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The Unintended Consequences of Intergovernamentalism.
Ecb and Institutional Change in the Eurocrisis.

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ABSTRACT:
In the last few years of economic crisis, European Union has witnessed several institutional changes. Though national governments seemed to play a major role in managing the crisis, to a certain extent supranational institutions have seen their power increased. Among them, the European Central Bank is certainly the best example: its participation to the *troika* and the toolbox of monetary policy outcomes Ecb used, have indisputably boosted its prerogatives *vis-à-vis* member States. The paper claims that, under the pressure of financial and economic instability, the institutional change affecting the Ecb was mainly an unintended effect of the intergovernmental phase of the crisis management. Paradoxically, then, the action of European governments, and the consequent failure of the solutions they envisaged, rather than limiting supranationalism, was functional to its increase.
The paper stems from the analysis of the limits of intergovernamentalism identified by Fabbrini (2013), arguing that the Ecb gained further powers being the only European institution able to bypass those limits. Indeed, thanks to an evolutive - and sometimes contested - interpretation of the institutional rules and the creation of new ones, the Ecb reduced the coordination problems among member States, and acted to contain the three dilemmas of veto, enforcement and compliance which emerged during the crisis. As a result of its operations, the Ecb succeeded at the same time in calming down the markets and freezing the external pressure on indebted countries, provoking a substantial shift of power from the national to the supranational level. Nevertheless, as a central bank, the Ecb is unaccountable to European citizens. Thus, a further limit of intergovernamentalism, the one of legitimacy, rather than eradicated, was actually exacerbate, worsening the already problematic deficit of democracy in the Eu. In this sense, the product of the failed intergovernamentalism seems to be a sort of "illegitimate supranationalism".

KEYWORDS:
Eurozone crisis - European Central Bank - Intergovernamentalism - Institutional change – Illegitimate supranationalism

Today, mid-2014, far from any ultra-optimistic vision of the European situation, the worst scenarios of the crisis seem to be faded away: a break-down of the Eurozone, which was a recurrent fear a few years ago, is no more a highly debated issue. Notwithstanding the still weak economic growth in some European countries as well as the danger of deflation which makes the economic perspectives still uncertain, Ireland and Portugal successfully exited the financial aid programs started in 2010, and the stress over sovereigns of peripheral States is not as huge as it was a few months ago. In this scenario, some preliminary assessments on the evolution of the crisis can be provided, highlighting the role played by the different actors at stake. I argue that most of the merits of the likely, thought still uncertain, end of the apex of the crisis is to be assigned to the European Central Bank (Ecb). Moreover, I claim that, far from efficiently preventing and managing the crisis, European governments had precise responsibilities in the dramatic prolongation of the crisis itself, because of a succession of half-decisions, taken too late and solving too little. In this sense, the aim of the paper is to demonstrate that the major role of the Ecb is to be considered as an unintended consequence of the failed phase of intergovernamentalism: the more the States faced their limits and difficulties, the more the activism of the Ecb increased, stepping in the political *vacuum* created by the governments.
The paradox of the situation is that, at the beginning of the crisis, governments could rely on enormous powers and responsibilities thanks to the institutional evolution of the last ten years, since the peculiar configuration of the governance in the Economic and Monetary Union (Emu) created in Maastricht up to the new provisions of the Lisbon Treaty. Nevertheless, as noted by Fabbrini (2013), intergovernamentalism, after living its apex, encountered two main problems: effectiveness and legitimacy. The legitimacy concern is due to the fact that the European Council[1] has only a secondary order legitimation, while the sole democratically elected body of the European Union (Eu), the European Parliament, was largely set apart in the crisis management. By contrast, the effectiveness problem is a multifaceted one, related to the organization of the European Council as an intergovernmental arena, thus subject to the problems of collective action, concretely embodied by three dilemmas: the veto, the enforcement and the compliance dilemmas (ibid.). Beside these figures, a more "psychological" limit of intergovernmental negotiations came from the moral hazard, thus the opportunistic attitude to non-compliance of an agreement or a duty which an actor is engaged in. The idea is that States often play free-riding and defection in order to obtain certain gains at the expenses of its partners. Moral hazard dominated the relations among member States in the last years, making the cleavage among creditor and debtor countries even deeper. Taken together, these figures prevented member States to act collectively and to adopt and implement first-best solutions to the crisis, generating as an unexpected result the rising salience of the Ecb.

Ecb was thus the protagonist of an indisputable institutional change: while at the outbreak of the crisis it was duly confined within its mandate of fighting inflation in the Eurozone, it progressively became a proactive institution holding the burden of assuring not only the stability of prices, but the survival of the common currency itself. Thanks to its material and organizational resources, as well as to the nature of its policies, Ecb succeeded in solving a large part of the effectiveness problems encountered by European governments. Its participation to the so-called *troika*, along with standard and non-standard measures of monetary policy it adopted, were fundamental to provide stability to the Eurozone. Nevertheless, as an independent and imperfectly accountable institution, the interventionism of the Ecb did not solve any of the legitimacy problems of intergovernamentalism. On the contrary, if possible, it contributed to the worsening of the democratic deficit in the Eu (Follesdal and Hix 2006).

The aim of the paper is to provide a better understanding of the institutional dynamics that triggered the failure of intergovernamentalism in managing the crisis and the consequent - and unintended, at least for European governments - rising power of the Ecb. Its aim is to demonstrate that this rising power of Ecb has been specular to the deficiencies of the European Council, and to provide some possible explications to this. In order to do this, the paper combines two main perspectives, an empirical one, and an analytical one. The evolution of the European institutional scenario in the last few years will be examined first of all by empirically observing the policy outcomes triggered by European institutions in the last few years in the realm of economic and monetary policies concerning the common currency. Notwithstanding the complexity of the matter and the interdependent nature of the new policies and instruments implemented, those will be considered in two separate levels according to the institution being protagonist of their creation, namely the European Council and the Ecb. For sure, the separation of the narration between the two institutions rather than the assumption of a strict chronological order which would highlight the high interdependence among actors and events, is an artificial device. Though it can be analytically useful in order to better focus the attention on the behavior, the role as well as merits and responsibilities of the individual actors (e.g. the effectiveness problem of the European Council). The analytical section will then try to provide an interpretation of the empirical observation, by adopting a comprehensive perspective of the political situation in the Eu, considering the interaction among institutions as a problem of collective action and then considering in an institutional perspective which features of each institution do contribute to its policy outcomes.

The paper is structured as follows. The first two sections are devoted to the reconstruction of the major policy outcomes promoted respectively by the European Council and the Ecb, with the description of the policy instruments it promoted. An analytical section will follow, which provides an evaluation of the institutional change at stake, showing the link between the limits of intergovernamentalism and the rising role of Ecb. Some concluding remarks over the new institutional configuration of Eu and likely possible consequences for European post-crisis governance will complete the analysis.

The intergovernmental *momentum* and its failures

The Eurocrisis is a complex matter, a multidimensional series of events related to an economic recession, a banking crisis, a government debt crisis and, overall, a political crisis among the member States of the European Union, and of the Eurozone in particular.[1] Along with the evolution of the crisis from a financial one to a governments debt one, several main policy outcomes were created and enforced by the governments of the member States and by supranational institutions, both at the level of crisis prevention and of crisis management. The pressure determined by the crisis forced policy-makers to find solutions in multiple directions: in the realm of crisis management it was necessary to provide financial help to the banking sector hurt by the crisis and to the countries in fiscal difficulties - mainly the peripheral ones, the so-called GIPSI (Greece, Ireland, Portugal, Spain and Italy). Concerning the crisis prevention, the creation of new rules to redefine the obligations of governments in the EMU was required; last but not least, a great effort was devoted to reassure financial markets containing their schizophrenic attitude and speculation. In this scenario, the main actors called to act were the governments of the member States, and of the Eurozone in particular. Indeed, at the beginning of the crisis, the contingencies given by the absence of any instrument of crisis management in EU gave to the European Council the opportunity to play the role of master of the crisis, a quasi-consituent one (Dehousse 2012). For instance, one can consider the hyper-activism of French President Nicolas Sarkozy in 2008-2009 to lead the crisis management under an intergovernmental umbrella. To be sure, some structural elements facilitated this process, namely the structure of governance in the Emu as created in Maastricht, which assured to the governments the power over their fiscal policies notwithstanding the participation to the Monetary Union as well as the Lisbon strategy based on open policy coordination mechanisms among member States for what concerns the economic realm. Since late 2009, finally, the provisions of the Lisbon Treaty, namely the creation of the figure of the President of the European Council, opened up the space for a strengthening of the role of the Council, leading to a phase of acute intergovernamentalism, as pointed out by scholarship (Puetter 2012; Fabbrini 2013).

Yet, despite the potential of the European Council's power, the decisions taken by the governments were hardly effective. Indeed, the story of the Eurocrisis is a story of missed opportunities. Since the outburst of the financial crisis in 2008 with the failure of Lehman Brothers, far from solving the problems, policy responses were often worse than the problems themselves, determining a deterioration of the trust in the markets and undermining relations among member States. An early example is to be found in the very first phase of the financial crisis. In the middle of the financial domino triggered by Lehman Brothers, European governments failed to find a collective solution to set up a coordinate rescue plan for European banks. While French President Nicolas Sarkozy claimed for a European umbrella with common resources to finance the rescue of European banks, the German Chancellor Angela Merkel firmly stood against any coordinate intervention, claiming instead for a less ambitious collection of national responses, following

the hardly-diplomatic formula of "*Chacun sa merde*" (Bastasin 2012, 15). Translation: every State has to deal with its own problems, and European partners will not come rescuing them. The result was a not-too-much-coordinate plan, where European governments agreed to present a patchwork of differentiated national funds to help their banks (Summit of the Euro area countries 2008), making national interests and preferences prevail over European necessities, as would often happen in the years to come. First-best solutions would be taken apart for the sake of national interests.
By the way, the worst was yet to come. In 2009 the Greek tragedy erupted, after that national elections in October sanctioned the victory of the PASOK headed by George Papandreou, which unveiled the previously hidden, enormous, deficit left by the precedent government. The fiscal troubles of the Hellenic State, in theory quite easily manageable at that time given the limited dimension of Greek economy, became a real threat for the existence of the Eurozone. The spectrum of the moral hazard, the quasi-moral attitude of Germany requiring a sort of punishment for the profligate Greece, the explicit limits of the Treaties excluding any form of bail-out (art. 125 TFEU), the fear of having national resources wasted: these were some of the elements of the fatal mix which contributed to transform a limited problem in a gigantic trouble. The solution, after number of formal and informal summits was, in March 2010, the set up of bilateral loans amounting to €80 billions of euro, at a "non concessional rate" and under hard forms of conditionality, namely the set up of a harsh austerity plan in order to reassure the markets and contain fiscal deficit and national debt, with the supervision of a technical body - the *troika* - composed by the staff of the European Commission, the Ecb and the International Monetary Fund (Imf). In the months to come, a similar scheme would apply to Ireland (€85 billions in November, 2010), Portugal (€78 billions in May 2011) and again Greece for a second financial aid in March 2012 (€130 billions)[1]. The intergovernmental negotiations leading to the financial aid plans presented several limits, making it difficult to define them as optimal policy responses. Besides the harsh criticisms on the opportunity and the economic logic of imposing hard austerity plans to countries in fiscal difficulties (Blyth 2013), and the lack of specific analysis of every single national situation (the problems of Greece are not the same as those of Ireland, Spain and Italy, thus precluding a one-fits-all solution), the rescue packages were elaborated too late and with non credible measures of conditionality, especially for Greece, giving the impression to international investors that Europe was not able to find a coordinate and prompt solution to the crisis. A clear example of how European Council's decisions failed to meet market expectations is the agreement on the involvement of private investors in the "haircut" of national debt. The so-called "collective action clause" taken in the Deauville agreement between Merkel and Sarkozy in October 2010 and then welcomed by the European Council - and opposed by the head of Ecb, Jean-Claude Trichet - determined weeks of panic among international investors (Bastasin 2012, 239), demonstrating how much market behavior and political decisions have been interlinked in the years of the crisis.
The necessity of giving credibility, and at the same time power, to the financial aid plans for peripheral States made it necessary to abandon the logic of the bilateral loans and to create *ad hoc* financial safety-nets to eventually help bigger States (e.g. Italy and Spain) considered as too big to save. In this sense the progression of the financial instruments is represented by a long list of acronyms, including the Efsm (European Financial Stabilization Mechanism), the Esfs (European Financial Stability Facility), and finally the Esm (European Stability Mechanism), all created between 2010 and 2012. The Efsm is an emergency funding program guaranteed by the European Commission able to raise up to €60 billions; the Esfs was a temporary rescue mechanism expired in July 2013 and then substituted by the Esm, with a lending capacity of €500 billion. Yet the path leading to the Esm is another example of non-optimal crisis management by European governments, failing to present credible solutions to the crisis for a number of reasons. The compromise found with the Esfs was seen as non credible because of its temporary nature: what if another crisis comes out after the expiration of the fund? Yet the Esm, though stable and non temporary, suffers from a lack of resources: what if Spain - or worse, Italy - needs a financial help? The fund would be completely unable to afford such a situation. At the basis of this problems, again, there are the structural deficiencies of intergovernmental negotiations: creditor countries being reluctant to engage money of their citizens to finance the - supposed - profligacy of their partners.
That explains why, in the meanwhile, States strove not only to manage the crisis, but to prevent eventual dangerous situations, with the creation of numbers of new agreements and provisions thought as instruments of crisis prevention, transforming the policy framework of the Emu. The main devices of crisis prevention created are, chronologically, the European Semester in September 2010, Euro Plus Pact in March 2011, the Six Pack in December 2011 - which absorbed the European Semester - the Fiscal Compact in March 2012 and the Two Pack in March 2013. Taken all together, the measures aim at strengthening the vigilance over national budgets, so to limit possibilities of excessive deficits, reinforcing the provisions of the Stability and Growth Pact (Sgp). The Six Pack and the Two Pack are a set of communitarian regulations and a directive whose aim is to assure sound fiscal policies, by introducing early sanctions to profligate States, a system of reversed majority to make sanctions more credible, as well as a coordinate timing at European level for the elaboration of national budgets (Buti and Carnot 2012). The Euro Plus Pact and the Fiscal Compact are two intergovernmental agreements with a peculiar legal nature: they do not bind all the member States of the Eu, thus they formally represent international agreements, but they involve European institutions such as the Commission and the Court of Justice in some of their provisions. The Euro Plus Pact, as the name suggests, is an agreement including the members of the Euro area and six other members of the Eu, aiming at "strenghtening the

economic pillar of EMU and […] improving competitiveness and facilitating convergence" (European Council 2011). Still the most important - and controversial - measure adopted to reinforce the budgetary framework of European countries is the Fiscal Compact (formally the Treaty on Stability, Coordination and Governance in the Emu). Among its main provisions there are the inclusion in the national Constitutions of the obligation of maintaining a balanced budget, an obligation of automatic corrections in case of excessive deficit and a road-map for the containment of sovereign debt, the recognition of the jurisdiction of the Court of Justice of Eu for the control of the inclusion of the rules in the national regimes and finally a mechanism of automatic sanctions.
Notwithstanding the clear necessity of adopting some rules to reinforce the provisions of the Sgp which resulted overtly ineffective, the set of decisions taken in the crisis prevention realm suffers of the recurrent limits of intergovernamentalism already highlighted. First, the Euro Plus Pact and the Fiscal Compact were seen from the international investors as devices adopted too late and solving too little. That is to say that they would not succeed in their main task to prevent another crisis. Second, they are a product of what O'Callaghan (2013) defines as "monological thinking", that is a monologist narrative that prevents any counter-arguments or alternative narratives. The monological thinking at stake, namely, is the necessity of applying austerity to every member States through the containment of national budgets. Finally, the new instruments do limit but do not completely exclude the possibility of moral hazard of any member States, thus neglecting a major problem of policy coordination.
As a result one could argue that, after several years of layering of new instruments, new mechanisms, new agreements and Treaty modifications, European governments failed to take advantage of the enormous power that European Council obtained in the years of the crisis. In this situation, space was progressively opening up for an enlargement of the prerogatives of the Ecb, which stepped in to avoid the definitive collapse of the Eurozone.

The Ecb: A step in the political *vacuum*

Beside the difficulty of finding valuable agreements within the European Council, European institutions struggled to push ahead their role, trying to influence the exit-strategy from the crisis, with the remarkable exception of the European Parliament (Sacchi 2014). The European Commission, though abdicating most of its initiative power to the European Council and being less proactive than one could expect (Hodson 2013), increased its prerogatives *vis-à-vis* the member States, namely in the capacity of monitoring their fiscal position (Bauer and Becker 2014). Nevertheless, the Ecb is undoubtedly the institution that has taken the greatest advantage of the crisis in terms of activism and responsibility, in three main dimensions: the support to the banking system; the monitoring of the conditionality measured imposed with the financial aid programs through its participation to the *troika* and the interventions in the market of sovereigns.
Concerning the first aspect, thus the safeguard of the banking system, the Ecb played its independent role generally in coordination with other central banks (Irwin 2013). What was peculiar, though, is its difficult position, consisting in fighting the financial turmoil within the rigid limits of the Treaties defining its mandate. Indeed, according to the article 127 of the TFEU, Ecb has the sole and primary goal of maintaining price stability in the Eurozone, defined as a year-on-year increase in the index of prices for the Euro area of below 2%. It is commonly known that - unlike the US Federal Reserve, for instance - the Ecb can sustain economic growth and full employment only without prejudice to the objective of price stability. In this perspective, the bank of Frankfurt since 2008 struggled to maintain a fragile equilibrium between the fight against inflation and the outstanding necessity of flooding the market with liquidity in order to re-establish a correct monetary transmission and to sustain the highly stressed banking sector. In this respect, a strong commitment of the Ecb with regard to European banks was surely within its prerogative, though it became a necessary action to counterbalance a precise deficiency of the States, namely their reluctance to severely and objectively asses the state of their banks as well as to share a banking supervision at European level[1]. Beside the progressive decrease of interest rates, Ecb played some non conventional instruments, among them two LTROs (Long Term Refinancing Operations) between 2011 and 2012 to ensure stable funding to banks (Ecb 2012), and the very recent operation of quantitative easing in June 2014, with the announce of several rounds of cheap long-term funding of European banks (The Economist 2014). The solution found to solve the enigma of reconciling the defense of price stability and the necessary help to the banking sector is that non standard measures ensure a correct transmission of the monetary policy to the real economy, which is essential to the price stability. In this sense, non standard measures can be considered as a stretching, but not an overt violation, of the Ecb's mandate.
The participation to the *troika* is the second, and more controversial, aspect of the interventionism of the Ecb. The role of the Ecb within the body is a combination of technical reasons - Ecb has better technical resources than any other institution to monitor economic evolutions within a country - and political ones. Namely, its involvement was a sort of compromise to counterbalance the presence of the Imf with a strong and well functioning European body. The presence of Ecb was also a consequence of its deep involvement in the aid program to Greece (Irwin 2013, 245): as before the financial aid plan the Ecb decided to accept Greek debt as collateral in order to help the country, it was necessary to closely monitor whether the country respected the conditionality measures imposed. Hence its participation to the t*roika*, which opened up harsh criticisms on the role of the Ecb: how could an overtly unelected body take decisions over the capacity of taxing and spending of a democratic country? Wasn't the participation of Ecb to the *troika* an illegitimate intrusion of the institution in policy areas out of its competence? The debate is still open and lively among observers (Barbier 2012; Torres 2013), what is sure is that through its participation to the *troika* Ecb

contributed to the credibility of the financial aid measures, increasing at the same time the responsibilities of the institution toward the citizens of the countries under special observation.
The third, and probably the most relevant, field of action of the Ecb during the crisis was the one related to the financial sustain to the member States under pressure of international markets. Indeed, a major problem of some country during the Eurocrisis was the difficulty to find international investors willing to fund their debts through sovereigns, determining an increase of their borrowing costs, thus further problems to serve the debt and an opportunity for speculators to step in, betting on the default of the States. The attitude of the Ecb in this respect was evolutive, taking a progressive interventionist attitude up to the adoption of unconventional measures that even triggered internal divisions within the institution. Again, the measure of what is conventional is given by the eventual conformity to the letter of the Treaties. In this respect, the main limit of the Treaties is the article 123 of the TFEU, preventing Ecb to directly finance national debt and which in practice prevents the Ecb from being the lender of last resort as a central bank usually is (Hu 2014). The interventionism of Ecb followed three major steps. The first is related with the early phase of the crisis, thus the financial turmoil before the break up of the debt crisis, precisely between May and fall 2009. The Ecb, then headed by Trichet, in those months set up the so-called Great Bargain with European banks (Bastasin 2012, 111), a secret deal which can be seen as an indirect, veiled financing of government debt by the central bank. The deal went as follows: Ecb accorded to European banks a huge amount of liquidity, then the same banks were "warmly invited" by national ministers to reinvest the liquidity by purchasing national bonds, with a double advantage: for the banks, that got higher yields rather than having their money parked in the Ecb; and for the States, that could allocate new-issued bonds, helpful for the recapitalization of the banks. The deal, for sure, was taken in the perspective that European countries adopted those reforms required to find an exit strategy from the financial crisis, namely by taking measure to supervise the bank sector and deleverage the major banks. After three liquidity operations, Ecb realized that no measure was taken by the governments, thus decided to stop the "Grand Bargain". Again, the spectrum of the moral hazard linked Frankfurt and the European capitals. If this was not an overt violation of the Treaties, it was at least a menace for the respect of their spirit.
The second step in the sustain of national economies during the sovereign crisis is represented by the Smp (Securities Markets Programme), which is a program of sovereign purchase implemented by the Ecb between 2010 and 2012 (Ecb 2010). Notwithstanding the impossibility for the Ecb to directly finance States' debt, it can operate on the secondary market (that is, purchasing sovereigns already issued in the open market) as a normal investor, as it actually did. In this way Ecb succeeded in sustaining European countries under market pressure formally remaining within the limits of its mandate[1], with the result of temporarily relaxing European over-stressed peripheral States (Eser and Schwaab 2013). Such non standard measure was thought as an exceptional measure in exceptional times, considering the internal division that such operations triggered. Ecb acted two different rounds of Smp: the first was decided in May 2010, and a second round was set up in 2011 when the pressure of markets was high for Spain and Italy. The total amount of money released in the two Smp rounds is around €160 billions. Despite the entity of the help represented by the Smp, its potential is not infinite; the idea underlying Smp is not the one of financing States without limits of money and time, rather that of buying times to governments in order to have the reforms voted and implemented. Which resulted, given the severity of the crisis, as largely inadequate.
The third, and apparently definitive step is represented by the so-called Outright Monetary Transactions (Omt), which is the nuclear bomb in the hands of the Ecb, whose strength is its real power of deterrence (Ecb 2012). The decision follows the famous announce of Draghi to do "whatever it takes to preserve the euro" in July 2012 when asked of the means Ecb was setting up the rescue the euro (Draghi 2012). Omt are programs of unlimited purchase of sovereigns made by the Ecb under strict conditionality, which are implemented when a State clearly shows its intention to apply. Omt goes as follows: when a State needs a credit line, it asks for the intervention of the Esm, then accepts some terms of conditionality. In this scenario, Ecb guarantees unlimited support to finance Esm. Being apparently a limitless support to member States, Omt are a strong arm against speculation, because no investor would bet against a central bank showing intentions of full commitment, even being Spanish or Italian bond market at stake. Omt differs from Smp in the two main aspects that went out to be the major deficiencies of the Smp: Omt are programs of unlimited purchase - while Smp are temporary, thus impotent against speculation - and they present a clear conditionality - while Smp did not, raising the recurrent risk of moral hazard. The fact that, up to now, Omt have not still being implemented, is in favor of the opinion that they could be the definitive arm against speculation on sovereigns. As mentioned above, the conditionality opens up a great debate about the feasibility - and opportunity - of these operations: what if a State does not respect the conditionality? Ecb should stop its unlimited purchase, wasting any possibility of recovery of the State, which is in the interests of the Ecb itself. Again, the legitimation problems as well as the future perspective of this peculiar policy response are less than clear and highly disputable. Nevertheless, for the moment, Omt seems to be the definitive response, in the economic realm if not in the political one, of the Ecb to the crisis of the Eurozone.

Ecb and institutional change: An interpretation

The empirical observation of the previous sections shows that the operations implemented by the Ecb can be seen as specular to the inefficiency of the Council. Thus, it appears the great paradox of the Eurocrisis: although structural and contingent conditions opened up the space for an unprecedented phase of intergovernmental management of European

politics, the governments of the member States failed to take advantage of this situation, determining an increase of the responsibilities of supranational institutions, and of Ecb above all.
The failure of the intergovernmental phase is the combination of different elements, each playing a decisive role. On the one hand political cleavages prevented the consolidation of a shared attitude towards the measures to be undertaken, especially in the very first phase of the crisis, before that a quasi-consensus was reached around austerity-lead measures. For instance, considering the orientation toward the rescue of banks, left-wing governments were more prone to their nationalization (see for example UK under Brown's government), while right-wing governments were prone to let the market decide the destiny of the banks (Bastasin 2012, 59), with the result that no Europe-wide action was undertaken, forcing the Ecb to act in order to solve the problem. On the other hand, a major element of disunity was given by the irreconcilable clash between national and European interests: what is good for the Eurozone as a whole is not necessary good for a single State, mainly because of major differences in the economic structure of the countries (Hall 2012), thus in their political preferences. And the head of a government is quite understandably concerned with the sentiments of his national electorate, rather than a general European interest. In this respect, Merkel's government experience is enlightening. Germany turned out to be unable to play the hegemonic role that its economic strength would suggest (Bulmer and Peterson 2013). In the words of Guerot (2012), "Merkel is leading a two-front war […]. She is squeezed between her own citizens and what the world (including her European neighbors, the United States, China, and not least the markets) expect her to do - and this means she cannot deliver an outcome that Europe and the euro might need but that German citizens oppose". Which explains the ambiguous attitude of Germany in these years. And for sure, much of the European heads of States are as squeezed as Angela Merkel is. The combination of the two elements - ideological cleavage and domestic political constraints - basically prevented European governments to find any optimal policy response to the crisis.
Assuming a collective action perspective, one can add further elements to understand why the intergovernmental management of the Eurozone, i.e. the coordination of national policies in a loose legal framework, failed to provide optimal policy outputs, lacking of the necessary effectiveness. And when confronted with a major crisis, it left the Eurozone in the hands of market will. In particular, three main obstacles governments faced while taking coordinate solutions, embodied by the three dilemmas identified by Fabbrini (2013): the veto dilemma, the enforcement dilemma and the compliance dilemma. The veto dilemma refers to the necessity of neutralizing opposition and multiple veto-players in a unanimity rule regime, which has as direct consequence the one of taking non optimal decisions - the only possible minimum compromise - in a longer span of time. A clear example is represented by the infinite negotiations about the financial aids to give to Greece, with a final solution found out to be ineffective for the purpose and, which is worse, agreed too late to solve the problem. The enforcement dilemma is linked to the guarantee that a decision taken on a voluntary base is then correctly applied (e.g. the internal approval of the Esm). Finally, the compliance dilemma is the one related to the respect of a rule once applied, even if it does not fit anymore the interests of a country. Taken together, the three dilemmas prevented the intergovernmental moment to take effective solutions to the crisis.
If the European Council proved to be inadequate to face the economic and financial turmoil, in the opposite, Ecb had the instruments, and the political will, to counterbalance the weaknesses of governments. In particular, Ecb turned out to be perfectly suited to overcome the three dilemmas, and this let the bank of Frankfurt become the master of the crisis in Europe. To start with, the greater efficacy of the measures by Ecb is to be attributed partly to some organizational aspects, which make the decision making process lighter than the one within the European Council, and partly to the nature itself of the monetary policy, whose effects are more immediately visible than the ones of fiscal policy and coordination taken by the governments. Concerning the veto dilemma, Ecb has the possibility to overcome it because within the Governing Council the decisions are not taken by the unanimity rule, but by majority. This means that there are fewer possibilities of having blockage minorities. The position of the Bundesbank within the Ecb Board, often not in line with the majority - see for example Stark and Weber *affaires*, both resigning for disagreeing with the Ecb policy responses during the crisis - did not prevent the Ecb from taking the interventionist approach it had in the last years. Moreover, in order to reinforce the independence of the single members, transcriptions of the board meeting are kept secret for thirty years, which makes the monetary policy definition easier and less political involved.
Concerning the two other dilemmas, the enforcement and the compliance one, the measures taken by the Ecb do not need, for their nature, the long process of internal enforcement and application, for instance, required by a new Treaty (e.g. the Fiscal Compact). That is to say that the nature itself of the measures of the Ecb have a quicker transmission to the economy, thus also on the confidence of market operators, than the "normal" measures taken by the governments.
A second important element is due to the fact that the Ecb is in a stronger position *vis-à-vis* the member States than any other of their partners, in the battle against moral hazard. Indeed, while required of the implementation of structural reforms, a State can play moral hazard and their partner can do little to prevent this, hence the enforcement and compliance dilemmas. On the contrary, Ecb has the instruments of "blackmailing" the States, using its theoretically endless means coming from the possibility of creating money, which gives to Ecb a stronger position. The famous letter to the Italian government sent by the Ecb in August 2011 (Corriere della Sera 2011) is a clear example. In the letter Draghi and Trichet did not hide very much the counterpart of the eventual decision of not reforms: if Italy didn't apply the promised reforms, Ecb would have stopped to buy Italian bonds through Smp. Omt,

for their nature, present the same nature: financial aid is given only if there is a formal request to the Esm and under the lines of a reform path. To this, one has to add that the participation of Ecb to the *troika* is by itself a way to overcome the dilemmas of enforcement and compliance, because Ecb can directly monitor the evolution of the reforms within a State.

As a consequence of this process, Ecb's activism and effectiveness became a major element for the stabilization of Europe, whereas the European Council lost much of its credibility to guarantee an exit-strategy to the crisis. Every single measure taken by the Council is doomed to fail because of the possibility of emerging multiple veto-points, of coordination problems, of predominance of national interests and so forth. Thus, what seemed to be the triumph of the intergovernmental method to manage Europe, showed all its weaknesses. As a reaction to this fragility, a quasi-federal institution - the Ecb - is becoming more and more central not only for the monetary policy, but as the institution holding on its shoulder much of the burden of the governance of euro. Supranationalism, here intended as growing power for supranational institutions, seem to be an unintended consequence of the intergovernmental phase.

Conclusions: Towards an "illegitimate supranationalism"?

The analysis carried out shows that for structural reasons and for organizational ones the Ecb turned out to be in a suitable position to step in the *vacuum* created by the weak and fragile decision-making process of the European Council. As highlighted before, the instruments created by the Ecb seem to have limited the eurocrisis, stopping the speculation and helping European countries in the path of structural reforms. Far from claiming that the power of member States' governments has been annihilated during the crisis - the round of European nomination after the European elections reminds us of the key role still played by the European Council - we have witnessed a sort of shift of power toward the supranational level in the realm of economic and monetary policies related with the common currency. These transformations open up an uncertain scenario over the future institutional configuration of Eu, and feed a lively debate about the kind of supranationalism which Eu is going toward and the democratic legitimation in the continental polity.

The institutional configuration created by the crisis can be defined as a sort of illegitimate supranationalism (Sacchi 2014). As a consequence of the *vacuum* left by the governments, two supranational institutions saw their powers increased, i.e. the Ecb, and partly the Commission. Thus, two political bodies without any electoral legitimation. On the other hand, the only politically legitimate institution, the European Parliament, was largely set apart, hence the definition of illegitimate supranationalism. This dynamic is hardly a deliberate choice of European policy-makers, unlike some authors have pointed out (Schimmelfennig 2014) in line with a classic perspective of liberal intergovernamentalism (Moravscick 1998). Rather, it can be seen as the natural product of a highly integrated, globalized and ever-transforming world economic environment. The recent years have seen a dramatic increase of the power of finance, which has become a major actor in the inter-States relations, dictating a new timing for the policy-making. Finance and international investors have completely changed the dynamics of policy-making, forcing them to take rapid and immediately effective measures. Which is not always easy, as the works within the European Council witness. Hence the better position of Ecb to face the rapidity of the markets, which opens up a crucial debate over the possible future harmony between markets and democracy. Will it be possible to maintain the current modes of governance in a more and more integrated world? Is the transformation that Eu witnessed toward the illegitimate supranationalism just a *momentum* triggered by the crisis or the genesis of a new mode of global governance, where legitimate bodies see their powers constantly decreased? Are non elected bodies the necessary element to counterbalance finance?

Yet, a further risk is given by the possible path dependence that the process can trigger. There is actually a risk of path dependence, which has been already highlighted for some aspects of the current crisis (Meunier and Gocaj 2013): it could be difficult to reverse the process of high interventionism of the Ecb in the political realm, i.e. in playing conditionality. A reform of the system, thus a sort of codification of the practices emerged during the crisis through a reform of the Treaties could be necessary to take into account this new role, notwithstanding the highly possible resistance of Germany and the patent limits of an intergovernmental management of this transformation. Only the time will probably tell us whether this institutional change is a paradigm shift in the Eu, stably changing the power relations among member States and institutions, or rather it is a temporary adjustment which will be reabsorbed once the exceptional conditions of the crisis will fade away. What we know, for the moment, is that Eu governments do not seem to be in the best shape to manage such historical phase of the European integration.

[1] In this paper the focus of the analysis is on the European Council, even if it should be associated to the Council of Ministers as a major institution of intergovernmental coordination of European policies. The choice of taking the Council apart from the analysis is due to the preeminence gained by the European Council in the last few years over the Council, especially in those policy areas here considered (i.e. economic and monetary policies), as well as at a legislative stage, which made the European Council a sort of supervisor of the Council (Puetter 2012, 162).

[2] A non exhaustive presentation of the literature on the Eurocrisis include Bastasin (2012), Hall (2012), Irwin (2013) for what concerns more specifically the role of the central banks, and Lucarelli (2013) for a critique comparison with the past of the monetary union. An accurate, though preliminary, analysis of the crisis management is done by Buti and Carnot (2012) and in the special issue of the Journal of European Integration (2013) with a focus on the changing governance of the common currency. De

Witte et al. (2012) considers the consequences of the crisis for democracy in Europe and the democratic problem within the member States.

[3] Whereas the first financial aid to Greece was formally a set of bilateral loans made by European partners and IMF, the second package for Greece was financed by the European Financial Stability Facility (EFSF), the aids to Ireland and Portugal through a joint commitment of EFSF, ESFM and IMF. Further helps were provided to Spain for the recapitalization of its banking system, as well as to Cyprus and to other non-members of the Monetary Union (a complete overview of the assistance programs can be found at the website http://ec.europa.eu/economy_finance/assistance_eu_ms/ (accessed July, 16th, 2014).

[4] In this respect, some progress will be probably appreciated with the creation of the banking union, which is on its way and will be probably completed in the next future.

[5] In order to avoid a raise of inflation in consequence of the interventions, the Ecb "sterilized" the mass of money created during the SMPs, i.e. the amount of money in circulation has not globally increased.

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