability in the euro area. This rationale was also used to explain the need for assistance to Greece in February and March. The negotiation on the details of euro area assistance instruments and their implementation procedure were delegated to

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[73] Note: [English] An insolvency of Greece would mean, in the at the time fragile environment, a high contagion risks for other countries in the currency union, and it is therefore important to stop the first stone from falling to avoid a domino effect (author's translation).

[74] Note : the French government stated in the French parliament: 'En l'espèce, mesdames, messieurs les députés, nous n'avons pas d'autre choix. Nous avons pour impératif la réactivité, car c'est la stabilité de la zone euro qui est en jeu pour la première fois de son histoire (Assemblée Nationale, 2010 : 2644).'

[75] Note: The statement reads: 'Third, taking into account the exceptional circumstances, the Commission will propose a *European stabilization mechanism to preserve financial stability in Europe*. […]' (Council, 2010b: 1; author's emphasis).

the Council, which convened only days later.[76] The findings in this case demonstrate that the productive condition in the form of economic interdependence produced the shared preference for safeguarding financial stability in the euro area and thus worked as the bridge between the permissive conditions and the agreement on increasing agency to reform assistance in the euro area. The role of economic interdependence confirms the presence of the third part of the critical juncture mechanism.

6.3.2 Tug of war over euro area financial assistance

While all euro area national governments had overall deficits during this period, the primary surplus/deficit positions were disproportionately worse for periphery countries including Cyprus, Ireland, Greece, Portugal and Spain. Higher indebted countries such as Italy and Belgium ran small primary deficits and were able to cope better with increased financing needs. There was though a growing economic divergence between the euro area periphery on the one side, and fiscal and economic better performers with Germany, the Netherlands, Finland, Austria, France and Luxembourg on the other side — with Italy tending to the former and Belgium, Slovenia and Slovakia to the latter group. From the core euro area countries this put Germany and the Netherlands on the side of better performing countries and Italy on the less-well performing side, with France somewhere in the middle with very good refinancing conditions but increasingly high debt levels.

6.3.2.1 The Enlargement of the European financial assistance regime

The decision-making barrier for formally enlarging the regime's eligibility to euro area countries was high. While the establishment of EU assistance for euro area countries was possible via QMV according to Art. 122 TFEU, unanimity was required for any decision outside of the EU legal framework,[77] potentially requiring national parliamentary approval. As EU funds for assistance were limited, any decision with a sizable envelope required unanimity. The negotiation on Greek support foreshadowed the division of preferences on specific elements of assistance in the euro area as the preference constellation was similar.

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[76] Note: The purpose of safeguarding financial stability overlapped to some extent with the previous assistance purpose of the proper function of the Common, now Single Market, as a euro area breakup would have had disastrous consequences for the functioning of financial markets and, by extension, on trade and economic activity.

[77] Note: Art. 122 TFEU allows for financial assistance adopted by QMV by the Council. The amount allocated under Art. 122 is however dependent on the leftover margin between the Own Resources and the allocated MFF funds.

The German government preferred the continuation of bilateral assistance for euro area countries, a position underlining the economic interest of Germany on several points (Bolzen, Eder & Hassel, 2010). First, bilateral loans would, as already in the case of Greece, limit the liability in case of default to the national share of the assistance, avoiding joint and several guarantee. Limited liability avoided having to reimburse loans if other countries were unable to pay their share (Bundestag, 2010b). Second, Germany would have lower costs in borrowing funds for assistance due to its excellent credit rating, avoiding potential higher rates from a common fund.[78] Third, bilateral assistance had to be agreed according to national law, leaving decision-making to domestic procedures, ensuring democratic control, and allowing countries to opt out individually. As in the case of Greece, this would give Germany the power to withhold assistance until the very last moment, potentially avoiding its use altogether. Thus, the German preferences included reduced exposure to risks, decision-making control over assistance, and low borrowing costs for credits. These preferences were in line with rational cost-benefit consideration and control.

The preference of recourse to bilateral assistance was shared by the Dutch, Finnish, and Austrian governments (Bolzen, Eder & Hassel, 2010; see also ESM, 2019), all of which were more likely to assume the role of creditors in a common euro area assistance structure. However, a repetition of bilateral assistance seemed unlikely. A credible euro area mechanism needed substantial firepower, which, similar to previous periods of economic difficulty, would have been a heavy financial burden for partner countries in a situation of overall economic decline and deficits (see also Gocaj & Meunier, 2013).[79] In addition, the unfavourable reception by the markets regarding the promise of bilateral support for Greece prevented the selection of this option as a general approach.

The economic arguments that directed German policy in favour of bilateral support directed Italy's reasons to oppose it. The Italian government feared a worsening of its own credit standing if it

[78] Note: The German government budget did not directly allocate the loan for Greece as expenditure, as it used its development bank KfW for the operation, only providing guarantees for the loan in case of default (Bundestag, 2010c). Germany was thus able to use its own internal intermediary to avoid direct expenditure for bilateral support. In a scenario in which all euro area countries would jointly guarantee loans, the borrowing rate for such a fund could be settled around the overall average, not the highest credit rating as applied to some countries.

[79] Note: As bilateral assistance does not require European legislation, this option was and is always open to Member States, allowing them via national law to provide assistance. The key aspect is that the use of bilateral support is never decided by European but by national actors (generally the body having budgetary power). It is therefore not restrained in either time or size.

were to shoulder further support bilaterally (Bolzen, Eder & Hassel, 2010). Italy had so far avoided the market's focus as its financing was considered solid. However, a bilateral assistance structure could increase the refinancing costs of the very high Italian debt level due to higher expenditure — a situation that would put significant pressure on the Italian government to consolidate its debt. Italy's opposition was in line with the country's material interest and aligned with preferences of about a third of euro area governments. Bilateral loans were unacceptable for governments with fiscal problems, which feared a worsened fiscal position.

The French preference was to establish a common European fund for assistance (Bolzen, Eder & Hassel, 2010). As France faced fewer fiscal difficulties this preference corresponded less to its material interest and can be better explained by its preference for further European integration via the construction of a 'gouvernement économique' (see below).

In the negotiations on the stabilisation mechanism, EU governments quickly agreed on the Commission's proposal of using Art. 122 to establish the European financial stabilisation mechanism (EFSM), an instrument mimicking the BoP assistance facility (ESM, 2019). This agreement was in accordance with the Commission' note of 2009. This solution did not require legal adjustment, nor increased resources for the EU as the margin available in the Own Resources ceiling was judged to allow the allocation of approximately €60 billion to the instrument (ESM, 2019). The EFSM was thus not contested by governments of non-euro countries given that they had also received and were eligible for EU assistance.

The negotiations on a financial assistance instrument beyond the margin available in the EU's resources required the allocation of national funds or guarantees for support and thus the agreement from each government. Due to Germany's largest share in euro area assistance, the German government used its bargaining position to reject any solution that included a common European fund with joint and several guarantee, or any solution that included placing national funds under EU law (Barber, 2010a; ESM, 2019). The UK ruled out any joint EU involvement in euro area support in general, which put any solution including the EU and its Own Resources out of reach (Barber, 2010a).

The compromise found for the establishment of the €440 billion European Financial Stability Facility (EFSF), was a mix of bilateral assistance and a common fund. The EFSF was a special purpose vehicle (an entity under Luxembourgish private law), that functioned as an intermediary which borrowed capital from the markets and lent these funds to euro area countries in difficulty. Euro area governments agreed that the legal base of Art. 122(2) TFEU also covered the establishment of the EFSF as an intergovernmental vehicle. Similar to bilateral loans, the EFSF limited individual liabilities for each euro area country to their share of assistance.[80] However, the facility also included the advantage of intermediary financing as it did not require direct expenditure from each euro area government, and achieved low financing costs due to its large guarantee base.[81] Even though the German government and governments of other countries with an expected creditor position in the new system favoured bilateral assistance, the functional disadvantage of a bilateral system would have reduced the availability of support in situations of overall economic difficulties, as was the case, and disproportionately burdened countries with a good economic position. Due to the bilateral nature, countries with difficulties could potential opt-out from contributing to assistance. For creditors, choosing an intermediary with individual guarantees combined the functional advantage of no-direct costs, while avoiding potentially higher costs of indivisible liabilities. Thus, Italy and other countries with fiscally weaker positions were able to avoid costs for direct loans.[82] The bilateral characteristics of the EFSF followed mainly German government preference in the design of the lending-vehicle (see Appendix table 6). As the preferences of core euro area countries followed to a large extent the countries' potential role in future assistance, the usefulness of a rationalist approach in the fourth part of the critical juncture mechanism is demonstrated, as well as the applicability of the mixed-preference game combining parts three and four of the mechanism.

The establishment of the EFSM and the EFSF constituted punctuated layering in the formal regime feature by legally expanding the eligibility and purpose of European assistance. Even though the legal structure of the EFSF is arguably innovative, the punctuated change is the formal enlargement of the purpose of the assistance regime embodied by the EFSM and EFSF, and not the legal structure of these instruments.[83] The enlargement of the eligibility to euro area countries was

[80] Note: The overall capacity of €440 billion was guaranteed by national quotas, which also applied for each assistance operation.
[81] Note: A similar financing structure was used for the first CLM which used 'over-guarantees' from countries of 200 per cent of their assistance share.
[82] Note: The intention was to create a financial intermediary via the EFSF, however a Eurostat decision of 2011 stated that the EFSF was an accounting tool of euro area governments whose outstanding debt should be counted as government debt (Eurostat, 2011).
[83] Note: In practice the legal distinction between the EFSM and the EFSF was less relevant for the use of assistance, as shown in the cases of Ireland and Portugal in 2010 and 2011, in which both countries combined funds from both

produced by the economic rationale of safeguarding financial stability in the euro area as part of the formal element of assistance. The financing mode of both instruments replicated the previous financing element of intermediary financing. The EFSM was an instrument based on the EU intermediary financing of the CLM used since 1975, and the EFSF was *intended* to create this intermediary structure with individual guarantees outside of the EU legal framework.[84]

6.3.2.2 IMF participation, credibility, and disincentives

The layering of the euro area eligibility on the formal element of the assistance regime also brought punctuated change for the procedural element. The start of Stage Three of EMU in 1999 decisively influenced government preferences on conditionality for euro area support.

The German and Dutch government position was to discourage the use of assistance, as they feared moral hazard and expected to assume the creditor role more frequently. They insisted on euro area support as being last resort and, as in the case of Greece, only after the country failed to secure financing from the market (Tagesschau, 2010a). In other words, a country's solvency should be seriously at risk before the euro area could help (see also Barber, 2010b; Bundesregierung, 2010). The German government preference was to regain euro area credibility through fiscal consolidation (i.e., austerity or strict conditionality), which it intended to achieve nationally via the introduction of a debt break in 2009 (Bundesbank, 2011).[85] This was a preference supported by the IMF and the ECB, which repeatedly called for more rigorous application of the fiscal rules of the SGP (Atkins, 2009; IMF, 2009c). Governments of Finland and the Netherlands similarly saw fiscal consolidation as the only way out for countries in trouble and preferred an upholding of the fiscal rules of the EMU framework (Djankov, 2014). Most euro area national governments agreed with the general argument that fiscal rules had to be tightened to ensure a credible monetary union (Barber, 2010b; see also France24, 2010). In addition, the German government preferred the

sources under the same programmes. The same was observable in 2015 when the ESM absorbed an EFSM bridge loan for Greece as the financing of the latter was more readily available than funds from the ESM. In practice, the use of the EFSM thus falls under the control of the euro area, even though it was an EU instrument.

[84] Note: A similar idea was brought forward in the debate about the first Community loan mechanism in 1975. At the time, a construct outside the Community was considered having the least 'esprit communautaire' (BAC, 352; see also chapter 5).

[85] Note: The German preference on fiscal rigour was softened in the 2000s when France and Germany were not adhering to the rules of the SGP and suspended its application in 2003 (Brunnermeier, James & Landau, 2016), but resurfaced in 2009 with fiscal problems at the heart of economic difficulties.

use of the IMF for assistance in the euro area to avoid legal issues with its constitutional court and to ensure the imposition of rigorous reform programmes (Wiesmann & Peel, 2010; faz.net, 2010; see also Wissenschaftliche Dienste, 2010). This position gained support from the Finnish and the Dutch government (Barber, 2010c).[86] For these governments the participation of the IMF had the advantage of involving an actor with international credibility of bailing out sovereigns, and its reputation would be a signal to the markets, while ensuring necessary reforms.[87]

The French and Italian governments were in favour of providing assistance to Greece sooner rather than later, following the line that assistance was a means to tackle economic difficulties more preventively (Hall, Wiesmann & Chaffin, 2010). The French government preferred the establishment of a 'gouvernement économique', which would at the euro area level decide on assistance and reform programmes (Vie Publique, 2010; see also Howarth, 2007). The approach of a euro area economic decision-maker also received support from the Spanish government (Münchau, 2008). France and Spain further supported the ECB and Commission position of excluding the IMF from euro area support (Pisani-Ferry, 2014; Barber & Wiesmann, 2010), and emphasised the internal solidarity of euro area countries, which was supposed to have priority over IMF intervention (Vie Publique, 2010), as had been the case since 1977.

In the negotiations on procedural elements of euro area assistance, governments in favour of fiscal rigour and disincentives ensured that strict conditionality was included in the legal text of each instrument. Additionally, the lending rates were, even though favourable, deliberately costly with no element of subsidy (Tagesschau, 2010c). In the case of the GLF the lending rates were around 5 per cent,[88] a rate below the market rate of over 8 per cent for 5-year Greek bonds in May 2010. However, the rate was still significantly higher than the euro area benchmark, and even higher than corresponding sovereign debt issued by Ireland, Spain and Portugal, which had started facing refinancing problems. Similarly, the EFSF and EFSM legal texts referred to several fees included

[86] Note: Similar results on Member State preferences were gathered by Lundgren, et al. (2019).
[87] Note: As the Commission was so far rather toothless in achieving solid financing for state budgets (see also Hodson, 2015), the German government called for another institution to ensure credibility. This preference is also illustrated by the call for a European Monetary Fund by the German finance minister at the time (Brunnermeier, James & Landau, 2016).
[88] Note: The interest rates on loans were calculated at a rate of 300 and 400 basis points above the EURIBOR 3-month rate plus a commission fee of 50 basis points of the disbursed sum leading to a rate between 4.15-5.15 per cent (Colsanti, 2016; eISB, 2010; Camera dei deputanti, 2010).

in the loans as well as potential disincentive payments for noncompliance with agreed reforms.[89] In the case of Ireland at the end of 2010, the interest rate of EFSM and EFSF loans was about 3 per cent above the EU's borrowing rate, putting the interest rate at about 6 per cent (Münchau, 2010). Similar rates applied to Portugal as well. These disincentives were in line with the preference of avoiding moral hazard by making assistance unattractive for potential borrowers, encouraging their quick return to better market conditions through fiscal consolidation (see also Colasanti, 2016). In addition, the German government insisted on IMF involvement and dismissed any solution that excluded the Fund's involvement in assistance to Greece and the euro area in general.

The agreement on joint euro area/IMF assistance was announced as a firewall of €750 billion for assistance, even though the IMF failed to adopt any formal decision confirming its share of €250 billion in euro area assistance (Council, 2010d). It was rather expected that the IMF provides 'at least half as much through its usual facilities' as the EU mobilized through the EFSM and EFSF together (Council, 2010d: 7). IMF involvement was relatively easy to achieve as all euro area countries were IMF members and the *de facto* displacement of the IMF between 1977 and 2008 was not accompanied by a legal decision to exclude it from assisting. Lastly, governments had a veto power over assistance as the individual guarantees required unanimous decision-making by euro area national governments within the EFSF for each assistance operation. This veto not only prevented an outmanoeuvring of creditors, but also gave them insurance that conditions will always be in line with their preferences. In practice, the veto went beyond the EFSF and included the EFSM as well, as countries were receiving EU/euro area assistance from the EFSF and EFSM in a joint programme, requiring unanimity for the programme as a whole. This again illustrates that the legal distinction between EU and euro area assistance was not relevant for the procedural aspects as the decision-making subdued the EFSM to unanimity of euro area governments.

The outcome in the legal and procedural aspect of the assistance regime followed to a large extent the preferences of the German-led coalition on fiscal rigour and bilateral assistance (see Appendix table 6 & 7). The empirical observation demonstrates that the material interest of governments was to a large part in line with their expected financial involvement in assistance, which supports a

[89] Note: The inclusion of commitment fees for the precautionary use of the BoP facility of the EU was previously considered impossible by the Council legal service under the current law (EFC, 144), so the regulation on the EFSM explicitly mentioned '[the] fee for the availability of the credit line', Art. 3(4a) Council Regulation (407/2010/EU).

rationalist approach for the detailed negotiations on euro area assistance and confirms the eclectic theoretical framework of actor-centred historical institutionalism. In addition, the asymmetric bargaining of creditors is emphasised through their ability to impose the legal and procedural implementation of euro area assistance.

6.3.3 A critical juncture in the formal and procedural aspect of assistance

The case covered in this chapter confirms the argument that the persistence of permissive conditions is key for government actors to agree on increased agency. The *ad hoc* bilateral support for Greece was not able to diffuse the market reaction to fiscal problems. The move to support Greece represents a first step but was not sufficient for government actors to agree on institutional reform. The GLF was a precursor of formally enlarging the eligibility of euro area countries to the assistance regime and falls within the concept of a near miss critical juncture. Through the persistence of permissiveness economic interdependence produced the needed agreement by governments to reform the assistance regime. The increase of agency in this moment is demonstrated by a mandate from the European Council to set up a European stabilisation mechanism. In the negotiations on the details of the EFSM and EFSF, governments of Germany and countries with potential creditor positions dominated and determined the structure of euro area assistance and its implementation. For the most part, the potential creditor and debtor positions were strong determinants for the final negotiation outcome, supporting a rationalist explanation in the second part of the productive condition, which is analysed effectively by a mixed-preference game. Thus, the case confirms the presence of the critical juncture mechanism (see table 15) and confirms the validity of the actor-centred historical institutionalist approach.

Table 15: Application of Critical Juncture Mechanism (case 3)

Contextual conditions:
Geographical boundaries (EU/Euro Area)
Temporal boundaries (2009-2012)

Trigger Cause	Part 1	Part 2	Part 3	Part 4	Outcome
International financial crisis – liquidity and solvency issues in the financial sector	Increase need for public financial assistance due to interventions in the financial sector through guarantees and recapitalisation.	No financial assistance instrument available for euro area countries. Sudden stop risks increased for Greece	Market fear increases sudden stop risks for Ireland and Portugal.	Negotiations on details of euro area assistance, in- and outside of the EU legal framework	Addition of euro area eligibility for assistance: punctuated change in formal element (financial stability in euro area), and in the procedural element (strict conditionality)
Entities	Member State governments	Euro area governments	Euro area governments	Member State governments	
Activities	Reduced market financing (sudden stops) for Greece, Ireland, and Portugal.	Argue for *ad hoc* bilateral credits in exceptional cirucmstances to maintain financial stability	Agree to institutionalise assistance to maintain financial stability	Defend interests along the line of potential creditor and debtor positions.	

(Source: the author)

The punctuated change for the regime was the inclusion of euro area countries, which introduced the purpose of safeguarding financial stability in the euro area as the purpose for assistance in the formal element of the regime. The mechanism of production is thus utilitarian deriving from the shared preference (see figure 11). Punctuated change in the procedural element occurred as a mix of layering and redirection. First, as an external body, the IMF was layered onto the application of euro area assistance. Second, the practice of conditionality redirected to a strict form of austerity with disincentives. While conditionality became more rigorous throughout the 1990s, the interpretation of conditionality for euro area countries was significantly stricter than before and included less favourable financial terms. The mechanism of production was thus utilitarian linked to government actors' support of austerity and disincentives, as well as IMF involvement in the regime implementation The strategy of euro area national governments was to layer euro area assistance onto the regime, but to keep it separate from EU assistance.

Figure 11: Production based on utilitarian mechanism (case 3)

(Source: the author)

This change constitutes the third critical juncture in the development of the European financial assistance regime, as the formal inclusion of euro area assistance set the precedent on how to integrate these countries into assistance and carried legacy to this date. The punctuated change of IMF involvement and strict conditionality impacted the application of assistance in the following years. However, the legacy of the procedural changes was comparatively brief.

6.4 Analysis: The legacy of Euro Area assistance

The legacy of the introduction of euro area assistance unfolded on several levels in parallel. The mechanism of reproduction accounted for continuity of the coverage of euro area countries for assistance, of intermediary financing beginning with the EFSM and EFSF, and of the application of austerity for euro area assistance. In parallel, gradual change mechanisms decisively influenced the procedural aspects of assistance regarding IMF involvement and the practice of applying financial disincentives for euro area loans. The following sections are structured along path dependent and gradual change mechanisms identified in this case.

6.4.1 Path dependence

The punctuated layering of euro area eligibility for assistance carried long-term consequences in the formal and in the procedural elements of the assistance regime. The following section analyses the consequence of using path dependent and gradual change mechanisms. The first part assesses the utilitarian mechanism of reproduction of the inclusion of euro area assistance, and of the austerity-dominated implementation of assistance. This part also discusses the previously analysed functional mechanisms of reproduction of intermediary financing. The second part analyses the parallel gradual change in the procedural element regarding the lending practice and IMF involvement.

6.4.1.1 Path dependence of euro area assistance through the utilitarian mechanism of reproduction

The establishment of euro area support via the EFSF, an intergovernmental institution, was a novel element in terms of legal cohesion in the assistance regime (Verdun, 2015). Legally, euro area inclusion in the assistance regime was anchored in Art. 122(2) and in the newly adopted Art. 136(3) TFEU, emphasising extraordinary circumstances and financial stability respectively. The punctuated change was not the innovative legal construct of the new instrument, but the formal inclusion of euro area countries in assistance. The punctuated layering of euro area eligibility was produced via the shared preference of safeguarding financial stability in the euro area as a whole. Thus, the euro area inclusion was based on the utilitarian mechanism.

In late 2010, in parallel to the launch of the first EFSF/EFSM programme for Ireland, euro area national governments agreed on making euro area assistance permanent via the European Stability Mechanism (ESM). They feared that market turmoil would start again after the 3-year timeframe of the EFSF (Council, 2010e). In addition, the problematic legal design of the EFSF significantly reduced the facility's lending capacity. The initial purpose of the EFSF was to achieve the stabilisation of financial markets, which worked through its loans and signalling effect. Had the EFSF been left with its lower lending capacity of about €250 billion, markets might have reconsidered their evaluation of the euro area support structure, with potential financial spill-over to fiscally tarnished countries. To achieve the symbolic amount of assistance and to ensure the purpose of assistance, euro area national governments sought to increase the EFSF guarantees (Council, 2011a).[90]

Thus, the shared preference of maintaining financial stability reproduced the purpose of assistance and pathed the way for treaty change to establish the ESM as a permanent mechanism. This shared preference also carried governments' decision to increase the EFSF guarantees in the meantime. After the ESM became operational in late 2012 it replaced formally the EFSF and informally the EFSM for assistance to euro area countries. The amendment of Art. 136(3) formalised the eligibility and purpose of assistance stating: 'the Member States whose currency is the euro may

[90] Note: In order to achieve high credit standing for a total of €440 billion of loans, the guarantee had to be increased to overall €780 billion and an adjusted guarantee of 165 per cent (EFSF framework agreement, as amended in 2011).

establish a stability mechanism to be activated if indispensable *to safeguard the stability of the euro area as a whole* […]' (author's emphasis).

The ESM's characteristics were a translation of the regime's mechanisms of reproduction and similar to those of the EFSF. The ESM incorporated the intermediary financing of loans, limited liabilities for creditors, unanimous decision-making, and strict conditionality.[91] However, these similarities do not illustrate that the EFSF determined the outcome of the ESM (see, e.g., Gocaj & Meunier, 2013) but rather that the EFSF and the ESM were outcomes based on the same mechanisms of reproduction. The functional mechanism reproduced intermediary financing, the utilitarian mechanism reproduced the guarantee structure, the decision-making and strict conditionality. Considering that the legal design of the EFSF and the ESM are fundamentally different and that the move to the ESM was already decided before the EFSF was used, also supports a path dependent explanation based on mechanisms of reproduction rather than increasing returns or sunk costs issuant from the EFSF's structure.[92]

In the following years, the application of assistance to Ireland (2010), Portugal (2011), Greece (2012, 2015), Spain (2012), and Cyprus (2013), contributed to the reproduction of the economic rationale of assistance as the regime was able to diffuse financial pressure and prevent a worsening of these countries' fiscal positions. In the Covid-19 crisis, the formal inclusion of the euro area in the regime allowed for a swift response covering all EU Member States. The previous agreement on the use of Art. 122(2) for euro area assistance allowed the quick navigation to include all EU Member States in an EU assistance instrument. The threat resulting from fiscal difficulties reproduced the economic rationale of assistance to the euro area. The first response of April 2020 activated ESM funds for the euro area to ensure financial stability and established an EU instrument (SURE) to support all EU Member States in their financing needs to mitigate the crisis. The Eurogroup stated that

[91] Note: The ESM included a similar quota system as the EFSF with Germany and France being the largest guarantors with about 26 and 20 per cent respectively. These shares of the guarantee also represented the voting power for each country, giving each, Germany and France, a veto on decisions requiring unanimity or qualified majority voting.

[92] Note: More details on the dissimilarities are given later in this section. The additional costs necessary for the guarantee structure of the ESM contradicts the 'sunk cost' hypothesis.

> [t]his strategy should combine short, medium and long-term initiatives, taking account of the spill overs and *interlinkages between our economies* and *the need to preserve confidence and stability* (Council, 2020a; author's emphasis).

Even though the objective of the ESM and SURE was to finance specific Covid-19-related expenditure (see chapter 7), the purpose of assistance was financial stability and the proper functioning of common economic policies. This rationale combined the two regime purposes for financial assistance (euro area financial stability and the proper functioning of common policies). Thus, the application of a path dependent mechanism of reproduction demonstrates that the economic rationale enshrined in the formal element of the regime provided the base for establishing the ESM in late 2012 and for repurposing the ESM for Covid-related credits, as well as for including the euro area in EU assistance in 2020.

6.4.1.2 Path dependence of austerity

The redirection of conditionality in the procedural element introduced austerity measures into the practice of assistance. These measures were supported by most euro area national governments and thus reproduced in all assistance programmes between 2010 and 2015. The procedural element of assistance required active adherence by European and government actors to be reproduced.

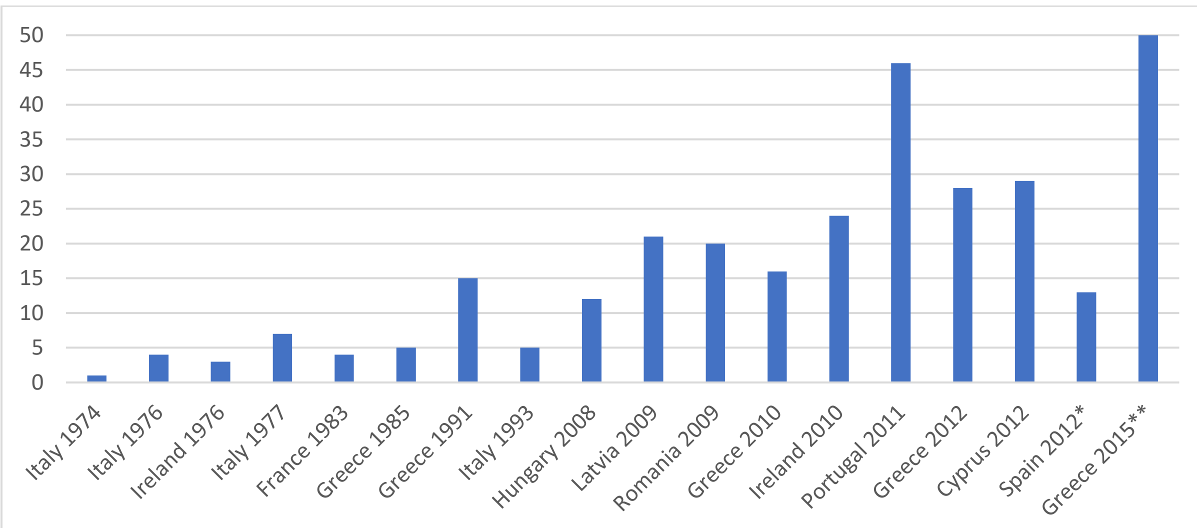
Conditionality only gradually evolved into a defining element of the assistance regime. In the 1980s, the implementation of conditions was seen as 'altogether unsatisfactory' (BAC, 397; 420), leading to the disbursement of assistance through tranches to enforce reforms. The first time this was applied was for assistance to Greece in 1985, which did not however result in improved compliance by the recipient of assistance (BAC, 42; 528).[93] In the following assistance programmes to Greece in 1991 and Italy in 1993, the number of tranches increased to three and four respectively. But even with the use of tranches and the emphasis on strict monitoring of programme implementation in the 1990s (BAC, 106), programme countries were not more successful in achieving their targets (BAC, 239). The reform objectives were formally stated in the recitals or in additional decisions rarely including more than seven points and mostly focused

[93] Note: The Monetary Committee contemplated the possibility of splitting the second tranche of the 1985 Greek assistance in order to push the Greek government into submission.

on macro-economic objectives (see figure 12).[94] After almost twenty years of operation (1974-1993), the regime could be assessed as having a low degree of strictness in the conditions and a soft approach of enforcement of compliance via the retention of funds, as no tranches were ever withheld.[95]

With the punctuated redirection of conditionality in 2010, programme countries subscribed to a detailed catalogue of reforms and fiscal consolidation, as well as to quarterly reviews by the Commission and ECB (e.g., Commission, 2022c; 2022d). The support of austerity by euro area national governments was based on the rationale that fiscal consolidation was a necessary part of financial assistance in the Single Currency.

Figure 12: Number of economic conditions as part of EEC/EU assistance



*Limited to financial sector; **number of conditions exceeded 50; several sub-conditions as part of a 'headline' condition are counted as one. (Source: Several IMF and EU documents, see EU secondary law and Memoranda of Understanding in the references; author's compilation).[96]

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[94] Note: This is a simple depiction of the calculation of points of conditionality from official documents. As a general note: all programmes for euro area countries had several subitems within the respective conditionality item, making conditionality more detailed than depicted.

[95] Note: Conditionality became more detailed in cases where there was recourse to new assistance within a few years, e.g., in the case of Greece in 1985 and 1991, and in the case of Italy in 1974 to 1977.

[96] Legal references: IMF (2010; 2012 ; 2013); Commission (2015); Council Decisions (2012/443/EU), (76/323/ EEC), (2011/77/EU), (2011/344/EU), (2009/459/EC), (2009/290/EC), (2009/102/EC), (74/637/EEC), (85/543/EEC), (91/136/EEC), (76/324/EEC), (77/359/EEC), (93/67/EEC), and (83/298/EEC); the full references are in the references.

This support also led to stricter fiscal rules in the SGP. Austerity was also supported by the ECB, which included conditionality in the application of its Outright Monetary Transactions (OMT).[97] The procedural element of conditionality was thus absorbed by the ECB in areas where its actions overlapped with financial assistance. This is further demonstrated by the ECB's policy of accepting Greek bonds as collateral, which was suspended in 2015 when the Greek government did not fulfil its conditionality and tried to ease austerity measures in its future loan conditions (ECB, 2015a).

When the Greek government entered negotiations on its third assistance programme, euro area governments and EU institutions remained firm on strict conditionality including further structural reforms and fiscal consolidation (Commission, 2015). This practice of conditionality is in stark contrast to a similar situation in 1987 and in the 1990s, when the Greek government underperformed in regard to the conditions in the assistance programme and the Council went ahead and permitted the disbursement of the subsequent tranches of assistance anyways (BAC, 42).[98] With the acceptance by the Greek government on the conditions of the third programme, the eligibility of Greek bonds as ECB collateral was reinstated in 2016. The practice of strict conditionality was thus upheld for assistance from 2010 until 2018 by euro area governments and EU bodies.[99]

The support by government and European actors for conditional assistance and the adherence to this procedural element by governments and the ECB demonstrate the utilitarian mechanism of reproduction. This mechanism emphasises the agreement and adherence to institutional elements. This support helps to explain how austerity remained in place for almost a decade for euro area assistance and ECB policy.

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[97] Note: After the ECB engaged in buying government bonds of countries in economic difficulty via its Securities Market Programme (SMP) in 2010, euro area governments introduced the secondary market instrument of the EFSF to ensure that interventions in bond markets were accompanied by conditionality (see, e.g., Bundestag, 2011). OMTs were designed as quantitatively unrestricted interventions in the secondary bond markets in countries which subscribe to an EFSF/ESM programme with strict conditionality including the possibility of primary market purchases by the EFSF/ESM (ECB, 2012).

[98] Note: As opposed to monitoring of conditionality since 2010, EC Monetary Committee members agreed not to make the findings on Greece's non-compliance in 1987 publicly available (BAC, 528).

[99] Note: Due to the persistently low credit rating for Greek government bonds, the ECB's quantitative easing operations from 2015 (APP/PSPP) excluded Greek securities from ECB purchases. Greece completed the third and so far, last ESM assistance programme in 2018, which was also the last active ESM programme adopted in the aftermath of the international financial crisis.

6.4.2 Gradual change

6.4.2.1 Redirection of the lending practice

As part of the punctuated change of strict conditionality, national governments agreed on using financial disincentives for euro area loans, to avoid moral hazard and ensure swift return of recipient governments to the markets. However, this disincentive was short-lived. The deterrent practice of using favourable but deliberately higher interest rates for financial assistance for euro area governments increased the fiscal difficulties of programme countries, most notably Greece, which received the largest envelope of assistance. While the financing via an intermediary led to relatively low funding costs, the programme countries rarely saw a significant improvement in their relative refinancing costs as to their situation a few months prior to assistance. When Greece was close to default within a year of its first assistance programme via the GLF, euro area governments agreed to provide further and more extensive assistance via the EFSF (Council, 2011b). The relatively high lending rates for euro area assistance in periods of fiscal difficulties slowed potential consolidation efforts by governments. Thus, the procedural element of financial disincentives hindered in the medium-term the swift return to market financing, a key objective of euro area support. This self-defeating disincentive was redirected in several rounds as outlined below.

Euro area national governments agreed on lowering the fiscal burden on debtor countries, mostly Greece, which received several prolongations of the maturities and lowering of interest rate. In the first round of fiscal easing the GLF rate were lowered by 100 basis points and the EFSF rate was fixed at 3.5 per cent for all past and future programmes (Council, 2011b), which reduced the margin by almost 200 basis points for Portugal and Ireland. In addition, the maturities (and grace period) for all recipient countries were prolonged from an average of 7.5 years to 12.5 years with maturities of up to thirty years. This step passed the low funding costs of the intermediary EFSF/EFSM to the debtor country and improved the debt profile of these countries significantly. This practice was upheld for future loans to Spain and Cyprus.

The Greek position was however extremely dire, and the interest rate deferral was not enough to achieve the intended stability. In 2012, euro area national governments agreed on restructuring Greek sovereign debt as part of the EFSF assistance programme of approximately €130 billion, resulting in an approximately 53 per cent haircut on private sector-held debt (partial orderly default) of a total €198 billion worth of debt (Colasanti, 2016). Additional interest rate reductions and cancellation of fees, as well as the return of ECB profits from buying Greek bonds via the Securities Market Programme (SMP) of 2010 were conducted to improve the Greek fiscal position (ESM, 2016). By 2015 the Greek debt average maturity was at 32.5 years and most of its debt was held by instruments of the assistance regime and euro area governments.

While the Greek situation was unique — requiring debt relief measures to avoid another orderly default — the overall practice of prolonging maturities and lowering interest rates became the standard for all regime programmes. Thus, the disincentives from higher funding costs were redirected to more favourable lending terms over time. The ESM estimated that governments under EFSF/ESM programmes managed to save between 1.2 to 11.9 per cent of GDP in loan servicing costs with the help of passed-on low financing rates and long maturities (ESM, 2021).[100] The mismatch of disincentives and the nature of fiscal difficulties in euro area countries caused the gradual change in the lending practice. The European Council stated in July 2011 that they 'do whatever is needed to ensure the financial stability of the euro area as a whole and its Member States' and that the deferral and lowering of interest rates was to achieve 'the debt sustainability and refinancing profile of Greece' (Council, 2011b). Thus, the reproduction of the overall economic rationale brought gradual adjustment and reversal of the practice of financial disincentives. The regulation of the EFSM, the EFSF agreement, and the ESM treaty did not make explicit reference to the amount of the fees or applicable margin, which facilitated the changed enactment of lending rates by euro area governments as no legal adjustment was necessary.[101] This gradual redirection of the lending practice was thus the other side of the coin of maintaining financial stability, which was undermined by punitively high lending rates for programmes countries, notably Greece.

The punctuated redirection of introducing lending practices with relatively high rates was thus gradual redirected to lower interest rates and lengthened maturities. The gradual adjustment ensured that the primary objective of financial stability and the return to market financing was facilitated through the changed enactment of financial disincentives. The adjustment to the lending

[100] In detail: Ireland 2.3 per cent, Spain 1.2 per cent, Cyprus 11.9 per cent, Portugal 5.3 per cent; Greece is the exception with an estimate of 43.2 per cent. For method and calculation see ESM (2020a, p. 34-35).
[101] Note: Only the EFSF had 50 basis points of service fees explicitly stated).

practice ensured that the purpose for euro area assistance was functionally pursued which thus maintained the regime's overall objectives.

6.4.2.2 Displacement of IMF involvement: a flash in the pan

Between 1971 and 2008, the IMF and the EU constituted two parallel assistance regimes, which merged for a short while for European assistance between 2008–2015. Indeed, IMF assistance was not a novel element, given that all EU countries were IMF members, and especially considering that many Central and Eastern European countries received the Fund's assistance in the 1990s before joining the EU a decade later. The gradual displacement of IMF involvement in the implementation of assistance was a development limited to pre-accession countries that were part of a longer history of monetary cooperation and also had more developed financial sectors linked to government financing. These conditions were not congruent for countries that joined the European Union in 2004 and 2007, as many of these countries had received EEC/EU and IMF support only a few years prior to accession as part of their economic transition. For these countries, IMF involvement did not result in a significant change in the practice of assistance.

Even though the IMF participated in and, for the most part, led the financial assistance to EU countries in 2008 and 2009, its role remained unclear in terms of euro area support in 2010, which was perceived to be an internal issue of the monetary union. Including the IMF was thus a break with the previous practice of using exclusive European assistance to countries which were part of monetary cooperation in the EEC. Arguably the assistance to Latvia in 2009 foreshadowed that European monetary cooperation and IMF assistance were not mutually exclusive. Even though the situation was different as Latvia was still a euro-outsider, this case illustrates that the EU was more invested in countries which were part of monetary cooperation, in that the EU took over the larger part of the financing and ensured its policy objectives were set into the programme.

The punctuated layering of IMF assistance was followed by a process of gradual displacement of IMF involvement. After several joint programmes for Greece (in 2010 and 2012), Ireland, Portugal and Cyprus, co-operation between the EU and the IMF tapered off over disagreement on details about structural reforms in the Greek programme (Blustein, 2015; Chang, 2016). The contagious issue was the long-term risks of the Greek debt profile, which the IMF deemed problematic in future roll-overs with the market (Thomsen, 2019). The IMF contradicted parts of the reform and financing demands and called for debt relief of the publicly held Greek sovereign debt by euro area governments (Steward, 2015; Mody, 2015). As most Greek debt was restructured and financed via bilateral and European public assistance, a haircut would have undermined the no-bailout clause — with euro area countries directly assuming Greek commitments — and would have resulted in direct costs for euro area governments and their taxpayers (see also Bryant, 2015). Allowing Greece to default on its publicly held debt would have also undermined the loan-based assistance structure, which was the functional translation of the purpose of assistance (in- and outside the euro area), and which already became more accommodative in its lending terms for euro area countries, including relief measures for Greece. Euro area governments refused debt cancellation and supported the loan-based assistance structure. Thus, the utilitarian mechanism of reproduction accounted for the adherence to the assistance regime's loan-based structure.

After the IMF refused to participate in the third Greek programme in 2015, displacement began through a cascade of early repayments of costlier IMF loans by EU and euro area countries, effectively putting an end to most IMF involvement in the EU. At the same time, the Commission's role in monitoring compliance of reformed fiscal rules in the euro area was strengthened, and it was given the role of negotiating economic reforms and monitoring the compliance of assistance programmes (see also Bauer & Becker, 2014). In parallel, the ESM assumed a more active role in the design of the assistance programmes (see also ESM, 2018). The increased role of the ESM was formally solidified through changes in the ESM treaty, assigning the ESM a formal role in designing programme conditionality.[102]

Thus, IMF displacement is explained by the disagreement between the euro area national governments and the IMF, which led to gradual early repayment, a form of defection by governments, and thus to a phasing out of IMF involvement in most euro area assistance programmes. Euro area national governments gradually replaced the IMF by EU and euro area bodies, giving the Commission and the ESM more competences in assistance programmes. This displacement of the IMF involvement was facilitated through its informal basis, which did not require any legal change but merely an adjustment of the implementation practice by agreement

[102] Art. 5(g) of the amended ESM Treaty 2021 version (not ratified as of 19.3.2023).

of euro area governments. In the Covid-19 crisis of 2020, the IMF was not involved in either EU or euro area assistance.

Analysing IMF involvement through the gradual change mechanism of displacement allows us to explain how the adherence to the regime's purpose and financial structure gradually displaced the IMF in European assistance. The use of gradual displacement explains how the punctuated layering of IMF involvement was gradually reversed in the following years and thus helps to complement our understanding of the longer-term outcome of change issuant from the financial crisis of 2010 onwards. The gradual displacement of the IMF is the other side of the reproduction of the regime's assistance structure in the form of conditional loans for euro area countries, without undermining the no-bailout clause.

6.5 Conclusion

This chapter analyses the institutional outcome of the financial crisis of 2010 and explains the emergence of the third critical juncture in the development of the European financial assistance regime. This critical juncture occurred through the punctuated layering of euro area eligibility for institutionalised assistance to the formal element, and through the punctuated redirection of IMF involvement and strict conditionality in the procedural element. By separating the analysis into the composing parts of the theoretical framework of actor-centred historical institutionalism, this chapter provides evidence supporting the presence of permissive and productive conditions, as well as their necessity in the unfolding of a critical juncture. It further demonstrates the validity of complementing the analysis through gradual change and path dependent mechanisms in understanding the longer-term impact of the punctuated change of 2010.

Through the examination of permissive conditions, this chapter explains how agency increased in May 2010. The exogenous shock of the financial crisis increased the overall deficit in the EU and euro area and increased the need for public financial assistance for several EU and euro area governments. While the assistance needs for non-euro countries were met via the existent assistance regime, Greece was the first euro area government in need of substantial public financial assistance. The European financial assistance regime was formally impeded in this case as it did not legally allow for euro area assistance. As policy measures and *ad hoc* support for Greece did not help to diffuse the exerted pressure from the exogenous shock, the pressure on euro area national governments increased. The rapid increase of the refinancing rates of Greece, Ireland, and Portugal (as well as Spain and to some extent Italy) gave the impetus for euro area national governments to agree on reforming the assistance regime.

The agreement was linked to the economic interdependence of euro area countries and the risk from contagion. This interdependence provided the basis for the shared preference, which opened the door for negotiations and thus formed the bridge between permissiveness and increased agency. Within the frame of increased agency, governments negotiated reforms based on their material interest regarding their potential involvement in the assistance instrument. Germany — as potentially the largest guarantor of a common euro area instrument — used its bargaining position to insist on limiting liabilities in the euro area instrument as well as including strict conditionality and IMF involvement in the new mechanism. With the establishment of the EFSF and EFSM, the euro area layered the economic rationale of its financial stability onto the assistance regime, which was formalised through the inclusion of euro area countries in the regime.

The use of path dependence mechanisms in this chapter helped to uncover the legacy of the formal purpose of financial stability in the euro area, as well as the impact of the functional mechanisms of reproduction on the EFSF adjustment. This case demonstrates that the utilitarian mechanism of reproduction determined the establishment of the ESM and facilitated the response to the Covid-19 pandemic through established legalities regarding euro area assistance. The continuous adherence to strict conditionality by programme countries, but also by EU and euro area bodies in assistance and assistance-related policies also illustrate reproduction based on the utilitarian mechanism in the procedural element. Lastly, adjustment of the EFSF was linked to reproduction of the functional mechanism linked to the initial intention of national governments regarding the assistance instrument. This functional mechanism explains how the unintended consequences of the first EFSF design were rectified in later reforms and in the ESM's design.

As the 'other side of the coin' of path dependence, gradual change mechanisms help to uncover relevant adjustments in the regime's practice between 2010 and 2015. First, through redirection the lending practice of euro area assistance rapidly adapted to the fiscal difficulties of programme countries by lowering the interest rates for EU and euro area loans, as well as by prolonging maturities to improve the credit profile of these countries. This redirection, from financial disincentives to favourable lending terms, was carried by the functional mechanism of reproduction which required lending rates to be practicable to achieve a functional translation of the purpose of assistance. Second, IMF involvement was gradually displaced due to disagreement between the IMF and the euro area national governments. While the IMF phased out its assistance, the roles of the Commission and the ESM became more important, with both assuming a more active role in negotiating and monitoring economic conditionality. The gradual displacement and replacement were carried by the utilitarian mechanism of maintaining the purpose and the fiscal consolidation as the core of euro area assistance. The use of gradual change mechanisms allowed an emphasis to be placed upon the partially significant change that occurred in periods of relative stability after the crisis moment and provides a complementary insight into the development of the assistance regime.

This chapter explains how the financial crisis of 2010 set the stage for a critical juncture in the development of European financial assistance regime by applying the actor-centred historical institutionalist framework. It demonstrates that the co-occurrence of permissive conditions was necessary for increasing agency for European and government actors' to reform assistance, and that the persistence of permissiveness was relevant in understanding that the *ad hoc* solution for Greece was merely one step in resolving the pressure from the exogenous shock. This chapter further shows that economic interdependence resulting from EMU coupled with government materialist preferences and respective bargaining positions were the main determinants to explain the detailed outcome of negotiations of May 2010. This rationalist approach underlines the relevance of focusing upon agency within the permissive conditions. This chapter thus answers the question: under which conditions did the 2010 financial crisis contribute to the development of the assistance regime? Lastly, this chapter analyses the legacy of the punctuated change through parallel path dependent and gradual change mechanisms. By doing so it explains continuity and partially significant change in the aftermath of the establishment of the EFSM and EFSF. The analysis of this chapter thus offers insight into how punctuated change in the assistance regime impacted the future development in the periods of relative stability between 2010 and 2018 and confirms the usefulness of a comprehensive approach analysing both the dynamics of the critical juncture and its long-term consequences.

CHAPTER 7: THE COVID-19 CRISIS

Introduction

This chapter analyses the EU's financial response to the Covid-19 crisis starting in 2020, which constitutes the fourth critical juncture in the development of the European financial assistance regime. In the procedural element, the introduction of expenditure-related conditionality was a break with previously austerity-based conditions. In the financing element, the establishment of grant-based assistance was a break with the hitherto loan-based assistance, which had operated in the EEC and later EU for over fifty years beginning with MTFA in 1971.

The Covid-19 crisis represents the fourth typical case analysed in this dissertation. In this case the economic shock, in the form of increased fiscal measures for stability and recovery, and punctuated change are present. As part of confirming the validity of the eclectic theoretical framework of actor-centred historical institutionalism, this case tests the critical juncture mechanism, as well as the dual legacy analysis of path dependent and gradual change mechanisms. Through presence of the causal mechanism, this case demonstrates how the Covid-19 crisis, and the establishment of expenditure-related conditionality and grant-based assistance are causally linked.

The first section of this chapter provides a summary of relevant developments in the EU since 2010 and how euro area assistance was used, as well as an overview of the fiscal situation in the EU until 2019. The following sections are organised according to two analytical parts of the theoretical framework.

The second section of this chapter analyses the permissive conditions in the Covid-19 crisis, which constituted a symmetric economic shock to the entire EU. The fiscal pressure on Member State governments resulted in an expected increased need for public financial assistance and forms the first permissive condition. The second permissive condition in the form of impediment of the regime was twofold. The procedural impediment explains the loss of adherence of governments and EU institutional bodies to strict conditionality in the form of austerity. The functional impediment of the financing instruments explains how the use of the loan-based assistance had shortcoming for an even recovery.

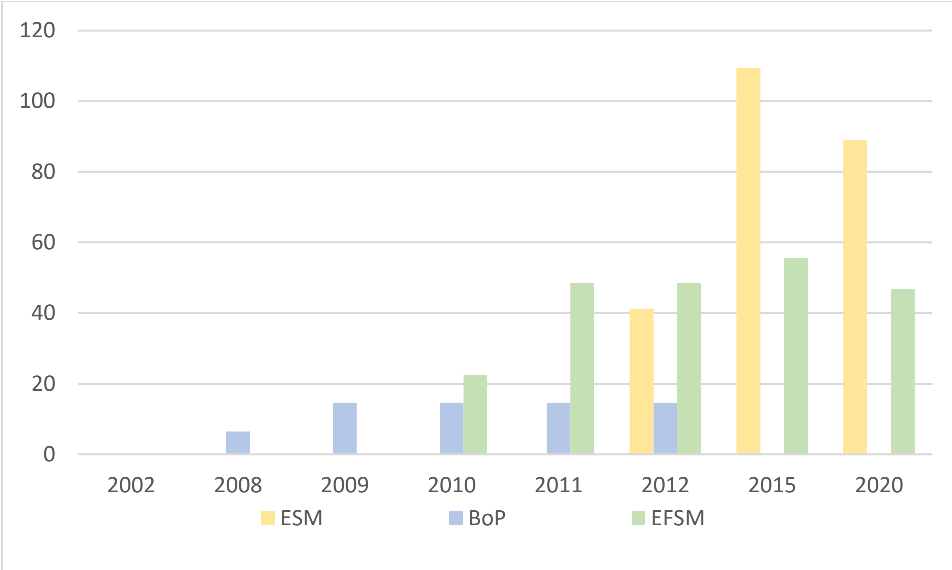
The third section on productive conditions explains how a potential divergent recovery posed threat to the proper functioning of the Single Market and gave the impetus for national governments to agree on reforming the assistance regime to ensure recovery. This condition was constitutive for the shared preference for assistance and worked as bridge between the permissive conditions and increased agency. The second part of the productive condition illustrates the role of national government preferences and their respective bargaining position in the negotiation on reform. Through the application of a rationalist approach, this part explains the outcome according to two opposing coalitions represented by the Frugal on the one side and a large coalition behind France and Germany on the other side.

The fourth section analyses the long-term impact of the punctuated change. The legacy of the change is assessed via the utilitarian and functional mechanisms of reproduction, even though legacy can only be analysed to a limited extent considering the recentness of the change. The legacy of the redirected conditionality is illustrated by the reproduction of expenditure-related conditionality by a Commission proposal in regard to the symmetric exogenous shock of the Russian war on Ukraine. On the other side of the legacy, gradual change mechanisms explain the potential displacement of ESM loans in the new context. This displacement is signposted by the defection of governments to alternative loan instruments established in 2020. The last section concludes.

7.1 *Ex ante* context: an uneven picture of high indebtedness and fiscal consolidation

In the context of the financial crisis unfolding from 2008 onwards, the European assistance regime was put to use in ten different programmes for eight countries, five of which part of the euro area. The total amount of assistance disbursed by 2018 reached €363.3 billion (including GLF and EFSF loans) of which €46.2 billion was reimbursed by 2020, including almost all loans under the BoP assistance facility (13.2 of 13.4 billion), parts of Spain’s indirect recapitulation instrument (€17.6 billion) and some repayments by Greece and Portugal (€15.4 billion). By 2020, the share of European instruments was at about €136 billion, which was linked to the bilateral nature of the loans provided by the GLF and EFSF (see chapter 6). Figure 13 illustrates the outstanding amount of assistance provide by European instruments.

Figure 13: Outstanding loans from European financial assistance by instrument, in € billion



(Source: European Commission; ESM; author's compilation)

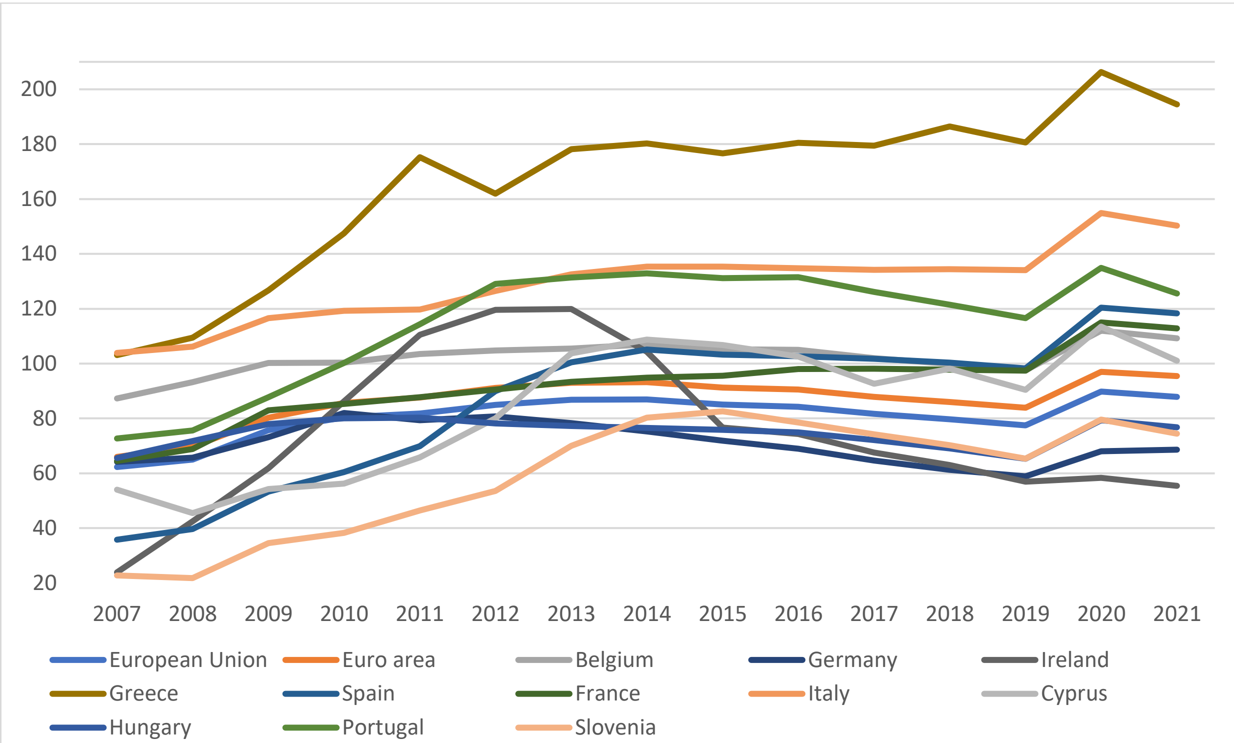
Greece was with about two-thirds of the outstanding loan amount by early 2020 by far the largest debtor to the European financial assistance regime. However, given that the EFSF provided the largest share of Greek assistance, and the ESM was given a renewed assistance envelope of 500 billion Euro in 2012, the outstanding assistance facilities by 2020 were about €411 billion via the ESM, €13.2 billion via the EFSM, and about €50 billion via the BoP facility (Commission, 2020a ESM, 2022a). IMF assistance in the EU was almost entirely reimbursed by the beginning of 2020 (only Greece had not yet reimbursed its IMF loans in full), and the IMF's lending capacity was estimated at around $1 trillion. However, as explained in chapter 6, the unfolding displacement of IMF participation for assistance in the EU and euro area, made this sum less likely to be deployed for any further assistance programme in the EU.

While most assistance needs were covered by 2014, the average public debt-to-GDP ratio had reached an all-time high in the EU (see figure 14). The economic condition was described by the Commission in the following way:

> [t]he EU recovery is not materialising as earlier expected. The momentum of the EU economy in 2014 has been *slower than most forecasters had anticipated* in spring. Recent indicators readings suggest slow growth in the EU and stagnation in the euro area will continue through the second half of the year. […] *GDP growth continues to be held back*

by the legacy of the global financial and economic crisis. The *less favourable financing conditions* and elevated uncertainty are weighing on the euro area private investment, […]. *Disappointment over the pace of structural and institutional reform* and the need to rebalancing are also weighing on growth, making the recovery more subdued and lowering actual and potential growth (Commission, 2014: 5; author's emphasis).

Figure 14: Debt-to-GDP ratio, selected countries, and average EU/euro area



(Source: Eurostat; author's compilation)

The stagnation in the euro area, low inflation and the slow recovery weighed heavy on already highly indebted countries, which significantly cut public spending to consolidate their fiscal position, and thus hindering growth related expenditure (Commission, 2014). After reducing key interest rates to unprecedented low levels and prolonging refinancing operations to enhance liquidity (ECB, 2011), the ECB started to engage in government bond purchases on the secondary market in 2015 as part of its quantitative easing (QE) policy. This intervention was targeted to provide a monetary stimulus to the economy and raise inflation to its target rate of close to 2 per cent (ECB, 2015b). With Cyprus ending its assistance programme in 2016 and achieving investment grade for its bonds in 2018 (Commission, 2018), all euro area governments' securities except for Greece were eligible for ECB purchases. The balance sheet stretch of the ECB through refinancing operations and QE had a continuous easing impact on euro area countries' fiscal position with coupon rates lowering and interest rate payments on debt reducing for several countries to pre-crisis levels or below. The largest part of QE was targeted at public sector bonds and by the end of 2019, the ECB's balance sheet had increased its bond holdings from €590 billion in 2014 to €2.8 trillion (ECB, 2022).

EU governments' consolidation efforts progressed from 2014 markedly with a reduction of the debt ratio from an average of 92.2 per cent in 2014 to 83.9 by 2019 (see also ECB, 2017). However, consolidation was principally in northern European countries (Sweden, Denmark, Finland, Netherlands) and Germany, which by 2019 reduced their debt-to-GDP ratio to below or close to the 60 per cent threshold enshrined in the fiscal rules. While still having high debt levels by 2019, Portugal, Cyprus, and Spain achieved to bring their debt on a continuous downward trend. Italy remained the only non-assistance country with a stable debt level above 130 per cent between 2013 and 2019, while the Greek debt level after the end of the third assistance programme stood at 180 per cent.[103] Thus, the situation after the economic difficulties starting in 2008 painted a diverse picture of the fiscal positions in the EU, with most former programme countries, as well as Italy, Belgium and France recording debt levels close to or above 100 per cent, and all other EU and euro area government recording debt levels under 70 per cent, with most proponents of fiscal rigour being close or below 60 per cent. However, refinancing rates were on average lower, making higher debt levels less problematic for fiscal sustainability.

Even though in the euro area most former programme countries and Italy had worse credit ratings than in 2010, the refinancing positions of most countries improved with downward trends in interest rates fuelled by the ECB's accommodating monetary policy. The credit ratings of the largest five core euro area countries were mostly high, with Italy having the lowest credit standing, judged more vulnerable to (sudden) adverse business and economic conditions, and having a higher comparable default risks to other core euro area countries (fitchratings, 2022). Except for Greece, the former programme countries had a good-to-high credit standing. However, the BB, BBB and A ratings indicated a potential risk in adverse economic conditions. In comparison with

[103] Note: The Greek economy stagnated and was the only EU Member State with negative GDP growth rates in 2015 and 2016, and only slowly started to grow by 2017.

2010, the 2019 credit ratings were generally worse for former programme countries, as well as Italy, with several downgrades since 2010 (see table 16).[104] ECB policy had the effect that all countries despite the worsening of the credit standing, faced lower refinancing costs for their 10-year bonds on the market than in 2010.

Table 16: Selected Country Ratings in 2019

Country	**Rating 2010**	**Rating 2019**	**Debt level 2019**	**Change of credit standing**
Italy	AA-	BBB (good credit quality)	Very high debt	-4
France	AAA	AA (very high credit quality)	High debt	-2
Germany	AAA	AAA (highest credit quality)	Moderate Debt	0
Netherlands	AAA	AAA	Low Debt	0
Spain	AA+	A- (high credit quality)	High debt	-4
Portugal	AA-	BBB	High debt	-4
Greece	BBB-	BB- (speculative)	Very High debt	-3
Cyprus	AA-	BBB-	High debt	-5
Belgium	AA+	AA	High debt	-1
Ireland	AA-	A+	Moderate debt	-1

(Source: http://fitchratings.com)

The low interest environment and the ECB's bond purchases significantly eased the fiscal constraints for euro area countries, which entered a period of relative stability regarding their financing situation. With the application of non-standard monetary policy, the ECB set a precedent for its monetary policy to tackle medium and long-term impacts of economic difficulty in the euro

[104] Note: 'Fitch's credit rating scale for issuers and issues is expressed using the categories 'AAA' to 'BBB' (investment grade) and 'BB' to 'D' (speculative grade) with an additional +/- for AA through CCC levels indicating relative differences of probability of default or recovery for issues' (Fitchratings, 2022).

area. However, the ECB continued to adhere to the practice of fiscal consolidation by excluding low-rated government securities for its secondary market purchases and by including conditionality in the potential application of OMTs. Thus, by the end of 2019, the EU and the euro area had profited from low refinancing costs, and the availability of assistance was with about €460 billion of BoP (50) and ESM (410) funds significant.

7.2 Analysis: Permissive conditions

This section applies the permissive conditions to the Covid-19 crisis starting in 2020 and analyses how the combination of increased need for public financial assistance resulting from fiscal measures, and the functional and procedural impediment of the assistance regime pathed the way for increased agency in March and May 2020. The first part of the analysis is focused on the nature and impact of the Covid-19 crisis, and how the partial standstill of EU economies due to confinement measures and the increase of fiscal measures caused a symmetric economic decline in EU countries, with several highly indebted Member States facing limits in their fiscal expenditure. The second part explains how the *ex ante* loan-based assistance instruments, as well as the procedural aspect of strict conditionality were impeded by the changing context of the exogenous shock. The use of a loan-based support had functional limits linked to debt sustainability, whereas the symmetry and nature of the shock reduced the governments' willingness to adhere to the practice of strict conditionality. The combination of both permissive conditions led governments to increase agency on two occasions to reform assistance.

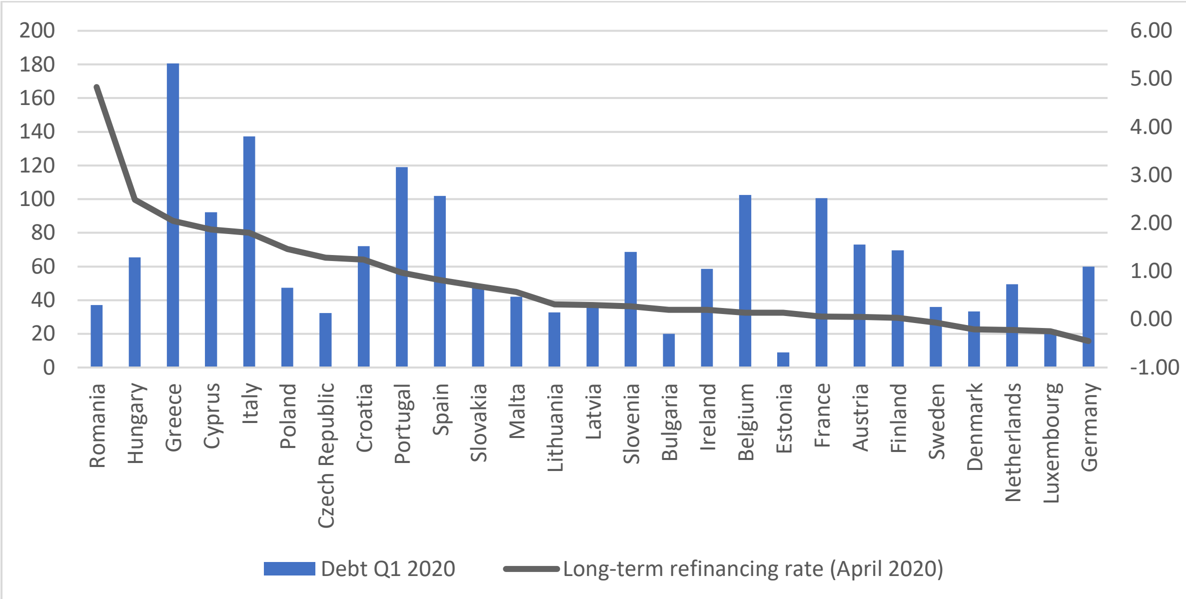
7.2.1 Confinement and fiscal measures

In early 2020 EU Member States applied containment measures to mitigate the public health impact of Covid-19, which resulted in a sharp decline in economic activity as they pushed the economy into a 'state of hibernation' (Commission, 2020b: 1; Gopinath, 2020). Thus, the financial pressure from the exogenous shock began with confinement measures and was symmetric across the EU. With an average GDP decline of 7.5 to 8.7 per cent for the EU in 2020, the impact of the shock was expected to be more severe than the international financial crisis (Commission, 2020b; 2020c).

As opposed to other economic difficulties analysed in this dissertation, the Covid-19 crisis was first and foremost a threat to public health in the EU and only on the second degree an economic shock (see also Commission, 2020b). Safeguard measures taken by governments directly constrained economic activity and affected economic output. Thus, neither structural deficiencies nor an *ex ante* lack of fiscal discipline were the main causes of economic difficulties. Within weeks from the beginning of the Covid-19 crisis, governments engaged in discretionary fiscal measures and guarantee measures representing respectively 1 and 10 per cent of GDP by March 16, and 2 and 13 per cent by March 24 (Council, 2020b; 2020c). The need to increase government spending were linked to bridge the gap until economic activity could resume to pre-pandemic levels and to finance the recovery of the lost output (Commission, 2020b). The deficits rose drastically due to a reduction of revenues from taxes and the increased expenditure for automatic stabilisers (Commission, 2021a), making market access fundamental for financing fiscal measures.

As Sapir (2020) and Gros (2020) argue, EU Member States were differently able to use fiscal measures. In addition, some sectors, notably tourism, were more vulnerable to confinement measures than others. Thus, even though the economic difficulties were present in all Member States, they were more severe in Portugal, Greece, Spain and Italy than in Germany, the Netherlands and Finland (see also Szczepański, 2020). This was illustrated by the costs of new debt, which were higher for Cyprus, Spain, Italy, and Portugal, but also for non-euro countries like Hungary, Romania, Poland, and Czech Republic. These countries had spreads of 127 (Spain) to 528 (Romania) basis points to German 10-year bonds on average in April 2020 (see figure 15). The rapid rise of refinancing rates on the bond markets starting in March 2020 foreshadowed the potential risk for Member State governments' fiscal positions, and thus their potential need for public financial assistance. In the euro area, 10-year bond rates from Cyprus, Italy, Portugal, Spain and Greece were raising by over 100 bps within a week. For non-euro countries the picture was similar for Romania (over 200 bps), Hungary (100 bps) and to some extent for Poland, Czech Republic and Croatia, which registered increases of around 50 bps.

Figure 15: Debt-to-GDP ratio (left) and long-term refinancing rates (right) by country



(Source: ECB; author's compilation)

The increased financing needs by governments was not congruent with the increased need of public financial assistance.[105] However, the reliance on the market and the movements in bond yields in March brought the topic of public financial assistance onto the agenda of policymakers. On March 16 and 17, the presidents of the Eurogroup and of the European Council used wording in their public statements similar to the 'whatever it takes speech' by the ECB president in 2012, which illustrated their intention to avoid panic in the markets.[106] At the same time the Eurogroup discussed the use of the ESM for potential financial assistance in the euro area (Council, 2020b). The ECB responded to increasing market rates with further bond buying on March 18 to '[…] ensure that all sectors of the economy can benefit from supportive financing conditions that enable them to absorb this shock.[107] This applies equally to families, firms, banks *and governments'*

[105] Note: The managing director of the ESM emphasised on March 16 that all euro area countries have market access, which makes the Covid-19 crisis different from the euro crisis of 2010 (Council, 2020e).
[106] Note: The conclusion of the president of the European Council reads: 'The Union and its Member States will do whatever it takes to address the current challenges, to restore confidence and to support a rapid recovery, for the sake of our citizens' (Council, 2020f).
[107] Note: ECB action prevented a deterioration of market financing, but the immense deficit financing by governments with already high debt levels bore the risk of fiscal sustainability in the aftermath of the crisis and thus limited their financing capabilities (Commission, 2020b). Assistance through loans with lower rates allowed to enlarge the fiscal space for countries to have the capacities to take on more debt to tackle the economic difficulties (Gros, 2020). Thus, even though the lending rates for most governments were lower than a decade earlier, and governments' access to market financing was not impeded, the *ex ante* fiscal position of some governments either curtailed the possibility of

(ECB, 2020a; author's emphasis).[108] Thus, by mid-March, EU bodies were aware of the risks from the market and the potential need for assistance.

In this context governments discussed the use of ESM credit lines (Fleming et al, 2020). The increased need for public financial assistance was in this case not linked to the imminent difficulties in one or several Member States but derived from the potential fiscal impact of the exogenous shock on fiscally weaker countries. This potential need increased with duration of confinement and the need for fiscal measures. By the end of March most governments had agreed to the use of the ESM's enhanced credit line in order to provide a 'Pandemic Crisis Support safeguard' (Council, 2020c).

The responses of EU policymakers to the Covid-19 crisis within the first weeks demonstrates an awareness and apprehension for the potential need for public financial assistance derived from the expected fiscal impact of the crisis for EU Member States. Thus, even though alternative source of financing via the market were still present, policymakers anticipated the potential necessity of additional public resources. This need thus included an element of frontloading the fiscal space before refinancing difficulties could occur (see also Howarth & Schild, 2021). This case deviates from the other typical cases analysed in this dissertation, as the permissive condition of increased need of public financial assistance was not accompanied by a trial-and-error use of assistance, but from a preventive approach to anticipate potential needs. However, the expected use of public financial assistance functioned as signpost, and induced reflection on how resilient the assistance regime was in the new context.[109] One can thus argue that the first permissive condition, even though in a slightly different representation, was present in this case as of mid-March when confinement measures were adopted by governments. With this interpretation the presence of the first part of the critical juncture mechanism can be confirmed.

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financing the required large-scale stimuli, or increased their refinancing risks (Commission, 2020a; see also governo.it, 2020).

[108] Note: The ECB increased its liquidity operation and accelerated its quantitative easing efforts through a new purchase programme (PEPP) announced on March 18 to ease financing costs for governments (ECB, 2020a), stretching the balance sheet from previously €4.7 trillion in 2019 to almost €7 trillion by the end of 2020 (ECB, 2022). In addition, the ECB granted a waiver for Greek debt to be eligible for collateral (ECB, 2020a), to extent the eased refinancing conditions to the Greek government.

[109] Note: The European Council conclusion stated that: 'We must also draw all the lessons of the present crisis and start reflecting on the resilience of our societies when confronted with such events. In that respect, the time has come to put into place a more ambitious and wide-ranging crisis management system within the EU' (Council, 2020g).

7.2.2 The impediment of conditional loans for assistance

The impediment of the regime was in the procedural and in the financing elements. The impediment of the procedural element was linked to the implementation of assistance using strict conditionality. The previous adherence to this part of assistance was heavily contested by institutional bodies and governments. The impediment of the financing element was linked to the design of the ESM as well as to the established standard to use loans as instruments of assistance, which started to become less resourceful due to fiscal sustainability issues.

7.2.2.1 Against austerity

The impediment of austerity appeared with the reflection of potential use of the ESM. Governments and EU bodies challenged publicly the practice of strict conditionality in the form of austerity. As illustrated in chapter 6, the procedural element of austerity was reproduced based on the adherence via governments, the ECB, and in the beginning of 2010 also by the IMF. However, given that most EU Member States were on a path of reducing their debt ratio, the economic argument of fiscal leniency and overspending lost traction. Later in 2020 in the case of France, the IMF underscored the rationale of using deficit spending as long as the crisis was lasting (IMF, 2020b). Similarly, the ECB president wrote in an opinion piece in the *Financial Times*, that '[a]ny tightening in financing conditions would amplify the harm of the coronavirus shock at a time when the economy needs more support' (Lagarde, 2020), stressing the need for fiscal measures and government expenditure and the change of the ECB institutional viewpoint in the new context. This indicates that institutional bodies outside of the regime reconsidered their take on the institutional practice of austerity vis-à-vis the nature of the exogenous shock. This is further demonstrated by a statement of the president of the Eurogroup in this regard:

> The challenge our economies are facing today is in no way similar to the previous crisis. This is a symmetric external shock. Moral hazard considerations are not warranted here. We must bear this in mind when we consider coronavirus dedicated instruments. This is particularly true for any ESM instruments which were set up during the last crisis (Council, 2020c).

The governments from France, Belgium, Greece, Ireland, Italy, Luxembourg, Portugal, Slovenia, and Spain, contributed to the breakdown of the mechanism of reproduction by refusing to adhere to moral hazard claims, and stated in a joint letter to the European Council president that 'no country bears responsibility' [for the fiscal implication of the crisis] (governo.it, 2020; see also Council, 2020c; Quaglia & Verdun, 2023). By contesting austerity, governments and EU bodies withdrew their support of the regime's practice and disrupted the mechanism of reproduction, which ensured the adherence to fiscal consolidation between 2010 and 2018.

Likewise did several actions by the ECB and euro area governments indirectly undermine the mechanism of reproduction. The Council's decision to suspend the SGP fiscal rules illustrated that fiscal consolidation was not the commonly supported way to mitigate the economic impact of the pandemic, and by the same token implicitly demonstrated that conditionality, translated as austerity throughout the last decade, was not justified in the current situation (Council, 2020c; see also Commission, 2020d). The Eurogroup clarified that budgetary measures were necessary to meet the financing needs for automatic stabilisers and for the financial safeguards for workers and firms (Council, 2020b), without indicating a limit. It further emphasised that '*[t]he consequences for our economies will depend both on the duration of the pandemic and on the measures being taken by national authorities and at European level*' (Council, 2020h). Governments thus gave an explicit consent to engage in vast deficit financing and expected a worsening of public debt positions as a result.[110] The ECB supported this disruption to some extent by ensuring that euro area governments did not lose access to market financing, and thus were able to finance to a larger degree the expected deficits. Even though the common acceptance of large deficits was not a tantamount to supporting unconditional lending via the regime, it did conflict with an adherence to austerity policies in times when all governments had to finance automatic stabilisers and fiscal measures to keep their economies afloat and support public health.[111] In this regard the French president compared the situation to a state of war (Le Monde, 2020), which unmistakably designated fiscal consolidation a lower priority than the fight against the pandemic, or its costs.

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[110] Note: Similar wording was used in the financial crisis in 2008, when the Commission proposed flexibility of the revised SGP rules to allow Member States to provide stimuli to the national economies (Commission, 2008). However, the stimuli were limited to 1.2 per cent of GDP, and in December 2008 the European Council reaffirmed its 'full commitment to sustainable public finances and call[ed] Member States to return as soon as possible, in accordance with the Pact and keeping pace with economic recovery, to their medium-term budgetary targets' (Council, 2008: 7).

[111] Note: The increased need of assistance came from the deficit financing of fiscal policies. If Member States had to significantly scale down fiscal measures in order to receive assistance (e.g., by cutting unemployment benefits, short-worker schemes, social benefits, or even health care expenditure), assistance would appear as counterproductive to the objectives of stabilising the economy and safeguarding public health.

Considering the practice of strong supporters of fiscal rigour (governments of Germany, Netherlands, Finland, and Austria) to adopt exceptional fiscal measures and recording deficits north of 3 per cent of GDP (Commission, 2020b; see also Sandbu, 2020), the adherence to fiscal rules was overall weakened. This weakening of austerity via statements from governments, the ECB, and the Eurogroup president (and thus its link to credibility of assistance), coupled with the internal softening of the fiscal rules of the SGP, contributed to the impediment of the regime's practice of strict conditionality (Khan & Brunsden, 2020; Khan, 2020a; see also Fleming & Ghiglione, 2020). From this empirical observation, this dissertation infers that the impediment in the procedural element of the assistance regime as abstracted in the second part of the critical juncture mechanism was present.

The necessity of the procedural impediment for increased agency is derived from the debate about the use of the ESM. If the regime practice was not impeded, i.e., supported by governments, national governments could have simply stated the obvious, namely that the ESM was available for support. However, due to the contestation of strict conditionality by numerous European and government actors, governments' reflection on using the ESM was accompanied by deliberation of *how* to use it.

7.2.2.2 The Impediment of loan-based assistance

The impediment of financing elements of the regime was linked to the hitherto standard of loan-based assistance. The advantage of intermediary loan-based assistance was linked to the fiscal easing impact of the interest rate and maturity of intermediary loans (see also Gros, 2020). This form of assistance was partially impeded due to the contextual shift fostering large divergence in governments' fiscal positions and the high indebtedness in several EU Member States. With increasing debt, this form of assistance had the effect of reducing the future margins of manoeuvre necessary for recovery (Fleming & Arnold, 2020). Market rates for some highly indebted countries sharply rose before the ECB action in mid-March, and Italy's credit rating was downgraded at the end of April, illustrating that the role of the market carried a potential risk for the fiscal sustainability in the medium-term (ECB, 2020b). The IMF outlined the risk issuant from increased market rates in its report in March (IMF, 2020c). Long-term interest rates for Italy, Portugal, Cyprus, Greece, and Spain remained well above their pre-pandemic levels in March and April.[112] Italy's financing costs rose again only weeks after the ECB's action, as markets became wary of unprecedented debt levels and fiscal sustainability, linked to the implied future costs for higher indebted countries (Stubbington & Arnold, 2020). In May 2020, Scope (a European rating agency) assessed Italian debt sustainability as 'concerning' judged by Italy's dependence on ECB's PEPP interventions (Scope, 2020). Using debt to tackle fiscal difficulties arising from refinancing rates had potential risks as markets would price the overall fiscal position as riskier and thus increase the costs for the privately held debt (Alcidi & Gros, 2018; see also Blanchard, 2020). In addition, potential future interest rate movements on the accumulated debt could pose a challenge to recovery in the medium-term.

The issue of debt sustainability and the necessity of a recovery fund, which could provide financial resources to countries to ease the fiscal impact of the crisis (either through cheap and long-term loans, or via additional budget allocations) was recognised early on by EU governments. The European Council concluded on March 26 that the recovery required 'a comprehensive recovery plan and unprecedented investment […] [and that] the time has come to put into place a more ambitious and wide-ranging crisis management system within the EU.' (Council, 2020i). On April 9 the Eurogroup

> […] agreed to work on a Recovery Fund to prepare and support the recovery, providing funding through the EU budget to programmes designed to kick-start the economy in line with European priorities and ensuring EU solidarity with the most affected member states. Such a fund would be temporary, targeted and commensurate with the extraordinary costs of the current crisis and *help spread them over time* through appropriate financing (Council, 2020a; author's emphasis).

In March and April, the governments of nine euro area countries (Belgium, France, Greece, Ireland, Italy, Luxembourg, Portugal, Slovenia, and Spain) proposed a common debt instrument, which, differently than the other regime instruments, was supposed to allow the common issuance of long-term debt with low interest rates to avoid roll-over risks (governo.it, 2020). However, other governments did not accept the need for such an instrument as other alternatives, notably the ESM

[112] Note: The Commission assessed that overall eleven EU countries, including Italy, Spain, France and Portugal, had short-term debt sustainability risks in 2020, as opposed to none in 2019 (Commission, 2021b).

were present. The French president explicitly stated the limit of loan-based assistance for several highly indebted countries, by calling for budgetary transfers and designating the assistance regime based on loans as ‘fake money’ (Khan & Brunsden, 2020).

Thus, while the shortcomings of the loan-based assistance were acknowledged by some governments, agency was not yet increased due to a lack of agreement on the issue. The wording of the Eurogroup statement of April 9 supports the expectation of large-scale EU loans with long-term maturity covered by the EU budget, similar to the EFSM and BoP, but larger in size. Similarly vague proposals by the Commission using the MFF to help effected regions tapping market financing, and the conclusion by the European Council president to establish a recovery fund ‘targeted towards the sectors and geographical parts of Europe most affected’ (Council, 2020j), underlined the understanding of the expected increased need for public financial assistance for specific Member States, but did not increase agency for reforming the regime as such.

The exerted pressure from the expected scale of public financial assistance became more palpable with supporting data on the impact of the public health crisis being released by the Commission in May 2020. In its spring economic forecast, the Commission stated that governments with the least fiscal space were the hardest hit by the Covid-19 crisis and that ‘a divide re-emerged [in the sovereign debt markets] between the core and the periphery, suggesting renewed investor concerns about debt sustainability, in particular in case of insufficiently coordinated support at the EU level’ (Commission, 2020b). The impediment of the loan-based assistance was thus not directly linked to a failed application of support as in the previous three cases but linked to the increasing withdrawal of support for loan-based assistance.

The withdrawal of support for the loan-based financing intensified with the German constitutional court ruling on May 5 that bond buying of the ECB starting in 2015 was partially unconstitutional (see, e.g., Gerads, 2020; see also Fontan & Howarth, 2021). Until May 2020 governments had only agreed that EU recovery would be linked to supporting countries in tapping financial resources from the market or leveraging market financing through EU guarantees (Council, 2020k). With the potential exit of the Bundesbank from the ECB bond buying and doubts about future ECB action, the potential risks from fiscal positions due to market turmoil as observed in mid-March became more probable and exerted pressure on governments. This ruling reportedly influenced the German government’s position on loan-based assistance and its ability to stabilise governments' fiscal position in the short- and medium-term (Mallet, Chazan & Fleming, 2020). After the ruling, the German government joint ranks with France in proposing a recovery fund of €500 billion in grants (Bundesregierung, 2020).

The impediment was not identified through a trial-and-error of the use of assistance, but through a preventive approach taking into consideration the *expected* need of public financial assistance and the shortcomings of the assistance regime vis-à-vis these expected needs. The empirical observations indicate that the impediment was based on the governments' withdrawal of support, and not on the experience of the shortcomings of loan-based assistance.[113] Thus, the breakdown was in the utilitarian mechanism of reproduction, as governments assessed the shortcomings of the institutional construct in the changing context pre-emptively. Their proposal for alternatives was based on their expectation of the functional mismatch of loan-based assistance vis-à-vis the new context and had the purpose to mitigate the expected fiscal problems. The Commission struggled to find agreement between governments on the financing structure of the recovery fund, but with the shift of the German government's position, all larger EU Member States withdrew their support for loan-based assistance. Different than in the previous cases, the preventive approach of withdrawing support was coupled with proposing reforms, thus merging impediment with agreement on increased agency.

The necessity of the breakdown of the mechanism of reproduction of loan-based assistance for increased agency is illustrated by the repeated failure by the Eurogroup to find agreement on the form of the recovery fund, even after Charles Michel stressed the sense of urgency in the European Council in April (Council, 2020j). Even though the Commission already had a mandate since April 23, it waited until key players had made their position clear to define the margin of agency. This necessity is also illustrated by the Frugals, which made their common position public on May 23, after the Franco-German proposal was made public. Their disagreement with non-repayable assistance also indicates that the impediment was based on a lack of support rather than a common experience from a trail-and-error approach. As the regime impediment in the financing element was a translation of governments' proposals against loans in the current crisis, the occurrence of

[113] Note: Considering that the withdrawal of support was based on functional factors, this dissertation argues that this breakdown had a functional component as the clear divide between utilitarian and functional mechanism are blurred. However, given that the agreement came before the failure of the system the utilitarian mechanism is considered the dominant one.

the impediment was congruent with governments supporting non-repayable assistance as a viable option. Only with the agreement by the German government to reform the financing design of the assistance regime, a critical mass of governments accepted the need to reform the assistance regime, leading to an impediment of the loan-based design in May 18. This acceptance gave the Commission the needed insurance and agency to propose the RRF at the end of May. From this finding, this dissertation infers the presence of the second part of the critical juncture mechanism.

7.3 Analysis: Productive conditions

The permissive conditions provide the temporal bounds in which the productive conditions can unfold. The support for loan-based assistance started to decrease in March 2020 and was rejected by a majority of governments by May. In the following sections agency is analysed based on a mixed-preference game including shared and individual government preferences. The former presenting the basis of negotiation for the latter. First, the role of economic interdependence as productive conditions is analysed. This interdependence forms the economic rationale for the shared preferences of reforming the procedural and financing element of the regime. From this basis the individual Member State government preferences and the bargaining positions in the reform process are analysed.

7.3.1 Interdependence: the benefit of an even recovery

As in the other typical cases of this dissertation, the shared preference to ensure the effectiveness of financial assistance derived from the economic interdependence of the Single Market and the Single Currency. First, an ineffective assistance regime could fail to provide the needed financing to stabilise a country's financing in the heat of the Covid-19 crisis and thus lead to larger issues of sovereign solvency and potential contagion. Second, the possible economic fragmentation due to the different economic impact of the crisis and the divergent financial capability for recovery, carried an economic risk for all EU Member States. The proper functioning of the Single Market would be severely distorted by divergent recovery, which itself was dependent on a country's fiscal position. [114]

[114] Note: Grund, Guttenberg & Odendahl (2020) argued: 'In that case, two equally dangerous scenarios are possible. Either some member states, fearful of a high future debt burden, may not spend as much as is needed to preserve their economies and will end up much worse off than countries that are able to spend more. Or these member states do spend as much as needed but may face increasingly high interest rates as markets doubt that public debt is sustainable, at which point the euro area may face yet another existential crisis.'

The different nature of this economic shock and the increasing number of deaths throughout the EU strengthened the general sense of solidarity (Rios, 2020; see also Howarth & Schild, 2021). On March 16 the Eurogroup president indicated the potential risk to the Single Currency by stating 'we will protect our citizens and our currency' (Council, 2020l). Later in March he affirmed broad support to use the precautionary credit line of the ESM to provide financial assistance to euro area governments, which underlined that most governments agreed that financial assistance should be available to safeguard the euro (Council, 2020c).[115] This first agreement on potential need of financial assistance in March increased agency about the application of the ESM and its conditionality (see pages 205-206).

In the following months governments and the European Commission debated a potential recovery fund. Non-papers from Spain, France and the Netherlands illustrate in April that the governments agreed on the establishment of a recovery fund, even though the amounts proposed by each government went from as little as €30 billion, proposed by the Dutch government (Politico, 2020b), to an amount of €1.5 trillion proposed by the Spanish government (Politico, 2020d). The Frugal states (Denmark, Netherlands, Austria, and Sweden) stated in May that '[i]t is in the interest of all to restore growth to Member States' economies as soon as possible. This calls for European solidarity and a common recovery strategy' (Politico, 2020c).

In April the Eurogroup president stated that the uneven recovery 'would leave the **socio-economic and financial landscape** highly **fragmented**. Fragmentation would undermine the [S]ingle [M]arket and the currency union.' (Council, 2020i; original emphasis). This statement outlines the interdependence deriving from common policies, particularly linked to trade and the euro. This rationale was also echoed by the nine euro area governments in their joint call for a common debt instrument, which emphasised the contribution of such an instrument for financial stability (governo.it, 2020). Governments of fiscally weaker and harder hit Member States, such as Portugal, Italy, and Greece had the material interest to use assistance to finance their direct expenditure and recovery with favourable lending terms to ensure fiscal space to manoeuvre. In this regard, the Italian government stressed that grant money should be available in the second half

[115] Note: The Eurogroup president stated about the potential use of the ESM, that '[t]his would provide an additional line of defence for the euro and work as insurance to protect us against this unfolding crisis' (Council, 2020c).

of 2020 (Khan & Brunsden, 2020), and the Greek government argued that agreement on the recovery fund was required to ensure sound financing conditions. [116]

Governments of fiscally stronger countries such as Germany and the Netherlands had an interest of even recovery in all EU Member States to sustain their export-led economic model, which would be negatively impacted by uneven recovery (Commission, 2020b). In late April the German chancellor stated in parliament that the government expected to significantly increase its contributions to the EU budget out of solidarity and to ensure recovery in all EU Member States, as the impact of the economic difficulties concerned all, but to a different degree (Bundestag, 2020).[117] When in 2020 Germany took over the Council presidency, she remarked:

> […] At the same time, we should not forget that our national measures will only be successful if the other Member States of the EU are strong, too, and if our national action will be accompanied by European action […]. We cannot allow that the pandemic […] weakens the Single Market, a core element of Europe (Bundeskanzler, 2020; author's translation).

In their joint initiative of May 2020, the German and French governments stated that a recovery fund was necessary 'to support a sustainable recovery that restores and enhances growth in the EU' (France Diplomatie, 2020). The Netherlands and other frugal governments also agreed on the need to setup a common recovery fund, particularly stressing its necessity for the strengthening of the Single Market (Politico, 2020c). Thus, the economic interdependence derived from the Single Market and the euro reproduced the shared preferences and purpose for financial assistance within the EU and the euro area. This purpose also translated into the new objective of an even economic recovery. These shared preferences functioned as the bridge between the permissiveness linked to the two impediments and increased agency on using the ESM, as well as on reforming the loan-based assistance.

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[116] Note: The Greek prime minister stated: '[t]his is not just relevant just for Greece. I think, literally, the future of the eurozone, of Europe, of the integrity of the European Union as a whole, is at stake. I think market reaction in case of a disagreement is going to be rather negative.' (ft.com, 2020).

[117] Note: In a press conference Angela Merkel indicated that the recovery fund will be significant in size and stated, 'we all agreed that we are not talking about €50 billion here', she continued to emphasise that the size needs to be linked the actual impact on the European economy (Council, 2020m).

Thus, the empirical observation demonstrates that the economic interdependence formed the base of the shared preference for potential assistance via the ESM and the establishment of a common recovery fund. Individual cost-benefit considerations by export-led and potential debtor countries contributed to the shared preference. As evidenced in the case of Germany, the acceptance to commit to such an instrument was linked to economic interest of the German export-led market to its EU partners, while the case of Italy evidenced the interest of using grant assistance for fiscal easing. The presence of this productive condition confirms the third part of the critical juncture mechanism and illustrates the validity of shared preferences serving as the base for negotiations and as the bridge between the permissive conditions and increased agency.

7.3.2 Adapting the ESM and establishing a recovery fund

The shared preferences increased agency at the end of March and in mid-May. The first increase was linked to the application of the ESM, which was part of the first response to Covid-19. The second increase was linked to the establishment of a recovery fund.

7.3.2.1 Expenditure-related conditionality for SURE and ESM loans

On March 24 the Eurogroup was in *broad agreement* that the procedure for an ESM use had to reflect the nature of the crisis and so should the conditions. This statement indicates that the majority of governments were in favour to reform the implementation of the ESM. Thus, in its conclusion of March 26, the European Council invited the Eurogroup to present proposals on how to apply the ESM within two weeks '[…] [taking] into account the unprecedented nature of the COVID-19 shock affecting all our countries' (Council, 2020i). With this invitation agency was increased on reforming the implementation of the procedural element of the regime.

In the debate in the Eurogroup at the end of March and the beginning of April 2020 finance ministers resolved the impediment in the procedural element of the assistance regime by redirecting the practice of conditionality from previously strict austerity to *ex ante* expenditure-related conditionality linked to fiscal measures and investment objectives. The first response of the Eurogroup inclusive format in April included the use of the ESM as crisis resolution tool, and additional EU credit lines. The argument for a change in conditionality was substantiated by the nature of the crisis, which, for a majority of governments, promoted the view of abandoning austerity as part of conditionality altogether. The decision-making barrier to change the use of ESM instruments was unanimity constituting a veto for all euro area countries.

In the negotiations on ESM use, several governments of Southern EU Member States with weaker fiscal positions called for abolishing conditionality, with the Italian government stating that each government should be responsible for the proper use of the money from the assistance regime (Euractiv, 2020). The Italian government was particularly wary of the use of austerity for ESM programmes and the attached stigma of troika officials designing structural adjustment for the country (Barigazzi, 2020; see also Tesche, 2022).[118] The French government's preference on conditionality was to use standardised MoU's which would not stigmatise governments' policies but be focused on financing Covid-related expenditure (Politico, 2020a), thus avoiding lengthy and cumbersome reform programmes.

The German government agreed with the eased conditionality in the form of targeted pandemic-related expenditure (Berschens, 2020).[119] Initial hesitance by the German government on ESM use can be explained by the still low refinancing rates for most governments and by the understanding of the ESM as an instrument of last resort (i.e., when government were about to lose access to market financing). As the German government was a strong supporter of strict conditionality a decade earlier, the support of eased conditionality was significant, even though not incoherent with German policies. The German government had used its substantial fiscal space to finance extraordinary expenditure, including an unlimited credit programme for its economy (Zeit Online, 2020), and adopted additional fiscal measures of €122 billion at the end of March (Bundesfinanzministerium, 2020). The government's position shifted thus in line with its own policy from budgetary balance to health-related expenditure. The moral hazard aspect of strict conditionality did not apply in this case, as governments did not engage in excessive spending knowing that they would receive a bailout, and the expenditure-related conditionality could avoid that the ESM funds would be used for other government expenditure.

[118] Note: Roth & Jonung (2019) argue that support for national governments and the ECB dropped markedly for euro area countries under financial assistance programmes since 2010. A potential use of the ESM was thus attached to political costs linked to austerity.
[119] Note: Finance minister Scholz stated in an opinion piece for its party members that 'we don't need neither Troika, nor supervision, nor Commission who design programmes for countries, but rapid and targeted help' (Maas & Scholz, 2020; author's translation).

The Dutch together with the Finnish and Austrian government preferred the set conditionality for ESM credit lines, including long-term debt sustainability (Smith-Meyers, 2020), a position in line with protecting them from risks of financing unsustainable fiscal positions of potential debtors.[120] For potential debtors this form of conditionality entailed corrective measures in case of fiscal sustainability risks, a scenario the Italian government tried to avoid, as it would require budgetary cuts more or less soon after the Covid-19 crisis subsided. The Dutch government had previously drawn criticism by its European partners in requesting the Commission to investigate the lack of fiscal space in some countries, a request understood as a criticism of the Italian government, which was the only larger euro area country not reducing its debt levels in the preceding five years (Von der Burchard, Oliveira & Schaart, 2020; Khan, 2020b). Similar to the German and French position, these Frugal governments supported the use of the ESM for health-related expenditure only.

In the debate about the amount of ESM ECCLs, The Eurogroup agreed that about 2 per cent of respective GDP should be available for each country (about €240 billion of the remaining 410 billion),[121] a number congruent to the fiscal measures adopted until the end of March by EU Member States. The ESM treaty did not stipulate any borrowing limits for countries, and the ESM managing director indicated that borrowing could be above this set limit (Brunsden, Fleming & Khan, 2020).

The French non-paper indicated that the BoP instrument was still in place for non-euro countries (Politico, 2020a), however, the Commission proposed an instrument for temporary support to mitigate unemployment risks in an emergency (SURE) based on Art. 122(2) TFEU, applicable for all EU Member States (similar to the EFSM). The proposal was targeted at supporting Member States' expenditure for unemployment and health-related expenditure due to the public health crisis, similar to the ESM, with the difference that it applied to all EU Member States and had a financing ceiling of €100 billion (Council, 2020n). The Commission's proposal extended the euro area's broad agreement to all EU Member States with making eligibility for assistance not

[120] Note: The official description of the ESM's ECCL reads: '[…]*access open to euro area Member States whose economic and financial situation remains sound but that do not comply with the eligibility criteria for PCCL. The ESM Member is obliged to adopt corrective measures addressing such weaknesses and avoiding future problems in respect of access to market financing'* (ESM, 2022a).
[121] Note: Technically the only ESM instrument that was explicitly limited in size was the DRI. The negotiation in the Eurogroup about the ECCL was about the limited use of ESM credits with expenditure-related conditionality, not about the limit of funds for support itself.

dependent on balance of payments difficulties, but to socio-economic expenditure linked to the pandemic.

On April 9 the finance ministers agreed in the *comprehensive economic policy response to the COVID-19 pandemic* that conditionality was to only follow direct and indirect health-related expenditure (ESM) as well as actual and proposed expenditure on socio-economic consequences of the pandemic (SURE). Similarly, the application of the BoP instrument was to take into account the special circumstances (Council, 2020a), which meant that conditionality of the BoP was streamlined with the ESM and SURE. This first response had two noteworthy markings. First, conditionality was redirected from strict conditionality for euro area countries to expenditure-related conditionality linked to actual and projected fiscal measures. This was a significant change to the previous practice of the assistance regime. This agreement streamlined for the first time the conditionality applied to all assistance instruments in- and outside the euro area, including the newly established SURE instrument. In addition, the stigma of an individual country having to ask for assistance was reduced by the Commission's move to first collect requests from all applicants for assistance and then announcing assistance to sixteen countries at once in August 2020 (Commission, 2022e; see also Tesche, 2022). While the immediate outcome of expenditure-related conditionality favoured preferences of the Italian, Spanish, Portuguese, French but also German governments, the Frugals were appeased by including the statement that '[after the crisis], euro area Member States would remain committed to strengthen economic and financial fundamentals, consistent with the EU economic and fiscal coordination and surveillance frameworks, including any flexibility applied by the competent EU institutions' (Council, 2020a).

The second noteworthy marking was the reproduction of functional advantage of intermediary financing. Its utility for potential creditor and debtor governments reproduced the financing element of intermediary financing through the ESM, BoP and SURE. Given that most of the response relied on existing instruments, the agreement did not require significant financial commitment from any EU government. Funds under the BoP and ESM were already in place, and 75 of the €100 billion under the SURE instrument were already covered by the EU's margin within the Own Resources.[122] The only new commitments of Member State governments were the

[122] Note: As part of the agreement the EIB was allowed to set up a guarantee fund of 25 billion euro which was to support up to 200 billion euro of financing to companies (Council, 2020a). Financial assistance for EU Member States

guarantees for the leftover €25 billion of the SURE instrument, which were distributed relative to the share in the EU budget. These guarantees had no budgetary impact and would only be considered as expenditure if called upon (i.e., in case of default on SURE loans) (Eurostat, 2020). Thus, governments only increased their exposure to repayment risks.

The outcome regarding the financial commitments favoured the Frugals and German government material interest of only slightly increasing their limited liability, and by using loans in order to mitigate the economic difficulties, which were expected to be fully repaid. Given that all Member States agreed to 'voluntarily' provide guarantees for the leftover 25 per cent of SURE also illustrates that governments of Germany and the Frugals were willing to provide assistance, as the withholding of the guarantees would have been equal to a veto to the entire instrument.[123]

The outcome in April reflected the majority held position of abolishing austerity. The agreement constituted punctuated redirecting of conditionality in the procedural element. The agreement mobilised and allocated funds from several sources to be used for pandemic-related expenditure (BoP, ESM and SURE), abandoning austerity-dominated conditionality for financial assistance.[124]

The empirical findings support the rationalist claim that preferences from potential creditors and debtors were in line with their expected involvement of assistance. The potential creditors followed the preferences to limit the risks issuant from credits, and to avoid the use of loans for fiscal leniency by setting *ex ante* conditions or conditions of fiscal sustainability. Potential debtors preferred to avoid conditionality altogether. The outcome of the first response of early April 2020 demonstrates the dominant position of creditor countries in the negotiations. While, austerity was significantly redirected, the new conditionality was linked to *ex ante* Covid-19 related expenditure.

(under BoP, EFSM, and SURE) are not provisioned in the EU budget, but constitute contingent liabilities, which means that the EU can use resources 'over and above the MFF ceiling, while respecting the Own Resources ceiling' (Commission, 2021d). That means irrespective of the individual lending limit of each instrument, the Own Resources ceiling provides a common lending limit for all three instruments.

[123] Note: The term 'voluntary' was somewhat misleading as Art. 12 of Council Regulation (2020/672/EU) stipulated that only after all guarantees were provided the instrument becomes operational. The voluntariness thus refers to the bilateral financial agreement between Member States and the Commission, which could not be legislated by the EU, but only by national 'voluntary' law.

[124] Note: Art. 3 Council Regulation (2020/672/EU) explicitly stated the expenditure-related conditions of the instrument, while the ESM treaty stipulated in Art. 3 'strict conditionality, appropriate for the financial assistance instruments', leaving some margin of manoeuvre in terms of what strict conditionality would mean for an ECCL. An ESM template regarding a potential request required Member States merely to state their forecasted expenditure on health-related measures (ESM, 2022b). The BoP regulation was not amended and not used in the context of Covid-19.

Potential creditors limited their exposure to risks by limiting ESM use and by setting conditional use of support linked to specific *ex ante* expenditure. In addition, the €100 billion SURE instrument functioned within the already set margin between the MFF and Own Resources only requiring some guarantees to be fully operational.[125] While potential debtors avoided austerity, the first response only marginally increased assistance via the regime, mostly linked to already established instruments and fiscal easing via new loans.

7.3.2.2 Tug of war over European recovery

While the mandate to propose a recovery fund was delegated to the Commission already in April 23, the Commission waited until after governments of key countries had made their positions clear, which equalled the necessary permissiveness and the agreement to increase agency. After the Franco-German proposal for grants was made public, the Frugals put forward their position for a solely loan-based instrument of €250 billion. Other proposals for the use of grants came from the Spanish government of the size of €1.5 trillion on April 19 (Politico, 2020d). The proposal for a common debt instrument by nine euro area governments in March 2020 was in so far relevant as it pinpointed their general support of an EU debt instrument. The French government proposed in April a fund with joint and several guarantee (i.e., debt mutualisation) by EU Member States, however, the Franco-German proposal did not include such a guarantee and referred to the EU budget, which was guaranteed according to the Member State quotas. The Frugals rejected the idea of mutualised debt and declared in a common position that '[they] cannot agree to […] any instrument or measures leading to debt mutualisation nor [to] significant increases in the EU-budget' (Politico, 2020c). Instead, they preferred a loan system as already operatable in the assistance regime and stressed that savings in some lower performing areas of the MFF could free up capital for recovery in other areas.

Derived from their fiscal position, Germany, the Netherlands, Austria, Luxembourg, Finland, Denmark, Sweden and France (58 per cent of EU GDP) were potential creditor countries in financial assistance, while Italy, Portugal, Cyprus, Greece, Slovakia, Hungary, Romania and Spain (28 per cent of EU GDP) were potentially debtor countries. The barrier for a compromise was high

[125] Note: Of the announced €540 billion, only €100 billion were new loan instruments for governments.

with unanimity being required for all major changes to the ESM, unanimity for a compromise using the MFF and the Own Resources, and QMV for proposals under Art. 122(2) TFEU.

A common debt instrument through the EU budget distributing grants was more costly for net contributors of the budget, while a debt instrument using loans carried only repayment risks. In 2018, Germany, France, Italy, the Netherlands, Sweden, Austria, Denmark, Finland and Ireland were net contributors (Buchholz, 2018; see also BBC, 2019). Apart from Italy, this picture also represented the respective fiscal position of each country. The German government position to increase the budget to disburse grants was to a certain degree in its economic interest, as the fragmentation of the Single Market could be harmful for the German economy due to the reduced imports by key economic partners in the EU (Bundeskanzler, 2020). The German government previously stressed its scepticism vis-à-vis debt mutualisation, which would in their view require a treaty change, as part of the budgetary power of national parliament would be transferred to the EU (Bundestag, 2020). The German position was thus mid-way between the Frugals and the coalition surrounding France, siding with the former on the rejection on mutualised debt and with the latter on a common debt instrument.

A common debt instrument, either through loans or grants would have allowed low financing rates and stable long-term maturities for fiscally weaker countries, and increased net transfers for some countries in the case of grants.[126] Considering that the allocation of grants (and amounts of loans) were to be reflected by the impact of the pandemic, Italy was expected to be a large net-recipient of such an instrument. Common debt for loans and grants were in the economic interest of several governments signing the March proposal on a common debt instrument as their fiscal positions were under pressure through already high debt levels and market financing costs (Belgium, Italy, Portugal, Spain, and Greece), but the instrument was also in the economic interest of any Member State whose financing rates increased between April and May, if only as a signal to market (e.g.,

[126] Note: In the case of grants financed through the EU budget a country's net contributor or net recipient positions would give an indication of its respective increased contributions/receipt from the budget. In this regard several countries proposed additional resources for the EU in the form of a solidarity tax (France) or border carbon taxes (Spain) for the repayment of the debt. From a net contributor/recipient position Italy, France and Ireland were net contributors. For Italy the high market rates did however pose more immediate fiscal problems, which would be eased through a front-loaded receipt of grants and or low-priced long-term debt, even if Italy had to shoulder an increased contribution over several years afterwards.

Romania, Hungary, Poland, Czech Republic, and Croatia, which all registered relatively high refinancing rates and debt levels).

The position of the Frugals, Italy, Spain, Portugal, Greece, and Cyprus corresponded with their expected financial costs and gains from the recovery fund. The German position is partially explained by its expected involvement and partially by the broader economic interest of its export-led economy. The French position to support mutualised debt is not adequately explained by its expected involvement, however its support for grants (for an even recovery) can be allocated to the exposure of its exports to European partners.

The Commission tried to coalesce the respective positions in its proposal for a recovery fund of May 27. This proposal was a merger of the Franco-German and Frugal initiatives including the €500 billion in grants and €250 billion in loans. These loans and grants were supposed to be guaranteed by the margin between MFF and Own Resources. The decision-making barrier was hight with unanimity required in the EU for an Own Resources decision covering grants and loans (including ratification in all EU countries) and for the MFF. In addition, the EU parliament was also required to consent to the MFF, which posed an additional legislative hurdle, however to a lesser degree. Given that each governments possessed a veto, the negotiations were lengthy and included numerous concessions for each party. In addition to the question about loans and grants, the Frugals were demanding a sunset clause for the recovery fund of two years and limited liability for the fund.

After a record 4-day negotiation in the European Council between the coalition of the Southern Member States including the Franco-German initiative and the Frugals, joined by Finland, the governments agreed to set up a recovery fund 'NextGenerationEU' (NGEU) of €750 billion, including a recovery and resilience facility (RRF) with a loan instrument of €360 billion and a grant instrument of €312.5 billion (see Appendix table 8).[127] Additional €77.5 billion were attributed to direct programmes and not directly disbursed to governments. NGEU was to be financed via EU debt to frontload the amount in the first years and to be repaid over several decades until 2058 (Council, 2020o). As part of the deal the MFF was reduced from its initial proposal of February 2020 by 20 billion to €1,074 billion. To be able to reimburse the grant-based EU

[127] Note: The RRF constitutes the financial assistance element of the agreement of July 2020.

expenditure the Member States agreed to increase the own resources ceiling by 0.6 ppts until 2058 (see Appendix table 9).[128] The dynamic of the negotiation was highlighted by the president of the European Council in the press conference after the meeting, by beginning his elaboration on the deal with 'we negotiated about money […]' (Council, 2020p).

This agreement consolidated the Frugal and Franco-German proposal, by creating grant-based support, but also by channelling such financial assistance via the EU budget and not through new mutualised debt instruments.[129] The temporary additional allocation to the budget to finance grants were accompanied by small rebates of about €7.5 billion for net contributors and a reduction of the MFF.[130] While the bargaining power of the large coalition behind the Franco-German proposal was able to ensure grants for financial assistance, the five net contributors in the form of the Frugals were able to reduce the size of the grant element from 500 to €312.5 billion and increase the loan element from 250 to €360 billion. In addition, they limited the loan instrument to 6.8 per cent of GNI (Council, 2020o), a number congruent to the forecasted economic decline in the Netherlands, and not initially proposed by the Commission (Commission, 2020b).

With the introduction of non-repayable assistance as part of the financial assistance regime, governments layered a new financing element onto the existing regime, previously only composed of loan-based assistance. The introduction of a grant and loan instrument with low lending rates established the, so far, largest EU assistance instrument of €672.5 billion. The RFF loan instrument reproduced the functional advantage of intermediary financing for credits in a context of overall economic decline. The RFF grant instrument introduced new and direct expenditure for all

[128] Council Decision (2020/2053 EU, Euratom).
[129] Note: So-called 'coronabonds' would delegate power to the EU to raise autonomously debt on the market for which the Member States are joint and several liable. Redistributing assistance via the EU budget does not confer this power to the EU, but solely increased temporary its sources for reimbursement of predefined grants and potential loans. The Own Resources ceiling limits the contribution from each Member State and the MFF limits its expenditure according to the Own Resources ceiling, thus Member States have a limited liability for the EU linked to their maximum share in the Own Resources (Art. 3, Council Regulation (2020/2093 EU, Euratom)).
[130]Note: Technically the EU budget was simply increased from about 1 trillion to 1.390 trillion in the 2021-2027 MFF (grant + rescEU), as loans under the RRF were expected to be repaid, similar to other instruments before (e.g., SURE, BoP, and EFSM). The innovative element was that the Commission borrowed up-front large sums to finance expenditure instead of calling finances from Member States. As the Commission could only borrow within the limits of the Own Resources, the collateral had to be increased for these RRF expenditures, which resulted in an increase of the Own Resources ceiling to cover potential liabilities from these instruments. Guarantees for repayment of EU debt on the market is thus provided through the Own Resources, which constituted a joint liability, however with national contribution limits (see also Howarth & Schild, 2021).

governments, but relatively more so for net contributors. The introduction of non-repayable assistance was thus a punctuated change in the financing element of assistance in the regime.

The empirical observation in this case demonstrates the overall validity of the rationalist approach based on financial involvement in assistance. Most government positions are captured by this approach, even though the German position illustrates that preferences are not only dependent on the material interest linked to the financial involvement in assistance. One notable exception is France, whose preference can only be partially explained by material interest. The negotiation outcome showed a compromise favouring overall the Franco-German proposal. However, it also demonstrates that the Frugals were able to include several of their demands and to scale back the amount of non-repayable support. This finding illustrates that the bargaining position was asymmetric for potential creditors. While France and Germany provided a decisive push towards grants, the Frugals lowered the amount of grants and pushed for limits. Thus, an approach focusing on rationally derived preferences and government bargaining positions proofed to be a good determinant for the negotiation of reform and proofed the presence of the fourth part of the critical juncture mechanism.

7.3.3 A critical juncture for the assistance regime

This case demonstrates that the exerted pressure from permissiveness can be linked to the expectation of assistance needs. In similar terms, the impediment can be linked to the potential shortcomings identified by policymakers before the actual use of assistance. In this regard, the presented case deviates from the other typical cases by following a more preventive instead of trial-and-error dynamic. The preventive dynamic is characterised by governments trying to avoid the breakdown of the regime which leads to a withdrawal of support and/or trust in the system. Like previous cases, economic interdependence worked as bridge between permissiveness and increased agency. However, the withdrawal of government support for specific regime elements was in this case simultaneous with the agreement to increase agency. Thus, the preventive dynamic combined part 2 and 3 of the causal mechanism to a certain extent. The detailed negotiation on reform followed a similar divide between potential creditor and debtors as in previous cases, even though the financial involvement was not the only determinant for government preferences. The presence of the permissive and productive conditions, even though in a different form than in the previous three typical cases, demonstrates the broad validity of the critical juncture mechanism and thus the first part of the framework of actor-centred historical institutionalism (see table 17).

Table 17: Application of Critical Juncture Mechanism (case 4)

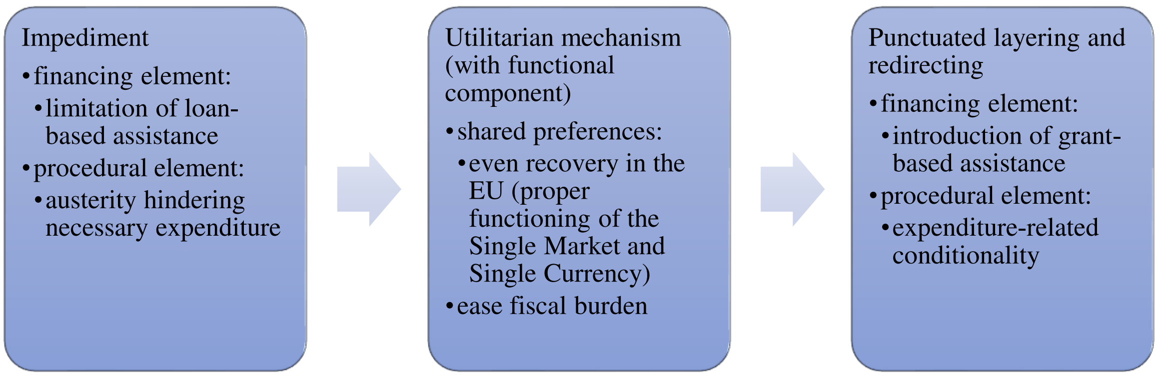
Contextual conditions:
Economic Interdependence (Euro, Single Market, financial integration)
Geographical boundaries (EU)
Temporal boundaries (2020)

Trigger Cause	Part 1	Part 2	Part 3	Part 4	Outcome
Economic decline due to containment measures	Increased need for public financial assistance due to fiscal measures by all governments	Breakdown of (a) austerity-dominated conditionality and (b) loan-based assistance	Potential risk from market financing and potential distortion in the Single Market from uneven recovery.	Negotiations on conditionality and on the form of the recovery fund.	Punctuated change in the (a) procedural element by redirecting conditionality to expenditure related conditionality. (b) in the financing element by layering non-repayable assistance onto the loan-based assistance regime.
Entities	Member State governments	European Commission, Member State governments	Member States	Member States	
Activities	Expectation that public financial assistance will be necessary, even though assistance was not applied.	(a) Argue against applying austerity measures; (b) Several Member States faced immediate and longer-term fiscal difficulties with some degree of fiscal risks, leading governments to argue against loan-based assistance.	Agreement to reform conditionality and to establish a recovery fund as part of the assistance regime.	Potential debtors (and France) vs Frugals (potential creditors), with Germany supporting the former on grants and the latter on rejecting a mutualised debt instrument.	

(Source: the author)

The punctuated changes occurred in the procedural element via redirecting austerity to expenditure-related conditionality, and via layering of grant-based assistance onto the financing element. As the impediment was simultaneous with the agreement on increased agency and linked to governments (dis)agreement (part 2 and 3), the production of layering and redirecting were based on the utilitarian mechanism (see figure 16). These two changes constitute the fourth critical juncture of the development of the European financial assistance regime. Considering the relative recentness of these changes, the legacy analysis only covers a two-year timeframe. However, it can already be stated that these punctuated changes from the Covid-19 crisis had consequences for the subsequent development.

Figure 16: Production based on utilitarian mechanism (case 4)



(Source: the author)

7.4 Analysis: The legacy of the Covid-19 crisis

Notwithstanding the recentness of the two punctuated changes, first signs of legacy can be observed.[131] The punctuated redirection of the procedural element shows tendencies of being reproduced in subsequent development of REPowerEU. The reproduction of grant-based assistance is only indicative.

7.4.1 Path dependence

7.4.1.1 Path dependence of expenditure-related conditionality

The redirection of austerity-based conditionality to expenditure-related conditions significantly changed the procedural element of assistance and the potential political costs and stigma attached to conditionality as part of financial assistance. That conditionality was significantly eased through expenditure conditionality is illustrated by the fact that all governments were potentially eligible for the ESM (in the euro area) and for SURE loans. The economic argument for expenditure-related conditionality was based on the agreement that governments needed to finance fiscal

[131] Note: The MFF with the RRF instrument were only adopted in December 2020 and February 2021 respectively.

measures and recovery instead of using it for direct fiscal consolidating. This agreement was reproduced for the RRF, which, instead of *ex ante* expenditure, included several investment areas as the scope of the RRF funds. The RRF agreement reproduced this redirected conditionality by providing expenditure targets for green and digital priorities of the EU and stating that the programmes for expenditure should be consistent with the EU's country-specific recommendations (Council, 2020o). The conditions for public investments were not particularly controversial and no country failed to achieve the investment goals proposed in the RRF (Commission, 2022f). Thus, the expenditure related practice for conditionality agreed in April, and legally adopted in May 2020, was reproduced in the agreement of the RRF in July (adopted in February 2021).

In 2022 the economic rationale of expenditure-related conditionality for assistance was reproduced in the context of the Russian war on Ukraine. In this new context the Commission proposed to use new investment goals within the RRF to mitigate 'socio-economic hardships and global energy market disruptions' allowing the use of leftover RRF funds for this purpose (Commission, 2022g). The Russian aggression, constituting an exogenous shock to the energy markets, repeated the contextual aspect in which *ex ante* government policies were not responsible for the economic difficulties. Thus, as no government bore responsibility, the previously supported arguments about moral hazard and the need to counter the economic hardship with targeted expenditure were reproduced. The purpose of REPowerEU of reducing disparities between EU economies also followed the assistance purpose of avoiding a divergent recovery. The agreement between the Council and the EP for the use of RRF loans for energy-related aspects of December 2022 manifested this utilitarian mechanism of reproduction stating that:

> […] In particular, it has become clearer than ever that the Union's energy security and energy independence are indispensable for a successful, sustainable and inclusive recovery from the COVID-19 crisis, as they are also a major factor contributing to the resilience of the European economy. Due to the direct links between a sustainable recovery, building the Union's resilience and the Union's energy security, reducing its dependence on fossil fuels, in particular from Russia, and the Union's role for a just and inclusive transition, the

> Recovery and Resilience Facility is a well-suited instrument to contribute to the Union's response to these newly emerging challenges [...].[132]

The agreement on REPowerEU is in so far interesting as it indicates similar dynamics as with the CLM in 1975, which became legally redirected from an instrument with the limited explicit purpose to mitigate the increase of prices of petroleum products to the general instrument for balance of payments.

In February 2022 the Commission made another proposal for 'A Green Deal Industrial Plan for the Net-Zero Age' in which it again proposed to use RRF loans for the purpose of investing into the green transition. This proposal made again reference to the disparities in the Single Market regarding green investment stating that:

> To avoid fragmenting the Single Market due to varying levels of national support, facilitate the green transition across the Union as a whole, avoid exacerbating regional disparities and address the gap between funding currently available and the financing needs for scaling up the net zero industry, we must also step up EU funding.[133]

These examples illustrate the (intended) reproduction of the redirected conditionality through the utilitarian mechanism and demonstrates the usefulness of assessing critical junctures by means of mechanisms of reproduction, as it allows to identify how the punctuated change in the procedural element was and potentially is reproduced. The reproduction of the punctuated redirection thus solidifies the assessment of the Covid-19 crisis as a critical juncture in the procedural element.

7.4.1.2 Path dependence of non-repayable financial assistance

The agreement and subsequent introduction of grants significantly changed the financing mode of the regime, which until then worked for over fifty years through loans. While the RRF loans reproduced the functional advantage of intermediary financing in a period of overall economic decline, the loan-based assistance was partially impeded due to the expected limitation of loans on the fiscal space of several highly indebted countries. This limitation posed a potential hinderance to effective recovery. As the functional mechanism of reproduction of grant-based assistance is linked to the limit in fiscal space, a reproduction of this functional mechanism could be expected

[132] COM(2022)0231 – C9-0183/2022 – 2022/0164(COD)).
[133] COM(2023) 62 final.

to be active in moments of shock where increased expenditure is met with increased pressure in the fiscal position of Member States. However, given the RRF was only adopted in February 2021 no legacy could be identified for this dissertation. Considering the increasing refinancing rates linked to inflationary pressure as of 2022, the fiscal positions of several countries might worsen and reproduce grant-based support.

As of December 2022, the financial assistance regime consisted of mechanism worth a total of €1,433 billion[134] of which *only* €338 billion were available in grants.[135] The loan mechanism, which itself was reproduced in the functional mechanism, was not fully displaced by the introduction of grants. This persistence of loan-based assistance is demonstrated by the total use of loans in the Covid-19 crisis of about €260 billion.

7.4.2 Gradual change

The consequences of the critical juncture regarding the ESM are outlined in the following section. Considering the short timeframe, this dissertation refers to a tendency, which could lead to displacement of the ESM.

7.4.2.1 Displacement of the ESM?

The ESM was planned to use its Enhanced conditions credit line (ECCL) which generally has the purpose to 'prevent a crisis situation from emerging. It helps […] to maintain continuous market access' (ESM, 2022a). Thus, the intended use was preventive and in parallel to market financing. However, the use of ESM assistance to maintain market access faced disadvantageous vis-à-vis other EU instruments. First, the ESM was accorded explicit preferred creditor status, which gave repayment of its loans priority over the repayment of privately held government bonds (only the IMF was senior to the ESM). [136] This was less a hinderance in situations where countries faced a

[134] Note: This calculation is based on the full envelopes available under BoP, EFSM, SURE, RRF, and ESM. The RRF amounts were negotiated in 2018 prices which brings the final instrument to €338 billion in grants and 385.8 in loans.
[135] Note: This is the amount of €312.5 billion in 2018 value.
[136] Note: Preferred or senior credit status for IFIs and multilateral lenders is not necessarily a given, as some might possess *de jure* seniority and others not. Steinkamp et al. (2014) stated that the EFSM ranked *pari passu* with other sovereign bond holders, but also emphasised that the decision of assistance to Ireland conferred a *de jure* seniority status stating that '[t]he support from the EFSM needs to be supplied on terms and conditions similar to those of the IMF' (Recital 6, Council Implementing Decision (2011/77/EU)). Casale et al. (2012) stated that the EU loans under the EFSM were on equal footing with other sovereign claim and did not have seniority. In addition, market actors' expectation on seniority illustrates a tendency of EU *de facto* seniority (Steinkamp et al. 2014). In this regard, several credit rating agencies (e.g., FitchRatings, Scope, and DBRS) considered the EU having a (*de facto*) preferred creditor status. Regarding loans under SURE, legal documents do not state a preferred creditor status.

sudden stop in the bond markets and public financial assistance replaced temporary the private market as sole creditor.[137] The preferred creditor status had a potential crowding out effect for higher indebted countries, as investors would automatically face a higher risk for repayment with the ESM participating in the countries financing, as their shares of bonds would be in a junior position (Steinkamp et al., 2014; see also Bini Smaghi, 2012). Second, the use of the ESM was stigmatised of foreshadowing fiscal difficulties, thus its use could cause a loss of trust in the respective government bond.[138] In moments where ESM and market financing were to be used in parallel, the interplay of markets and the ESM became more relevant, as the risk premium governments have to pay for privately held bonds might increase (see also Dullien et al. 2020). This increase premium could erase or reduce the required improved fiscal position for a higher debt intake.[139]

The *de facto* displacement of the ESM in the public health crisis is best illustrated by the immediate reaction of euro area governments after the legal adoption of SURE and the ESM ECCL in May 2020. Sixteen national governments had requested assistance from the SURE instrument by August 24 (Commission, 2020e), and nineteen at the end of February 2021 (of which fourteen were euro area countries; see also figure 17). Even though the ESM allowed for larger drawings for euro area countries (2 per cent of their respective GDP – e.g., Italy could have requested €35 billion), and thus allowed for additional savings on interest payments linked to its low lending rates. By February 2021 over 90 per cent of the SURE funds were requested, and none from the ESM.[140] Considering that Italy, Poland, and Spain demanded higher loan amounts than they received by the Commission (which set the limit of Italy, Spain, and Poland to a collective €60

[137] Note: This was the case for several programmes in the context of the international financial crisis starting in 2008.
[138] Note: In the *Financial Times,* Fleming et al (2020) wrote regarding this problem '[o]ne of the riddles finance ministers need to solve is how to make clear to markets that the ESM is available, without spooking investors by making them think that a country really needs its help.'
[139] Note: The preferred creditor status of the ESM was not used for Spain, nor retrospectively used for EFSF loans to Ireland, Greece, and Portugal, which remained *pari passu* with market financing (Beesely, 2011; see also Steimkamp et al., 2014). In 2010 Klaus Regling Managing Director of the EFSF and the future ESM stated in an interview: '*It [the EFSF] will have the same standing as any other sovereign claim on the country . . . . That's really to protect the debtor country, because if there are too many preferred creditors, then private creditors would be reluctant to lend anything to the country concerned*' (Koeppen & Horobin, 2010). The restructuring of Greek debt in 2012 can not necessarily serve as an example of *de facto* institutional seniority of euro area loans as the GLF was a web of bilateral credits and the restructuring was designed by the euro area only involving the private sector. However, the Greek example illustrated that all publicly held debt were treated preferentially in the restructuring (Steinkamp et al., 2014).
[140] Note: Italy requested later over €122 billion of RRF loans, illustrating the government's increased need of support and its unwillingness to borrow from the ESM (the same applies to Greece, and to some extent to Portugal and Cyprus).

billion; Commission, 2021e),[141] the potential willingness to take EU loans was present. This willingness was incentivised by the availability of SURE loans and the increased borrowing requirement by each government. Most Member State governments facing long-term rates above 0 per cent and/or relatively high debt requested assistance under SURE and increased their fiscal space through the benefits of the low EU interest rates and long maturities. One notable exception is Estonia (low debt and refinancing rate), which had a history of borrowing predominantly from IFIs (including the EIB; Estonian Minister of Finance, 2021), a preferred option for the government even after a successful 10-year bond issuance in 2020.[142]

Euro area governments favoured the SURE instrument due to its longer maturities of about fifteen years (against ten years of ESM funds), and the absence of additional fees (ESM fees were applicable but significantly reduced; see also Council, 2020q).[143] The first issuance of 10-year SURE social bonds was with a yield of -0.238 per cent cheaper than costs expected from ESM credit lines (Commission, 2021e). The relatively small spread between SURE rates and Belgian, Slovakian, Lithuanian, and Latvian financing rates indicate that the use of the ESM could have been more expensive than market financing for these countries. Admittedly, for Italy, Greece, Cyprus, Malta, and Portugal (to some extent also Spain) the ESM rate was markedly lower than their own refinancing rate. However, despite the potential savings on interest rates, no country turned to the ESM. This dynamic can to some extent be explained by the explicitness of the ESM creditor status. EU loans under SURE did not explicitly attribute preferred creditor status to the EU, which meant that the pricing of risks was not negatively impacted by public financial assistance via SURE. The ambiguity of EU seniority might have contributed to the use of SURE, while the ESM's unambiguous seniority might have been discouraging, considering its potential negative impact on market financing, which was important for financing the incurring deficits.

Euro area governments defection of ESM assistance in favour of EU instruments is further demonstrated by the use of RRF loans for recovery. Governments of Greece and Italy, the countries

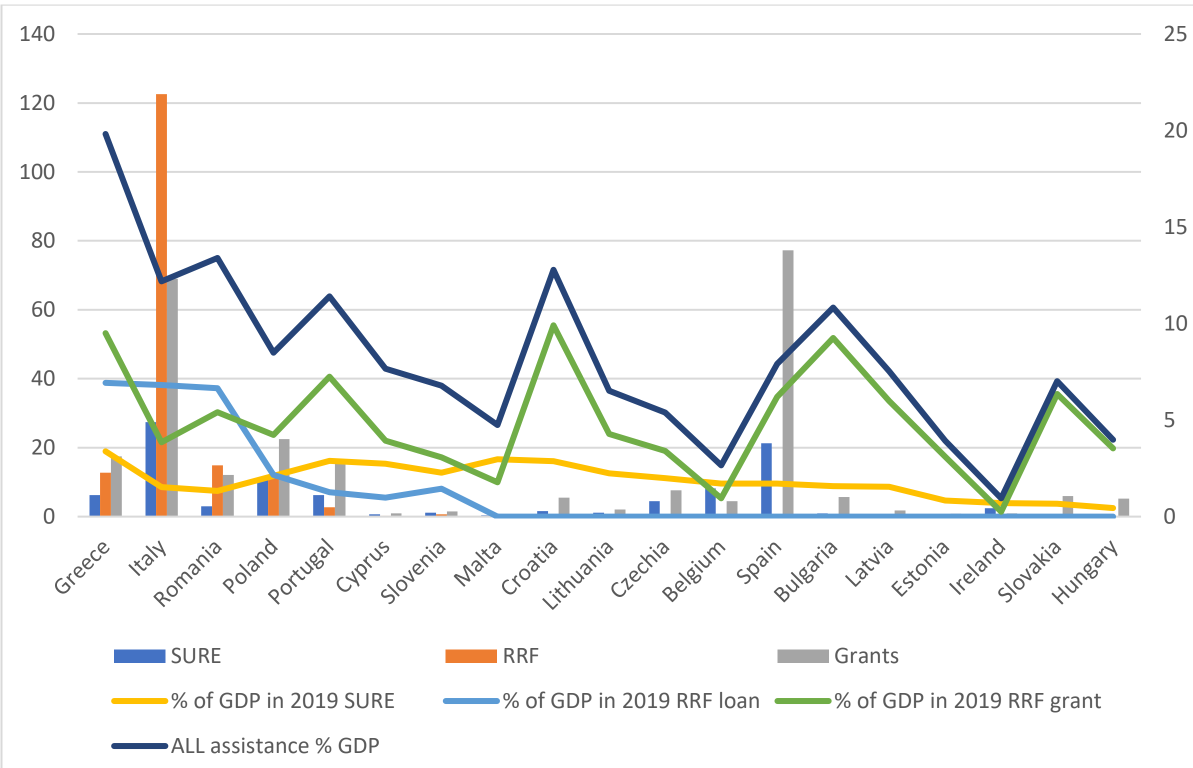
[141] Note : The Commission stated it slightly reduced the amounts for the three largest requests (Commission, 2021e), the unwillingness of Italy and Spain to seek top-up credit-lines from the ESM underlines the argument of the expected negative impact the ESM might have on market financing.

[142] Note: After 18 years Estonia returned to the bond market in 2020, where it issued bonds worth €1.5 billion in June, representing 47 per cent of its total debt in 2020. Estonia used SURE and Council of Europe Development Bank funds to cover half its financing needs for 2021, avoiding another bond issuance for that year (Estonian Ministry of Finance, 2022).

[143] Note: The ESM lending rate for countries were expected to be only marginally above zero (Council, 2020d).

with the highest indebtedness and with the highest refinancing rates in the euro area, requested loans worth 10.3 and 8.3 per cent of their respective GDP, making EU loan assistance to Italy with a total of €150 billion the second largest envelope after Greece. Overall, nineteen out of twenty-seven Member States received assistance via loans either in combination of SURE and RRF, or solely via SURE. As shown in figures 15 and 17 the debt and refinancing position were good indicators for the use of loans by governments, where high financing rates and high debt cooccurred. However, no government turned to the ESM.

Figure 17: Use of assistance instruments in 2020-2021 by country, in € billion and per cent of GDP



(Source: Commission, 2021c; 2022g; author's compilation)

Thus, the first sign of *de facto* displacement of the ESM in the Covid-19 crisis is demonstrated by the active defection of euro area governments to EU instrument. This defection can be explained by the incentive structure of SURE and RRF loans, as well as by the disadvantage of ESM loans as co-financing with the market linked to its preferred creditor status. While SURE, RRF loans and the ESM follow intermediary financing and all have the technicalities of providing loans with long-term maturities and low interest rates, the relatively minor details of ESM fees and its creditor status encouraged euro area governments to desist from its use.

The question if the ESM will be displaced over time depends on the reproduction of the minor functional advantage of EU over ESM loans. Were EU loans to reproduce, the ESM either must be adapted or it will be displaced in practice. The functional mechanism maintaining EU loans and grants could thus contribute to the displacement of the ESM. Using gradual change mechanism of displacement one can thus further the understanding of the consequences of the critical juncture. Gradual change can thus play a relevant part in the explanation of the development of the assistance regime, which confirms its validity in a more comprehensive approach of historical institutionalism as proposed by this dissertation.

7.5 Conclusion

This chapter analysed the institutional outcome of the Covid-19 crisis of 2020 and explains the emergence of the fourth critical juncture in the development of the European financial assistance regime. This critical juncture occurred in the form of punctuated redirection of conditionality, and punctuated layering of grant-based assistance in the financing element. This case demonstrates the validity of the actor-centred historical institutionalist framework including the critical juncture mechanism. By separating the analysis into the composing parts of the theoretical framework, this chapter provides evidence supporting the presence of permissive and productive conditions, as well as their interconnectedness. It further demonstrates the validity of complementing the analysis through gradual change and path dependent mechanisms in understanding the potential and actual longer-term impact of the punctuated changes of 2020.

Through the examination of permissive conditions this chapter explains under which conditions the exogenous shock led to increased agency for reforming assistance in March and May 2020. The exogenous shock from the Covid-19 pandemic significantly increased the overall deficit in the EU and euro area and increased the *expected* need for public financial assistance for several EU and euro area governments. The difference to previous cases is the preventive dynamic which did not include a trial-and-error of the *ex ante* assistance structure. In this case the nature of the shock and the potential risks for the fiscal position of several Member States led to the loss of support of specific regime elements. The regime was impeded in the procedural element due to the withdrawal of support for austerity by governments and EU institutional bodies. The impediment in the financing element was linked to the loan-based assistance model, which had the potential to stifle recovery in Member States with little fiscal space.

The first increase of agency is marked by the broad agreement by euro area governments to reform the procedural element of assistance at the end of March 2020. The second increase came with the agreement of numerous governments that the loan-based assistance was not sufficient to provide the needed assistance for recovery. The relevant shift that marked increased agency was the Franco-German initiative, which went beyond the loan-based system. The impediment and the acceptance of increased agency by governments was intrinsically linked to the economic interdependence of EU Member States through the Single Market and the euro, and the nature of the shock which posed a threat to their proper functioning. This interdependence represents the first productive condition, which also lays the ground of the shared preference for reforming the procedural and financing elements of assistance.

Based on shared preferences, Member State governments negotiated reforms according to their preferences. While material interests regarding the expected financial involvement of governments was a strong indicator for governments along the potential creditor and debtor line, the preference of France and German were only partially explained by individual financial involvement, and more through trade-related benefits. The respective stronger bargaining position of net contributors in the EU budget was a reliable determinant to explain the compromise for loans and grants in the RFF, which incorporated several demands from the Frugals, despite their relative size. The rationalist approach based on individual material interest was in so far applicable as it captured well the position of most governments. With the change of conditionality and the establishment of the grant-element in the RRF, EU governments redirected the application of austerity and layered grants on the financing element of the assistance regime.

The use of path dependence mechanisms in this chapter indicated the legacy of expenditure-related conditionality, which was reproduced by the economic rationale based on the utilitarian mechanism in the context of the Russian war on Ukraine. This mechanism helped to demonstrate that the practice of expenditure-related conditionality was reproduced by the Commission's proposal to use RRF funds to also pay for increased expenditure linked to the increase of energy prices.

Gradual change mechanisms provided a first insight into the potential change regarding the ESM as part of the assistance regime. The SURE and RRF loan instruments provided an incentive for governments to defect the use of ESM loans. This dynamic of potential displacement is illustrated by the use of EU loan instruments by fourteen euro area governments, and the no-use of the ESM, even though its assistance came with only slightly higher interest rates. The tendency to defect the ESM is explained by its preferred creditor status, which had a potential crowding out effect for market financing, and its slightly higher fees for assistance. In addition, the ESM assistance was still attached to the stigma of potential fiscal problems.

This chapter explains how the Covid-19 crisis of 2020 set the stage for a critical juncture in the development of the European financial assistance regime using the actor-centred historical institutionalist framework. It demonstrates that the co-occurrence of permissive conditions was necessary for the increased agency in March and May 2020. It further shows that economic interdependence resulting from the Single Market and the euro coupled with an analysis based on government preferences and their respective bargaining positions were suited determinants to explain the detailed outcome of reform of assistance. This approach illustrates the relevance of agency in the critical juncture analysis, even though the critical juncture mechanism did not entirely function as expected. Further, this chapter gives a first insight into the legacy of the punctuated changes and how gradual change might unfold in the future. This chapter so answers under which conditions the 2020 Covid-19 crisis led to a critical juncture and how it contributed significantly to the development of the assistance regime.

CHAPTER 8: CONCLUSION

Introduction

The objective of this dissertation is to explain the development of the European financial assistance regime and identify the conditions under which economic crises contributed to its development. Based on four case-studies in which economic crises and punctuated change co-occurred, this dissertation tests the proposed actor-centred historical institutionalist framework which combines the studies of punctuated and gradual change with a rationalist explanatory approach. The combined theoretical framework provides a twofold analysis of change. The first part analyses the occurrence and unfolding of critical junctures in crisis moments through permissive and productive conditions. The second part analyses the legacy, and thus the effect of these critical junctures, based on mechanism of gradual change and mechanisms of reproduction. This eclectic framework allows to explain first, under which conditions crises had a considerable impact on the institutional structure, and second, which consequences these punctuated changes had for the development of the regime in subsequent moments of crises and periods of relative stability. By doing so, this dissertation furthers the understanding of continuity and change in the policy area of financial assistance in the European Union over the last five decades.

In the following sections the results of the four case-studies and the overall validity of the theoretical framework are outlined. The first section summarises the results of the tested critical juncture mechanisms and the punctuated changes for the development of the regime. The second section summarises the results of the legacy analyses in periods following the critical junctures, including the origin of the main elements of the assistance regime. The third section summarises the findings regarding the proposed research question. The fourth section provides a short conclusion on the actor-centred historical institutionalist framework, and the last section proposes an outlook on the development of the European financial assistance regime since the last critical juncture of 2020.

8.1 Testing the critical juncture mechanism

A major part of the research in this dissertation is dedicated to the application and testing of the built mid-range causal mechanism for the analysis of critical junctures. This abstracted mid-range causal mechanism is informed and tested in four typical cases, in which economic crises and punctuated change to the assistance regime co-occurred. The mid-range causal mechanism is composed of four parts. The first part includes the impact of exogenous economic shocks on Member States by increasing their need for public financial assistance. The second part argues for the impediment of the assistance regime in place to effectively diffuse the exerted pressure from the exogenous shock. These parts are theorised as necessary permissive conditions which increase agency. The third part argues for the shared preference of Member States to reform the assistance regime to resolve the exerted pressure and achieve effective assistance. The fourth part builds on the third part by including individual Member State preferences in the detailed design of the assistance regime regarding their expected financial involvement. These parts use a rationalist approach and are theorised as productive conditions which bridge the gap between permissiveness and increased agency for reform, and which produce the outcome at the end of the reform process.

The four cases analysed are the monetary instability of 1968-1969, the first oil shock of 1973, the international financial and subsequent euro area crisis starting in 2008, and the Covid-19 crisis starting in 2020. These cases illustrate a direct translation of all parts of the mechanism abstracted in this dissertation. This mechanistic homogeneity confirms the presence and validity of the mid-range causal mechanism of the theoretical framework.

8.1.1 Findings from the permissive conditions

As the first necessary condition, this dissertation identifies an increased need of public financial assistance, which derives from pressure exerted from the exogenous shock. In the first case of monetary instability in 1968-69 the increased need of public financial assistance was caused by speculative attacks against the French franc. As no alternative sizable financing sources were available for balancing large capital flights, the French government turned to the IMF and its EEC partners for public financial assistance. In the oil shock of 1973, the Italian government needed to finance its exacerbating balance of payments deficit, which it could not balance through monetary policy and private financing sources. The Italian governments gathered the public assistance from the IMF and its EEC partners. Other EC Member States that faced difficulties (UK and France) were able to tap other sources of financing. In the case of the international financial crisis starting in 2008 several EU governments of non-euro and euro area countries requested public financial assistance as they faced sudden stops in the private market and could not roll-over their debt nor finance their increased deficits.

In these three cases, the increased need of public financial assistance was imminent and threatened the financial position of the concerned Member States. France registered a significant loss of reserves and required assistance in order to keep the parity of the franc in 1968-1969. Italy required assistance to finance its current account deficit in 1974. Hungary, Romania, Latvia, as well as Greece, (later also Ireland, Portugal Spain, Cyprus, and Greece again) faced sudden stops and required assistance in order to avoid defaulting on their debt. The Covid-19 crisis of 2020 deviates slightly from this tendency as the exogenous shock increased the *expected* need for public financial assistance in regard to the recovery after containment measures were lifted. Thus, in this case the increased need derived from expected financial requirements, which were evident due to the fiscal measures introduced by governments. The use of assistance by some Member State governments in the Covid-19 crisis, notably Italy, Greece, Portugal, and Romania, gives an indication which Member States faced increased fiscal pressure, be it through debt accumulation or potential market pressure.

In all cases, the pressure from exogenous economic shocks increased the actual and expected need for public financial assistance through which policymakers' focus was directed on public financial assistance. Thus, the permissive condition in the form of exerted pressure resulting from an exogenous shock was abstracted as the increased need of public financial assistance. This condition is present in actual and potential form in all cases (see table 18).

Table 18: Context and source of increased need of assistance

Economic Shock	**Source of increased need of public financial assistance**
Monetary instability in 1968-1969	Speculation against the French franc
Oil shock 1973	Increased balance of payments deficits by Italy (also France and UK)
International financial crisis 2008-2012	Sudden stop on private markets (several EU and euro area countries)
Covid-19 crisis 2020	Expected need of assistance for stability and recovery (for several EU Member States)

(Source: the author)

The second necessary condition this dissertation identifies is the vulnerability of the internal structure vis-à-vis the new context. This vulnerability is assessed based on impeding factors for the provision of public financial assistance. Using mechanisms of reproduction for the analysis of impediment helps to differentiate the causes of the impediment of assistance in each context and to link this impediment with the *ex ante* structure of support. This dissertation finds that impediments were present in all main features of the assistance regime at different times. The most frequent impediment occurred in the financing element in three out of four cases. Impediment in the formal element occurred in two cases and procedural impediment occurred in one case (see table 19).

Impediments in the financing element were linked to the shortcomings of the regime's instruments in the changing contexts, which reduced the effectiveness in allocating funds to Member States in need. These impediments were mostly linked to the breakdown of the functional mechanism of reproduction. In the first case IMF medium-term conditional standbys were not an effective tool to mitigate short-term capital flows issuant from speculation. Similarly rehabilitative SWAPs were also not effective to provide fiscal buffers for France to accumulate sufficient reserves. In the second case bilateral credits via the MTFA were not effective to allocate sufficient credits to Italy, with the UK opting out of EEC medium-term support and Italy receiving additional medium-term credits from the IMF and short-term credits from Germany. In the fourth case, loan-based assistance was expected to suffer effectiveness due to the limited fiscal space of several Member States in 2020. In this case the withdrawal of governments' support of a purely loan-based assistance derived from expected functional limitations. The breakdown in this case was situated in the utilitarian mechanism of reproduction, as the loss of support by governments led to the impediment, and not problems in the application of assistance. In this case the impediment in the functional and utilitarian mechanisms were blurred.

Impediment in the formal element were linked to the lack of assistance instruments for EEC or euro area countries, as it occurred in the first and third case. In the first case the formal impediment was linked to the breakdown of the functional mechanism of reproduction linked to the ineffective structure of *ad hoc* SWAP arrangements, which did not provide a credible support structure for France to deter speculation. Similarly, in the third case the formal impediment was linked to the breakdown of the functional mechanism of reproduction linked to the absence of an instrument for the purpose of financial stability in the euro area. In this case the bilateral solution for Greece did not diffuse market pressure on other euro area countries, due to the lack of a credible euro area assistance structure.

Lastly, impediment in the procedural element was linked to governments and institutional bodies' loss of acceptance and adherence to austerity for fiscal and assistance-related policies. The procedural impediment in the fourth case was linked to the breakdown of the utilitarian mechanisms of reproduction, which was undermined by direct confrontation of government with the conditionality rules, but also by most governments' actions regarding adherence to austerity rules in the context of the Covid-19 crisis. Thus, the breakdown came with implicit and explicit consideration that austerity did not fit the purpose of assistance.

The impediment of the assistance regime had thus different reasons. Using mechanism of reproduction helps to uncover why the assistance regime was not able to diffuse the exerted pressure from the exogenous shock and which element of the regime was impeded. For the most part, the formal and financing impediment were based on the breakdown of the functional mechanism of reproduction. This illustrates the relevance of functional explanations in the inability of the institutional structure to diffuse the exerted pressure from exogenous shocks. However, the example of grant-based assistance in the fourth case also demonstrates that the impediment in the financing design can be explained by the breakdown of the utilitarian mechanism of reproduction. In this case the partial withdrawal of governments' support was based on their assessment linked to the limitations of loan-based assistance. While this case has a functional component, the breakdown was linked to government actors' withdrawal of support and not to the instruments' failure to achieve their function as such. Government withdrawal of support in the fourth case also led to the breakdown of the utilitarian mechanism of reproduction of austerity.

Table 19: Impediment of assistance regime

Economic Shock	**Ineffectiveness of assistance regime**	**Impediment of regime element**	**Breakdown of reproduction**
Monetary instability in 1968-1969	*Ad hoc* SWAP arrangements did not stop speculation	Impediment in the formal element of EEC-external assistance	Functional
	IMF medium-term conditional credits less effective to counter speculative flows	Impediment in the financing element of medium-term conditional credits	Functional
Oil shock 1973	Bilateral credits not effective in environment of overall economic decline	Impediment in the financing element of bilateral credits	Functional
International financial crisis 2010	No instrument for euro area countries available	Impediment in the formal element (euro area exclusion)	Functional
Covid-19 crisis 2020	Austerity rejected in a period of increased public expenditure to stabilise the economy and to kickstart recovery	Impediment in the procedural element (austerity)	Utilitarian
	Loan-based assistance partially rejected due to limits in fiscal space to provide stimuli for recovery	Impediment in the financing element of loan-based assistance	Utilitarian (Functional component)

(Source: the author)

Using the impediment of the assistance regime as second permissive condition helps to explain when the exerted pressure from the exogenous shock was not sufficiently diffused, which upheld the increased need of public financial assistance, or the expectation thereof. Thus, the impediment of effective assistance is abstracted as the second permissive condition, and as the second part of the mid-range causal mechanism, which is present in different forms in all cases.

With the co-occurrence of these conditions, the financial pressure exerted from the exogenous shocks was not diffused. Agency increased when these conditions persisted sufficiently long. In these instances, European and government actors acknowledged the urgency and agreed on the need for reform. In several cases the persistence of the co-occurrence of these conditions was key for a critical juncture to open. In the first, second and third case governments engaged in several forms of *ad hoc* and bilateral solutions but did not manage to diffuse the pressure from the exogenous shock. This trial-and-error approach led government actors to agree on reforming the regime as they witnessed the failure of the structure to resolve the crises. These cases also contributed to the theoretical debate about 'near-miss critical junctures' as permissiveness persisted *after* several solutions had been found. These solutions did not change the system at hand, but they did also not resolve the pressure. This finding contradicts the conceptual claim by Capoccia and Kelemen (2007) about 'no-change outcomes' of moments of increased agency and the general conceptualisation of critical junctures as 'window of opportunity'. In the mentioned cases, 'no-change' did not tackle the issue at hand and never constituted the *final* outcome, but rather in-between steps. From this finding, it is argued that permissiveness needs to persist for a sufficient duration for government actors to accept urgency and to increase agency. When permissive conditions break off prematurely, agency will not be sufficiently increased, which allows for 'near-miss critical junctures'. However, these moments should not be considered moments of increased agency, as the pressure was not sufficient to induce agreement that the institutional structure was ineffective and required reform – which is the definition of increased agency. From this point of view, it is difficult to support a theoretical claim that 'near-miss critical junctures' could be the outcome of a moment of increased agency, as the no-change solution will not contribute to the diffusion of the pressure. At the same time, cases in this dissertation did not necessarily argue that solutions found by European and government actors diffused the exerted pressure, but rather that the persistence of permissive conditions was sufficiently long for increased agency to arise, even though the final outcome of these moments of increased agency might have come only months or years after the pressure subsided.

8.1.2 Findings from productive conditions

This dissertation uses two productive conditions to explain choices within the frame of increased agency. These productive conditions were embedded into a mixed-preference game design. The first productive condition derives from the economic interdependence between Member States. Economic interdependence had different quality and increased over time, starting with the Common Market, the CAP and the EEC currency peg in the late 1960s to financial integration in the euro area and the Single Market in the EU. This first productive condition functioned as the bridge between the permissive conditions and the choice for reform. The acceptance for increased agency by government actors was dependent on their respective cost-benefit consideration of a financial assistance regime vis-à-vis the common policies. With economic interdependence increasing over time, in particular for euro area countries, governments supported the establishment or reform of assistance. This dissertation argues that the causal force of economic interdependence only unfolded in periods where permissiveness enabled it. The absence of punctuated change in the assistance regime outside of permissive conditions underlines this causal connection between these conditions.

In the first and second case the distortion of trade due to currency fluctuation and increased balance of payments deficits provided the economic rationale for governments of EC Member States to agree to and reform financial assistance within the EEC. In the third case financial market turmoil and increasing fiscal difficulties provided the economic rationale to include euro area countries in the assistance regime. In the fourth case the distorting impact on the Single Market due to uneven recovery provided the economic rationale for reforming the regime. Economic interdependence worked as the door opener between the permissive conditions and increased agency and was thus the producer of the shared preference in favour of an effective financial assistance regime as such. Thus, economic interdependence, in different intensity, produced and reproduced the overall rationale for having a European financial assistance regime and maintained the purpose for the overall institutional construct. The first productive condition is placed in the third part of the mid-range causal mechanism. This part is present in all cases and provides the needed support from government actors to open the negotiations on reform.

The negotiation process is analysed based on the second productive condition. This productive condition contains the individual government preferences. This dissertation applies an explanatory approach based on governments expected financial involvement in the reformed assistance regime, as well as their respective bargaining power linked to their financial position. This dissertation finds that for the most part the rationalist approach focusing on material interest as well as on the respective bargaining power captured adequately the government preferences and negotiation outcomes. These preferences were linked to the potential involvement based on governments creditor or debtor position in the regime. Potential creditor countries defined in all cases the direction of reform, which often were less ambitious than Commission proposals, or the calls from potential debtor Member States. The second productive condition in the form of interest-based negotiations is included in the fourth part of the causal mechanism and present in all cases.

German and Dutch governments, which repeatedly fell into the position of potential creditors due to their stronger economic positions, were in most cases able to defend their economic interest in the negotiations process. In the first case their mostly aligned preferences defined major parts of the MTFA, including safeguards for creditors, limited bilateral credits, a conditionality clause of four years, and policy conditionality for assistance. In the second case their aligned preferences prevented other governments from introducing joint and several guarantees for recycling credits on the CLM and limited the use of CLM to a lower amount as initially proposed by the Commission and other countries. In the third case potential creditors, including governments of Germany and the Netherlands, but also Austria and Finland defined the individual guarantee system of the EFSF in order to avoid joint and several guarantees, and thus limiting their potential exposure and risks to debtor countries. In the fourth case the German government, together with the coalition of the Frugals prevented the introduction of a common debt instrument based on joint and several guarantees, while at the same time the German government joint ranks with a large coalition of France and several potential debtor countries on the introduction on non-repayable assistance via the EU. As Germany was still holding an asymmetric bargaining position, the outcome reflected to a large part German government interest. However, the Frugals utilised their financial position to reduce the amount of grants and set a limit to the use of loan-assistance under the RRF. Thus, outcomes in general leaned towards the position of potential creditors due to their bargaining position, with Germany being their largest representative. While the position of the French government corresponded to its potential debtor position in the first and second case, the French position deviated from its potential creditor position in third case in so far as the French governments was not following material interest regarding its potential involvement in the system. In the third case the overall economic interest of defining economic policy on the European level was more prominent than the French creditor position. The same was observable in the fourth case, in which the French government supported early on a common debt instrument, and the German government supported a grant-based instrument, which was at odds with their expected involvement in such systems.

While material interests based on the involvement in the assistance regime were general good, and to a large extent sufficient indicators for government positions, the French positions in the third and fourth case are better explained via the government's economic interest in further integration and trade. The German government's preference in the fourth case was situated between individual preference against joint and several guarantee and the economic interest of a proper recovery due to its export-led economy. The material interest was therefore not solely based on the potential involvement in the assistance regime. Thus, an approach focusing on government preferences and their bargaining position proofed to be applicable, while the rationalist approach on individual financial involvement in assistance was to a general degree sufficient to capture preferences.

The evidence gathered for analysing increased agency pointed to the validity of a mixed-preference game, which this dissertation abstracted in the form of two productive conditions. While the first productive condition built the shared preferences by governments to reform the assistance regime, the second productive condition focused on individual government preferences and their bargaining positions, which ultimately defined the detailed outcome of assistance.

8.2 Analysing legacy

The second part of the analytical framework focuses on the longer-term consequences of the critical juncture outcomes. These outcomes are analysed based on mechanisms of reproduction and gradual change to explain how continuity and change co-occurred in the aftermath of punctuated change. The application of these streams of historical institutionalism proofed to be a value-added of the comprehensive approach applied in this dissertation, as several consequences and dynamics are not capture by the punctuated change model in crisis moments.

8.2.1 Applying path dependence mechanisms of reproduction

This dissertation argues that the presence of a critical juncture can only be affirmed by identifying the legacy of the institutional change in the subsequent period(s). Therefore, the assessment of punctuated change consequences plays a relevant part in confirming the presence of legacy and thus the presence of critical junctures.

This dissertation finds that the shared preference derived from economic interdependence is congruent with the economic rationale for assistance and thus with the utilitarian mechanism of production and reproduction. Government actors agreed to establish and adhered to the institutional construct based on the economic purpose of the institution. After the establishment of the purpose of intra-EEC assistance for balance of payments support and for ensuring the proper functioning of common policies, the shared preference reproduced this purpose for assistance in subsequent moments of economic difficulty. The reproduction was also facilitated by the feedback on the economic rationale in moments when assistance was applied. As governments considered the purpose for assistance void within the currency union, the legacy of the purpose ended with the introduction of the euro for euro area countries. With the occurrence of the international financial crisis governments produced a new purpose for assistance linked to the financial stability in the euro area as a whole. After producing the purpose of euro area assistance in the third case, the shared preference for assistance reproduced the economic rationale for assistance in the Covid-19 crisis. Thus, the overall purpose of assistance within the EEC and later EU was reproduced through the shared preferences of Member States to maintain the institutional construct to serve the purpose of maintaining the proper functioning of common policies and financial stability. The shared preferences constituted the utilitarian mechanisms of reproduction which maintained the purpose of balance of payments assistance (from 1971) and of financial stability (from 2010) in place until this date.

The utilitarian mechanism of reproduction also explained how the translation of the economic rationale of euro area assistance in the form of austerity measures in the procedural element was reproduced. Through the adherence and support of austerity in the procedural element, the majority of governments and EU institutional bodies ensured the application of austerity in all assistance programmes between 2010 and 2018, as well as indirectly in ECB policy. This mechanism of reproduction broke down when a majority of governments and institutional bodies withdrew their support of austerity in the Covid-19 crisis as they judged it being not beneficial to achieve the purpose of stability and recovery.

This dissertation finds that the functional mechanism of reproduction was particularly relevant in the development of the assistance regime, as most instruments of today's regime follow the intermediary financing design of assistance. With the introduction of the CLM in 1975, the functional mechanism reproduced the advantage of the intermediary financing in moments of overall economic difficulty. The resilience of the intermediary financing design was inherent in its off-loading of assistance onto the EEC and later EU and other bodies in order to avoid direct costs for assistance. While this financing element was originally meant for recycling oil surplus capital to balance deficits of EC Member States, it proved also functional to counter fiscal difficulties and for deficit financing. European and government actors repeatedly acknowledged this advantage in subsequent discussion on reform and in moments of shock, facilitating the reproduction of the intermediary financing design in all assistance instruments since 1975. Even innovative solutions such as the EFSF and ESM borrowed from this financing element by establishing an intermediary which provided back-to-back financing to Member States.

Table 20 illustrates the path-dependence of the elements of today's regime structure, including the context in which they arose. As it is demonstrated in this dissertation, path dependent mechanisms accounted for the continuity of regime elements originating from crises in the late 1960s and early 1970s through reproduction in periods of relative stability as well as in moments of economic shock. Together with elements arising from more recent crises of 2010 and 2020 these moments of shock constitute four critical junctures, providing the core of the main features of the European financial assistance regime.

Table 20: Origins of the main elements of today's financial assistance regime

Year	**1968-1971**	**1973-1975**	**2008-2015**	**2020**	
Context	Int. Monetary Crisis	First Oil shock	Int. Financial Crisis/euro area crisis	Covid-19 pandemic	
Impediment of the mechanism of reproduction	Formal element (No instrument)	Financing element (Shortcomings of bilateral loans in an overall recession)	Formal element (No instrument)	Procedural element (Countries reject conditionality)	Financing element (Countries reject loan-based assistance – fear of debt sustainability/ recovery)
Main adjustment	*Formal policy elements:* Introduction of mutual EEC support in parallel to IMF	*Financing elements:* Introduction of intermediary financing	*Formal policy elements*: Inclusion of euro area countries in assistance	*Procedural elements*: Introduction of expenditure-related conditionality	*Financing elements:* Introduction of non-repayable assistance
Form of punctuated change	*Layering EEC assistance onto formal element of the international system*	*Layering intermediary financing onto the financing element*	*Layering euro area eligibility onto the formal element*	*Redirecting conditionality from austerity to expenditure-related in the procedural element*	*Layering grants onto the financing element*
Applies to today's Instruments	BoP, SURE, RRF;	ESM, BoP, EFSM, SURE, RRF (loans)	ESM, EFSM, (SURE, RRF)	SURE, ESM (partially), RRF	RRF (grants)
Applied to past instruments	MTFA, CLM,	CLM, EFSF	EFSF	-	-

(Source: the author)

8.2.2 Applying gradual change mechanisms

As the 'other side the coin' of path dependence, the gradual change process occurring in parallel to the reproduction of regime elements is analysed. This dissertation finds that from the four types of change outlined in the theory, layering and redirection occurred in moments of shock, while displacements and redirection occurred in periods of relative stability. The reason that drift – which is the non-decisions or inaction to adjust an institutional configuration (Streeck & Thelen, 2005: 25; Mahoney & Thelen, 2009) – did not occur is explained by active maintenance of regime elements or by the opposite development through active layering and redirecting by policymakers to keep the institutional structure relevant. By separating the assistance regime's institutional construct into formal, financing and procedural elements a more nuanced distinction between significant and perfunctory change can be given.

Punctuated layering of formal and financing elements unfolded their causal force gradually and led to displacement of other regime elements in two cases and foreshadow displacement in the most recent case. Layering of intra-EEC assistance onto the international assistance structure led to a *de facto* displacement of IMF assistance for EC Member States. This displacement was not immediate and first followed a dynamic of layering, by which two parallel assistance mechanisms existed and worked together for similar purposes. Parallel assistance between EEC and IMF mechanisms occurred for example in the case of Italy in 1974 and in 1977, and in the case of the UK in 1976. With the changing context of monetary cooperation within the EEC and the breakdown of Bretton Woods, the conditions of EEC assistance were more tailer-made for governments' policies and in practice less stringent than IMF conditionality. Thus, governments actively defected the IMF system in favour of EEC support on several occasions in the 1980s and 1990s, which led to displacement of IMF assistance for thirty-one years. This displacement was the other side of the coin of the reproduction of the economic rationale of maintaining intra-EEC assistance.

A similar dynamic is visible after the layering of intermediary financing onto bilateral credits in 1975. Through the re-occurrence of moments of overall economic decline in subsequent periods, governments favoured the use of intermediary financing of community loans as it did not bear direct costs for creditors. Thus, the context of repeated and more symmetric economic shocks and governments' defection from bilateral assistance in these contexts contributed to the displacement of the bilateral instrument. While bilateral assistance was legally replaced by intermediary financing in 2002, the practice of favouring intermediary financing came abruptly with the introduction of CLM in 1975. This displacement came with reproduction of the functional advantage of intermediary financing over bilateral credits.

With the punctuated layering of new EU loan mechanisms in the Covid-19 crisis, this dissertation finds an indication for potential ESM displacement. This dynamic is facilitated by the creditor status of ESM assistance and its potential impact on governments financing positions, which led to an avoidance of ESM financing of pandemic related assistance by several governments of euro area countries. Here the potential displacement might be the other side of the reproduction of grant-based assistance required to achieve fiscal easing.

The first and third instance of displacement were driven by debtors' choices in favour of intra-EEC and EU assistance over IMF and ESM assistance. The second instance was also driven by creditors choice for intermediary over bilateral assistance. In all instances it is however demonstrated that government actors' choice in critical junctures were not intended to displace these elements. Thus, displacement occurred in these instances, even though driven by actors' choices in the subsequent periods, as unintended consequences of the critical juncture. In the case of displacement of IMF assistance and the bilateral financing structure, the gradual change was the parallel development of the reproduction of utilitarian and functional mechanisms. The former solidified the purpose for intra-EEC assistance, and the latter accounted for the functional advantage of intermediary financing as it facilitated this fiscal easing.

Punctuated layering in the procedural element occurred regarding the institutional bodies involved in assistance and the lending practice. The re-entering of the IMF in Community assistance constituted layering in the practice of assistance as IMF assistance was legally already available for all EU Member States. Different than in other cases of layering, the subsequent displacement was of the layered element, and not of an *ex ante* regime element. IMF displacement in the EU came with disagreement between the IMF and EU governments and institutional bodies, which led to the refusal of the IMF to take part in the third assistance programme for Greece in 2015, and several early repayments of IMF credits by EU Member States. Governments' defection from the practice of joint assistance was thus routed in actors' choices on both sides. While reference to IMF involvement was still included in regime documents, their framing was sufficiently broad to refrain from including the IMF in further EU assistance. The (second) displacement of IMF participation was the other side of the coin of the utilitarian mechanism of reproduction which maintained the practice and purpose of euro area assistance.

Redirection of critical juncture outcomes occurred in two instances. In the first instance the layered CLM instrument was considered temporary and only for the purpose of financing deficit resulting from the oil shock. Governments and European bodies saw the legal base for the CLM in Art. 235 and not in Art. 108 of the Rome Treaty. However, through the functional advantage of the CLM, governments were generally more favourable for the use of the CLM, even for non-oil related deficits. This practice not only led to the reproduction of this instrument, but also to its legal redirection. In 1988 the MTFA and CLM were merged under the same umbrella for balance of payments assistance, aligning the legal texts to the practice of using the CLM for purposes previously only covered under the MTFA. This legal redirection also facilitated the displacement of the bilateral MTFA, as the CLM was officially on equal footing covering the same purpose. Thus, as for the case of MTFA displacement, the legal redirection of the CLM was part the other side of the coin of the reproduction of the CLM's functional advantage.

In the second instance redirection unfolded rapidly to adjust the practices of using unpractical lending rates for programme countries in the euro area crisis starting in 2010. The practice of using discouraging rates was intended to facilitate rapid return to the markets. However, fiscal consolidation was slowed by the relatively expensive euro area loans and defeated the purpose of a swift return to the market. Thus, within a year, lending rate were reduced, and fees abolished, resulting in a redirection of disincentives into favourable lending terms. The driver of redirection was thus linked to the practicality of disincentives as part of assistance in the context of fiscal difficulties. In this case, the necessity of fiscal easing as part of the economic rationale of assistance led to redirection of the lending practice. This redirection was the other side of the functional reproduction of intermediary financing.

Complementing the analysis of punctuated change and legacy with mechanisms of gradual change illustrated that the consequences of critical junctures could start processes of change in parallel to, and as a result of, path dependence. As demonstrated in this dissertation, gradual change can be linked to a shift of loyalty by government actors defecting a previous instrument due to a new incentive provided by the change, or to correct a mismatch between new rules and the overall purposes. This addition to the legacy analysis helps to understand how gradual adjustment insured the overall continuity of the regime, but also how regime elements introduced in moments of shock led to subsequent change, causing displacement and redirection of regime elements in the longer-term.

8.3 Concluding remarks on the development of the financial assistance regime

The key to understand the relevant steps in the developments of the European financial assistance regime is situated in moments of economic shock. Not only were choices in moments of economic shock throughout the last half century decisive for the current structure of the assistance regime, but they were also the initiation of piecemeal processes of change in the aftermath of crises. This dissertation finds that the crucial building blocks for understanding the development are four critical junctures in 1968-1969, 1973-1974, 2010, and 2020. To better grasp crisis-induced change, this dissertation focuses on the conditions through which economic crises contributed to the development. This dissertation finds that exogenous shocks only had the potential for change in the regime when the impact of the shock led to economic and financial difficulties increasing the need for public financial assistance for one or several Member States. Several shocks throughout the five decades fulfilled this condition. Even though they were different in nature and degree of symmetry, they all caused financing difficulties for governments and thus led to an increased need for public financial support.

These shocks were only sufficient to increase agency if the financial pressure from the exogenous shock was persistent and not sufficiently diffused through the *ex ante* assistance structure. This lack of resolving the pressure was identified as impediment of the assistance regime. Impediment was caused either by instrument-related shortcomings or government actors' withdrawal of support for specific regime elements. Impediments were therefore based on functional as well as interest-related aspects. The take-away from these findings, is that assistance was either contested, or tested and evaluated as not effective. These two conditions were necessary permissive conditions and were linked to the economic impact of crises as well as to the impediment of the assistance regime in one or several regime elements. As demonstrated by within-case comparison with other moments of economic shock, only the co-occurrence of these two conditions increased agency for European and government actors in reforming the assistance regime.

This dissertation finds that economic interdependence is the third necessary condition and the key for government actors' agreement of increased agency in regard to reforming the assistance regime, and the basis for the shared preferences to maintain or establish an assistance structure among EC and later EU Member States, as well as euro area countries. While economic interdependence was a constant factor, it only contributed to change when the permissive conditions provided the necessary pressure on government actors. Economic interdependence is a necessary productive condition as it functioned as the first preference-driven step by government actors in the resolution of the permissiveness. Based on the shared preference to reform the assistance regime, this dissertation finds that the individual economic interests of Member State governments were the dominant determinant factor in the negotiation on the concrete details of reform. The material interest deriving from the potential involvement in the reformed regime is the second productive condition, which together with the respective relative bargaining power of governments accounted for the final reform outcome.

Thus, with the use of permissive and productive conditions this dissertation explains how and under what conditions economic shocks contributed to the development of the European financial assistance regime. With the understanding of the impact of economic shocks on the development, this dissertation can further answer that the development between 1968 to 2023 was generally a mix of crisis-induced change and piecemeal development in the aftermath of crisis. However, the four critical junctures in the form of punctuated changes determined the overall continuity of the regime and induced the direction of the subsequent development of regime elements. In this subsequent development the causal force of the critical junctures was carried via mechanisms of reproduction and gradual change, which accounted for continuity and change of regime elements.

8.4 Concluding remarks on actor-centred historical institutionalism

For the study of the financial assistance regime, this dissertation applies a comprehensive analytical framework called actor-centred historical institutionalism combining the studies of punctuated and gradual change with a focus on governments and European bodies as relevant actors. This approach provides a twofold analysis of the development of the European financial assistance regime in the last five decades accounting for continuity and change in the institutional development, while emphasising the relevance of crisis moments.

For the analysis of punctuated change, this approach uses the concept of critical junctures. Based on theory-building process-tracing, this analysis applies an abstract causal mechanism combining permissive and productive conditions as necessary parts of the process leading to a critical juncture. By using permissive conditions as a mix of exogenous derived financial difficulties and endogenous institutional impediment, it is possible to discern when and how crises exerted sufficient pressure for actors to accept increased agency. The internal dynamics of increased agency are analysed based on a rationalist mixed-preference game and bargaining power of government actors. This dissertation finds that the use of economic interdependence as the corner stone of shared preferences was fundamental to translate the pressure from permissiveness into reform aspirations supported by enough government actors. Thus, economic interdependence provides the bridge between the permissive conditions and the acceptance of increased agency. At the same time, the negotiation on the detailed reform of the assistance regime on the European level are analysed based on material interests and bargaining power. This rationalist approach provides value-added for analysing the dynamics of decision-making within the frame of permissive conditions, and illustrates that government preferences are key, but not the only determinant factor leading to punctuated change. Governments' material interests are the door opener and the factors framing the institutional outcome, while the permissive conditions provide the opportunity for critical junctures. Using a critical juncture analysis thus not only helps to emphasise that crisis-induced change occurred, but under which conditions this change is expected to be significant and which dynamics the decision-making process is likely to follow.

To complement the study of crisis-induced change, actor-centred historical institutionalism applies a dual analysis of legacy through path dependent and gradual change mechanisms. As demonstrated above, these mechanisms represent different sides of the same development. The analysis of gradual change and path dependent developments highlights the longer-term consequences of punctuated change and explains how outcomes were carried forward in time. This approach helps to discern the origins and reproduction of the main elements of financial assistance, but also how regime elements were changed in smaller doses in subsequent periods, often in opposition to government actors' initial intentions. With the inclusion of the analysis of path dependence and gradual change, the analytical framework helps to illustrate how overall institutional stability came in parallel with continuity and change of regime elements.

This causal connection between punctuated and gradual change not only illustrates the compatibility of the analysis of change and longer-term consequences, but also the essentiality of a combined approach to fully grasp the entirety of integration developments in the area of financial assistance. It is therefore argued that the actor-centred historical institutionalist approach provides a comprehensive view on the development of the policy area of European financial assistance. This dissertation proposes a valid causal mechanism for the analysis of crisis-induced change in the form of a critical juncture mechanism, while emphasising the more piecemeal processes of change occurring in the aftermath of crisis moments. Through this analytical approach it is demonstrated that crisis-induced change was essential for the development of assistance, but also that this change was carried on and fully unfolded only in the periods following the crises. Coming from the link between the policy area of financial assistance and extraordinary economic situations, it could be argued that a use of this theoretical framework is promising in explaining developments covering moments of extraordinariness, which policymakers consider as crises.

8.5 Outlook

This dissertation demonstrates that economic crises played a significant role in the development of the financial assistance regime. Induced by re-occurring contextual shifts, the assistance structure was repeatedly adjusted to achieve its purpose of providing emergency financing for Member States in need of public assistance. Since the first oil shock, government financing has increasingly shifted to the private sector. This shift allowed governments to bridge financing gaps with external sources, but also led to the use of assistance to mitigate fiscal difficulties arising from external indebtedness by governments. Thus, while assistance in the 1970s was destined to fill-in the financing gap resulting from balance of payments deficits, assistance in the following years always had a component of fiscal easing, which could not be achieved via market financing. This fiscal easing was accentuated for assistance operations for euro area countries starting in 2010. With the introduction of non-repayable assistance in the RRF in 2021, the EU has for the first time allocated grants to governments as part of financial assistance. With this change, the notion of financial assistance has been broadened significantly by including grants and by legally spreading into provisions meant for structural funds, previously used for project-related financing and not direct government support.

Chapter 7 of this dissertation provided a first glimpse of how the regime could be further developed. As with the intermediary financing of the CLM in 1975, the RRF was foreseen as a temporary instrument. After 1975, recurrent crises exerted similar pressure on EEC economies and led governments to revive and foster the use of intermediary financing, until the CLM replaced the previously main instrument of balance of payments assistance. One could thus expect that similar dynamics could also lead to the permanency of grant-based support. Even though the RRF was structured as one-off grants and temporary limited loans from the EU to Member States, the historical perspective of the analysis presented in this dissertation leads to the conclusion that such a development is likely. Thus, as long as the loan-based assistance is partially impeded due to fiscal constraints, governments require an alternative solution, notably a mix of loans and grants. As show in the CLM case, once a feasible solution is found, it is difficult to erase it as a possible (future) response, especially if other regime alternatives fail. Here, the functional mechanism of reproduction will be key.

However, even though grants have been part of the EU's response to the Covid 19 crisis, loans were and still are the largest share of the assistance regime. Apart from disbursing €338 billion in grants, the EU has equally provided loans through SURE and the RRF facility for roughly €265 billion since 2020, raising the outstanding debt of EU and euro area countries to the EU and euro area instruments to over €620 billion. RRF loans are still available until the end of 2026 (pending adoption of the REPowerEU regulation) with an envelope of about €220 billion – limited to 6.8 per cent of GNI per country (with the possibility to request credits above this threshold for REPowerEU, otherwise Italy would not be allowed to draw any more funds from the RRF facility) — and the ESM has still its roughly €410 billion available. However, euro area governments still refrain from using the latter. Together with EFSM (€12 billion) and the BoP (€48 billion) the current loan availabilities in the EU stand at about €690 billion.

The role of the ESM was reduced in the 2020 crisis, with euro area governments requesting assistance from SURE and the RRF loan facility instead of the ESM, even though the latter could have allocated credits with similarly low interest rates and long maturities. As analysed in chapter 7, the trend to favour EU instruments could be the beginning of the process of displacement facilitated through an assistance structure that incentivises governments refraining from the use of the ESM due to expected market reactions to its preferred creditor status. In the case of the CLM in 1975, the re-occurrence of similar contexts was the reason for governments to give precedence to the CLM over the MTFA. A similar dynamic could only be expected if, in future crises, the role of the ESM is linked to providing pre-cautionary credits to Member States in parallel to market financing. Thus, the role the ESM will take is crucial — either in the form of supporting market financing, or in the form of replacing market financing. The latter would be better suited to its current structure.

With the establishment of SURE and RRF loans, nineteen EU Member States have become debtors to the EU, a number superior to all previous assistance programmes to EEC and EU/euro area countries together in the last five decades (only Denmark, Sweden, Finland, Austria, Germany, France, the Netherlands, and Luxembourg did not request SURE assistance). All governments which had a higher funding rate on the market than the lending rate of SURE opted for using this instrument. The accommodating expenditure-related conditionality, lower interest rates, and long maturities indicate a cost-benefits consideration linked to interest savings and potential further expenditure in the first months of the pandemic. This trend stopped with the introduction of non-repayable assistance, with most governments which requested assistance via SURE not opting to request further loans from the EU.

Seven EU governments have made use of the RRF. The Italian government has made the largest use of SURE and RRF loans in nominal terms, but also in relation to its GDP (except for Greece). The Italian, Greek and Romanian governments requested the maximum of EU loans available. For Italy this total was worth about 8 per cent of GDP, which made Italy with about €150 billion in loans the second largest debtor to the Community after Greece (see table 21). This is not only a notable development as it illustrates how much assistance the EU and euro area have made available via intermediary financing, but also how important these loans were for the Italian and Greek government to manage their rising debt burden, which had reached a debt-to-GDP ratio of 154 and 206 per cent respectively by the end of 2020. Considering the relatively high refinancing rates for Romania, the RRF loans provided significant interest savings for the Romanian government. As no government had refinancing rates above 2.65 per cent at the beginning of 2021, governments were not required to use RRF loans to bridge dysfunctional or extreme financing conditions. This explains why only those governments of Member States with particularly high debt burdens (Greece, Italy, Portugal), moderately high debt loads (Cyprus and Slovenia), and those with relatively high refinancing rates (Romania and Poland) opted for these funds.

Table 21: Euro area countries' outstanding debtor position to EU/euro area facilities, in € billion

Country	ESM/EFSF	EFSM/BoP	SURE	RRF*	Total
Greece	190.8	-	6.2	12.7	209.7
Italy	-	-	27.4	122.6	150
Portugal	25.3	24.3	6.2	2.7	58.5
Ireland	18.4	22.5	2.47	-	43.37
Spain	20.1	-	21.3	-	41.4
Belgium	-	-	8.2	-	8.2
Cyprus	6.3	-	0.63	0.2	7.13
Slovenia	-	-	1.1	0.7	1.8
Lithuania	-	-	1.1	-	1.1
Latvia	-	0.2	0.47	-	0.67
Slovakia	-	-	0.63	-	0.63
Malta	-	-	0.42	-	0.42
Estonia	-	-	0.23	-	0.23

(Source: European Commission; ESM; *after final disbursement; author's compilation;)

From the start of the Russian invasion of Ukraine and the rising energy-related costs throughout the EU, the expected post-Covid recovery was dampened to a certain extent and refinancing rates started to climb significantly in parallel to increasing inflation in the Spring of 2022. At the end of 2022, refinancing rates for the fiscally weakest euro area economies (Italy, Greece, and Cyprus) were above 4 per cent, while for the fiscally weakest non-euro area countries (Hungary, Romania, and Poland) the rates were between 6.6 and 8.6 per cent. While the debt profile of several EU Member States improved thanks to financial assistance, countries with high indebtedness will see their roll-over risks increase in case the rates were to stabilise at an elevated level, increasing the probability for further assistance needs in the future. With this outlook, EU governments have already agreed to use the RRF loans for REPowerEU purposes, and the Commission proposed to also use these loans for additional green investments. This shift from the initially limited applicability of the RRF indicates a potential redirection of this instruments based on the utilitarian mechanism of maintaining the purpose of assistance. The RRF might end up becoming the go-to extraordinary financing tool for further expenditure, easing the fiscal conditions for certain Member States. Such a development would also sideline other EU and euro area instruments initially meant for financial assistance. Drawing from the insights of the last five decades of assistance, temporary instruments have the potential to become permanent in the longer-term.

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APPENDIX

Table 1: Historical Archives of the European Commission

Reference	Year	Content
BAC-0565-1995-0268 (BAC 268)	1968	**[p.12] NOTE : Objet : Coopération monétaire au sein de la C.E.E** Vu l'urgence, il suffirait peut-être, au stade actuel, de viser une construction assez simple constituant une première étape dans la voie d'une organisation des réserves des pays de la Communauté. On pourrait concevoir, par exemple, que chaque Banque centrale affecte un certain pourcentage de ses réserves liquidée (20 per cent) à des utilisations qui seraient l'objet de certains accords au sein de la Communauté. Il ne serait pas nécessaire que les fonds en question soient en fait transférés à un "pool" commun. Un pays en déficit pourrait, par exemple, utiliser, au-delà de sa mise, un montant maximum égal & deux fois cette mise (par appel aux réserves affectées par les partenaires & des actions de caractère communautaire). Il conviendrait de définir les formes dans lesquelles les ressources mises en commun (or et devises) seraient utilisées, de même que la durée de l'endettement et les modalités du remboursement, celles-ci devant tendre & favoriser certains progrès dans la voie de l'harmonisation des formes dans lesquelles sont détenues les réserves liquides (deux pays de la Communauté ont, depuis longtemps, présenté certaines propositions dans ce sens).
BAC-0565-1995-0269 (BAC 269)	1968	[p. 78] **COMPTE RENDU DETAILLE DE LA CENT ONZIEME SESSION DU COMITE MONETAIRE (4 septembre 1968)** Les membres belges pensent que le moment est venu de rompre le cercle vicieux qui veut que l'intégration monétaire ne peut être poussée sans que de nouveaux progrès n'aient été faits préalablement dans tous les principaux domaines de la politique économique et vice versa· Ils proposent donc de progresser dans le domaine monétaire et soulignent notamment que l'illusion d'une indépendance monétaire totale est source permanente d'instabilité. Ainsi des accords liant les parités des monnaies des pays membres entre elles auraient permis d'éviter des spéculations comme celles dont la France et l'Allemagne ont été ou sont l'objet.
BAC-0565-1995-0271 (BAC 271)	1968	[p.7] Ortoli : franc surévalué 15per cent [*handwritten*] [p.16] **Projet de Communication à la conférence des ministres des finances (Boon - 19.11.1968)** La Commission rappelle que depuis juin 1968, elle a soutenu sa propre responsabilité la politique clairement définie et affirmée à diverses reprises par le Gouvernement français, politique fondée sur l'expansion et sur la défense da la parité du franc. Les événements de ces derniers jours ne doivent pas faire douter de la logique de cette politique, et si mesures nécessaires en matière de crédits et de finance publique sont mise en œuvre sans retard, et ne les autorités monétaires françaises reçoivent le concours d'autres pays, notamment de ceux de la Communauté. Un tel concours, de caractère communautaire en premier lieu, devrait être d'une ampleur telle qu'il rendrait impossible la poursuite de mouvement spéculatifs. Il faut aujourd'hui faire plutôt trop que trop peu.
BAC-0565-1995-0272 (BAC 272)	1968	[p. 45]**Projet de Mémorandum de la Commission au Conseil – au sujet de la politique économique susceptible d'être poursuivie au sein de la Communauté pour faire face aux problèmes économiques et monétaires actuels.** La Commission, après avoir procédé à un examen de la situation économique de la Communauté, notamment à la lumière des récents mouvements survenus sur le plan monétaire, soumet au Conseil le présent mémorandum. Ce document analyse d'abord

		la situation économique actuelle dans les pays de la Communauté et les perspectives pour l'année à venir. Il expose ensuite les problèmes qui se posent pour l'année 1969 et dégage les orientations qu'il conviendrait de donner à la politique conjoncturelle. Enfin la Commission fait des propositions concrètes quant aux actions à entreprendre pour donner à la politique préconisée les meilleures chances de succès. 1.La situation à la fin de l'année 1968 dans les pays de la Communauté L'année 1968 voyait l'économie de la Communauté retrouver un dynamisme marqué après l'affaiblissement qui avait caractérisé les deux années précédentes. En dépit des pertes important de production encourues en France par suite des grèves de mai et juin, le produit brut de la Communauté en termes réels aura augmenté de près de 5,5per cent alors qu'il n'avait progressé que de en 1967. Au moment même où la Communauté, après la crise qui avait résulté des événements de mai et juin en France, s'engageait ainsi dans la voie du retour à une situation normale, les bouleversements monétaires de ces dernières semaines lui ont fait subir un nouveau choc, d'une gravité exceptionnelle. Ces bouleversements, dont la portée a dépassé le cadre communautaire et qui ont ébranlé une fois de plus l'ordre monétaire international, ont eu pour origine - et cela est nouveau dans les relations internationales de paiements - un dérèglement à l'intérieur même du Marché commun, déclenché par une vague de spéculation d'une ampleur et d'une violence rares intéressant le mark et le franc français. Pour mieux apprécier la situation actuelle, il convient d'examiner successivement l'environnement extérieur et les tendances conjoncturelles & l'intérieur de la Communautés […] [p. 48] 2. La situation dans la Communauté a. Vue d'ensemble A I 'automne de 1968, la situation économique dans la Communauté se présentait sous un jour très favorable […] Il est vrai que cette situation d'ensemble favorable recouvrait certaines divergences entre les pays membres notamment en ce qui concerne I 'évolution des prix et de la balance des paiements courants. […] [p. 50] Au 24 novembre 1968, a été introduit un contrôle des changes bien plus rigoureux que celui qui avait été instauré le 31 mai 1968 et abrogé au début de septembre. […] [p.53] Enfin, il faut noter que les procédures de consultation existantes n'ont pas été suivies avec toute l'efficacité désirable tant au cours des semaines ayant immédiatement précédé la crise récente, que pendant celle-ci. Bien que la rapidité des événements ait, soulevé, à un certain stade, des difficultés pour procéder utilement aux consultations souhaitables à l'intérieur de la Communauté, de telles consultations ont eu lieu au moment où la solution aux problèmes posés sur le plan monétaire était déjà recherché dans un cadre international plus larges […] [p. 67] Ainsi, des raisons de plus en plus impératives viennent renforcer les arguments que la Commission a déjà développés à maintes reprises en faveur de la création de mécanismes permettant aux Etats membres de parer solidairement aux dangers qui pourraient menacer leurs monnaies, du fait de mouvements aberrants de fonds. La nécessité en est apparue de façon évidente au cours de la récente crise. En effet, ni la mise en œuvre d'une action monétaire, limitée à des accords de swap dans le cadre des ? en juin dernier, ni les possibilités offertes par les arrangements existant dans les cadres plus larges, n'ont permis de prévenir les bouleversements que la Communauté a connus. Pour ces motifs, la Commission propose que soit institué, dans les délais les plus courte, un mécanisme permanent de coopération monétaire de caractère communautaire. L'expérience acquise en ce domaine et les idées avancées de divers côtés offrent toute une gamme de moyens et de systèmes, parmi lesquels il importe de

		faire un choix. Quel que soit ce choix qui devra évidemment tenir compte des impératifs de la coopération internationale, le principe à retenir devrait être celui d'une compensation ou d'une atténuation de l'impact, sur les réserves officielles, de mouvements spéculatifs de capitaux à l'intérieur de la Communauté.
BAC-0118-1983-0804 (BAC 804)	1969	[p.4] **Mémorandum de la Commission au Conseil au sujet de la politique susceptible d'être poursuivie au sein de la Communauté pour faire face aux problèmes économiques and monétaires actuels** [p. 27] La Commission se propose par ailleurs de présenter au Conseil, d'ici le 15 février 1969, des propositions concrètes au titre des articles 105 et IO8 du Traité de Rome, en vue de la création d'un mécanisme communautaire de coopération monétaire. Conformément à l'article 105 du Traité, elle recueillera l'avis du Comité Monétaire sur ce point. […] [p. 33] La Commission a présenté au Conseil, le 5 décembre I968, un mémorandum "au sujet de la politique susceptible d'être poursuivie au sein de la Communauté pour faire face aux problèmes économiques et monétaires actuels." Conformément aux conclusions de ce mémorandum, lors de sa réunion du 12 décembre 1968, "le Conseil a reconnu la nécessité d'une convergence accrue des politiques économiques au sein de la Communauté et d'examiner les possibilités d'une intensification de la coopération monétaire." Le présent mémorandum a pour objet de préciser la position de la Commission sur ces deux points. [p. 35] La Commission constate qu'il a fallu attendre la conférence des ministres des Finances à Rotterdam, le 9 et 10 septembre 1968, pour qu'un mandat fût donné au Comité Monétaire de poursuivre, en collaboration avec le Comité des Gouverneurs des Banques Centrales, ses travaux sur les progrès à accomplir dans le domaine des relations monétaires au sein de la Communauté Economique Européenne. [p.36] La Commission estime pour sa part qu'une extension des marges de fluctuation des monnaies des pays membres poserait d'importants problèmes dans le domaine de la politique agricole commune et dans celui des relations commerciales au sein de la Communauté et surtout qu'elle y compromettrait l'unification progressive des marchés. [p. 49] 25. Le soutien monétaire à court terme : a) chaque pays participant s'engagerait à mettre à la disposition des autres un montant de ressources n'excédant pas un certain plafond ; b) un agent pourrait être désigné en vue de l'exécution technique des dispositions de l'accord (l); c) tout pays participant pourrait déclencher la mise en œuvre du système par simple appel aux autres pays participant à l'accord; l'endettement de chaque participant à l'égard des autres, résultant de la mise en œuvre du système, ne pourrait excéder un certain plafond; d) les plafonds d'engagements et d'utilisation seraient déterminés par accord entre les participants; e) le montant faisant l'objet d'un appel de la part d'un pays participant serait financé par les autres dans une proportion égale à la part de chaque pays dans le total des engagements souscrits ou restant disponibles, diminué du plafond d'engagements du pays déficitaire. Toutefois, à la demande d'un des pays participants, l'agent pourrait, en accord avec les autres, et dans la limite du plafond d'engagement de chacun d'eux, modifier les proportions prévues ; f) un pays participant ne pourrait être tenu de contribuer à une opération de financement dans le cadre du système lorsqu'il est lui-même endetté envers le système ; g) tout recours au système par un pays participant devrait être suivi dans les meilleurs délais d'une consultation au sein des instances communautaires appropriées. L'objet

		de cette consultation serait de déterminer, à la lumière d'un examen de la situation du pays bénéficiaire les actions qu'appelle cette situation, aussi bien de la part de ce pays que de celle des autres pays membres. A défaut d'un accord sur les actions à suivre par le pays déficitaire, la durée de l'endettement de ce pays à l'égard du système, ne pourrait excéder trois mois. En cas d'accord, et en fonction de la situation du pays déficitaire, l'aide à court terme pourrait être renouvelée pour une durée déterminée ou un concours financier à moyen terme pourrait être consenti. 26. Le concours financier à moyen terme a) Si la procédure d'examen déclenchée à l'occasion d'un recours au système dans les conditions décrites au paragraphe 25 ci-dessus conduisait par la suite à conclure que la situation du pays en question requiert un financement à moyen terme, la Commission recommanderait au Conseil, après consultation du Comité monétaire, d'accorder un tel financement. b) Les conditions dans lesquelles ce concours à moyen terme serait accordé seraient déterminées en fonction des circonstances et, notamment, compte tenu des ressources mobilisables à moyen terme dans des cadrée plus large que la C.E.E. ; c) Compte tenu notamment de ce qui est dit à l'alinéa b) ci-dessus, il n'y a pas lieu, comme pour le mécanisme décrit au paragraphe 25, de prévoir des plafonds d'utilisation. Toutefois, il conviendrait d'établir des plafonds d'engagements valables pour une certaine période, et sujets à révision, pour ce qui concerne les contributions au fonctionnement de ce mécanisme. […]
BAC-0565-1995-0281 (BAC 281)	1969	[p.7] **Projet d'avis du Comité Monétaire** [p.10] D'une façon générale, le Comité monétaire est d'avis que lu création d'un tel mécanisme peut se justifier pour plusieurs raisons. D'une part, depuis la création du marché commun des relations d'échange préférentielles, se sont développées entre les Six. La mise en place d'un mécanisme communautaire se situe naturellement dans un tel cadre et contribuerait à donner aux liens qui unissent les états membres un caractère irréversible. Le Comité monétaire rappelle à cet égard la constatation à laquelle il avait abouti lors de l'examen de la situation monétaire et financière de la France au mois de juillet 1968. Dans son rapport au Conseil et à la Commission il a exprimé l'avis "que toute enfreinte durable à la libre circulation des marchandises risquerait de compromettre gravement la réalisation d'une des conditions essentielles du succès de l'entreprise communautaire, c'est-à-dire la conviction de la part des agents économiques que les progrès accomplis dans ce cadre sont irréversibles". D'autre part, le développement des relations préférentielles à l'intérieur de la Communauté devrait être accompagné d'une coordination toujours plus poussée des politiques économiques, telle que l'a proposé le mémorandum. Il peut donc paraître normal que les états de la Communauté, compte tenu de leurs obligations réciproques et des progrès préconisés dans le domaine de la coordination économique, soient les premiers à connaître les problèmes d'un de leurs partenaires et à lui venir en aide dans des conditions déterminées, concrétisant ainsi leur solidarité monétaire. […] L'automatisme du système de soutien monétaire à court terme qui est mis en œuvre par simple appel du pays en proie à des difficultés externes peut, de l'avis de quelques membres, présenter des dangers. Il risquerait notamment de favoriser une politique de facilité du pays en déficit, la volonté de prendre immédiatement les mesures adéquates pour assurer le redressement pouvant être affaiblie par l'automaticité du mécanisme. Le recours à ces facilitée à court terme pourrait, en conséquence, entraîner ultérieurement, plus ou moins automatiquement, leur consolidation dans le cadre d'un financement à moyen terme. [p.13] En effet, si les conditions à fixer pour le concours communautaire devaient s'avérer moins sévères que celles imposées par ailleurs les pays membres seraient incités & recourir systématiquement, quelles que soient les circonstances, au système

		communautaire de financement. Par conséquent le Comité monétaire est d'avis que le degré de contrainte devrait être au moins analogue à celui prévu dans les statuts du F.M.I.
BAC-0565-1995-0283 (BAC 283)	1969	[p.5] **PROJET De COMPTE RENDU DE LA CENT VINGT-DEUXIEME SESSION DO COMITE MONETAIRE** Sur la base d'un projet remanié préparé par le secrétariat, le Comité adopte un avis sur le mémorandum de la Commission au Conseil du 12 février 1969. [p. 9] **ONZIEME RAPPORT D'ACTIVITE DO COMITE MONETAIRE** [p. 21] Par ailleurs, le Comité a noté que la Commission proposait d'instaurer un mécanisme de concours financier' à moyen terme qui permettrait d'accorder dans les délais raisonnables à un pays membre ayant à faire face à des difficultés de paiements, le concours mutuel prévu à l'art. 108, alinéa 2 du traité de Rome. Le Comité, conscient du fait qu'une telle décision revêtait un caractère politique, s'est limité à évoquer quelques lignes générales. Il a d'abord souligné que, d'une part, le concours financier à moyen terme ne doit pas être conçu nécessairement comme la consolidation d'une aide à court terme consentie inconditionnellement par les Institute d'émission; d'autre part, l'octroi d'un tel concours ne se conçoit qu'en liaison avec l'acceptation par le pays demandeur de certaines conditions concernant la politique économique qu'il entend suivre, conditions qui devraient présenter un degré de contrainte au moins analogue à celui qui découle des règles et pratiques du FMI. […]
BAC-0565-1995-0286 (BAC 286)	1969	[p. 52] **Intervention au sujet d'un concours financier à moyen terme** 1.Mandat du Comité Monétaire Au cours de sa séance du 17 juillet, le Conseil a donné mandat au Comité Monétaire de lui faire rapport ainsi qu'à la Commission sur les modalités d'exécution d'un système de concours financier à moyen terme. 2.Justification Diverses justifications à la mise en place d'un tel concours ont déjà été données et retenues en principe au cours des divers stades de l'examen de cette question au Comité Monétaire même et au Conseil. Il convient de souligner les points suivants: -compte tenu de leurs obligations réciproques et des progrès préconisés dans le domaine de la coordination des politiques économiques, il est normal que les Etats membres de la Communauté se dotent des moyens nécessaires pour s'accorder, dans le cadre de leurs relations propres, un soutien mutuel, le cas échéant à moyen terme. Une autre considération importante à cet égard tient dans ceci : la communauté doit être la première instance multinationale à connaître des problèmes d'un Etat membre et à lui venir en aide si nécessaire. L'expérience a montré que l'absence d'une aptitude de la part de la Communauté à venir en aide à un Etat membre pourrait nuire à une saine coordination dans ce cadre en cas de difficultés (sic!) dans un Etat membre. 3.Traits essentiels du mécanisme Il résulte des justifications présentées ci-dessus que: -le concours susceptible d'être accordé au sein de la Communauté doit pouvoir être mis en œuvre rapidement; les procédures constitutionnelles en vigueur dans la majorité, voire la totalité des Etats membres rendent indispensable un approvisionnement budgétaire -donc une procédure parlementaire - afin que les fonds nécessaires puissent être engagés pour une période pluriannuelle; -l'engagement ici doit être soigneusement distingué de l'utilisation dans des cas spécifiques - le Comité Monétaire s'est déjà exprimé dans ce sens dans son avis du 10 mai 1969; -une deuxième conséquence des arguments avancés pour justifier le système doit être dégagée, et la Commission lui attache une particulière importance : les ressources susceptibles d'être engagées dans le concours mutuel doivent être adéquates pour permettre à la Communauté de faire face aux besoins de financement, éventuellement

		simultanés, de plusieurs états membres de la Communauté; à cet égard, il serait sage de prévoir que la Communauté puisse financer simultanément les besoins: -soit d'un des trois Etats membres économiquement les plus importants -et deux Etats membres ayant des économies moins larges -soit de deux Etats membres économiquement les plus importants; -il faudra bien entendu tenir compte des possibilités de financement disponibles ailleurs, mais il y a lieu de remarquer à cet égard que l'existence de deux cadres de décision de financement à l'heure actuelle (F.M.I. et Groupe des Dix) n'a pas posé de problèmes insurmontables. […]
BAC-0565-1995-0290 (BAC 290)	1970	[p.10] **Note au Comité Monétaire** Sur le plan technique, les difficultés principales résident, d'une part, dans la nécessité de conférer aux créances nées de l'octroi du concours un degré élevé de liquidité et, d'autre part, dans l'établissement d'un lien entre les facilités disponibles dans le cadre du Fonds Monétaire International et le concours communautaire de manière à harmoniser les conditions du recours aux deux systèmes. […] Dans ces cas, l'arrangement devrait prévoir que le pays débiteur serait tenu de rembourser anticipativement le concours accordé, soit à charge de ses réserves proprement dites, soit en faisant usage de ses facultés d'emprunt, en particulier auprès du Fonds Monétaire International. […] Sur le plan technique, les difficultés principales résident, d'une part, dans la nécessité de conférer aux créances nées de l'octroi du concours un degré élevé de liquidité et, d'autre part, dans l'établissement d'un lien entre les facilités disponibles dans le cadre du Fonds Monétaire International et le concours communautaire de manière à harmoniser les conditions du recours aux deux systèmes. [p.13] Une coordination organique entre les deux systèmes pourrait être instituée, sous une forme souple et efficace, par la présence d'un observateur du F.M.I. aux réunions du Comité Monétaire consacrées au fonctionnement du concours à moyen terme. Cet observateur serait habilité à faire connaître lors de l'octroi du concours et ensuite, à intervalles périodiques, l'opinion officieuse du Fonds, sans engagement de sa part, sur la situation du pays débiteur et les politiques de redressement suggérées et dès lors sur les conditions qui pourraient être requises pour un tirage ultérieur éventuel en tranches de crédit. Cette formule présenterait l'avantage, pour le F.M.I., de lui permettre de donner son point de vue sur la situation économique du pays membre, tout en épargnant l'utilisation de ses ressources ordinaires, pour les pays membres créanciers, de leur offrir non une certitude, mais une assurance raisonnable que le pays débiteur pourra faire usage de ses droits de tirage en tranches de crédit, si nécessaire, et, pour le pays membre débiteur, de lui permettre d'exposer sa situation, de justifier sa politique et d'obtenir les concours nécessaires dans le cadre restreint du Comité Monétaire et au sein d'une Communauté dont les liens sont particulièrement étroits. Rien n'interdirait, bien au contraire, d'organiser, si les circonstances le justifient, des concours conjoints de la Communauté et du Fonds Monétaire, concours qui seraient grandement facilitée par la coopération qu'auraient instituée entre elles les deux Institutions.
BAC-0565-1995-0296 (BAC 296)	1970	[p. 8] **Rapport à la Commission et au Conseil** 1. Objectives de système Le système du concours financier à moyen terme constitue le mécanisme de coopération par lequel les Etats membres s'accordent l'assistance financière prévue par l'article 108, § 2, c) du Traité (concours mutuel). La mise en place de ce système peut se justifier notamment par le fait que la réalisation progressive d'une union économique et monétaire peut temporairement avoir des incidences défavorables sur l'équilibre des balances des paiements des Etats membres. L'octroi réciproque d'une aide financière entre pays du Marché commun constituerait une manifestation de

		solidarité communautaire susceptible d'apporter soulagement ou remède partiel aux difficultés pouvant se manifester sur le plan national. […] [p.9] Toute décision relative à l'octroi du concours financier à moyen terme devrait être prise par le Conseil à la majorité qualifiée et prévoir notamment les conditions de politique économique auxquelles le concours serait subordonné. A cet égard, il apparaît que le degré de rigueur se rattachant à l'utilisation du système communautaire devrait être analogue à celui qui découle des règles et pratiques du F.M.I. […]
BAC-0565-1995-0298 (BAC 298)	1970	[p. 19] **Modifications proposées par les membres suppléants allemands du Comité monétaire au Projet de rapport sur le concours financier à moyen terme en date du 16 mars 1970 (les parties modifiées sont soulignées)** Modifications proposées par les membres suppléants allemands du Comité monétaire au Projet de rapport sur le concours à moyen terme en date de 16 mars 1970 […] Le concours financier à moyen terme a pour objectifs principaux de contribuer au bon fonctionnement du Marché commun en atténuant les risques d'un recours par un Etat membre aux clauses de sauvegarde prévues par le Traité, - d'accélérer la mise en œuvre du processus d'intégration économique, en facilitant l'harmonisation des politiques à court et à moyen terme grâce aux obligations économiques résultant de l'octroi des crédits, et en préparant l'instauration d'une union économique et monétaire entre les Six. (Le reste du texte est maintenu). […] [p.22] Mobilisation par le débiteur i) soit par le recours aux tranches de crédits encore disponibles auprès du FMI ; ii) soit par le recours aux réserves propres (par exemple, réserves en or ou droits de tirage spéciaux), servant de garantie aux facilités de crédit Initialement obtenues. Au moment du tirage, devrait s'établir un "gentlemen's agreement" par lequel le pays débiteur s'engagerait à ne pas entamer, sans l'accord préalable du pays créditeur, un montant de ses réserves propres correspondant à une tranche déterminée de l'emprunt contracté, 2. Refinancement par la BRI 3. Recours aux droits de tirage spéciaux réservée en prévision du cas de mobilisation à l'occasion d'un tirage par toutes les parties contractantes
BAC-0565-1995-0301 (BAC 301)	1970	[p.6] **PROPOSITION DE DECISION DU CONSEIL portant mise en place d'un mécanisme de concours financier à moyen terme (présentée par la Commission au Conseil) COM(70) 634 final Bruxelles, le 10 juin 197O** La Commission a estimé que s'il était indispensable de prévoir l'intervention de certaines solutions aux difficultés de cet ordre (Art« V, § 3), il serait inopportun d'introduire dans sa proposition des formules qui auraient pour effet de conférer par principe aux opérations de crédit intracommunautaires un caractère nettement plus restrictif que celui qui s'attache aux crédits accordés par d'autres instances internationales et notamment par le F.M.I. sous peine de rendre inopérant le système communautaire projeté.
BAC-0565-1995-0338 (BAC 338)	1973	[p.229] **RAPPORT SUR LA SITUATION ECONOMIQUE ET FINANCIERE DE L'ITALIE** Problème de la mise en œuvre d'une politique globale des revenus. En conclusion, le Comité exprime l'espoir que le dispositif qui sera mis en œuvre par les autorités italiennes permettra un redressement rapide de la balance des paiements, facilitant ainsi le retour de la lire dans le système communautaire des changes.
BAC-0565-1995-0342	1973	[p.20] **OIL PRODUCER SURPLUSES AID THE BALANCE OF PAYMENTS OF THE EUROPEAN COMMUNITY**

(BAC 342)		The twin prospects of a very large and rapid deterioration of the Community's current account and of a massive flow of capital from the OPEC countries into the Community raises two distinct, although interrelated, problems. The first problem is to ensure that the movement from current surplus to current deficit for the Community as a whole does not lead to extreme incompatibility of balance of payments aims between individual Community countries or between the Community and other industrialized countries with the dangers that this might entail of a relapse into beggar-my-neighbour trade and payments policies.
BAC-0565-1995-0346 (BAC 346)	1974	[p.103] **CONSULTATION SUR LES DECISIONS PRISES PAR LES AUTORITÉS FRANÇAISES LE 19 JANVIER 1974** En effet, la France a enregistré en 1973 des pertes de réserves importantes. Depuis fin décembre 1972 jusqu'au 19 janvier 1974, ces pertes se sont élevées à 2.434 mio d'unités de compte, les réserves totales passant de 9.366 à 6.932 mio d'UC. Ces pertes sont advenues notamment aux mois de septembre et octobre 1973 (près de 2 milliards) et à nouveau depuis la fin de l'année 1973 (environ 500 mio d'UC). […] Dans ce délai de 6 mois les autorités françaises espèrent qu'il sera possible de réaliser des progrès ultérieurs dans la voie de l'UEM, en particulier en ce qui concerne l'élargissement substantiel du soutien monétaire à court terme sur lequel le Conseil est appelé à statuer avant le 30 juin 1974 et l'harmonisation des politiques économiques qui doit rendre possible une meilleure convergence des évolutions économiques des pays membres. […] En même temps, les experts français estiment qu'il importe de créer de nouveaux mécanismes susceptibles d'attirer vers l'Europe une part substantielle des surplus qu'enregistreront les pays arabes. […] Il est très douteux que la situation de la France face aux implications financières de la crise énergétique soit fondamentalement différente de celle des autres pays· En effet, l'examen effectué au sein du groupe de travail № III a révélé que l'ordre de grandeur du déficit attendu de la balance des paiements française est comparable à ceux de nombreux autres pays. Dans ces conditions, la décision prise est très dangereuse dans la mesure où elle pourrait préluder à des actes analogues d'autres pays et conduire la communauté internationale dans un processus de dévaluations compétitives. Par contre si cette décision ne vise pas à acquérir un avantage concurrentiel, il apparaît nécessaire que la France accepte une détérioration de sa balance des paiements courante et procède au financement du déficit par un prélèvement sur ses réserves ou par l'emprunt.
BAC-0565-1995-0347 (BAC 347)	1974	[p. 29] **Situation de la Communauté: mesures d'urgence (Communication de la Commission au Conseil)** La plus grande priorité devrait être accordée aux actions communautaires qui permettraient d'éviter une dislocation rapide dans l'évolution des transactions économiques de tous ordres et notamment des échanges à l'intérieur de la Communauté ainsi qu'entre les pays membres de celle-ci et les pays tiers. [p.100] c) La crise du pétrole a créé un problème de financement d'un ordre de grandeur sans précédent· D'après les évaluations du FMI, le surplus courant des pays exportateurs de pétrole pour l'année 1974 sera de l'ordre de 68 milliards de dollars; la contrepartie en est un déficit courant de 37 milliards pour les pays industrialisés et de 31 milliards pour les pays en voie de développement. Le déficit courant des pays membres de la Communauté économique européenne sera vraisemblablement d'un ordre de grandeur approchant d'environ 25 milliards de dollars· Laissant […] [p.67] **EINRICHTUNG EINER KAPITALSAMMELSTELLE FÜR DIE GELDER PER ÖLLÄNDER (Vermerk der französischen Mitglieder)**

		Im Folgenden sollen lediglich die Probleme aufgezeigt werden, die gelöst werden müssen, wenn die Gelder der Ölproduzierenden Länder von einer europäischen Stelle gesammelt werden sollen. I. Art des Emittenten […] a) Der Europäische Währungsfonds […] b) Groupement d'emprunt […] c) L'emprunt groupé […] II. Form des Papiers a) Laufzeit […] - direkte mittelfristige Kredit 5 Lis 10 Jahre - klassische langlaufende Schuldverschreibungen 15 bis 20 Jahre - langfristige Schuldverschreibung mit Sonderstatus 30 bis 40 Jahre b) Garantie Die Mitgliedstaaten bürgen für den Anteil ihrer Zentralbank am Emissionsaufkommen. Der europäische Gemeinschaftscharakter der Emission könnte noch betont werden, wenn trotz der veränderlichen Verteilung des Emissionsaufkommens alle Mitgliedstaaten eine unveränderliche solidarische Garantie für alle Emissionen abgeben würden, zum Beispiel, nach dem Verteilungsschlüssel für die Debitorenquoten beim kurzfristigen Währungsbeistand. […]
BAC-0565-1995-0348 (BAC 348)	1974	[p.108] **RESUME OF THE DISCUSSION OF THE MONETARY COMMITTEE OF 6 MAY 1974** En ce qui concerne le concours financier à moyen terme proposé par la Commission, la grande majorité des délégations estime que cette question ne revêt pas un caractère d'urgence, étant donné que ce concours n'est destiné qu'à refinancer, à son échéance (septembre), le soutien monétaire à court terme. Dans ces conditions, il serait prématuré de vouloir trancher dès maintenant les problèmes relativement complexes liés à l'octroi de ce concours. Le Comité se propose de revenir sur cette question lors de l'une de ses prochaines réunions·
BAC-0565-1995-0349 (BAC 349)	1974	[p. 55]**AVIS SUR LA SITUATION ECONOMIQUE ET FINANCIERE DE L'ITALIE** Le Comité a procédé à un premier examen de la situation économique et financière de l'Italie, en application de l'art. VII de l'Accord instituant un système de soutien monétaire à court terme entre les banques centrales de la Communauté, à la suite de l'octroi en juillet 1973 à la Banca d'Italia d'un crédit de soutien pour un montant de 1.562,5 millions d'UC. Lors du renouvellement de cette ligne de crédit pour une deuxième période de 3 mois, d'octobre à décembre 1973, le Comité a procédé à une nouvelle consultation. Les résultats de ces deux examens sont consignés dans deux rapports que le Comité a transmis au Conseil et à la Commission· A la suite de l'utilisation de cette facilité de crédit par la Banca d'Italia, le Comité a chargé un groupe restreint présidé par M. de Strycker de procéder à un nouvel examen de la situation économique et financière de l'Italie. A la suite de cet examen, le Comité a approuvé le présent avis. […] [p.56] Ces orientations des politiques économique et financière pour 1974 ont donné lieu, dans le cadre des négociations avec le FMI pour l'adoption d'un crédit de stand-by de 1.000 milliard de DTS, à la fixation de certain objectifs quantitatifs : […] [p.58] Le Comité considère en conclusion que les objectifs quantitatifs déterminés en accord avec le FMI devraient constituer des limites extrêmes à ne pas dépasser. Il considère

		même qu'il importe de rester nettement en-deçà de ces plafonds, de façon à se ménager une marge de sécurité pour faire face aux risques d'une aggravation soudaine de la situation pouvant résulter de facteurs tant externes qu'internes. A défaut, d'une telle discipline, l'Italie pourrait se trouver bientôt contrainte d'adopter d'autres mesures comportant des sacrifices en termes de revenus réels et d'emploi bien plus douloureux que ceux requis dans la situation actuelle. […]
BAC-0565-1995-0351 (BAC 351)	1974	[p.15] **MÜNCHEN - DER BAYRISCHE MINISTERPRÄSIDENT ZUR EUROPÄISCHEN LAGE** Der Regierungschef des bedeutendsten Agrarlandes der deutschen Bundesrepublik, der bayerische Ministerpräsident Alfons Goppel, hat an die Agrarminister der Europäischen Gemeinschaft appelliert, die gegenwärtige Krise Europas bald mit überwinden zu helfen. Der europäische Durchbruch nach vorn werde nur gelingen, wenn die europäische Politik wieder eine gemeinsame Linie finde. Der Ministerpräsident wies darauf hin, dass die bayrische Landwirtschaft - mehr als die Hälfte bayerischen des Agrarexports geht nach Italien - durch die italienischen Exportbeschränkungen "schwerste Schäden" erleide. Gerade Bayern, das mit Italien im Austausch von Agrarprodukten „eine für beide Partner vorteilhafte Arbeitsteilung eingegangen sei" habe aber auch grosses Verständnis für die Sorgen Italiens. Das Land sollte die Hilfe der ganzen Gemeinschaft erhalten, betonte Goppel. (DPA)
BAC-0565-1995-0352 (BAC 352)	1974	[p 44] **MESURES URGENCES EN MATIERE ECONOMIQUE ET MONETAIRES (Communication de la Commission au Conseil**) 1. Le Conseil (Finances) se réunit le 6 juin pour la première fois depuis près de quatre mois. Pendant cette période, la situation économique s'est sensiblement détériorée dans plusieurs de nos pays : poursuite accélérée de l'inflation et déficit croissant de la balance des paiements. Cela a conduit en particulier aux mesures sévères prises par deux pays membres, l'Italie et le Danemark, mesures qui font l'objet de procédures communautaires. […] [p. 47] 7. Les déficits croissants de la balance des paiements de plusieurs de nos pays membres peuvent les conduire, en l'absence de toute assistance communautaire, à des mesures nationales de sauvegarde, mettant en péril l'unité du Marché commun. La Commission propose que le Conseil décide, dès sa prochaine session, de mettre en place un dispositif de solidarité communautaire, et crue, notamment, dans le cadre du Fonds de coopération monétaire, un crédit spécial de dimension importante, financé directement ou par emprunts groupés et solidairement garantis à l'extérieur, puisse être mobilisé au bénéfice d'un Etat membre par décision de la Commission, après avis favorable du Comité monétaire, et dans la mesure où l'Etat membre applique effectivement les directives de politique économique visées au point précédent, et plus généralement pratique une politique de nature à remédier aux difficultés qu'il rencontre. La Commission soumettra sans délai au Conseil à cette fin, une proposition de décision. […] […] [p.45] Pendant cette même période, les procédures communautaires de consultation et de concertation, officiellement arrêtées le 18 février dernier, ont fonctionné au ralenti. Par exemple aucune consultation, dans le cadre de ces procédures, n'a précédé les décisions italiennes et danoises. Le développement t. d'une telle situation, non seulement rendrait dérisoires les engagements pris sur l'Union économique et monétaire; mais, par la répétition de décisions nationales, prises unilatéralement, mettrait en danger une partie très importante de l'acquis même des Communautés, c'est-à-dire la libre circulation des marchandises.
BAC-0565-1995-0353	1974	[p. 98] **REPORT OP THE CHAIRMAN OP THE AD HOC GROUP ON "COMMUNITY LOANS"** [p.100]

(BAC 353)		1. Loans by the Community (Commission). In the communication by the Commission to the Council it was proposed that the loan or loans should be floated by the Community, represented by the Commission enacting a Council Decision based on Article 235 of the Treaty. The group noted the legal interpretation of the Commission that the Community is empowered to raise loans provided that after an examination of the economic situation it can be seen that such action would be necessary to attain the objectives of the Community, as defined in the Treaty. (One member of the group however expressed some doubts about the Commission's interpretation of article 235 and suggested that in due course further legal opinion be sought.) The choice of the Community as borrower has the following advantages: - it makes clear to third parties that the Community as such is responsible without there being any need to commit Member States directly vis-à-vis a third party; - the Community has a legal personality and can undertake commitments vis-a-vis third parties and may be a party to legal proceedings - the Community has large budgetary resources available which could in the near future be entirely constituted of own resources and which could give confidence to the subscribers to a loan. (Appendix A refers to prospective own resources of the Community). Some members however pointed out that the Community's own resources did not contribute much to what is essentially a foreign exchange financing problem. A few members also expressed some doubt regarding the "prospectus value" of such resources under these circumstances. The group further noted that the Commission had already had experience of concluding and managing external loans (Directorate General XVIII; Credit and Investments, former ECSC). It was equally noted that this experience also exists within the EIB, and that the EMCF could also act as agent. 2. Loans by the EMCF For loans through the intermediary of the EMCF it would also be necessary to invoke Article 235 in addition, the statutes of the EMCF would require amendment through the normal Council procedure, to empower the EMCF to raise loans of the type considered in this context. Apart from the above, loans by the EMCF would benefit from the same advantages as the Commission procedure, with two qualifications: a) The EMCF, at present, does not have own resources. A paid-up capital of say 500.000.000 units of account would clearly be a considerable step forward in overcoming this disadvantage. […] b) Some members of the Group recalled earlier objections by members of the Monetary Committee, namely that loans on the financial market are not of the usual functions of a central bank, of which the EMCF is a prototype. […] 3. Loans by the EIB For loans through the intermediary of the EIB it would also be necessary to invoke Article 235. In addition, the Statutes of the EIB would require amendment and in this case it would be necessary to amend the EEC treaty, with the more complicated and lengthier procedure this would involve. This alternative does not therefore commend itself within the framework of a "contingency plan" […] 4. Loans by a "grouping" of member states This alternative has both advantages and disadvantages in respect of previous solutions. The advantages are 1) undoubted sovereignty and competence of the borrowers 2) no Community legal procedures. If the member states were prepared to accept complete joint and several responsibility for repayment, there would also be the third major advantage of an enormously high

		level of credit worthiness. The Group however had difficulty in imagining all member states agreeing to complete joint and several responsibility. Under these circumstances, this alternative would suffer from the following disadvantages: 1) a formal splitting of liabilities within an external loan contract could lead to serious subscription difficulties 2) this alternative is also the least "Community minded", and could lead to difficulties in setting up procedure for relating the borrowers (as sovereign states) with Community institutions (the Council, the Commission, the Monetary Committee, the Committee of Governors), in ways not at present provided for by the Treaties and previous Council decisions within the Treaties. It would appear therefore that this alternative would require a considerable legislative effort at national level, as well as a new international agreement between the member countries. A grouping of member states could use as agent one or more central banks, or the agents mentioned in the previous alternatives. […] [p.106] 9) The absolute ceiling of each Member States financing contingent liability was not finally agreed by the Group. Two alternative solutions were put forward: a) double the original quotas; b) such figure as would allow for three States - of which two major -to be involved in original borrowing and/or refinancing. […] [p.108] “The Group has asked that its opinion be recorded that a borrowing operation by the Community, provided it is not of excessive size, should be realisable. The Group feels that apart from the engagement of the Community, what would be required would be public statements to the effect that the Council has reached such a decision unanimously and that arrangements have been made internally within the Community to take care of all repayment contingencies.” […] [p.149] **COMPTE RENDU DETAILLE IE LA SESSION DU COMITE MONETAIRE LES 4 ET 5 SEPTEMBRE 1974** 1. La Bundesbank dépose un montant de 2 milliards de dollars pour 6 mois auprès de la Banca d'Italia, avec trois prolongations possibles de 6 mois chacune· En contrepartie, la Bundesbank acquiert une créance en dollars d'un montant équivalent de la Banca d'Italia. Le taux d'intérêt correspondent au rendement effectif des bons du Trésor américain à 6 mois (9,88 per cent pour les 6 premiers mois). 2. La Banca d'Italia crédite la Bundesbank de 60,7 millions d'once d'or fin (égal à 521 tonnes) transférables à l'échéance. L'or est évalué à 80 per cent du prix du marché qui lui-même a été définie comme la moyenne arithmétique du "fixing price" enregistré à Londres dans les mois de juillet et d’août : ainsi on arrive à un prix de 119,20 dollars. […]
BAC-0565-1995-0355 (BAC 355)	1974	[p. 33] **OPINION TO THE COUNCIL AND THE COMMISSION Community loans** III. CHOICE OF BORROWER The various alternatives with regard to the choice of borrower were again considered. A general consensus was established on the following: 1)The Community should be the borrower; 2)The Council shall authorise each specific borrowing transaction. It would also approve each on-lending operation to the interested Member State or States and determine the economic conditions which would be an integral part of such a loan agreement;

		3)a) The negotiations on the terms of any borrowing operation with the lenders will be conducted under the auspices of the Commission, who will recommend the final conditions to the Council, subject to the advice of the Monetary Committee and the Committee of Governors. Whilst they might need to be preceded by political contacts undertaken by the Commission, these negotiations might, in practice, be conducted at the technical level jointly by the staff of the Commission and of the EIB, who would report to a very limited ad hoc working party. This working party would be composed of competent people nominated by the Member States, the Commission and the EIB, and would be responsible for preparing the operation for approval by the Council of Ministers. b) The Commission shall negotiate with the borrowing Member States and recommend the economic conditions on which a proposed loan to a Member State is to be granted. Such conditions shall include the entire monitoring system to be established during the time-span of the loan. Subject to advice from the Monetary Committee and the Committee of Governors, a Council decision will then again be necessary. The Monetary Committee proposes to look into the matter of appointing a managing agent in the near future. […] [p. 37] 5) The monitoring system should be geared to the pattern of each operation. It is, however, understood that the general rule shall be that the monitoring system during the whole period of the loan will be concerned entirely with verifying the respect by the borrowing Member State of the economic policy conditions which are an integral part of the loan agreement. […] […] [p.47] OBSERVATIONS SUR LE PARAGRAPHE II (Mécanisme général de l'opération) - L'opération doit être d'un montant limité (Luxembourg) - Ne lancer l'emprunt que lorsque l'Etat membre bénéficiaire est connu (Allemagne) - Solliciter par priorité les pays producteurs de pétrole (Royaume-Uni et Irlande) - Justifier l'opération par la nécessité du recyclage des capitaux (France) - Apprécier exactement les possibilités du marché et les besoins du ou des pays emprunteurs (Irlande) - Fixer des limites à l'endettement de la Communauté dans une période de temps déterminée (Irlande) […] [p.95] **Problèmes budgétaires nationaux posés par l'engagement de financement éventuel (point IV du rapport du président du Comité monétaire) et par le mandat en matière d'emprunts** PAYS-BAS Il est probable que le Parlement n'approuve l'engagement de financement éventuel que dans la limite d'un certain montant maximum bien précis. Si la Communauté désire contracter des emprunts qui portent cet engagement de financement éventuel au-delà de son maximum, une nouvelle approbation parlementaire scia nécessaire. […] [p.102] Il paraît donc douteux, même si cette énumération n'a qu'une fonction d'illustration que la notion de secours mutuel telle qu'elle est comprise dans le traité couvre également l'octroi de prêts par la Communauté. Il semble par conséquent que l'article 108 ne corresponde pas entièrement aux conditions propres au cas qui nous occupe. […] En conséquence, le Service juridique est d'avis que l'article 235 offre un fondement juridique valable pour l'adoption d'une réglementation d'application du projet qui a été débattu au sein du Comité monétaire.

		[p.128] **EMPRUNTS COMMUMUTAIRES Analyse des observations faites par les gouvernements des Etats membres sur le rapport du Président du Comité monétaire au Conseil en date du 12/9/1974** - envisager la possibilité d'exiger un gage - remise d'or par exemple - du pays membre emprunteur (Allemagne, Luxembourg) [p.129] - Ajouter dans la version anglaise, page 3, IV, 2 in fine.... "all other external and Community financing procedures, <u>including refunding operations</u> would have been exhausted"(Allemagne) - Il peut rester un solde impayé si plusieurs grands pays membres ne peuvent remplir leurs obligation de fournir des devises (Allemagne).
BAC-0565-1995-0357 (BAC 357)	1974	[p. 195] **FICHES TECHNIQUES RELATIVES AUX CARACTERISTIQUES BES DIVERS REGIMES CE L'U.C. IX. Concours financier à moyen terme** Problèmes : Le mécanisme de concours financier à moyen terme n'est entré en vigueur que le 24.10.1973 lorsque le dernier Etat membre a terminé les procédures de droit interne nécessaires pour l'application de la décision du 22.3.1973
BAC-0565-1995-0360 (BAC 360)	1975	[p.24] **RAPPORT ORAL DU PRESIDENT DU COMITE MONETAIRE AUX MINISTRES DES FINANCES (7 janvier 1975)** La grande majorité du Comité monétaire s'est montrée favorable au principe d'un Fonds de Soutien. L'unanimité s'est faite pour convenir que s'il était créé, le Fonds de Soutien servirait de filet de sécurité s'ajoutant aux autres sources de crédits auxquelles les pays confrontés à de graves difficultés économiques pourraient avoir recours.
BAC-0565-1995-0394 (BAC 394)	1977	[p. 23] **SECOND REPORT ON THE BELGIAN PROPOSALS** [p. 24] 5. The Committee is of the view that the present procedure, under which any Member State can be exempted from participating in a Medium-Term Financial Assistance operation by a simple declaration that it is experiencing balance of payments difficulties, should be amended. It is proposed that where one or more countries represent that they would have difficulty in financing the whole, or any part of their contribution, they shall be exempted to the extent necessary only if the Council, acting on a recommendation from the Commission and on an opinion delivered by the Monetary Committee, has taken a decision by a qualified majority that the exemptions in question are justified and on how, in consequence, the shortfall in contributions shall be financed. […] [p. 25] 9. The majority of the Committee supports the principle that the Community loan mechanism should be adjusted as soon as possible along the same lines as the Medium-Term Financial Assistance arrangements. Some members think, however, that the Community loan mechanism must not be renewable since it was approved as an exceptional support measure designed to remedy balance of payments <u>difficulties</u> stemming from the higher oil prices. The members in question have also pointed out that, unlike the Medium-Term Financial Assistance arrangements, the Community loan machinery is not based on the <u>article</u> providing for mutual assistance in the event of balance of payments <u>difficulties</u> (Article 108 of the Treaty of Rome). […]
BAC-0565-1995-0397 (BAC 397)	1977	[p.34] **DRAFT REPORT OF THE MONETARY COMMITTEE** In addition, these members feel that the way in which the conditionality clauses attached to Community loans have been respected is not satisfactory. In many cases, the economic policy conditions imposed on beneficiary countries by the Council have not been observed, with the limits set being at times significantly overstepped, to the point that the system may lose its credibility. This criticism is regarded as exaggerated

		by some other members, who point to the recent agreement to double the commitment ceilings for medium-term financial assistance, the conditionality of which is based on the same principles. Moreover, it was pointed out that the strengthening of conditionally proposed for the Community loan was specifically aimed at meeting this point.
BAC-0565-1995-0419 (BAC 419)	1980	[p.11] **OPINION TO THE COUNCIL AND THE COMMISSION ON ISSUES RAISED BY THE RECYCLING PROCESS** However, structural conditions and inflation rates were very diverse at the time of the second oi I shock, and adjustment policies are not likely to achieve everywhere the same results. Seen in the light of longstanding difficulties, this represents not only a threat to monetary cohesion and economic convergence, but also a potential danger for the actual unity of the market.
BAC-0565-1995-0420 (BAC 420)	1980	[p. 36] **ADJUSTING THE COMMUNITY LOAN MECHANISM (Note for the Monetary Committee)** […] The problem of adapting the Community loan mechanism set up on 17 February 1975 as first discussed in 1977,in connection with the Belgian proposals aimed at strengthening the Community instruments for providing support. The Monetary Committee submitted a report on the matter on 12 May 1978. A majority of its members endorsed the Commission's proposals for doubling the ceiling on loan operations, for expanding the scope of the system, for tightening up the conditionality attaching to the granting of loans and for omitting any *de facto* subordination to the medium-term financial assistance arrangements (MTFA). However, in view of the differences of opinion that emerged within the Committee on, among other things, the advisability of extending the mechanism given the economic conditions obtaining at the time, the Committee was unable to propose to the Council a single formula for the future of the Community loan mechanism. […] 1. <u>Aim of the mechanism</u> The present mechanism authorises the Community to undertake a series of operations to raise funds, either directly from third countries and financial institutions, or on the capital markets, with the sole aim of <u>re-lending</u> those funds to one or more Member States in balance of payments difficulties caused by the increase in prices of oil products (Art. 1 of Regulation (EEC) No 397/75). Since it does not directly involve the commitment of the Community's foreign exchange reserves, this instrument is still, as far as its general design is concerned, well suited to handling the recycling problem. Even so, the specific reference to the difficulties Caused by the oil price rises could be deleted as already proposed in 1978 at the time of the Committee's first re-examination of the mechanism. The case for triggering this mechanism could, in each individual instance, be assessed as part of the search for an appropriate mix of adjustment and financing measures. By contrast, it would not seem to be appropriate to extend the Community loan mechanism for reasons other than that of financing Member States' balance of payments deficits. The Community already has at its disposal a sufficiently wide panoply of instruments suitable for financing specific measures. […] 3. <u>Place of the mechanism among the instruments for financing balance of payments deficits</u> Taking the range of instruments available to a member country to help it over balance of payments difficulties, the Community loan mechanism should be inserted between direct borrowing on international capital markets and recourse to the facilities available within the IMF. This order of priority would bear tangible witness to Community solidarity and would permit discussions between member countries at an earlier stage than is presently the case. […]

		4. <u>Continuality</u> The fixing of and the compliance with the conditions attaching to the Loans granted in 1976 and 1977 has not been altogether satisfactory. It must, however, be pointed out that this is a difficult exercise, owing to the uncertainty or forecasts and to the unstable nature of links that may be established <u>a priori</u> between a set of monetary and fiscal aggregates and the restoration of the beneficiary country's external position. In the event of the limits set being significantly overstepped, it is also difficult to call into question official support that has already been granted without undermining a beneficiary country's credit standing and without causing a further deterioration in its position. These difficulties could be alleviated in future by: - an earlier activation of the mechanism which, linked to a systematic monitoring of the external position of member countries, would avoid having to impose conditions which would be all the more severe the later recourse to Community financing was made; one could even envisage that access to Community loans be reserved to Member States who, at the appearance of balance of payments difficulties, have regularly informed the Monetary Committee thereon according to a procedure designed to maintain the confidential nature of such information; - a greater emphasis on the structural adaptations required in the medium-term; - the possibility of making payments by successive instalments, an arrangement that would make it possible not only to tighten up the system's conditionality but also to adjust it periodically to take account of the intermediate results achieved. In the latter case, a greater degree of flexibility would doubtless be needed in loan techniques in order to match borrowing and on-lending operations. At the time of the Committee's previous examination of the problem of adjusting the Community loan mechanism, a majority of its members came out in favour of omitting any *de facto* subordination to the MTFA that would tend to make the Community loan mechanism only a sort of relay for the latter. It had also been suggested that access to the loan mechanism should be limited in such a way that a Member State could not receive loans in excess of the amounts to which it would be entitled under the MTFA, with the loan mechanism being merely an alternative method of financing and not, except in exceptional cases, an additional method of financing. […] 5. <u>Flexibility in implementing the mechanism</u> Experience of the different series of on-lending operations has shown that the procedure for implementing the mechanism is at times excessively rigid: - Firstly, for the purpose of implementing the loan procedure (Article 2 of Regulation (EEC) No 397/75), the Council has to decide, once a loan application has been made by a Member State and after consulting the Monetary Committee, whether to authorise the Commission to open the necessary negotiations; it is then required to consult the Monetary Committee once again after the negotiations with the banks have been concluded; finally, it h s to decide whether to authorise the borrowing and lending operations involved. Experience has shown this procedure to be too cumbersome in that it does not enable the borrower to adapt easily to market conditions. The Committee might wish to simplify this procedure. If so, consideration might be given to limiting the Council's role to that of authorising the borrowing and on-lending of a specified amount, with the ensuing operations being carried out by the Commission in consultation with the Monetary Committee. - Secondly, lending and hence borrowing techniques should be sufficiently flexible to permit, where appropriate, advance redemption of loans by the beneficiary Member State or States. In particular, the need being that of

		financing balance of payments deficits, i.e. of raising a large-volume of funds for relatively short periods (5 to 7 years), it would be appropriate to also resort to "roll-over" credits. In the same connection, the minimum period of 5 years laid down for borrowings in Article 2 of Regulation (EEC) No 397/75 could be re-examined. - Lastly, the fact that lending and borrowing operations need to be conducted simultaneously is an additional factor of rigidity. The solution might be to authorise the Commission to hold as cash assets for short periods the funds raised, with any costs incurred being borne, in principle, by the borrowing Member State or States. […] 6. <u>Guarantees</u> In the event of default by the final borrower, the guarantee arrangements for the Community's creditors consist in an entry in the Community budget to cover the funds committed and also in financial participation by the Member States as provided for in Article 6 of Regulation (EEC) No 397/75 and in Articles 1 to 9 of Regulation (EEC) No 398/75. The main argument in favour of retaining this special guarantee system is that, under a system of own resources, the volume of borrowings that can be guaranteed under the budget cannot be increased indefinitely, and the full force of this argument can be appreciated by looking at the volume and duration of the financial commitments which the Community could enter into under the Community loan mechanism. […] [p.250] **DETAILED MINUTES OF THE 262ND SESSION OF THE MONETARY COMMITTEE (Brussels, 27 June 1980)** On the aim of the mechanism the Committee generally felt that it was not of major importance whether it was defined as an oil-related mechanism or not. I t is difficult to split a deficit into an oil and a non-oil component and, at all events, the countries likely to have recourse to the mechanism are those where oil-related difficulties are compounded by adjustment problems. Several members (Messrs Lahnstein (D), Masera (I), Quigley (IRL)) pointed out that it nevertheless made both political and economic sense to retain the reference to oil-induced deficits; politically, it laid responsibility for the situation squarely where it belonged, and economically a $120-biIlion Opec surplus is naturally matched by an "oil-related" deficit somewhere else. The Chairman shared this view and felt that maintaining a reference to the oil deficit was thus desirable.
BAC-0565-1995-0423 (BAC 423)	1980	[p. 30] **DRAFT REPORT TO THE COUNCIL AND THE COMMISSION ON RECYCLING** [p. 34] 2.4. Similarly, the Committee did not consider it useful to attempt to establish priorities in the recourse to the medium-term financial assistance and the Community loans. Cases are possible in which only one of the two could be used, and others in which both could be used simultaneously. In the present situation, with all the Member States running current payments deficits, financing by Community borrowing, in accordance with the needs of recycling, may be the only form of Community support which could be mobilised in practice. [p. 38] 5. <u>Guarantee</u> In the event of default by the final borrower, the guarantee arrangements for the Community's creditors consist in participation by the Member States in accordance with a procedure laid down in Article 6 of Regulation (EEC) 397/75 and in Articles 1 to 9 of Regulation (EEC) 398/75, and in a token entry of the liabilities in the Community Budget to ensure that the creditors are paid without delay. The Committee stressed that - as the experience of past decades has shown - the likelihood of default

		by any Community Member State is practically nil and it is in this light that it examined whether the present dual-guarantee system ought to be maintained. Several members felt that the entry in the Community's Budget constitutes in itself a commitment by the Community - i.e. by the Member States - which is sufficient to satisfy lenders and that there is consequently no need for a special or adjacent guarantee. Abolition of the system of guarantees by the Member States would correspond to the Community nature of the instrument and make it simpler to implement. Payments in the event of default would be made according to normal budgetary procedures. Other members felt the maintenance of the present dual guarantee system would be preferable, either because they felt that every effort should be made to avoid eventually exhausting the Community budget's financing capacity, or because they questioned the interpretation the markets could give to the scrapping of the counter-guarantees by the Member States. It should be noted that, were the counter-guarantee system by Member States to be maintained, certain member countries would submit an increase in the amount of the Community loan authorised by the Council to a parliamentary procedure, which would result in a further delay, as happened in 1975 when the system was set up. Between the Council's political decision and the termination of the procedure in the last country, the delay could thus be long enough for a modification of the international financial environment to intervene. […]
BAC-0565-1995-0443 (BAC 443)		[p.62] **THE EXTERNAL PAYMENTS POSITION OF MEMBER COUNTRIES: ADJUSTMENT, FINANCING AND EXTERNAL INDEBTEDNESS (Note for the Monetary Committee)** Alternatively, where an adequate net inflow of external capital seems not to be forthcoming or would require an economic policy stance incompatible with domestic objectives, the public authorities can secure the necessary inflows of capital by themselves borrowing abroad or be encouraging other sectors to do so. […] [p.65] Faced with the widening deficit of autonomous transactions, all the EC countries, except for the Netherlands and the United Kingdom, have had recourse to borrowing operations abroad conducted either directly by the public authorities or at their instigation. This method of financing, which some member countries adopted after the first oil shock, seems to have become general since 1979. […] Furthermore, in certain countries, the surge of official external borrowing does not seem to correspond solely to balance of payments objectives, since it also helps to cover the domestic borrowing requirement of the public sector. […] [p.68] In Germany, official external debt increased sharply in 1980 and 1981 but has been slowing considerably since the start of 1982. Moreover, unlike most of the other EC countries, Germany borrows abroad in national currency and consequently runs no exchange risks in this area. In any event Germany forms with the Netherlands and the United Kingdom a group of countries with substantial borrowing capacity since their official external debt at the end of 1981 represented under 2 per cent of GDP.
BAC-0565-1995-0448 (BAC 448)	1983	[p.12] **Draft opinion on the granting of a Community Loan to France** The Monetary Committee gives a favourable opinion on the French request for the granting of a Community loan. It will follow closely the evolution of the French economy in the course of the coming months. I t considers that the process of adjustment that has begun, made easier by the granting of the loan, and by greater convergence within the Community, must contribute to maintaining the integrity and strengthening the stability of the EMS. […] [p.17]

		The French Government's application for a loan is not associated with an acute balance-of-payments crisis. The crisis has recently been brought, under control, and the object is now to contribute to a consolidation process. In the discussions by the Monetary Committee, reference could therefore be made to the idea of "early conditionality defined when the adjustment of the Community loan mechanism was being discussed in 1981. The assistance thereby afforded will enable France to finance its adjustment while maintaining the exchange discipline required the maintenance of the French franc within the EMS. […] [p.29] L'objectif fixé de résorber le déficit commercial – environ 100 milliards de francs en 1982 - en deux ans, devrait permettre de renverser l'évolution préoccupante de l'endettement extérieur.
BAC-0565-1995-0458 (BAC 458)	1984	[p.270] **Deutsche Anregungen für eine kombinierte Nutzung der beiden mittelfristigen finanziellen Gemeinschaftsinstrumente** Wir sind der Auffassung, daß man den Reserven gegen eine Wiederbelebung des MFB durch eine kombinierte Nutzung der beiden mittelfristigen Gemeinschaftsinstrumente begegnen kann. Die in Ziffer 4 näher erläuterten Anregungen, haben den Vorzug, daß das zur Verfügung stehende Kreditvolumen beider Mechanismen bei gegebenem Finanzierungsbedarf weniger stark beansprucht wird als bisher. Damit wird auch die Aktivierung des MFB erleichtert.
BAC-0565-1995-0462 (BAC 462)	1984	[p. 56] **REPORT BY MR. REY, CHAIRMAN OF THE ALTERNATES OF THE MONETARY COMMITTEE, CONCERNING REEXAMINATION OF THE MEDIUM TERM FINANCIAL ASSISTANCE** 1.Following the mandate outlined in the Council minutes, the Alternates were asked by the Committee to examine the reasons why the MTFA has not been used more and to propose ways of adapting the mechanism, if necessary, in order to make it more operational. The Alternates also touched on the question of how to reduce the volume of this mechanism to the extent of the increase in the ceiling of the Community loans. The Alternates were provided with a document by the Commission staff addressing the question of adjusting the MTFA. 2.The Alternates recalled the report on "Certain Aspects of the Operation of the Community's Medium-Term Support Mechanisms" (doc. 11/189/84 of 17 April 1984) in which some of the reasons why the MTFA has not been used very much had already been presented. On the whole, the Alternates agreed with the Commission's analysis of these reasons; in particular the following were underlined: - the easy availability of unconditional balance of payments financing from international financial markets. There was no evidence that this availability would be significantly reduced in the future; - the high number of countries with difficult balance of payments situations in the Community, making it unlikely that they would take part in financing any recourse to the MTFA by any one of them. This obstacle could, however, be less relevant in the future; -the fact that in three Member States, contributions to the M.T.F.A. would appear in the budget or count as public expenditure and would therefore lead to an apparent increase in any public sector deficit. The countries in question saw no prospect for a change in their procedures. 3. The Alternates took note of the Commission staff's document and undertook an in-depth discussion of the proposals that it contained. Generally the Alternates were of the opinion that the present Council mandate implies remaining strictly within the legal basis of Articles 108 and 109. In particular : - It was pointed out that a decision modifying the MTFA so that mutual assistance is granted by the Community, instead of the Member States, would risk moving outside

		the framework of Articles 108 and 109, which allow only the "granting of limited credits by other Member States". - An adjustment of the MTFA by allowing additional justifications than those provided under Articles 108 and 109 for its mobilization (for example, joining the EMS exchange rate mechanism, narrowing fluctuation margins, undertaking capital liberalization measures, etc.) did not receive support. It was noted that in the particular circumstances mentioned by way of illustration, short term support might be more relevant than medium term support. 4. The Alternates came to the following concrete conclusions on adapting the arrangements of the MTFA in order to make them more operational, although some Alternates felt that these adjustments would not be sufficient to achieve the objective of enhancing the use of the facility: […] 5. As regards timing, there are three factors to be taken into account. Firstly, the present Council mandate which is to be seen in the context of the decisions taken on the Community loan mechanism. Secondly, there is a need to extend the MTFA decision by December 1984 so as to ensure the continuing existence of the mechanism. Thirdly there may be a case for a long term reform of the Community's medium term support mechanisms. In respect of the third factor, some Alternates thought that the long term solution to the lack of use of the MTFA may lie in its ultimate integration with the other Community medium-term support instrument, the Community loan mechanism, but the Alternates considered that they did not have a mandate to discuss such a proposal at this stage. Other Alternates saw some advantage in the existence of two separate instruments in terms of flexibility for the future, since, even if the MTFA has not been used recently, it may yet prove to be useful under different circumstances. […]
BAC-0565-1995-0476 (BAC 476)	1985	[p.58] **STABILIZATION PLAN FOR THE GREEK ECONOMY: ADDITIONAL INFORMATION (Note for the Monetary Committee)** The inevitable nature of this time lag is largely due to the constraint represented by the external debt and which can be illustrated in several ways. The external public sector debt broadly defined, which was still only about 10per cent of GDP in 1980, will reach nearly 35per cent of GDP in 1985. Interest payments abroad on this debt were under 1per cent in 1980 and will exceed 2.75per cent of GDP in 1985. Lastly, although it has until now, by means of recourse to grace periods, been possible to keep repayments in respect of the external public debt to between USD 800 million and USD 1 000 million a year, due dates in 1987 and 1988 promise to be particularly heavy with annual repayments totaling almost USD 1 400 million in the first of these years and USD 1 800 million in the second.
BAC-0565-1995-0477 (BAC 477)	1985	[p.15] **ORAL REPORT BY THE CHAIRMAN OF THE MONETARY COMMITTEE** **ON THE GRANTING OF MUTUAL SUPPORT TO GREECE UNDER ARTICLE 108** As to the Greek government's intention to apply for a Community loan, the Committee after detailed discussion, took the following opinion: 1. In view of the difficult balance of payments situation of Greece and her proposed economic policy programme, the Committee in general considered the granting of a Community loan to be justified, although several Members would have preferred a simultaneous recourse to the IMF. 2. The majority of the Committee members considered that the Community loan of 1.75bn ECU, which the Greek government has applied for and the Commission has taken into consideration, was too high. They pointed out that if the autonomous capital flows expected by the Commission are taken into account, the current account deficit would require an amount of only 1.4bn ECU. Moreover, the use of funds from the Community loan to refinance debts incurred by private creditors is, in general, not

		compatible with the purpose of this instrument. Even on the criteria used by other international credit facilities, it would scarcely be possible to arrive at a sum in excess of 1.4bn ECU. Besides, the credibility on all markets depends, in the Committee's view, less on the size of the credit accorded than on the rigor of the adjustment measures.
BAC 190/1999 42 session 328 minutes (BAC 42)	1986 Session 328	[p. 17] **DETAILED RECORD OF THE NOVEMBER MONETARY COMMITTEE MEETING** […] There are many doubts and apparent disagreements between Greek officials and Commission staff which should to be cleared up, […]. The question arose as to how the loan should be linked to a resolution of the uncertainties. The best way to achieve this would be to split the second tranche. […] <u>MR Garganas </u>objected that delaying or splitting the second tranche would be inconsistent with the Council decision and totally unacceptable. He hoped the point would be taken further. If it were, the Greek members would not be able to participate further. The Chairman expressed surprise at this intervention and referred to the Committee's duty to advise the Council in full freedom. The Committee does not allow itself to be dictated to by one of its members. This is not the way in which we deal with each other. The Monetary Committee has a tradition of frank and complete economic policy discussions. […]
	1986 Sessions 328 & 329	**[*Summary of physical document*]** **Detailed minutes of the 328th session** on the Greek recovery programme. The Chairman concluded that no majority was found to support the release of the second tranche for Greece, due to lack implementation problems of the conditions. The Committee proposed to split the second tranche to ensure conditionality. In the following the Greek member threatened to leave the meeting if that was further discussed. In the 329 session the Monetary Committee supported the release of the second tranche in the president's report and pointed out that the use of disbursement in tranches was a new technique but could be used differently and extensively for future loans.
BAC 228/2012 528 (528) sessions 339-342 (BAC 528)	1987	**REPORT BY THE CHAIRMAN OF THE ALTERNATES ON THE COMMISSION PROPOSAL FOR THE FINAL PHASE OF CAPITAL LIBERALIZATION (session 339)** [p.9] <u>II. On establishing a single facility providing medium-term financial support for member states' balance of payments</u> [p. 12] […] At present, the total amount available under MTFA and CL together adds up to just under ECU 22 billions; the amount available in practice, however, is considerably less, given the *de facto* reluctance that has emerged in using the MTFA. Therefore, a sensible approach could be that of setting up a new overall ceiling that would fall in between the 8 billions available under CL alone and the joint total of 22 billions. […] It was stressed that the decision on the total amount would depend on preserving effective conditionality as well as on access limits for individual countries. […] <u>In conclusion</u>, most Alternates would favour consolidating the existing mechanism for medium-term financial support into a single facility, with a single overall limit of amount and a single, broadly defined balance-of-payment criterion for access, defined in such a way as to include the difficulties that may arise in connection with capital liberalisation; access would in all cases be subject to economic policy conditionality: the normal form of financing would be market borrowing. Options remain divided, however, on a number of issues, including the precise figure for the new global ceiling and the access limit for individual countries, as well as the possibility of envisaging stand-by credit lines. […] III. A SINGLE COMMUNTIY FACILITY PROVIDING MEDIUM-TERM FINANCIAL SUPPORT FOR MEMBER STATES' BALANCE OF PAYMENTS (session 342)

		[p.3] 3. <u>Conditionality</u> The adjustment of macro-economic policies is essential to any attempt to overcome balance-of-payments problems. Moreover, Member States are under a Treaty obligation to avoid external disequilibria. A high degree of policy conditionality should therefore be an essential part of the Community's medium-term support arrangements. The longer the period of the loan the more binding should the adjustment programme be. The legislation should be strengthened to make it clear that loans will normally be payable in tranches, the release of each tranche being conditional on the achievement of results specified in advance. […] [p.5] The amount which is effectively available under present legislation should not be considered from a merely legal aspect. The Community's actual experience has been that since the creation of the Community loan mechanism, Medium-Term Financial Assistance as fallen into disuse. […] [p. 6] Thus, in the Committee's view there should be a global ceiling of Ecu …… billion on the total amount of medium-term support outstanding with sub-ceilings of Ecu 14 billion for support financed by market borrowing and of Ecu 13,925 million for support financed by Member States' resources. […] Detailed record: Some members felt that the MTFA amount of 13,9 billion ECU would never be drawn in its entirety as there was reluctance by Member States to use this financing mode. The Committee agreed on an outer-envelope of 16 billion and 13,9 and 14 billion ECU for the relative instruments of a combined instrument. […]
	1987 (session 339)	**[*summary of physical document*]** **The detailed minutes of the 339th Session** of Committee meeting: The chairman concluded, after an exchange with the Greek member on the implementation of the Greek structural reform programme, that more needed to be done by Greece to achieve its set goals. The members of the Committee were sceptical of the sustainability. The conclusion would be convened informally and not made public. Greek member threatened to leave the meeting in order to avoid debate on splitting the second tranche of the Greek loan.
BAC 228/2012 365 (365) (BAC 365)	1986	***[summary of physical document]*** **30. January 1986** **MODIFICATION OF THE COMMUNITY INSTRUMENT DESIGNED TO PROVIDE MEDIUM TERM SUPPORT FOR THE BALANCE OF PAYMENTS OF MEMBER STATES – PROPOSAL TO ESTABLIHS A SINGLE MECHANISM (Note for the Monetary Committee)** Council considered a combination of the MTFA and the CLM for balance of payments assistance in a decision to reconstruct the MTFA on 10 December 1984. Note of the Commission to the Monetary Committee: arguments for combining the MTFA and CLM: 1) They provided balance of payments assistance in the same way since the adjustment of the CLM 2) Both instruments could be used in the same situations and preventively. 3) The instruments are interchangeable – Greece received a community loan through the procedure of art. 108 TEEC. Making the MTFA more functional: 1) Agreement could only be between a few clearly identifiable creditors and the debtor due to opt-outs 2) MTFA draws on foreign exchange reserves and given its rate was under market rate this represented a cost for the creditor.

		3) For FR, NL and UK contributions in the MTFA financing appeared on the balance sheet as expenditure – which increased the countries deficit 4) MTFA procedures were cumbersome in particular in cases of early repayments and opt-outs 5) The CLM was much more flexible and open to possibilities of the markets The outlined reasons seemed to have favoured the CLM for France and Greece, even though Greece received assistance under Art. 108 – therefore the Commission wanted to amend the MTFA to make it more functional in the line of the CLM. The MTFA should be preserved if only to provide credibility to the EMS. The Commission proposed a combined 'single medium-term financial support instrument'. It would merge the functional characteristics of the CLM and the legal foundation of the MTFA. In addition, the Commission proposed to make the instrument available for efforts made in liberalising capital movements and EMS membership. The proposal clarified that both financing modes were still available. The Commission pointed out that conditionality has proven to be most effective if focused on short-term stabilisation and medium-term structural adjustment, but that a conditionality did not need to be rigidly tied to the maturing date of the loan. In terms of individual ceilings, the Commission proposed 50per cent for one financing mode or 35per cent for combination of both by one country. It considered articles 103, 108 and 235 to be the legal basis. Art. 235 would require the EP's consultation. The Commission pointed out the argument why it considered Parliament's association not favourable: 1) Publicity might deter Member States from using assistance – loss of convergence through the instruments 2) Loss of indispensable confidentiality in negotiating borrowing operations in the market 3) National parliament might get involved *ex post*, they would not be involved in negotiations The EP should continue the exercise the power of control through i) the Commission annual report on borrowing/lending, ii) regular reports on the economic situation and objectives of the Community
BAC 231/1995 106 (106)	1990	***[summary of physical document]*** **Note for the record – Informal meeting of Council (ECOFIN) Milan, 2 December – financial assistance for Greece** The chairman of the MC (Sarcinelli) argued that Greece should not only request a loan from the EEC, but also from the IMF, and that he (the chair) did not rule out a joint assistance programme with the IMF. He stated that Greece should apply for loans from both institutions as 'four eyes see better than two'. Considering the programme proposed by Greece the MC could not recommend the use of EEC loan for Greece. The Commission representative (Christophersen) considered that the interpretation of the European Council's conclusion was to resolve the issue of Greece 'in the family'. A joint programme with the IMF was rejected by the Commission, which argued to either have a programme within the EEC, or a stand-alone IMF programme for Greece. The Greek representative (Christodoulou) stated that the Greek government had no interest in an IMF loan, otherwise it would have already requested one. He stated that the programme needs socially acceptable and should take into account Greece participation in Economic and Monetary Union. […] **Medium-term financial assistance for Greece – Speaking Note** The Commission argued that assistance to Greece has to be accompanied with a permanent presence in Athens in order to provide strict monitoring of the implementation of the conditionality.

BAC 231/1995 112 (112)	1992	**Note for the file – Meeting between the Italian Minister Barucci and Vice-President Henning Christophersen** Minister Barucci informed the Vice-President that the Italian Government intended to ask for a balance of payment loan of 8 bn. Ecus. A decision by the Government for a formal request was to be taken in a couple of days. After this decision the Minister intended to make his request public. The Minister indicated that the loan should be an element in a package including the adoption of the fiscal adjustment package and the re-entry of the Lira into the ERM. The loan should be a sort of a carrot for the Italian Parliament and a sign of confidence form the Community vis-à-vis the financial markets. […]
BAC 228/2012 239 (239)	1992	***[summary of physical document]*** **Framework for Community Medium and Long-term Financial Assistance to Third Countries** In a note to the Monetary Committee the Commission explained the recent assistance operations in favour of Eastern and Central European countries, including several operations to future EU Member States (Hungary, CSFR, Romania, Bulgaria, Estonia, Latvia and Lithuania). […] **GREECE - Macroeconomic and fiscal adjustment in 1992 and prospects for 1993** The Commission assessed that the progress for fiscal consolidation by Greece fell short of the objectives in the economic adjustment programme agreed with the medium-term loan, and that the critical problem of Greece remains public sector debt.

Table 2: Archive of the German Bundesbank

Reference	Meeting number	Content
B 330 lfd.Nr: 472/3	Sitzungs-Nr.: 266. ZBR-Sitzung Gesamtlaufzeit (Datum): 06.06.1968	**4. Ziehungen Großbritanniens und Frankreichs auf den Internationalen Währungsfonds** Herr Dr. Emminger teilt mit, daß Frankreich fremde Währungen im Gegenwert von 745 Mio Dollar auf den IWF gezogen habe. Dieser Betrag entspreche der französischen Goldtranche zuzüglich der Inanspruchnahme der FF-Bestände des Fonds auf Grund früherer Ziehungen anderer Länder. […] Die französische Ziehung könne trotz der hohen französischen Währungsreserven damit gerechtfertigt werden, daß in den letzten zehn Tagen die französischen Devisenverluste sehr hoch gewesen seien und dies möglicherweise noch weitergehen würde, so daß auch die Goldreserven Frankreichs nicht verschont bleiben würden. […] Herr Dr. Schütz berichtet dem Zentralbankrat über die Auswirkungen der Streikwelle in Frankreich auf die Wirtschaft des Saarlandes, die angesichts der engen Verflechtung erheblich stärker waren als im übrigen Bundesgebiet. Sowohl die Lieferungen nach Frankreich als auch die Bezüge von Vorprodukten von französischen Unternehmen seien ins Stocken geraten, so daß die Beschäftigung vieler saarländischer Unternehmen gefährdet sei, wenn der Warenverkehr mit Frankreich nicht bald wieder in Gang komme. Auf die Frage von Herrn Dr. Schütz, wann die Bundesbank den Ankauf von in Frankreich zahlbaren Wechseln wieder aufnehmen werde, erklärte Herr Tüngeler, daß man hoffe, schon am 10. oder 11. Juni wieder mit dem Ankauf beginnen zu können.
B 330 lfd.Nr: 473/1	Sitzungs-Nr.: 267. ZBR-Sitzung Gesamtlaufzeit (Datum): 20.06.1968	**4. Devisenstatus, Auslandszahlungsverkehr und internationale Währungsfragen** […]Frankreich habe inzwischen über die Ziehung im Rahmen der sog. Goldtranche hinaus auch seine durch frühere Leistung zugunsten. Großbritanniens unter der Allgemeinen Kreditvereinbarung (AKV) entstandene Forderung von 140 Mio $ liquidiert, […]
B 330 lfd.Nr: 473/2	Sitzungs-Nr.: 268. ZBR-Sitzung Gesamtlaufzeit (Datum): 04.07.1968	**4. Devisenstatus, Auslandszahlungsverkehr und internationale Währungsfragen** […] Herr Dr. Emminger unterrichtet den Zentralbankrat über die jüngste Entwicklung in Frankreich. Nachdem die Reserveverluste im Mai 300 Mio $ und im Juni 1, 2 Mrd $ betragen hätten, habe die Spekulation auf eine Franc-Abwertung am vergangenen Wochenende fast panikartige Ausmaße angenommen, so daß innerhalb von zwei Tagen noch einmal rund 350 Mio $ an den Devisenmarkt abgegeben werden mußten, die jedoch statistisch erst im Juli als Minderung der Reserveposition in Erscheinung treten würden. Anfang dieser Woche habe sich die Lage etwas beruhigt und es seien einige Rückflüsse zu verzeichnen gewesen. Die Gefahr einer erneuten Abwertungs-Spekulation habe die französischen Behörden veranlaßt, den Devisenverkehr weiter zu beschränken, und zwar sei u. a. die zulässige Zeitspanne für die Ablieferung von Ausfuhrerlösen auf einen Monat herabgesetzt worden. Außerdem sei Frankreich an die Vereinigten Staaten und an seine EWG-Partner mit dem Vorschlag herangetreten, zur Absicherung gegen Devisenverluste ein Netz von Swap-Abkommen mit der Bank von Frankreich zu vereinbaren. Die Gesamtsumme solle nach französischen Vorstellungen 1, 2 Mrd $ betragen, von denen die Hälfte auf die Vereinigten Staaten, ein Viertel auf die Bundesrepublik und der Rest auf die übrigen drei

		EWG-Länder entfallen solle. Ergänzend habe Frankreich angeboten, im Falle einer Inanspruchnahme dieser Fazilitäten zusätzlich in Höhe von 25 vH der gezogenen Beträge Gold an die Partnerländer zu verkaufen. Während die Vereinigten Staaten dem französischen Vorschlag bereits zugestimmt hätten, hätten einige EWG-Länder um Bedenkzeit gebeten, bis das Verhältnis zu dem Verfahren nach Art. 108 EWG-Vertrag über die französischen Zahlungsbilanzmaßnahmen geklärt sei. Es sei deshalb beabsichtigt, die Angelegenheit am kommenden Wochenende in Basel im Kreis der EWG-Notenbankgouverneure zu erörtern. Ein Liquiditätsrisiko ergebe sich angesichts der hohen französischen Goldbestände und der unausgenutzten französischen Kreditfazilitäten beim IWF für die Partnerländer nicht. Frankreich habe sich bereit erklärt, seine Goldreserven zur Abdeckung der Swap-Verpflichtung einzusetzen, falls die Rückzahlung aus Devisenzuflüssen nicht innerhalb von sechs Monaten möglich sein sollte. […]
B 330 lfd.Nr: 473/3	Sitzungs-Nr.: 269. ZBR-Sitzung Gesamtlaufzeit (Datum): 18.07.1968	**2. Internationale Währungsfragen** In Anwesenheit der Herren Staatssekretär Dr. Arndt und Dr. Hankel vom Bundeswirtschaftsministerium erörtert der Zentralbankrat die internationale Währungslage. Zunächst schildert Herr Dr. Emminger das zwischen der Bank von Frankreich und einer Reihe anderer Notenbanken getroffene Swap-arrangement im Gesamtbetrag von 1, 3 Mrd $. Davon entfielen 600 Mio $ auf die Federal Reserve Bank of New York, deren Swap-Linie gegenüber der Bank von Frankreich sich auf 700 Mio $ erhöhe; außerdem hätten die Bundesbank 300 Mio $, die Banca d' Italia 200 Mio $, die Niederländische und die Belgische Nationalbank je 50 Mio $ und die BIZ 100 Mio $ übernommen. In den Verhandlungen im EWG-Ausschuß der Notenbankgouverneure in Basel sei in Anwesenheit und mit Zustimmung des zuständigen Vizepräsidenten der EWG-Kommission, Prof. Barre, klargestellt worden, daß Swapvereinbarungen auch unter EWG-Notenbanken nach reinen Notenbankgesichtspunkten und im Bedarfsfall sehr rasch abgeschlossen werden müssen; es sei aber auch klargemacht worden, daß, wenn es später zu einem finanziellen Beistand unter Artikel 108 des EWG-Vertrags kommen sollte, solche Notenbankhilfen Berücksichtigung finden könnten. Mit dem Ersuchen um ein Swap-arrangement habe die Bank von Frankreich das Angebot verbunden, an die anderen beteiligten Notenbanken Gold im Wert von insgesamt 300 Mio $ zu verkaufen. Zur Hälfte sei dieser Verkauf bereits durchgeführt worden, wodurch der Bundesbank Gold im Werte von 37, 5 Mio $ zugeflossen sei«, Frankreich vertrete die Auffassung, daß das echte Zahlungsbilanzdefizit aus eigenen Reserven gedeckt werden sollte, während kurzfristige oder spekulative Devisenabflüsse legitimerweise mit Hilfe von Währungskrediten gedeckt werden könnten. Die Lage Frankreichs sei auch im Währungsausschuß der EWG behandelt worden; dort habe Einigkeit darüber bestanden, daß eine Änderung der Währungsparität des französischen Franc vermieden werden solle und auch vermieden werden kann, und daß die außenwirtschaftlichen Beschränkungen Frankreichs möglichst bald wieder abgebaut werden sollten, um das Angebot billiger ausländischer Waren voll als Preisstabilisator zu verwenden. Gelegentlich dieser Erörterungen habe die EWG-Kommission erneut ihren seit langem bekannten Vorschlag zur Diskussion gestellt, einen Teil der Währungsreserven der Mitgliedsländer in einem gemeinsamen Reservefonds zusammenzufassen, der den Mitgliedsländern die Möglichkeit geben soll, bei Zahlungsbilanzdefiziten mehr oder weniger automatisch die Währungshilfe der

		Partnerländer in Anspruch zu nehmen. Dieser Vorschlag sei jedoch im Währungsausschuß allgemein auf Ablehnung gestoßen.
B 330 lfd.Nr: 477/1	Sitzungs-Nr.: 277. ZBR-Sitzung Gesamtlaufzeit (Datum): 21.11.1968	**2. Devisenstatus, Auslands Zahlungsverkehr und internationale Währungsfragen** Einleitend unterrichtet der Vorsitzende den Zentralbankrat über die Erörterung der durch starke spekulative Devisenbewegungen gekennzeichneten internationalen Währungssituation anläßlich der Zusammenkunft der Notenbankgouverneure in Basel am letzten Wochenende. Am Abend des 18. November habe er in Bonn an einem Gespräch mit dem Herrn Bundeskanzler, den zuständigen Fachministern und deren Mitarbeitern teilgenommen, bei dem auch die Herren Dr. Troeger, Dr. Emminger und Dr. Irmler zugegen waren. Als Alternative zu einer Aufwertung der Deutschen Mark habe die Bundesregierung eine steuerliche Belastung der Ausfuhr und eine steuerliche Entlastung der Einfuhr vorgeschlagen, die für alle mit dem vollen Umsatzsteuersatz von 11 vH belasteten Güter 4 vH betragen und auf längstens 11/ 2 Jahre befristet sein soll. Diese Maßnahme dürfte zwar dazu beitragen, die Exportüberschüsse einzudämmen, doch sei zu befürchten, daß sie die Spekulation auf eine Aufwertung der DMark nicht endgültig beseitigen werde, da sie nur befristet sei und den Dienstleistungssektor sowie den gesamten Kapitalverkehr unberührt lasse. Er habe diese Befürchtung gegenüber den Mitgliedern der Bundesregierung deutlich zum Ausdruck gebracht. Die politischen Widerstände gegen eine Aufwertung seien aber nicht zu überwinden gewesen, so daß man sich mit der von der Bundesregierung vorgeschlagenen Teilmaßnahme zufrieden geben müsse; sie bringe immerhin gewisse Erleichterungen und komme den Defizitländern soweit entgegen, daß sie zum Ausgleich ihrer Zahlungsbilanz keine allzu harten Abwehrmaßnahmen zu treffen brauchten, die zum Dirigismus führen und den gesamten Welthandel empfindlich stören würden. […] In der Aussprache über den deutschen Beitrag zur Beseitigung der internationalen Währungskrise erklären mehrere Mitglieder, daß sie ebenso wie der Vorsitzende die beabsichtigte steuerliche Maßnahme nicht für eine dauerhafte Lösung hielten. […] In Anbetracht der Tatsache, daß die Meinung der Bundesbank in der Verlautbarung der Bundesregierung über die Besprechung vom Montag durch die Worte " in engstem Einvernehmen mit der Bundesbank" unzutreffend bekanntgegeben worden war, spricht sich die Mehrheit des Zentralbankrats dafür aus, der Bundesregierung die Auffassung der Bundesbank erneut darzulegen, um das Kabinett zu veranlassen, in seiner für den Nachmittag angesetzten Sitzung noch einmal zu prüfen, ob nicht doch eine dauerhafte Lösung gefunden werden könne, die der Spekulation auf eine Aufwertung der Deutschen Mark definitiv ein Ende mache. Mit 12 gegen 7 Stimmen beschließt der Zentralbankrat, den Vorsitzenden zu bitten, an den Bundeskanzler, den Bundesminister für Wirtschaft und den Bundesminister der Finanzen gleichlautende persönliche (vertrauliche) Fernschreiben folgenden Inhalts zu richten: "Der heute in Frankfurt versammelte Zentralbankrat der Deutschen Bundesbank hat meinen Bericht über die währungspolitischen Beratungen der letzten Tage in Basel und Bonn entgegengenommen. Der Zentralbankrat hat mich beauftragt mitzuteilen, daß er die von mir und den übrigen bei den Bonner Besprechungen anwesenden Mitgliedern des Zentralbankrats geäußerten Auffassungen teilt. Mit diesen hält er die vorgesehene Änderung des Steuerausgleichs an der Grenze für eine Ersatzlösung, die zwar in die richtige Richtung zielt, aber nicht geeignet erscheint, die derzeitige Währungsunruhe nachhaltig zu beheben."

		Herr Tüngeler teilt mit, daß in der Sitzung der Zehnergruppe eine Kreditaktion der Notenbanken zugunsten Frankreichs erörtert werde, die Frankreich Spielraum für eigene Maßnahmen zur Beseitigung des außenwirtschaftlichen Defizits geben soll. Herr Dr. Emminger, der die Bundesbank in der Sitzung vertritt, habe um Weisung gebeten, bis zu welchem Betrage er einen Stützungskredit der Bundesbank zusagen könne. Der Zentralbankrat ermächtigt Herrn Dr. Emminger, in den Verhandlungen eine Beteiligung der Bundesbank an der erwähnten Kreditaktion, die insgesamt ein Volumen von 2 Mrd Dollar erreichen soll, bis zur Höhe von 600 Mio Dollar zuzusagen.
B 330 lfd.Nr: 477/2	Sitzungs-Nr.: 278. ZBR-Sitzung Gesamtlaufzeit (Datum): 05.12.1968	**11. Fragen der internationalen Währungsordnung** Herr Dr. Emminger berichtet über Vorschläge zur Festigung der internationalen Währungsordnung, die anläßlich der Sitzung der Zehnergruppe in Bonn angeklungen seien. Der amerikanische Finanzminister habe angeregt, einen Mechanismus zu entwickeln, durch den spekulative Geldbewegungen automatisch ausgeglichen würden, indem die begünstigten Länder ihre Devisenzuflüsse in die Länder zurückschleusen, die Devisenverluste erlitten hatten. Er selbst habe sich energisch dagegen zur Wehr gesetzt, in dieser Frage sofort einen Grundsatzbeschluß zu fassen. Der Vorschlag sei jedoch von verschiedenen Seiten unterstützt worden und solle zunächst von den Notenbankgouverneuren beraten werden. Er sehe freilich nicht recht, wie der Mechanismus funktionieren könne, denn die Defizitländer könnten keine weiteren kurzfristigen Schulden auf sich nehmen, und andererseits sei von den Überschußländern nicht zu erwarten, daß sie Kreditlinien ohne zeitliche und betragsmäßige Begrenzung einräumten. Allenfalls könne eine Art Notstandsplan ausgearbeitet werden, ohne daß konkrete Finanzierungsverpflichtungen übernommen würden. Der Zentralbank rat erklärt sich damit einverstanden, daß die Auffassung der Bundesbank anläßlich der Gouverneurstagung in Basel am kommenden Wochenende in diesem Sinne vertreten wird. Des weiteren unterrichtet Herr Dr. Emminger den Zentralbankrat über den Entwurf einer Darstellung der jüngsten Währungskrise, die in dem Konjunkturbericht der EWG-Kommission enthalten sei. Die Kommission komme zu dem erstaunlichen Ergebnis, daß sich weder die Bundesrepublik noch Frankreich in einem fundamentalen außenwirtschaftlichen Ungleichgewicht befänden; die gewaltigen Devisenbewegungen der letzten Zeit seien vielmehr rein spekulativ bedingt gewesen. Die Kommission ziehe daraus den Schluß, daß die Krise hätte vermieden werden können, wenn die Währungsreserven der EWG zumindest teilweise in einem Reservefonds der Gemeinschaft zusammengefaßt wären. Sie schlage vor, nunmehr so schnell wie möglich einen solchen Fonds zu schaffen. Im Konjunkturausschuß der EWG, dem der Bericht vorgelegen habe, sei diesen Auffassungen von den deutschen und den holländischen Vertretern entschieden widersprochen worden. Bedauerlicherweise sei der Währungsausschuß der EWG bei der Ausarbeitung dieses währungspolitisch sehr bedeutsamen Teils des Konjunkturberichts nicht beteiligt worden. Es gelte jetzt, einen übereilten Beschluß zu verhindern. Der Vorsitzende faßt die Auffassung der Bundesbank dahingehend zusammen, daß die Übertragung von Zentralbankaufgaben an die Gemeinschaft ein Maß an Souveränitätsverzieht auch auf anderen Gebieten voraussetze, zu dem die Mitgliedsstaaten im Augenblick offenbar nicht bereit seien.
B 330 lfd.Nr: 479/1	Sitzungs-Nr.: 281. ZBR-Sitzung Gesamtlaufzeit (Datum): 23.01.1969	**4. Devisenstatus, Auslands Zahlungsverkehr und internationale Währungsfragen** Des weiteren berichtet Herr Tüngeler über die Erörterungen, die in Basel über ein Arrangement zur Zurückschleusung spekulativer Devisenbewegungen geführt wurden. Während einige der beteiligten Länder den Abschluß eines europäischen

		Swap-Netzes - wenn auch über begrenzte Beträge - anstrebten, wolle eine andere Gruppe von Ländern, zu der auch die Bundesrepublik gehöre, im voraus keine bindenden Verpflichtungen mehr übernehmen. Diese Länder wollten sich lediglich grundsätzlich bereit erklären, auch künftig in der bewährten Form gegenseitiger Notenbankkredite zu helfen, soweit das im Einzelfall gerechtfertigt erscheine. Zur Vorbereitung auf den Notfall könnte die Technik der Hilfsaktionen verbessert werden. Im übrigen sei zu erwägen, die Defizitländer in erster Linie auf Kreditaufnahmen am Euro-Dollar-Markt oder an den nationalen Kredit- und Kapitalmärkten der Überschußländer zu verweisen. Die Beratungen über die Angelegenheit seien noch nicht abgeschlossen. Der Vorsitzende führt ergänzend aus, er habe in Basel eindeutig erklärt, daß die Bundesbank weder einem automatischen Ausgleichsverfahren zustimmen noch irgendeine zeitlich oder betragsmäßig unbegrenzte Verpflichtung übernehmen könne. Er habe dabei die Unterstützung einer Reihe anderer Länder gefunden. Zugeständnisse halte er allenfalls in bezug auf die technische Handhabung und die formelle Ausgestaltung künftiger Hilfsaktionen für vertretbar. Herr Dr. Emminger sieht eine mögliche Verbesserung darin, daß die Kredithilfen von der BIZ gewährt würden, die sich ihrerseits die benötigten Beträge am Euromarkt und an den nationalen Märkten verschaffen könne, so daß die Notenbanken ihr lediglich eine Liquiditätsgarantie zu geben brauchten.
B 330 lfd.Nr: 480/1	Sitzungs-Nr.: 284. ZBR-Sitzung Gesamtlaufzeit (Datum): 06.03.1969	**4. Devisenstatus, Auslandszahlungsverkehr und internationale Währungsfragen** Des weiteren berichtet Herr. Dr. Emminger über Vorschläge der EWG-Kommission zur Errichtung eines "monetären Mechanismus" in der EWG, die der Währungsausschuß kürzlich erörtert habe. Ergänzend zu seinem Schreiben an die Mitglieder vom 3. März 1969 führt Herr Dr. Emminger aus, daß s. E. der von der Kommission empfohlenen besseren Koordinierung der Wirtschaftspolitik der Mitgliedsländer durch vorherige Konsultationen deutscherseits zugestimmt werden könne, wenngleich sich bei der praktischen Durchführung noch manche Schwierigkeiten ergeben würden. Was den vorgeschlagenen monetären Mechanismus angehe, der die gegenseitige Hilfeleistung bei Zahlungsbilanzkrisen organisatorisch vorbereiten solle, sei bei den Mitgliedern des Währungsausschusses keine Bereitschaft festzustellen gewesen, sich einem automatischen Verfahren zu unterwerfen. Herr Dr. Gleske bemerkt dazu, daß er ein gewisses Entgegenkommen in der Frage der Kredithilfen für vertretbar halte, wenn damit eine Verpflichtung zur Koordinierung der Wirtschaftspolitik verbunden würde. Sollte es zu einer neuen Währungskrise kommen, werde man unter dem Druck der Verhältnisse ohnehin Kredithilfen irgendwelcher Art gewähren müssen. Herr Dr. Pfleiderer betont demgegenüber, daß eine Koordinierung auf der Grundlage der Währungsstabilität einen Hilfsmechanismus im Grundeüberflüssig mache. Wenn auf den letzteren besonderer Wert gelegt werde, bestehe der Verdacht, daß die Koordinierungsverpflichtung nicht sehr streng gehandhabt werden solle.
B 330 lfd.Nr: 481/1	Sitzungs-Nr.: 287. ZBR-Sitzung Gesamtlaufzeit (Datum): 17.04.1969	**5. Devisenstatus, Auslands Zahlungsverkehr und internationale Währungsfragen** […]Der zweite Teil des Kommissionsvorschlags richte sich auf die Ausarbeitung eines " monetären Mechanismus", der nach Meinung der Kommission die Überwindung von Währungskrisen erleichtern solle. Dabei sollten sowohl kurzfristige Kredithilfen als auch mittelfristige Hilfsaktionen vorgesehen werden. Was die kurzfristigen Maßnahmen angehe, habe die Kommission die Auffassung vertreten, daß Defizitländern das Recht zur automatischen Inanspruchnahme von Kreditfazilitäten eingeräumt werden sollte. Der Währungsausschuß der EWG sei

		gegen einen " Automatismus" und trete dafür ein, entsprechende Vereinbarungen von den Notenbanken in eigener Verantwortung ausarbeiten zu lassen. Für die Ausgestaltung dieser Notenbank-Vereinbarungen habe der Währungsausschuß einige Anregungen gegeben. Des weiteren berichtet Herr Dr. Emminger über einen Vorschlag des Bundesministers für Wirtschaft zur Kommerzialisierung von Devisen-Kredithilfen, den dieser den Ministern der Zehnergruppe unterbreitet hat. Danach sollte bei spekulativ bedingten Devisenverlusten dem betroffenen Land nahegelegt werden, sich an den Geldmärkten der Überschußländer zu refinanzieren. Problematisch sei dabei vor allem die in dem Vorschlag enthaltene Anregung, daß sich die Notenbanken der Überschußländer bereit erklären sollten, die begebenen Schuldtitel der Defizitländer in ihre Geldmarktregulierung einzubeziehen. Eine Verpflichtung zum Ankauf ausländischer Geldmarktpapiere im Offenmarktgeschäft könne die Bundesbank sicher nicht übernehmen. Auch würde dabei der Grundgedanke des Vorschlags, daß sich die Defizitländer die Mittel zu den für sie markt-gerechten Bedingungen beschaffen sollten, verwischt. Schwierigkeiten bereite ferner der Vorschlag, die Auswahl der Länder, in denen Papiere des Defizitlandes ausgegeben werden sollten, und ggf. auch die Entscheidung über die zu begebenden Beträge der BIZ zu überlassen. Herr Dr. Pfleiderer vertritt den Standpunkt, daß die Aufnahme von Devisenkrediten durch Defizitländer an den Geldmärkten der Überschußländer durchaus gewisse Vorteile habe, daß aber andererseits bei diesem Verfahren kaum eine Möglichkeit bestehe, die Kredite mit konkreten Auflagen zu verbinden, wie sie bei Absprachen zwischen den Notenbanken durchgesetzt werden könnten. Herr Dr. Emminger bemerkt abschließend, daß die vorgeschlagene Methode der " kommerziellen" Devisenhilfe die Notenbank-Kreditabmachungen wohl nicht ersetzen könne, da keine Gewähr bestünde, daß im Krisenfall die Geldmärkte in ausreichendem Maße und genügend rasch zur Verfügung stünden. Die Kommerzialisierung könnte daher wahrscheinlich nur ergänzend angewandt werden, insbesondere zur teilweisen marktmäßigen Ablösung von Notenbankkrediten.
B 330 lfd.Nr: 481/2	Sitzungs-Nr.: 288. ZBR-Sitzung Gesamtlaufzeit (Datum): 08.05.1969	**4. Aussprache über Fragen der Währungspolitik** Einleitend berichtet der Vorsitzende über ein Gespräch beim Bundeskanzler am 5. Mai, an dem u. a. der Bundesminister der Finanzen und der Bundesminister für Wirtschaft teilgenommen hätten. Der Bundesminister für Wirtschaft und er selbst hätten sich eindeutig für eine Aufwertung der Deutschen Mark ausgesprochen, da sie keine andere Möglichkeit mehr sähen, die Preisstabilität im Inland zu sichern. Der Bundeskanzler habe sich jedoch den Bedenken des Bundesministers der Finanzen gegen eine einseitige Paritätsänderung durch die Bundesrepublik angeschlossen, so daß es zu keiner Entscheidung gekommen sei. Die ungewöhnlich starke Spekulationswelle der letzten Tage habe die Situation weiter verschärft. Der Devisenbestand der Bundesbank sei außergewöhnlich stark gestiegen, so daß eine Entscheidung der Bundesregierung über die Wechselkursfrage äußerst dringlich sei. Er befürworte trotz der hohen Devisenzuflüsse und der daraus ggf. resultierenden Verluste nach wie vor eine Aufwertung, die jedoch lediglich darauf zugeschnitten sein sollte, die bestehende Disparität auszugleichen, wofür wohl eine Herabsetzung der Dollarparität auf 3, 70 oder 3, 75 DM ausreiche. […]Eine gemeinsame Aktion der Bundesrepublik mit anderen Ländern zur koordinierten Anpassung der Wechselkurse wäre an sich zu begrüßen, doch hätten die in jüngster Zeit mit mehreren Regierungen geführten Sondierungsgespräche keine Bereitschaft zu einer solchen Gemeinschaftsaktion erkennen lassen.

		Staatssekretär Grund betont, daß der Bundesminister der Finanzen eine Aufwertung der Deutschen Mark nicht grundsätzlich, sondern nur als einseitige Maßnahme der Bundesrepublik ablehne. Für multilaterale Absprachen über Wechselkursparitäten sei er durchaus offen. Durch eine einseitige Aufwertung der DM würden die Defizitländer in die Lage versetzt, weiterhin eine inflationäre Politik zu betreiben, so daß der positive Primäreffekt der Aufwertung nur kurzfristig wirken und schon bald wieder eine Wechselkursdisparität entstehen dürfte. Im übrigen wäre es geradezu eine Belohnung der Spekulanten, wenn in diesem Augenblick, da besonders hohe Devisenbeträge in die Bundesrepublik geflossen seien, der Wert der Deutschen Mark erhöht würde.[…] Schließlich sei auch nicht zu übersehen, daß eine Aufwertung im Inland erhebliche Probleme mit sich bringe. Er erinnere nur an die besondere Situation der deutschen Landwirtschaft im Rahmen der EWG-Marktordnung. […] Er glaube nicht, daß kurzfristig in größerem Umfang spekulative Gelder abgezogen würden, falls die Bundesregierung jetzt erneut eine Aufwertung ablehne. In einer bilateralen oder multilateralen Aktion zur Wechselkursanpassung sehe er keinen entscheidenden Vorteil; sie würde weder die Lage der Landwirtschaft erleichtern noch die Defizitländer zu einer restriktiveren Politik zwingen. Herr von Schelling weist darauf hin, daß er in Gesprächen mit Wirtschaftskreisen häufig der Auffassung begegnet sei, die deutsche Wirtschaft könne durch Abwertungen anderer Länder sehr viel härter getroffen werden als durch eine Aufwertung der Deutschen Mark, deren Ausmaß die Bundesregierung unter Berücksichtigung der deutschen Interessen selbst bestimme. […] Herr Wagenhöfer betont, daß die Spekulation im Grunde nur die logische Konsequenz aus den wirtschaftlichen Gegebenheiten ziehe. Um diese zu ändern, müsse so schnell wie möglich der Wechselkurs angepaßt werden. […] Herr Grund weist darauf hin, daß die Auswirkungen einer Aufwertung auf den Bundeshaushalt umso störender wären, je höher der Aufwertungssatz sei. Es gebe keinen Zweifel, daß zumindest der Landwirtschaft Ausgleichsleistungen in Milliardenhöhe gewährt werden müßten. Außerdem sei mit Unterstützungswünschen anderer Bereiche zu rechnen, die sicherlich nicht völlig abgewiesen werden könnten. Hierzu bemerkt der Bundesminister für Wirtschaft, daß mit einer Aufwertung der Übergang zu einer weniger restriktiven Fiskalpolitik ohne Gefahr für die Preisstabilität möglich würde. Herr Dr. Irmler führt dazu ergänzend aus, daß Ausgleichszahlungen allenfalls für eine Übergangszeit gewährt werden dürften. Im übrigen gebe es sehr unterschiedliche Schätzungen darüber, wie hoch die Einkommensverluste der Landwirtschaft im Falle einer Aufwertung tatsächlich sein würden. Herr Dr. Gleske bemerkt, daß die Nachteile des Absicherungsgesetzes vom November weite Kreise der Wirtschaft von der Zweckmäßigkeit einer Aufwertung überzeugt hätten. Was deren Ausmaß angehe, sei in erster Linie die in den letzten Jahren entstandene Disparität in der Preisentwicklung gegenüber unseren wichtigsten Handelspartnern maßgebend. […] jedoch brächte jedes weitere Hinausschieben einer Entscheidung zur Aufwertung der Deutschen Mark wachsende Nachteile. Im übrigen wäre es im Falle einer gleichzeitigen Franc-Abwertung noch schwieriger als bei einer einseitigen Aufwertung der Deutschen Mark, die Rechnungseinheit der EWG-Markt Ordnung zu ändern. […]

B 330 lfd.Nr: 5873/2	Sitzungs-Nr.: 303. ZBR- Sitzung Gesamtlaufzeit (Datum): 04.12.1969	**6. Kurzfristiger Währungsbeistand unter den Notenbanken der EWG-Länder** Herr Dr. Emminger hatte dem Zentralbankrat mit Vorlage vom 1. Dezember 1969 den Entwurf eines Abkommens über ein System des kurzfristigen Währungsbeistandsunter den Notenbanken der EWG-Mitgliedsstaaten zugeleitet, der Ende November von einer Expertengruppe nach den Weisungen des Ausschusses der EWG-Notenbankgouverneure erarbeitet worden war. Er bemerkt dazu, daß die Errichtung eines solchen Systems als Vorstufe eines europäischen Reservefonds im sog. Barre-Memorandum der EWG-Kommission von Februar 1969 als Teil einer umfassenden Aktion zur besseren Koordinierung der Wirtschafts- und Währungspolitik innerhalb der EWG vorgesehen gewesen sei. Beim kurzfristigen Währungsbeistand handele es sich um ein quasiautomatisches Ziehungsrecht in der Form bilateraler, auf drei Monate befristeter Swap-Kredite, die auf multilateraler Basis zugesagt würden. Der Plafond für diese kurzfristigen Notenbankkredite solle auf eine Mrd. Dollar festgelegt werden; die Bundesrepublik sei daran mit 30 per cent beteiligt. Die bisher gewährten Swap-Kredite würden auf das neue System angerechnet. In Sonderfällen seien - wenn der Gesamtbetrag von einer Mrd Dollar nicht ausreiche - nichtautomatische Rallongen auf der Schuldner und Gläubigerseite bis zu einer weiteren Milliarde Dollar vorgesehen. Herr Dr. Emminger weist darauf hin, daß die technischen Einzelheiten noch nicht vollständig durchdiskutiert seien. Es bestehe aber die Absicht, in der nächsten Sitzung des Notenbank-Ausschusses der EWG am 8. Dezember d. J. eine grundsätzliche Einigung über das Abkommen herbeizuführen. Der Zentralbankrat kommt nach kurzer Aussprache überein, dem Abkommen über ein System des kurzfristigen Währungsbeistands unter den Notenbanken der EWG-Mitgliedsstaaten bei einer Quote von 300 Mio Dollar für die Bundesrepublik zuzustimmen. […]
B 330 lfd.Nr: 5876/2	Sitzungs-Nr.: 310. ZBR- Sitzung Gesamtlaufzeit (Datum): 18.03.1970	**2. Währungs- und Kreditpolitik** […] Der Vorsitzende berichtet anschließend über die letzte BIZ-Verwaltungsratssitzung in Basel. Es seien die Stufenpläne zur Verwirklichung der Währungs und Wirtschaftsunion in der EWG, insbesondere die Frage der Schaffung eines gemeinsamen Reservefonds erörtert worden. Während die Bundesregierung in ihrem Stufenplan den Ausbau des mittelfristigen Beistandsmechanismus zu einem Reservefonds für die Gemeinschaft zusammen mit einem schrittweisen Übergang zu einer Art gemeinsamer Notenbank erst in der dritten Stufe vorsehe, und zwar nach vorheriger Abstimmung einer gemeinsamen Wirtschaftspolitik, möchten die Franzosen und Belgier bereits sehr früh zu einem solchen Reservefonds übergehen. Er halte ein solches Vorgehen angesichts der Verschiedenheit der wirtschaftspolitischen Zielvorstellungen und der konjunktur und finanzpolitischen Instrumentarien in der Gemeinschaft für sehr gefährlich. Die Holländer hätten die deutsche Auffassung unterstützt, daß zunächst einmal die politischen und ökonomischen Voraussetzungen für eine gleichgewichtige Wirtschaftsentwicklung geschaffen werden müßten, ehe auf währungspolitischem Gebiet eine stärkere Integration realisiert werden könne. […]
B 330 lfd.Nr: 5877/1	Sitzungs-Nr.: 311. ZBR- Sitzung Gesamtlaufzeit (Datum):	**10. Mittelfristiger Währungsbeistand in der EWG** […] Herr Dr. Emminger erläutert anschließend Einzelheiten des Systems anhand des vorgelegten Berichtsentwurfs. Der Zentralbankrat führt hierüber einen Gedankenaustausch. Einige ~ Mitglieder äußern Bedenken gegen das

	03.04.1970	vorgesehene Gemeinschaftssystem, weil die Zahlungsbilanzdisziplin der Mitgliedsstaaten eher geschwächt und infolgedessen der wirtschaftliche Integrationsprozeß eher gefährdet als beschleunigt werde. Die Solidarität müsse sich ihrer Ansicht nach in erster Linie auf eine gemeinsame Stabilitätspolitik beziehen und dürfe sich nicht in der Bereitstellung zusätzlicher monetärer Beistandseinrichtungen erschöpfen, die die Verfolgung unterschiedlicher, desintegrierend wirkender Wirtschafts- und Finanzpolitiken der Länder der Gemeinschaft mit entsprechenden Folgen für die Zahlungsbilanz gerade erleichterten. Einige Mitglieder sprechen sich dafür aus, daß die Kredite im Rahmen des Systems nur zu den im Zeitpunkt der Kreditgewährung geltenden Marktsätzen gewährt werden sollten, damit ein Druck auf baldige Rückzahlung dieser Kredite ausgeübt werde.
B 330 lfd.Nr: 6714/2	Sitzungs-Nr.: 405. ZBR-Sitzung Gesamtlaufzeit (Datum): 07.02.1974	**3. Internationale Währungsfragen** […] Frankreich habe mit seiner mittelfristigen Anleihe von 1 1/2 Milliarden Dollar am Eurodollarmarkt bereits den Anfang gemacht; Italien, Großbritannien und andere Länder seien dabei nachzufolgen. Im EG-Währungsausschuß habe man erörtert, wie ein Wettlauf der Anleihenehmer unter gegenseitiger Überbietung in den Bedingungen - besonders hinsichtlich etwaiger Währungsgarantien - vermieden werden könne. Außerdem sei von verschiedenen Seiten vorgeschlagen worden, daß die EG-Länder an den internationalen Kapitalmarkt in Form von Gemeinschaftsanleihen, sei es mit Einzel- sei es mit Gemeinschaftshaftung, herantreten könnten. Jedoch sei hierüber nicht ernsthaft diskutiert worden. Die Ergiebigkeit der internationalen Kapitalmärkte werde sich voraussichtlich durch die Anlage eines Teils der Mehreinnahmen der Öl-Länder auf den Euromärkten erhöhen. Außerdem stehe nunmehr der amerikanische Kapitalmarkt wieder offen, und die wieder engere Verbindung zwischen den Euromärkten und den amerikanischen Geld- und Kapitalmärkten werde etwaigen Zinssteigerungstendenzen auf den Euromärkten voraussichtlich eine Grenze setzen. Ein besonders schwieriges Finanzierungsproblem werde sich freilich für Länder wie Italien und Großbritannien ergeben, die bereits vor Beginn der zusätzlichen Belastung durch die Öl-hausse erschreckend hohe Zahlungsbilanzdefizite aufgewiesen hätten. Hier könne es zu schweren Zahlungsbilanzkrisen kommen. Der Zentralbankrat erörtert, welche grundsätzliche Haltung zu den aufgeworfenen Problemen eingenommen werden solle. Dabei wird eine Erleichterung der Kreditfinanzierung durch Gemeinschaftsmaßnahmen für gefährlich angesehen, auch weil sie die Aufrechterhaltung der gegenwärtig unrealistisch hohen Ölpreise unterstütze und die Anstrengungen der Defizitländer zur Verbesserung ihrer Zahlungsbilanz verringere. Angesichts der besonderen Natur der gegenwärtigen Zahlungsbilanzprobleme wird auch der weitere Ausbau des Swapnetzes der Federal Reserve nicht als geeignete Abhilfe angesehen.
B 330 lfd.Nr: 6459	Dir-Protokoll-Nr.: 14/1974 Gesamtlaufzeit (Datum): 19.02.1974	[…] **Präsident Klasen informierte das Direktorium über seine Gespräche mit Finanzminister Androsch und Notenbankpräsident Kloss in Wien am 15.2. (gegebenenfalls für Österreich DM-Fazilitäten wie in " kleiner Schlange") und über die Sitzung der EWG-Finanzminister und Notenbankgouverneure in Brüssel am 18.2**. Er teilte ferner mit, dass die Frage der Aufhebung des Bardepots nicht auf dem Programm der morgigen Kabinettssitzung stehe.

		2) Wie Vizepräsident Dr. Emminger mitteilte, hat Vice-gouverneur de Lattre angefragt, ob die Bank von Frankreich bei der Bundesbank DM für Interventionszwecke leihen könne. Da dies auf eine Stützung des Dollarkurses und ein Herabdrücken des DM-Kurses sowie auf Devisenzuflüsse herauslaufen würde und da ausserdem damit Frankreich so behandelt werden würde, wie wenn es in der " Schlange" wäre, kam das Direktorium zu dem Schluss, dass der Vorschlag an sich abzulehnen sei, dass dies aber ohne Erteilung eines Refus dilatorisch geschehen solle.
B 330 lfd.Nr: 6718/1	Sitzungs-Nr.: 412. ZBR-Sitzung Gesamtlaufzeit (Datum): 09.05.1974	**2. Internationale Währungsfragen** […] Der Währungsausschuß habe die Meinung vertreten, daß durchgreifende italienische Maßnahmen zur Beschränkung der in den letzten Monaten aufgrund der Übernachfrage unangemessen gestiegenen Einfuhren unerläßlich gewesen seien. Es sei auch anerkannt worden, daß das Einfuhrdepot primär eine monetäre Maßnahme zur Stilllegung von überschüssiger Liquidität sei. Einen gemeinschaftlichen finanziellen Beistand in Form der von der Kommission vorgeschlagenen mittelfristigen Konsolidierung des kurzfristigen EG-Währungsbeistands von 1,5 Mrd RE habe der EG-Währungsausschuß für verfrüht angesehen. Der gewährte kurzfristige Kredit könne noch bis September 1974 auf Dreimonatsbasis verlängert werden; zum anderen sollte vor einer Konsolidierung abgewartet werden, welche zusätzlichen restriktiven Maßnahmen Italien zur Sanierung seiner Binnenwirtschaft ergreife. Italien hätte sich nach Ansicht von Herrn Dr. Emminger die internationale Auseinandersetzung um seine Maßnahmen ersparen können, wenn es, statt die Einfuhren zu beschränken, die Lira im Rahmen des Floating mäßig hätte absinken lassen und zusätzlich Liquidität abgeschöpft hätte. Der EG-Rat in der Zusammensetzung der Außenminister unter Beteiligung der Landwirtschaftsminister und Vertreter der Finanzminister habe sich, wie Herr Dr. Emminger weiter ausführt, am 7. Mai 1974 nicht über das weitere gemeinschaftliche Vorgehen in Bezug auf die italienischen Importbeschränkungen einigen können. Die EG-Kommission habe indessen - gestützt auf Artikel 108 des Vertrages von Rom - die italienischen Importschutzmaßnahmen vorläufig gebilligt und werde sie weiter überwachen. Der Vorsitzende stellt fest, daß die direkten italienischen und die indirekten dänischen Importbeschränkungen als neues Datum für den deutschen Export bei künftigen Überlegungen in Rechnung gestellt werden müßten. Im übrigen sei es nicht vertretbar, Italien über den bisherigen Rahmen hinaus Notenbankkredite zur Stützung eines überhöhten Lira-Kurses zur Verfügung zu stellen.
B 330 lfd.Nr: 6460	Dir-Protokoll-Nr.: 50/1974 Gesamtlaufzeit (Datum) 12.07.1974	**2) Vizepräsident Dr. Emminger informierte das Direktorium über die Sitzung des EWG-Währungsausschußes in Brüssel am 10. und 11. 7.:** a) Frage der Ablösung des im September ablaufenden kurzfristigen EWG-Währungskredits an Italien durch einen mittelfristigen Kredit, Vorschlag einer Prolongierung des kurzfristigen Beistands um weitere 3 Monate. Das Direktorium sprach sich zustimmend zu einer eventuellen Prolongierung aus. b) Die EWG- Kommission schlägt eine " Gemeinschaftsanleihe" bis zu 5 Milliarden $ vor für die Finanzierung von Öl-Defiziten. Frage der Garantie, Frage, wer Gemeinschaftsanleihe auflegen könnte, die EWG selbst oder gemeinsam die einzelnen Länder oder der Europäische Fonds. Das Direktorium kam zu der Meinung, daß eine Gemeinschaftsaktion im Grundsatz vielleicht unvermeidbar sei, aber keine Vorratskredite (schon gar nicht in der von der Kommission genannten Höhe), vielmehr nur ad hoc notwendig befundene Kredite und nur mit Zustimmung des EWG-Ministerrats.
B 330 lfd.Nr:	Dir-Protokoll-Nr.:	**Protokoll zur Sitzung des Direktoriums der Deutschen Bundesbank am Mittwoch, den 17. Juli 1974, 10 Uhr bis 12 Uhr 20.**

6460	52/1974 Gesamtlaufzeit (Datum): 17.07.1974	Anwesend waren die Herren Präsident Dr. Klasen, Vizepräsident Dr. Emminger, Dr. Emde, Dr. Gocht, Dr. Irmler, Lucht, Dr. Schlesinger und Tüngeler. 1) Im Anschluß an seine Darlegungen in der Sitzung des Direktoriums am 16. Juli 1974 berichtete Vizepräsident Dr. Emminger weiter über die Ergebnisse der EG-Ministerratssitzung am 15. und 16. Juli in Brüssel. Die von der Kommission angeregte Gemeinschaftsanleihe fand - insbesondere wegen der von deutscher Seite vorgebrachten Bedenken- nicht die angestrebte generelle Zustimmung des Rats. Der Währungsausschuß ist beauftragt, zunächst die technischen Einzelheiten (aufnehmende Stelle, Garantien, sukzessive oder große Einmal-Emission u. a. m.) abzuklären, bevor sich der Rat erneut mit der Materie befaßt. Das hierzu vom Währungsausschuß gebildete Sechsergremium aus 3 Regierungs- und 3 Zentralbankexperten, in dem auch die Bundesbank vertreten ist, wird zugleich für den Ausschuß der Notenbankgouverneure sprechen. In der überraschend von französischer Seite belebten Gold-Diskussion (Verpfändung, Bewertung in den Notenbank-Bilanzen) wird zunächst der Ausschuß der Notenbankgouverneure in weitere Erörterungen eintreten.
B 330 lfd.Nr: 6721/2	Sitzungs-Nr.: 419. ZBR-Sitzung Gesamtlaufzeit (Datum): 29.08.1974	**4. Devisenstatus, Auslandszahlungsverkehr und internationale Währungsfragen** Der Vorsitzende unterrichtet den Zentralbankrat ausführlich über Einzelheiten der Gespräche, die zwischen Vertretern der Notenbanken Italiens und der Bundesrepublik Deutschland über technische Probleme einer durch Goldverpfändung zu sichernden direkten Kredithilfe der Bundesbank an Italien stattgefunden haben. Dieser bilaterale Kredit soll zu gegebener Zeit durch eine EG- Gemeinschaftsanleihe zugunsten Italiens abgelöst werden. In der Aussprache ergibt sich eine grundsätzliche Bereitschaft, dem EG- Partner Italien durch eine Kredithilfe die Bewältigung seiner gegenwärtigen Wirtschaftsprobleme zu erleichtern. Es wird die Frage aufgeworfen, ob der Kredit nicht mit wirtschaftspolitischen Auflagen verbunden werden sollte. Der Bundesminister der Finanzen bemerkt dazu, daß Italien trotz erheblicher innenpolitischer Schwierigkeiten ein Konjunkturprogramm verabschiedet habe, das dem gemeinschaftlichen europäischen Stabilisierungsziel Rechnung trage. Italien habe insoweit notwendige Vorbedingungen in zumutbarem Ausmaß bereits erfüllt. Der Zentralbankrat stimmt der Gewährung eines goldgesicherten Notenbankkredits an Italien mit der Maßgabe. zu, daß die Konditionen dieses Kredits (Zinsen, Goldbewertung und - verwertung) in weiteren Verhandlungen der beiden beteiligten Notenbanken festgelegt werden und daß die Höhe des Kredits im Rahmen der anstehenden Verhandlungen der beiden Regierungen fixiert wird, wobei der Zentralbankrat darauf vertraut, daß eine wirtschaftlich vertretbare Größenordnung nicht überschritten wird.
B 330 lfd.Nr: 6724/2	Sitzungs-Nr.: 425. ZBR-Sitzung Gesamtlaufzeit (Datum): 21.11.1974	**4. Devisenstatus, Auslandszahlungsverkehr und internationale Währungsfragen** Herr Dr. Emminger berichtet sodann über den Vorschlag des amerikanischen Außenministers Kissinger, einen 25 Mrd-Dollar-Solidaritätsfonds der Industrieländer zu gründen, der mit Hilfe von Darlehen und Garantien die Umverteilung der von den OPEC-Staaten in den Ölimportländern reinvestierten Ölmilliarden unter den Industriestaaten ermöglichen solle. Der Fonds solle mit der OECD assoziiert sein. Der Plan sei in der Arbeitsgruppe 3 der OECD und bei den Stellvertretern der Zehnergruppe bereits andiskutiert worden. Daneben habe Kissinger einen Trust Fund vorgeschlagen, der den ärmeren Entwicklungsländern Mittel zu niedrigen Zinssätzen zur Verfügung stellen solle. Herr Dr. Emminger informiert den Zentralbankrat schließlich kurz über die geplante zweite IWF-Ölfazilität (6 bis 9 Mrd US-Dollar), über den Stand der

		Diskussion einer eventuellen Quotenerhöhung und gleichzeitigen Umstrukturierung der Fondsquoten zugunsten der Ölexportländer im Internationalen Währungsfonds sowie über die Ratstagung der EG-Wirtschafts- und Finanzminister am 18. November in Brüssel. Der Rat habe das Pariser Treffen der Staats- und Regierungschefs der EG-Mitgliedstaaten am 9./10. Dezember vorbereitet. Außerdem habe er beschlossen, den am 18. Dezember 1974 fälligen kurzfristigen Währungsbeistand an Italien (1.159, 2 Mio RE) nach diesem Datum durch Gewährung eines mittelfristigen Beistands zu konsolidieren. Auf dem "Gipfeltreffen" sollen insbesondere eine stärkere Konvergenz der Wirtschafts und Finanzpolitik der Partnerstaaten, eine Reaktivierung der Wirtschafts- und Währungsunion sowie eine gemeinsame Haltung der EG-Mitgliedstaaten zu internationalen Finanz- und Währungsfragen (Reform des Weltwährungssystems, Recycling der Ölgelder, Kontrolle der Eurodollar-Märkte) erörtert werden. Die Bundesregierung habe vorgeschlagen, die gegenseitige Abstimmung der Geld- und Kreditpolitik im Rahmen des Europäischen Fonds für währungspolitische Zusammenarbeit auszubauen.

Table 3: Archive of the Council of the European Union

Reference	Meeting number	Content
CM 2/1969 No. 0036	R/1457 f/69 (PV/CONS/R 3) final CEE/CEEA/CECA	**PROCES – VERBAL de la réunion restreinte tenue à l'occasion de la 75èrae session du Conseil (Bruxelles, le jeudi 17 juillet 1969)** [p.14] M. SNOY et d'OPPUERS déclare que le gouvernement belge appuie le mémorandum de la Commission et les conclusions auxquelles les différents travaux ont mené. Il va Be soi pour lui que sans convergence des politiques économiques à moyen terme ou sans coordination et consultation préalable des politiques à court terme, 1 on arriverait à des accidents dangereux. La Communauté a en effet dépassé le "point of no return" dans sa fusion d'intérêts entre autres commerciaux. Elle ne peut se permettre une divergence sur le plan des politiques économiques de base, et c'est la raison pour laquelle le gouvernement belge apporte son plein appui aux conclusions actuellement soumises au Conseil. Tout d'abord, il convient d'organiser la confrontation des politiques et des objectifs à moyen terme. Les conceptions n'étant pas divergentes, l'on arrivera en ces matières, à condition d'y prêter suffisamment d'attention, à un accord relativement aisé. […][p.35] M. SCHILLER déclare partager l'avis de M. GISCARD d'ESTAING selon lequel les deux parties principales du mémorandum de la Commission sont étroitement liées. Il rappelle eue les rapports des différents comités ont également souligné à Juste titre que l'institution d'un mécanisme communautaire en matière de politique monétaire ne pourrait aboutir à des résultats satisfaisants ^pue si, simultanément, des progrès étaient réalisés en matière de convergence des objectifs de politique économique et en matière d'harmonisation des politiques économiques des différents Etats membres. Ce qui importe avant tout, c'est de tendre simultanément à la réalisation, en liaison les uns avec les autres, des quatre objectifs suivants : haut niveau de remploi, expansion continue et équilibrée, stabilité du niveau des prix et équilibre de la balance des paiements. […] [p.47] Le PRESIDENT, après avoir constaté un accord au sein du Conseil pour se prononcer dans ce sens, avec toutefois une réserve des délégations italienne et néerlandaise quant au système proposé Jusqu'à ^ que les modalités de fonctionnement de ce dernier soient connues, demande au Conseil s'il pourrait adopter la déclaration suivante : "Le Conseil marque son accord sur le principe d'un système communautaire de soutien monétaire à court terme selon les lignes directrices du mémorandum de la Commission du 12 février 19e9. Il convient que ce système tienne compte des considérations développées dans la lettre du Président au Comité des gouverneurs des Banques centrales au président de la Commission des Communautés européennes, ainsi que de l'avis du Comité monétaire. A cette fin, le Conseil invite le Comité des gouverneurs des Banques centrales, tout en respectant les prérogatives résultant du statut particulier de chaque Institut d'émission, à poursuivre ses travaux sur la définition des modalités de fonctionnement l'un tel système. Les délégations italienne et néerlandaise ont réservé leurs positions sur le système propose jusqu'à ce que ses modalités de fonctionnement soient connues." Le CONSEIL adopte cette déclaration. […]

		Le PRESIDENT et M. BARRE suggèrent au Conseil de donner mandat au Comité monétaire de faire rapport au Conseil et à la Commission sur les modalités d'exécution d'un concours financier à moyen terme, compte tenu de l'avis du Comité monétaire lui-même et des observations présentées à ce sujet par le Comité des gouverneurs des Banques centrales. Le CONSEIL ayant marqué son accord sur cette suggestion, il en est ainsi décidé.
CM 2/1974 No. 022	T/299 f/74 (FIN) CEE	[p.3] **Objet : Relevé des décisions prises par le Conseil lors de sa 289ème session tenue le 6 juin 1974 à Luxembourg** En conclusion d'un premier échange de vues sur la communication de la Commission "Mesures urgentes en matière économique et monétaire /doc. R/1474/74 (FIN 344) le Conseil : […] b) a invité le Comité monétaire et le Comité des Gouverneurs des Banques centrales à rendre leur avis sur les mesures de caractère monétaire et financier proposées par la Commission dans sa communication visée ci-dessus.
CM2/1974 No. 030	T/392 f/74 (FIN) ih CEE	[p.3] **Objet : Relevé des décisions prises par le Conseil lors de sa 296ème session tenue le 15 juillet 1974** Au terme d'un échange de vues sur la proposition de la Commission concernant la mise en place d'un dispositif permettant le lancement d'emprunts communautaires, le Conseil a invité le Comité des Gouverneurs des Banques centrales ainsi que le Comité monétaire à étudier : - les aspects techniques d'un tel dispositif, - le fonctionnement du marché international des capitaux en euro-devises et à lui faire rapport sur l'avancement de leurs travaux pour sa prochaine session. […] [p.142] PRESS RELEASE 5. The Council considered the question of possible Community loans and it instructed the competent Community organs to prepare contingency planning for the introduction of such measures in the event that a decision to put them into operation should be taken in the future.

Table 4: Economic and Financial Committee Archive

Reference	Meeting	Content
EFC 127	DRAFT MINUTES OF THE HUNDRED AND TWENTY SEVENTH MEETING OF THE ECONOMIC AND FINANICAL COMMITTEE (Brussels, 24 October 2008)	**[p.4] 4. Impact of financial turmoil on some Member States with external financing needs including possible use of the EU balance of payments facility in the current crisis** [blackened] reported on the macroeconomic situation of Hungary and on the possibility to use Medium-term financial assistance. Members discussed the impact of the financial turmoil on Hungary and the possible use of the Community's Medium-Term Financial Assistance to address the country's balance of payments need, as part of a comprehensive package also involving other international financial institutions.
EFC 144	DRAFT MINUTES OF THE HUNDRED AND FORTY FOURTH MEETING OF THE ECONOMIC AND FINANICAL COMMITTEE (Brussels, 27-28 October 2009)	**[p.8] 8. Balance of payments programmes** The Council Secretariat explained the informal view of the Council Secretariat legal service that the precautionary sue of the BOP facility was in line with the existing framework. On the other hand, this framework does not allow charging a commitment free. […] [blackened] welcomed the discussion but underlined that effective surveillance of Member States should be the main concern, including through appropriate conditionality. He feared that the existence of a support facility might blur the convergence assessment. He underlined the need of keeping the EFC informed in a timely manner. […] [blackened] expressed a number of concerns on the Commission note with regard to the possibility of BoP support for euro area countries and to the fact that the role of the ECB was not sufficiently reflected in that note, in particular in ERM II countries. He recalled the mandate to improve working arrangements and suggested foreseeing a forma role of the ECB as observer in missions to BoP countries. He considered the institutional framework as flexible enough to accommodate adjustment of targets in respect of the EU surveillance framework. Finally, he stressed that the working assumption should be that the EU implements programmes jointly with the IMF.

Table 5: Published Files from the German Foreign Service

Reference	Diplomatic cable number	Content
Schwarz, H., Haftendorn, H., Hildebrand, K., Link, W., Möller, H. & Morsey, R. eds (1999) Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1968. München: Oldenbourg Wissenschaftsverlag. ***Schwarz et al. (1999)***	Z B 6-1-16902/68 VS-vertraulich Fernschreiben Nr 1361 Citissime 22. November 1968 388	**388 Staatssekretär Duckwitz, z.Z. New York, an Bundesminister Brandt** […]In meiner etwa einstündigen Unterredung mit Nelson Rockefeller, an der auch dessen außenpolitischer Berater, Henry A. Kissinger, teilnahm, wurde zunächst die derzeitig akute Währungssituation erörtert. Die Gesprächspartner zeigten durchaus Verständnis für die deutsche Haltung, die eine Aufwertung der DM ablehnt. Schließlich müsse die Bundesregierung selbst am besten wissen, was ihrer Interessenlage entspräche, ohne dabei allerdings die ihr obliegenden internationalen Verpflichtungen zu vernachlässigen. Man befürchte auf amerikanischer Seite, daß de Gaulle aus Prestigegründen sich einer wirklich wirksamen Abwertung des Franken widersetzen werde.
	III A 1-81.04 VS-NfD, 25. November 1968 p. 1509-1514 389	**389 Aufzeichnung des Ministerialdirigenten Berger** […] a) das deutsche Angebot eines Aufwertungsersatzes (steuerliche Exportverteuerung und Importverbilligung um 4 per cent), der verhindert, daß die Rechnung der Spekulation aufgeht (3,2 Mrd. DM flössen an einem Tage, 15. November, in die Bundesrepublik!) und weitere Maßnahmen gegen den Zustrom „heißen Geldes" (Genehmigungspflicht für bestimmte Passivgeschäfte der Kreditinstitute mit Devisenausländern); b) die Unbezweifelbarkeit unserer These, daß man dem inflationären Trend in der Welt nur dann erfolgreich zu begegnen vermag, wenn man die Krankheit an den Kranken und nicht an den Gesunden kuriert; c) die sich im Konferenzverlauf abzeichnende Möglichkeit, daß Frankreich als Gegenleistung für eine beträchtliche Devisenhilfe noch abwerten werde, was dann wider Erwarten nicht geschah. […] Zu 6) Die neue Währungskrise hat die Öffentlichkeit außerordentlich beschäftigt. Da sie offensichtlich nicht endgültig überwunden ist, wird der Ruf nach einer verbesserten Währungsordnung lauter werden. Von Deutschland wird dabei ein wesentlicher Beitrag erwartet werden. Der Gedanke einer europäischen Währungsunion wird lebendig bleiben. Vorschläge, die Währungsreserven ganz oder teilweise zu „poolen", werden gerade von den Währungsschwachen vorgebracht werden - auf die Gefahr hin, daß die Harmonisierung der Politik noch nicht weit genug fortgeschritten ist, so daß ein „Über-die-Verhältnisse-leben" in anderen Ländern mit unseren Währungsreserven automatisch, nicht mehr durch verabredete Kredite, gestützt würde. […]Im Interesse unserer Europapolitik wäre es gut, wenn sich bis dahin Möglichkeiten eines parallelen Vorgehens der Sechs (mit Rücksicht auf das Agrarpreissystem wäre eine erweiterte Bandbreite problematisch) abzeichnen würden.
Schwarz, H., Haftendorn, H., Hildebrand, K., Link,	III E/I A 2-82.22 III A 1-81.02	**59 Runderlaß des Gesandten Poensgen** […]

W., Möller, H. & Morsey, R. eds (2002) Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1971. München: Oldenbourg Wissenschaftsverlag. ***Schwarz et al. (2002)***	Fernschreiben Nr. 741 Plurex Citissime 10. Februar 1971 p. 294-296 59	3) Die vor der Ratstagung gegebene Ausgangslage hatten Bundesminister Scheel und Schiller dem Bundestag am 29. Januar 1971 eingehend dargelegt (vgl. Bulletin Nr. 14 vom 2.2.71, Seiten 126 und 149ff.). Angesichts der mangelnden Bereitschaft Frankreichs, die effektive Parallelität und die institutionelle Ausgestaltung der letzten Stufe bereits jetzt zu vereinbaren, hätte eine gerade für Deutschland belastende und sogar gefährliche Lage entstehen können. Zur Sicherung der harmonischen Durchführung des Stufenplans und der Parallelität zwischen monetärer Solidarität und wirtschaftspolitischer Disziplin ist daher eine von deutscher Seite entwickelte „Verfallsklausel" angenommen worden, wonach die Geltungsdauer gewisser monetärer Maßnahmen der ersten Stufe und des mittelfristigen Finanzbeistands zunächst auf fünf Jahre beschränkt wird. Wird nach Ablauf der dreijährigen ersten Stufe Einigung über den Übergang in die zweite Stufe erzielt, bleiben die oben erwähnten Maßnahmen gültig. Die Klausel soll somit einen „heilsamen Zwang" ausüben, uns jedoch vor einseitiger Inanspruchnahme schützen, falls die Entwicklung steckenbleiben oder fehlgehen sollte. Zur Vorbereitung des Übergangs in die zweite Stufe wurde eine bei den deutsch-französischen Konsultationen vorbesprochene Formel angenommen, wonach der Rat und ggf. die Regierungsvertreter nach Berichterstattung und auf Vorschlag der Kommission die Maßnahmen beschließen sollen, die über die erste Stufe hinaus zur vollständigen Herstellung der WWU führen sollen; hierfür kommen Maßnahmen auf Grundlage des bestehenden EWG-Vertrags, aber auch Vertragsergänzungen und Vertragsänderungen in Betracht.
Schwarz, H., Haftendorn, H., Hildebrand, K., Link, W., Möller, H. & Morsey, R., eds (2005) Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1974, Band 1 & 2. München: Oldenbourg Wissenschaftsverlag GmbH. ***Schwarz et al. (2005)***	105-46 JV/74 geheim 11. Juni 1974 p.687-697 162	**162 Gespräch des Bundeskanzlers Schmidt mit dem Präsidenten der EG-Kommission, Ortoli** […] Der Herr Bundeskanzler führte weiter aus, daß er sehr gern vor dem Deutschen Bundestag und der öffentlichen Meinung zugunsten einer Hilfe für Italien eintreten würde, wenn er zeigen könnte, daß Italien etwas tue, um aus eigenen Kräften seine Lage wirksam zu verbessern. Jetzt stehe man *de facto* – wenn auch nicht de jure - vor einem Ausscheiden Italiens aus dem Gemeinsamen Markt. Es sei aber nicht möglich, Italien von außen her etwas aufzuzwingen. […] Was Frankreich betreffe, so sei er - der Herr Bundeskanzler - sehr erleichtert darüber, daß Giscard beschlossen habe, Deutschland nicht um währungspolitische oder finanzielle Unterstützung zu bitten, sondern versuchen werde, seinen eigenen Weg zu gehen. Giscard habe auch von sich aus erklärt, daß er keine Maßnahmen zur Handelsbeschränkung treffen werde. […] Die Schlußfolgerung, die er hieraus ziehe, sei folgende: Angesichts dieser Sachlage sei er bereit, den Bundestag, die Bundesregierung und die öffentliche Meinung zu größeren Opfern für Frankreich, falls nötig, für Belgien und Holland, vielleicht auch für Dänemark, falls nötig, aufzufordern. Er glaube aber nicht, daß er gegenwärtig Opfer zugunsten von Italien verlangen könne, umso mehr als es z.Z. keine Regierung habe. Es müßte in Rom ein Wunder geschehen, damit die deutsche Öffentlichkeit sich zu Opfern für Italien bereit erkläre, da man dieses Land für ein Faß ohne Boden halte. In bezug auf England wäre es vielleicht nicht so schwierig, weil die Engländer

		in Deutschland viele Sympathien besäßen und man ein größeres Vertrauen in die britische Fähigkeit, die eigenen Probleme zu lösen, habe.
	204-321.35 GRO-1121/74 VS-vertraulich 15. Juni 1974 p.759-766 177	177 Gespräch des Bundesministers Genscher mit dem britischen Außenminister Callaghan in Dorneywood […] Auf der Hand liegt, daß die damit verbundenen Garantie- und Finanzrisiken im wesentlichen von der Bundesrepublik Deutschland als dem währungsstärksten EG-Partner getragen werden müssen. Diesem Nachteil wären aber die Vorteile gegenüberzustellen, die uns aus der Aufrechterhaltung eines hohen Beschäftigungsniveaus in den Partnerstaaten einerseits und der Bindung der fluktuierenden Finanzmassen andererseits für unsere eigene Volkswirtschaft erwachsen. Eine auf die nationalen Stabilitätsanstrengungen, denen zur Zeit erste Priorität zukommt, abgestimmte Gemeinschaftsaktion zur teilweisen Finanzierung der Öldefizite ist daher integrationspolitisch nützlich und für uns national gesehen vorteilhaft. Das Auswärtige Amt solle sich daher, wenn der europäisch-arabische Dialog in ein konkretes Stadium getreten ist, bei den Ressorts für Überlegungen im skizzierten Sinne einsetzen." Vgl. Referat 412, Bd. 109331.
	Geheim 6. September 1974 p. 1098-1118 253	**253 Ministerialdirigent Fischer, Bundeskanzleramt, an Ministerialdirigent Kinkel** […] Sachverhalt: - Kommission hat Gemeinschaftsanleihe angeregt, mit deren Erträgen defizitäre Mitgliedstaaten einen Teil der aus der Ölverteuerung resultierenden Defizite finanzieren könnten. Weitergabe der Anleihe soll an wirtschaftspolitische Stabilisierungsprogramme geknüpft werden. Trotz grundsätzlicher Zustimmung bei meisten Mitgliederregierungen hielt Finanzministerrat vom 15.7.1974 positive Grundsatzentscheidung noch für verfrüht; Währungsausschuß und Ausschuß der Notenbankgouverneure jedoch aufgeschlossen; Untergruppe Währungsausschuß arbeitet zur Zeit an Modalitäten. Problematik: - Gefahr neuer Inflationsanzeige; Präzedenz vermeiden zur Lösung zukünftiger Finanzierungsschwierigkeiten in Gemeinschaft; Verwendung durch Kommission zum Zwecke der Haushaltsfinanzierung ausdrücklich ausschließen; eindeutige Begrenzung auf Finanzierung von Zahlungsbilanzdefiziten. Verbindung mit Stabilisierungsprogramm schwierig (mangelnder Einfluß auf konsequente Durchführung). - Wichtig zur Absicherung gemeinsamer Energiepolitik. Wesentlicher Bestandteil des EG-Kompromisses könnte Gemeinschaftssolidarität bei Bewältigung der Folgen der Preispolitik der Olländer für Zahlungsbilanzen sein (z.B. in Form der Gemeinschaftsanleihe). - Beschränkung von Krediten aus Anleihe auf Mitgliedstaaten, die am stärksten unter Zahlungsbilanzschwierigkeiten, unerläßlich, um Größenordnung überschaubar zu halten; - Haftung und Risikoverteilung bei vorübergehender Zahlungsunfähigkeit der Empfangerländer müßte - im Außenverhältnis gesamtschuldnerisch sein;

		- im Innenverhältnis aber quotenmäßig alle Mitgliedstaaten treffen (bei Rückgriffsrecht auf Erlösempfanger), dann allerdings fraglich, ob für Defizitländer Gemeinschaftsanleihe noch interessanter als bestehende Beistandsmechanismen - Europäischer Fonds für währungspolitische Zusammenarbeit könnte für Gemeinschaftsanleihe emissionsfahig gemacht werden, womit Zusammenhang mit Beistandsmechanismen gewahrt bliebe; hierzu zunächst Prüfung anregen. Vorschlag: - Die Gemeinschaftsanleihe wird als „fleet in being" beschlossen. - Die Aufnahme einer Anleihe im Einzelfall ist jedoch an das Bestehen eines Stabilisierungsprogramms des Empfängerlandes zu knüpfen. - Voraussetzung ist ferner, daß alle Mitgliedstaaten intern quotenmäßig am Risiko beteiligt sind.
	Geheim VS-Bd. 14062 (Referat 010) 16. September 1974 p. 1177-1187 268	**268 Aufzeichnung des Bundeskanzlers Schmidt** […] Laut dem beigefügten Sprechzettel führte Bundeskanzler Schmidt dazu u. a. aus: „The time has not yet come to return to the pursuit of economic and monetary union: Extreme disequilibria in current balances of payments might cause the Community to drift farther apart than grow closer together. Such imbalances are mainly the reflection of different internal developments that have been aggravated by increase [in] raw material and crude oil prices. Under these circumstances, the only way to success is to continue an European stability programme with a view to harmonizing national economic policies; some small initial progress is apparent. [...] Even where general economic target priorities are approximated we should try to make further progress; as long as economic decisions are made regardless of the directives which we jointly have agreed upon it will be hard to overcome existing divergencies; on the other hand an approximation of targets, and strictly speaking even harmonization and co-ordination of targets, could lead to a harmonization of economic processes which could in itself overcome and avoid the critical situations which keep recurring from time to time." Vgl. VS-Bd. 14062 (010); B 150, Aktenkopien 1974 […] Tindemans: In Belgien wächst der europäische Pessimismus, z.B. wegen der Austritte aus der Schlange, weil eindeutig die Wirtschaft- und Währungsunion bis 1980 nicht zu schaffen ist und wegen der Gefahr der Rückkehr in nationale Autarkie. Frage an Wilson: Was werdet Ihr tun? Ihr seid ein Element der Unsicherheit. Will erst dann von einem „Gipfel" sprechen, wenn wir sicher sein können, daß er erfolgreich stattfinden könne; er hat nur Sinn, wenn er zu konkreten Einigungen führt. Ein großes Gipfeltreffen sei nicht möglich, solange die Haltung Englands so unklar bliebe wie gegenwärtig. Betont Notwendigkeit der Regionalpolitik; teilt die Auffassung des BK zur Energiepolitik, zur Zahlungsbilanzsituation und zur Weltwirtschaft. In Sachen Öl müssen Konsumenten- und Produzentenländer an einen Tisch. Für Gemeinschaftsanleihe. Stellt die Frage, ob nicht jene Länder, die gegenwärtig nicht zur Schlange gehören, auf irgendeine Weise an diese herangeführt werden könnten. 11) Hartling/Dänemark: In den sechziger Jahren sei die europäische Zusammenarbeit notwendig gewesen, um Wirtschaft, Produktion

		und Lebensstandard der Länder auszuweiten; in den siebziger Jahren sei European Unity notwendig, um den Standard der Industriegesellschaften Europas wenigstens aufrechterhalten zu können. Unterstreichung der bisherigen Bemerkungen über bedenkliche weltwirtschaftliche Lage, Inflation, Zahlungsbilanzverschlechterungen, Depressionserwartung. Griff die Kreditoren-Länder an, welche eine kontraktive Politik verfolgen; sie sollen statt dessen den Defizitländern stärker unter die Arme greifen. Gemeinsame Ölpolitik sei dringend, am besten als Washingtoner Follow-up. Recycling-Probleme müssen gemeinsam gelöst werden. Schlägt Pooling eines wesentlichen Teiles der Währungsreserven der Mitgliedstaaten vor. Der gemeinsame Agrarmarkt werde mehr und mehr zur Illusion. Verlangt Abschaffung aller Währungsausgleiche und aller neuen wie auch der bisherigen alten wettbewerbsverfälschenden Maßnahmen. Festgesetzte Agrarpreise müßten im Markt tatsächlich erreicht werden. Die gemeinsame Agrarpolitik darf uns nicht in Bürokratie ertränken. Für häufige persönliche Treffen der Regierungschefs nach dem Beispiel des heutigen Abends.
	Geheim 17. Oktober 1974 VS-Bd. 14062 (010) p. 1318-1321 302	**302 Aufzeichnung des Ministerialdirigenten Fischer, Bundeskanzleramt** […] Zu 2) BK legte auf Frage von J. M. den Kabinettsbeschluß zur Gemeinschaftsanleihe dar. Er wies auf die nicht genügenden Stabilitätsanstrengungen Italiens und Großbritanniens hin; die deutsche Wirtschaft(*) könne nicht für Fehler in der Wirtschaftspolitik anderer Mitgliedstaaten bezahlen. Diese Fehler lägen einerseits in dem Mangel gemeinsamer energiepolitischer Anstrengungen, andererseits in der Nichtbefolgung von Stabilitätsempfehlungen der Gemeinschaft. Unter großen Schwierigkeiten habe sich die Bundesregierung dennoch zur Gemeinschaftsanleihe bereit gefunden. […] (*) Dieses Wort wurde von Bundeskanzler Schmidt gestrichen. Dafür fügte er handschriftlich ein: „und ihre Steuerzahler können".
Möller, H., Schöllgen, G. & Wirsching, A. eds (2014) Akten zur Auswärtigen Politik der Bundesrepublik Deutschland 1983, München: Oldenburg Verlag. Band 1 *Möller, Schöllgen & Wirsching (2014)*	VS-NfD 18. Mai 1983, Fernschreiben Nr. 1000 Cito p.771 – 784 148	**148 Botschafter Herbst, Paris, an das Auswärtige Amt** […]Ministerialdirektor Fischer legte am 13. Mai 1983 dar, daß sich der EG-Währungsausschuß am 11. Mai in Paris mit einem französischen Antrag vom Vortag auf eine „Gemeinschaftsanleihe von 4 Mrd. ECU (rd. 9 Mrd. DM) aus sog. ‚Ölfazilität' " befaßt und mit Blick auf die EG-Ratstagung auf der Ebene der Wirtschafts- und Finanzminister am 16. Mai 1983 ein positives Votum abgeben habe: „Französischer Antrag war von F[inanz]M[inister] Delors bereits bei jüngster EWS-Wechselkursrevision im März als voraussichtlich erforderlich angekündigt worden, um den beträchtlichen Devisenabfluß im Vorfeld des EWS-Realignment wieder auszugleichen und Erfolg frz. Stabilisierungsprogramms erforderlichenfalls zu unterstützen." Vgl. Referat 424, Bd. 130474. Botschafter Poensgen, Brüssel (EG), berichtete am 16. Mai 1983, daß der EG-Rat auf der Ebene der Wirtschafts- und Finanzminister den französischen Antrag gebilligt habe und von einer Laufzeit des Darlehens von etwa sechs Jahren ausgehe. Vgl. dazu den Drahtbericht Nr. 1774; Referat 424, Bd. 130474.

Table 6: EFSF financing characteristics

Article	Content	Assessment
Preamble (1)	It is envisaged that financial support to euro-area Member States shall be provided by EFSF in conjunction with the IMF and shall be on comparable terms to the stability support loans advanced by euro-area Member States to the Hellenic Republic.	IMF involvement; German government preferences
Preamble (2)	The availability of such Loan Facility Agreements will be conditional upon the relevant euro-area Member States which request such loans entering into memoranda of understanding (each an "**MoU**") with the European Commission, acting on behalf of the euro-area Member States, in relation to budgetary discipline and economic policy guidelines and their compliance with the terms of such MoU.	Polciy conditionality; preference of countries in favour of fiscal rigour and austerity
Article 2(1)	(i) the Commission (in liaison with the ECB and the IMF) shall be hereby authorised to negotiate the MoU with the relevant Borrower which shall be consistent with a decision the Council may adopt under Article 136 of the Treaty on the functioning of the European Union following a proposal of the Commission and the Commission shall be hereby authorised to finalise the terms of such MoU and to sign such MoU with the Borrower on behalf of the euro-area Member States once such MoU has been approved by the Eurogroup Working Group (unless an MoU has been already entered into between the Borrower and the Commission under the EFSM which MoU has been approved **by all euro-area Member** States in which case this latter MoU shall apply, provided that it covers both EFSM and EFSF stability support);	
Article 2(2)	[…]the recourse of investors against EFSF under the Funding Instruments shall be limited to the assets of EFSF including, in particular, the amounts it recovers in respect of the Loans.[…]	Limited liability for loans and guarantees; potential creditor

		preferences (no joint and several liability)
Article 2(3)	[…] each Guarantor shall be required to issue an irrevocable and unconditional Guarantee in a form to be approved by the Guarantors for the purpose of this Agreement and in an amount equal to the product of (a) the percentage set out next to each Guarantor's name in the third column (the "**Contribution Key**") in Annex 2 (as such percentage is adjusted from time to time in accordance with the terms of this Agreement and/or to reflect any euro-area Member State not yet having provided its Commitment Confirmation during the implementation period pursuant to Article 1 and notified in writing by EFSF to the Guarantors) (the "Adjusted Contribution Key Percentage"), (b) 120per cent, and (c) the obligations of EFSF (in respect of principal, interest or other amounts due) in respect of the Funding Instruments issued or entered into by EFSF on a stand-alone basis or under an EFSF Programme. […] No Guarantor shall be required to issue Guarantees which would result in it having a Guarantee Exposure in excess of its aggregate guarantee commitment (its "**Guarantee Commitment**") set out alongside its name in Annex 1.	Limited liability for involvement to 120per cent of contribution key; potential creditor preference to limit liability; Potential debtor preference for over-guarantees from stronger countries
Article 2(2)	[…]The interest rate which will apply to each Loan is intended to cover the cost of funding incurred by EFSF and shall include a margin (the "**Margin**") which shall provide remuneration for the Guarantors.[…]	Financial disincentive; German government preference;
Article 2 (8)	[…]An up-front service fee (the "**Service Fee**") calculated as being 50 basis points on the aggregate principal amount of each Loan shall be charged to each Borrower and deducted from the cash amount to be remitted to the Borrower in respect of each such Loan. […]	
Article 3(1)	Before each disbursement of a Loan under a Loan Facility Agreement, the Commission will, in liaison with the ECB, present a report to the Eurogroup Working Group analysing compliance by the relevant	Monitoring of conditionality; potential creditor preference to

	Borrower with the terms and the conditions set out in the MoU and in the Council Decision (if any) relating to it. The Guarantors will evaluate such compliance and will unanimously decide on whether to permit disbursement of the relevant Loan.	ensure compliance with economic reform and austerity;
Article	If a euro-area Member State encounters financial difficulties such that it makes a demand for a stability support loan from EFSF, it may by written notice together with supporting information satisfactory to the other Guarantors request the other Guarantors (with a copy to the Commission, the Eurogroup Working Group Chairman) to accept that the Guarantor in question does not participate in issuing a Guarantee in respect of any further debt issuance by EFSF.	Safety clauses; debtor interest to avoid overburdening from assistance;
Article 8 (2)	In the event that a Guarantor experiences severe financial difficulties and requests a stability support loan or benefits from financial support under a similar programme, it (the **Stepping-Out Guarantor**") may request the other Guarantors to suspend its commitment to provide further Guarantees under this Agreement […]	
Article 10 (5)	The Guarantors agree that the following matters affecting their roles and liabilities as Guarantors shall require to be approved by them on a unanimous basis: (a) decisions in relation to the grant of a Loan Facility Agreement to a euro-area Member State including the approval of the relevant MoU and Loan Facility Agreement; (b) decisions regarding the disbursement of Loans under an existing Loan Facility Agreement in particular as to whether conditionality criteria for a disbursement are satisfied on the basis of a report of the Commission; (c) any modification to this Agreement including as to the availability period to grant Loan Facility Agreements;	Unanimous decision making; potential creditor preference to ensure conditions, compliance, proper use of funds, and potential veto on assistance;

(Source: EFSF framework agreement)

Table 7: EFSM characteristics

Preamble (5)	[…]Its activation will be in the context of a joint EU/International Monetary Fund (IMF) support.	IMF involvement; German government preferences
Article 2 (2)	The outstanding amount of loans or credit lines to be granted to Member States under this Regulation shall be limited to the margin available under the own resources ceiling for payment appropriations.	Limited liability under pre-determined EU own resources ceiling. Potential Creditor preference; UK preference.
Article 3 (2)	Union financial assistance shall be granted by a decision adopted by the Council, acting by a qualified majority on a proposal from the Commission.	QMV; in line with governments' preference for an EU-internal solution (France, Commission)
Article 3 (1)	The Member State seeking Union financial assistance shall discuss with the Commission, in liaison with the European Central Bank (ECB), an assessment of its financial needs and submit a draft economic and financial adjustment programme to the Commission and the Economic and Financial Committee.	Policy conditionality; preference of countries in favour of fiscal rigour and austerity
Article 3 (3) (b.)	(b) the general economic policy conditions which are attached to the Union financial assistance with a view to re-establishing a sound economic or financial situation in the beneficiary Member State and to restoring its capacity to finance itself on the financial markets;[…]	
Article 4 (5)	The Commission and the beneficiary Member State shall conclude a Memorandum of Understanding detailing the general economic policy conditions laid down by the Council. The Commission shall communicate the Memorandum of Understanding to the European Parliament and to the Council.	
Article 3 (4)	the amount, the fee for the availability of the credit line, the pricing formula applicable for the release of funds and the availability period of the Union financial assistance and the other detailed rules needed for the implementation of the assistance;	Financial disincentive; German government preference;
Article 4 (2) / Article 5 (2+3)	The Commission shall verify at regular intervals whether the economic policy of the beneficiary Member State accords with its adjustment programme and with the conditions laid down by the Council pursuant to Article	Monitoring of conditionality; potential creditor preference to ensure

	3(3)(b). To this end, that Member State shall provide all the necessary information to the Commission and give the latter its full cooperation. […] On the basis of the findings of such verification, the Commission shall decide on the release of the funds.	compliance with conditionality;
Article 9 (1)	The Commission shall forward to the Economic and Financial Committee and to the Council, within six months following the entry into force of this Regulation and where appropriate every six months thereafter, a report on the implementation of this Regulation and on the continuation of the exceptional occurrences that justify the adoption of this Regulation.	Temporal nature of instrument; potential creditor preference to avoid a general access to credits.

(Source: Council Regulation (407/2010/EU); author's compilation)

Table 8: Characteristics of the RRF Regulation

Article	Content	Assessment
Art. 5 (a-b)	Measures […] shall be implemented […] through an amount of up to EUR 312 500 000 000 […] available for non-repayable financial support […] [and] through an amount of up to EUR 360 000 000 000 […] available for loan support to Member States.	Large scale loans and grants via the EU; Franco-German, and potential debtor preference regarding grants. Frugals preference regarding loans.
Art. 10	The Commission shall make a proposal to the Council to suspend all or part of the commitments or payments where the Council decides […] that a Member State has not taken effective action to correct its excessive deficit, unless it has determined the existence of a severe economic downturn for the Union as a whole […].	Adherence to the SGP provision in general; Potential creditor preference to avoid moral hazard
Art. 14 (1)	Until 31 December 2023, upon request from a Member State, the Commission may grant the Member State concerned a loan for the implementation of its recovery and resilience plan.	Temporary instrument; Frugal preference (sunset clause for loans).
Art. 14 (5)	The maximum volume of the loan support for each Member State shall not exceed 6,8 per cent of its 2019 GNI in current prices.	Limited use of assistance; Frugal preference (linked to Dutch GDP decline forecast)
Art. 20	On a proposal from the Commission, the Council shall approve by means of an implementing decision the assessment of the recovery and resilience plan submitted by the Member State in accordance with Article 18(1) or, where applicable, of its update submitted in accordance with Article 18(2).	Member States decision-making; general interest of governments.

(Source: Council Regulation (2021/241/EU))

Table 9: Characteristics of Own Resources Decision

Article	Content	Assessment
Art. 2(2)	The following Member States shall be entitled to annual lump sum reductions, […] in the amount of EUR 22 million for Bulgaria, EUR 32,1876 million for Czechia, EUR 4 million for Estonia, EUR 33 million for Greece, EUR 142 million for Spain, EUR 13 million for Croatia, EUR 184,0480 million for Italy, EUR 3 million for Cyprus, EUR 6 million for Latvia, EUR 9 million for Lithuania, EUR 30 million for Hungary, EUR 1,4159 million for Malta, EUR 117 million for Poland, EUR 31,3220 million for Portugal, EUR 60 million for Romania, EUR 6,2797 million for Slovenia and EUR 17 million for Slovakia.	Reduction of about €711 million for countries with weaker financial position; potential debtor interest through reduction of the contribution
Art. 2(4)	For the period 2021-2027, the following Member States shall benefit from a gross reduction in their annual GNI- based contributions under point (d) of paragraph 1 in the amount of EUR 565 million for Austria, EUR 377 million for Denmark, EUR 3 671 million for Germany, EUR 1 921 million for the Netherlands and EUR 1 069 million for Sweden. Those amounts shall be measured in 2020 prices and adjusted to current prices by applying the most recent gross	Reduction of about €7600 million for countries with net contributions (rebate); potential creditor interest through reduction of contributions ten times as for net recipients (see above).
Art. 9(4-6)	[…] if the authorised appropriations entered in the Union budget are not sufficient for the Union to comply with its obligations resulting from the borrowing referred to in Article 5 [referring to the RRF] of this Decision […] the Member States, as the Commission's last resort, shall make the resources necessary for that purpose available to the Commission […] The maximum total annual amount of cash resources that may be called from a Member State under paragraph 5 shall in all circumstances be limited to its GNI-based relative share in the extraordinary and temporary increase in the own resources ceiling as referred to in Article 6.	Limited liability of Member States share in own resources, also related to the RRF; Frugal and German preferences (no debt mutualisation).

Art. (6)	The ceilings set out in Article 3(1) and (2) shall each be temporarily increased by 0,6 percentage points for the sole purpose of covering all liabilities of the Union resulting from the borrowing referred to in Article 5 until all such liabilities have ceased to exist, and at the latest by 31 December 2058. The increase in the own resources ceilings shall not be used to cover any other liabilities of the Union.	Temporary and specific increase of ceiling, with limited liability of Member Sates; Frugal and German preferences (temporary increase).

(Source: Council Decision (2020/2053 EU, Euratom))

Table 10: IMF financial assistance for EEC and (future) EU countries between 1971-2007

Country	Year
Italy	1974
Romania	1975
UK	1976
Italy	1977
Romania	1977
Cyprus	1980
Romania	1981
Hungary	1982
Hungary	1984
Hungary	1988
Poland	1990
Hungary	1990
Poland	1991
Hungary	1991
Romania	1991
Bulgaria	1991
Estonia	1992
Latvia	1992
Lithuania	1992
Romania	1992
Bulgaria	1992
Poland	1993
Hungary	1993
Estonia	1993
Latvia	1993
Lithuania	1993
Czech Republic	1993
Poland	1994
Lithuania	1994
Slovakia	1994
Romania	1994
Bulgaria	1994
Hungary	1996
Bulgaria	1996
Romania	1997

Bulgaria	1997
Bulgaria	1998
Romania	1999
Romania	2001
Bulgaria	2002

(Source: IMF, author's compilation)