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# EU or Euro Area Crisis? Studying Differentiated Integration as an Idea Structuring Elite Perceptions of the Sovereign Debt and the COVID-19 Crisis

Alexander Schilin <sup>a,b</sup>

<sup>a</sup>Department of Political Science, University of Victoria, Victoria, Canada; <sup>b</sup>Institute of Political Science, Leiden University, Leiden, The Netherlands

## ABSTRACT

After the sovereign debt crisis, scholars concluded that euro area member states (EAMS) and non-EAMS embarked on diverging paths of integration. Yet, their united response countering the economic consequences of the COVID-19 crisis contradicts the path-dependency argument. This article takes an ideational approach. It demonstrates that the different crisis outcomes regarding differentiated integration (DI) in Economic and Monetary Union (EMU) coincide with variations of how DI influenced elite crisis perceptions as an idea. While policymakers perceived the sovereign debt crisis as a currency area crisis with threats and spillovers applying to EAMS, they interpreted the COVID-19 crisis as a health emergency threatening all EU member states. These differences in elite crisis perceptions facilitated different outcomes regarding DI despite unchanged economic and fiscal circumstances among EAMS and non-EAMS. The findings challenge deterministic assumptions on the self-reinforcing nature of DI in EMU and establish DI as an idea structuring elite perceptions.

## KEYWORDS

Differentiated integration; Economic and Monetary Union; sovereign debt crisis; COVID-19 crisis; ideas

## Introduction

When European Union (EU) leaders presented NextGenerationEU (NGEU), the European Commission (hereafter Commission) president stressed that ‘all 27 member states stand jointly behind NGEU’ (Von der Leyen 2020b). This apparent unity among EU member states in taking this major step in fiscal integration (Fabbrini 2022) presents scholars with a puzzle. Common wisdom suggests that differentiated integration (DI) in Economic and Monetary Union (EMU) is self-reinforcing: differentiated integration pressures and spillovers would draw euro area member states (EAMS) and non-EAMS on diverging integration paths and united EMU reforms would become unlikely (Schimmelfennig 2016). The sovereign-debt crisis is considered a prime example of this mechanism. While EAMS adopted extensive reforms, for non-EAMS integration stopped short of any transfer of

**CONTACT** Alexander Schilin  [a.schilin@fsw.leidenuniv.nl](mailto:a.schilin@fsw.leidenuniv.nl)  University of Victoria and Leiden University, Victoria BC, Canada

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sovereignty or fiscal autonomy (Schimmelfennig and Winzen 2020, pp. 127–131). The outcome of the COVID-19 crisis, however, contradicts this argument. While euro area specific instruments exist, such as the Pandemic Crisis Support programme within the European Stability Mechanism (ESM), NGEU provides the main financial resources for economic recovery. The loans and grants are available to all EU member states without any distinction between EAMS and non-EAMS. This deviation from path dependency regarding DI in EMU becomes even more puzzling when considering the differentiated circumstances during the crisis. Strict rules on fiscal spending and a lack of monetary sovereignty left EAMS with less fiscal options to adopt countermeasures against the pandemic's economic consequences. Furthermore, following the path-dependency argument, one would have expected EAMS to expand the insider structures established during the sovereign debt crisis, further reinforcing DI rather than creating new EU-wide instruments. Why did the two crises still have different outcomes regarding DI?

This article studies elite ideas to understand better the different outcomes of the sovereign debt and the COVID-19 crisis regarding DI. The path-dependency argument has inherited a deterministic perspective from its historical institutionalist and neofunctionalist origins. Building upon constructivist criticisms of these theoretical perspectives, I argue that the deviation from path dependency in EMU was facilitated by variations in the influence that DI had as an idea structuring elite crisis perceptions. During the sovereign debt crisis, elite perceptions of threats and spillovers were structured by the distinction between EAMS and non-EAMS. Policymakers perceived the crisis as an endogenous currency area crisis whose impact was limited to EAMS. This influence of DI as an idea on elite crisis perceptions facilitated the implementation of euro area specific reforms even if economic assessments did not necessarily suggest such outcomes. At the same time, DI had a minor ideational influence on elite perceptions during the COVID-19 crisis. While economists predicted a new sovereign debt crisis for the euro area, policymakers perceived the pandemic as a symmetric health shock for all EU member states. Correspondingly, the debate about the EU's fiscal response took place on an EU-wide level, with EAMS and non-EAMS involved on both sides of the ideological conflict between frugality and fiscal solidarity.

This study makes two major contributions to the literature. First, it contributes to the debate on the evolution of DI during crises. Schimmelfennig and Winzen (2022) refined the path dependency argument demonstrating that DI only perpetuates during a crisis if EU leaders can agree on treaty reforms or laws in response. The present article highlights the role of elite ideas. It argues that a firm belief among policymakers in the political relevance of DI is a main requirement for its reinforcement during a crisis. Second, this article establishes DI as an ideational framework shaping EMU governance processes. Several studies have investigated the effect of economic ideas during the sovereign debt crisis, such as Ordoliberalism or Keynesianism (Van Esch 2014; Brunnermeier, James, and Landau 2016, 58–76; Matthijs 2018). This article demonstrates how the distinction between EAMS and non-EAMS worked as a paradigm structuring elite beliefs about political necessities and responsibilities. Thus, it contributes to a better understanding of how DI affected EMU reform debates and outcomes during the sovereign debt crisis.

This article proceeds as follows. The next section elaborates on the article's theoretical argument. It highlights the added value of considering elite ideas and perceptions and theorises their relationship to DI during a crisis. The third section describes the empirical

data considered in this article and the methods of analysis. The fourth and fifth sections report the findings on how DI as an idea influenced elite crisis perceptions during the sovereign debt and the COVID-19 crisis and how this shaped reform outcomes regarding DI. The conclusion summarises the article's main findings and discusses implications for the academic debate.

## Theoretical argument

DI in the EU describes the phenomenon that different groups of EU member states have transferred different authorities or competences to the EU level. There exist two major logics of DI in the EU. Constitutional differentiation results from opt-outs of individual member states from selected integration projects. On the other hand, instrumental differentiation results from the temporal exclusion of EU member states from political integration (Schimmelfennig and Winzen 2014). In the latter type of DI, EU member states must fulfil certain criteria or implement certain policies before they can fully participate in integration. Furthermore, DI in the EU results from projects of enhanced cooperation where minimum nine EU member states can advance integration in any EU policy area (Art. 20 TEU and Title III TFEU). While DI is relevant to multiple EU policy areas, most cases of ongoing differentiation can be found in interior and monetary policies (Schimmelfennig and Winzen 2020, 61). This article focuses on DI in EMU. In this area, DI results from the Danish opt-out and the Swedish de facto opt-out from euro adoption. Furthermore, Bulgaria, the Czech Republic, Hungary, Poland and Romania must fulfil the convergence criteria before they can join the euro area. Between the sovereign debt and the COVID-19 crisis, the United Kingdom (UK), which opted out of euro adoption, has left the EU. Furthermore, Latvia and Lithuania joined the euro area in 2014 and 2015, respectively. Croatia adopted the euro after the COVID-19 crisis in 2023.

While instances of DI are usually rather short-lived (Schimmelfennig and Winzen 2020, 52–56), in EMU, it develops in a self-reinforcing manner. Building on historical institutionalism, Schimmelfennig (2016) argues that the decision to allow DI in EMU worked as a critical juncture putting EAMS and non-EAMS on diverging integration paths. EAMS experience pressures to deepen their coordination and broaden the scope of integration. These result from functional interdependencies, changes in perceptions or the actions of supranational actors (Haas 1958, 11–19; Schmitter 1969). Also, changes in preferences, projected costs of disintegration and institutional barriers (Pierson 1996, 131–148) motivate EAMS to stick on their path towards more integration and overcome deficits in EMU governance. Non-EAMS are not confronted with similar pressures, which makes them reluctant towards initiatives deepening economic and fiscal integration. This difference in rationalities leads to a self-reinforcing divergence in which EAMS engage in ever deeper integration while non-EAMS become daunted by the scope of reforms and focus on protecting sovereignty (Jensen and Slapin 2012).

To understand better why the path dependency argument did not hold for the COVID-19 crisis, this article considers elite ideas and perceptions. In historical institutionalism and neofunctionalism, scholars referred to elite ideas and perceptions to overcome the focus on continuity and sticky paths. Schmidt (2010, 11–13) criticises historical institutionalism for its inability to explain institutional change and deviations from path dependencies outside external shocks. In her discursive institutionalism, she proposes considering the

elite ideas to ‘unstick institutions and unfix preferences and norms’ (Schmidt 2008, 316). Hay and Wincott (1998) argue that historical institutionalism also needs to consider what agents perceive as ‘feasible, legitimate, possible and desirable’ (p. 956) to understand better the interaction between structure and agency shaping institutional change. In particular, constructivist scholars agree that studying intersubjective perceptions and ideas grants historical institutionalism the flexibility to understand deviations from expected paths (Bell 2011). In his modification of neofunctionalism, Niemann (2006, 31) refers to elite perceptions to overcome the mechanical and determinist nature of functional spillovers. Functional linkages or interdependencies are not sufficient to trigger integration. Policymakers also need to consider integration as an effective solution to perceived threats. Therefore, scholars may study the ideas and narratives shaping elite perceptions of functional dissonances, interdependencies and spillovers to understand EU integration dynamics better.

Studying elite ideas and perceptions is also beneficial for understanding reform outcomes of the EU crises. Such sociological perspectives start from the assumption that ‘all crises are constructions’ (Hay 2016, 531). Whether a problem poses an existential threat and triggers reactions depends on how political elites perceive it (Hay 1999, 323–327). Elites identify and interpret crises through intersubjective ideas providing them with the narratives and paradigms to overcome ambiguities. In particular, economic ideas such as Ordoliberalism and Keynesianism determined what EU leaders identified as causes of the sovereign debt crisis and which reforms they considered effective (Matthijs 2018; Van Esch 2014). If intersubjective ideas shift, this changes elite crisis perceptions and reform preferences (Hay 2016, pp. 528–529). For example, the introduction of the European Banking Union (EBU) was preceded by a shift of leaders’ intersubjective ideas about the main causes of the euro area’s existential crisis. Changing their focus from sovereign debts to the sovereign banking nexus, several governments supported a more rapid introduction of the Single Supervisory Mechanism (Glöckler, Lindner, and Salines 2017; Swinkels and van Esch 2022). Similarly, elite perceptions interpreting the asylum crisis as related to the interdependency between free movement and the protection of external borders facilitated the establishment of the European Border and Coast Guard (Niemann and Speyer 2017, 30).

### ***Theorising the relationship between elite ideas, crisis perceptions and the evolution of DI in the EU***

Ideas are defined as intersubjective beliefs and paradigms on how reality works and what mechanisms determine relevant factors (Schmidt 2008, 306). For policymakers, ideas work as interpretive frameworks enabling them to assess political, economic or social situations or problems, understand why things happen and define the responsibilities of involved actors (Hay 2016, 527). Thus, ideas determine how policymakers perceive the very nature of a problem and what they consider desirable or feasible measures (Hall, 1993). While there exist different traditions to conceptualise ideas (Swinkels 2020), I distinguish three types based on their levels of abstraction (Schmidt 2008, 306): (1) policy ideas as solutions or frames for individual problems, (2) programmatic ideas on overarching conditions or causal mechanisms and (3) philosophical ideas shaping worldviews, values and principles.

Furthermore, I distinguish between normative ideas on how the world *should* work and cognitive ideas on how the world *actually* works (Schmidt 2008, 307).

This article argues that DI is not just a phenomenon of EU integration but contains paradigms and assumptions structuring how policymakers interpret political reality. Thus, DI can function as a programmatic cognitive idea. As an ideational framework, DI divides EU member states into insiders and outsiders of integration in a particular policy domain. The more DI is influential as an idea, the more policymakers stress this distinction. It shapes how they interpret political problems, see themselves and others in debates and, finally, what policies they consider appropriate or effective. Political elites consider the categories of insiders and outsiders as politically significant. They assume that members of these two groups experience different realities and face different consequences in a given situation. Thus, they attribute them with different political responsibilities.

If DI carries ideational influence among policymakers, this has implications for elite crisis perceptions. Following the neofunctionalist assumptions of the path-dependency argument (see above), I conceptualise crises as threats to European integration resulting from dysfunctionalities and incompleteness in earlier integration steps and as amplifiers of integration pressures by spillovers (Niemann 2021, 123–124). If policymakers use DI as an ideational framework, they consider a distinction between insiders and outsiders indispensable to describing threats. They will perceive a crisis as confronting insiders and outsiders of integration with different threats. Such an analysis will lead them to perceive spillovers in a differentiated manner. Those member states perceived to be significantly threatened will debate potential areas of incomplete integration or functional interdependencies. Furthermore, they deliberate on how to fix identified shortcomings and eventually deepen their integration. At the same time, those states perceived to be less threatened by the crisis will avoid getting involved in the debates and reforms. Differentiated threat perceptions align with differentiated spillover perceptions, and thus, policymakers consider differentiated reforms as appropriate and effective solutions.

If DI is non-influential as an idea, policymakers will not emphasise the distinction between insiders and outsiders. They will perceive both sides as equally exposed to threats to EU integration. The reduced influence of DI on threat perceptions does not imply its replacement by unity as a new idea. Political elites might still perceive crises affecting different EU member states differently. However, these distinctions will no longer be shaped by the status of countries regarding DI. In line with this non-differentiated threat perception, DI is not reflected in policymakers' spillover perceptions. Policymakers will discuss potential deficits and interdependencies in EU-wide formats and search for common responses. Such EU-wide deliberations and decision-making processes will result in non-differentiated reform outcomes, not further reinforcing the divergence between insiders and outsiders of DI.

The influence of DI as an idea varies with different factors. Schmidt (2008, 309–313) highlights the role of discursive actors. Ideas compete for influence in elite discourses. In this discursive competition, actors play an entrepreneurial role in constructing myths, narratives or paradigms (Carstensen 2011). Eventually, the success of individual ideas depends on the discursive abilities of their supporters to persuade others (Schmidt 2008, 312). Therefore, the influence of an idea changes if supporters with large discursive abilities join or exit relevant elite discourses. Thus, the ideational influence of DI depends

on actors stressing the distinction between insiders and outsiders and their influence within EU institutions. Another factor determining the influence of ideas is socialisation. Socialisation is the process through which actors internalise intersubjective norms or ideas within a particular social context (Checkel 2005, 804). Mostly, this happens in regular and intensive interaction within a small group of actors. Thus, policymakers adopt DI as an idea if they interact in a context in which the distinction between insiders and outsiders is recognised as a significant paradigm structuring governance processes. Finally, the influence of ideas is affected by mechanisms of learning. Learning can be defined as the ‘updating of beliefs’ (Dunlop and Radaelli 2013, 600). It is facilitated by challenging circumstances such as discrepant events, external pressures or policy failures (Swinkels 2020, 289). From this perspective, the ideational influence of DI depends on the experiences policymakers make and how those shape their assessments of DI as a credible framework to interpret reality.

### *Elite ideas, crisis perceptions and DI in EMU during the two crises*

From the theoretical considerations above, I draw expectations on the interaction between the ideational influence of DI on elite crisis perceptions and the evolution of DI in EMU during the sovereign debt and the COVID-19 crisis. I argue that the divergence between EAMS and non-EAMS during the sovereign debt crisis was facilitated through the influential role of DI as an idea shaping elite crisis perceptions. Policymakers shared an intersubjective consensus that they must distinguish between euro area insiders and outsiders to interpret political reality accurately. They agreed that the sovereign debt crisis exposed EAMS and non-EAMS to different threats. Thus, they considered the need for reforms in fiscal discipline, financial assistance or banking supervision as applying mainly to EAMS. In contrast, DI was non-influential as an idea during the COVID-19 crisis. Policymakers considered EAMS and non-EAMS to be equally exposed to the pandemic’s economic implications. Therefore, the responsibility to find a fiscal response was perceived to apply to all EU member states. Correspondingly, policymakers designed and implemented policies which do not distinguish between EAMS and non-EAMS and, thus, had no impact on DI in EMU. The different outcomes of the sovereign debt and the COVID-19 crisis regarding the evolution of DI in EMU are reflected in variations in the ideational influence of DI on elite crisis perceptions (see Table 1).

Three factors make a reduced influence of DI as an idea structuring elite crisis perceptions during the COVID-19 crisis plausible. First, after Brexit, a vocal euro outsider disappeared from the EU. While most non-EAMS demonstrate cooperativeness to maintain political influence, the UK never hesitated to put national interests first, even if that

**Table 1.** Expectations regarding the interaction between elite ideas, crisis perceptions and the evolution of DI during the sovereign debt and the COVID-19 crisis. Author’s own compilation.

Crisis	Ideational Influence of DI	Elite Crisis Perception		Evolution of DI in EMU
		Threat Perception	Spillover Perception	
<b>Sovereign Debt Crisis</b>	Influential	Differentiated	Differentiated	Reinforced
<b>COVID-19 Crisis</b>	Non-influential	Non-differentiated	Non-differentiated	Remained at the same level

required blocking EMU reforms. For instance, during the sovereign debt crisis, the UK government blocked the incorporation of the Fiscal Compact into the EU treaties (Adler-Nissen 2016b, 239). Through such actions highlighting the country's euro outsider status, the UK significantly contributed to reinforcing DI as an influential idea structuring EMU governance and reform processes. The UK left the EU on 31 January 2020. A few weeks later, the COVID-19 virus hit the European surface, and the EU member states created NGEU to counter the pandemic's economic implications. While counterfactual analyses have their difficulties, it is plausible to assume that the UK's absence from the negotiations was a major factor reducing the influence of DI as an idea.

Another factor that makes a decreasing influence of DI on elite crisis perception plausible is the Commission's reinforcement as a political actor. In principle, the Commission aims to prevent any tendencies of DI. Even if the Commission has often acted pragmatically in the past, it opposes differentiated policies and Commissioners make alternative proposals for united integration (Fromage and Fasone 2022). The Commission is usually considered a weak actor during the sovereign debt crisis (Da Conceição-Heldt 2016; Hodson 2013). New intergovernmentalist studies suggest that the Commission had lost its role as policy initiator and concentrated on implementing the decisions which heads of state had agreed on in the European Council (Bickerton, Hodson, and Puetter 2015, 712–713; Puetter and Fabbrini 2016, 636). During the COVID-19 crisis, however, the supranational actor could increase its influence again. Strategically using its resources and instruments to launch policy proposals proactively, the Commission took a leadership role in designing the EU's multifold responses to the pandemic (Kassim 2023). Thus, it gained new competences and authorities in different policy areas.

Finally, the higher inclusiveness of meetings in the Euro Summit, the Eurogroup and the Eurogroup Working Group (EWG) make a decrease in the ideational influence of DI on elite crisis perceptions plausible. During the sovereign debt crisis, EAMS representatives met in these euro area bodies to deliberate on euro area matters and create solutions for their problems. Their exclusivity recognised the EAMS as an independent group within the EU and highlighted the importance of DI for EMU governance. While the inclusive format of the Euro Summit is already determined in the Fiscal Compact, after the sovereign debt crisis, all three bodies established regular meeting formats allowing the participation of non-EAMS representatives. This new inclusiveness changes the conditions for socialisation among policymakers. The categories of EAMS and non-EAMS become less present in EMU governance processes, and thus, DI loses its relevance for understanding political realities. Under these circumstances, policymakers were less likely to interpret the COVID-19 crisis in a differentiated manner.

## Data and methods

Scholars have used various methods to study elite perceptions and ideas. Niemann identifies elite interviews as the most important method to study how policymakers perceive spillovers and what conclusions they draw from crises for political reforms (2006, p. 63). Also, Adler-Nissen (2016a) highlights the value of interviews in revealing 'particular truths' and understanding political reality from the view of policymakers. A discourse analysis considering speeches, position articles, memoranda etc., is also



effective in understanding how policymakers perceive crises and what measures they consider effective (Niemann and Ioannou 2015; Niemann and Speyer 2017). Even if this data might not necessarily represent true elite perceptions, it still provides insights into the arguments and narratives policymakers consider relevant to describe a crisis accurately (Niemann 2006, 63). Finally, elite perceptions are studied through cognitive mapping (Van Esch 2014). Cognitive maps are particularly useful for analysing and comparing individual policymakers' ideational belief systems.

This article relies on elite interviews and discourse analysis to study the influence of DI as an idea shaping elite perceptions of threats and spillovers during the sovereign debt and the COVID-19 crisis. Regarding the sovereign debt crisis, data was collected in 39 semi-structured elite interviews<sup>1</sup> conducted by the author between November 2020 and February 2021 and in March 2022. Interviewees include policymakers who, between 2010 and 2015, served as members of national delegations to ECOFIN and the Economic and Financial Committee (EFC) from both EAMS and non-EAMS. I also interviewed officials from the Council Secretariat, the Commission and the European Parliament. The interviews are complemented with data from public sources. I analysed media interviews with and statements of relevant policymakers, national government documents and conclusions of relevant meetings at the EU level between the start of the debate about the EU's economic response to the COVID-19 crisis in February and the agreement on the NGEU package during the European Council meeting on 17–21 July 2020.

For both crises, I analyse the influence of DI as an idea on elite crisis perceptions and reform outcomes in three steps. First, I analyse how DI shapes elite threat perceptions during the crisis. I examine whether and how in describing the crisis and its threats, policymakers systematically distinguish between EAMS and non-EAMS. If they stress the distinctiveness arguing the two groups face different realities and problems, this indicates a significant ideational influence of DI and a differentiated threat perception. Second, I examine how DI manifests in policymakers' views regarding areas of incomplete integration and functional linkages. If policymakers locate the main deficits in an area with high differences between EAMS and non-EAMS and attribute the main responsibility for causing the crisis to one particular group, this indicates a high influence of DI on elite spillover perceptions. Finally, in the third step, I scrutinise whether and how reform debates have been affected by the distinction between EAMS and non-EAMS. If policymakers consider different measures for the two groups or argue that one group has a higher necessity to implement reforms than the other, this indicates a significant influence of DI as an idea.

### **The sovereign debt crisis as a currency area crisis threatening EAMS**

DI played a significant role as an idea structuring elite threat perceptions during the sovereign debt crisis. Interviewees consistently stressed that the possibility of sovereign default would expose an existential threat to EAMS. If a country within the euro area could no longer finance its loans, this would have harmed other EAMS. Policymakers shared the understanding that the large financial and economic interdependence among euro area insiders would cause a domino effect (Interviews 1, 7, 23). Several EAMS would not be able to attain liquidity simultaneously, threatening not only the economic stability within but the very existence of the currency area. Thus, the 'euro area was fighting for its livelihood'

(Interview 10). For countries outside the euro area, possible consequences were not seen as severe. Interviewees consistently argued that while their economies would suffer from significant losses, they did not face any existential threats (Interviews 6, 8, 24). This differentiated threat perception reflects in the following quote: 'So, of course, it's a euro area problem. Would it have been economically as catastrophic to the UK, Sweden and Denmark? No! [...] There would have been exchange rate volatility, a loss of growth, etc. But a really violent impact would have been felt by the member states of the euro area' (Interview 1).

Also, the elite perception of the areas of incomplete integration and spillovers was significantly influenced by DI as an idea. Interviewees agreed this crisis was a logical consequence of fundamental shortcomings in the setup of the currency area. While the EAMS abandoned their national currencies, they neglected to implement the necessary measures to ensure financial and economic stability (Interviews 3, 14, 17, 32). Policymakers described the crisis as endogenous, arguing that the neglect of the economic and financial interdependencies of monetary integration now backfired (Interviews 1, 10, 23, 27). This explicit focus on the functional spillovers of monetary integration targeted the EAMS. A non-EAMS interviewee put it this way: 'We appreciated the attempts to fix the shortcomings of the currency area. However, as euro outsiders, we were not ready to join these efforts' (Interview 9). Also, policymakers from the EAMS and the supranational institutions stressed the distinction between euro insiders and outsiders. The then German chancellor, Angela Merkel, argued that the EAMS must solve their problems and establish a *stability union* (Merkel 2011). In the Five Presidents Report (Juncker et al. 2015), authors explicitly distinguish between euro area countries and EU member states, stressing the need for the former to 'take steps [...] to compensate for the national adjustment tools they gave up on entry [in the monetary union]' (p. 4).

One concrete example of the ideational influence of DI on elite spillover perceptions is the debate about the sovereign banking loop. Several interviewees argued that the reinforcing dynamic between the debts of banks and states could arise only in the euro area. The lack of an institution serving as a credible lender of last resort and the prohibition of mutual bailouts would leave the euro area stripped of effective instruments to disrupt the harmful loop (Interviews 1, 6, 12). Furthermore, interviewees identified the poor harmonization of banking supervision practices across Europe and the absence of an instrument to counter macroeconomic imbalances as problems further facilitating the loop (see also Howarth and Quaglia 2016, 44–48). Policymakers attributed these problems to the euro area and its members. When asked whether the sovereign-debt crisis was a crisis of the euro area or the EU, an interviewee from the Polish Ministry of Finance responded: 'Did we have a sovereign banking loop?' (Interview 9). This debate reflects the elite perception locating the crisis' main causes in the currency area's incomplete architecture. Policymakers perceived the sovereign debt crisis as a euro area crisis in its origin.

The reform outcomes reflected this differentiated perception of the causes and consequences of the sovereign debt crisis. It was seen as the responsibility of the EAMS to cope with the threats and fix the currency area's deficits (Interviews 6, 27, 32). In the area of financial assistance, differentiation is most visible. While EAMS designed and implemented multiple financial packages to help indebted countries, non-EAMS only participated in the programme for Ireland. In other programs, non-EAMS were careful to avoid any financial involvement, even including their contributions to the EU budget (Interviews

1, 3, 18). Justifying this reluctance, non-EAMS interviewees explicitly referred to DI, arguing that nobody could expect euro area outsiders to make financial contributions to assistance packages for indebted euro area insiders (Interviews 5, 6, 20, 28). One interviewee from the UK embraced the distinction between EAMS and non-EAMS further asking me: 'When did they [the EAMS] ever help us in rescuing our banks?' (Interview 26).

Regarding the reforms of the Stability and Growth Pact (SGP), the role of DI is fuzzier. While non-EAMS are involved in mechanisms strengthening the coordination of economic policies, sanctions for breaches of the fiscal rules only apply to EAMS. Interviews indicate that policymakers shared the perception that EAMS should handle these reforms. Reflecting on the negotiations in the Van Rompuy Task Force, an interviewee stated: 'My recollection is that there was a big difference because the whole thing was about the euro area. The newer member states were there because the legal basis did not allow for a specific euro area thing, but there was a vague perception that the whole thing was about the euro area.' (Interview 37). The differentiated threat and spillover perceptions are eminent in the justifications for this euro area focus. Several interviewees argued that for non-EAMS unsustainable fiscal policies would not be a problem since they could compensate for those by depreciating their national currencies (Interviews 3, 34, 35). Furthermore, interviewees hinted at crisis events assessing that cases of sovereign default mostly applied to EAMS. Referring to these arguments, non-EAMS interviewees wondered why their countries should give up fiscal sovereignty to solve a problem that did not apply to them (Interviews 4, 5, 6, 20). Danish interviewees expressed a special perception on this issue. Referring to their country's membership in the European Exchange Rate Mechanism (ERM II), they labelled Denmark the 'secret euro area member' (Interviews 21, 31). Therefore, they considered it self-evident that Denmark would fully participate in the reforms to the SGP. Still, this justification did not depart from general perceptions attributing the responsibility for SGP reforms to EAMS or associated states. Finally, differentiated reforms were facilitated by the elite perception that more fiscal discipline was needed among EAMS due to their financial assistance instruments (Interviews 23, 34).

The EBU is also differentiated. While non-EAMS can join the EBU under an agreement of close cooperation, they denied immediate participation, either adopting a wait-and-see approach or excluding any involvement in advance (Schimmelfennig 2016, 491). Justifying their non-involvement, non-EAMS interviewees stressed the stability of their banking sectors and the proper functioning of domestic banking supervision systems (Interviews 6, 8, 23). In particular, interviewees from the UK stressed their distinctiveness: 'We accepted the necessity of banking union to put the Eurozone on a more sustainable basis [...], but we didn't necessarily think it was appropriate for the UK.' (Interview 5). Furthermore, EAMS and non-EAMS interviewees indicated that the EBU was introduced to accommodate other EAMS policies countering the sovereign banking loop. The then German Minister of Finance, Wolfgang Schäuble, saw the joint banking supervision as a requirement to allow the recapitalisation of banks through the ESM (Interviews 1, 3, 17). This finding confirms earlier observations by Howarth and Quaglia (2016, 49). Again, Denmark was the exception among non-EAMS. Danish interviewees consistently indicated that their government was willing to join the EBU from the beginning. However, particularly among Danish parliamentarians, there was the sense that Danish membership in the EBU would fundamentally question the country's opt-out from euro adoption. Therefore, it had to be approved by a referendum (Interviews 21, 28, 31).

The focus among political elites on the currency area and the political responsibility of EAMS did not necessarily align with economic assessments. Discussing whether non-EAMS should join the EBU, Darvas and Wolff (2013) conclude 'the European Banking Union project makes sense irrespective of the euro crisis'. Several interviewees agreed that from an economic perspective, non-EAMS should have joined the EBU (Interviews 1, 3, 7, 21, 28). In this perception, the EBU does not serve single currency but single market purposes as it responds to financial integration among all EU member states. One interviewee argued: 'If you have a single competition policy for banks, then you need a single supervisor.' (Interview 34). Other arguments highlight the deep integration of Danish and Swedish banks into EAMS economies and the domination of banks from the EAMS in Central and Eastern Europe. Recently non-EAMS have changed their stance on membership in the EBU. Bulgaria joined the EBU in 2020. In Romania and Denmark, leading actors within the national central banks have argued that their countries should join as well (Danish National Bank 2017; Isărescu 2019). These indications suggest that the distinction between EAMS and non-EAMS in the reforms implemented during the sovereign debt crisis did not necessarily result from economic necessities. The plausibility of a non-differentiated EBU supports conclusions on the influence of DI as an idea shaping elite crisis perceptions and reform outcomes.

To summarise, elite perceptions of the sovereign debt crisis were heavily influenced by DI as an idea. Policymakers interpreted the crisis as a currency area crisis attributing the main exposure to threats and responsibility for its causes to EAMS. This elite perception put EAMS at the centre of the reform debate facilitating differentiation in the reform outcomes even if economic analyses did not stress the distinction between EAMS and non-EAMS.

### **The COVID-19 crisis as a health emergency threatening all EU member states**

Several economists argued that the COVID-19 crisis could become another sovereign debt crisis for the euro area (Beck 2020; Bofinger et al. 2020; Wolff and Claey's 2020). In financing the national recovery packages, there revealed large asymmetries among the EAMS regarding their capabilities to acquire liquidity at the sovereign bond markets. While some countries experienced temporary increases in 10-year government bond interest rates, others, such as Italy, Greece or Spain, faced large and long-lasting increases (Carnazza and Liberati 2021). Such increases in interest rates for sovereign debt led to large divergence among EAMS regarding their ability to counter the pandemic's economic consequences with potentially severe implications for the entire euro area (Muggenthaler, Schroth, and Sun 2021). In the worst case, most affected countries had to leave the single currency area so they could acquire liquidity by depreciating their national currencies. Beyond the economic consequences, the exit of individual countries from the euro area could have had severe political consequences threatening the euro's existence (Beck 2020). Again, the internal fiscal imbalances and the lack of an effective financial support instrument brought the EAMS to the brink of disintegration. For non-EAMS, the consequences of such a scenario would have been less severe due to lower financial, economic and political interdependencies. Thus, from the fiscal perspective, one could interpret the COVID-19 crisis as another sovereign debt crisis harming mostly the EAMS.

In the debate about fiscal countermeasures to the economic consequences of the COVID-19 crisis, however, the influence of DI as an idea shaping elite threat perceptions was limited. Policymakers interpreted the COVID-19 crisis as a health crisis (Michel 2020) or a health emergency (Von der Leyen 2020a). They focused on the virus and its symmetric spreading over all EU member states rather than the asymmetric fiscal capabilities among EAMS (Smith 2020). The economic losses resulting from lockdowns were seen as inevitable for all EU member states to react to the symmetric health threat and contain the number of infections and deaths (Eurogroup 2020; Von der Leyen 2020a). Supporting each other in covering these costs was framed as a question of solidarity among all EU member states (Centeno 2020; Di Maio 2020). The Commission Vice President, Frans Timmermans, even described fiscal solidarity as essential for the EU to survive the health crisis (2020). This focus on the costs of the virus made distinguishing between EAMS and non-EAMS irrelevant. Policymakers argued that 'COVID-19 affected the euro area as much as it affected the outs' (Interview 38).

The elite perception of spillovers and incomplete integration was also hardly affected by DI during the COVID-19 crisis. Again, the major focus on the health emergency reduced the ideational influence of the distinction between EAMS and non-EAMS. Due to the global spread of the COVID-19 virus, policymakers perceived the major cause for the crisis to lie outside Europe, putting an equal burden on all EU member states to cope with its consequences (Centeno 2020; Von der Leyen 2020a). Statements or political actions suggesting groups or individual countries were responsible for their fiscal situation were perceived as inappropriate. When the Dutch Finance Minister, Wopke Hoekstra, asked the Commission for a report on why some countries have large fiscal buffers and others do not, this question was received as insulting, considering the health emergency Southern European countries were facing (Peeperkorn 2020; Von der Burchard and Schaart 2020). The major discussion revolved around how the EU member states could support each other to cope with a health threat that came from the outside without anyone's fault (Centeno 2020; Adler and Roos 2020).

The limited influence of DI as an idea structuring how elites perceived the spillovers and threats of the COVID-19 crisis was reflected in the venues they gathered. Most intergovernmental deliberations and negotiations took place in EU-wide venues. Until the agreement on the NGEU package on 21 July 2020, heads of state had gathered in the Euro Summit only once. The main debates took place within the European Council. On the level of ministers, the Eurogroup maintained the high relevance it assumed during the sovereign debt crisis. Ministers gathered in the informal venue almost every two weeks. Yet, during the COVID-19 crisis, the Eurogroup hardly functioned as a euro area body. All Eurogroup meetings during which ministers discussed the EU's fiscal response to the pandemic took place in the inclusive format with non-EAMS representatives participating as equal actors. Furthermore, most of the measures on which ministers agreed in Eurogroup meetings were EU-wide (Eurogroup 2020). Given these circumstances, Verdun argues that the Eurogroup can effectively be considered an ECOFIN Council (2022, p. 317).

Furthermore, the low relevance of DI as an idea was reflected in the ideological fronts in the debate about the fiscal response. The divide between those member states fostering proposals for common debt issuance and the others insisting on fiscal responsibility, which characterized the debate among EAMS during the sovereign debt crisis,

expanded to an EU-wide conflict during the COVID-19 crisis. In particular, Denmark and Sweden participated actively and vocally in the intergovernmental deliberations. While the euro outsiders abstained from participating in multiple EMU reforms implemented during the sovereign debt crisis (Schimmelfennig and Winzen 2020, 128–129), they were strongly committed to supporting those countries with lower fiscal capacities in countering the economic consequences of the COVID-19 pandemic. Without the UK as a big economy and an influential member state on their side, the two Nordic countries feared that they would isolate themselves if they excluded themselves from joint policies again (Interview 17). Some interviewees even argued that after Brexit, the Danish and Swedish attitude of being friendly euro area outsiders inside the EU was no longer feasible (Interviews 8, 25).

Denmark and Sweden were eager to build coalitions with states inside the euro area. Initially, they cooperated closely with Austria, Germany, Finland, and the Netherlands. Together the fiscally conservative countries from inside and outside the euro area countered different initiatives to mobilise financial resources through debt mutualisation on the EU level. After the Franco-German proposal, the two Nordic countries were active members of the *Frugal Four*. Together with their colleagues from Austria and the Netherlands, they opposed the Franco-German proposal. Christian Rabjerg Madsen, a member of the Danish parliament representing the incumbent government party of the Social Democrats, stated that Denmark wishes to support Southern European countries in coping with the economic difficulties they face through the COVID-19 pandemic, but they oppose distributing financial resources through grants (Bremer and Kallestrup 2020). A few days later, the Frugal Four presented a non-paper proposing a loan-based alternative to the Franco-German proposal. In the subsequent negotiations about the Commission's NGEU proposal, the German Council Presidency aimed for a quick deal (Government of Germany 2020, 4). Yet, the Frugal Four showed resilience, and eventually, they achieved a significant change in the ratio between grants and loans in NGEU. Thus, the debate about the fiscal response to the COVID-19 pandemic remained EU-wide, with member states from inside and outside the euro area involved.

The Commission was a key actor in raising the debate about the fiscal response to the COVID-19 crisis to an EU-wide level. The proposals which member states circulated at the early stage of the debate would have strengthened DI in EMU. The *Coronabonds* proposed by Italy would have enabled the EAMS to issue common debts at the financial markets. On the other side, the Dutch and German governments preferred mobilising the ESM's financial resources for national recovery packages. Both sides could not accept the proposal of the respective other due to ongoing antagonisms from the sovereign debt crisis. Referring to the ESM's mechanisms for fiscal oversight, the Italian Prime Minister, Giuseppe Conte, called it an 'inadequate and inappropriate instrument' (Barigazzi 2020). At the same time, it was impossible for the Dutch government to accept Eurobonds in any form. In particular, the Dutch Finance Minister, Wopke Hoekstra, had taken a clear position stating, 'Eurobonds is a thing I wasn't OK with, I am not OK with, and I will never be OK with' (Walker and Schaart 2020).

The Commission tried to resolve this conflict by drawing the debate towards the EU-wide level. During the European Council meeting on 23 April 2020, the Commission president, Ursula von der Leyen, proposed that additional financial resources for recovery packages could be mobilized through the Commission at the sovereign

bond markets using the EU budget as a guarantee (Kassim 2023, 624). Putting this EU-wide instrument on the table, von der Leyen allowed both sides to distance themselves from their long-term positions and consider new options. In particular, the German government received a resort option to show solidarity with the Southern EU member states without having to accept Eurobonds, which met strong scepticism not only among the Christian Democrats but also the Finance Minister, Olaf Scholz (Maas and Scholz 2020). Von der Leyen further substantiated her proposal, and eventually, it became the foundation for the Franco-German proposal and NGEU. Thus, the Commission president dissolved the gridlock between Northern and Southern EAMS by raising the debate to the EU level and, thus, avoided a reinforcement of DI in EMU.

The commitment of the Commission to avoid DI in the EU's responses to the COVID-19 crisis was also reflected in its actions regarding the immunization campaign. In the first months after the outbreak of the pandemic, the EU member states struggled to find a joint approach regarding the purchase of vaccine doses. EU governments were concerned they would fall behind the United States of America (USA) and the UK, which were spending large sums of money to reserve doses worldwide (Deutsch and Wheaton 2021). Against this background, France, Germany, Italy and the Netherlands took the initiative. In the inclusive vaccine alliance (IVA), they coordinated their resources and entered into joint negotiations with pharmaceutical companies in Europe (De Jonge 2020). On 13 June 2020, the IVA secured 400 billion vaccine doses from Astra Zeneca (Astra Zeneca 2020). While representatives of the IVA highlighted that the vaccines would be distributed among all EU citizens and they would be willing to integrate their efforts in a joint action coordinated by the Commission, their initiative was not well received. The Belgian Minister of Health, Maggie de Block, argued that this initiative harms the Belgian and the EU's overall position (Le Soir 2020).

The Commission was eager to contain these tendencies of DI and ensure the EU would find a united approach to the immunization campaign. Only a few days after the IVA had announced the deal, it presented the EU vaccines strategy (European Commission 2020). The document determined that the Commission would negotiate with the pharmaceutical companies on behalf of all EU member states intending to sign advanced purchase agreements. Yet, the national governments were reluctant to give up their selective efforts and centralize all negotiations with the Commission. Deters and Zardo (2022, 10–11) find that the German Minister of Health, Jens Spahn, only agreed to the joint approach after the German Chancellor, Angela Merkel, overturned him in anticipation of the German Council Presidency. Yet, despite adopting the EU Vaccines Strategy, selective approaches were not off the table. When supply shortages delayed the rollout of the German vaccination campaign in January 2021, the Social Democratic Party asked Spahn in a public letter whether these problems could have been avoided by purchasing additional vaccine doses outside the Commission's agreements (German Ministry of Health 2021). Also, in other EU member states, politicians questioned the EU-wide approach publicly. Again, the Commission was determined to ensure unity. Achieving another deal with BioNTech about 300 billion additional doses in February 2021 it could calm down the criticism.

To summarise, despite different fiscal circumstances among EAMS and non-EAMS in facing the pandemic's economic consequences, DI had a minor influence as an idea shaping

elite crisis perceptions during the COVID-19 crisis. Policymakers interpreted the spread of the virus as a symmetric health emergency threatening all EU member states. Correspondingly, the debate about the fiscal response to the pandemic took place on an EU-wide level, with EAMS and non-EAMS involved on both sides of the ideological conflict. The Commission facilitated this EU-wide debate by countering any tendencies of DI with alternative proposals ensuring the EU would pursue united approaches in all responses to the COVID-19 pandemic.

## Conclusions

The united fiscal response of all 27 EU member states to the economic consequences of the COVID-19 crisis constitutes a puzzle to the path dependency argument on DI in EMU. While the expectation that EAMS and non-EAMS constantly diverge holds for the sovereign debt crisis, the creation of NGEU constitutes a major deviation. In this article, I argue that variations in how DI influenced elite crisis perceptions as an idea facilitated the different outcomes of the sovereign debt and the COVID-19 crisis regarding DI in EMU. While policymakers perceived the sovereign debt crisis as a currency area crisis with threats and spillovers mainly applying to EAMS, they interpreted the COVID-19 crisis as a health emergency applying symmetrically to all EU member states. These differences in how DI shaped elite perceptions during the two crises also affected reform debates. During the sovereign debt crisis, policymakers saw the main responsibility for countermeasures with the EAMS facilitating euro area specific reforms. In contrast, during the COVID-19 crisis, the elite focus on the EU-wide health emergency facilitated the adoption of EU-wide measures leaving DI in EMU at the same level.

The article's findings challenge assumptions on the self-reinforcing nature of DI in EMU. Thus, the article aligns with recent contributions by other scholars adding nuance to the deterministic path dependency argument (Migliorati and Genschel 2022; Schimmelfennig and Winzen 2022). While the division of EU member states into EAMS and non-EAMS has set an initial momentum defining insiders and outsiders of monetary integration, this distinction is insufficient to facilitate differentiated policies at all times. Additional conditions must be fulfilled so that euro area insiders and outsiders drift further apart in subsequent crises. This article demonstrates that not only DI needs to shape objective but also intersubjective realities. While differentiation might be relevant to earlier integration patterns, the divergence between insiders and outsiders in the respective policy area won't reinforce if relevant policymakers consider DI outdated or inappropriate. Only if the distinction between insiders and outsiders evolves into an influential idea shaping how policymakers perceive political reality, DI remains relevant after its initial implementation. Thus, this article demonstrated that ideas also matter for the reinforcement of DI.

Finally, this article offers a broader understanding of the evolution of DI in the context of Brexit. Originally, DI was considered an effective instrument to avoid the disintegration of individual EU member states due to sovereignty concerns, particularly in areas of core state powers such as migration or monetary politics. The UK was the champion of DI in the EU. By providing the UK with opt-outs in multiple policy areas, it was hoped to keep the country in the EU despite the high politicisation of sovereignty in the national debate. This article has demonstrated how this logic became particularly important during the sovereign debt crisis. However, eventually, the UK still left the EU. In fact, it appears that DI has contributed to further facilitating this process of disintegration rather than avoiding it (Leruth, Gänzle,



and Trondal 2019). Consequently, the relevance of DI in EMU has reduced after Brexit. The group of non-EAMS becomes constantly smaller, with Croatia joining the euro area in 2023. Furthermore, EMU reform debates, such as the ongoing deliberations on the reforms of the SGP, remained highly inclusive. Thus, the reduced importance of DI in EMU as an idea goes along with a broader decline in its overall relevance. Future studies may assess to what extent this decline relates to a learning process triggered by Brexit or strategic considerations by non-EAMS. Furthermore, research is needed regarding the circumstances under which DI might regain the ideational importance it had during the sovereign debt crisis.

## Note

1. A complete list of all interviews (in chronological order) is available in [Appendix I](#).

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## Notes on contributor

*Alexander Schilin* is a postdoctoral fellow at the Department of Political Science, University of Victoria, BC Canada. He is also a guest researcher at the Institute of Political Science, Leiden University, Netherlands. His research focuses on Differentiated Integration in the EU, Economic and Fiscal Integration in the EU and the Council of the EU. He has published in the *Journal of Common Market Studies* (JCMS) and contributed to the *Routledge Handbook on Differentiation in the EU*.

## ORCID

Alexander Schilin  <http://orcid.org/0000-0002-6620-3578>

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## Appendix I: Author Interviews (in chronological order)

Interview 1: Author interview with an official from the Austrian Ministry of Finance, 5 November 2020.

Interview 2: Author interview with an official from the Italian Ministry of Finance, 16 November 2020.

Interview 3: Author interview with an official from the Dutch Ministry of Finance, 18 November 2020.

Interview 4: Author interview with an official from the Permanent Representation of Hungary to the EU, 19 November 2020.

Interview 5: Author interview with an official from the UK Treasury, 24 November 2020.

Interview 6: Author interview with an official from the Polish Ministry of Finance, 25 November 2020.

Interview 7: Author interview with an official from the Luxembourgian Ministry of Finance, 25 November 2020.

Interview 8: Author interview with an official from the Swedish Ministry of Finance, 26 November 2020.

Interview 9: Author interview with an official from the Polish Ministry of Finance, 27 November 2020.

Interview 10: Author interview with an official from the German Finance Ministry, 30 November 2020.

Interview 11: Author interview with an official from the Luxembourgian Ministry of Finance, 1 December 2020.

Interview 12: Author interview with an official from the Spanish Ministry of Finance, 3 December 2020.

Interview 13: Author interview with an official from the Polish Ministry of Finance, 4 December 2020.

Interview 14: Author interview with an EU official, 8 December 2020.

Interview 15: Author interview with an official from the Secretariat of the Eurogroup and the EWG, 9 December 2020.

Interview 16: Author interview with an official from the Council Secretariat, 11 December 2020.

Interview 17: Author interview with an official from the Austrian Ministry of Finance, 11 December 2020.

Interview 18: Author interview with an official from the Council Secretariat, 15 December 2020.

Interview 19: Author interview with an official from the Council Secretariat, 16 December 2020.

Interview 20: Author interview with an official from the Swedish Ministry of Finance, 17 December 2020

Interview 21: Author interview with an official from the Danish National Bank, 5 January 2021

Interview 22: Author interview with an official from the Danish National Bank, 8 January 2021

Interview 23: Author interview with an official from the Italian Ministry of Finance, 12 January 2021.

Interview 24: Author interview with an official from the Hungarian Ministry of Finance, 15 January 2021

Interview 25: Author interview with an official from the German Finance Ministry, 19 January 2021.

Interview 26: Author interview with an official from the UK Treasury, 20 January 2021

Interview 27: Author interview with an EU official, 22 January 2021.

Interview 28: Author interview with an official from the Danish Ministry of Finance, 22 January 2021.

Interview 29: Author interview with an official from the French Ministry of Finance, 27 January 2021

Interview 30: Author interview with an official from the Permanent Representation of Denmark to the EU, 29 January 2021

Interview 31: Author interview with an official from the Danish Ministry of Finance, 10 February 2021.

Interview 32: Author interview with an official from the Slovakian Ministry of Finance, 18 February 2021.

Interview 33: Author interview with an official from the Polish Ministry of Finance, 21 March 2022.

Interview 34: Author interview with an official from the Austrian Ministry of Finance, 22 March 2022

Interview 35: Author interview with an official from the Luxembourgian Ministry of Finance, 4 April 2022.

Interview 36: Author interview with an official from the Hungarian Ministry of Finance, 5 April 2022.

Interview 37: Author interview with an official from the Portuguese Ministry of Finance, 5 April 2022.

Interview 38: Author interview with an official from the European Parliament, 22 April 2022.

Interview 39: Author interview with an official from the Council Secretariat, 22 April 2022.