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Postfunctionalism reversed: solidarity and rebordering during the COVID-19 pandemic

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ABSTRACT
Postfunctionalism posits a tradeoff between the functional scale of governance and the territorial scope of community: functional scale is large and transnational for efficiency reasons; community is small-scale and (sub-)national for reasons of social trust and collective identification. COVID-19 has turned this tradeoff upside down: it has shrunk functional scale to the (sub-)national level in the name of security, while lifting expectations of community to the grand transnational scale in the name of solidarity. This reversal of scales has resulted in a rapid rebordering of the Single Market and the Schengen area on the one hand, and a significant debordering of fiscal risk and burden sharing on the other. We reconstruct the evolution of this double-movement from January to August 2020, contrast it to historical trends in the scale-community tradeoff of European integration, and discuss implications for postfunctionalist theory.

KEYWORDS Borders; COVID-19 pandemic; European Union; postfunctionalism; solidarity

Scale versus community

Postfunctionalism posits a basic tradeoff between the functional scale of governance and the territorial scope of community (Hooghe et al., 2019; Hooghe & Marks, 2009). Functional scale tends to be large and transnational for efficiency reasons; the territorial scope of community tends to be small and (sub-)national because solidarity, trust and collective identity only develop in bounded groups.

The postfunctionalist tradeoff has profoundly shaped the trajectory of European integration. The EU has tapped gains from functional scale through the Single Market, Monetary Union and the Schengen area. Yet, it left the essential means of democratic self-government and the most visible material expressions of community to the member states: coercive power, fiscal capacity, administrative infrastructure. Institutionally, the post-functionalist tradeoff resulted in a highly integrated market without a state

(Scharpf, 1999), a federal union without core state powers of its own (Fabbrini, 2015; Genschel & Jachtenfuchs, 2014). Functionally and politically, it made the EU prone to crisis and contestation. The growing tension between expanding functional scale and the largely stationary scope of political community brought identity-politics, Euroscepticism and policy failure in its wake (Hooghe & Marks, 2009, 2019). The *polycrisis* (Zeitlin et al., 2019) of the past decade fits this narrative well.

The Corona-crisis has turned the postfunctionalist tradeoff upside down. It *contracted functional scale* to the (sub-)national level as security replaced efficiency as the top functional concern. The result was a rebordering stampede in mid-March 2020 with member states unilaterally closing national borders and restricting domestic movement to limit contagion. At the same time, it *expanded expectations of community* to the transnational level as empathy with the worst affected member states led to vocal calls for more EU solidarity and leadership. The result was an outburst of activities to expand European risk and burden sharing, and the most sustained push towards a debordering of fiscal solidarity in recent EU history.

The purpose of this paper is twofold. Empirically, we reconstruct the EU's double movement towards the rebordering of the market and the debordering of fiscal solidarity during the Corona-crisis, and contrast it to the ups and downs of market borders and fiscal borders since the 1950s. Theoretically, we argue that the direction and slope of the postfunctionalist tradeoff is issue-dependent. Contingent factors that highlight security concerns may trigger a contraction of functional scale while contingent factors that prompt empathy with aliens can induce an expansion of community and solidarity. The tension between boundless functional and bounded political scale is not a structural given, as the postfunctionalist literature may imply, but a specific feature of the neoliberal era from the 1980s to the 2010s.

The following section focuses on market borders to the free movement of goods, services, capital and people. It discusses the relationship between security, efficiency and functional scale and contrasts the massive rebordering of the Single Market during the Corona-crisis to prior trends towards debordering. The next section focuses on borders to EU-wide fiscal sharing. It discusses the relation between identity, empathy and community and contrasts the massive debordering of fiscal risk and burden sharing during the Corona-crisis to prior trends of reinforcing fiscal borders between the member states. The conclusion considers implications for postfunctionalist theory.

Rebordering the market

Efficiency, security, and functional scale

Postfunctionalism conceives of functional scale primarily in terms of efficiency. Integration starts with 'a mismatch between efficiency and the

existing structure of authority' (Hooghe & Marks, 2009, p. 2). This creates demand for an upward shift of authority to a higher level of governance so as to realize the efficiencies of large scale. The demand for efficient scale then triggers the integration of subnational units in the nation state, or of nation states in regional or global organizations (Hooghe et al., 2019: ch. 2). '[I]ntegration is a response to the collective benefits of extending the territorial scope of jurisdictions' (Hooghe & Marks, 2009, p. 3).

This extension of territorial scope requires the (partial) elimination of internal borders in order to create an integrated political and economic space that can be governed as one: functional 'scale stands for the benefits of debordering' (Schimmelfennig, 2021). Yet, while debordering allows for long-run efficiency, it often puts short-run survival at risk. International trade and investment increase global productivity over the long-run but can also usher in abrupt supply chain disruptions, sudden stops in capital flows, and hostile takeovers of national industry. Travelers and migrants bring along cash, ideas and new cooking recipes but also crime, espionage, conflict – and disease.

From a security perspective, therefore, functional scale is bounded. Security stands for the benefits of rebordering: borders keep foreign enemies away and prevent scarce domestic resources from leaving. Realists have long argued that 'considerations of security subordinate economic gain to political interest' (Waltz, 1979, p. 107): If security threats are existential, governments refuse integration and keep borders up in order to reduce their vulnerability to outside actors and events. This strategy foregoes benefits of cooperation, specialization and joint problem-solving. Efficiency is sacrificed to short-term survival: Better poor and alive than rich and at risk. While realists have thought about security mostly in terms of military threats, a pandemic or economic disaster can also be perilous.

The tradeoff between efficiency and security has shaped European market integration since the 1950s. Security was a main justification of the Common Agricultural Policy (CAP) in the 1960s. With the food shortages of World War II still fresh in mind, food security was a primary concern of national governments (Skogstad, 1998, p. 469). External borders were closed to cheap imports to shield European producers from external competition. Internal border were lowered, and internal price levels raised to incentivize European production. In the language of this special issue, the result was 'effective integration' (Schimmelfennig, 2021: Table 2): inefficient but secure.

When the memories of collective hunger were overtaken by irritation about milk lakes, butter mountains, and escalating costs in the 1970s, the security frame lost urgency and efficiency arguments gained salience. During the relaunch of market integration in the 1980s, the CAP was the bad example to avoid rather than the role model (Rieger, 2005). The Single Market followed the efficiency script of 'dilutive integration' (Schimmelfennig,

2021: Table 2): internal and external debordering to allow goods, services, people and capital to move freely; competition, innovation, and growth rather than closure and self-sufficiency. The end of the Cold War seemed to take care of all security threats. Surrounded by friends, protective frontiers appeared as relicts of the past. Efficiency trumped security, and functional scale became synonymous with very large-scale.

Fears of terrorism and the refugee crisis challenged the efficiency-based justification of dilutive integration in the 2000s and 2010s. The Corona-crisis swept it away completely in the spring of 2020. Security re-emerged as the dominant functional concern, resulting in a dramatic rebordering of the Single Market and the Schengen area both internally and externally. EU institutions lost regulatory control over free-movement and have been unable so far to win it back. The process unfolded in three steps.

January to March 2020: efficiency in retreat

On 31 December 2019, China notified the World Health Organization (WHO) of a string of respiratory infections in the city of Wuhan. On 11 January 2020, it reported the first death from the new virus. EU health experts reacted quickly. On 17 January, the European Center for Disease Prevention and Control published a first assessment considering the likelihood of the Coronavirus reaching the EU 'low',[1] but raised it to 'moderate'[2] a few days later. The EU's health security committee of national experts met on 22 January. The European Commission promised 'to take any actions as necessary' (Euractiv, 24 January 2020) to support, coordinate or supplement national policy.

China locked down Wuhan on 23 January. Italy and France were particularly concerned because they had airports with direct flights to the city. Italy introduced special health checks at Rome airport on 20 January (DPA International Service, 20 January 2020) and suspended flights to China completely on 30 January (Agence Europe, 11 February 2020). France was more cautious, highlighted the efficiency costs of entry restrictions, and warned that unilateral closures of external borders would remain ineffective given open internal borders within Schengen (Reuters, 26 January 2020). While France reported its first COVID-19 cases on the 24th, Germany on the 27th and Italy on the 30th of January,[3] a majority at the extraordinary Health Council of 13 February still opposed an entry ban for Chinese travelers and insisted on maintaining 'free movement within the EU' (Council Doc. 6038/20, p. 6). Long-term efficiency gains still prevailed over the short-term security risk of importing infections.

Security risks associated with Chinese medical imports were taken more seriously. China dominated the world market in personal protective equipment (masks, face shields, gloves, garments, goggles) and was a key supplier of other relevant items including ventilators and medicines. The health

ministers noted Europe's dependency on external supplies with concern (Euronews, 13 February 2020), and instructed the Commission to collect information on stocks. The findings were worrying. Some member states refused to share information for security reasons, others did not know their stocks (Euractiv, 27 February 2020) or reported low stocks. Belgium's strategic reserve had not been replenished since 2009 (Euractiv, 24 March 2020); the French reserves had been cut drastically in 2013 after a public outcry over the cost of stockpiling (Reuters, 31 March 2020).

March 2020: security first

Italy led Europe's turn to security over efficiency. While Germany and France had only 57 confirmed cases by the end of February, infection rates in Italy had increased strongly (888 cases) and were highly concentrated in the country's North. On 21 February, Italian authorities sealed off the hard-hit province of Lodi, closed schools and canceled large public events including football games and the carnival in Venice. People began stockpiling food. Pharmacies ran out of face masks and hand sanitizers (Reuters, 25 February 2020). By the end of March, case numbers had exploded to 102.000. Other countries were catching up quickly, including France (44.000), Germany (62.000) and Spain (85.000).[4]

Fear of the virus spread even more quickly. On 23 February, Austrian border patrols blocked a train from Italy because travelers showed suspicious symptoms. A bus from Milan was stopped in Lyon because the driver had a cough. Marine Le Pen called for sealing off Italy (Corriere della Sera, 25 February 2020). Yet, the Italian government was keen to keep borders open (Euractiv, 26 February 2020). The Commission saw 'no direct scenario for Schengen's suspension' (Euractiv, 25 February 2020).

On 26 February, the Italian government issued an emergency request for protective personal equipment to the European Commission. Lacking any stocks of its own, the Commission forwarded the request to the other member states. No government reacted because they were all busy replenishing their own supplies. On 3 March, the French government requisitioned all private stocks of face masks. On the 4th and 5th, the Czech Republic, Germany and Poland banned the export of masks and other items.[5] Within three days, the four most important European producers of personal protective equipment (Regulation 2020/402, 5th recital) had effectively cut off the rest of Europe from essential supplies, prioritizing national security to an efficient, need-based allocation in the Single Market. Despite angry reactions at the Health Council of 6 March (Agence Europe, 7 March 2020), the export bans were soon copied by others (see Figure 1). Governments started confiscating each other's supplies on trucks, airfields, ferry boats and warehouses (Welt, 24 March 2020; Financial Times, 3 April 2020). The efficiency costs of

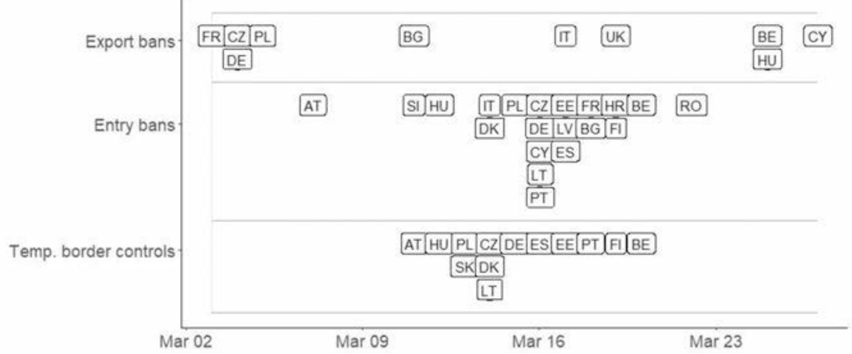

Figure 1. The rebordering stampede, March 2020. Source: own compilation.

closure were obvious and led to public disaffection, especially in Italy, the hardest hit member state. 'I am ashamed … of this ineffective and absent Europe' declared MEP Silvia Sardone (Identity and Democracy) (Agence Europe 11 March 2020).

The disruption of intra-EU supply chains fueled a competition for extra-EU imports, for instance, by greeting Chinese freight planes with pomp and circumstance on the airfield (Euractiv, 26 March 2020). Domestic industries were prodded to fill supply gaps. In a quixotic quest for self-sufficiency, luxury brands started producing surgical gowns, automotive companies tinkered with ventilators, and pharmaceutical companies became inalienable national treasures. The German government spent a weekend defending Curevac, a producer of vaccines, from an American takeover bid which, as it turned out later, had never materialized (Welt am Sonntag, 15 March 2020; Financial Times, 26 March 2020).

The security logic quickly spread from commerce to people. After the local lockdown in Lombardy had failed to contain the virus, the Italian government declared a nation-wide school closure on 5 March and a nation-wide lockdown on the 9th. Austria closed its Italian border on 7 March. The other member states were still vacillating. On the 10th, Angela Merkel still called border closures 'not adequate means' (Euractiv, 11 March 2020). Yet, after the WHO had declared Europe the new 'epicenter' of the pandemic and the US government had shut its borders to travelers from the Schengen area on 13 March, the dam broke. Over the weekend (14–15 March) governments rushed towards school closures, lockdowns and border closures to reduce contagion and prove their protective vigor and competence (see Figure 1). By late March, 21 EU member states had imposed formal entry bans for non-nationals and non-residents. In others, like Malta, entry was not formally prohibited but practically impossible due to travel restrictions (Carrera & Luk, 2020, p. 63).

By the end of March, the Single Market and the Schengen area were rigidly rebordered. The distinction between internal and external frontiers lost meaning as governments refused entry to all non-nationals, EU citizen or not, and restricted exports to intra-EU and extra-EU destinations alike: maximally 'defensive integration' (Schimmelfennig, 2021). Short-term security trumped all other concerns. The nation state asserted itself as security provider of last resort.

Since April 2020: more fortress Europe, less fortress nation state

Even though the Commission had constantly warned of uncoordinated border closures and export restrictions in February, it took most of the blame for the ensuing chaos, disruption and inefficiency in March. Yet, it could do little. European law permitted the imposition of internal trade restrictions (Art. 36 TFEU) and temporary border controls (Art. 25–35 Schengen Border Code) for reasons of public security and health. It also allowed restrictions to the free movement of people in case of 'diseases with epidemic potential' (Directive 2004/38/EC, Art. 29). Even where border closures contravened legal provisions, the Commission could only use political persuasion and lengthy legal proceedings to stop them. Mindful of its weakness, the Commission quickly gave up on stopping the rebordering dynamic and focused on steering it from internal to external borders, i.e., from 'defensive' towards more 'effective' 'integration'. The promise was that external closure combined with internal policy coordination would provide more security to all.

As a first step to coordinated external rebordering, the Commission adopted a temporary regulation on 14 March, requiring traders of essential medical equipment to seek prior authorization by their home country for exports outside the EU ((EU)2020/402). Motto: 'producing more, keeping it in the European Union and sharing with each other' (Ursula von der Leyen cited in Financial Times, 15 March 2020). The export restriction was complemented by import facilitation. On 3 April, the Commission waived VAT and import duties for essential medical goods (C(2020)2146) to attract international supplies to the EU. Non-EU countries were furious. Serbian President Aleksandar Vučić dismissed European solidarity as a 'fairy tale. … I believe in my brother and friend Xi Jinping and I believe in China's help' (cited in Spiegel, 19 March 2020).

The second step to external rebordering were temporary restrictions on 'non-essential travel' to the EU, proposed by the Commission on 16 March and endorsed by the European Council the next day. Aim: 'drastically reducing incoming people flows at the external borders' (COM(2020)115) – similar to the US entry ban which EU leaders had dismissed as ineffective only a few days earlier (Carrera & Luk, 2020, p. 17). The final step to external

closure followed on 25 March when the Commission proposed a harmonized approach to foreign investment screening to protect critical industrial assets from extra-EU takeovers, notably in the areas of health, medical research, biotechnology and infrastructure (C(2020)1981).

The Commission's approach to mitigating internal borders combined reminders of legal obligations to openness and non-discrimination[6] with practical proposals for making the new internal borders less restrictive and burdensome. The effect of the legal reminders was minimal. While Germany allegedly withdrew its export ban in response (BAnz AT 19.03.2020 B11), other member states introduced new bans (see Figure 1). All existing border controls and entry bans remained in place. The practical proposals included, for instance, guidelines on how to keep commerce flowing across closed internal borders (C(2020)1753; C(2020)1897) or on how to prevent disruptions in essential air cargo traffic (2020/C 100 I/01). Yet, the member states remained in charge of border security. The Commission as guardian of the efficiencies of a borderless Europe was relegated to a supporting role. Its roadmap for lifting the Corona-restrictions of 17 April left most decisions to national discretion (OJ 2020/C 126/01). Even when the Home Affairs Council decided on 5 June to lift all internal travel restrictions by the end of the month, the member states retained ultimate control of their borders. Hungary, for instance, unilaterally re-introduced a blanket entry ban on foreigners on 1 September: 'Hungary is green, all other countries have turned red' (Agence France Press, 28 August 2020).

Debordering solidarity

Identity, empathy and community

While the Covid-related rebordering was driven by security concerns, the economic consequences of the pandemic primarily raised issues of community. Postfunctionalism conceives of community as 'sharing in common' (Hooghe et al., 2019, p. 15). Sharing requires sympathy and trust, and, hence, is most likely among people who conceive of themselves as similar because they belong to the same group, tribe, or life world, use the same language and vocabulary, and share the same collective past, present and future (Scharpf, 1999). Perceived similarity engenders 'we feelings' and solidarity with the own kind – but not with others. Collective identification produces and reproduces borders between deserving insiders and less deserving outsiders: 'bonding' implies 'bounding' (Ferrera, 2005). Most observers agree that the politicization of national identity was a major obstacle to European risk and burden sharing during the recent Euro and refugee crises (Börzel & Risse, 2018; Hooghe & Marks, 2018; Hutter & Kriesi, 2019; Schimmelfennig, 2018).

However, identity-based sympathy is not the only motive for sharing in common. When Robert Schuman called for 'concrete achievements' towards a European 'de facto solidarity' in his 1950 declaration[7], he didn't appeal to we-feeling and sympathy but to enmity and the 'age-old opposition' between France and Germany. European integration started from diversity, not identity, as a community of strangers, holding a common aversion to war, and engaging in common sharing to prevent its reappearance. The memory of negative international interdependence during the interwar years and its contribution to the outbreak of WWII made it 'impossible to remain indifferent to the fortunate or unfortunate lot of a people' after the war (Robert Schuman cited in Bekemans & Martín de la Torre, 2018, p. 51). The conviction that one country's problem was not a benefit for other countries but a problem for all engendered 'rational compassion' (Bloom, 2018), not fellow feelings: interdependence-based empathy rather than identity-based sympathy (Keohane, 1984, pp. 120–125).

The treaties of Paris (1951) and Rome (1957) provided for fairly extensive solidarity among still alienated member states. The ECSC levied supranational taxes on national coal and steel companies. The EEC introduced 'own resources' to fund an expenditure-driven, and partly highly redistributive, European budget. The ECSC subsidized uncompetitive coal mines in Belgium which the Belgian government considered essential for national security and welfare (Milward, 2000, ch. 3). 80 percent of the reemployment measures financed by the European Social Fund in the 1960s went to Italy to mitigate unemployment in the country's south (Beckfield, 2019, p. 57). The hugely expensive CAP benefitted mainly French farmers to reduce political pressure on the French government (Moravcsik, 1998, pp. 159–237). In short, the EU achieved a remarkable degree of 'effective [fiscal] integration' in its early years.

The end of the post-war boom eroded the basis for fiscal solidarity in the 1970s. With national growth and employment trajectories drifting apart after a long period of convergence (Scharpf, 1991), economic troubles were no longer seen as a fateful consequence of international interdependence but as reflections of national policy mistakes. These mistakes called for national reform, not European solidarity.

The erosion of empathy facilitated the rebordering of fiscal solidarity that was catalyzed by British accession in 1973. British complaints about their allegedly excessive budgetary contributions shifted the discourse from the EU's 'own resources' to national 'juste retour', and from Schuman's 'de facto solidarity' to Thatcher's claiming 'our own money back'.[8] The budgetary settlement in 1984 introduced permanent national rebates and a tight expenditure cap. It marked a decisive turn away from fiscal solidarity (Laffan, 1997; Lindner, 2006). The EU budget moved from the center of European integration to the margins. The Single Market was a regulatory project with

few budgetary implications. The Maastricht Treaty provided for monetary but not fiscal unification. Articles 123 TFEU (no monetary financing) and 125 (no bail out) prohibited any 'sharing in common'. The Stability and Growth Pact was to ensure that member states stayed within their means. The borderless money was based on tightly bordered fiscalities (Schelkle, 2017, ch. 5). 'Chacun sa merde' as Nicolas Sarkozy succinctly summarized it.[9] EU finances had moved from 'effective' towards 'defensive integration'.

The Eurozone crisis challenged the Maastricht regime of bordered solidarity but left its rationale intact. For Northern creditors, the plight of Southern crisis countries was caused by bad national policy, not by bad international interdependence. They called for national reform, and warned of the dangers of solidarity (moral hazard!). Empathy was low. Tighter rules for budgetary surveillance (European Semester) confirmed the primacy of national fiscal self-help. The emergency aid provided to crisis-ridden states was substantial but exclusively loan-based and subject to strict conditionality. The motto 'was not "help Greece" but "save the Euro"' (van Middelaar, 2019, p. 28). Proposals for Eurobonds and debt mutualization were rejected outright. The newly created emergency funds (EFSF and ESM) were guaranteed on a pro-rata basis rather than jointly. Even the ECB's help remained bordered: the OMT program was limited to countries with ESM programs (and never activated);[10] bond purchases under the ECB's 'quantitative easing' policy were kept roughly proportional to member states' capital keys and below a third of all bonds in circulation of any particular state (issuer limit);[11] Greek bonds were excluded because of their low ratings. The EU budget played a marginal role at best. While it served to guarantee a small, transitionary emergency fund (the EFSM), it was neither increased in size nor changed in composition to boost EU transfers to deficit countries.

The Corona-crisis changed the picture. Empathy with the victims of the pandemic was high, fueling expectations of common sharing. Opposition to solidarity became suspect of egotism and greed. This facilitated a massive expansion of risk and burden sharing in terms of short-term emergency assistance and long-term economic recovery.

March to April 2020: solidarity now

When the European Council met for a first (video) discussion of the pandemic on 10 March, all members expressed solidarity with the victims:[12] 'We're all Italians!' (Ursula von der Leyen in Agence Europe, 14 March 2020). The question was whether this solidarity should extend to the fiscal costs of the pandemic. Hard-hit and economically fragile Southern member states including Italy, Greece, Spain, and to a certain extent France insisted that it should. Fiscally robust, and relatively less pandemic-stricken Northern member states including Austria, Finland, the Netherlands, and to a certain extent

Germany felt that it should not. Eastern member states such as Poland and Hungary insisted that pandemic solidarity should not reduce the cohesion funds available to them.

While the European Council did not reach any dramatic decision, it planted the seeds of two momentous policy changes in the following weeks. First, it agreed that Single Market and EMU rules should be applied flexibly to alleviate regulatory constraints on national crisis fighting. This resulted in a series of temporary waivers of key EU rules including the Stability and Growth pact, state aid, and banking regulations.[13] The rule waivers were uncontroversial, depoliticized and fast – a remarkable contrast to the noisy politics of rule tightening during the Euro-crisis. Second, the European Council promised to 'address any impact [of the crisis] on liquidity, on support for SME's and specific affected sectors.'[14] This triggered an unprecedented outpouring of plans for common fiscal sharing, again, in marked contrast to the austerity-prone Euro-crisis (see Table 1).

Ursula von der Leyen went first. At the European Council meeting she suggested creating a 'Corona Response Investment Initiative' (CRII) of €25 billion, paid from EU budget leftovers (Agence Europe, 11 March 2020). Three days later, the formal Commission proposal raised the headline figure to €37 billion. All corona-related expenses would be eligible. Yet, the funds would be distributed according to the allocation formula of the cohesion programs, not according to health care needs. Hence, Hungary was eligible to the largest chunk even though it had much fewer infections than Italy. The Commission accepted this misallocation to avoid lengthy distributive bargaining among the member states. The Council adopted the CRII on 30 March with little debate (Regulation (EU) 2020/460) – quite a change from February, when an attempt by EU leaders to collectively close the Brexit-related €10–12 billion annual revenue shortfall had ended in acrimonious disagreement (Financial Times, 21 February 2020).

The ECB came next. On 12 March, it decided to expand its quantitative easing program by €120 billion until the end of 2020. Yet, in explaining the decision, ECB President Christine Lagarde also hinted at the limits of the ECB's commitment, noting that the crisis was 'fiscal first and foremost', and that it was upon the member states to coordinate an 'ambitious and collective

Table 1. Debordering fiscal solidarity, March – July 2020.

Program	Date (institution)	Headline figure (policy instrument)
PSPP	12 Mar (ECB)	€120 billion (QE)
CRII	13 Mar (COM); 30 Mar (Council)	€37 billion (grants)
PEPP	18 Mar (ECB); 4 June (ECB)	€750 billion (QE); €600 billion (QE)
SURE	2 Apr (COM); 9 Apr (Eurogroup)	€100 billion (loans)
EIB EGF	9 Apr (Eurogroup); 16 Apr (EIB)	€200 billion (loans)
ESM PCS	9 Apr (Eurogroup); 15 May (ESM)	€240 billion (loans)
Recovery Fund	27 May (COM); 21 July (European Council)	€750 billion (390 grants, 360 loans)

fiscal response'.[15] Lagarde's remarks were a major PR disaster. Stock markets plummeted and the borrowing costs of Southern member states soared as distrust in the ECB's resolve to backstop weak Eurozone debtors grew (Financial Times, 26 March 2020). An angry Emmanuel Macron called on the ECB to do more (Financial Times, 13 March 2020). After both the Eurogroup on 16 March 2020[16] and the European Council the following day[17] failed to agree on a common, let alone ambitious, fiscal response, the ECB complied.

On 18 March, it announced a further massive expansion of quantitative easing. Under a new Pandemic Emergency Purchase Programme (PEPP), it would buy up to €750 billion, or more, of sovereign bonds until the end of 2020, or longer.[18] In a dramatic change of tone, Lagarde declared 'no limits' to the ECB's willingness to act (Financial Times, 19 March 2020). Restrictions applying to previous quantitative easing programs were waived in order to flexibly adjust PEPP purchases to national needs: the benchmarking of asset purchases to the national capital keys was relaxed; the issuer limit was suspended; the exclusion of (low-grade) Greek debt was ended (Decision 2020/440 ECB). This 'debordering' of quantitative easing facilitated highly asymmetrical interventions. Allegedly, the ECB heavily overbought Italian and underbought German bonds in March in order to reduce the financial divergence between both countries (Reuters, 6 April 2020).

Arguably, the functional pressure on the ECB was lower than during the Eurozone crisis: no member state was even close to losing market access. Still the ECB went further and acted faster than during the previous crisis. Some observers suggested that this would relieve pressure on member states to negotiate a burden sharing arrangement of their own (e.g., Financial Times 19 March 2020). Yet, negotiations of a common fiscal response continued, fueled by the universally felt need to send a strong signal to citizens and markets that the member states stood together and did whatever it takes to keep the European economy afloat.

The negotiations focused on two broad options: the ESM and 'coronabonds'. The ESM, the Eurozone's permanent bailout fund, was readily available and had a lending capacity of over €400 billion. Yet it also had a history of strict conditionality and intrusive monitoring that made it politically toxic in Southern Europe. One idea to make the ESM more palatable was to soften conditionality, and to offer credit lines to all member states so as to reduce the stigma of accepting them (Financial Times, 18 March 2020).

The second, more radical, option was to issue joint debt. Coronabonds would embody European solidarity for all voters and investors to see. Yet they also triggered old fears of fiscal negligence and free-riding.[19] Initially, the debate seemed to follow the old scripts of the Euro-crisis: The South called for coronabonds in the name of European solidarity; the North objected in the name of national responsibility. Yet, in contrast to the Euro-crisis, the South could seize the moral high-ground. The legitimacy of its

claim to solidarity was generally accepted. Northern objections sounded petty and mean. When, for instance, Dutch finance minister Wopke Hoekstra justified his opposition to coronabonds by fears of moral hazard (Financial Times, 26 March 2020), this caused outrage even in the Netherlands, and he was forced to publicly apologize.[20]

On 25 March, nine heads of government wrote to Charles Michel, the President of the European Council, arguing that the crisis was 'a symmetric external shock, for which no country bears responsibility, but whose negative consequences are endured by all,' and calling for 'a common debt instrument … to raise funds on the market on the same basis and to the benefits of all Member States.'[21] The letter was signed by the usual Southern suspects Greece, Italy, Spain, Portugal but also by Belgium, France, Luxembourg, Slovenia as well as 'New Hanseatic League' member Ireland: the South had expanded North, increasing its economic and political heft. Still, its demands ran into stiff opposition at the European Council meeting on 26 March. Austria, Finland, the Netherlands, Sweden and Germany rejected the idea of Coronabonds. Unable to settle the conflict, the European Council declared blandly to 'do everything necessary to meet this [COVID-19] challenge in a spirit of solidarity,' and instructed the Eurogroup to come up with a plan within two weeks.[22] After three days of hard bargaining, the Eurogroup adopted a compromise brokered by France and Germany on 9 April (Financial Times, 10 April 2020, 13 April 2020). It combined a first-response emergency package with a long-term recovery fund.

The emergency package consisted of a new ESM 'Pandemic Crisis Support' (PCS) program of €240 billion. Under this program, the ESM would offer credit lines to all member states on standardized terms to cover 'direct and indirect healthcare, cure and prevention related costs.'[23] The emergency package also included a pan-European guarantee fund of €25 billion, managed by the European Investment Bank (EIB) to leverage up to €200 billion of emergency lending to companies. Finally, the package endorsed a week-old Commission proposal for a temporary loan program of €100 billion for employment subsidies (COM(2020)139). This 'Support to mitigate Unemployment Risks in an Emergency' (SURE) program would be funded through loans raised by the Commission in capital markets against the EU budget and member state guarantees as collateral – a funding mechanism that had been used on a smaller scale for the EFSM during the Euro-crisis (see Regulation 407/2010). The European Council endorsed the emergency package on 23 April and called for its implementation by 1 June.

April to July 2020: the return of the EU budget

The long-term recovery fund, the second element of the Eurogroup compromise, was intended to help restart the economy after the crisis. Two different

developments fed into its conception. First, sensing insurmountable resistance in Germany, the French government had given up on coronabonds and started to promote the idea of a time-limited European recovery fund instead (Financial Times, 1 April 2020). While this fund would also issue joint debt, it would not necessarily involve joint and several liability but would be guaranteed on a pro-rata basis, as the ESM. Second, the Commission vented plans in late March for turning the EU budget into 'the mothership of our recovery'.[24] The Eurogroup latched onto the idea, agreeing that a revised multiannual financial framework (MFF) 2021–2027 should play 'a central role in the economic recovery' by providing funding for a 'temporary, targeted' recovery fund.[25] The European Council endorsed the idea on 23 April,[26] and tasked the Commission to develop a detailed proposal. The bone of intergovernmental contention changed from coronabonds to the size and nature of the recovery fund.

Disagreement was high. Spain, for instance, proposed a massive fund of €1.5 trillion, embedded in an expanded MFF 2021–2027, dishing out grants rather than loans to ensure a sufficient reflation of the economy throughout the EU while preventing a further divergence in debt-to-GDP ratios between Northern and Southern member states (Financial Times, 21 April 2020). The 'frugal four' (Austria, Denmark, the Netherlands and Sweden), by contrast, wanted a more limited fund, to be financed through cost savings rather than new revenues. They insisted on keeping their budgetary rebates, and rejected any notion of grants-in-aid. In their view, all EU assistance had to be loan-based to ensure incentive-compatibility and national responsibility (Financial Times, 23 April 2020).

During much of March and April, the German government had aligned with the frugal four. It therefore came as a major surprise when on 18 May Emmanuel Macron and Angela Merkel announced a Franco-German plan for a €500 billion temporary recovery fund that would be based on joint debt of long maturity to be issued by the Commission, paid out in grants rather than loans, and collateralized by a massively expanded MFF (Bundesregierung Pressemitteilung 173/20). Allowing the EU to borrow for the purpose of European-wide macro-economic stabilization looked decidedly Southern, not German.

Various factors contributed to Germany's policy reversal. First were the economic risks associated with insufficient macro-economic stabilization in important export markets such as Italy. The perceived interdependence was high. The German Industry Association (BDI) explicitly called for 'a strong show of solidarity for the hardest-hit countries' in the interest of German business (Politico, 20 May 2020).[27] There was also the political risk of losing Italy where a general feeling of abandonment at the height of the crisis in March had led to a sharp increase in Euroscepticism.[28] Also Emmanuel Macron's popularity was declining. Deferring to his leadership would

help to prop it up and revive the ailing Franco-German relationship. Domestic push factors included the judgement of the German Constitutional Court of 5 May (2 BvR 859/15) which threatened the freedom of the ECB to engage in asymmetric interventions to the benefit of Italy and other hard-hit Southern member states, as well as Angela Merkel's rise in popularity during the crisis, which facilitated domestic consensus building. Finally, despite the funds' large headline number, the costs were moderate. Germany would have to contribute to repayment only in proportion to its budgetary contribution to the EU (roughly 20 percent of the total), and over a potentially very long time period. In short, the proposal offered a lot of economic and political bang for a rather limited buck.

The Franco-German initiative was an instant political success, even in Germany where established fiscal hawks including Wolfgang Schäuble, finance minister during much of the Euro-crisis, came out in enthusiastic support (FAZ, 20 May 2020; Politico, 20 May 2020). The Commission hailed the plan as a step 'in the right direction' (DPA 18 May 2020). Markets were positive. Italy managed to raise a record €22 billion in bond sales, as investor confidence brightened on the prospect that the ECB would no longer be the only game in town (Financial Times, 21 May 2020).

Germany's defection put the frugal four on the defensive. On 23 May, they presented a counterproposal which acknowledged the need for 'European solidarity', organized through a temporary 'emergency fund' but refrained from suggesting a precise headline figure. The fund should be strictly limited to two years, and involve neither 'measures leading to debt mutualisation nor significant increases in the EU budget.' All recovery assistance should come as loans with conditionality. All budgetary rebates should remain in place.[29]

On 27 May, the Commission published its own plan for a €750 billion recovery instrument (Next Generation EU) linked to the EU budget (COM (2020)456; see also COM(2020)442). The plan topped up the €500 billion in grants of the Franco-German proposal by €250 billion in loans. The money would be allocated on a need-base 2021–2024, subject to policy conditionality. Recipient government would have to submit spending plans for EU approval. The own resources ceiling would be temporarily lifted to 2% of EU Gross National Income to enable the Commission to raise the money on the markets. The debt would be repaid through the EU budget 'not before 2028 and not after 2058'. New own resources such as carbon or digital taxes should facilitate repayment.

The European Council discussed the proposal during a highly conflictual meeting from 17 to 21 July (Spiegel 21 July 2020; Financial Times 22 July 2020). The highly combative frugal four (plus Finland) insisted on a lower share of grants, strict policy conditionality, close supervision of member state spending, and budget rebates. Yet, the final agreement preserved the

essence of the Commission proposal intact. While the grants-based part was scaled back from €500 to €390 billion,[30] the recovery fund still marked a massive expansion of EU fiscal solidarity. For the first time ever, the member states decided to run a joint deficit as an instrument of European macroeconomic stabilization. The debt will be paid back over a very long time, and potentially through new common revenue instruments. That this massive debordering of fiscal solidarity was agreed at the second longest (after Nice 2000), and perhaps most divisive summit meeting of recent EU history suggests that it was not based on common identity and sympathy but rather on a sense of mutual dependence and rational compassion. The consequences could be long-lasting. Remember Alexander Hamilton: 'A national debt … will be a powerful cement of our Union' (cited in Schelkle, 2017, p. 96).

Implications for postfunctionalism

The Corona-crisis is consistent with the central postfunctionalist claim that the functional scale of governance and the territorial scope of community follow different, and often conflicting logics. Yet, it shows that these logics are more variegated than the postfunctionalist canon assumes. We note three main points of divergence.

First, concerning the *functionalism* in postfunctionalism, our findings suggest that scale is not invariably driven by an expansive logic of efficiency. Security threats can lead to a radical rebordering and a preference for bounded scale as realists have long argued. The weight of security concerns relative to efficiency interests is contingent and varies over time. The rise of neoliberalism and the decline of communism led to a dominance of efficiency arguments during the 1980s, 1990s, and 2000s. The Corona-crisis brought security concerns back with a vengeance.

Second, concerning the *post* in postfunctionalims, we find that the scope of community is not invariably bound to national societies with a strong sense of collective identity but may cross national borders under specific conditions: Solidarity is issue-specific rather than identity-specific. Although the same functional logic of mutual insurance applied to the Euro-crisis and the Corona-crisis, an exclusive focus on debt blocked European solidarity in the former, while the fusion of debt and disease unblocked solidarity in the latter. Survey research confirms that public attitudes to transnational solidarity vary more strongly with the policy issue at stake than with respondents' sense of national identity (Bremer et al., 2020).

Finally, we note a surprising lack of interaction between the *post* and the *functional*. Both logics remain neatly separated by policy area. In market integration, the functional logic prevails. National identities neither hindered the push towards 'dilutive integration' in the 1980s and 1990s, nor fueled the

surge of 'defensive integration' in spring 2020. Rather, the debordering of the market before, and its rebordering during the Corona-crisis were driven almost exclusively by concerns for efficiency and security. While the logic of community had little impact on market integration, it prevailed in fiscal integration. Fiscal rebordering during the Euro-crisis and fiscal debordering during the Corona-crisis did not reflect differences in functional pressure so much as the politicization of exclusive national identities in the former (Hooghe & Marks, 2019, p. 1119) and broad public support for transnational solidarity in the latter. We surmise that the close association of the market with the functional logic and of fiscal policy with the logic of community is not accidental (Genschel & Jachtenfuchs, 2018). It may be interesting to investigate this association more systematically in the future.

Notes

1. https://www.ecdc.europa.eu/sites/default/files/documents/Risk%20assessment%20-%20pneumonia%20Wuhan%20China%2017%20Jan%202020.pdf.
2. https://www.ecdc.europa.eu/sites/default/files/documents/Risk-assessment-pneumonia-Wuhan-China-22-Jan-2020.pdf.
3. https://covid19.who.int.
4. https://covid19.who.int.
5. https://www.bakermckenzie.com/en/insight/publications/2020/03/new-eu-national-export-controls-medical-equipment.
6. For instance, health commissioner Stella Kyriakides wrote 15 letters to member states urging them to lift export restrictions and threatening infringement procedures (Financial Times, 20 April 2020).
7. https://europa.eu/european-union/about-eu/symbols/europe-day/schuman-declaration_en; see also Bekemans and Martín de la Torre (2018).
8. https://www.margaretthatcher.org/document/104180.
9. Cited in https://www.brookings.edu/wp-content/uploads/2016/07/Chapter-One-2.pdf.
10. See https://www.ecb.europa.eu/press/pr/date/2012/html/pr120906_1.en.html.
11. See https://www.ecb.europa.eu/mopo/implement/omt/html/pspp-qa.en.html.
12. https://www.consilium.europa.eu/en/press/press-releases/2020/03/10/statement-by-the-president-of-the-european-council-following-the-video-conference-on-covid-19/.
13. https://www.europarl.europa.eu/RegData/etudes/IDAN/2020/645723/IPOL_IDA(2020)645723_EN.pdf.
14. https://www.consilium.europa.eu/en/press/press-releases/2020/03/10/statement-by-the-president-of-the-european-council-following-the-video-conference-on-covid-19/.
15. https://www.ecb.europa.eu/press/pressconf/2020/html/ecb.is200312~f857a21b6c.en.html.
16. https://www.consilium.europa.eu/en/press/press-releases/2020/03/16/statement-on-covid-19-economic-policy-response/.
17. https://www.consilium.europa.eu/en/press/press-releases/2020/03/17/conclusions-by-the-president-of-the-european-council-following-the-video-conference-with-members-of-the-european-council-on-covid-19/.

18. https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.pr200318_1~3949d6f266.en.html. In fact, on 4 June the ECB increased PEPP by €600 billion and extended the time frame to mid 2021. https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.mp200604~a307d3429c.en.html.
19. See the cover of the Dutch Elsevier Weekblad (No. 22/2020), https://www.elsevierweekblad.nl/magazines/.
20. Contrast this to Jeroen Dijsselbloem, Hokstra's predecessor, who had accused crisis-stricken Eurozone member states of wasting their money on 'drinks and women' in 2017 and never came close to apologizing (Financial Times 21 March 2017).
21. http://www.governo.it/sites/new.governo.it/files/letter_michel_20200325_eng.pdf.
22. https://www.consilium.europa.eu/en/meetings/european-council/2020/03/26/.
23. https://www.consilium.europa.eu/en/press/press-releases/2020/04/09/report-on-the-comprehensive-economic-policy-response-to-the-covid-19-pandemic/.
24. https://ec.europa.eu/commission/presscorner/detail/en/speech_20_675.
25. https://www.consilium.europa.eu/en/press/press-releases/2020/04/09/report-on-the-comprehensive-economic-policy-response-to-the-covid-19-pandemic/.
26. https://www.consilium.europa.eu/en/press/press-releases/2020/04/23/conclusions-by-president-charles-michel-following-the-video-conference-with-members-of-the-european-council-on-23-april-2020/.
27. Similar arguments have also been advanced by the Dutch Social and Economic Council (DutchNews 27 May 2020) and Austrian industrialists.
28. https://www.youtrend.it/2020/04/28/il-coronavirus-ha-cambiato-lidea-che-gli-italiani-hanno-delleuropa/.
29. https://euractiv.bg/wp-content/uploads/sites/9/2020/05/Frugal-Four-Non-Paper.pdf.
30. https://www.consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf.

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