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Embedded Bilateralism, Integration Theory, and European Crisis Politics: France, Germany, and the Birth of the EU Corona Recovery Fund*

ULRICH KROTZ and LUCAS SCHRAMM
European University Institute, Florence

Abstract

What explains the creation of the EU corona recovery fund? Why did the Union agree on a large-scale financial response to the corona pandemic, despite member states' very different immediate reactions to the crisis and their opposing attitudes towards common debt? This article argues for the decisiveness of France and Germany's role within the Union and their tight bilateral political cooperation. The 'embedded bilateralism' approach to European integration and EU politics explains how and why France and Germany, starting from different poles, came together and established joint positions, paving the way for an overall European compromise. Focusing on these two countries' particular leadership role advances the theoretical debate about the actors most crucial for driving European integration, especially in times of severe crisis.

Keywords: corona; EU; France; Germany; embedded bilateralism; recovery fund

Introduction

'An agreement between Germany and France is not an agreement of the 27 [member states], but there can be no agreement among the 27 if there is not already a Franco-German agreement', declared France's President Emmanuel Macron on 18 May 2020 (Elysée, 2020). Next to him, a large-screen video transmission from Berlin showed a nodding German Chancellor Angela Merkel. The two leaders had just presented a joint initiative for what would become the European Union's (EU) most important response to the SARS-CoV-2 (corona) pandemic. The Franco-German plan foresaw an EU recovery fund totalling €500 billion, financed through common debt and allocated in grants to the regions worst hit by the corona crisis. Two months later, the EU's 27 heads of state and government settled on an unprecedented budgetary package largely built upon the Franco-German plan.

The corona pandemic, spreading rapidly across Europe beginning in late February 2020, posed a major threat to the cohesion and future of the EU. Some leaders, including Merkel, even identified it as the 'biggest test' since the EU's foundation (Posaner and Mitschke, 2020), while Macron called on the EU to live up to this 'moment of truth' (Mallet and Khalaf, 2020). Initial assessments of the situation diverged significantly as the crisis began unfolding and swiftly grew in magnitude and severity. In fact, deep divisions separated member states on proper reactions or adequate measures. Clichés long believed to have been overcome were re-emerging. Crucially, France and Germany had also

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initially held sharply different positions and represented opposing camps of member states, making a common European response difficult and seemingly unlikely. What, then, explains not only the Franco-German coup on a recovery fund but also the subsequent larger European compromise?

The EU's 'poly-crisis' (Juncker, 2016; Zeitlin *et al*., 2019) over the past decade has stimulated a fruitful scholarly debate about which theories best account for the changes to the EU polity and the dynamics of the European integration process. Liberal intergovernmentalism might have become the 'baseline integration theory' for explaining the EU's major decisions and innovations (Moravcsik, 2018). Yet, from diverse perspectives, it has also been criticized for its sequential and overly rationalist, if not simplistic framework – as some seem to perceive it – among numerous other aspects: on the one hand, some held, liberal intergovernmentalism underestimates that national preference formation and EU-level bargains actually happen simultaneously and are interacting (Crespy and Schmidt, 2014); on the other hand, others stressed, it tends to overestimate the importance of domestic (economic) interests in determining national preferences, thereby neglecting the role of other factors such as ideas, national publics, and EU-level political bargains (Kleine and Pollack, 2018).

Liberal intergovernmentalism's long-time competitor, neofunctionalism, has experienced severe setbacks as well. Most notably and perhaps most severely – and in contrast to the latter's expectations – supranational actors like the European Commission or the European Parliament have regularly been sidelined during moments of acute crisis management (Haas, 1958; da Conceição-Heldt, 2016). Other, more recent theoretical perspectives, such as postfunctionalism and new intergovernmentalism, might be able to explain some of the changes and recent dynamics but miss others. For example, contrary to the suggestions of postfunctionalism, the supposedly domestic 'constraining dissensus' did not prevent member states from pursuing further integration during the Eurozone crisis (Hooghe and Marks, 2009; Grande and Kriesi, 2016). New intergovernmentalism, finally, expecting deliberation and consensus-seeking among political elites from all member states, has a hard time explaining the prominent role and impact of individual or small subgroups of member states at specific moments, sometimes against the open resistance of others (Bickerton *et al*., 2015; Krotz and Maher, 2016). What is lacking is a theoretical perspective that allows us to scrutinize more closely the precise conditions and mechanisms for when and how to find solutions for pressing problems.

The missing link for explaining the EU's various reforms, non-reforms, actions or responses to crises, or failures to respond, this article contends, is political leadership. Times of acute crisis, in particular, require actors with the necessary resources and political will to provide crucial leadership services (Schoeller, 2019; Webber, 2019). In turn, through their attempts and concrete offers, these actors can stimulate and satisfy the demand for leadership among other concerned actors. In the EU – characterized by multi-level governance structures, great diffusion of power and competences, and a multiplicity of different interests – France and Germany, the Union's largest countries, together have often exercised joint leadership. To fully account for their role and importance, and to grasp and test potential explanatory factors for their joint impact on EU politics, requires an analytical perspective that goes beyond the national and the EU level explicitly to include and focus on the bilateral level.

Accordingly, this article analyses the creation of the massive EU recovery fund, as the Union's most important financial response to the corona crisis, through the lens of Franco-German 'embedded bilateralism' in Europe (Krotz and Schild, 2013, 2018). It shows how France and Germany exercised leadership in several important ways: First, by intensifying their bilateral cooperation, they established common positions on the crisis and issued a joint initiative for EU-wide action. As agenda setters, France and Germany thus provided guidance and orientation to others, accelerated EU decision-making, and gave important political spin and weight to the upcoming 'official' proposal by the European Commission on the EU's corona financial package. Second, representing different larger camps of member states, France and Germany reached out to other governments sounding out common ground and incorporating specific national concerns and demands. Aiming for compromises, they sought to bridge remaining differences via issue-linkages and targeted concessions. Finally, France and Germany, hanging together and 'keeping their lines' during important instances of decision-making, repeatedly rallied the other member states to secure the final deal. At particular moments, this coalition-building practice also included the threat of exclusive or differentiated integration.

The case of the creation of the EU recovery fund is particularly relevant since it is the Union's most important response to the coronavirus – triggering several tough political bargains and attracting much scholarly as well as public attention. The pandemic fundamentally tested and contested the EU's ability to act and react to its manifold and pressing challenges. When it fully hit, the pandemic sharply affected all aspects of private and public life including a downturn of the European economy unprecedented since the war; severe restrictions to civil liberties; and the cohesion and future of the EU's core policy regimes, the single market, the Eurozone, and Schengen free-border travel.

In addition, the EU's management of the pandemic may foreshadow much of the policymaking and (crisis) politics in a post-Brexit Union. As the United Kingdom had *brexited* in January 2020 – immediately before the crisis set in – it was not part of any EU corona emergency measures and schemes. With a large country and potential obstacle to European integration no longer in play, the remaining member states would need to find, reformulate, or consolidate their (new) roles in the post-Brexit Union.

This article offers case-study research and process-tracing in combination with new empirical evidence and data.[1] In addition to tracing the sequence of crucial events ranging from member states' different initial positions on the nature and implications of the corona crisis to the proposal and eventual approval of the EU recovery fund, the analysis documents numerous empirical manifestations of the pivotal role of France and Germany in crisis management and mechanisms accounting for their joint impact on EU policymaking (Bennett and Checkel, 2014). The article relies on 12 semi-structured interviews with French and German policymakers, high-level government representatives, and European Commission officials, along with a broad range of official EU and national government documents.[2] It supplements and triangulates these data with careful reviews of French (*Le Figaro*, *Le Monde*), German (*Frankfurter Allgemeine Zeitung*, *Süddeutsche Zeitung*), and international newspaper reports (*Euractiv*, *Financial Times*, *Politico*).

[1]In methodological terms, France-Germany's role and impact in the creation of the EU recovery fund may be viewed as a 'typical' or 'illustrative' case (Gerring, 2017, pp. 56–60; Levy, 2008, pp. 6–7).
[2]In order to obtain relevant information, the interviewees were guaranteed confidentiality.

I. Franco-German Bilateralism in a Europe of Crises

France and Germany have been at the heart of the European integration process since its outset in the early 1950s, when an initial six Western European countries started cooperating closely in economic and political affairs and gradually pooled their national sovereignty supranationally. Integration, in fact, was also the conclusion of decades-long antagonism and warfare between France and Germany (Krotz, 2014). Thereby, the continentals conceived of European integration as an 'anti-hegemonic construction' (Schild, 2010, p. 1370) seeking to overcome the disastrous power politics of the past and also giving smaller countries a formal say at the negotiating table.

However, political leadership is often necessary to secure the ability to act, or to provide stability to a political system. This holds especially true for crises and moments of turmoil that pose major threats to common policies or the entire polity, trigger widespread confusion and uncertainty, and require swift responses (Webber, 2019, pp. 1–2). In such situations, leaders matter: they give orientation and guidance to other actors, help to overcome collective decision-making problems, and stimulate common action (Schoeller, 2019, pp. 14–17). Due to its particular nature and needs, leadership in the EU often takes the form of shared or joint leadership, with a small number of member states coming together and moving ahead. France and Germany, as the EU's founding and largest member states, have played a pivotal role in the process of European integration and at various occasions decisively shaped Union policies and the EU polity (Krotz and Schild, 2013).

To do so, France and Germany draw from a number of important resources comprising political, diplomatic, financial, institutional, and ideational capacities and clout. For example, despite the various EU enlargement rounds, France and Germany's joint economic resources still account for around 40 per cent of the EU's overall economic output, making their consent a necessary condition for any EU-level decision requiring large amounts of money. Brexit has further increased France and Germany's relative weight and visibility in the EU, turning them (again) into the two remaining large member states (Krotz and Schramm, 2021). What is more, due to their historical legacy, important role in European integration, and prominent part within Europe today, both countries often share a sense of special responsibility for the stability, cohesion, and future of the EU.

Most importantly, France and Germany maintain a set of bilateral political, administrative, and public ties that is extraordinary in international relations, including in the densely institutionalized EU governance system. Their privileged partnership – which rests on bilateral treaties, common institutional frameworks, structured procedures, and symbolic acts and routines (Krotz, 2002; Krotz and Schild, 2013, Chs. 2–4) – is the most advanced 'subsystem' in the EU (de Schoutheete, 1990) and an important political reality in its own right. As one high-level advisor to the French President interviewed for this study put it, a civil servant in one country usually has some concrete 'homologue' (counterpart) in the other country, allowing both administrations to know about, and respect, each other's specific national concerns (Interview 1). Recently, the two countries once again stressed their special responsibility and commitment to European integration in the Meseberg Declaration of June 2018 and the Treaty of Aachen of January 2019, announcing that they would also align more closely and promote European cooperation in politically sensitive fields like taxation and defence (Stark, 2019).

Crucial from both a theoretical and analytical perspective, this embedded bilateralism is located between the national and the EU levels (Webber, 1999, pp. 47–8). Due to their focus on either of the two levels, the dominant theoretical approaches in EU studies tend to overlook, or downplay, the pivotal bilateral relationship between the two countries, their interaction, and their impact on EU policymaking (Cole, 2001, p. 22). Analytically, it requires scholars to pay close attention to what happens between the domestic arena of member states and the intergovernmental bargains between their governments. On the one hand, the two countries' domestic politics, organized domestic interests and pressure groups, economic and societal structures, and longer-term policy approaches and orientations influence Franco-German relations. On the other hand, France and Germany have the potential, and often the explicit purpose, to shape EU politics. The form and substance of Franco-German relations themselves also are the result of the conditions and dynamics within the duo and hence subject to constant development, revision, and adjustment.

While conceptually it includes significant transpolity practices such as massive youth exchanges, town- and city-twinnings, and related activities (Krotz, 2007; Krotz and Schild, 2013, Ch. 4), in some respects the embedded bilateralism approach develops, expands, and specifies important features of the intergovernmentalist tradition featuring prominently in the literatures of both international relations and European integration studies (Hoffmann, 1966; Moravcsik and Schimmelfennig, 2019). At times stressing the importance of large member states in setting the course and shape of European integration, intergovernmentalists highlight the central role of national governments who, acting at the EU level, often enjoy great autonomy vis-à-vis their national constituencies. Moments of crisis are particularly likely to bring large member states and their leaders to the fore. Yet, in sharp contrast to billiard-ball types of reasoning in international relations, embedded bilateralism does not treat states as unitary actors with exogenously given or assumed interests. Instead, it pays close attention to the domestic, regional, and international conditions and political dynamics shaping and re-shaping national governmental positions (Krotz, 2011). And unlike liberal intergovernmentalism (Moravcsik, 1993, 1998), embedded bilateralism does not follow the sequential model of national governments, independently from each other, determining their respective preferences before seeking to enforce them in intergovernmental bargains. Instead, it assumes that a variety of factors shape, in this case, France's and Germany's preferences, including their respective domestic conditions, historical experiences, European- or EU-level dynamics, and, not least, Franco-German relations themselves.

Thus, embedded bilateralism also is clearly distinct from other prominent theoretical perspectives stressing the independent role and influence of supranational actors like the European Commission (neofunctionalism), the constraining effects of domestic politics on national EU-level commitments due to Eurosceptic parties and publics (postfunctionalism), or the dominance of deliberation and consensus-seeking among all member-state governments (new intergovernmentalism). Furthermore, embedded bilateralism expects the relevance and potential impact of the Franco-German node on EU policymaking to be even greater in particular situations: when EU decision-making is less routinized and formalized; when important talks and negotiations are informal; and when decisions are prepared and taken in intergovernmental settings.

Over the past decades, France and Germany have on various occasions made use of different ways and instruments to provide leadership in and for the EU (Krotz and

Schild, 2013, pp. 20–2). First, they may set the political agenda by submitting joint proposals in which they define a pressing problem, formulate shared objectives, and show the way for common political action. Second, they may strive for compromises to bridge differences – both between themselves and between larger groups of other member states – in order to enable broad European solutions. And third, they might pursue coalition-building by moving ahead with a subgroup of equally determined member states, if necessary, against the opposition and via the exclusion of reluctant actors. Combinations of these instruments are possible at different phases of the process. Franco-German leadership presupposes the presence of some observable empirical manifestations like an increase in bilateral activities, jointly defined positions, a prominent part in EU-level negotiations, and the realization of central Franco-German suggestions.

To provide successful leadership and make a joint impact on the EU level, France and Germany must first coordinate or align their own positions. This can happen either by 'convergence' with French and German preferences, starting from opposite pools, coming closer to each other and meeting somewhere halfway; or by 'exchange', where complementary French and German preferences give them the opportunity for a mutual interchange of concessions (Krotz and Schild, 2013, pp. 39–42). Furthermore, the concept of 'compromise by proxy' (Koopmann, 2004, p. 13) suggests that if bilateral differences at the beginning of a bargaining process also reflect broader divisions between other member states, France and Germany, through a bilateral exchange of concessions, can build bridges between these opposing camps, making their bilateral compromises acceptable to others as well. As the following empirical analysis reveals, the corona crisis provides evidence for both the convergence and the exchange perspective.

II. Divergent Initial Positions

When the novel Covid-19 virus began spreading rapidly across Europe beginning in late February 2020, member states responded with primarily national measures for its containment. Health policy, after all, is a national competence, with the EU essentially limited to issuing recommendations and prompting national coordination. Austria, on 11 March, was the first to close its border with Italy, containing the EU's earliest corona hotspot. In the following weeks, 16 other member states followed and closed their borders, causing severe restrictions to economic supply chains in the EU's single market and a *de facto* suspension of the Schengen free-travel area. France and Germany's decision to ban the export of medical equipment to other member states triggered a wave of outrage and the first political tensions (Braw, 2020).

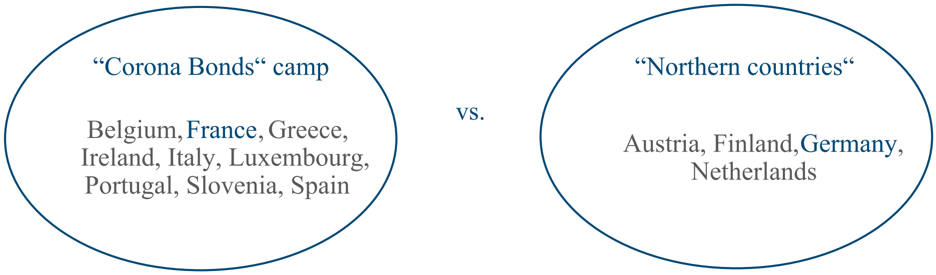
The pandemic concerned all member states and led to severe restrictions on individual liberties and outdoor activity, economic slowdown, and rising unemployment everywhere. However, it soon became clear that the immediate impact and further consequences of the virus would be uneven. In terms of both infection and death numbers, Covid-19 hit the Southern EU countries of Italy and Spain particularly hard. What is more, having already suffered from weak economic performance and very high debt ratios before the pandemic, these countries now had little fiscal buffer to cushion the economic damages. Northern EU countries, by contrast, tended to have more fiscal means available to support their businesses and citizens and, later, to start economic recovery initiatives. Besides its overall individual and social impact, the pandemic thus threatened to sharpen and deepen the economic differences within the EU, not least inside the Economic and Monetary Union (Eurozone).

At their European Council meeting on 17 March – the first since the outbreak of the pandemic in Europe – the EU's 27 heads of state and government declared the unprecedented nature of the corona crisis and called for a common European response and economic support for the hardest hit regions. However, leaders quarrelled over the terms and scope of this support: While a Southern camp of member states around Italy advocated common debt in the form of 'corona bonds', Northern EU countries strictly opposed joint borrowing and liability. The German government at this point even rejected discussions of loans from the European Stability Mechanism (ESM), the Eurozone's permanent bailout mechanism, as 'premature' (Reuters, 2020).

On 25 March, nine Eurozone member states including Italy and Spain but also France addressed a letter to European Council President Charles Michel calling for the introduction of 'corona bonds' (Michalopoulos, 2020). At their meeting the following day, the heads of state and government again clashed over the adequate financial measures to be taken. While countries such as France advocated an ambitious European response involving the creation of new tools and greater fiscal risk-sharing, Germany, together with Austria, the Netherlands, and other Northern countries, favoured a more limited approach and now suggested the use of ESM loans. With discussions in a deadlock, leaders instructed the Eurogroup, the gathering of finance ministers from Eurozone countries, to report back to them in two weeks with proposals for a joint response. Figure 1 represents the opposing and seemingly irreconcilable coalitions of EU member states that had evolved by the end of March 2020. Those member states not listed – including Denmark and Sweden as well as the Central and Eastern European countries – had not yet or only weakly positioned themselves at the time.

Member states' stances at the beginning of the corona crisis very much reflected the extent to which each of them was affected by the pandemic and prepared, or believed to be prepared, to cope with its consequences. Some felt reminded of the constellation of actors witnessed during the financial and subsequent Eurozone crisis a decade ago, when Southern countries advocated more fiscal integration and risk-sharing while Northern countries rejected common debt and instead introduced loans (Matthijs and McNamara, 2015). Differing national positions on the crisis reached an acrimonious peak when the Dutch finance minister Wopke Hoekstra called for EU institutions to investigate

Figure 1: Conflicting coalitions of European Union member states, late March 2020. [Colour figure can be viewed at wileyonlinelibrary.com]



why some member states had not built enough 'financial buffers' during the past years to now be able to better tackle the pandemic, whereupon the Portuguese prime minister António Costa branded such comments 'repugnant' (Von der Burchard *et al*., 2020).

III. Setting the Stage

With France and Germany holding conflicting positions and appearing to represent opposing camps of member states, there seemed little room for Franco-German leadership and a European financial response to the pandemic. Behind the scenes, however, policymakers and civil servants from both countries had started intensifying bilateral consultations and coordination to overcome differences and find common ground. A first result became visible on 9 April, when Eurozone finance ministers agreed on an initial corona support package consisting of €540 billion in loans and guarantees for national short-time working programs, companies, and health-related state expenditures (Eurogroup, 2020). According to both insiders and observers, the close cooperation and mediating role of the French and German finance ministers, Le Maire and Scholz, were crucial to the success of this package. Ever since the Franco-German declaration of Meseberg from June 2018 and their agreement on a Eurozone budget and the deepening of EU banking union, both finance ministers, as well as their principal advisors, had maintained a close and trustful working relationship committed to making EU fiscal governance more resilient (Interview 5; see also Howarth and Schild, 2021).

Concurring that fast and common action at the EU level in view of the escalating crisis was needed, French-German joint efforts proved crucial in overcoming the resistance of some member states to different aspects of the package, particularly that of Italy and the Netherlands. While the former had opposed ESM loans due to their poor reputation in domestic politics (as a legacy of the Eurozone crisis) and instead pushed for corona bonds, the latter continued to oppose EU debt and had made its approval of loans dependent on national economic reform programs. The Eurogroup ministers eventually endorsed the disbursement of ESM loans but attached only loose conditions to them. In addition, they requested the European Commission to swiftly present a proposal for a future 'recovery fund' (Eurogroup, 2020). France and Germany, aware of their respective 'red lines' (Interview 7), had taken each other's concerns into account when brokering the EU-level agreement. France, for instance, despite its initial preferences, did not continue to insist on the creation of corona bonds, knowing that they were a taboo for the German government. As the *Financial Times* put it on 13 April, the 'coronavirus crisis revives Franco-German relations' (Chazan *et al*., 2020).

The European Commission, officially called upon by the heads of state and government in their conclusions from 23 April (European Council, 2020a) to promptly present options for the EU's recovery from the pandemic, saw the chance to link the discussions about a recovery fund with a renewed proposal for the EU's next long-term budget, the Multiannual Financial Framework (MFF), which had to be agreed upon before the end of the year. Previous negotiations on the next MFF had failed in February 2020 due to member states clashing on its overall size and individual national payments. Then, Germany and others had advocated cuts to the EU budget and individual contributions not to exceed 1 per cent of a country's yearly economic output. Speaking to the European Parliament on 16 April, Commission President Ursula von der Leyen called for turning the MFF into 'the mothership of our recovery' (Von der Leyen, 2020). According to a German civil servant, it was a 'lucky coincidence' that discussions about a recovery fund and renewed negotiations on the EU's next long-term budget happened to overlap (Interview 4).

In parallel, reflections and discussions in and among national capitals intensified on the EU's response to the crisis. On 1 April, Le Maire had presented a much-noticed French plan for an EU recovery fund, calling for an 'exceptional and temporary' measure limited to five to ten years as a stand-alone fund outside the EU budget, and insisting on the issuance of common debt and joint liability by all member states (Mallet, 2020). The notion of 'joint liability' met the expected opposition from Germany and other Northern EU countries, traditionally reluctant when it comes to pooling fiscal risk on the EU level, both for legal and political reasons (Interviews 4, 12): On the one hand, they hold that joint liability requires changes to the EU treaties and hence means opening the black box of lengthy and unpredictable treaty amendment rounds and parliamentary ratifications. On the other, they fear ultimate liability for the entire debt in case of individual countries defaulting. Nevertheless, President Macron and other national leaders promoted and took on the Le Maire plan. Warning of a collapse of the Eurozone and the EU as a political project as a result of non-action during this 'moment of truth', Macron stressed the need to set up a fund that 'could issue common debt with a common guarantee' (Mallet and Khalaf, 2020).

German policymakers, both publicly and behind closed doors, stressed from early April the extraordinary nature of the corona crisis being no one's fault, posing great danger to the EU's cohesion, and requiring a common European response, also in financial terms. This signalled a major change in the perception and rhetoric over the preceding month. Merkel now repetitively warned that the pandemic was the 'biggest test' in the EU's history, risking an uneven economic recovery, distorting the single market, and undermining people's trust in the EU (Posaner and Mitschke, 2020). Citing the immense economic damages that the pandemic was causing for the entire EU and the interdependent and export-oriented German economy, on 20 April she declared for the first time her support for issuing common bonds, which, however, had to happen within the limits of the current EU treaties and the regular EU budget. Speaking to the Bundestag three days later, she told lawmakers that Germany would have to make significantly higher contributions to a next, larger MFF. On that occasion, she also mentioned the option for a 'European recovery program' for the next couple of years (Merkel, 2020).

In late March and early April, thus, French and German attitudes on the pandemic, its implications, and the kind of EU response it would require had begun to shift. While the French government backed away (publicly) from the call for corona bonds facing strong German reservations, the German government explored options for EU bonds, realizing that they might be the only way to include France and others in a common response and to cope with the crisis' magnitude. The interviews reveal that in both countries, the Eurogroup's package was considered only a first urgent measure largely relying on existing instruments. Further and more comprehensive steps would be needed, the size and financing details of which were still subject to political controversy and bargaining (Interviews 1, 4, 9).

IV. Moving Ahead

Despite their call for the Commission to develop options for an EU recovery fund, the heads of state and government also made clear that any further negotiations, let alone decisions, on such a fund would be 'subject to guidance from leaders' (European Council, 2020a). Member states were thus determined to remain in the driver's seat when it came to the scope, structure, and any further details of a possible second EU corona support package. What had become clear at this point was that corona bonds were not an option due to the ongoing resistance towards joint liability by several member states, including Germany. From the original group of nine countries that had written to the European Council President, only Italy was still openly advocating the creation of corona bonds. In addition, the heads of state and government in their conclusions from 23 April had stressed that a recovery instrument should be closely tied to the EU's regular long-term budget.

Initially, the Commission had aimed at presenting its proposal for a recovery fund in combination with the new MFF in late April. Due to ongoing differences among member states, notably about the size and financing of the fund, however, the presentation had to be postponed several times (Interviews 6, 8). In early May, the French government in a working document evaluated details of a recovery fund comprising €1 trillion (Hubaut, 2020). In contrast to previous proposals, France now advocated anchoring the fund within the regular EU budget, which was in line with Germany and others who had repeatedly rejected the notion of a stand-alone budgetary instrument outside the MFF. To finance the fund, France further advocated entrusting the Commission with issuing bonds. These, member states would pay back over 60 years according to their share of the EU budget thus limiting the liability to individual countries – another traditional German concern. A few days later, in a note to the Commission along with four other Southern member states, France sought to give further guidance to the discussions and accelerate decision-making, arguing that a recovery fund 'must provide a very substantial part in grants' and that it 'should be mainly targeted towards the sectors and geographical parts of Europe most affected' (Eder, 2020). In mid-May, the possible nature of an EU recovery fund had thus become visible, with French and German positions gradually aligning over the preceding weeks.

On 18 May, Macron and Merkel presented their joint initiative for the EU's financial response to the corona crisis (Elysée, 2020). Above all, the plan proposed a recovery fund worth €500 billion, which should be linked to the next MFF and provide grants to the regions and economic sectors hardest hit by the pandemic. To finance the fund, the Commission should be given the extraordinary right to raise money in the financial markets backed by member-state guarantees. It was supposed to be a one-off instrument and temporally limited to the fight against the pandemic. The final text was a compromise, in that both countries had considered each other's major concerns and modified previously held positions: For its part, Germany accepted the possibility of large-scale EU debt via Commission borrowing and the allocation of the money in the form of grants rather than loans. France, in turn, subscribed to a recovery fund as a one-time instrument closely tied to the regular EU budget, with all the supranational oversight and economic conditions attached.

Intensive bilateral consultations between Berlin and Paris, both at the working and the highest political levels, had paved the way for the Franco-German initiative (see also

Seidendorf, 2020). According to several sources closely involved in the preparations, Macron and Merkel had had at least two direct exchanges per week from early April on. In addition, they had reached out to other national governments and the European Commission. Notably, Macron, Merkel, and von der Leyen directly discussed the options for a recovery fund numerous times (Interviews 1, 8). In the days prior to the presentation of the plan, the Chancellery and Elysée had sent back and forth the draft to make final adjustments (Interview 9). Other leaders like the Dutch Prime Minister Mark Rutte, despite their opposition to parts of the proposal, largely remained silent on the day of its presentation, indicating that they knew of the upcoming Franco-German initiative and that they agreed in principle on the necessity of large-scale common European financial efforts (Herszenhorn *et al.*, 2020).

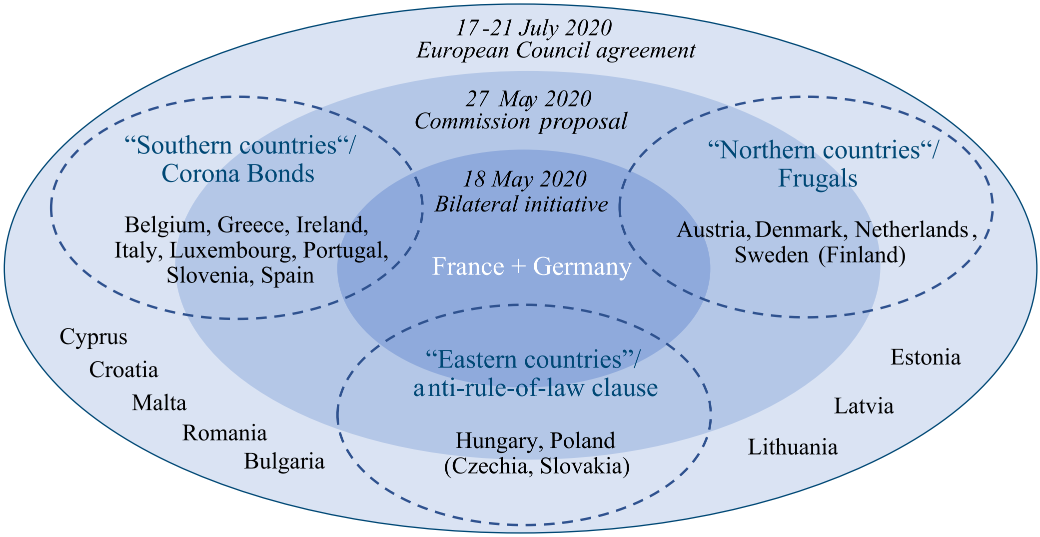
Importantly, the Macron-Merkel plan did not specify how exactly to raise the money, according to which criteria to distribute it, and when and how the EU would repay the debt. France-Germany thus left the technical and legal details to the European Commission. On 27 May, only nine days after the Franco-German advance, the Commission presented its long-awaited proposal for a recovery fund – termed 'Next Generation EU' – together with a renewed proposal for the next MFF (European Commission, 2020). The proposal on the recovery fund largely built on the Franco-German plan. To the €500 billion in grants, the Commission added another €250 billion in the form of loans. While being instructed by member states to come up with a proposal for a recovery fund, the Commission did so only in the week following the advance by Macron and Merkel. With their prior initiative, France and Germany thus had given much-needed political weight and spin to the upcoming Commission proposal and the subsequent negotiations with the other 25 member states.

V. Forging Compromise

The volume and design of the Franco-German plan met the – expected – resistance from other member states. The day following the Macron-Merkel proposal, the Austrian government declared that the EU should only offer loans, not grants. Denmark, Sweden, the Netherlands, and later Finland joined Austria. In a joint mid-June statement, the 'frugals' advocated a relatively small 'emergency fund' financed through a re-prioritization of the EU budget and only issuing loans (Lofven, 2020). They further called for strong conditions on the disbursement of corona-related EU expenditures and for maintaining the reductions on their individual payments to the next MFF, the so-called national rebates.

Ahead of the next European Council meeting, scheduled for 19 June, various member-state coalitions took shape (see Figure 2). At odds with the 'frugals', a looser alliance of Southern, former 'corona bonds' countries around Italy and Spain persisted. Referring to the high economic damage they were facing, they urged swift action and claimed the largest share of the money coming from the corona fund. Finally, the Central and Eastern member states, foremost Hungary and Poland, were eager to keep their large revenues from the EU's structural and cohesion funds for which the MFF provided. Most notably, these two countries threatened to veto the whole financial package if pay-outs were linked to rule-of-law criteria.

Figure 2: Coalitional and political dynamics, May–July 2020. [Colour figure can be viewed at wileyonlinelibrary.com]



As expected, due to persisting national differences, no agreement was yet possible on 19 June, with the next European Council set for mid-July. France and Germany were determined to reach an agreement at that meeting. In the run-up, Macron and Merkel met both bilaterally and individually with other national leaders deemed most essential for an EU-level compromise. Coming together at Schloss Meseberg on 29 June, both demonstrated their unity in the upcoming negotiations, with the French President being the first head of state coming to Germany for a face-to-face meeting since the outbreak of the pandemic (Bundesregierung, 2020).

From July on, with Germany now holding the rotating EU Council Presidency, Merkel met the Presidents of the European Council, the European Commission, and the European Parliament, respectively, for direct talks on aspects of the financial package. She further welcomed to Berlin the Dutch, Italian, and Spanish prime ministers, stressing the importance of finding a European agreement before the summer break. In parallel, Macron held a series of bilateral meetings with other national leaders in Paris to prepare the decisive European Council. With an agreement – in most instances this meant unanimity – needed on the MFF and the recovery fund as well as on related issues like the rule-of-law and national rebates, preparations in this case were particularly complex. The principal aim of the German government, seconded by France, during July and the following months was to get the proposed recovery fund approved and implemented, if necessary, with some targeted adjustments on individual aspects of the overall package (Chazan, 2020; Kukies, 2020).

At their meeting from 17 to 21 July – the second-longest in the Union's history – leaders agreed on a financial package comprising the EU's next seven-year budget, worth €1.074 billion, along with a €750 billion corona recovery fund. To finance the recovery fund, they instructed the Commission to raise the money in the financial markets

(European Council, 2020b). Against the original Commission proposal, backed by France and Germany, the recovery fund now combined €390 billion in grants with a further €360 billion in loans. And despite the introduction of a conditionality regime to protect the EU budget, the plan significantly watered down previous formulations on a more direct linkage to the rule of law, stating that the European Council 'will revert rapidly to the matter'. In view of the complex constellation of different national interests and the need for unanimity, both the 'frugals' and Hungary and Poland thus managed to obtain some concessions. Overall, however, as Macron and Merkel stressed in their joint press conference after the European Council meeting, the size of the package – notably that of the recovery fund – remained.

Further, contrary to the previous positions of some national governments, member states eventually subscribed to the notion of Commission borrowing, hence EU debt, and the allocation of large parts of the money in the form of grants – 'real budgetary transfers', in Macron's words – to the regions most affected by the pandemic (Bundeskanzlerin, 2020). With their close bilateral preparations, and especially their joint initiative from 18 May, France and Germany had laid the foundation for this broader European agreement, showing the way out of intergovernmental deadlock at a moment of deep crisis in the EU. During the final negotiations in July, two close observers note, Macron and Merkel kept and defended bilateral Franco-German positions (Gutschker and Wiegel, 2020). On a number of occasions, the two came together with the European Council President, the Commission President, and individual national leaders for small group talks to sound out compromises on several aspects. In the end, the various coalitions of member states gained some concessions, but none was willing – or able – to substantially change the financial package that Franco-German leadership had created and promoted. Figure 2 summarizes the coalitional and political dynamics following the Franco-German initiative from 18 May, leading to the European Council agreement on 21 July 2020.

Conclusions

France and Germany, and their embedded bilateralism, proved decisive in Europe's response to the corona crisis. In a period of dramatic threat to the EU's very functioning and cohesion, France-Germany provided much-needed direction and stability, that is, leadership. With immense economic, social, and political damages at stake, both countries intensified their bilateral cooperation, established common positions, issued a joint blueprint, and then forged a European compromise at large. France and Germany, acting together, once again documented and underscored their pivotal role in EU policymaking, particularly in times of crisis. Without France and Germany, their joint role and impact in crisis assessment and management, their bilateral coordination and preparation, and their embedded bilateralism within a heterogenous EU of many different interests and actors, neither the blueprint for the EU's financial response to the corona crisis, the balancing out of different national interests and positions, or the broader European compromise on the EU recovery fund would have been possible.

Theoretically and conceptually, this article documents the usefulness and value of the embedded bilateralism approach to capture and explain the particular dynamics of Franco-German bilateral relations and their joint impact on EU policymaking. Contrary to the theoretical perspectives focusing exclusively on the EU level, embedded bilateralism stresses the important role of France-Germany and their potential for pre-structuring and shaping European bargains and outcomes. Unlike liberal intergovernmentalism, however, it emphasizes how national preference formation and intergovernmental bargaining – also and especially on the bilateral level – happen simultaneously rather than successively, and how they can influence each other. And unlike new intergovernmentalism, embedded bilateralism captures the importance of intergovernmental coordination between the EU's two largest and most influential member states and their joint impact prior to, as well as during, broader EU-level bargains.

Furthermore, embedded bilateralism shows that France and Germany, beyond their respective national preferences, often also develop common or joint preferences, themselves the result of specific conditions coming from the national, EU as well as bilateral level. In the case of corona, both countries developed the joint preference to provide political stability, give guidance to others, and enable economic recovery across the EU. France and Germany, coming from different positions, represented opposing larger camps of member states. Yet, developing joint proposals and deviating from previously held individual positions, they found common ground. We thus find evidence for both 'convergence' and 'exchange' – that is, French and German preferences gradually aligning thanks to an overall shared objective, as well as France and Germany both giving in on selected issues to gain concessions on others.

Developing the blueprint for the EU's essential response to the corona crisis and enabling an EU-level compromise on the recovery fund, France and Germany provided examples for both agenda-setting and compromise-building. When negotiations in December 2020 again reached deadlock with the financial package on the brink of collapse due to a veto by Hungary and Poland on the implementation of the rule-of-law clause (Fleming and Khan, 2020), France and Germany signalled their willingness, as an ultimate means, to move ahead with 25 member states and establish the recovery fund on an intergovernmental basis. Following intensified coordination in the first two weeks of December including the European Commission, we thus find further evidence for France and Germany's willingness to pursue coalition-building and forms of differentiated integration with other like-minded member states.

Corona crisis politics illustrates and underscores that there is still no viable alternative to Franco-German leadership in the EU. At the same time, we also see clear limits to the role of France and Germany and their joint leadership potential in the EU. Despite their historic bilateral and broader European agreement on the recovery fund, there remain deep divisions among member states on the future of EU fiscal politics, not least between the two pivotal countries themselves. While French policymakers have already called to turn the recovery fund into a permanent mechanism solidifying the possibility of EU indebtedness, the German government continues to sharply reject common debt and direct financial transfers, highlighting the exceptional nature of the corona crisis and the recovery fund. This illustrates and reflects the two countries' different general economic orientations and approaches to EU fiscal policy as well as the – only temporary – convergence of their positions in light of an escalating crisis requiring common bilateral and broader European action.

Moreover, France and Germany have exercised little joint leadership in other recent EU crises. As notably the case of asylum and migration has shown, common policies and real advances in integration are extremely unlikely if France and Germany themselves can barely agree on the way forward. Finally, going beyond moments of existential crisis, we see important differences between the two countries on longer-term EU policies and objectives, for example in the fields of foreign affairs, security, and defence. Especially in the absence of the UK, the foreseeable future might thus bring a functioning (or half-way functioning) embedded bilateralism promoting further stabilization and occasional advances in the EU, on the one hand, or stalling and stagnation on the other with France and Germany unwilling, or unable, to pursue common policies. Embedded bilateralism as a theoretical and conceptual approach may explain both types of outcome.

Correspondence:
Lucas Schramm
European University Institute,
Via della Badia dei Roccettini,
9, 50014 San Domenico di Fiesole, Italy.
email: lucas.schramm@eui.eu

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Interviews

Interview 1 Elysée, senior official, via Microsoft Teams, 19 November 2020.

Interview 4 German Finance Ministry, official, 2, via Microsoft Teams, 26 November 2020.

Interview 5 German Finance Ministry, senior official, by phone, 4 December 2020.
Interview 6 European Commission, official, via Zoom, 4 December 2020.
Interview 7 French Finance Ministry, senior official, by phone, 9 December 2020.
Interview 8 European Commission, senior official, by phone, 8 January 2020.
Interview 9 Chancellery, senior official, by phone, 8 January 2020.
Interview 12 German Finance Ministry, senior official, via Microsoft Teams, 15 January 2020.