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Monetary-Fiscal Interactions and the Problem of Outdated Commitments: Eurozone Crisis Versus Covid-19

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Abstract

Post-crisis accounts of economic governance in Europe have often analysed the monetary policy decisions of the supranational European Central Bank and the fiscal policy coordination of the intergovernmental Council and Eurogroup separately. This is unfortunate since both policy fields are closely linked and increasingly interdependent. We put forward a theory of monetary-fiscal interactions in the Economic and Monetary Union based on the notion of de-commitment and re-commitment. In juxtaposition to the grand theories of neo-functionalism and liberal intergovernmentalism, we argue that EU institutions serve not only to tie the member states to policy commitments but also to untie them from previous policy commitments that have become outdated and harmful. The European Central Bank's main contribution to safeguarding the Eurozone in 2012 and 2020 has not been to enforce but to relax the monetary financing prohibition of the Treaty, and the Council's main contribution in 2020 was not to double down on the no bail-out clause but to re-commit to risk-sharing and burden-sharing through the NextGenerationEU programme. We argue and show that economic governance in Europe has progressed through three stages of commitment. Whereas monetary-fiscal interactions followed a commitment logic during the first decade of the Economic and Monetary Union (the "old normal"), the defining feature of the second decade has been de-commitment (the "new normal"). In the Covid-19 crisis, economic governance finally entered a phase of re-commitment (taking the Economic and Monetary Union "back to the future"). The analysis has implications for our understanding of the purpose and power of supranational institutions in overcoming the problem of outdated commitments post-crisis.

Keywords

Economic and Monetary Union; economic governance; Eurogroup; European Central Bank; European Council; Eurozone; monetary-fiscal interactions

1. Introduction

For a few long months during the fateful spring of 2020, the Covid-19 economic crisis showed every sign of turning into a "Eurozone crisis 2.0" (Elliott, 2020; Schneider & Syrovatka, 2020). Whereas the European Central Bank (ECB) was left to do much of the heavy lifting at first, its fiscal counterparts in the Eurogroup and the European Council found themselves gridlocked over how to mobilize a collective fiscal response. Accordingly, the early stages of the pandemic brought back painful memories of the bitter divisions that had characterized the Eurozone crisis a decade earlier. In this article, we argue that the monetary and fiscal policy responses to both crises are reflective of the same underlying logic of "de-commitment" and "re-commitment." While the sources and outcomes of the two crises were undeniably different, they have been marked by a strikingly similar decision-making dynamic between member state principals and supranational agents. In particular, the confluence of strong supranational agency and substantial intergovernmental conflict during both crises poses a challenge to key tenets of major European integration theories. In neo-functionalist accounts, a strong supranational agency resolves intergovernmental conflict through the upgrading of common interest. Liberal intergovernmentalism, in turn, predicts that member-state conflict limits the scope for supranational agency.

In contrast to both, we argue that strong supranational agency can enable intergovernmental conflict in the first place: The ability to offload the consequences of unresolved conflicts on a supranational agent allows member state principals to pursue their diverging national interests without jeopardizing their common interest in maintaining the union. We submit that this dynamic is reflective of the problem of principal loss, contrary to the classic problem of agency loss identified in the principal-agent literature. We draw on the case of monetary-fiscal interactions in Europe's Economic and Monetary Union (EMU) to illustrate these claims. In light of (a) strong but problematic Treaty commitments to not bail out member states nor engage in debt monetization, (b) the ECB's power to effectively deliver bail-outs and debt monetization during times of crisis, and (c) a deeply divided Council, we posit that EMU represents a powerful case of de-commitment and principal loss. By tracing the dynamics of commitment, de-commitment, and re-commitment in different crisis episodes and by exploring the interactions between agency loss and principal loss, the analysis carries broader implications for our understanding of the purpose and pitfalls of supranational agency in regional integration.

The remainder of the article is organized as follows. Section 2 provides a brief review of the literature on supranational agency, focusing on the credible commitment argument. We then explain what we see as the problem of de-commitment in the EU and discuss the costs, benefits, and interdependencies of different commitment strategies, deriving observable implications for principals and agents. In Sections 3 and 4, we illustrate our theoretical argument by contrasting de-commitment and re-commitment episodes during the Eurozone and Covid-19 crises. Section 5 concludes by drawing lessons from our case studies and discussing potential generalizations of our findings beyond the case of EMU.

2. Commitment, Re-Commitment, and De-Commitment in the EU

The literature on delegation to supranational agents posits that EU institutions exist because they resolve the commitment problems of the member states (Franchino, 2007; Pollack, 2003). While early work on delegation was dominated by an "information account" that stressed the expertise of supranational institutions (Haas, 1964; Majone, 1993), credible commitment has gradually emerged as the overriding logic of both intergovernmentalist (Moravcsik, 1998) and neo-functionalist (Sandholtz & Stone Sweet, 2012) theories of European integration. According to this "commitment account," the temptation to defect from agreements hinders EU member states from realizing joint gains from deeper integration. To escape their collective predicament, member states delegate the authority to propose, legislate, implement, interpret, and enforce EU policies to independent, integration-minded agents like the European Commission, the Court of Justice (CJEU), or the ECB. By empowering these agents to ensure member state compliance, the principals empower themselves to adopt collectively superior, yet defection-prone, EU policies.

In this account, the functional demand for supranational commitment increases with intergovernmental conflict and domestic politicization (Moravcsik, 1998, pp. 73–76; Pollack, 2003, p. 30). Intergovernmental conflict amplifies commitment problems by favouring narrow and incomplete lowest common denominator agreements (Jones et al., 2016, 2021) that leave ample scope for *de facto* defection (breaking the contract in spirit, if not in the letter). Domestic politicization likewise increases commitment problems since EU policies that are controversial in the domestic arena are susceptible to defection and non-compliance. Moreover, intergovernmental conflict and politicization are positively related (Hooghe & Marks, 2019): high levels of conflict increase the stakes domestic actors have in the conflict and the attention they pay to it, while high levels of politicization constrain governments' scope for compromise, further aggravating conflicts. Supranational commitment can break this dynamic. By authorizing EU institutions to honour commitments on behalf of the member states, conflicts are removed from the domestic and intergovernmental arenas and shifted to the realm of supranational policy-making.

However, the functional demand for supranational commitment does not automatically create its own supply. Ceding commitment power to EU agents is costly for member state principals precisely because these agents may use their powers to enforce compliance with policies of distributive importance and political salience. These costs are compounded by the risk of agency loss: EU institutions may abuse their delegated powers to radicalize the interpretation and enforcement of policy commitments to strengthen their autonomy and standing. The delegation literature routinely assumes that EU institutions have a general preference for "greater competences for the EU as a whole and a specific preference for greater competences for themselves" (Pollack, 2003, p. 384). The Commission's and the CJEU's "single-minded" pursuit of the four freedoms of the internal market is a prominent example (Höpner & Schäfer, 2012; Scharpf, 1999, p. 62).

Yet, even if a supranational agent is eventually created, commitment problems may persist. When the environment changes and a crisis looms, a firm commitment to a previously successful policy can turn into an obstacle to adjustment and crisis management (Elster, 1989, p. 198; Schelling, 1963, p. 39). If "the 'goodness of fit' between [EU] policy and the relevant policy environment" (Scharpf, 1988, p. 257) deteriorates below some critical threshold, the collective interest in guarding against unilateral defection can give way to an overriding interest in overcoming the outdated and harmful policy. The problem with commitment strategies, then, is not only to render them credible ex-ante, as highlighted in the extant literature, but also to de-commission them ex-post if unforeseen circumstances create an acute need for flexibility (Genschel & Tesche, 2020; Lohmann, 2003).

Policy-makers have two (not mutually exclusive) options to dispose of an outdated common policy: re-commitment and de-commitment. Re-commitment is the straightforward option. It amounts to member state principals renegotiating the formal terms of their policy cooperation to create new institutions or adapt the mandates of existing ones. The precondition is that they agree on the obsolescence of the old policy and the contours of a new policy to replace it. The alternative to formal re-commitment is, paradoxically, supranational agency, that is, the original solution to problems of commitment. By empowering EU institutions to enforce commitments, the member states also implicitly empower them to relax commitments by reinterpreting outdated rules in more accommodating ways, providing national governments with wiggle room to deal with unforeseen circumstances. The CJEU, for example, can commit member states to strict standards of free movement and access to social benefits in the internal market. Yet, as a recent string of court cases has shown, it can also relax this commitment when the real or perceived dysfunctionalities of a firm tie to free movement and access to benefits become politicized in the member states (Blauberger et al., 2018). The CJEU can enact this kind of de-commitment because it has the power to (re-)interpret the rules and bind member states to its (re-)interpretations. Purely advisory institutions, such as the European Defence Agency, can neither commit member states to nor de-commit them from, any particular policy.

Intergovernmental re-commitment represents the “clean” solution to the problem of outdated commitments: The member states take collective responsibility for abandoning old agreements and establishing new ones. However, supranational de-commitment is often the politically more convenient route, as it spares governments the political cost of engaging in distributive conflicts and coping with the domestic politicization that formal re-commitment might trigger. As such, supranational de-commitment allows member state governments to “have their cake and eat it, too”: They can refuse political concessions in intergovernmental bargaining and still maintain the functional viability of the EU; they can stage show fights in Brussels without risking disintegration; they can “agree to disagree” without blocking necessary policy adjustment. In extremis, the availability of de-commitment incentivizes a collective flight into irresponsibility, with the joint-decision trap (Scharpf, 2006) turning from a common predicament into a shelter from the political cost of reaching compromise.

While de-commitment may appear favourable from the perspective of the member states, it is a mixed blessing from the perspective of supranational agents. On the one hand, it offers agents ample opportunity for self-aggrandizement: as trouble-shooters of last resort, EU institutions can gain extraordinary “emergency powers” to shape policy during times of crisis (Fontan, 2013; Kreuder-Sonnen & White, 2022; Kreuder-Sonnen & Zangl, 2015; White, 2015). On the other hand, however, supranational de-commitment jeopardizes the legitimacy of EU institutions as impartial, non-majoritarian agents, forcing them to decide on potentially divisive policy issues. The risk is particularly acute when the problem of outdated commitments is severe: if the gap between (old) policy commitments and (new) policy requirements is large, supranational agents cannot bridge it without resolutely bending the rules, stretching their mandates, or visibly creating winners and losers. This leaves them vulnerable to legal challenges and political contestation (Braun et al., 2022, 2024). Contrary to baseline assumptions in the delegation literature, supranational institutions have good reasons to dodge the opportunities for self-empowerment and mission expansion offered by de-commitment (Bickerton et al., 2015; Diessner, 2024; Mabbett & Schelkle, 2019). Instead, we expect them to try and avoid situations in which they are left to their own devices in resolving intractable policy problems on the basis of unworkable mandates, deserted by their member state principals who have fled into collective blame avoidance (Schillemans & Busuioc, 2015; Sobol, 2016). We refer to this type of situation as “principal loss,” in contrast to the traditional preoccupation with agency loss.

In sum, our argument entails five sets of observable implications which relate to the main features and purposes, the likely effects on principals and agents, and the main risks associated with commitment, re-commitment, and de-commitment, respectively. These are summarized in Table 1.

Table 1. Commitment, re-commitment, and de-commitment in the EU.

	Commitment	Re-commitment	De-commitment
Main feature	Creation of formal rules and supranational institutions through intergovernmental agreement	Re-contracting of existing formal rules and supranational institutions through intergovernmental negotiations	Reinterpretation or relaxation of existing formal rules by supranational institutions exercising agency
Main purpose	Facilitate integration by resolving commitment problems	Prevent disintegration when existing commitments become dysfunctional	Prevent disintegration when existing commitments become dysfunctional and intergovernmental negotiations are blocked
Effect on principals	Enables member states to reap joint gains from integration	Enables member states to preserve joint gains from integration	Enables member states to avoid the political cost of re-commitment
Effect on agents	Enhances the power of EU institutions	Ambiguous: can enhance, reduce, or leave unchanged the power of EU institutions	Enhances the power of EU institutions, but can threaten their legitimacy
Main risk	Agency loss: EU institutions shirk their responsibility and exploit their power to further integration beyond member states' collective ideal point	Joint-decision trap: Re-commitment blocked by a vicious cycle of intergovernmental conflict and domestic politicization	Principal loss: Member states shirk their responsibility and shift the blame for revising outdated policy commitments on EU institutions

3. A "New Normal": De-Commitment During and After the Eurozone Crisis

The following two sections contrast the EU's monetary and fiscal policy responses to two crises which had different causes and consequences but, as we will demonstrate, were marked by a common decision-making dynamic. Our case studies of monetary-fiscal interactions serve as a "plausibility probe" for the distinction between commitment, de-commitment, and re-commitment in the EU, that is, they aim to explore the theorized categories to demonstrate their empirical relevance (also referred to as "illustrative" case studies in international relations and related disciplines; Akbik & Diessner, 2024; Eckstein, 1975; Gerring, 2004; Levy, 2008, pp. 6–7). In particular, the case studies seek to illustrate: How the problem of outdated commitments manifested itself during each crisis; how member state governments initially failed to achieve re-commitment, resulting in principal loss; how supranational agents had to deliver de-commitment instead; and how these issues were overcome in the Covid-19 crisis by means of intergovernmental re-commitment.

3.1. Outdated Commitments During the Eurozone Crisis

The institutional arrangement codified in the Maastricht Treaty combined a commitment to monetary integration with a commitment to national liability in fiscal and other economic policies. On the one hand, the Treaty invested the ECB with far-reaching political independence (Treaty on the Functioning of the European Union [TFEU], Art. 130) and a narrow mandate prioritizing price stability (TFEU, Art. 127). On the other hand, it discarded European fiscal solidarity in favour of containing moral hazard and preserving national responsibility. The monetary financing prohibition (TFEU, Art. 123) sought to foreclose a monetary bail-out of member states via the ECB, while the no-bail-out rule (TFEU, Art. 125) sought to foreclose a fiscal bail-out by other member states or EU institutions. In addition, the convergence criteria (TFEU, Art. 140) and the Stability and Growth Pact (SGP; TFEU, Art. 121, 126, protocol No. 12) were meant to incentivize fiscal discipline (Brunnermeier et al., 2016, p. 99; Heipertz & Verdun, 2010; Schelkle, 2017, p. 138). These policy commitments were thought to pre-empt the emergence of a fiscal crisis in the EU in the first place.

Yet, when the Eurozone crisis broke nevertheless on the heels of the global financial crisis of 2008, the Treaty commitment to fiscal self-sufficiency turned into a liability, as it impeded the provision of fiscal guarantees that would reassure financial markets of member states' solvency. Given that the default of any one member state would likely trigger defaults in others, the viability of the European project as a whole was soon called into question (De Grauwe, 2013; Frieden & Walter, 2017, p. 385; Schelkle, 2017). As such, the EU's crisis management capacity depended critically on its ability to overcome key provisions of the Maastricht Treaty through intergovernmental re-commitment or supranational de-commitment.

3.2. Insufficient Intergovernmental Re-Commitment During the Eurozone Crisis

Even in its most fraught moments, the Eurozone crisis revealed a collective interest of member states in preserving the single currency. No government seriously considered a unilateral exit from or a multilateral break-up of the monetary union—with the notable exception of parts of the Tsipras and Merkel administrations in 2015. This stance was backed by popular majorities supporting the euro (Aslett & Caporaso, 2016; Schimmelfennig, 2014). However, the crisis also underscored the urgent need for joint decision-making: if the fiscal troubles of one or several member states could throw the entire bloc into disarray, something fundamental was amiss with the arrangements agreed upon in Maastricht.

The formal way to overcome the increasingly harmful restrictions on monetary and fiscal risk-sharing would have been to renegotiate the relevant terms of the (now Lisbon) Treaty itself. This was blocked, however, by the fact that the crisis pitted member states into camps of debtor countries (including Greece, Ireland, Italy, Portugal, Spain, and Cyprus) and creditor countries (including Austria, Finland, Germany, and the Netherlands; Frieden & Walter, 2017; Genschel & Jachtenfuchs, 2018; Hall, 2012; Walter et al., 2020). While debtors hoped for a suspension and renegotiation of the monetary and fiscal no-bail-out rules (by pushing for financial assistance, debt relief, or debt mutualization in the form of Eurobonds), creditors doubled down on them (by pushing for stricter enforcement of fiscal consolidation). Domestic politicization spurred the intergovernmental conflict. In creditor countries, a narrative of "Northern saints" versus "Southern sinners" took hold (Matthijs & McNamara, 2015, p. 230), while the debtors' counter-narrative pointed to the overt complicity of creditor banks in bringing the crisis about (Varoufakis, 2017, pp. 23, 306). The hardly reconcilable positions of both camps prevented effective re-commitment. The creditors insisted that Arts. 123 and 125 of the Treaty survived the crisis formally unscathed and the disciplinarian regime of the SGP was beefed up through the Six Pack, Two Pack, and Fiscal Compact, at least on paper.

However, the question of monetary and fiscal risk-sharing could not be dodged if an accidental break-up of the Eurozone was to be avoided. Member states did come to agree on a financial assistance package for Greece in May 2010, a temporary European Financial Stability Facility in June 2010, and a permanent European Stability Mechanism (ESM) with a capacity of €500 billion in October 2012 (Gocaj & Meunier, 2013). Yet, the activation of each of these measures was conditional on committing to stringent and largely pro-cyclical structural adjustment programmes monitored by the infamous Troika of institutions that included not only the ECB and the European Commission but also the IMF (Henning, 2017). At the same time, creditor countries and the ECB rejected proposals for the ESM to be granted a banking license (Ban & Seabrooke, 2017, p. 12; Henning, 2017, p. 168). These limitations undermined the credibility of the Mechanism as a lender of last resort, while fiscal consolidation and structural reform conditions aggravated rather than alleviated debt burdens in crisis-hit member states. As a result, intergovernmental re-commitment fell short of resolving the problem of outdated commitments inherent in the Maastricht framework and even exacerbated it at times.

3.3. Supranational De-Commitment During the Eurozone Crisis

The shortfall in intergovernmental re-commitment created the demand for de-commitment via supranational agency. Pressure mounted on the ECB to provide risk-sharing through the monetary backdoor, as member states could not agree on providing it through the fiscal front door (Schelkle, 2014). The central bank gave in to this pressure eventually, albeit reluctantly. The governments of France, Portugal, and Italy had called on ECB President Jean-Claude Trichet already in 2010 to unfreeze financial markets by purchasing bonds of distressed member states on a large scale. Trichet pushed back, arguing that fiscal policy was a national responsibility under the Treaties and that the ECB had no mandate to protect members from the consequences of their fiscal actions (Barber, 2010). As such, the ECB refused to de-commit member states from Treaty rules which only they had the authority to revise and adapt.

Yet, cognizant of the growing risks to the single currency, the ECB did not withhold financial assistance altogether. Rather, it tried to use the promise of assistance to nudge governments towards re-commitment on risk-sharing. Prominent examples include the central bank relaxing collateral rules for bonds only after member states had adopted the first Greek rescue package (ECB, 2010), premising its first bond-buying scheme on a prior intergovernmental agreement on the European Financial Stability Facility (Henning, 2016, p. 180), or sending letters to the governments of Italy and Spain to extract reform promises as an informal quid pro quo for a continuation of bond purchases (Beukers, 2013). These moves, reminiscent of a “game of chicken” between the Eurozone’s monetary and fiscal authorities (Mabbett & Schelkle, 2019), failed, however, to calm financial markets and put an end to the crisis. On the contrary, the ECB’s implicit and explicit conditionality raised doubts about its willingness to stand behind embattled debtors.

Consequently, when the crisis deteriorated further during the first half of 2012, the central bank needed to up the ante. It did so by announcing its famed Outright Monetary Transactions Programme (OMT), a bond-buying scheme that pledged unlimited support to member states receiving ESM assistance. The ECB thus effectively removed the lending cap on the ESM which member states had failed to remove by intergovernmental agreement (Schelkle, 2017, p. 216). While most agree that the ECB's announcement of OMT ended the acute phase of the crisis (Chang & Leblond, 2015; De Grauwe & Ji, 2015), it did so by bending, if not breaking, EU rules: The central bank effectively assumed the role of lender of last resort for governments de facto which it had not been assigned *de jure* (Buiter, 1999; Lombardi & Moschella, 2015; cf. Bateman & van 't Klooster, 2024). As such, it saved the euro but put its own legitimacy on the line.

The ECB sought to protect itself against the legal and political risks that come with supranational de-commitment in a number of ways. One key strategy consisted of securing the "implicit backing" of important member states (Brunnermeier et al., 2016, p. 95). Governments could not endorse OMT outright without fueling the intergovernmental conflicts that had blocked formal re-commitment. However, they could at least abstain from publicly crying foul: the programme would hardly have convinced the markets had it not been for the German government's "deafening silence" which was interpreted as tacit consent (Schelkle, 2017, pp. 215–216). Another strategy was informality. The central bank announced the OMT programme through a press release without publishing the accompanying legal act, hoping (in vain) that this would pre-empt judicial scrutiny (Zilioli, 2016). Lastly, the ECB once again sought to condition its actions on intergovernmental re-commitment, this time in the form of a European banking union with joint supervision and resolution of systemically relevant banks (Véron, 2015).

However, the ECB's hedging efforts did not eliminate the risk of principal loss altogether. Once OMT started to reassure financial markets, member states began to renege on their promises of re-commitment. Although EU governments had formally agreed on direct bank recapitalizations in June 2012, Germany, Finland, and the Netherlands withdrew their support by the end of the year. When the recapitalization instrument was finally adopted in late 2014, it became subject to strict conditionality which complicated its activation and significantly reduced its value as a risk-sharing device (Howarth & Quaglia, 2016, pp. 173–174). In the same vein, creditor countries blocked the introduction of a European deposit insurance scheme to complete the banking union (Donnelly, 2018). As a result, the ECB remained "the only game town" in terms of financial crisis management until the Covid-19 crisis broke out in 2020, despite lacking a clear Treaty mandate (Macchiarelli et al., 2020).

In sum, the case of the Eurozone crisis deviates from the classic commitment account of European integration in three important respects. First, the pivotal role of the ECB in crisis management did not derive from its power to commit but its power to de-commit from key provisions of the Maastricht Treaty. Second, the main problem of supranational agency in the crisis was principal loss, not agency loss. In fact, member state governments made relatively little effort to prevent the ECB from pushing the boundaries of its mandate. Rather, it was the supranational central bank itself that tried, but failed, to restrain its agency. Third, de-commitment left the ECB more powerful but also more vulnerable. The central bank gained de facto powers as a policy authority of last resort. It also gained *de jure* powers through the banking union. Yet, it became exposed to ever-growing demands involving it in conflictual political decision-making, which strained its legitimacy (Diessner, 2023; Torres, 2013).

4. "Back to the Future": De-Commitment and Re-Commitment During the Covid-19 Crisis

When the Covid-19 pandemic gathered pace in the spring of 2020, it soon became apparent that the recession caused by the "Great Lockdown" would be more severe than even the Great Recession triggered by the financial crisis of 2008. In the EU, member states' capacity to assume or guarantee the debts of their private sectors during successive lockdowns differed starkly. Italy, one of the countries initially hit hardest by the pandemic, had a public debt-to-GDP ratio of 130% when its economy ground to a halt in the first half of 2020. Hence, calls for intergovernmental re-commitment grew louder once again, including in the form of debt mutualization to finance pandemic-related public expenditures.

4.1. Outdated Commitments During the COVID-19 Crisis

That Europe's fiscal rules represented an outdated commitment had been revealed much before the pandemic. One of the original concerns motivating the SGP was that excessive deficits of the member states would put pressure on the ECB to monetize them. However, the founding parents of the SGP turned a blind eye to the possibility that their commitment would cut both ways and lead to a persistent under-utilization of fiscal policy, which, in turn, would force the ECB to engage in quantitative easing to stimulate demand (Diessner & Lisi, 2020; Tesche, 2023). As the Covid-19 crisis intensified, the Commission proposed to trigger the "general escape clause" of the SGP which had been introduced as part of the Six Pack. The activation of the clause de-committed member states from the rules that constrain fiscal policy in normal times (Genschel & Jachtenfuchs, 2021, p. 360). However, this alone was not enough to prod governments into fiscal action. Member states like Italy or Spain were still inhibited by high debt-to-GDP ratios at the outset of the pandemic and were faced with financial market pressures that threatened to render an adequate national fiscal response to the recession impossible.

4.2. Initial Lack of Intergovernmental Re-Commitment During the Covid-19 Crisis

In light of the escalating crisis, the Eurogroup and European Council convened a series of virtual meetings and summits in March and April 2020. The preference constellation within both intergovernmental fora resembled that of the Eurozone crisis, at least initially. As a result, finance ministers failed to agree on a collective fiscal response during their first two calls on March 10 and March 16. By March 24, with most member states now under partial or total lockdown, ministers finally explored the possibility of Enhanced Conditions Credit Lines provided by the ESM. Dutch finance minister Hoekstra led the opposition against involving the ESM on the grounds that it only be invoked as "a measure of last resort" (Brunsden et al., 2020).

When the heads of state or government gathered for a crunch video summit two days later, two options for intergovernmental re-commitment were laid out on the virtual negotiation table. Germany's preferred option was to use the ESM's credit lines to lower the funding costs of those member states affected most severely by the pandemic. However, the capacity of the ESM was deemed insufficient, while beefing it up would have required a lengthy and uncertain renegotiation of the ESM Treaty (Claeys & Wolff, 2020). Moreover, the prospect of an ESM credit line was politically fraught for some member states, most notably Italy, after the ill-fated experience with Troika-administered structural adjustment programmes during the Eurozone crisis. The other and even more controversial option was the creation of Eurobonds, under the new label of "Coronabonds." One day before the summit, France, Italy, and Spain, together with Portugal, Ireland, Greece, Slovenia, Luxembourg, and Belgium addressed a letter to Charles Michel, the Council president, calling for a common debt instrument to minimize roll-over risks and finance investments in health care and other infrastructure (Dombey et al., 2020). The position was supported by ECB President Christine Lagarde, who was growing wary of the spectre of principal loss. However, a German-led coalition including the Netherlands, Austria, and Finland rejected the proposal outright, reopening the rifts between Northern creditors and Southern debtors that had been a hallmark of the Eurozone crisis (Matthijs & McNamara, 2015). The Dutch government went further still by demanding that the Commission launch an investigation into the lack of fiscal space in some member states, enraging Southern governments. The summit ended without tangible results: Italy threatened to block the final declaration, which eventually contained "no word on either" of the two options for intergovernmental re-commitment (Eder, 2020).

This dynamic recurred over the coming weeks, providing ample evidence of the joint-decision trap and its overwhelming tendency to produce the lowest common denominator agreements. An acrimonious three-day Eurogroup video call between April 7 and 9 concluded with a hard-fought but macroeconomically insignificant compromise on ESM credit lines worth €250 billion (Genschel & Jachtenfuchs, 2021; Howarth & Quaglia, 2021). On April 23, governments agreed on the compromise but disagreed fundamentally over whether fiscal support to the hardest-hit member states should continue to come only in the form of loans or also in the form of grants. In the end, the Commission was tasked with formulating a proposal for a common recovery fund, after the idea had been sent back and forth between governments without progress. At this point, it seemed as if the fiscal (non-)response to the crisis would be predominantly national once again, with governments betting on the ECB to provide the necessary fiscal space while preserving the stability of the Eurozone as a whole. The stage appeared set for the Covid-19 crisis to escalate into a Eurozone crisis 2.0 (Elliott, 2020; Schneider & Syrovatka, 2020).

4.3. Supranational De-Commitment During the Covid-19 Crisis

The underwhelming intergovernmental response to the crisis fired the parting shot for a repetition of the game of chicken dynamics that had characterized the interactions between governments and the ECB a decade prior (Henning, 2016; cf. Mabbett & Schelkle, 2019). A first set of monetary policy measures, announced on March 12, included longer-term refinancing operations and a relatively small increase of €120 billion in the ECB's asset purchase programme. Both failed to impress the markets. The announcement was preceded by a plea for re-commitment by Lagarde (2020), who urged governments to "take timely and targeted actions" to achieve "an ambitious and coordinated fiscal policy response." During the Q&A after the ECB press conference, the president also dropped the thinly veiled threat that the central bank was "not here to close spreads" given that "there are other actors to actually deal with those issues" (Arnold & Stubbington, 2020). While the signal was aimed at the finance ministers in the Eurogroup, financial markets interpreted it as a retreat from OMT: unless there was re-commitment by the member states, there would be no de-commitment by the ECB. The yields on Southern member states' debt spiked rapidly in response.

As a result, Lagarde's own "whatever-it-takes" moment came sooner than she had hoped (EU, 2019): On March 18, the ECB announced a Pandemic Emergency Purchase Programme of €750 billion (ECB, 2020). The announcement calmed financial markets instantly. In the accompanying legal act, which was published in full the week after, the ECB also de-committed from the issue and issuer limits that had restricted its ability to conduct asset purchases flexibly (Decision (EU) 2020/440 of the European Central Bank, 2020) but that were seen as legal safeguards against the supranational central bank straying into the realm of monetary financing. Thus, despite its beneficial effects, the Pandemic Emergency Purchase Programme forced the ECB to stretch the limits of its mandate once more and is likely to land the central bank in court again.

4.4. Intergovernmental Re-Commitment During the Covid-19 Crisis

Despite this apparent continuity on the surface, deep-seated change had been brewing underneath, culminating in an intergovernmental agreement on the NextGenerationEU programme. In a nutshell, the programme established a large-scale temporary recovery fund that would be financed through joint debt of long maturity, collateralized through the EU budget, and disbursed to member state governments in the form of grants and loans. The agreement caught even seasoned EU observers by surprise, not least because it was precipitated by another major upset for both national governments and supranational institutions. In a move reminiscent of the darkest days of the Eurozone crisis, the German constitutional court delivered a shock ruling on May 5, declaring an earlier decision by the CJEU ultra vires on the grounds that it had not adequately assessed the proportionality of the ECB's asset purchases, and deeming the German government's and parliament's oversight of the ECB's and Bundesbank's unconventional monetary policy-making insufficient (Diessner, 2022; van 't Klooster & de Boer, 2020). Through its ruling, the court appeared to double down on Treaty commitments to fiscal self-sufficiency and frugality at a time when loosening them was of paramount importance to dealing with the macroeconomic shock caused by the pandemic.

In hindsight, however, the episode marked an unexpected turning point that facilitated re-commitment. Two weeks later, and after German chancellor Angela Merkel had stressed that the ruling "should 'spur' more Eurozone integration" ("German ECB ruling," 2020), she and French President Emmanuel Macron unveiled a recovery fund proposal worth €500 billion in grants on May 18. It was followed by a slightly less ambitious but equally unprecedented proposal by the Commission on May 27. The two announcements had a forceful impact on financial markets, "closing the spread" between Northern and Southern member states' borrowing costs further. Yet, the ECB deemed it necessary to announce an extension of the Pandemic Emergency Purchase Programme to the tune of €600 billion on June 4. The move was questioned by veteran member of the European Parliament Sven Giegold in terms of whether it took the pressure off member states to agree on the recovery fund (European Parliament, 2020), but governments did eventually come around to deciding on the Commission proposal after two highly adversarial summits on June 19 and July 17 to 21. However, despite rightly having been hailed as a breakthrough, doubts persist over the long-term impact of NextGenerationEU on European economic governance (Howarth & Quaglia, 2021). In particular, it remains unclear whether the programme signals a lasting re-commitment or a temporary deviation from the Treaty commitment to balancing the EU budget. As such, the ECB will likely have to stand ready to act as a de-commitment agent again in the future.

5. Discussion and Conclusion

This article has sought to develop a commitment, de-commitment, and re-commitment account of economic governance in the EU, illustrated by the interplay between monetary policy-making by the ECB and fiscal policy-making by member state governments during the Eurozone and Covid-19 crises. We have argued that the independent agency of EU institutions can serve not only to tie member states to previous policy commitments but also to untie them from commitments that have become untenable. Our argument implies that the interactions between supranational agents and intergovernmental decision-makers are more ambiguous than conventional theories suggest. In particular, supranational agents do not only unblock the joint-decision trap and lay the ground for intergovernmental agreement, as stressed in the extant literature (Falkner, 2011; Scharpf, 2006) but can also facilitate non-decision and incentivize a collective flight into the joint-decision trap. When old policy commitments clash with new policy requirements, and when a renegotiation of those commitments is deadlocked by intergovernmental conflict, the lowest common denominator solution for member states can be to “agree to disagree” and shirk responsibility. EU institutions then turn into “garbage trucks of integration” (Genschel & Jachtenfuchs, 2016, p. 54), keeping the EU afloat by reinterpreting or disposing of harmful but non-negotiable policy commitments.

What, then, do the Eurozone crisis and the Covid-19 pandemic tell us about the role of member states and supranational institutions in the management of joint commitments? We highlight five lessons and discuss their generalizability to other areas of EU policy and/or to other polities beyond the EU. First, there are two types of commitment problems: the problem of making commitments credible ex-ante and the problem of dispensing with outdated commitments ex-post. As our case studies show, the second problem can be just as vexing as the first. The problem presents itself not only in the EU when member states delegate the enforcement of commitments to supranational institutions but more generally in settings in which majoritarian actors rely on third-party implementation and enforcement of their joint agreements.

Second, the straightforward approach to adjusting outdated commitments to changed circumstances is for the originators of these commitments to jointly agree on their reform. In the context of the EU, this means that member states agree to adapt EU laws that govern their interactions in a given policy area. However, as both case studies show, this strategy of re-commitment is vulnerable to deadlock. As long as a sufficient number of member states prefer sticking to old commitments—however dysfunctional—rather than reforming them, re-commitment is blocked by the joint-decision trap.

Third, when re-commitment is blocked by intergovernmental disagreement but problem pressure is severe, supranational agents can step into the breach and loosen outdated commitments through reinterpretation and/or lax enforcement. Both during the Eurozone crisis and during the Covid-19 pandemic, the willingness of the supranational ECB to do whatever it took was central to crisis management. Importantly, however, this kind of de-commitment power presupposes a high degree of commitment power, that is, supranational agents must hold independent sway over the commitments at stake. In the EU, both the ECB and the CJEU plausibly wield such power, while the Commission can be hypothesized to wield it in selected policy areas only (state aid control in the realm of competition policy being one plausible candidate).

Fourth, de-commitment is a mixed blessing for supranational agents at best. On the one hand, it can allow the agent to increase its powers and status by proving its mettle as a problem-solver of last resort. On the other hand, de-commitment threatens both the legal basis and the political legitimacy of the agent, forcing it out of the technocratic comfort zone. As a result, we should expect agents to be reluctant to embark on de-commitment on their own. Instead, they will seek to reanimate their political principals wherever possible. As both crises have shown, the ECB has sought to extract at least symbolic promises of re-commitment from member state governments at every turn, in exchange for lending them support via de-commitment.

Lastly, the interaction between intergovernmental re-commitment and supranational de-commitment is ambiguous. What is clear is that de-commitment presupposes a decision-making deadlock over re-commitment. As long as member states can agree on how to adjust their joint commitments to new policy challenges, this will be the preferred strategy of adjustment not only for the member states but also for their supranational agents. What is less clear is how the availability of supranational de-commitment affects the intergovernmental conflict over re-commitment. One option, as we have argued, is that de-commitment aggravates the conflict. It allows member state governments to insist on their maximalist positions because it reduces the functional costs of non-agreement. As long as supranational agents take it upon themselves to make unworkable commitments work, their member state principals have little incentive to adjust these commitments formally. This form of principal loss was in evidence during and after the Eurozone crisis. The other option, however, is that de-commitment helps mitigate the conflict. This was in evidence during the Covid-19 pandemic. By taking immediate problem pressure off the member states between March and June 2020, the ECB afforded national governments the necessary breathing space to address deep-seated conflicts over re-commitment.

Given the combination of a deadlock-prone system of intergovernmental decision-making and powerful supranational institutions in the EU, we expect de-commitment to be a more persistent feature of European governance than has been acknowledged in the extant literature. Subjecting this prediction to empirical scrutiny is not straightforward, however, since EU institutions have few reasons to reveal their de-commitment strategies which not only call their legitimacy into question but can also reduce the incentives for member states to re-commit. As our case studies have shown, the ECB's crisis policies turned both its mandate and the meaning of the fiscal rules enshrined in the Treaty on their head. Yet, for legal and political reasons, the central bank had to insist that its interventions were covered by its statutes and in line with the Treaties, as confirmed by the CJEU. The latter suggests that supranational de-commitment may well reach beyond the confines of macroeconomic governance and into the sphere of EU jurisprudence as well.

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