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Asking Big Questions Again

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Abstract

Started in 2010, and still not fully over in some countries, the Euro crisis has been the major shock European economy has been through ever since the beginning of European integration. Triggered by the 2008 Global Financial Crisis, it made apparent a series of structural imbalances and failures in the design of the Eurozone, putting into question the own nature of the Economic and Monetary Union (EMU) and the survival of the common currency.

In spite of the doubts emerged concerning the future of the Euro, the response to the crisis eventually led to a deepening of economic integration within the EU. This is visible in the establishment of the European Stability Mechanism (ESM), the creation of a Banking Union and the deepening of fiscal coordination through measures such as the Six pack, the Two pack and the so-called Fiscal Compact. Economic coordination was also strengthened through the Euro Plus Pact.

Which were the driving forces and key actors of this deepening in economic integration? Are they found at a national or at a supranational level? These are the questions that this paper aims to answer, through the study of the strengthening of the fiscal and economic pillars of EMU. The analysis will be done through the lenses of the two grand theories of European integration: Neofunctionalism and Liberal Intergovernmentalism; as well as a more recent theory: the New Intergovernmentalism approach.

The paper will argue that the deepening of fiscal coordination can be theorized as the result of asymmetrical interdependence and differences in bargaining power among member states, which decide to transfer national sovereignty as a tool for reaching credible commitments.

1. Introduction

Started in 2010, and still not fully over in some countries, the Euro crisis has been the major shock European economy has been through ever since the beginning of European integration. Triggered by the 2008 Global Financial Crisis, it made apparent a series of structural imbalances and failures in the design of the Eurozone, putting into question the own nature of the Economic and Monetary Union (EMU) and the survival of the common currency.

In spite of the doubts emerged concerning the future of the Euro, the response to the crisis eventually led to a deepening process of integration in the area of economic governance involving a transfer of competences towards the supranational level. The main decisions in this area were the establishment of the European Stability Mechanism (ESM) as a permanent bailout mechanism, the creation of a European Banking Union, and the deepening on fiscal and economic coordination measures through the expansion of the Stability and Growth Pact (SGP).

How can this be explained? Which were the key actors and driving forces of the negotiation processes that led to more integration during the Euro crisis? Different integration theories would give different answers to this research question, by providing a wider framework to the specific decisions taken in fiscal and economic governance. This paper will assess the answers given by three of these theories: Neofunctionalism, Liberal Intergovernmentalism and New Intergovernmentalism. This choice seeks to provide a wide approach to the topic, through the combination of grand theories with more recent approaches, as well as of different views about which are the driving forces and key actors of European integration.

In order to provide an exhaustive analysis, this paper will focus on the deepening of the economic and fiscal pillars of the EMU during the Euro crisis. This choice responds to the strong implications that the coordination of fiscal and economic policies has for national sovereignty, as well as for the room of *manoeuvre* left to member states in the elaboration of their national budgets.

The paper will proceed as follows: section 2 provides a closer look to the strengthening of fiscal coordination during the Euro crisis. Section 3 establishes the analytical framework, through a review of the state of the art, the operationalization of the analyzed theories and the development of the data and methods for analysis. Section 4 reconstructs the negotiation processes on fiscal coordination and assesses the data with the expectations from section 3. Section 4 concludes.

2. The strengthening of fiscal coordination during the Euro crisis

As advanced in the introduction, the Euro crisis led to a deeper coordination of economic policy in the EU: “the pre-crisis institutional framework considerably advanced under all main policy areas of EMU” (Niemann and Ionnau 2015, 199). This section will outline the characteristics of the four main decisions taken in the area of economic and fiscal coordination starting in 2009 and until March 2012: the European Semester, the Pact for the Euro, the Six-pack and the Treaty on Stability, Coordination and Governance (TSCG), also known as ‘Fiscal Compact’.

The *European Semester* was negotiated throughout 2010 and adopted starting in January 2011. It is “the EU’s annual cycle of economic policy guidance and surveillance” (European Commission 2016b) and it consists on the yearly monitoring by the Commission of member states’ budgetary and macroeconomic policies. After this monitoring, the Commission provides every country with specific recommendations for the following 12-18 months (European Commission 2016a).

The *Pact for the Euro*, also known as the *Euro Plus Pact*, is an intergovernmental agreement adopted under the Open Method of Coordination in March 2011 and signed by all member states except Croatia, the Czech Republic, Hungary, Sweden and the UK. It was conceived as “an intergovernmental solution to increase fiscal and economic discipline in the Member States” (European Political Strategy Centre 2015) focusing on four areas: competitiveness, employment, sustainability of public finances and reinforcing financial stability. The monitoring and implementation of the agreement is developed in an intergovernmental framework, without any involvement from the Commission.

The *Six-pack*, consisting of five directives and one regulation with the aim of strengthening the SGP, was adopted by all member states on December 2011. It introduces the quantification of what is considered to be a *significant deviation* from the medium-term [macroeconomic] objectives of the SGP. It also allows the possibility of launching the Excessive Deficit Procedure (EDP) in cases of national debts exceeding the allowed 60%. Finally, it introduces the possibility of financial sanctions applied through reverse qualified majority voting (RQMV)¹ for those countries not complying with the rules.

Finally, the *TSCG* is an intergovernmental treaty, not embedded on EU legislation, signed by all European member states with the exception of the Czech Republic and the UK. It runs in parallel to the Six-pack, complimenting it while including stronger provisions. The most important for our analysis will be the requirement that member states shall include the deficit provisions concerning the SGP into their national law, “preferably of constitutional nature” (European Commission 2013).

3. Analytical framework

a. State of the art: European integration and the Euro crisis

The Euro crisis being a recent event, it is still generating a wide range of literature analyzing it from different domains. This section will provide a closer look to the existing literature on the topic of the Euro crisis from a European Studies point of view, focusing on those analysis that aim to identify the dynamics and processes behind the deepening of European integration during the crisis.

The debate about which theory can explain better the deepening of European integration triggered by the crisis is still an ongoing one in the literature, and those who have contributed to it have stated that there is still scope for further research (i.e. Niemann & Ionnau 2015, Schimmelfennig 2015). The Euro crisis has been analyzed through the lenses of Neofunctionalism (Cooper, 2011; Niemann & Ionnau, 2015), Liberal Intergovernmentalism (Schimmelfennig, 2015) and Deliberative Intergovernmentalism (Hodson & Puetter, 2013). Most of these studies provide a broad approach to integration during the Euro crisis, and thus leave scope for further research on more specific elements of the negotiation processes. This is the gap that this paper aims to fill by focusing on fiscal coordination. A closer look to the literature analyzing the Euro crisis from the point of view of these theories can be found in the following subsection.

¹ “According to the reverse qualified majority voting (RQMV) . . . a Commission recommendation is deemed to be adopted unless the Council decides by qualified majority to reject the recommendation within a given deadline that starts to run from the adoption of such a recommendation by the Commission.” (European Parliament 2011)

There is also a set of studies providing different explanations from the ones which will be assessed throughout our paper. Vilipisaukas (2013) focuses on the fact that integration nowadays cannot be explained without taking into account the dimension of national politics; while Leska (2013) points to the relevance of new approaches such as social constructivism. Finally, Lefkofridi & Schmitter (2015) see integration as a mix of processes of build-up, spill-around and retrenchment.

b. The theories assessed

The study of this paper will be performed through the lenses of three theories of European integration: those of *Neofunctionalism*, *Liberal Intergovernmentalism* and *Deliberative Intergovernmentalism*. For every theory, the section will elaborate its main conceptual elements, overlook the existent literature in the context of the crisis and set the expectations for further analysis.

Neofunctionalism

Neofunctionalism sees integration as a *process* whereby “political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities towards a new center” (Haas 1968, 16). It “contests both that states are unified actors and that they are the only relevant actors” (Niemann and Schmitter, Neofunctionalism 2009, 47), by giving special importance to the concept of elite socialization, a process whereby loyalties shift towards a new center. This is complemented by the role of interest groups, who, by shifting their operational arena towards the supranational level, develop the expectation that “common problems can be more easily met by a federal authority” (Haas 1968, xxxiii).

The main explanation of the driving forces of integration given by Neofunctionalism lies on the concept of spillover, which is presented in three main ways: functional, political and cultivated. *Functional spillover* refers to the idea that integration in one sector leads to integration in other sectors: “cooperation in one policy area would create pressure in a neighboring policy area, placing it on the political agenda, and ultimately leading to further integration” (Jensen, 2010, pp. 72-73). *Political spillover* explains further integration as the result of political actors becoming “aware that their interests can no longer be adequately served at the national level” (Eilstrup-Sangiovanni, 2006, p. 94). Finally, *cultivated spillover* focuses on the role of the Commission and other supranational institutions who use their role as mediators of diverging interests as an opportunity to expand their competences: “[the] lack of agreement between governments may lead to an expanded role for the central institution; in other words, Member States may delegate difficult problems” (Lindberg, 1963/2006, p. 124).

Neofunctionalism has been used as a tool for analyzing the response to the Euro crisis, but also the origins of the crisis itself. Already in 2011, Cooper discussed the crisis as a *revenge of neofunctionalism*, claiming that it had been triggered by a spillover effect: monetary integration pushing towards a fiscal union (Cooper, 2011). In a more extensive analysis, Niemann and Ionnau (2015) conclude that the *integrative impulse* in the Eurozone responded mainly to functional pressures, supranational institutions and transnational interest groups. They also refer to the active role of the Commission, the European Parliament and the European Central Bank, stating that “the overall process towards further integration during the crisis would not have taken place to the same extent without [their] involvement” (Niemann and Ionnau 2015, 209).

Neofunctionalism would explain further integration in the area of economic governance as the result of spillover processes. In terms of functional spillover, integration in one area (monetary policy) would lead to functional pressures, and eventually, to further integration in another area (economic policy). Political spillover would expect member states, as well as interest groups, to realize that their interests can no longer be served at a national level, and thus shifting towards a supranational approach. As for cultivated spillover, the Commission would be expected to take advantage of the different positions of member states concerning the resolution of the economic crisis, using this opportunity for setting the agenda and increasing its power. For Neofunctionalism, the key actors of this process would be supranational institutions such as the Commission, the European Central Bank (ECB) or transnational interest groups.

Liberal intergovernmentalism

As a theory, Liberal Intergovernmentalism (LI) considers member states of the Union to be the main actors of European integration, which is seen the result from a “series of rational choices made by national leaders who consistently [pursue] economic interests” (Moravcsik 1998, 3). Concerning the main actors of this process, “where neofunctionalism emphasizes the active role of supranational officials in shaping bargaining outcomes, [LI] stresses instead passive institutions and the autonomy of national leaders” (Moravcsik, 1993/2006, p. 300). For LI, there are three main driving forces of European integration: economic interdependence among member states, the relative bargaining power of the

involved governments, and delegation in supranational institutions as a tool to enhance the credibility of interstate commitments (Moravcsik 1998).

LI sees the formation of preferences determining the negotiation process as being defined in the national arena and “constrained by the interests of dominant, usually economic, groups within society” (Cini 2010, 97). Thus, the preferences of national governments mainly reflect concrete economic interests, even if geopolitical ones are also important (Moravcsik & Schimmelfennig, 2009). For LI, the outcomes of international negotiations reflect the result of the asymmetrical interdependence and the relative bargaining power of the actors. Finally, LI explains delegation as the result of two main incentives: the creation of credible commitments and the reduction of transaction costs. With transaction costs, Moravcsik refers to the costs of “identifying, negotiating and enforcing intergovernmental agreements under uncertainty” (Moravcsik, 1993/2006, p.297). In this context, institutions are seen as a tool for “reducing the transaction of costs of further international negotiations on specific issues and by providing the necessary information to reduce the state’s uncertainty about each other’s preferences and behavior” (Moravcsik and Schimmelfennig 2009, 72).

The Euro crisis has been analyzed by a liberal intergovernmentalist perspective by Schimmelfennig (2015), who claims that member states’ response to the crisis “can be explained plausibly as a result of intergovernmental bargaining based on partly converging and partly diverging member state interests and designed to strengthen the credibility of member state commitments to the common currency” (178). The author claims that the bargaining process has been member state-driven, with Germany playing a leading role as a result of its stronger bargaining power. This view is shared by other scholars (i.e. Leska 2013, Vilipisaukas 2013).

Within the framework of the Euro crisis, LI would expect strong member states (notably Germany and France) to have a leading position during the negotiation processes, while supranational actors such as the Commission or transnational interest groups would play a marginal role. The economic interdependence resulting from the Euro crisis would lead these countries to pursue further economic integration as a tool for defending their national interests (LI would emphasize these interests as defined in the national arena). Delegation would be seen as favoring these interests by creating credible commitments in terms of economic discipline affecting the whole of the Eurozone. The final outcome of negotiations would be the result of the relative bargaining power of member states in the framework of intergovernmental negotiations.

New Intergovernmentalism

The New Intergovernmentalism (NI) is a more recent theory, which focuses on the dynamics of integration in the post-Maastricht era. It sees the European Union as going through a process of “integration without supranationalization” (Bickerton et al., 2015, p. 39), where national governments are the key players, and the European Council and the Council, the most important decision arenas.

The two core components of DI are the following: a process towards more integration, but outside the traditional community method, where member states are the main decision-makers, and the importance of consensus-seeking and “deliberation as an inherent feature of EU decision-making” (Puetter 2014, 38). While DI sustains the traditional LI idea of the EU as an intergovernmental regime designed to manage economic interdependence, it differs in its conception of preferences, assuming that these are no longer predefined (Puetter, 2014). For NI, decision-making processes are no longer determined by pre-established preferences coming from the national arena. Instead, they have become “increasingly deliberative and consensual” (Bickerton et al., 2015, p. 1). Furthermore, this new intergovernmentalism also differs from LI in stating that the final outcome of the bargaining process is not the result of relative power of different actors, but of member states showing an ‘unprecedented determination to act collectively even in cases of severe disagreement’ (Hodson & Puetter, 2013, p. 374).

As for the role of supranational institutions, NI emphasizes the increasing importance of the European Council and the Council. For this theory, the Commission would no longer have a major role as driver of European integration (Puetter 2014). In this line, DI shows member states as willing to “limit the further expansion of powers of the Commission and the Court of Justice” (Bickerton et al., 2015, p. 39).

Concerning the Euro crisis, Hodson and Puetter (2013) speak about a *presidentialization* of Euro Area governance, referring to an increasing role of heads of state in economic governance. They also point towards the member states’ reluctance to empower the Commission in this area (Hodson & Puetter, 2013).

There are two main expectations coming from NI when applied to the Euro crisis. First, the most important decisions would be negotiated in intergovernmental arenas such as the Council and the European Council, whereas the traditional Community framework would decrease in importance. The outcome of negotiations is expected to build upon new intergovernmental ways of collaboration in economic governance. Second, the bargaining processes would be consensus-

driven and no longer based on pre-defined national interests. As LI, NI would expect the main actors to be member states who seek integration as a tool for facing the Euro crisis. However, the deliberative approach does not give an outstanding role to strong member states: for NI, the key actor would be the European Council as a whole, and not only France and Germany.

Identification of the variables

In order to perform the assessment of the negotiation process through the three chosen theories, five variables have been identified within each of them.

Table 1. Identification of the variables

	Neofunctionalism	Liberal Intergovernmentalism	Deliberative Intergovernmentalism
<i>Key actors</i>	Supranational Institutions	Member states with stronger bargaining power	Intergovernmental institutions such as the Council and the European Council
<i>Driving forces</i>	-Functional, political and cultivated spillover -Elite socialization	-Economic and geopolitical interests -Economic interdependence among member states	Economic interdependence among member states
<i>Reasons for delegation</i>	-Supranational institutions pushing for more competences -Role of interest groups	-Enhance credibility of states commitments -Reducing transaction costs	Further integration is not seen as a delegation of power towards supranational institutions
<i>Negotiation outcomes</i>	Result of spillover processes	Result of relative bargaining power among member states	Result of consensus-seeking deliberation
<i>Preference formation</i>	Shift towards supranational arena	National level	Variable, not fixed from the national arena

c. Data and methods for assessment

The analysis of the paper will be carried out through the reconstruction of the negotiation processes related to the advances in the *economic and fiscal* pillars of the EMU during the Euro crisis. By narrowing down only to these areas of the response to the crisis, the assessment will be able to focus not only on some crucial episodes, as some scholars have done before (i.e. Schimmelfennig, 2015), but to provide an exhaustive chronology of the events.

In order to elaborate this timeline, the analysis will look at the events from the beginning of the Euro crisis until the moment when the TSCG was signed in March 2012. This beginning will be set in October 2009, moment when Georges Papandreou, the Prime Minister of Greece at the time, revised the country's deficit provisions from a 3.7% of GDP to a 12.5%, creating a risk of financial contagion in the Eurozone. The paper will focus on the four main decisions in the area of fiscal and economic coordination taken during this period: the European Semester, the Six-pack, the Pact for the Euro and the TSCG, developed in section 2. The reconstruction will be performed through the analysis of documents such as European Council Conclusions, policy proposals and drafts of the final treaty when available. Information emanating from press conferences, government statements and informal summits will be included as part of the analysis.

Given that decisions in economic governance directly affected all members of the EU, an exhaustive analysis of the actions of every single government is beyond the scope of this paper. Thus, even if the analysis will aim to reflect a view as broad as possible of the global position in Europe, it has been decided to focus on the role of those considered in the literature to have been the main actors in the response to the crisis: Germany and France as the leading member states, and the European Commission as the most relevant supranational institution.

The reconstruction will focus on the elements of the negotiations directly related to fiscal governance and the strengthening of the economic pillar of the EMU. However, it is almost impossible to isolate these from other negotiations

directly related to the crisis. Thus, the analysis will touch on elements such as the bailout agreements when these are necessary to understand certain outcomes.

Once the negotiation process has been reconstructed, the analysis will proceed to identify within it the same variables identified before in relation to the theoretical framework: the main actors involved in the process, the driving forces, the reasons for delegation, preference formation and the explanation of the final outcome. This will serve as a tool for the later assessment, which will be carried out through the comparison of every theory's expectations in terms of each of the variables with the facts as explained through the construction of the chronology.

4. The negotiation process behind further integration

a. Reconstruction of the negotiations

This section will reconstruct the negotiations concerning the strengthening of fiscal and economic coordination starting from the beginning of the Euro crisis in October 2009 until the moment when the TSCG was signed in March 2012. In order to do so, it will go through the five variables of study, looking at the key actors, driving forces, reasons for delegation, negotiation outcomes and preference formation during this time framework.

Driving forces of the integration process

The first mention of further coordination of economic policies in the EU appears in official documents the 25 March 2010, when a statement from the Heads of State of the EA explicitly mentions the need of strengthening the SGP (Heads of State and Government of the Euro Area 2010). This is the same statement in which the possibility of bilateral loans to Greece is first mentioned, and it comes at a moment when imbalances and macroeconomic problems were becoming visible in the EA. Similarly, the first mention coming from the Commission about the topic takes place the 15 April 2010 in a speech from Olli Rehn (the European Commissioner for Economic and Monetary Policy) called "Reinforcing economic governance in Europe" (Rehn 2010) and given in a moment when Greece's 10-year borrowing costs had reached 8.7% and the risk of contagion was becoming real, after the sovereign credit ratings of Portugal and Spain had been downgraded by Standard & Poor's.

Calming the markets and preventing financial contagion was an important concern for all actors: in a speech from January 2011, Barroso defended the need of furthering even more economic integration by stating that "the markets [were] demanding more coordination at European level" (Barroso 2011). Indeed, the reinforcing of fiscal coordination is usually presented together with crisis-dealing mechanisms, as a way of showing commitment not only to solving and overcoming the Euro crisis, but also to making sure that preventive measures would be taken. The 6 May 2010, Merkel and Sarkozy state in a joint letter their support for the first bailout package for Greece while emphasizing the need to "go further and . . . [take] all necessary measures to avoid a repetition of this kind of crisis". In this letter, they explicitly mention that their aim is to "strengthen the Euro Area's economic governance" (Merkel and Sarkozy 2010). The next day, a statement from Barroso links the increasing of economic policy coordination to the defense of the Euro (Barroso 2010a).

In October of the same year, Merkel and Sarkozy agree in the so-called *Deauville summit* to link the creation of a crisis resolution mechanism with the introduction of sanctions for states running excessive deficits and threatening the stability of the Eurozone (Sarkozy 2010). A last example of this pattern can be found in March 2011, when the Heads of State of the EA agreed to the *Pact of the Euro* -which established a "stronger economic policy coordination for competitiveness and convergence" (Heads of State or Government of the Euro Area 2011)- the same day that the first adjustments to the Greek bailout package took place.

Key actors

In terms of agenda-setting during the European response to the crisis, two blocks seem to have had a leading role: while the Commission was the main actor concerning the European Semester and the Six-pack, France and Germany had a major role in leading the Pact for the Euro and the TSCG.

Concerning the European Semester, the idea was first mentioned by Rehn the 15 April 2010 (Rehn 2010), and appears as the first concrete policy measure in terms of fiscal coordination. It was further developed in a Communication from the Commission the 12 May 2010 (European Commission 2010a) and endorsed without any changes by the European Council in June (European Council 2010a). It is important to stress that the European Semester was an independent initiative coming from the Commission, where the institution acted as the sole policy entrepreneur.

The first draft for the Six-pack was presented by the Commission in September 2010 (European Commission 2010c), following the mandate of the March summit of Heads of State of the EA (Heads of State and Government of the Euro Area 2010). The draft was endorsed by Van Rompuy the 18 October 2010 as “a major step forward” (Van Rompuy 2010) and by the European Council itself in the summit of the same month. In the conclusions of the summit, the Heads of State even ask for “a fast track approach to be followed on the adoption of secondary legislation needed for the implementation of . . . the recommendations” (European Council 2010b). The final version of the Six-pack ended up being very similar to this first draft, an outcome that suggests that the Commission initiated and led these measure with a wide agreement coming from member states.

The role of France and Germany as the strongest member states seems to have been crucial in the agreement of the Pact for the Euro, following a pattern which repeated itself all during the negotiation processes linked to the Euro crisis: Merkel and Sarkozy would first join their positions through a series of bilateral agreements, and would then negotiate together with the other countries. In this case, both leaders gave a joint press conference the 4 February 2011 asking for a *pact for competitiveness* and an agreement in concrete measures enhancing convergence and integration in European economies (BBC 2011) and bringing together areas such as “retirement age, corporation tax, public sector wages policy, limits on public spending and harmoni[z]ing welfare and social security systems” (The Guardian 2011a). This would end up setting the basis for the Pact of the Euro, an agreement reached the 11 March 2011 which developed in all areas laid out by Merkel and Sarkozy.

Finally, the TSCG can also be seen as a Franco-German led Treaty. The negotiation process starts in December 2011, when a joint letter from Merkel and Sarkozy to Van Rompuy stresses the necessity of enshrining the Six-pack provisions on public debt into the Treaties. They also state the “need to take a decision at [the] next European Council meeting in order to have the new treaty provisions ready by March 2012” (Merkel and Sarkozy 2011). Indeed, the final Treaty would be signed in March 2012, building upon their demands.

Reasons for delegation

As it has been seen, the process of furthering economic integration increased the role and powers of the European Commission in the area of economic governance, mostly in terms of monitoring, but also enhancing its sanctioning power.

Throughout the different negotiations, there is a constant trend in most of the Commission’s statements and communications: that of vindicating the institution’s “expertise, independence and impartiality” (Barroso 2010b). Both when it comes to Barroso and Rehn’s speeches and to policy proposals, there is an underlying emphasis on the way strong supranational institutions should be a key element in economic governance: “Europe can only be strong if it is able to act in a coordinated manner, with strong institutions, with a common governance” (Barroso 2011).

It is necessary to stress that the Commission was not the only advocate of this trend: it had a strong ally in Germany, for whom increasing the Commission’s power was a tool for ensuring the commitment of those countries in risk of not complying with fiscal discipline. A clear example of this was the debate, in the framework of the Six-pack, on whether to implement automatic sanctions for those countries running larger deficits than allowed. Both Germany and the Commission were strong supporters of this measure (BBC 2010) which would increase the power of the supranational institution. The same pattern can be found concerning the TSCG: this was an intergovernmental Treaty led by Franco-German interests which nevertheless aimed to achieve “a greater role for the European Commission in drafting national budgets” (Council on Foreign Relations 2011).

Finally, even if the general trend was a consensus for increasing the Commission’s powers, there was also a tension present among member states and the Commission on whether fiscal coordination ought to be developed within or outside standard Community procedures. In a speech from November 2010, Merkel stated that “sometimes a coordinated European position can be achieved by applying the intergovernmental method. The crucial thing is that on important issues we have common positions” (Merkel 2010). Three weeks later, Barroso stated in the EP what can be understood as an answer to such statement: “I count on the Community method to work as well as it has always done, and help us strengthen economic governance in Europe and the Euro Area” (Barroso 2010b). Later on, in a speech in February 2011 concerning the ESM, Barroso presented his concerns about the mechanism being largely intergovernmental, stating that the Commission would have preferred it being developed within the community framework.

Negotiation outcomes

As it has been developed in the *driving forces* subsection, the European Semester final outcome was quite similar to the first proposal presented by the Commission. Thus, this subsection will elaborate on the other three main decisions in fiscal coordination during the analyzed period: the Six-pack, the Pact for the Euro and the TSCG.

The main issue of controversy concerning the Six-pack was the introduction of automatic sanctions for the non-compliers in the framework of the excessive deficit procedure: this was a German demand which persisted all throughout the negotiations concerning economic governance (Euractiv 2010, Telegraph 2010, The Guardian 2010) and which was supported by the Commission. The first draft of the Six-pack included an automatic “reversed voting mechanism . . . [meaning] that the Commission’s proposal for a sanction [would] be considered and adopted unless the Council [turned] it down by qualified majority” (European Commission 2010b). This mechanism found strong opposition coming from France (BBC, 2010; Euractiv, 2011), eventually leading to a modification in the final version, in which sanctions are applied in a gradual way, giving more time to national governments take the necessary measures before being fined.

In the case of the Pact for the Euro, it has already been shown that the initiative came from a Franco-German united front. As such, it presented a combination of both countries’ demands since the beginning of the crisis. For Germany, a commitment towards stronger economic convergence was a necessary condition before any agreement was made to increase the country’s participation in bailout funds. As for France, this was a major step towards a common economic government of the Eurozone, something that Merkel had been resisting for months, given a preference towards keeping non-Euro countries as part of the strengthening in economic governance (The Guardian 2011a). The Pact itself, signed the 11 March 2011, ended up being a continuation of Franco-German demands, elaborating on these and without the introduction of major changes.

As for the TSCG, it has been defined as a “second best solution” for Germany (Spiegel 2011). The initiative for the new Treaty came from a joint letter from Merkel and Sarkozy on the 7 December 2011 emphasizing the necessity of including the new provisions in fiscal coordination, notably those from the Six-pack, into the EU Treaties. This letter included Germany’s long-term demand (i.e. BBC, 2011) of embedding the agreed public debt objectives within member states’ constitutions, as well as France’s will to have a more institutionalized Eurozone government (Merkel and Sarkozy 2011).

The final Treaty shows a wide resemblance to the joint letter’s contents, with two main exceptions. The first one refers to the transposition of public debt limits into national constitutions: according to Kreilinger (2012), the first draft of the Treaty included an obligation to introduce this rule “in national binding provisions of a constitutional or equivalent nature”. The final vision, however, includes a less strict statement: “[t]he rules mentioned . . . shall take effect in the national law . . . through provisions of binding force and permanent character, preferably constitutional” (TSCG, art 3.2). This modification did not respond as much to a concession coming from Germany, as to the aim to avoid a ratification referendum in Ireland, something that would have taken place in case of changing the country’s constitution (Kreilinger 2012).

The most important change from the Franco-German initiative concerned the nature of the Treaty itself. While the first intention was to modify the existing EU Treaties, the UK vetoed the proposal, making it necessary to opt for a new intergovernmental Treaty, signed by all European countries except for the Czech Republic and the UK. This was seen as a strong setback for Merkel, who had been pushing for all European members to be on board (Spiegel 2011).

Preference formation

The negotiation process analyzed presents both patterns of national and supranational preference formation. It is important to emphasize that, even if there was a convergence of preferences towards further economic integration, the motivations behind these interests differed among the different actors.

National based interests seem to have been especially important in the cases of Germany and the UK. In the case of Germany, it can be said that the national electorate played a strong role in defining the country’s preferences. For Merkel, measures such as automatic sanctions or the tightening of fiscal rules appeared as a counterbalance in front of the electorate for justifying Germany’s participation in bailout packages and financial aid mechanisms towards periphery countries (see, for example, Spiegel 2011). The case of the UK is the clearest example of national preferences defining negotiation positions during our studied period, as can be seen by Cameron justifying the British veto to the TSCG in the following manner: “I said that if I couldn’t get adequate safeguards for Britain in a new European treaty then I wouldn’t agree to it. What is on offer isn’t in Britain’s interests so I didn’t agree to it” (Cameron quoted by The Guardian, 2011b).

Supranational preference formation was also visible during our time framework. Notably, all the bilateral statements between France and Germany (i.e. those from the 6 May 2010, 18 October 2010, 4 February 2011 and 7 December 2011) came after the heads of state of the two countries discussed together which were the better options for achieving a common goal. During this process, the initial preferences defended by both countries went through changes, some of which have already been mentioned: France accepting the inclusion of quasi-automatic sanctions in the Six-pack (see Euractiv, 2011; and the final version of the legislation) or Germany accepting the French demand of institutionalizing a *Euro government* are the most visible examples.

b. Assessing the expectations

After reconstructing the negotiation process, this section will assess the expectations of every theory with the actual development of the events.

Neofunctionalism

As seen in the theoretical framework subsection, Neofunctionalism would expect economic integration in the Euro crisis to be the result of spillover processes, led by supranational and transnational actors.

Neofunctionalism would expect the Commission to have had a leading role as the main agenda setter during the negotiations. The Commission was indeed a very active actor as a policy entrepreneur, mostly in what concerns the European Semester and the Six-pack. However, it is necessary to remark that the proposal for the Six-pack came after the European Council tasked the institution to come up with economic governance measures, something that may question the Commission role as agenda-setter. Furthermore, Neofunctionalism fails to explain the leading role played by France and Germany all throughout the crisis, and mostly when it came to the Pact for the Euro and the TSCG.

As a driving force, functional spillover can be a plausible explanation for the strengthening of fiscal coordination. From this point of view, the crisis would be seen as the result of functional pressures coming from monetary integration, which can only be solved by extending integration to another area: fiscal coordination. Indeed, the analysis has shown that the measures adopted during the Euro crisis were decided as a way of dealing with economic imbalances, a direct consequence of the monetary union. However, as pointed out by Schimmelfennig (2015), it fails to explain why economic integration didn't go further.

The reasons for delegation can be partially explained in terms of cultivated spillover. The analysis has indeed shown that both Barroso and Rehn vindicated the role of their institution all throughout the negotiations. Furthermore, policy proposals coming from the Commission (such as the first draft of the Six-pack) aimed to increase the role and power of this institution in a context when a rapid action was needed and there were no other initiatives. However, it is difficult to assess to what extent these elements finally influenced the choice for delegation.

As for the negotiation outcomes, Neofunctionalism would stress the fact that the final outcome of both the European Semester and the Six-pack were indeed very similar to the original Commission's proposals. However, Neofunctionalism overlooks the fact that the Commission's proposals advanced in a context where the institutions' interests corresponded to those of Germany.

Finally, the analysis has proved that, even if preference formation shifted to some extent towards the transnational level, national interests still played a very important role, defining for example Merkel advocating for tougher sanctions because of her national electorate, or the UK justifying their veto to any Treaty changes in terms of national interests.

In conclusion, Neofunctionalism provides only a partial explanation in what concerns the driving forces of integration in terms of functional spillover, the reasons for delegation and the negotiation outcomes. However, it fails at explaining the leading role played by France and Germany all throughout the process, as well as the importance of national interests.

Liberal Intergovernmentalism

A LI approach to the negotiation process would focus on the economic interdependence among states as an explanation for further integration, on the relative bargaining power of strong member states and on credible commitments as the main reason for delegation.

This theory would expect strong member states to be the key actors of the process. Indeed, France and Germany had a leading role all throughout the analyzed period, and especially concerning the Pact for the Euro and the TSCG. All the bilateral meetings between France and Germany, as well as their joint letters and statements have proved to have had a strong influence in agenda setting during the Euro crisis. LI, however, would expect the Commission to have a more marginal role during the process than it had for the European Semester and the Six-pack.

The economic integration process resulting from the crisis can be seen as the result of economic interdependence, as expected by LI: member states acknowledging that a joint response to the crisis would be more effective for their national economic interests than a separate one. However, there is an important flaw within this approach, since it overlooks the fact that this decision was conditioned by the existing monetary union, and as so, it could be considered the result of unintended consequences. In other words, member states did not really have the choice of a separate response to the crisis.

Concerning the reasons for delegation, the creation of credible commitments has indeed proved to be one of the main motivations for Germany: giving power to the Commission was a tool for ensuring that all countries in the Eurozone would embrace fiscal discipline.

LI also gives a plausible explanation for the negotiation outcomes: most of the measures adopted during the crisis corresponded to the interests of the two strongest countries: Germany and France. Even when it came to the European Semester and the Six-pack, for which the Commission was the main policy entrepreneur, the final outcome of these measures favored the preferences shown by these two countries. This explanation serves also for the UK vetoing any Treaty changes: the strong bargaining position of the country in this matter ended up leading to a new Treaty configuration.

As for preference formation, LI would expect preferences to be defined in the national arena. This is a good explanation for the just mentioned role of the UK in the TSCG negotiations, as well as for the strong position of Germany about the establishment of tougher sanctions. However, the importance of Franco-German bilateral meetings during the crisis suggests that the supranational arena also played a role in the definition of common, transnational preferences.

Given this assessment, we can conclude that LI provides a coherent explanation in what concerns the key actors, the reasons for delegation and the negotiation outcomes. It also gives a plausible explanation, although with some limits, to the driving forces of the process. The main limitation coming from this theory is that it does not provide a fully satisfactory explanation in terms of preference formation: even if national interests seem to have been very important, it is not possible to overlook the role of common positions coming from transnational negotiations between Germany and France.

New Intergovernmentalism

The last theory to be assessed, NI, would focus on two expectations from the analyzed process: an increasing importance of intergovernmental arenas such as the Council and the European Council, and a deliberative, consensus-seeking decision-making pattern among all member states during negotiations.

As an intergovernmentalist theory, NI considers member states as the most important actors in negotiations. Indeed, we have seen that Germany and France, as the two strongest countries, can be considered the main actors of the process. However, while NI expects the Council and the European Council to lead the process, the analysis has shown that, in reality, bilateral meetings between Merkel and Sarkozy had more importance than the meetings of the European Council as a whole.

The explanation given by NI concerning the driving forces of integration is in fact the same as the one provided by LI, and thus the same assessment and critics can be applied. The choice for integration can be explained as the result of rational member states realizing that a joint response to the crisis would be beneficial for their national interests. However, this explanation is incomplete if it does not acknowledge the importance of the monetary union as a decisive factor.

NI fails to give an explanation for delegation of power towards the Commission. This theory would expect member states to look for intergovernmental arrangements which would allow integration without delegation. While this was the case for the Pact for the Euro, and to some extent for the TSCG (it is an intergovernmental treaty, and thus beyond the community method, but at the same time it increases the power of the Commission), the other measures in terms of fiscal coordination ended up giving more power to the Commission. Furthermore, this delegation was backed by member states, and explicitly supported by Germany and France.

For NI, negotiation outcomes are expected to be the result of deliberative, consensus-seeking processes. This can be applied to the described pattern of Franco-German relations during the crisis, where the common positions coming from the two countries was the result of deliberation in a transnational arena. However, NI would expect *all* countries from the EU to participate in the deliberations for the outcome. In spite of the frequent European Council meetings during the crisis, the outcomes were more determined by the common positions reached among France and Germany. Furthermore, an approach to outcomes based on consensus-seeking deliberations fails to explain the role of the UK vetoing the initial plans for the TSCG.

Finally, even if NI gives a good explanation for those preferences defined in the transnational arena (i.e. Franco-German common positions), it fails, like Neofunctionalism, to give a satisfactory explanation for the relevance of Germany's electorate or the role of the UK national interests.

There are some variables of the analysis that can be partially explained by NI: member states as the key actors, economic interdependence as a driving force or the consensus-seeking patterns found in the relations between France and Germany.

However, it fails at predicting a deepening of integration without delegation. Furthermore, NI expects deliberation to be the pattern among all member states and not only among the strong ones, something that did not happen during the crisis. Finally, it also overlooks the role of national preferences.

5. Conclusion

The analysis just presented has answered the initial research question by identifying the key actors and driving forces of the negotiation processes that led to more integration during the Euro crisis. The study has shown that the deepening in fiscal coordination during the analyzed period was triggered as a response to the crisis. This can be seen both as a process of functional spillover coming from monetary integration and creating a path-dependence effect, and as the result of rational member states acknowledging that a joint action would be the most beneficial for their national economic interests: these two logics do not necessarily contradict each other. As for the key actors, the reconstruction of the negotiation processes has shown that France and Germany were the two main actors in what concerns both agenda setting and influence in the final outcome.

The analysis has also shown which mechanisms and elements coming from all three theories are more useful for understanding the integration process during the Euro crisis. Neofunctionalism gives a coherent explanation of integration as a result of a spillover process, and it also succeeds in predicting that supranational the Commission would use its role as policy initiator to extend its competences in a context where rapid action was needed. However, it shows strong limits when it comes to explaining the central role of member states both in defining the agenda and driving the process.

Liberal Intergovernmentalism seems to supply a better response for our research question, by providing a clear explanation of the final outcomes of the negotiation process as the result of the two strongest member states (France and Germany) pushing for their interests, and delegating power to the supranational level in order to create credible commitments. However, it overlooks the fact that member states may be *locked in* during this process.

Finally, Deliberative Intergovernmentalism can shed light, when applied to the case of France and Germany, on the building of common positions through deliberation among member states in a supranational arena.

All in all, the deepening on fiscal and economic coordination can be theorized as the result of asymmetrical interdependence and differences in bargaining power among member states, which decide to transfer national sovereignty as a tool for reaching credible commitments.

This paper has provided an exhaustive analysis of the negotiation processes leading to further fiscal and economic coordination. This choice for an exhaustive analysis has been an important tool for answering the research question, but it can also be seen as the main limitation of the paper, for leaving outside other decisions in economic governance taken during the same period. For this reason, the study just presented gives scope to further research on the negotiation processes of the European Stability Mechanism and the strengthening of the Banking Union. The same limitation applies to the actors analyzed: while this paper has focused on the role of France, Germany and the European Commission, further research could focus on the role of other member states and supranational institutions.

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