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The political implications of the Euro-crisis on the European Regulatory Polity: the case of European fiscal integration

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Introduction

Knowing what you are dealing with is necessary for a successful outcome of your endeavours. By the same token, understanding the nature of the European Union (hereinafter mostly referred to as either EU or Union) is not only a matter of mere academic relevance. It is also a powerful tool for better policy-making: indeed, as Bickerton, Hodson and Puetter (2015) put it, any policy- or institution-specific analysis that eschews this ontological debate falls short of conceiving of change as anything more than a mere modification of the *status quo*. Therefore, European decision-makers today should understand the nature of the Union before acting or enforcing new policies. Think of the recent case of the so-called "Brexit". The desire of part of the British population to withdraw from the European project goes far deeper than a simple "Europe is bad for our national interest" argument. On the contrary, it reflects age-old visions on the scope of the EU: should the EU be akin to a free trade area like Margaret Thatcher liked to argue, should it be more similar to a federation as is the dream of some "pan-European" political elites, which policy fields should be more integrated and which less so, and so forth. Matter-of-factly, one of the greatest issues today is exactly the following: what is the European Union? While my project here does not aim at a full and definitive explanation of the nature of the EU, it does strive to explain *how* and *why* particular shifts in the political architecture of the EU – for which I will sometimes use the shorthand "institutional change" – take place, and which mechanisms may be particularly apt to explain them. Such shifts mirror the relationship between the understanding of the European polity and the possibilities opened to policy-making described above, by embedding the EU in an ever-changing environment. Indeed, as will be shown throughout the work, and as will be better explained in the conclusion, institutional change at the policy level by means of "policy layering" engenders in turn a process of "polity redirection".[1] In other words, this work aims to study not only the triggering causes (the policy layering), but also and especially the aftermaths of institutional change (the polity redirection).

More particularly, the argument runs as follows: the recent Euro-crisis has pushed European leaders to adopt a series of countering measures, among which is something akin to fiscal integration at the European level. In turn, these fiscal measures have reshuffled the institutional equilibria within the EU. This will be the main empirical focus of this work for two main reasons: firstly, I detected this "European fiscal integration" as one of the "triggering causes" for institutional change; and secondly, the implications

[1] The expressions "layering" and "redirection" are taken from Streeck and Thelen (2005). As will be shown further below, their work will be of significant value in the evaluation of the empirical cases.

of this fiscal integration seem deeply at odds with the accepted nature of the European polity. In fact, according to the standard model, once the free movement of goods and capital within the internal market had been achieved, the EU became a constitutionally settled regulatory polity in which "the European level of government is responsible for the creation and regulation of the market...[and] the domestic level of government is responsible for taxation and redistribution" (Hix, 2007, p. 144). The following chapter will explain more in-depth what is meant by regulatory polity. What is important here is to understand the puzzling contrast between theory (the EU as a regulatory polity) and practice (measures of European fiscal integration that bring about institutional change). A fitting research questions, thus, would aim at explaining *how* the Euro-crisis has caused institutional change (both at the policy and polity level) in the Union (i.e. whether or not we are indeed beyond a pure regulatory polity) and *why* the political actors have set up the new institutions the way they did (that is to say, why they preferred one particular institutional arrangement over the other, see for instance Savage & Verdun, 2016, on the internal restructuring of the Commission to better accommodate demands of surveillance and enforcement).

In order to do so, this work will be divided into three main parts. The first part will lay out the various theories of European integration. Indeed, to understand why the EU has been dubbed as a regulatory polity, it is useful to delve into its past. A theoretical-historical excursus will serve the purpose of underlining why the EU has become what it is today (a regulatory polity, according to the standard model) and why not something else (for instance, a federal state). It will start by explaining the contrast between Haas's neo-functionalism and (liberal) intergovernmentalism as laid out by the likes of Hoffmann and Moravcsik. It will briefly analyse the work of Gary Marks and Liesbet Hooghe, who conceive of the EU as a "multi-level governance" kind of system – opposed to state- and elite-centric versions thereof. It will not fail to mention alternative approaches that have emerged as the scope of the action of the EU has enlarged, such as constructivists or critical approaches, and those more related to the governance of the EU. This excursus will be meant to lay the foundations for analysing Europe as a regulatory state, as conceived particularly by the work of Giandomenico Majone (1994; 1996a), and which will serve here as a heuristic model for the analysis of the empirical cases. This second subsection, starting from a discursive introduction on why the EU is neither a state nor a federal system, will explain the main characteristics of Europe as a regulatory polity, which will in turn suggest why the aforementioned fiscal integration may be at odds with this model. Here the main question at stake will be to understand what the limits of the EU as a regulatory state may tell us about how and why institutional change takes place in the EU. Indeed, while I will not refute the regulatory model, I will try to explore other possible paths that current affairs may be opening up.

The second part will be devoted to the theoretical framework and the methodological approach. My point of departure will be Genschel and Jachtenfuchs's recent work on the integration of core state powers, and more particularly of fiscal policy (Genschel & Jachtenfuchs, 2013a, chapter 1 and chapters 5-7, in particular). It should be noted from the onset that a core state power is not so because of its saliency *per se*; rather, a core state power is what makes a Weberian state a functioning political organisation. As will be explained in this section, their work moves along two dimensions: the mode of integration of the core state powers (either by stealth or by publicity), and the instrument of integration (whether regulation or capacity building) (Genschel & Jachtenfuchs, 2013a). These are supposed to explain the demand, the supply, and the dynamics of integration. However, the two authors do not seem to take into account the implications on the institutional political dynamics created by these new policies. Their concluding remark whereby "[t]he EU is a regulatory polity, but one which strongly intervenes into core state powers" (Genschel & Jachtenfuchs, 2013b, p. 268) comes short of taking into account the *de facto* institutional change that has happened. As such, I believe that a more sophisticated analysis regarding the winners and losers of this institutional change – which I conceptualise as a change in the equilibrium of relative power of the European institutions – will be needed so as to understand *how* the polity has changed and where it might be headed. Furthermore, such a conceptualisation needs an objective measurement. In this section I will also explore possibilities to determine the degree to which an institution is a winner or a loser. This is a two-step process that includes first a study of the change that has taken place within the institution (due to the policy layering), which is measured by analysing the scope and level of its competences; and second by comparing how inter-institutional equilibria have changed because of this (that is to say, how they have redirected the polity). In other words, intra-institutional change is a prerequisite to the understanding of inter-institutional change. Indeed, as Moe (1990, p. 215) suggests, a "theory capable of explaining institutions...presupposes a theory of institutional effects."

As to the methodological approach, it is hinged upon two key explanatory tools: the cases selected for study and the research methods. The empirical cases will concern the reforms approved to counter the crisis, within the framework of economic policy-making and macroeconomic surveillance (that is to say, the European Semester). These include the Six-Pack, the Fiscal Compact, the Two-Pack, and the recent institutionalisation of an advisory European Fiscal Board (EFB). Alongside these (mostly) fiscal reforms, another innovative tool that, among other things, deals with financial stability, the European Stability Mechanism (ESM), will also be reviewed. All of them will be linked to the framework of European economic governance that was established in 1992 with the Treaty of Maastricht, and more particularly with the 1997 Stability and Growth Pact (SGP), aimed at enhancing fiscal coordination in the EU – both of which are also analysed for reasons of narrative consistency. The goal is to address two main shortcomings in Genschel and Jachtenfuchs: the lack of an in-depth analysis of these policies, only sparsely present in some chapters (see for instance Hallerberg, 2013; Jabko, 2013); and secondly, the lack of analysis on the *polity* consequences of these reforms. The units of analysis here shall be the political actors involved in economic policy-making, in particular the European institutions. This will allow for a macro analysis of a series of case studies in which the chronological sequence (of the reforms under study, as well as that of the analysis) will serve to unravel causal processes and mechanisms between a time t_0 and another subsequent time t_1, based on process-tracing techniques and on new-institutionalist rational (functional) and partly historical accounts. However, it is not unlikely that the complexity of inter-institutional bargaining and policy-making (what Vivien Schmidt, 2013, called "throughput process") could prove a strong obstacle in this endeavour. For this reason, I also present a few caveats to simplify the model and allow for what Caporaso (2009) calls "narrative smoothness."

The third and last part will be devoted to the *mise en pratique* of the theoretical framework through the analysis of the aforementioned empirical cases. These latter will be sub-divided in temporality clusters (each of which should be telling of a particular trend in integration) in order to give a clearer image of the process. Here the hypothesis according to which this European fiscal integration has engendered institutional change, thus overcoming the pure regulatory model will be put to test. This will be done through a reading of both primary sources (namely European legislation), and of peer-reviewed articles by scholars who dealt with this issue and analysed the situation under different keys. This eclectic approach that makes use of argumentations that strongly clash with one another should not be seen as confusion and indecision from the author; rather, they are useful heuristic tools to give a full idea of the situation without falling in self-fulfilling and self-confirming traps. The findings, then, will be discussed and, as per hypothesis, the empirical cases should be able to (partially) differentiate the winners and losers of this change. Finally, it is not unlikely that the reshuffled institutional equilibria could be telling not only of whether a new polity is emerging, but also of the new directions it might be headed.

Chapter 1

The "nature of the beast"

1.1 An historical excursus

The title of a 1996 article by Thomas Risse (formerly Risse-Kappen), "Exploring the Nature of the Beast", seems fit to describe the first part of this work (see Risse-Kappen, 1996). What is the "nature of the beast"? and how do we explore it? The approach taken here will be mainly historical, in the sense that it will start from the oldest theories (if not pre-theories) of integration, to end with the newest ones. Indeed, I believe that in order to understand the (supposedly) regulatory nature of the EU, it is important not only to grasp the gist of it, that is to say, its characteristics, but also to know whence it came. A good question is not: "What are the characteristics of a regulatory polity?". A good set of questions is: "How come the EU is a regulatory polity, and how did it come to be so?". The evolving tension between the International Relations (IR) approach and the Comparative Politics (CP) approach paved the way to European integration studies. Indeed, if the decades that go from the mid-Fifties to the early Seventies of the Twentieth century were characterised by a desire to understand the nature of this new beast, the European Community (EC, or Community for short), as well as the causes of its development (Jachtenfuchs, 2001, p. 246), today the *explanandum* is not the integration process *per se*, but rather how governance[1] works in the EU (Hix, 1998; Jachtenfuchs, 2001). In the words of Ben Rosamond, if the early scholars asked "Why does integration happen?", they now have begun to pose the question "What effect does integration have?" (Rosamond, 2013, p. 87). This shift in focus, which took place during the extremely busy decade of the Eighties, and which culminated with the Maastricht Treaty of 1992, is undoubtedly one of the main reasons as to why the Union is today conceived as a regulatory polity. By changing the dependent variable, scholars have come to grips with the fact that the EU could indeed be a constitutionally stable polity and thus be analysed as a political system. Therefore, rather than take an IR approach, which forced the focus on inter-state relations, the EU could indeed be studied as

[1] Here defined as the ability to make collectively binding decisions by reliable means and institutions, rather than the direct use of power and violence (Jachtenfuchs, 2001, p. 246). This notion is opposed to and far more effective in explaining European politics than that of "government", since it is commonly accepted that the EU lacks an international government in the sense of a hierarchical and independent (from the member states) supranational structure (Caporaso, 1996, p. 33).

a political system *per se* thanks to the possibility of employing a CP approach (Hix, 1998).[2] In other words, it means that we could overcome the N of 1 problem that sees the EU as a *sui generis* political system by looking beyond the particularities of the European political system. As a consequence, it does not make sense to exclude the study of the European Union from the CP literature because of its particularities (Hix, 1998, p. 46; Hix, 2007). This entailed that any political system recorded in human history could *de facto* be used as *comparans*. What follows here will not be simply a review of theories of integration,[3] as there exists no single or dominant (nor desirable) theory of why and how European integration works (Malamud & Schmitter, 2011, p. 136). Instead, I will use some of these theoretical and historical foundations to explain the rationale behind the vision of the EU as a regulatory polity. As it will be shown, in fact, the regulatory approach cuts across the theories of European integration and draws on each of them.

1.1.1 From theories of integration...

The orthodox narrative of European integration paints it as an attempt to prevent further war between European countries (Gilbert, 2008). After 1945, European politicians were riddled with how to avoid another clash between two historical enemies, in particular: Germany and France, and how not to repeat the nearly 30-year-old mistake of isolating Germany and bringing it to its knees that, according to many, had brought about the rise of totalitarianism in Western Europe (see for instance Keynes, 2013). Thus, the only possibility they saw was to integrate Germany into a new European community. The idea of a Europe-wide collaboration was not new. Indeed, it had been present by at least 80 years, with the International Telecommunications Union of 1865. Nonetheless, this kind of international cooperation suffered from two shortcomings: first of all, it was extremely technical, and as such could only cover a niche market which was not vital for the overall economic development; and secondly, it had no intention of expanding to other sectors and lay the bases for a European entity. Over time many different ideas to solve this second issue have been proposed. One need not look further than the examples of Giuseppe Mazzini’s *Giovine Europa*, Richard Coudenhove-Khalergi’s Pan-Europa, and the 1941 Manifesto of Ventotene by Spinelli, Colorni and Rossi, which cried out for a “Free and United Europe.” Again, however, the contingencies of time made it so that the feasibility of these projects was in the low-end of the realm of possibilities. What was needed, instead, was a pragmatic plan to build a new Europe that could also work as an economic engine with which to allure the European countries without their having to give up too much of their sovereignty.

The founding fathers thought the most effective way to do so was Jean Monnet’s proposed functional economic integration. Unglamorous, yet effective, it sought to create a tight-knit cooperation between

[2] As will be mentioned further down, this does not mean that today the EU is not studied anymore by using an IR approach. On the contrary, there is a flourishing literature that deals with the position of the EU within the international system and with its relationship with other regional blocs. In particular, see Warleigh-Lack, Robinson and Rosamond (2011).

[3] For those interested in such a study, see in particular Jørgensen, Pollack and Rosamond (2007) and Cini and Borragán (2013), which provide a review of history and theory of European integration.

countries in specific sectors in order to overcome national differences (Dinan, 2010, p. 12). Rather than focus on inter-state cooperation, functionalism (and neo-functionalism in particular), placed major emphasis on three elements: the preconditions of integration, non-state actors, and the concept of spillover (Haas, 1961; Moravcsik, 1993, pp. 474-8; Rosamond, 2005, pp. 243-7). These become clear when one takes into account Haas’s definition of political integration as the process whereby political actors “shift their loyalties, expectations, and political activities” to a new supranational centre “whose institutions possess or demand jurisdiction over pre-existing national states” (Haas, 1961, pp. 366-7). Hence, European integration took place because the background conditions were favourable (the recent war made it imperative for European states to take radical measures to avoid another tragedy[4]); because member states were not the sole driver of integration (as economic integration develops, supranational interest groups will try to play catch up and re-organise their structure and interests to match the new needs, as well as pressure the national governments to speed up the process, see Jensen, 2013, p. 65); and finally, it is noteworthy that Haas deemed integration to be incremental: cooperation in one sector begets cooperation in another one, and so on, until complete economic (if not political, even) integration would be achieved (Rosamond, 2005). What mattered most, thus, was the process, rather than the product: in the neo-functionalist fashion, what Europe is reflects what it does and how it develops, although even here Haas fails to specify exactly how the systems of beliefs (of the elites) translate into policy outcomes (Farrell & Héritier, 2005, p. 274). Monnet himself was unclear of the ultimate direction of the newborn Community. Albeit hailed as the father of a supranational and federal Europe, his frequent mentions to the United States of Europe were but a tribute to a political system he admired, more than a concrete goal (Majone, 2009, p. 73). Here comes afore a first, interesting paradox. Deterministic though it was, neo-functionalism clashed with the lackadaisical interest in the teleology of the Community of the post-war political elites,[5] mostly concerned with national affairs. Political unification at the European level, wrote Stanley Hoffmann, would be feasible only if nations were not caught in the “whirlpool of different concerns” (Hoffmann, 1966),[6] as the logic of diversity of the national interests limited the scope of the spillover effect (Hoffmann, 1966, p. 882). The state would not become “obsolete”, but would remain “obstinate”, as in areas of key importance to the national interest, states are more likely to be risk-averse. This logic is still present today, and often raises the question, “Europe, what for?”. To Hoffmann, functional integration might have worked in the economic domain where common solutions to common

[4] This is in clear contrast to the (lack of) background conditions that did not allow the Latin America Free Trade Area (LAFTA) to take off in the 1960s. Haas himself forecast this failure just one year after the LAFTA agreement was signed and one before it even entered into force. Cf. Haas (1961, p. 382). His suspicions became even stronger in a paper published a few years later, cf. Haas (1967). Also see Malamud and Schmitter (2011). It should be noted that early neo-functionalists did not aim to propose a theory of *European* integration, but of *regional* integration. Ironically, due to the particularities of their main empirical case, the European Economic Community (EEC), they did end up with some sort of “pre-theory” that was methodologically limited to the EEC itself.

[5] In his *Mémoires,* Monnet wrote: “I never wondered where my preferences were going. It’s a useless question when events dictate” (cited in De Schoutheete, 2012).

[6] De Gaulle’s famous quote, *Les traités, voyez-vous, sont comme les jeunes filles: ça dure ce que ça dure,* seems quite apt to describe the collective feeling towards the EEC back in the Sixties, from an intergovernmentalist perspective. The Treaty of Rome of 1957 did not impinge on the absolute sovereignty of the states, which could withdraw from the organisation at any time they saw fit – that is to say, when the EEC could no longer bear benefits to the national interest of the member country. However, as De Gaulle and other state-centric or even eurosceptic leaders later on in time have found out, withdrawing from the EC/EU is far more difficult than the Treaties would make one believe.

problems can be devised more easily, but it would prove a failure anywhere else, particularly were it to try to attain political unification. That is not to say that the EC (or the EU today) is useless. Rather, what Hoffmann meant is that the best way of analysing it is not that of a semi-federal state or that of a unified political system. Instead, Hoffmann contended that the EC could be seen as an international regime that provides opportunities and restraints, respectively by "facilitating agreements between the members" and by imposing a "set of norms and behaviour" (Hoffmann, 1982, p. 33). Therefore, until the 1980s, the question "Europe, what for?" found two radically different answers: according to the neo-functionalist scholar, integration took place because there was a shift of loyalties from the national to the supranational; according to the intergovernmentalist scholar,[7] instead, the EC tended to the national interests of the member states. What they had in common, however, was one thing: both saw integration as the *explanandum,* and the outcome was to be measured in terms of the relative role of supranational versus national institutions (Marks, 1993, p. 391).

1.1.2 ...To theories of governance

Ever since the newfound activity of the Commission under the presidency of Jacques Delors in 1985 and the Single European Act (SEA) of 1986, studies on European integration shifted to the more urgent question of how policy-making is carried out, that is to say, on what the EC/EU does, and on how it does so. The deterministic vision of the EU had crumbled under the deviant experiences of Charles De Gaulle and Margaret Thatcher – i.e. integration could not be an ever-positive incremental process, but had to necessarily go through crises as well as moments of vitality. De Gaulle and Thatcher provided both, and reframed European integration as a history of "clash of wills" (Gilbert, 2008, p. 647). This clash, coupled with the renewed commitment to the Single Market stands as the foundation of Andrew Moravcsik's work.[8] Europe, he contends, has always had a liberal outlook and economic interdependence only could be the underlying rationale for European integration. At the same time, however, interdependence creates policy externalities, which in turn engender incentives for policy coordination (Moravcsik, 1993). The result is not a mere intergovernmental setting: Moravcsik draws on both neo-functionalism and intergovernmentalism. The American scholar relies on a functional logic to explain interstate bargaining (Sandholtz, 1996, p. 406): by applying a liberal theory of national preferences formation as the basis of Hoffmann's more vague "national interest" first, and subsequently by employing an intergovernmentalist analysis of interstate bargaining and institutional creation. In other words, "groups articulate preferences and governments aggregate them" (Moravcsik, 1993, p. 483). To Moravcsik, the EU is neither akin to a mere international organisation, as Hoffmann believed, nor is it limited to the institutional characteristics thereof, as Haas and Monnet asserted, since delegation to European supranational institutions is "expli-

[7] By "scholar" I do not refer to one person in particular. Here I mostly cited the work of two prominent academics, Ernst B. Haas and Stanley Hoffmann. However, the reader should not mistakenly assume that they are the only harbingers of these two different visions of European integration.

[8] Moravcsik is mainly concerned with inter-state bargaining. This is not the focus of the present work. Hence, while his contribution is undeniably important in the understanding of the process of European integration, it will only be discussed briefly.

citly limited by national governments" (Moravcsik, 1993, p. 513). The five case studies of Moravcsik's 1998 *opus magnum*, *The Choice for Europe,* represent all situations of "grand bargains" in which member states set out their preferences and compromise on them at the European level in a manner akin to that described by Robert Putnam in his seminal paper on two-level games.[9] According to the author, grand bargains denote the necessary intergovernmental nature of the EU. However, as many other scholars have pointed out, grand bargains are intergovernmental by definition (Stone Sweet & Sandholtz, 1997, p. 307). Thus, while undeniably *a part of* European policy-making, they do not explain its whole governance. As Michelle Cini has noted, liberal intergovernmentalism is particularly weak in explaining day-to-day politics (Cini, 2013) and something better is needed to describe the active relationship between European member states and institutions, what Fritz Scharpf aptly called *Politikverflechtung,* or interlocking levels of politics (cited in Risse-Kappen, 1996).

It was clear, as the Nineties approached, that the distinction between supranationalism and intergovernmentalism was no longer efficient in explaining neither the process of integration, nor the governance of the EC/EU, since both tended to explain European institutional building as a single dimension ranging from state domination to a fully supranational polity (Marks, 1993, p. 407). On the contrary, multi-level governance seems more fitting in denoting Scharpf's task by conceiving of the European polity as "a system of continuous negotiation among nested governments at several territorial tiers – supranational, national, regional and local" (Hooghe & Marks, 2003, p. 234).[10] In such a setting, "the sovereignty of individual states is diluted in the European arena by collective decision-making and by supranational institutions" (Marks, Hooghe & Blank, 1996, p. 341). Multi-level governance, thus, opens up the unitary state as envisaged by the older theories, as subnational elements such as societal groups bypass the governmental channel and directly deal with the European institutions (Sandholtz, 1996, p. 412). This opening-up of the state means that governance is not merely multi-level, but also polycentric: in this arrangement binding decisions are made over a multiplicity of actors that delegates authority over functional tasks to a "set of dispersed and relatively autonomous agencies that are not controlled by a single collective institution" (Malamud & Schmitter, 2011, p. 139), thus creating multiple principals. Therefore, states are still important, but in no way do they monopolise the arena of European decision-making. Multi-level governance has become the standard theory of policy-making so much so that even the Commission has stated in a White Paper on European Governance that the development of Europe moulds "a Union based on multi-level governance in which each actor contributes in line with his or her capabilities or knowledge to the success of the overall exercise" (European Commission, 2001). The notion of multi-level governance and polycentrism as the main structural foundations of the European polity have been employed by scholars in different terms, but the underlying composite nature of the EU remains. Just to make a couple examples, Sergio Fabbrini (2010; 2015) sees the European polity as a "compound democracy" and likens it to the US and Switzerland, which – rather than purely federal states – he labels as unions of states.

[9] Cf. Putnam (1988). The five aforementioned case studies that Moravcsik analyses in his book are: the negotiation of the Rome Treaty, of the common agricultural policy, of the European monetary system, of the Single European Act, and of European and monetary union.

[10] For some of the weaknesses of the multi-level governance approach, see Christiansen (2013, pp. 107-8).

The EU, indeed, is a union of states where central power is separated and as such “the confrontation for reaching collective and binding decisions generally takes the form of a negotiation...between separate institution” (S. Fabbrini, 2015, p. 212). Unions of states, he continues, share four main characteristics: they aggregate previously independent states; these states are asymmetrically correlated; they shared an experience of insecurity in the past; and the centre of decision-making is severely constrained (S. Fabbrini, 2015, p. xix). All these properties seem to fit well with the common understanding of the EU, made up of big and small member states that wanted to found a definitive solution to the war, but that at the same time cannot bring themselves to build a European *government.* The other example is Vivien Schmidt (2004; 2015a), who conceives of the EU as a “region-state”, along the lines of city-state and nation-state. She explores two dimensions, one concerned with policy-making, and one with policy-enlargement (for lack of better terms). On the one hand, policy-making in the EU is even more complex than in the US: government *by, for,* and *of* the people is complemented by government *with* the people, whereby organised interests are also consulted during the policy-making process. On the other hand, she proposes “variable boundaries”, a sort of “menu Europe”, with a shared main dish being the Single Market, and other courses (the other policy areas) that member states may or may not opt out of (Schmidt, 2009, p. 39).

This brief excursus on the theories of European integration and polity-making has served to lay the bases on which Europe as a regulatory polity is understood. The next section will describe in detail not only its characteristics, but also why a “Regulatory Europe” strongly draws on the aforementioned theories. It should be noted (again) that, although I deem these three theories most fitting to explain the regulatory polity, these are not the only theories of integration. On the contrary, over sixty years of history of polity-building in Europe have proved fertile ground for a panoply of theories, hypotheses, approaches and theoretical frameworks, either to explain integration, or to understand governance. Rosamond (2013, p. 88) gives an account of five different pathways beyond the standard integration theory: comparative political science, which, as was shown above, likens the EU to a normal political system and as a source of authoritative policy outputs, and thus strongly relies on (mostly rational) institutional theoretical frameworks, such as the one employed by Tsebelis and Garrett (2001) in their attempt to present a unified model of the politics of the EU; governance as described above; normative political theory, in particular thanks to the work of the German political philosopher Jürgen Habermas (for instance, see Habermas, 2004); international relations, which on the one hand helped develop the field of international political economy and comparative regionalism studies (see footnote 2), and on the other hand saw the application of typically IR theories, such as constructivism, to European studies (for instance, see Checkel, 1999; 2007); and critical theories, as opposed to problem-solving theories, to use Robert Cox’s terminology (see Manners, 2007). Alongside these, there are many other studies of legal or economic nature that are relevant to the understanding of the EU as a regulatory polity. However, since these studies tend to be far broader in scope than those concerning the EU itself, they will not be treated directly in this historical excursus. Still, in one manner or another, one should rejoice at the abundance of explanatory tools at the disposal of students of the European Union: indeed, it is only by allowing this theoretical and methodological pluralism that a particular field can flourish.

1.2 The EU as a Regulatory Polity

1.2.1 The impossible federal Europe?

During World War II, the resistance promoted the cause of European unity against the Axis occupation on the one hand, and as the foundation for postwar politics on the other. In particular, Altiero Spinelli, a fervent anti-fascist, helped with the writing of both the already mentioned Ventotene Manifesto and the Draft Declaration of the European Resistance. Both these documents called for a "free and *united* Europe" and a "*federal* union among the European peoples" (Dinan, 2010, p. 11). Nonetheless, today almost no one dealing with European politics takes to heart the federalist legacy of the 1940s. Even though many personalities along the political spectrum (albeit a majority coming from the left) do profess federalist sympathies,[11] very few concrete steps have been taken in this direction. If the 1984 proposal for a European Union[12] brought the federalists' hopes high, its renouncement in favour of the more intergovernmental-minded SEA two years later, and the ratification of the Treaties of Maastricht in 1992 and Lisbon in 2009 respectively, seem to have hacked them down. Many are the hindrances, which can be grouped under three different typologies: theoretical, ideological, and practical. As for the theoretical obstacles, one of the biggest issues is the definition of federalism *per se*. Most people agree that the United States of Europe would be a system based on political federalism, yet one could trace at least three ways to achieve this unity: by functional spillovers, by constitutionalisation, and by parliamentarisation. The neo-functionalist idea of spillover was meant to achieve economic integration first, and political cooperation second. Here, supranational institutions would mediate between member states' preferences (Borriello & Crespy, 2015, p. 505), thus generating a complex set of interstate bargaining. Yet, as was shown in the previous section, incremental neo-functionalism did not properly envisage an end goal. This positive vision was challenged by a more normative one, based on federalism by constitutionalisation. Joseph Weiler gives a wonderful account of how the jurisprudence of the European Court of Justice (ECJ) was transforming the polity of the then EC. The Treaties, he argues, have been "constitutionalised", thus making of the Community something far more akin to a federal polity than an international organisation (Weiler, 1991, p. 2407). However, this view is far more common among legal scholars than political scientists, as Weiler himself concedes, since Community law did not reshuffle the institutional system of the EU by making it more similar to that of a (semi-)hierarchical federal system (Weiler, 1991, p 2410). This is why the more recent efforts towards the United States of Europe have focused on parliamentarisation, also in order to overcome the so-called democratic deficit.[13] One proposal for a parliamentary union

[11] One notable example is the former President of the Italian Republic, Giorgio Napolitano. In more than one occasion, President Napolitano has reminded his audience that the underlying ideal guiding European integration should indeed be that of the United States of Europe.

[12] A digital copy can be found at the following link: `http://www.cvce.eu/en/obj/draft_treaty_establishing_the_european_union_14_february_1984-en-0c1f92e8-db44-4408-b569-c464cc1e73c9.html`.

[13] The literature on the democratic deficit is vast and will not be treated in this work. Follesdal and Hix (2006) give an account of what democratic deficit may or may not mean, and present rebuttals to the likes of Moravcsik and Majone,

came from the Spinelli Group and Bertelsmann Stiftung (cited in S. Fabbrini, 2015, pp. 172-8) as a way out of the crisis, and aims to make of the Commission the *locus* of political power of the EU, that is to say, the centre of a new European *government*.[14] Ironically, by focusing on a majoritarian institution, this proposal would render the EU a political system that all resembles, but a federation: as Majone (1998, p. 11) explains, true federalism is fundamentally non-majoritarian, due to its strict system of checks and balances. A parliamentary United States of Europe would thus be radically different from a federal United States of Europe. These theoretical incompletenesses or fallacies are compounded by more pressing issues: ideologically, federalists are a minority and their will cannot be enforced. Moreover, the spectre of a European government may resonate in times of widespread Euroscepticism by echoing the fears of a Misesian omnipotent world government, that would deprive citizens of their liberty. This ambiguous attitude towards federalism is also present in the discourse of European leaders: Borriello and Crespy have analysed the speech of French and German Heads of State and Government at the European Council, and have found out that they eschew using the dreaded "F-word" even though, at the same time, they are trying to legitimise their federal-like stringent economic policies (Borriello & Crespy, 2015). Finally, in practical terms, a Westphalian federal state is almost impossible at this point. There have been attempts to propose a "federation lite" (Bonino & De Andreis, 2012) to tame the fears of a European "megamachine", to use Lewis Mumford's terminology. Nonetheless, their call has mostly remained unheeded. Before describing the European Regulatory State, I would like to spend a few words on why a Westphalian European state would probably remain unfeasible, by reviewing James Caporaso's 1996 article describing different forms of state, including the regulatory state (Caporaso, 1996). This should give the reader a more direct link and understanding on what the EU as a regulatory polity does, does not, and cannot do.

According to Caporaso, a Westphalian state is a "Weberian ideal in which monopolies of legitimate violence, rational bureaucracies and centralised policy-making authority correspond to the territorially exclusive political orders" (Caporaso, 1996, p. 34). By consequence, a Westphalian state system would be an anarchy-riddled one, with no legal superior to the sovereign nation-states, whose political institutions have three defining characteristics: (i) a monopoly of legitimate violence; (ii) a permanent centralised staff for revenue and administering; and (iii) authoritative institutions that make policies over a range of issues (Caporaso, 1996, p. 35). Leaving aside the conceptual shortcomings of the model (such as the fact that states are seldom so centralised and territorially unified), let us suppose that today the EU were to be akin to a Westphalian state and that European integration arose from a Westphalian state system, like the federal narrative would like it to have. This would imply two things: first of all, that the EU transcended the sovereignty of the individual states "by cajoling them into accepting

for whom the democratic deficit is a non-issue and should not be exaggerated. Suffice it to say that democratic deficit in this context means the lack of democratic input legitimacy in European governance due to the limited powers of the only majoritarian European institution, the European Parliament (here mostly referred to as "Parliament").

[14] A more recent attempt at *democratising* (rather than parliamentarise) the EU has been launched by the former Greek finance minister, Yanis Varoufakis, with his DiEM25 (Democracy in Europe Movement 2025) project, whose medium-term goal is "to convene a constitutional assembly where Europeans will deliberate on how to bring forward, by 2025, a fully fledged European democracy, featuring a sovereign parliament that respects national self-determination and shares power with national parliaments, regional assemblies and municipal councils" (*The Guardian,* 2016).

the status of subordinate units and by *reconstituting* state sovereignty at a higher level" (Caporaso, 1996, p. 35, my emphasis); and secondly, that the EU would be provided with all those institutions typical of a Weberian state, since there would be a mirroring process of state- and nation-building at the European level. However, as Jachtenfuchs has noted, even though there exists a somewhat hierarchical legal system, with the doctrines of direct effect (1963) and primacy of Community law (1964), the EU lacks monopoly of force and of taxation, it has weak political parties, and there is a weak coupling of levels of government, since the EU relies on the member states for the implementation of its laws (Jachtenfuchs, 2007, pp. 162-8). Hence, if state-building seems hardly feasible, nation-building is even more so: the German *Bundesverfassungsgericht* struck down the possibility of existence of a European *demos* in its 1993 ruling, by stressing how the European Union constituted a *Staatenverbund* (association of states), rather than a *Staatenbund* (a federation);[15] and moreover, according to the latest Eurobarometer, for the past five years, less than a third of the citizens of the EU strongly identify themselves as European citizens (European Commission, 2015c). One should be wary not to see these two elements as decisive in the impossibility of creating a federal Europe. What I refer to, here, is the incapacity of the European people to build a compact European *demos* that would be conducive to constructing such an entity, as Linz and Stepan (1996) note in their work on nation-building and democratic transition.[16] In conclusion, the hypothesis of a reproduction at the European level of the processes of state- and nation-building that would bring about a federal United States of Europe might not seem tenable. The EU has to be something else, and there has to be something peculiar about it that should reveal its nature. It is given these circumstances that the work of Giandomenico Majone attempts to provide an answer.

1.2.2 Europe as a regulatory state

The best way to understand Europe as a regulatory polity is first to specify what regulation stands for. According to Philip Selznick, regulation refers to the "sustained and focused control exercised by a public agency, on the basis of legislative mandate, over activities that are generally regarded as desirable to society" (cited in Majone, 1996a, p. 9). Hence, regulation, is not simply achieved by passing a law: it requires technical expertise and the creation of specialised agencies for fact-finding, rule-making, and eventually enforcement (Héritier & Lehmkuhl, 2011, p. 132ff.); on the other hand, it also means that regulation obviates whenever society does not deem such activities worth their while (Majone, 1994). Regulation as such has one single normative justification: improving the efficiency of the economy by correcting market failures, that is to say, to act when the market is incapable of producing a social Pareto optimal (Majone, 1994). A Pareto optimal obtains when it is impossible to improve the well-being of one single individual without making at least another individual worse off. By following this particular

[15] Decision from 12 October 1993, 2 BvR L 134/92 and 2159/92, WW(1993) 3047.

[16] In particular, according to the two scholars, the issue of "stateness", as they call the tendency of the nation state not to be fragmented along ethnic, social, political, and linguistic lines, bears great explanatory power in how a particular polity sets up its own democratic architecture. For instance, the presence of a Basque population in Spain and of a russophone one in Estonia hampered the smooth transition towards a democratic polity (Linz & Stepan, 1996). It is by no means foolish to suggest that similar divisions at the European level today can play a role in hindering the creation of a federal Europe.

definition, therefore, regulation *cannot* be of redistributive nature. This is perhaps the main and most important point of Majone's work: the regulatory state is meant to replace the dirigiste state where the latter fails to produce optimal results. The distinctive characteristic of the regulatory state is the delegation of power to politically independent (non-majoritarian) institutions (Majone, 2003, p. 297). These, however, cannot regulate those activities that are redistributive by nature, such as education, taxation, or regional policies. In other fields, the creation of independent regulatory agencies is deemed as efficient because, unlike nationalisations or other means of dirigiste control, they avoid replacing market criteria by political and administrative ones, and instead focus on improving market efficiency (Majone, 1994, p. 83). It is also important to place this regulatory rise in an historical context: Majone contends that in twentieth-century Europe, nationalisation failed "both with respect to its objective of economic regulation and control" and "to the socio-political objectives of consumer protection and public accountability" (Majone, 1996a, p. 13). Aside from disappointment, regulation has come afore as the result of strategic choices within structural constraints, due to the control "exhaustion" of the welfare state, which pushed for more cost-effective solutions (the costs of regulation are borne directly by those and only those who have to comply with them, see Majone, 1993, p. 157); and of "habitat changes" due to the internationalisation of the economy, which put the problem of credible commitment on the front-line (Lodge, 2008, pp. 283-4). Tackling these issues at the national level, especially the last one, would only have the effect of buying some time before international collective action problems arise again. This is why the supranational dimension of regulation is important, and this is also why the EU has come to play a central role in it. However, this still does not explain *why* the EU can be deemed as a regulatory polity.

In 1996 Caporaso wrote that the EU as a regulatory polity could be seen as "an international and arguably supranational state specialising in the control and management of international externalities" (Caporaso, 1996, p. 39), since it does not engage in redistributive activities, and since it relies on the member states' administrative structure to implement its policies. This account seems to bode well with the explanation concerning the rise of the regulatory state presented in the previous paragraph. Delegation to its main regulatory body, the Commission, takes place for the same reasons principals delegate powers to independent regulatory agencies: (i) to create trust by avoiding time inconsistency and credible commitment problems (since the agent is a non-majoritarian institution,[17] its political output does not depend on the electoral cycle, and thus it is less likely that policies will be reneged in favour of more pressing political concerns, see in particular Majone, 1996b); (ii) the aforementioned need for expertise to regulate particularly technical sectors by overcoming asymmetries in information and tackling specific problems and issues; and (iii) to allow politicians to shift the blame, were they to take wrong or

[17] Here I will take Thatcher and Stone Sweet's definition of non-majoritarian institutions as "those governmental entities that (a) possess and exercise some grant of specialised public authority, separate from that of other institutions, but (b) are neither directly elected by the people, nor directly managed by elected officials" (Stone Sweet & Thatcher, 2003, p. 2). The Commission, indeed, is endowed with political property rights (i.e. the rights to exercise public authority), but the commissioners, including the president, are appointed rather than elected. Only since 2014 things have changed slightly with the Commission president being the *Spitzenkadidat* of the European elections, but this does not impinge on the non-majoritarian nature of the Commission.

wildly unpopular policy choices. Yet the rise of the EU as a regulatory polity cannot be explained by the unsatisfactory performance of a European welfarist state – no such thing has ever existed. Hence, Majone has argued that the demand (by the member states) and supply (by the Commission) of regulation in the EU have created an interplay that hinges on three variables to explain this rise (Majone, 1994). Firstly, the tightness and rigidity of the EC/EU budget: the Union budgetary resources amount to slightly more than 1 percent of the total GDP of the member states combined. With such a constraint, cost-effective market-repairing solutions are the only way to tackle collective action problems. Not only this, but the Commission needs to show it is capable of introducing significant innovation with respect to the policies of the member states, thus becoming a *de facto* policy entrepreneur (Majone, 1994). Secondly, beside the demand side of the member states, there is a desire by the Commission to increase its influence by expanding its competences. But since the Commission only "specialises in that which is permitted to do" (Caporaso, 1996, p. 40), policy expansion in areas of political salience and/or redistributive consequences is far more unlikely to happen. Finally, regulation is not a mere two-level game between the Commission and the member states of the EU. On the contrary, regulation represents the "border between the state and industry" (Lodge, 2008, p. 285) and any piece of legislation that could favour firms would toss the interests of civil society in the midst. As such, the third element that explains European regulation is the desire of firms, and in particular multi-national corporations, to deal with a uniform set of rules. This has created a vast network of European regulatory agencies that work alongside the Commission, and in some instances engender cases of "double delegation" (Coen & Thatcher, 2008). Therefore, in a few words, regulation as a policy-making tool is "so central to the EU functioning that it can usefully be considered as a regulatory state" (Young, 2007, p. 376). Moreover, conceptualising the EU as a regulatory state is "heuristically useful" in that it allows for a CP approach (Majone, 1996a, p. 55).

Malamud and Schmitter (2011, pp. 135-40) make use of this heuristic device by conceiving of regulationism at the European level as a gradual reproductive process. It is gradual because after the SEA, the EC's regulatory activity has incrementally expanded, and it is reproductive because it mirrors the regulatory mechanisms of the national state. Indeed, Majone himself tends to reproduce the regulatory phenomenon of the United States in Europe, both at the national and European level.[18] Here, I would like to argue, instead, that the regulatory nature of the EC/EU was inherent ever since the Treaty of Rome (and therefore was not a gradual process, ontologically speaking); and that it does not reproduce *in toto* the national mechanisms of regulation. Put differently, my aim here is to show how the vision of the EU as a regulatory polity cuts across all the theories of European integration and governance presented in the previous section by drawing a bit on each.[19] The answer lies in the dynamics between demand and

[18] This, however, with the due exceptions. For example, Majone recognises that delegation of regulatory powers to the European Commission is of a different kind than that to independent regulatory agencies. Rather than a mere principal-agent relationship, the exclusive competences of the EU in some areas represent a case of full delegation, which he calls "fiduciary" or "trusteeship" delegation (see Majone, 2001; 2003). This distinction, on the contrary, is refused by Mark Pollack, according to whom delegation to independent regulatory agencies or to the European Commission is not a matter of kind, but of degree, see Pollack (2007).

[19] This exercise should also point out that the scholarly shift from theories of integration to theories of governance is not so clear-cut, but the border between the two is always somewhat fuzzy. It should also be noted that the conceptualisation of the EU as a regulatory polity is *not* a result of these theories, as some of them (namely multi-level governance) were developed more or less at the same time. Rather, what I want to show is that there are some intrinsic characteristics of the

supply of regulation presented in the paragraph above. On the one hand, the EEC was "born lame", as it lacked a substantial budget. In 1965 Walter Hallstein, the first president of the Commission, tried to push the Community to develop its own financial resources (Dinan, 2010, p. 37), but the agreement fell short due to De Gaulle's recalcitrance. The impossibility of undertaking substantial redistributive policies, therefore, was already present in the Treaty of Rome, and continued to be present after 1965. This meant that ever since its conception, the EC had to steer its activities towards a more cost-effective path, that is to say, towards supply of regulation of market imperfections. There is a clear link with neo-functionalism here, and particularly with the spillover hypothesis: there are sectors in which delegation of regulatory powers to supranational institutions provides the right incentives, such as yielding high joint gains (Caporaso, 1996, p. 42). These are the sectors most related to the single market (economic and monetary union, competition, etc.) and in which delegation resembles the most to a fiduciary relationship. At the same time, however, there is no supply without demand: the fact that integration was undertaken in *those* sectors depended on the preferences of the member states – and the failure of the European Defence Community in 1954 is testament to this. Here regulation assumes a more intergovernmental aspect, in that it should also satisfy the requests of the principals. Finally, the non-unitary nature of the state, with all its subnational units and its proactive civil society make of European regulation a matter of multi-level and polycentric governance, as the aforementioned European regulatory networks prove.

1.3 Concluding remarks

This first chapter was meant to explain in an alternative fashion the roots of the EU as a regulatory polity and to show what this European regulatory state deals and does not deal with, and how and why it does what it is delegated to do. Throughout this work, I will take a different outlook at the regulatory state: not a comparison with other political systems, nor an analysis of a particularly regulated sector. On the contrary, I will try to study an activity, fiscal policy, that the regulatory state usually leaves to the government (a so-called core state power) and that, theoretically speaking, should not be reproducible at the supranational level, particularly in the EU. Therefore, if the standard model of the EU is that of a "multilevel regulatory polity with strong powers to regulate economic policy externalities among member states, but little power to intervene in, let alone assume, core state powers" (Genschel & Jachtenfuchs, 2013c, p. 1), this work aims to explore if and how it can be challenged by analysing the Euro-crisis and whether it has changed the "nature of the beast" by altering the inter-institutional equilibria. In other words, to what degree has regulation become implicated in crisis management, and what are the chances that it will make of the EU a more Weberian-like state (Caporaso, Kim, Durrett & Wesley, 2015, p. 889)? To answer this, I cannot but paraphrase Caporaso, according to whom "debate about 'what the EU is' cannot be productive unless tied to detailed, though theoretically informed, empirical studies" (Caporaso, 1996, p. 49). This is why the following chapter will be dedicated to methodology and to the

EC/EU that are explained sparsely by different theories and that the work of Majone has been the best attempt to collect them and put them to test.

introduction of the empirical cases.

Chapter 2

Issues of theory and methodology

2.1 The theoretical framework

I have shown in the previous chapter that the modern (Weberian) state is hinged upon three key resources which allowed it to emerge victorious against competing forms of state over time. As Charles Tilly and his collaborators argue in their 1975 influential book, *The Formation of National States in Western Europe*, these three elements are the means of coercion (that is to say, control of the military and the police), monetary sovereignty and fiscal revenue to pay for the former, and a durable and consolidated administrative system to organise the first two (cited in Genschel & Jachtenfuchs, 2013c, p. 9). In the previous chapter I also implied how none of these three elements fits the standard view of the EU as a regulatory polity (again, see Jachtenfuchs, 2007): aside from monetary policy, which admittedly represents a particular case,[1] delegation to supranational institutions has never meddled with these policy areas. As Genschel and Jachtenfuchs have shown in their recent book, however, the Euro-crisis has shed light on two shortcomings of this view (Genschel & Jachtenfuchs, 2013c, p. 4ff). On the one hand, market regulation in the EU has seldom, if ever, been efficiency-oriented. From Hallstein to Delors, from Prodi to Juncker, every Commission president would concede (or would have conceded) that market regulation is but a tool for further unification – albeit not necessarily *political* unification. On the other hand, the way the Heads of State and Government of the EU member states and the European leaders reacted to the recent economic crisis has unveiled a rather unorthodox way of crisis management, whereby it was the European Council, and more particular a handful of countries within it that decided on how to handle the crisis (Dinan, 2010, p. 164; S. Fabbrini, 2015, p. 63; see also Karagiannis & Guidi, 2014, on the strategic partnership between Angela Merkel and Nicolas Sarkozy, the so-called "Merkozy", or on

[1] I say that Economic and Monetary Union (EMU) is a rather peculiar case because of the agreement, in 1998, to create a single currency, the euro, and an independent central bank, the European Central Bank (ECB) to manage it. European monetary policy has always been (unjustly) framed as a "technocratic exercise of inflation control" (Genschel & Jachtenfuchs, 2013b, p. 251), but the other side of the coin sees European economic policy-making as highly intergovernmental. Discussions on EMU and the unsuitability of the Eurozone as an Optimal Currency Area (OCA) have been recounted numerous times (e.g. De Grauwe, 2006) and will not be discussed here. Nonetheless, as will be shown in the last chapter, EMU is an integral part to understand the process of fiscal integration.

the Dutch proposal for a super-commissioner in charge of national budgets control). Then, one need only look at the amendment to article 136 of the Treaty on the Functioning of the European Union (TFEU) to accommodate the creation of a permanent emergency fund (European Council, 2011), the ESM, or to the *international* (rather than European) agreement of the Treaty on Stability, Coordination and Governance (TSCG or Fiscal Compact for short, referring to the fiscal section of the Treaty) in 2012 (European Commission, 2012c) to understand how the European leaders have tried to expand the realm of possibilities to find what they deemed to be the right tools to overcome the crisis. By so doing, they have deepened integration in fiscal policy, which, according to Héritier (2013) is generally defined along two dimensions: a transfer of policy-making competences to the supranational level, and the strictness and intricacy of policy prescriptions issued by the supranational level. Therefore, while the ESM expresses the *capacity building* power of the EU, which entails the creation of resources for exercising a core state power, the TSCG embodies a *remit of regulation* to European supranational institutions, thus allowing them to expand the scope of their regulatory activities (Genschel & Jachtenfuchs, 2013a). It is along these lines (regulation or capacity building) that Genschel and Jachtenfuchs detect the *instrument* of integration. There also is a *mode* of integration. Integration *by stealth* entails little media coverage, and the Commission becomes a *de facto* fiduciary agent (see Majone, 2001). Héritier (1997) also mentions policy-making "by subterfuge" to avoid policy deadlocks and advance integration. On the contrary, integration *by publicity* tends to be at the forefront of the EU's press releases and is often considered as a spearhead of a multi-year European project in a particular area – like Europe 2020 for social policy. In this latter case accountability to the European voters takes a larger toll. Although both dimensions are important – for instance the threat of publicity can become a powerful coercion instrument when markets are nervous (Schelkle, 2013) – I will focus mostly on the former. Indeed, I believe that it is the tool with which political actors try to advance integration that bears the best explanatory power to understand institutional change and shifts in relative power between the actors.

The authors' model, which I will take as reference for my theoretical framework, constitutes a conventional demand-supply approach (Majone, 1994), in which two counterparts bargain on the advancement of integration in core state powers. One side *demands* integration to overcome typical collective action problems. These can be either policy externalities, which arise when "the domestic exercise of core state powers positively or negatively affects actors in other member states"; or economies of scale, which imply that the exercise of these powers at the European level is "cheaper in terms of economic, administrative or political unit costs" (Genschel & Jachtenfuchs, 2013c, pp. 12-3). Here the EU is akin to an international organisation that aims to reduce transaction costs as one of its functional imperatives and rationales, since the centralisation of collective activities by delegation to a (mostly) independent organisational structure may increase the efficiency of said activities as well as "enhance the organisation's ability to affect the understandings, environment and interests of state" (Abbott & Snidal, 1998, pp. 4-5). In this case European institutions work according to the typical definition by Crawford and Ostrom as "enduring regularities...structured by rules, norms, and shared strategies" that prescribe or permit actions and outcomes (Crawford & Ostrom, 1995, p. 582). The institutions themselves, however, need to be willing to provide *supply* of integration. In other words, there needs to be an interest on their part to actually provide this integration. It is conventional wisdom to argue that supranational institutions (the Commission and the ECJ in particular) have an *a priori* preference in expanding their scope, and thus welcome European integration in an increasing number of policy issues; on the contrary, European institutions that are more intergovernmental in nature (the Council and the European Council) tend to promote national interests. However, as Jupille and Caporaso (1999) have noted, participation of the national representatives to these councils makes it so that actors become socialised and the incidence of their national affiliations is thwarted. This is part of the so-called "Europeanisation" process, which scholars like Cowles, Börzel, and Risse define as "the emergence and development at the European level of a distinct political system, a set of political institutions that formalises and routinises interactions among the actors, and the growth of policy networks specialising in the creation of authoritative European rules" (cited in Jupille & Caporaso, 1999, p. 439). This is why, according to Genschel and Jachtenfuchs, another important element to take into consideration is integration dynamics, that is to say the thrust of integration, which is more likely to be unidirectional (Genschel & Jachtenfuchs, 2013c, p. 16). Indeed, the power of institutions resides also in the fact that they are able to "lock-in" a particular process or policy:[2] the more it contributes to solving a particular collective problem, the more gains from exchange it makes, and the more legitimate (politically and culturally speaking) it is, the more resistant it will become to redesign (Hall & Taylor, 1996, p. 940).[3] Therefore, after a certain level of integration has been reached, it is very unlikely that its boundaries will be rolled back – that is to say, that delegated powers will be given back to the member states. This is the idea of self-reinforcement, which by itself is a neo-functionalist concept based on incrementalism (*Petits pas, grands effets*), and operates both on the demand and supply side. On the demand side, functional spillovers entail the diffusion of integration from one sector to similar sectors: demand begets more demand. On the supply side, political spillovers are brought about by the entrepreneurial role of the Commission and other supranational institutions that promote the idea of Europeanisation to erode barriers to integration (Genschel & Jachtenfuchs, 2013c, p. 17), but no such counterpart promoting disintegration exists at a level that goes beyond the domestic boundaries. To be sure, some political parties, like the British UKIP, the Italian Movimento 5 Stelle and Lega Nord, and the French Front National are trying to coordinate within the European Parliament to "roll back" some of the competences of the EU. Yet their efforts are unlikely to succeed – at least in the short-term – exactly because on the one hand their domestic interests and electoral demands differ vastly, and on the other European institutions tend to lock-in their achievements. In sum, one part of the theoretical framework is based on the encounter between demand and supply of integration; moreover, integration has a "unidirectional incremental bias" due to the lack of transnational disintegrative movements or

[2] According to Thelen, however, increasing returns do not necessarily result in an irrevocably locked-in equilibrium, and further choice points do exist (Thelen, 1999, p. 386). This exercise in comparative statics will be explained further below, and will be employed in the process-tracing of fiscal integration.

[3] Moe (1990) was among the first to underline how the locking-in of institutions is due to the volatility of political property rights. He writes, "Whatever today's authorities create...stands to be subverted, and perhaps completely destroyed – quite legally and without any compensation whatever – by tomorrow's authorities"; nonetheless, the designers of the institutions can "fashion structures to insulate their favoured agencies and programmes from the future exercise of public authority", and since they get to do so first, they are creating a sort of *ex ante* control "through insulated structures that, once locked in, predispose the agencies to do the right things" (Moe, 1990, pp. 227-8).

institutions. Nonetheless, whereas fiscal integration may be *per se* understood as institutional change[4] since there is a differentiation of competences along the temporal dimension, it still comes short of explaining change in relative equilibria between institutions. For this matter, in the following paragraph I will briefly deal with the conceptualisation and operationalisation thereof.

2.1.1 Conceptualisation and operationalisation of institutional change

Explaining institutional change is a threefold task. First of all, explanation must focus on its ontology, i.e. what it is and how it is conceptualised. For instance, in their ground-breaking work on regime change, Linz and Stepan (1996) conceptualise a consolidated democracy as a regime in which the five arenas of political society, civil society, economic society, rule of law, and usable administration are also consolidated, that is, they function without any particular constraint. But this is not enough to explain in-depth an idea, be it that of regime or institutional change. Indeed, and in second place, the concept of institutional change needs an objective measurement: saying that institutions have changed means very little *per se,* the same way that saying the arenas of democracy are consolidated in a consolidated democracy represents a tautology. Measuring change entails that the researcher should also find a *comparandum.* In other words, it means posing the question, "compared *to what* can we talk about change?". As was mentioned in the previous paragraph, what I am concerned with here is not merely institutional change, but rather how to measure change in terms of *relative power* between institutions, and as a result of this institutional change. To complete this endeavour, the third task is to retrace the steps that have brought about institutional change, by explaining how and why it has come about. While the coming paragraphs will deal with the first two tasks, the third one will be laid out more precisely in the following section, dealing with methodological issues.

Studies on the genesis of institutions and their change have been occupying scholars for decades (for a review see Thelen, 1999). Out of the three new institutionalist schools, rational, sociological, and historical, it is the last one that is most devoted to this issue, although it is not exclusive to it, as Greif and Laitin (2004) show in their rational choice model of endogenous institutional change.[5] While my approach here will not be strictly adherent to historical neo-institutionalism, I will employ some concepts that are typical of this school, such as the ideas of path dependence and critical juncture.[6] Nonetheless, as the theoretical framework might have implied, I will base my assumptions of institutional change in the EU due to fiscal integration mostly on functional rationales: to put it as some notable scholars did, politics here is conceived of as a series of collective action dilemmas (Hall & Taylor, 1996, p. 945). Therefore, the creation of the likes of the ESM or the compromise reached for the Fiscal Compact are explained less by the notion of unintended consequences than by the attempt of the political actors to

[4] I owe this suggestion to Pierre Vanheuverzwijn.

[5] There exists a recent, self-proclaimed fourth new institutionalism, discursive institutionalism, which places the emphasis on the power of ideas and the interactive processes of discourse in the institutional context to explain political change (for a more insightful analysis, see Schmidt, 2010).

[6] This approach is less about cherry-picking ideas and applying a selective bias to cases, and more about resiliency and need for eclecticism. As Heipertz and Verdun (2005, p. 1003) note, when there are several dimensions in a particular issue, then "eclecticism seems warranted."

reach a voluntary agreement to solve these issues. Moreover, as Kathleen Thelen shows in her work, if on the one hand those who conceive of institutional change as a mere breakdown of one equilibrium being replaced by another fail to capture the process in a coherent manner (Thelen, 1999, p. 384), on the other change does not solely take place within the institution – as may be the case of a simple reorganisation of the internal structure. Matter-of-factly, explaining change within the institution risks of incurring in the problem of placing the institution in a political vacuum. Yet, institutions should be understood in relational terms, as an important source of change "comes from the interactions of different...orders within society" (Thelen, 1999, pp. 383-4). This is why in this work I will adhere to Thelen's conception of relational change. Put simply, institutional change is conceptualised as change in equilibrium of the relational power of the EU institutions. The reader might notice two things. Firstly, that measurement of relative institutional power was a characteristic of the grand theories of integration, neo-functionalism and intergovernmentalism. Here, the tug-of-war between the ever-expanding Commission and ECJ on one side, and the "obstinate" nation states on the other side made it so that integration was the result of their clash of wills. However, unlike other scholars that present an endogenous explanation of institutional change by studying processes of institutional bargaining and negotiation (namely Farrell & Héritier, 2005), for the sake of simplicity I will take the institutional preferences as exogenous. Moreover, I believe that integration *per se* is a constant source of change, and the fact that important scholars in recent times still deal in terms of supranationalism versus intergovernmentalism (for instance see Bickerton et al., 2015; Dehousse, 2015; S. Fabbrini, 2013) shows that this kind of debate is not outdated at all. Consequently, and in second place, the reader may also notice that the switch from studies of integration to studies of governance is not so defined and that the two are still interlocked. Obvious as it seems, it also goes to show how the conceptualisation of the EU as a regulatory polity does not and should not eschew issues of institutional change and integration, that EU institutions cannot be relegated to a background role of "fourth branch of government" (Majone, 1998), and that the nature of the beast is a very complex concept to grasp.

Operationalising the extent of institutional change is no easy feat, as many disagreements over what has changed and in relation to what else exist. For this task, I will mainly refer to three works, on which I will base my own analysis. These are Börzel (2005), Bauer and Becker (2014), and De la Porte and Heins (2014). All three deal with task expansion, which, in the fashion of Genschel and Jachtenfuchs, can be seen either as remit of regulation, or as capacity building. Understanding changes in relative power presumes an understanding of what the institutions under consideration deal with and how their competences have changed over time. Admittedly, all the three accounts work best along a temporal dimension: if De la Porte and Heins make a comparison between the Stability and Growth Pact (SGP) before and after the crisis, Bauer and Becker go even further in a rejoinder to a commentary to their article. Here, they explicitly claim that the "baseline for [their] comparison is self-evident: it is the Commission's role in [four fields] *before* the crisis" (Bauer & Becker, 2016, p. 102, emphasis in the original). None of them, however, bears much relative explanatory power – that is to say, none of them shows how equilibria between institution changed. Nevertheless, measurement of changes in relative institutional equilibria could be inferred by a compound use of the three works. A quick review of these articles will explain better how.

Tanja Börzel heavily draws on the work of two neo-functionalist scholars, Lindberg and Scheingold, to explore integration by task expansion. According to these authors, integration can be understood in terms of scope and *locus* of decision-making. But unlike them, Börzel gives different definition for each. As for the *locus*, she rebrands it as level and sees it as the…*locus* "where the competence resides". This is the breadth of integration and represents the number of issues that fall under EU competence. The scope, instead, is not the "initial expansion of EU authority to new policy areas", but it is operationalised by "the procedures according to which policy decisions are taken focusing on the involvement of supranational bodies and Council voting rules" (Börzel, 2005, p. 220). This is the depth of integration. In her opinion, it is important to distinguish between the two, as this can allow scholars to understand the disparities of regional integration in the different policy areas. Börzel also explores other possibilities of measurement, such as the legal output, but she rightly observes that it is not the best indicator for task expansions. Indeed, as Renaud Dehousse shows in a recent paper, after 2009 the legal output has drastically decreased, in spite of the increasing interference of the Union in member states' affairs (Dehousse, 2016, pp. 25-6). She therefore draws a five-point scale for both level and scope to measure policy integration. As for level, integration goes from exclusive competences of the member states (1) to exclusive Union competences (5). In the scope, the depth of integration even includes a null value (0) in which there is absolutely no coordination at the European level. Coordination, then, can go from intergovernmental (1), in which it is the Council and the European Council that monopolise the policy-making process, with no involvement of the supranational institutions, to complete supranational centralisation (5), in which the situation is reversed (for a more detailed explanation, see Börzel, 2005, p. 221). Table 2.1 should give a more precise picture of what these degrees of integration mean.[7]

	Level of authority (breadth)	*Scope of authority (depth)*
0	-	No coordination at EU level

[7] Not all scholars agree on the exact meanings of "coordination" and "cooperation". S. Fabbrini (2015, pp. xxix-xxx), for instance, sees cooperation as a "loose, flexible, and unconstrained form of collective action," whereas coordination, to him, implies "an institutionalised form of interaction between governments in order to decide collectively on a growing range of policies," and is akin to the pooling of national sovereignty. While Fabbrini's definitions are more semantically sound, here, for the sake of consistency, I will follow Börzel's understanding of the two words.

1	Exclusive national competences (0% EU) • competences for all national issues at national level	Intergovernmental coordination • (European) Council as executive and legislative body, acts by unanimity • no right of initiative of European Commission • no involvement of European Parliament • no judicial review by European Court of Justice
2	Shared competences "light" • competences for most policy issues at national level	Intergovernmental cooperation • Council as main executive and legislative body, acts by unanimity • right of initiative of European Commission, shared with Council • consultation of European Parliament • restricted judicial review by European Court of Justice
3	Shared competences "medium" • competences for most policy issues split between national and EU level	Joint decision-making I • exclusive right of initiative of European Commission • co-legislation by Council acting by – unanimity and consultation of European Parliament (3.0) – unanimity and co-decision procedure OR majority and consultation of European Parliament (3.5) • full judicial review by European Court of Justice

4	Shared competences "strong"
	
	• competences for most policy issues at EU level
		Joint decision-making II
		
		• exclusive right of initiative of European Commission
		• co-legislation by Council acting by majority and European Parliament via
		  – cooperation (4.0)
		  – co-decision procedure (4.5)
		• full judicial review by European Court of Justice

5	Exclusive EU competences (100% EU) • competence for all policy issues at EU level	Supranational centralisation • unilateral decision of European Commission/European Central Bank • no involvement of Council and European Parliament • full jurisdiction of European Court of Justice

Source: *Börzel (2005).*

Table 2.1: Mapping task expansion in the EU

Bauer and Becker (2014) apply Börzel's framework for task expansion to the Euro-crisis, identifying four policy areas in which supranational institutions – here in particular the Commission – have seen their mandate modified. These are financial stability support, economic policy surveillance, coordination of national policies, and supervision of the financial sector. Their aim is to study the change in degree of involvement of the Commission and the ECB in these four areas to dispel the now-widespread assumption that the Commission is "turning into a secretariat of sorts" (Bauer & Becker, 2014, p. 214). Their work is important in three aspects: first of all, it shows that despite the tumultuous changes since Börzel's publication ten years earlier, her classification still holds strong. Secondly, it proves that it can be applied to more sectors than those envisaged by Börzel, such as the financial sector. And finally, it corroborates Dehousse's claim that it is the policy instruments that the EU uses that are a "good indicator of the state of affairs in the [Union]" (Dehousse, 2016, p. 21). I will return to some of their findings in the last part of this work.

Finally, De la Porte and Heins (2014) take a different approach from the other authors. As the title of their article suggests, their work is mostly concerned with changes in social policy. However the two scholars concede that the recent crisis has created ever closer ties between economic policy-making and fiscal and social policies. For this reason I deem that their conceptualisation of integration fits my purposes. Their classification works along three dimensions – interference, surveillance, and coercion – and presents four degrees of intensity – low, medium, high, and very high. Interference refers to the “extent to which the EU interferes in member states’ sovereignty...by requiring policy changes.” It can go from suggesting minor adjustments in a particular policy area, to requiring far-reaching structural reforms undermining the very principles of that policy area. Surveillance is the “extent to which the EU is endowed with power to control whether member states are implementing the agreed policies and respecting or moving towards EU benchmarks and/or national targets.” Again, the EU can either make infrequent *ex post* reports, or it can require frequent *ex ante* and *ex post* reports. Finally, coercion is “the type of measures EU actors have at their disposal to ensure corrective action in the case of non-compliance or deviation from EU policy.” It can be based on social sanctions, such as “naming and shaming”, or it can go up to treaty-based corrective automatic mechanisms of sanctioning or even conditionality (for a more detailed explanation, see De la Porte & Heins, 2014, p. 158ff., or Table 2.2).

All the three works make more or less explicit that the distinction between high and low politics typical of early integration studies is barely tenable anymore. This is noteworthy because it shows that core state powers can indeed be integrated, and that integration is not less likely to happen in those policy areas that are deemed more important to the national interest, as Haas and even Hoffmann believed (Farrell & Héritier, 2005, p. 275). It is also important to note that there exists a relationship between the two conceptualisations of integration used: if on the one hand interference, surveillance, and coercion can be a function of the breadth of integration (the number of issues that a supranational institution deals with), on the other hand the depth of integration (the involvement of supranational bodies and Council voting modalities) varies in accordance to the function of the institution, whether it is to interfere, to surveil or, indeed, to coerce a policy implementation. In simpler terms, it can be said that if we take interference to mean that the EU asks for adjustment, surveillance that the EU monitors said adjustment, and coercion that it will enforce it, then the Union can interfere, surveil, and coerce in a number of issues, ranging from agricultural to fiscal, from internal affairs, to social policy – that is, there is a breadth of policy areas in which these functions can work. On the contrary, the involvement of supranational bodies (and the modality of voting within the Council) in interference, surveillance, and coercion can vary according to the policy area at hand – that is, the depth of involvement varies. This should not be confused with the *degree* of involvement that De la Porte and Heins talk about. While they are similar, they are not the same. The degree of involvements entails the strictness of interference, surveillance, and coercion by the EU. The depth of involvement, instead, refers to the inclusion or exclusion of supranational or intergovernmental bodies and the modality in which they act (whether the Council decides by unanimity or by qualified majority voting, QMV; and whether or not the Commission has the right of initiative). To understand changes in inter-institutional equilibria, therefore, a two-step process is needed. In first instance, the change in the institution at hand will be analysed on a temporal dimension: how their own

Dimension of integration	*Degree of Integration*			
	Low	Medium	High	Very High
Interference	Uncontroversial objectives, not challenging existent member states policies or institutional arrangements, merely suggesting some minor adjustments in a particular policy area	Objectives challenging some existing policies, but not the underlying institutional structure of a policy area	Objectives requiring comprehensive policy reform with the potential for undermining the existing institutional structure and fundamental principles of a policy area	Objectives requiring far-reaching structural policy reform with a high potential for undermining the existing institutional structure and for changing the fundamental principles of a policy area
Surveillance	Infrequent *ex post* EU surveillance of national policy reports	Frequent *ex post* surveillance of national reports that specify policy which should meet common benchmarks and/or national targets	Regular *ex ante* and *ex post* EU surveillance of national policy reports. Member states are held accountable to EU benchmarks and are required to specify national targets and action plan to meet these	Frequent *ex ante* and *ex post* EU surveillance of national policy reports. Member states are held accountable to their own policies (which must aim to meet European targets and/or policy)
Coercion	"Naming and shaming" and/or soft recommendations with a weak treaty baseline	Strong treaty-based recommendations, but no sanctions	Treaty-based recommendations and ultimately financial sanctions in the case of non-compliance	Treaty-based corrective action and/or conditionality in order to receive financial assistance

Source: *De la Porte and Heins (2014).*

Table 2.2: Typology of integration

role changed before and after the crisis. This can be done by following the conceptualisation of gradual institutional change used by Streeck and Thelen (2005, p. 20ff) and summarised in Table 2.4 below.[8] In second instance, an inter-institutional comparison of the changed role should allow for an assessment of the winners and losers, so to say.

The following section will lay out the third task of explaining institutional change: how to retrace the steps of fiscal integration to detect causal mechanisms in institutional change. Before venturing in this enterprise, however, four caveats are in order. First of all, I will analyse those institutions that were mostly involved with the crisis: the Commission, the Council, and the European Council – and partly the ECB and the Parliament. The ECJ, by contrast, will be mostly sidelined. Secondly, European institutions will be assumed as monolithic. This means that, even though fiscal integration may have altered their scope, their preferences are pre-set and no internal clashes as to the interest of the institution exist. Consequently, supranational institutions like the Commission will be assumed to have a pro-integration stance, whereas the Council and the European Council, despite the socialisation of the actors, will mostly tend to defend the national interest of the member states[9] without, however, pressuring for a disintegrative thrust – as the dynamics of integration laid out before suggest. Thirdly, the room of discretion of the institutions – here conceptualised as behind-closed-doors meetings and their relevance to the official policy-making – will not be accounted for: a measurement of the informal power is far beyond the scope of this work and would require a longer timeline to precisely assess its implications. Finally, not all the dimensions of integration discussed above will be employed for each institution – indeed, it would make very little sense to talk about, say, the depth of coercion of the ECB. The next question, therefore, is: how to narrate fiscal integration and institutional change?

2.2 The methodological approach

2.2.1 Explaining process-tracing

The theoretical framework assessed, this section aims at laying out the methodology to understand institutional change through the narration of the process of fiscal integration. Drawing on the toolbox of qualitative methods, the best way to do so is to use process-tracing techniques. In its simplest form, process-tracing tells us to...trace the process (Checkel, 2005), although it does in a very particular way. The process, in fact, is narrated by making use of particular mechanisms. James Caporaso provides a

[8] Salines, Glöckler and Truchlewski (2012, p. 667) rightly note that this approach has a decade-wise time horizon, but their study shows how it also turns out to be useful for a year-by-year study after the crisis. For this reason, this characterisation will come in handy for my case studies concerning the post-crisis period.

[9] This does not mean that they resist integration. Merely, their pro-integration stance will be functional and related to the policy area: in some cases they will be more eager to delegate power to supranational institutions because of all the reasons highlighted in the first chapter; in other cases, they will be more reluctant to cede sovereignty – as may be the case for some core state powers. For instance, Tsebelis and Garrett (2000) suggest that the Council may show a status quo bias and that in matters of centralisation of policies they would still rather the national institutions have ample margins of discretion, without outrightly opposing integration. However, when national paths do show frailties entailing, *inter alia*, hefty externalities, the supranational road might seem more attractive (Franchino & Mariotto, 2015).

	Displacement	*Layering*	*Drift*	*Conversion*	*Exhaustion*
Definition	Slowly rising salience of subordinate relative to dominant institutions	New elements attached to existing institutions gradually change their status and structure	Neglect of institutional maintenance in spite of external change resulting in slippage in institutional practice on the ground	Redeployment of old institutions to new purposes; new purposes attached to old structures	Gradual breakdown (withering away) of institutions over time
Mechanism	Defection	Differential growth	Deliberate neglect	Redirection, reinterpreta-tion	Depletion
Elaboration	Institutional incoherence opening space for deviant behaviour Active cultivation of a new 'logic' of action inside an existing institutional setting Rediscovery or activation of dormant or latent institutional resources "Invasion" and assimilation of foreign practices	Faster growth of new institutions created on the edges of old ones New fringe eats into old core New institutional layer siphons off support for old layer Presumed "fix" destabilising existing institutions Compromise between old and new slowly turning into defeat of the old	Change in institutional outcomes effected by (strategically) neglecting adaptation to changing circumstances Enactment of institution changed, not by reform of rules, but by rules remaining unchanged in the face of evolving external conditions	Gaps between rules and enactment due to: (1) Lack of foresight: limits to (unintended consequences of) institutional design (2) Intended ambiguity of institutional rules: institutions are compromises (3) Subversion: rules reinterpreted from below (4) Time: changing contextual conditions and coalitions open up space for redeployment	Self-consumption: the normal working of an institution undermines its external preconditions Decreasing returns: generalisation changes cost-benefit relations Overextension: limits to growth

Source: *Streeck and Thelen (2005).*

Table 2.4: Institutional change: five types of gradual transformation

minimal definition of mechanism as an "intervening factor that occurs between some background variable and an outcome" (Caporaso, 2009, p. 71), and Jeffrey Checkel bulks up this notion by identifying in the mechanism "a set of hypotheses that could be the explanation for some social phenomenon" (Checkel, 2005, p. 4). Falleti and Lynch (2009), finally, give an even more precise account. Here mechanisms become "concepts or patterns of action that can travel from one specific instance, or 'episode'...of causation to another and that explain how a hypothesised cause creates a particular outcome in a given context" (Falleti & Lynch, 2009, p. 1145). Therefore, and in short, process-tracing is a method "for evaluating hypotheses about the causes of a specific outcome in a particular case" (Mahoney, 2012, p. 571).

These definitions are sufficient not only to understand what a mechanism is and how important it is to process-tracing; I think they are also sufficient to reveal an intrinsic characteristic of these mechanisms: causality. In everyday speech causality is understood to be as the necessary linkage between an event X and an outcome Y. For instance, when a person enters a dark room, he or she will flick the light switch. Subsequently, the room will be lit by the artificial light of a lamp. Here it would be understandable to say that the action of flicking the light switch *caused* the room to be lit. Things, however, are not always so simple. For the purpose of this work, it could be said that identifying fiscal integration in the EU as the *sole* cause of institutional change would mean that the researcher lacks good will. He or she will purposely avoid all the other changes in economic (trade-related, monetary, or otherwise) policymaking in the EU to force a distorted vision of institutional change. On the other hand, such a straitjacket would render the whole idea of identifying causal mechanisms of institutional change moot. For this reason, here I will employ a minimal definition of causality, which, according to John Gerring is "that a cause raises the *probability* of an event occurring", or in other words "the probability of an event Y will be increased by X" (Gerring, 2005, pp. 167-9, my emphasis). To return to the example of the room and the light switch, the event could be read in another...light: the fact that somebody has flicked the light switch, *raises the probability* that the room will be lit. We cannot discard the possibility of an electrical inconvenience whereby flicking the switch will not turn on the lamp. In this work, instead, causality will *grosso modo* mean that the way fiscal integration is carried out in the EU raises the probability of inter-institutional equilibria changing. That is to say, the rationale behind the integration of this core state power and the *modus operandi* of the political actors (whether by regulation or by capacity building) will have different consequences on how the relative power of European institutions takes place. Tracing the process by means of causal mechanisms, therefore, would entail something along these lines:

$$\mathrm{X} \rightarrow m,\ n,\ o \rightarrow \mathrm{Y} \rightarrow p,\ q,\ r \rightarrow \mathrm{Z}$$

This schematisation, taken from Caporaso (2009), can be explained as follows: given an independent event X (the crisis), there are a series of mechanisms m, n, o that lead – or better, increase the chance of leading – to an outcome Y (the decision to integrate a core state power). In turn, this outcome Y has its own consequences in Z (change in relative institutional power). The researcher, therefore, will have to detect those mechanisms p, q, and r that have made Z possible – or better, again, that have helped in engendering Z. It should be noted, however, that causal mechanisms by themselves do not bring about a determined outcome. They are context-sensitive, and it is the interaction between the mechanisms and the context in which they operate that causes outcomes (Falleti & Lynch, 2009, p. 1145). Four elements can be extrapolated from this line of reasoning, and which I will explain more in detail in the following paragraphs. This will allow for an understanding of the causal linkages in fiscal integration in the third part of this work. First of all, that temporal ordering or sequencing is critical in process-tracing. Any account that does not follow a chronological order would most likely be devoid of any causal logic. Given a temporal sequence t_1, t_2, t_3,..., t_n, saying that an event at a time t_3 has caused an event at a time t_1 would be tantamount to reversing the very logic of process-tracing. Secondly, this temporal ordering means that mechanisms are time-sensitive, but also context-sensitive. This means that contingency is an important part of process-tracing. Examples further below will clarify this point. In third instance, and as a corollary, time sensitiveness implies some sort of path dependence: at a certain point in time an outcome Z may not be feasible anymore because an event m has occurred that prevents Z from happening at all. In some cases, certain events create critical junctures[10] that disrupt the specific mechanisms of reproduction of the existing path, thus signalling a discontinuity with the past. Finally, causal mechanisms, events, and outcomes need empirical grounds on which to be rigorously tested. The last part of this section will make use of the work of Collier (2011) and Mahoney (2012) to lay out a process-tracing-based framework.

Temporal order and sequencing. Ordering a sequence of events means essentially narrating a story. Narrative, in this sense, is the story being told as "a detailed and textured account of context and process" (Levi, 2002, p. 112)[11] that emphasises sequence and temporality in order to assess causality. A story, whatever it is, is necessarily selective of the events it recounts. Such a selectiveness is, on the one hand, unavoidable to "fill the gaps" between two points that are temporarily removed from each other to achieve narrative smoothness (Caporaso, 2009, p. 79): an account of every single event would overfill the story with useless details; on the other hand, selectivity could fault the researcher of bias were he or she to eschew certain events that could counter his or her point. This is also related to what King, Keohane and Verba (1994, pp. 78-9) call "counterfactual condition" whereby the researcher should clarify what is being kept constant while the value of the variable under treatment is being changed. In other words, if the researcher purposely avoids recounting a particular fact that works as a constant, he is enabling a counterfactual condition to obtain. If the person who flicks the light switch avoids mentioning that there is a window in the room and that at the moment he or she turns the light on it is dawning, how is one to tell that the light he or she sees is due to the lamp? Therefore, sequencing in process-tracing is useful for at least two reasons: to avoid inconsistencies between chronological and logical orders; and to allow

[10] The notion of critical juncture will be explained more in detail in the third chapter, with reference to the Treaty of Maastricht and the beginning of the Euro-crisis and in relation to the work of Capoccia and Kelemen (2007) and S. Fabbrini (2015).

[11] Margaret Levi adheres to a particular "variant" of process-tracing, called *analytic narrative.* First employed in the 1998 homonymous book by Robert Bates and his collaborators, to which she contributed, this approach shares with process-tracing the "commitment to modification of the models and explanations as the data reveals new possibilities," but it explicitly relies on rational choice models such as game theory (Levi, 2002, p. 121). My knowledge of the approach is very limited and would not permit me to exploit all its possibilities. Moreover, by taking the preferences of the EU institutions as exogenous, I think that the analytics part of this approach, which relies heavily on preference formation and behaviour influence, would prove to be far too sophisticated.

the researcher to find causal linkages between moments in time that are temporarily removed from each other, but necessarily following a chronological order.

Time- and context-sensitiveness. Timing and context matter in the temporal order. The same mechanism applied to situations that are extremely similar may not produce the same outcome. In one case, even, it could be that the mechanism might not be enabled at all. This is the importance of contingency, which Margaret Levi defines as a situation of uncertainty and lack of the necessary information in the unraveling of events (Levi, 2002, p. 115). Without contingency there would be no strategy-making, and no different effects would be detected. Let us make a practical example of contingency in the EU. In a recent paper, Giandomenico Majone tells the story of the plans that the German Chancellor Angela Merkel had for an "economic government" of the Eurozone (Majone, 2014a, p. 1219). In short, he says, in January 2011 Chancellor Merkel proposed at first a "Pact for Competitiveness" to the other countries to dovetail their economic and social policies to those of Germany. Needless to say, there was harsh criticism directed at this proposal, which was seen as too stringent for the other member states. Yet, just one year later, the changing conditions surrounding the Eurozone pushed those same countries to accept even stricter conditions under the Fiscal Compact. Timing and context, i.e. contingency, therefore, matter a big deal. Had Chancellor Merkel proposed the same plan a few months later, it is not impossible to exclude that a different path would have been taken.

Path dependence. History, alas, is not made of ifs and buts. Once a certain action is done, once a certain institutional arrangement is in place, it becomes more and more difficult to reverse the course (Levi, 2002, p. 117). Path dependence, thus, is a self-reinforcing process that builds on the temporal ordering of events to significantly and differently impact outcomes (Pierson, 2000, p. 74). It is a concept typical of historical institutionalism and it is meant to say that "men make their own destiny" to convey the idea that the paths available to us are limited in number and that they were set a long time ago. Mclean (2003), for instance, argues that the European institutions today are shaped and moulded in a particular way because this is how they were conceived ever since the Treaty of Rome. This analysis is not at all dissimilar to my argument that the way the Treaty of Rome set up the Community bore intrinsic support to the notion of a regulatory polity. Yet, as Thelen (1999) has forcefully argued, institutions are not locked-in forever, and change may indeed happen. Greif and Laitin (2004, p. 634) specify from a game-theoretic perspective that "institutional change will endogenously occur...when the self-undermining process reaches a critical level such that past patterns of behaviour are no longer self-enforcing," thus giving leverage to the notion of positive self-reinforcement of the institutions. In process-tracing in particular it is very important to understand the source of change. Not only because it depends on contingency, and not only because what had happened before may decrease the number of paths available for change; but also because it implicitly states that there are paths that could have been taken but were not. This is the exercise of comparative statics: the model at hand (in this case a rational-functional model of integration), as Levi once again clarifies, should not only explain what has happened (the favoured explanation), but it should also generate alternative hypotheses – what could have taken place had the conditions been different (Levi, 2002, pp. 111-2). For the purpose of this work, a comparative statics analysis would be for me to ask, "What would have happened if the EU had garnered capacity building instead of using regulation for this particular policy?". This is not to make a story of ifs and buts, but it is an attempt to explain *why* certain actors have acted that particular way. That is, why the European leaders decided to regulate a certain policy instead of building a new capacity to do so. I believe that this difference in choice is important to understand how relative institutional equilibria change.

Empirical veracity. The last element of the rationale of process-tracing is the empirical validity of the observation and the causal mechanisms. According to Mahoney (2012), the researcher makes inferences by looking at "diagnostic pieces of evidence", called causal-process observations (CPOs). These are used together with generalisations relevant to the case that are widely regarded to be true (Mahoney, 2012, p. 571). The CPOs are needed for the researcher to say that "(i) a specific event or process took place; (ii) that a different even or process occurred *after* the initial event or process; and (iii) that the former was a cause of the latter" (Mahoney, 2012, emphasis in the original). The veracity of CPOs is established by a set of tests, a hoop test, a smoking-gun test, and a straw-in-the-wind test. Collier (2011) adds a fourth test, called "doubly decisive". A hoop test "proposes that a given piece of evidence...must be present for a hypothesis to be valid," while a smoking-gun test asserts that "if a given piece of evidence...is present, then the hypothesis must be valid" (Mahoney, 2012, pp. 571-2). In other words, a hoop test is necessary for the hypothesis to be valid, but it is not sufficient for causal inference, while a smoking-gun test says the opposite: a hypothesis is sufficient, but not necessary to prove causality. When there are considerable doubts about the validity of either test, they become straw-in-the-wind arguments, neither sufficient, nor necessary for causal inference to be asserted. On the contrary, when they put forth considerable proof that there is causal inference between two events or processes, they become doubly decisive. Like any test, they can be easy or difficult, and they can be either failed or passed. Figure 2.1 gives a detailed account of the implications of failing or passing these tests.

		SUFFICIENT FOR AFFIRMING CAUSAL INFERENCE	
		No	Yes
NECESSARY FOR AFFIRMING CAUSAL INFERENCE	No	**1. Straw-in-the-Wind**	**3. Smoking-Gun**
		a. Passing: Affirms relevance of hypothesis, but does not confirm it.	**a. Passing:** Confirms hypothesis.
		b. Failing: Hypothesis is not eliminated, but is slightly weakened.	**b. Failing:** Hypothesis is not eliminated, but is somewhat weakened.
		c. Implications for rival hypotheses: **Passing** *slightly* weakens them. **Failing** *slightly* strengthens them.	**c. Implications for rival hypotheses:** **Passing** *substantially* weakens them. **Failing** *somewhat* strengthens them.
	Yes	**2. Hoop**	**4. Doubly Decisive**
		a. Passing: Affirms relevance of hypothesis, but does not confirm it.	**a. Passing:** Confirms hypothesis and eliminates others.
		b. Failing: Eliminates hypothesis.	**b. Failing:** Eliminates hypothesis.
		c. Implications for rival hypotheses: **Passing** *somewhat* weakens them. **Failing** *somewhat* strengthens them.	**c. Implications for rival hypotheses:** **Passing** *eliminates* them. **Failing** *substantially* strengthens.

Source: *Collier (2011).*

Figure 2.1: Process Tracing Tests for Causal Inference

This goes on to showing how process-tracing is, indeed, very alike to detective work. The fact that Collier (2011), in his article, uses Sherlock Holmes as the main example for explaining the four tests is certainly testament to this similarity. For the general scope of this work, the goals of process-tracing and CPOs as laid out by Mahoney will be threefold:

1. On fiscal integration:
    (a) To understand that fiscal integration in the EU did, in fact, occur (and still is).
    (b) To understand how it occurred, why it occurred, and of what kind it is.
2. On institutional change:
    (a) To understand that institutional change (conceptualised here as changes in relative power equilibria) did, in fact, occur.
    (b) To understand in what way European institutions changed their involvement in fiscal policy, by making use of the operationalisation of institutional change made above. The instrument of integration serves the purpose of identifying the measurement of integration.
3. To understand that institutional change was indeed a cause of fiscal integration. Or, in other words, that fiscal integration *raised the possibility* of changes in relative power between European institutions.

In the following and last section of this part I will briefly introduce the empirical cases that I will put to test and that should help me explain institutional change, even going so far as to suggest a change in polity.

2.3 An introduction to fiscal integration and institutional change in the EU

This short section in which I introduce the empirical cases is needed in order to make a distinction with the typical approach of process-tracing. In process-tracing events are treated as chains of variables. This means that it could be that X causes Y, and then Y causes Z, like the process described above. Here, mechanisms are *recurrent*, which implies that an iterative process is in action. Checkel (2005) makes the case of socialisation to understand the lag between international institutions as a cause, and socialising outcomes at the state or unit level as an effect. By means of strategic calculations, role-playing, and normative suasion, actors accomplish the process of socialisation. It is, therefore, an incremental process that keeps on using the *same* mechanisms. In the present work, instead, I will link causalities by temporality clusters. In simpler terms, let us suppose that X is what happens between t_0 and t_1, and Y is the outcome. This means that Y will be the outcome of the sum of all the events under the temporal cluster that goes from t_0 to t_1. In turn, assuming Y' as the temporal cluster that goes from t_1 to t_2, Z will be the outcome of the sum of the events that took place under the temporal cluster Y', and so forth. The mechanisms that link X to Y and Y' to Z, however, might not be the same, even though the rationale under fiscal integration is. This is heavily dependent on contingency and path dependence: the actors might try to pursue the same goal, but contingency makes it so that different tools be employed. My choice to employ temporality clusters echoes the words of the novelist Philip K. Dick: in his novel *The Man in the High Castle*, one of the characters thinks about ways to defeat a dystopic post-1945 Nazi government, "Evidently we go on, as we always have. From day to day. At this moment we work against Operation Dandelion. Later on, at another moment, we work to defeat the police. But we cannot do it all at once; it is a sequence. An unfolding process. We can only control the end by making a choice at each step."

Here I identify four main clusters. The first one goes from the Treaty of Maastricht (1992) to the beginning of the crisis (2007). Here the degree of fiscal integration is very low and there exists only one instrument for budgetary control, the SGP. The SGP, however, was a lightweight measure. The 2003 events that saw France and Germany – the two biggest countries in the EU – refusing to align to it pushed for a revision of the SGP in 2005, with more contextualised rules. The second cluster goes from 2007 to 2011. Here the first measures to counter the crisis are being taken, albeit slowly. A European Semester for economic policy guidance and surveillance is being drawn up, as well as a set of regulations and directives that form the so-called Six-Pack, aimed at tightening the policy coordination required by both the European Semester and the SGP. The third cluster goes from 2011 to 2013, as new proposals are put forth. The ESM as a permanent firewall for the Eurozone (S. Fabbrini, 2015, p. 54) and the highly controversial Fiscal Compact are the peak of interference by the EU in core state powers: the former with capacity building, and the latter with national requirements of adjustment (if possible) at the constitutional level. During this period, two other regulations for enhanced surveillance forming the Two-Pack are also approved. The last cluster goes from 2013 until today. It is in this temporality cluster in particular that some polity consequences can be seen. Moreover, in October 2015, the Commission presented a decision to establish an advisory European Fiscal Board (EFB) as part of a "Deeper and Fairer Economic Monetary Union" (European Parliament, 2016a). Much like the ESM, this is an example of capacity building. Nonetheless, its advisory role strongly constrains its consequences on fiscal integration and polity change. Each cluster creates path dependence and increases the possibilities of a certain action being taken. For how arbitrary they may sound, the choice of these temporality clusters partially chimes with the evaluation of other scholars, notably Buti and Carnot (2012) who, already in 2012, spoke of "two waves" of changes in the fiscal framework: a first one, comprising the Six-Pack in which the SGP was revised; and a second one, with the Fiscal Compact and the Two-Pack, for further strengthening of fiscal coordination.

Two more clarifications are in order before concluding this chapter. First of all, in no way do I aim at an economic assessment of the policies under consideration. I will not meddle in the debate on whether a measure is good or bad from an economic standpoint. What I am interested in, instead, is merely the political mechanisms and consequences of these policies. As such, I will not take part to any kind of controversy regarding economic performance, nor will I let judgments on what should be done or what is best for a fully functioning EMU or EU. In second instance, I will not attempt to draw general inferences from this case study. Often times the endeavours of social scientist is focused on creating law-like statements. But this is far above both my capabilities and the scale and scope of this work. For this reason, I cannot but agree with James Mahoney when he says that “social science theories are bound by ‘scope conditions’ that put limits on their generality” (Mahoney, 2007, p. 128). By the same token, the strong contingencies present in the path to fiscal integration make it necessary for some scope conditions to be applied, and no attempts to general inference be drawn.

Chapter 3

Tracing the process of fiscal integration: from Maastricht to our days

3.1 Before the crisis: the post-Maastricht fiscal framework

3.1.1 Maastricht as a critical juncture

The Treaty of Maastricht is a logical starting point for any empirical analysis focusing on fiscal integration in the EU. To be sure, while before 1992 any project involving fiscal integration was off the table, it would still be wrong to assume that Maastricht directly spurred the adoption of a series of policies that could lead to a fiscal union. On the contrary, as S. Fabbrini (2015, pp. 21-6) noted, and as I mentioned in the previous chapters, Maastricht was the result of a series of compromises – of "clashes of will" – that led the Union astray from the federal project. At the same time, another innovation that was part and parcel of the Treaty paved the way for this kind of fiscal integration: European Monetary Union (EMU). Indeed, as the 1989 Delors Report stated, "close coordination of national fiscal policies" was of paramount importance "in order to operate EMU successfully" (cited in Dinan, 2010, p. 87). Close coordination, in turn and as will be shown, has led to a partial delegation of this core state power to the EU. The paths of economic and monetary integration, and of fiscal integration, therefore, are necessarily intertwined and their narrative cannot be forcefully separated. On the other hand, this interrelation does not entail that they cannot be analytically distinguished – which is exactly what I aim to do in this last chapter: analyse fiscal integration in the context of monetary and economic development in the EU to detect causal mechanisms of change in relative institutional power.

Maastricht, as such, represents a critical juncture (S. Fabbrini, 2015). According to Capoccia and Kelemen (2007, p. 343), a critical juncture is characterised by "a situation in which the structural...influences on political action are significantly relaxed for a relatively short period, with two main consequences: the range of plausible choices open to powerful political actors expands substantially and the consequences of their decisions for the outcome of interest are potentially much more momentous." In these relatively short periods of time there is a heightened chance that "agents' choices will affect the outcome of interest" (Capoccia & Kelemen, 2007, p. 348), since the past processes failed to build positive self-reinforcements (Greif & Laitin, 2004, p. 634). During a critical juncture, therefore, actors witness (and take part to) a situation that does not follow the "normal" historical course. Here uncertainty is widespread and the situations of contingency imply that "wide-ranging change is possible and even likely" (Capoccia & Kelemen, 2007, p. 352). The 1992 Treaty ticks all the boxes of this definition, and a review of its intrinsic compromises, how they were reached and what they entailed, and how EMU came about will show so.

The Treaty of Maastricht radically changed the structure of the EU. For starters, the EU was officially the new nomenclature with which to address the old Community. Then, the EEC Treaty was also renamed as the Treaty establishing the European Community (TEC) and renumbered accordingly. Moreover, the overall structure itself was redesigned. The EU was to be built upon three "pillars", the first being of supranational nature, and the latter two of intergovernmental nature. This renewed structure brought about quite some confusion, due to the duplicity of the meaning "intergovernmental", which referred both to any bargaining situation or treaty outside the Community, but also to the intra-EU procedures that belonged either to the second or third pillar (De Schoutheete, 2012). Therefore, different decision-making regimes were promoted for dealing with different policy problems (S. Fabbrini, 2015, p. 16). The first pillar, based on the "Community method", was to deal with a number of policies in which an effective system of checks and balances between the EU institutions was enforced. The Community method implies that the Commission has the monopoly of legislative proposal and that the Parliament and Council have both to approve the act for it to be passed; the Commission, then, is entrusted with its execution and the ECJ with the guarantee of the rule of law (Article 289 TFEU). The second pillar, of strongly intergovernmental nature, was concerned with a tentative attempt to build a common foreign and security policy (literally, Common Foreign and Security Policy, CFSP). I say tentative because the CFSP went through few successes and several failures. When high interests are at stake, member states are more likely to go solo when dealing with extra-EU countries, be it for commercial reasons, or due to the colonial past. Finally, the third pillar, initially called "Justice and Home Affairs" (JHA), was meant to bring together co-operation to fight crime. In the latter two pillars, therefore, it was the member states that had the last words on any decision. In order to achieve this result, a series of intergovernmental conferences (IGCs) was set up between 1989 and 1991. Here the member states advanced their proposals, their visions of the nature of the EU, and what should be done to put into practice the ambitious post-SEA 1992 programme that the Commission had put forth to integrate the Single Market (see Dinan, 2010, chapter 4 in particular). It was during this time of debate and uncertainty that the juncture came to be: in the two years preceding the signing, the political actors tried to exploit the now open opportunity windows to advance their programmes.

At the same time, and within the first pillar, a new area was emerging. Economic and Monetary Union was both the final attempt to create a Single Market based on a single and stable currency, and a political answer to German reunification (S. Fabbrini, 2015, p. 18). It was preceded by various attempts to improve economic and monetary cooperation: the Werner Report, the monetary snake, and the European Monetary System (EMS) of the 1970s, and the Delors Report of 1989, from which it sprang (for a quick long-term perspective see Mourlon-Druol, 2011). The Delors Report foresaw a three-stage approach to EMU-building: (i) Stage I, to be started no later than July 1990, was meant to achieve "free capital movement in the EC and closer monetary and macroeconomic cooperation among member states and their central banks"; (ii) Stage II, to be achieved by 1994, aimed at the "close coordination of national monetary policies and a progressive narrowing of margins of fluctuation within the exchange rate mechanism"; and (iii) finally Stage III, envisaged the "establishment of 'irrevocably fixed' exchange rate parities and granting of full authority for monetary policy to the ECB" by January 1999 (Dinan, 2010, p. 87). It was already clear during the IGCs that, even though EMU was to be a Europe-wide project, no one could force every single state to adhere to Stage III – and indeed neither Denmark, nor the UK did so.[1] Despite Delors's and the Commission's mantra of "One Market, One Money", Maastricht signalled the beginning of a series of compromises and opt-outs that would immensely complicate the economic policy-making structure of the Union. S. Fabbrini (2015) identified three compromises that emerged within Maastricht. These are important to understand what could be done about fiscal cooperation, and eventually integration.

The first compromise was institutional and consisted in "balancing the pressure for extending the integration process to new sensitive policies" with "the need for preserving...the role of national governments in collectively deciding such policies" (S. Fabbrini, 2015, p. 21). The outcome was, as mentioned before, to embed national policies in the European context, while preserving, at the same time, an intergovernmental decision-making process. The second compromise was political and concerned the possibility of some member states to opt out of EMU. More countries that joined in the following years followed this compromise: for instance, Sweden (which joined in 1995) also *de jure* opted out of the euro, while Poland (2005) opted out of the protocol that embedded the Charter of Fundamental Rights in the Treaty of Lisbon. Not only has this created a multi-speed EU with differentiated levels of integration, but also it has established a precedent that would be exploited in fiscal policy, too. As will be shown, both the UK and the Czech Republic refused to sign the TSGC in 2012 (although it should be acknowledged this was an intergovernmental treaty). Finally, the last compromise, of economic nature, concerned the functioning of EMU. The solution was to combine a centralised monetary policy with decentralised economic, budgetary, and fiscal policies (S. Fabbrini, 2015, p. 24) within some predefined economic parameters that were to be respected for the European states to be part of EMU. This was also done to safeguard the independence of the soon-to-be European Central Bank (Schelkle, 2012, p. 33). According to Article 1 of the "Protocol (No. 12) on the Excessive Deficit Procedure" annexed to the Treaty of Maastricht (and now Treaty of Lisbon), and which clarifies some of the dispositions present in Article 126(2) of the TFEU [ex Article 104c(2) TEC]:

[1] More precisely, whereas both countries opted out of the adoption of a common currency, the UK went even further and refused to stay within the Exchange Rate Mechanism (ERM), set up to avoid excessive fluctuations. This meant that the Danish krone was pegged to the euro, but the British pound was freely floating in the international monetary system.

> "*The reference values referred to in Article 126(2) of the Treaty on the Functioning of the European Union [104c(2) TEC] are:*
>
> *- 3% for the ratio of the actual or planned government deficit to gross domestic product at market prices;*
>
> *- 60% for the ratio of government debt to gross domestic product at market prices.*" (Article 1 of Protocol No. 12)

It was because of these parameters, and more particularly to ensure their respect and enforcement, that the whole debate on fiscal discipline was born. Once again, it should be noted that I am not concerned with the economic validity of these figures, or with whether or not they are attainable. What is important to note, instead, is that: (i) it is from this very moment that the EU has created a need for the member states to discipline their budget to follow criteria that went beyond the national boundaries; (ii) this fiscal cooperation was embedded in an economic and monetary project; (iii) the compromises made it so that the development of fiscal rules at the EU level would be both uneven (due to the opt-outs) and, for a very long time, weak (due to a prevalence of a soft-law approach); and (iv) that fiscal integration has been from the onset subjected to political whims to acquiesce to the requests of some member states. The next question that the European leaders posed, therefore, was how to make the member states respect these rules. The answer lay in a Stability and Growth Pact (SGP), introduced five years later with the Treaty of Amsterdam, and that the following subsection will delve into.

3.1.2 The Stability and Growth Pact

The Maastricht Treaty thus represented an incomplete contract whereby the newborn economic and monetary framework still needed a fiscal regime to properly function. Indeed, as Puetter (2012, p. 168) notes, the Treaty obliged member states to regard their economic policies as a matter of common concern only in general terms, and no further policy prescriptions were given. Hence, some sort of rules were to be devised for the Maastricht criteria to be respected. These could either be based on voluntary arrangements, or they would have to be explicitly planned and imposed on a level that went beyond the Treaty. While it is true that in the Nineties the threat of a possible exclusion from the euro area provided a "powerful catalyst for fiscal prudence" (Hodson & Maher, 2004, p. 798), the sanction would be gone once the state adopted the new currency. The reasons as to the birth of the SGP are difficult to assess: a variety of actors, ranging from governments to epistemic communities were involved (Heipertz & Verdun, 2004), and a wide array of co-existing explanations works: the Pact was due to the member states governments' preferences as well as their domestic needs, but it was also a matter of "permissive consensus" and of functional dependency on newborn EMU (Heipertz & Verdun, 2005). Heipertz and Verdun (2004, pp. 766-8) identify four main reasons behind the idea to put in place more stringent rules: first of all, there was a need for consolidation of domestic budgets due to soaring interest rates coming from the overtly expansionary fiscal policies of the past; secondly, EMU facilitated externalities problems, and member states were afraid of the moral hazards of the less responsible countries spreading to them; in third instance, excessive deficits could undermine the independence of the soon-to-be European Central

Bank, and thus the credibility of its monetary policies; and finally, the one-size-fits-all approach of the 1992 programme increased the need for economic coordination to contain asymmetric shocks. The first to propose some sort of legal framework for respecting the parameters was then Germany's finance minister, Theo Waigel. In 1995 he proposed a "stability treaty" that would prevent excessive budget deficits (Heipertz & Verdun, 2004, p. 769). He claimed that a stability pact (or treaty) served to counter the age-old aversion of the German public to inflation, and more specifically, their fears about EMU (Heipertz, 2003). By giving up the strong Deutschmark for the euro and its position as central peg in the EMS, Germany put herself in a strong position to enforce her demands for sounder fiscal rules to all the member states. Nonetheless, Germany had to acquiesce to some requests: no automatic mechanisms for sanctioning would be included, and the Pact would be renamed – at the request of the French – "Stability *and Growth* Pact", to appease the French electorate and show that EMU was not a juggernaut solely aimed at slashing employment rates. After some inconclusive attempts to establish automatic sanctions in 1995-6, a compromise was reached in Dublin in mid-December 1996 with a political pledge to aim for low deficits (Majone, 2014b). Following this compromise, the Stability and Growth Pact was adopted in Amsterdam in June 1997 to "institutionalise the coordination and control of domestic budgets" (S. Fabbrini, 2015, p. 24). This meant establishing medium-term converging objectives, and making it so that all the member states would have a close-to-balance or in-surplus budget, or at the very least a temporary deficit that could be offset in the immediate future.

The essence of the SGP, in short, is to watch the fiscal deficit of the member states and punish those whose deficits are deemed excessive (Beetsma & Uhlig, 1999, p. 547). The SGP is made up of one European Council Resolution and two Council Regulations.[2] The first regulation, representing the "preventive arm" of the SGP, entered into force in 1998. It is meant to issue early warnings to those states that are in danger of exceeding the deficit threshold. More specifically, according to the text of the Regulation, it is "so as to prevent, at an early stage, the occurrence of excessive general government deficits and to promote the surveillance and coordination of economic policies" (Article 1). Each member state, therefore, is to "submit to the Council and Commission information necessary for the purpose of multilateral surveillance at regular intervals" (Article 3(1)) to converge over medium-term objectives. Moreover, Article 5(1) highlights the discretionary power of the Council, which can "examine whether the medium-term budget objective in the stability programme provides for a safety margin to ensure the avoidance of an excessive deficit, whether the economic assumptions on which the programme is based are realistic and whether the measures being taken and/or proposed are sufficient to achieve the targeted adjustment path towards the medium-term budgetary objective." The Council itself, then, would monitor the implementation of the stability programme (Article 6(1)) and in the event of "divergence of the budgetary position from the medium-term budgetary objective", it would address the member state(s) concerned (Article 6(2)). The second regulation, instead, represents the "dissuasive arm" of the Pact and entered into force in 1999. It

[2] Resolution of the European Council on the Stability and Growth Pact, OJ 1997, C 236/1. Council Regulation No. 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and co-ordination of economic policies, OJ 1997, L 209/1, and Council Regulation No. 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure, OJ L 209/6.

is meant to "speed up and clarify the excessive deficit procedure, having as its objective to deter excessive general government deficits and, if they occur, to further their prompt correction" (Article 1(1)). Articles 3(2) specifies that it is the Commission that will issue an opinion and a recommendation to the Council if it has reason to think an excessive deficit exists; but Article 3(3) also mentions how it is up to the Council to decide whether or not it actually does. If it is the case, the Council will require a non-interest-bearing deposit (Article 11), whose amount "shall comprise a fixed component equal to 0.2% of GDP, and a variable component equal to one tenth of the difference between the deficit as a percentage of GDP in the preceding year and the reference value of 3% of GDP" (Article 12(1)). It then still is up to the Economic and Financial Affairs (ECOFIN) Council to decide whether or not to suspend the sanctions.[3] This means that, since the SGP is a secondary Community law (the Treaties are primary), its effectiveness hinges on voting coalitions and patterns within the ECOFIN Council (Heipertz, 2003).

The matters of effectiveness open up a wound that exposes the structural weaknesses of the SGP, as well as the eternal debate between soft and hard law. Indeed, as Hodson and Maher (2004, p. 800) note, the SGP was created with an emphasis on hard law, but it operates by means of soft law – hence, while it does contain legally binding obligations, with Treaty provisions, two regulations, and the excessive deficit procedure (EDP), "a soft exercise of the Pact has emerged" due to bypassed accountability mechanisms and weak judicial reviews (Hodson & Maher, 2004, pp. 800-1). By emphasising soft law practices and eschewing the hard law dimension of the SGP, the EU, and the Council in particular wanted to signal that tools such as the EDP were a last resort and would only "be used in extremis" (Hodson & Maher, 2004, p. 802).[4] However, the events that occurred in 2002-3 with the two biggest member states facing and refusing to comply with the EDP eventually led to an amendment to the Pact.

3.1.3 The Stability and Growth Pact revisited

The original 1997-99 arrangement, Schelkle (2005, p. 371) writes, not only failed to coordinate and properly inject discipline into the fiscal policies of the member states, but it also "undermined the credibility of policy-makers which the SGP was supposed above all to enhance." The soft law approach to practice of a hard law matter, created a paradox: on the one hand, the member states tied their own hands to increase their credibility by "elevating [fiscal] discipline to be an objective rather than just a means of policy coordination," but at the same time this implied that "the political authorities of the members are likely to misuse their mandate" (Schelkle, 2005, p. 371). The Pact, in other words, failed to be self-enforcing, and thus could not work as a credible commitment device (Schelkle, 2006, p. 677). Disciplinarian though the SGP was, the European economic decision- and policy-making by coordination made it so that "only national governments thought their intergovernmental institutions could decide how to deal with those

[3] For an economic debate of the SGP, see Heipertz (2003) and Buti, Eijffinger and Franco (2003). The latter also assess the quality of the SGP as a fiscal policy according to pre-defined criteria. For an economic analysis of the Pact, see Beetsma and Uhlig (1999).

[4] More generally, by "hard law" and "soft law" I mean, following Abbott and Snidal (2000), those "legally binding obligations that are precise and that delegate authority for interpreting and implementing the law" and any deviation therefrom, respectively.

that did not respect the established parameters" and "[n]o direct supranational imposition on national government behaviour was envisaged by any of the supranational institutions" (S. Fabbrini, 2015, p. 25). This is exactly what happened between 2002 and 2005. During these years, three countries, namely Portugal, France, and Germany, went over the 3 percent threshold. Following the hard law approach to the Pact would mean that the Commission and the Council would be informed; the Commission, then, would issue a recommendation to the Council; the Council would decide on it, and eventually it would impose the sanction. Accounting for the room of discretion of the ECOFIN Council, however, implies that the last step does not necessarily follow the previous one(s). Therefore, when in 2002 and 2003 the three countries were issued an "early warning" specifying that they were in breach of the SGP,[5] as per Article 6(2) of Council Regulation (EC) No. 1466/97 of 7 July 1997, Portugal made the necessary adjustments and by 2004 the EDP for this country was held in abeyance. Germany and France, on the contrary, and as Figure 3.1 shows, continued to run substantial deficits. This pushed the Commission to issue two recommendations to the Council, SEC (2003) 1083 final of 8 October 2003, and SEC (2003) 1316 final of 18 November 2003, addressing respectively the actions taken until then by France, and the inadequacy of the German response to comply with the SGP rules. Nonetheless, a week later at an ECOFIN Council meeting, the EDP was suspended for Germany and France (ECOFIN Council, 2003), as the measures they were implementing seemed to satisfy the criteria. This was achieved thanks to a small, yet powerful blocking minority made up of Portugal, Italy, France (for the German vote), and Germany (for the French vote) (Hodson & Maher, 2004, p. 808), all countries that had received early warnings from the Commission, either officially or not.

The reasons behind this suspension are quite straightforward. On the one hand, as it has repeatedly remarked, the ultimate decision to activate the EDP falls on the ECOFIN Council, an intergovernmental body. Following the model of the present work, an intergovernmental institution will sway on its support on integration – or, in other words, it will decide not to align to the Commission's preferences – depending on how a certain decision or policy may affect the national interest of major member states. Discretion, therefore, is inevitable. This entails that the logical solution for the likes of Germany and France was to refuse the Commission's recommendation. This, however, does not explain why the totality of the ECOFIN Council stood behind these two members. Schelkle (2006, p. 678) provides one part of the answer: there existed a moral hazard problem due to the fact that what was happening at the time to Germany and France might happen to the other member states in the future – a sort of "you today, me tomorrow" kind of logic. This entailed that, given that Council meetings are iterative games, future retaliation cannot be excluded. Therefore, not only was the framework of the pact too political, but it

[5] Council Decision 2002/923/EC of 5 November 2002 for Portugal; Council Decision 2003/89/EC of 21 January 2003 for Germany; and Council Decision 2003/487/EC of 3 June 2003 for France, respectively. It should be noted that Italy, too, was in a precarious position, and started running deficits over the 3 percent limit since 2004, while she managed to contain the loss at -2.3 percent and -2.4 percent for the same period 2002-03 during which the other three countries were put before trial. Still, the Commission had issued warnings to Italy as early as the beginning of 2002 (see European Commission, 2002), "Four countries, Germany, Portugal, France and Italy, have not yet completed the adjustment towards a budgetary position that is 'close to balance or in surplus': All four are also experiencing, to differing degrees, slippages from the targets of their previous updates for the government deficit in 2001 and 2002." All the data present is gathered from European Commission (2004b).

(% of GDP)

	Budget balance				Cyclically adjusted budget balance				Cyclically adjusted primary balance			
	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005
BE	0.1	0.2	−0.5	−0.7	0.1	0.7	0.0	−0.5	6.2	6.3	5.1	4.3
DE	−3.5	−3.9	−3.6	−2.8	−3.5	−3.2	−2.9	−2.3	−0.4	0.0	0.1	0.7
EL(¹)	−1.4	−3.2*	−3.2	−2.8	−1.7	−3.6	−4.1	−3.8	4.4	2.1	1.5	1.7
ES	0.0	0.3	0.4	0.6	−0.2	0.4	0.6	0.7	2.6	2.9	2.9	3.0
FR	−3.2	−4.1	−3.7	−3.6	−3.8	−3.9	−3.4	−3.3	−0.7	−0.8	−0.3	−0.3
IE	−0.2	0.2	−0.8	−1.0	−1.9	0.1	−0.3	−0.2	−0.5	1.5	1.1	1.2
IT	−2.3	−2.4	−3.2	−4.0	−2.2	−1.9	−2.6	−3.6	3.5	3.4	2.4	1.6
LU	2.7	−0.1	−2.0	−2.3	2.7	1.3	0.6	1.2	2.9	1.5	0.8	1.3
NL	−1.9	−3.2	−3.5	−3.3	−2.6	−2.0	−1.7	−1.3	0.4	0.9	1.1	1.7
AT	−0.2	−1.1	−1.1	−1.9	−0.3	−0.9	−0.9	−1.8	3.1	2.2	2.3	1.2
PT	−2.7	−2.8	−3.4	−3.8	−2.7	−1.8	−2.1	−2.6	0.3	1.1	0.8	0.5
FI	4.3	2.3	2.0	2.1	3.7	2.3	2.1	2.2	5.9	4.2	3.9	3.9
EUR-12	**−2.3**	**−2.7**	**−2.7**	**−2.6**	**−2.5**	**−2.2**	**−2.2**	**−2.2**	**1.2**	**1.3**	**1.2**	**1.2**
CZ	−6.4	−12.9	−5.9	−5.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
DK	1.7	1.5	1.1	1.5	1.0	2.1	1.4	1.5	3.8	4.7	3.9	3.7
EE	1.8	2.6	0.7	0.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
CY	−4.6	−6.3	−4.6	−4.1	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
LV	−2.7	−1.8	−2.2	−2.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
LT	−1.4	−1.7	−2.8	−2.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
HU	−9.3	−5.9	−4.9	−4.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
MT	−5.7	−9.7	−5.9	−4.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
PL	−3.6	−4.1	−6.0	−4.5	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
SI	−1.9	−1.8	−1.7	−1.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
SK	−5.7	−3.6	−4.1	−3.9	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
SE	0.0	0.7	0.2	0.7	−0.5	0.7	0.3	0.8	2.4	2.9	2.6	3.2
UK	−1.6	−3.2	−2.8	−2.6	−1.5	−2.9	−2.6	−2.3	0.6	−0.9	−0.5	−0.2
EU-25	**−2.1**	**−2.7**	**−2.7**	**−2.5**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
p.m. EU-15	**−2.0**	**−2.6**	**−2.6**	**−2.4**	**−2.2**	**−2.2**	**−2.1**	**−2.1**	**1.1**	**1.0**	**1.0**	**1.0**
p.m. NMS	**−4.9**	**−5.7**	**−5.0**	**−4.2**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**

(¹) For Greece, a revision of the data on general government balance was done in April 2004.
NB: Excluding UMTS receipts for Ireland in 2002.
Cyclically adjusted figures are computed with the production function method, except for Germany, Spain and Austria, where the HP filter method has been used.
For a number of countries, the calculated CABs differ marginally from those of the spring forecast due to data revisions.

Source: *European Commission (2004b).*

Figure 3.1: Budget balances in EU Member States, 2002–05

implied a union "based on mistrust between its members" (Schelkle, 2009, p. 834), that was deeply at odds with the convergence objective set out by the SGP. On the other hand, one should also consider the domestic situation: in 2003 both Chirac in France and Schröder in Germany were undertaking structural reforms based on deficit spending. Agreeing to the assessment of the Commission would have given an excuse to the domestic opposition to undermine their policies, and more particularly in the case of Germany, would have meant financial sanctions during an election year (Heipertz & Verdun, 2005, p. 995). To complicate things over the structural fragility of the SGP was the decision of the ECJ, on 13 July 2004, to nullify the ECOFIN Council conclusion on Germany and France (Heipertz & Verdun, 2004, p. 765).[6] According to the Court, the ECOFIN Council cannot "break free" of the EDP procedures: where ECOFIN adopts a recommendation by the Commission, it "cannot later depart from it", unless it is the Commission itself to put forth a new recommendation (para. 81, see also Hodson & Maher, 2004, p. 801). This return to the hard law realm decreed by the ECJ is only apparent: the Court itself confirmed that "the Council may indeed effectively suspend the EDP by not adopting a Commission recommendation" (Heipertz & Verdun, 2004, p. 765) and any complaint regarding the annulment of the Council's failure to adopt the Commission's recommendation would be deemed inadmissible (para. 36). Discretion still exists within the Council, but it ceases to have validity once the preferences of the two institutions align over a specific recommendation.

At this point, a reform seemed inevitable. In March 2005 the SGP was revisited, following a heated debate about what was to be done and how the reform was to be carried out.[7] According to the European Commission (2004a), two were the main things to be done: how the fiscal framework could respond to the shortcomings experienced so far; and how the instruments for EU economic governance could be better interlinked. Both had the aim to enhance the sustainability of public finances, and the contribution of fiscal policy to the greater frame of economic growth. The crux of the matter was how to attain more flexibility for countries without falling again in the soft law-discretion conundrum. The Commission set out four goals for strengthening the SGP: (i) placing more focus on debt and sustainability in the surveillance of budgetary positions; (ii) allowing for more country-specific circumstances in defining the medium-term objectives of "close to balance or in surplus"; (iii) considering economic circumstances and developments in the implementation of the Excessive Deficit Procedure; and (iv) ensuring earlier actions to correct inadequate budgetary developments (European Commission, 2004a, p. 3). An agreement on how to carry out the reform was reached at the ECOFIN Council meeting of March 2005, where some changes were envisaged for both the arms of the SGP (Buti et al., 2005). The Council detected five areas for improvement: (i) enhance the economic rationale of the budgetary rules for more credibility; (ii) improve "ownership" by national policy-makers (that is, render the Pact more flexible); (iii) make use of counter-cyclical economic devices, i.e. consolidate the budget in times of economic upturn; (iv) take better into account times of economic downturn, by contextualising the predicament; and (v) increase

[6] Case C-27/04.

[7] Throughout its existence, and more forcefully after the 2003 debacle, the academic world put forth a plethora of possible SGP reforms. A summary of these can be found in Savage and Verdun (2007) and in Buti, Eijffinger and Franco (2005). For a *prima facie* evaluation of the reform, also see Buti et al. (2005).

the attention towards budget and sustainability (ECOFIN Council, 2005). Indeed, as Buti et al. (2005) observe, on the preventive side the medium-term budgetary objectives are now differentiated by country (points i and ii), and they will be cyclically adjusted *and* be taking into account implicit state liabilities or undergoing structural reforms (points iii and iv). This means, as Schelkle (2009, p. 834) points out, that the country-specific medium-term objectives will depend on the assessment of "sustainability risks" and deviations from the objectives will be allowed so long as they promise future budgetary savings. On the corrective side (the EDP), a breach will be considered "exceptional" if it results from "a negative growth rate or an accumulated loss of output during a protracted period of very low growth relative to potential growth" (point iv) (Buti et al., 2005); and the Commission will take into account factors such as cyclical conditions (points iii and iv), the implementation of the innovation policies, debt sustainability (point v) and other financial contributions – which means that, for their part, member states are obliged to the provision of reliable and qualitatively sound statistical data (for more insight on this, see Schelkle, 2009). In short, the reform of the preventive arm revolves around granting flexibility in achieving the medium-term objectives, while that of the corrective arm spells out in a better way the timetable for the measures to be taken if an excessive deficit occurs (Schelkle, 2009, p. 831). Overall, the revision introduces country-specific clauses that allow member states governments more leeway when reaching the 3 percent threshold. The Pact then stayed like this until 2011, when another review took place as it got reinforced by the likes of the Six-Pack, the Fiscal Compact, and the Two-Pack.

3.1.4 An evaluation of the first temporality cluster

How can fiscal integration at this stage be evaluated, by using the methodology provided by Börzel (2005), Streeck and Thelen (2005), and De la Porte and Heins (2014), and how to embed it in the larger study framework set out by Genschel and Jachtenfuchs (2013a)? As a quick reminder, Börzel is concerned with how many issues fall under EU competence (level of integration), and the involvement of supranational bodies and Council voting procedures (scope). Streeck and Thelen, instead, help explain what kind of change takes place. De la Porte and Heins's analysis, for its part, revolves around the concepts of interference, surveillance, and coercion. What is, then, the political economy behind the SGP – that is, how are demand, supply, and dynamics defined? And how did it impact the relative institutional equilibrium? Before answering, it should be noted that Börzel includes two policy areas, "Macroeconomic Policy and Employment" and "Tax" that are strictly related to fiscal integration, but that do not define it in its totality. By following the logic used in Bauer and Becker (2014) regarding the possibility of expanding the arrays of policy areas covered by Tanja Börzel, then, we could define another policy issue that I will name "Budgetary Surveillance and Coercion" with regards to the member states' fiscal independence and the interference of the EU in this core state power. The choice to add this specific policy issue area to Börzel's heuristic framework is due to two main reasons. The first one is that "Macroeconomic Policy and Employment", as defined by Börzel is mostly concerned with the labour market and the workers' living conditions. This can be seen in how, according to Börzel, the level and scope of integration in this policy field jumped from 1.5 (somewhere between "exclusive national competences" and "shared competences light", meaning that most competences are still at the national level for the level, and between "intergovernmental coordination" and "intergovernmental cooperation" for the scope) to 2 ("shared competences light") and 3.5 ("joint decision making I" with "unanimity and co-decision or majority and consultation with the Parliament") respectively after the the signature of the Treaty of Amsterdam. This is because the Social Agreement that was annexed to the Social Protocol in the Treaty of Maastricht and from which the United Kingdom was excluded, was then embedded in the Treaty and extended to the UK. According to the Agreement, the Community could now reinforce its action in a series of areas such as working conditions and environment, integration of persons excluded from the labour market, gender equality, and consultation with workers. Therefore it makes sense to say, as Börzel did, that the EU was now engaged in more policy areas (the jump from 1.5 to 2), and that the supranational institutions were now more involved and had more control over the labour market in order to complete the Single Market (the jump from 1.5 to 3.5). Moreover, and on the contrary, according to Börzel, the policy area "Tax" remained constant in both its level and scope of integration between the Treaty of Rome (1957) and the time of writing (2004-5), that is, even after the Treaty of Amsterdam and the SGP. However, as was shown in the previous paragraphs, EMU entailed a necessary fiscal cooperation between the member states, and this led to parameters and regulations that were not in place before. This apparent discrepancy can be explained in the following way: the author claims that the level of tax integration in the EU was somewhere between exclusive member states' competence and a shared "light" competence in which the EU was just slightly involved (for instance, the Value Added Tax, VAT, is usually harmonised at a European level, although it can present slight differences from country to country). The scope of the involvement of EU supranational institution was limited: most of the agreements regarding taxation are taken within intergovernmental institutions, more particularly the Council: it is somewhere half-way between intergovernmental coordination (1) and cooperation (2), with just enough input of the Commission and ECJ, and a mere consultative role for the Parliament. Therefore, the policy field "Tax" concerns tax harmonisation rather than budgetary monitoring, and thus only tangentially touches the likes of EMU and the SGP.

On the contrary, Budgetary Surveillance and Coercion would entail two things: that some sort of change to the level of integration did happen; and that its evaluation can be completed by the criteria followed by De la Porte and Heins (2014). This means that before the Treaties of Maastricht and Amsterdam the level of authority in Budgetary Surveillance and Coercion was equal to 1: no EU authority was involved whatsoever. After Amsterdam in particular, it slightly jumped higher. As per Article 3(1) of Regulation (EC) No. 1466/97, member states submit their stability programmes to the Commission, which will then be subject to the assessment of the Council to understand whether the medium-term objectives might be achieved without recurring to the EDP (Article 5(1)). Therefore, after Amsterdam, and in virtue of the necessity to complete EMU, a bigger number of issues fall under EU competence, but the soft law approach taken with the SGP would not allow for a level of integration higher than 2. As for the scope of integration, no surveillance or sanctioning over budget rules existed before Maastricht. In this time period, the depth is zero, as no coordination at the EU level existed. After Maastricht and Amsterdam, instead, an evaluation of 1.5 is fair: the ECOFIN Council enjoys a high degree of discretion. However, even if the ECJ can impose limits to how much discretion the Council has (the latter cannot break free of an EDP once it has been assessed), at the same time the Court cannot force it to adopt a Commission recommendation. For their part, De La Porte and Heins's assessment on the degree of integration along the three dimensions is much more clear-cut. According to the authors, interference was "high", which meant that any policy to be undertaken by the member states *had* to comply with particular criteria set by the Union for it to be carried out. This was certainly the case: divergence from the medium-term objectives (the stability programmes) would trigger the EDP. This meant that fiscal soundness was at the same time a deterrent against pecuniary sanctions, and a prerequisite for EMU, as per the Maastricht criteria. Whereas the 2005 revision relaxed these thresholds, it still was not enough to lower the degree of integration in the interference dimension to "medium", since structural reforms were still required. On the other hand, both surveillance and coercion presented a degree of integration of "medium". As for surveillance, it is of the *ex post* kind: it is the member states government that submit their budget to the EU institutions; only then, do the latter have oversight over these matters to check whether particular benchmarks are met. Again, this was the case with the SGP. Moreover, the fact that the Commission could only issue recommendations and that the Council could refute them lends credibility to this assessment. As for coercion, finally, it is also "medium" because the recommendations for the EDP are enshrined in the then Article 104 TEC and member states could indeed face sanctions in case of noncompliance, even though it was mostly used as a threat.

To sum it up, by using the theoretical framework developed by Genschel and Jachtenfuchs (2013a), it could be said that the SGP was a matter of integration (if such was!) by regulation, rather than capacity building. Indeed, both the monitoring and the EDP were carried out by pre-existing European institutions (the Commission, but mostly the Council). No new capacities were created to accomplish these tasks. Moreover, the low depth and breadth of integration made it so that the relative institutional power between the Commission and the Council barely shifted, with the Commission being granted slightly more powers as regards the evaluation of the budgetary situation, but also with the prerogatives of the Council being left largely unaltered (Franchino & Mariotto, 2015). There existed a delegation of powers to the European level, but not to a supranational EU institution. It represented, in the words of Streeck and Thelen (2005), a *layering* of one institutional element (the SGP, or budgetary surveillance more in general) to another (EMU). The SGP, therefore, represented the basis for fiscal integration and institutional change, even though it was *per se*, more akin to coordination (or cooperation, in Börzel's terms). However, it was also a necessary element for this evolution. Without it, the European political actors faced two different other possibilities: either they created a fiscal union overnight, or they completely abandoned the idea. They could not do neither: on the one hand, there did not exist a demand for immediate fiscal union. Member states were still particularly jealous of this core power, and this is seen in how Germany and France refuted the EDP because it went against their deficit-funded structural reforms: had the EU had control of their budgets, that would have meant handing the elections to the opposition parties. For their part, barely were the EU institution prepared to supply the necessary toolkit for immediate fiscal integration, and the soft law approach taken in the SGP should be enough to understand why. On the other hand, abandoning the idea of fiscal discipline and coordination would mean refuting the very ideal on which it was based: convergence in basic ideas about the relationship between monetary and fiscal policies (Heipertz & Verdun, 2004, p. 766). In other words, it meant that they would fail to positively acknowledge the necessary pertinence of fiscal discipline in EMU. The argument supporting the Pact was one based on the idea of the need for fiscal discipline in itself (Heipertz, 2003), that was thus elevated as objective *per se*, rather than a means of policy coordination, as Schelkle (2005) inferred. These counterfactuals entail on one side, that had not the SGP happened, something very similar would have in its stead; and on another side that the SGP (or any likes of it) would be a necessary step on the road to fiscal integration and institutional change. To conclude, notwithstanding the high discretionary power of the Council, the SGP managed to oblige EU member states governments to "provide data with a degree of detail and comparability, according to a schedule and over a time horizon, that none of them cared to produce before EMU" (Schelkle, 2009, p. 843). Albeit some authors (namely Heipertz & Verdun, 2005, p. 1003) most rightly claim that the SGP represented a case in which budgetary policy became subjected to European integration through the imposition of rules, I believe the Pact itself is not sufficient to call this process fiscal integration proper, especially if one were to follow the definition given by Adrienne Héritier in the previous chapter (as transfer of policy-making competences, and intricacy and strictness of policy prescriptions). This way, the EU failed to concretely deal, even after Amsterdam, with a core state power, and it still makes sense to see the EU as mainly regulatory in nature. Nonetheless, it is also clear that the SGP seems to have provided at least a necessary condition for fiscal integration to happen. The next three temporality clusters will attempt to understand how.

3.2 Enter the crisis: a revised fiscal framework

3.2.1 From the crash to Lisbon: another critical juncture?

When the crisis hit the United States in the summer of 2007, European leaders mostly stood back and watched. There was a sense of complacency among them due to their belief of the solidity of the economic system of the EU. An external observer could hardly blame them: between 1980 and 2007, some countries, especially the smaller ones and the new member states, saw a great deal of good coming from the Internal Market (Balcerowicz, Rzonca, Kalina & Łaszek, 2013). Mostly, economic performance varied from country to country, but overall, and even though the balance was hardly a resounding success, it did not constitute a major bother for European leaders coming into the new millennium, nor were they prompted to enact any emergency measures to counter negative shocks, as newer members seemed to seamlessly fit in the EU. Only in Britain did the American crisis have blowbacks during the first few months, but no coordination nor follow up took place at the time (Dinan, 2010, p. 157). On the contrary, at the eve of the crisis, the European elites were preoccupied to complete the process they had started two years earlier, after the proposed Constitutional Treaty, which would have created something akin to a real European constitution, failed to be ratified by the French and Dutch people in national referenda. A few months after the failure, Germany found herself at the helm of the Council. During the six-months presidency, Chancellor Merkel took a very pro-active stance as regards integration, and initiated a period of reflection to face a double challenge: how to get up after the 2005 shock, and how to integrate twelve new member states (ten in 2005 and two in 2007), mostly from Eastern Europe. It is no wonder, then, that throughout 2007 the EU paid little attention to the news from over the pond, and the big question was instead how to increase convergence within a new environment that was becoming ever more diversified.

Paradoxically enough, it was the crisis that, according to S. Fabbrini (2015, p. xxx) represented a new critical juncture – after Maastricht – by unmasking the idea of legitimacy by efficiency, whereby so long as European policies performed effectively, the legitimacy problems of the EU could be left out in the background (an argument also present in Majone, 2014b, see in particular chapter 6; and 2014a, p. 1219). This way, the uncertainty permeating the future of Europe and of EMU in particular, relaxed the constraints and expanded the paths of choices available to the political actors. Therefore, he argues, the Euro-crisis, and more particularly the sequence of decisions taken during that time, allowed for an "intergovernmental constitution" to prevail over alternative (supranational) logics (S. Fabbrini, 2015, p. 62). However, by following the definition of critical juncture given in Capoccia and Kelemen (2007) and explained at the beginning of the present chapter, one could argue that a new juncture started well before the crisis, and precisely with the rejection of the Constitutional Treaty in 2005. If the aim is the understanding of the "nature of the beast", then the Euro-crisis becomes an important driver, but hardly the sole one. It should also be understood what makes a juncture "critical". Again, according to Capoccia and Kelemen (2007, pp. 360-3), there are varying degrees of criticalness, defined mainly by two factors: probability jump, and temporal leverage. The former measures the change of probability of the interested outcome connected with the juncture, while the latter underlies how a juncture is more critical the shorter it is with regard to the path dependent processes it instigates (Capoccia & Kelemen, 2007, pp. 360-1). In general, however, junctures are critical because they "place institutional arrangements on paths...which are then very difficult to alter" (Capoccia & Kelemen, 2007, p. 342). Therefore, it could be argued that, by following this definition, (i) the outcome of the Euro-crisis was dependent on the measures adopted over these years, which in turn were dependent on particular institutional choices and compromises that had been set in motion a few years before the anti-crisis policies were enacted – more specifically the set of opportunity windows that opened after June 2005, when the Constitutional Treaty sank deep; and (ii) that the juncture was far less critical than previous ones, such as the Treaty of Rome, or the Treaty of Maastricht, in which the temporal leverage/outcome ratio was much higher. In sum, after June 2005, two opportunity windows opened to European leaders: one was given by the necessity to revisit the Constitutional Treaty by replacing it with a new treaty that would amend the existing ones (Dinan, 2010, p. 152) to facilitate consensus, and that resulted in the Treaty of Lisbon, signed in 2007 and ratified in 2009. The other opportunity window was represented indeed by the Euro-crisis, and Fabbrini's assessment of the emergence of a new and heterodox logic of policy- and decision-making to counter the crisis is in line with many other scholars (see for instance Bickerton et al. 2015; Dinan 2010; Puetter 2012; Salines et al. 2012). These two events evolved almost simultaneously, contributing both to a certain outcome, and their interlocking does not allow for a separate narrative. Dinan (2010, pp. 150-65) gives a satisfactory rundown of the parallel development of the process that led to the ratification of the Lisbon Treaty and the financial crisis and subsequent recession. Neither is the main focus here. Moreover, I do not believe that an in-depth narration of these events is necessary to attain the goal presented in this work. Instead, three are the main questions to be answered: (i) why did European leaders only start to act on the crisis in late 2008?; (ii) why did the Union and the member states undertake measures to strengthen fiscal coordination at the European level, and why did they take *those* measures?; and (iii) what does this tell us about changes in relative power between EU institutions and how does it help in understanding the nature of this complex beast? The first question and the first part of the second question will be answered in the following paragraph. The second part of the question, as well as the third question will be hinted at and then laid out and summed up in the remaining sections.

With regard to the first question, the answer seems *prima facie* quite straightforward. As was mentioned at the beginning of this section, EU member states were occupied, if not preoccupied, with two other issues: the biggest enlargement to date, which would have made the EU more heterogeneous than ever; and the failure of the 2005 Constitutional Treaty, which prompted their leaders to find new solutions to integration. Moreover, the relatively calm economic situation until 2007 did not push them into panicking as the situation over the pond was becoming dramatic. These elements, while certainly part of the answer, are not sufficient to explain why the European governments acted so late. In fact, what both elements underlie is that at the time there was widespread uncertainty: what road should be taken after the Constitutional Treaty? How will the new member states integrate in the Internal Market? How can the EU weather the sudden increase in heterogeneity, both economically and politically? And so forth. Things were complicated by the fact that the crisis broke out in a country that, while not part of the EU, was (and still is) one of its main trading partners and the biggest world economy. Any economic trouble ailing the US would likely have consequences on the rest of the world – which is exactly what happened. By spreading to the real economy in Europe, the financial crisis laid bare the structural weaknesses of many European economies and thus engendered a series of counter-reforms. Yet, at the first hints of the crisis that hit the United Kingdom in 2007 corresponded very little reaction by the European leaders. One course of action was initiated by then British Prime Minister, Gordon Brown, who called a mini G4 summit (Britain, Germany, France, and Italy) at the end of January 2008. This summit, however, had little follow-up, since opinions on how to respond to the looming crisis diverged vastly (Dinan, 2010, p. 157): while Sarkozy continued to purport the renown French idea of *gouvernement économique européen* based on a strong intervention by member states in economic policy-making (see Jabko, 2013, p. 127), Brown wanted more financial supervision than there was at the time, but to a smaller extent than Sarkozy's, and Merkel was disinclined towards the idea of an ambitious agenda. As such, plights continued to follow, despite the seemingly shielding action of the euro, which prevented euro area members from being hit by the crisis as severely as non-members, such as Britain, Iceland, or Latvia (Hallerberg, 2011, p. 128).

In such a climate of uncertainty, the leaders wanted to cautiously assess the developments and subsequently explore the possibilities at hand. They were wary of being involved in too pan-European a project, after the disastrous experience of 2005, and the sudden rise of Euroscepticism. It was evident that with the crisis and with the feeling that the European peoples were being shoved the Treaty of Lisbon down their throat that there was a decline of the permissive consensus that allowed staggering successes such as the Treaty of Rome, the 1992 programme, and the euro. An involvement in an ambitious integrationist agenda would have been a political suicide for them (Bickerton et al., 2015, p. 711). The relative inaction of the Commission did not help either, but it was paradoxically mostly due to the desire of the member states governments to be on the front line. Later on in the year, in a joint declaration on 12 October 2008 the euro area countries pledged to "act together...to restore confidence and proper functioning of the financial system" (Whereas (4)) and stressed the need "for the Commission to continue to act quickly" (Whereas (5)) (Summit of the Euro Area Countries, 2008), and in the December 2008 European Council, this issue was among the three that dominated the meeting (beside an energy plan and the discussion with Ireland for the ratification of the Treaty) (Dinan, 2010, p. 160). Therefore, as Puetter (2012, p. 171) rightly showed, the intergovernmental Treaties of Maastricht and Lisbon made it so that for action to be there, there needs to be some sort of deliberative consensus. On the one hand, only the European Council was invested with enough authority to make credible commitments or pledges of financial support; on the other hand, policy deliberation was becoming a quasi-necessary condition for successful policy-making. At the beginning of the year 2008 such a consensus among leaders was clearly lacking, and it took many months of informal meetings, of confrontations, as well as the worsening of the situation, to come together. What Puetter wants to show, basically, is that the decisions of the leaders were being constrained by a strongly intergovernmental setting in which actors acted by routinisation and socialisation by building up consensus, rather than sticking to the rules (i.e. the supranational decision-making process). Therefore, a first answer is threefold: first of all, at the beginning of the global financial crisis, EU member states were complacent because the euro was proving a solid shield against recession; secondly, they had other and older items on the agenda, such as the completion and ratification of the Treaty of Lisbon, and how to manage the huge increase in member states; and finally and most importantly, they failed to build up the necessary deliberative consensus to act on the crisis early on.

As regards the first part of the second question, why measures to strengthen fiscal coordination were adopted, the answer is far more complicated. One could wonder, the crisis was financial, and it mostly hit the banking sector at first; only later did it spread to the real economy. Why was there a need to reinforce fiscal coordination? On the economic side, fiscal stimuli (i.e. government borrowing) provide incentives for better and smarter spending to rekindle the economy, as per the Keynesian doctrine. On the political side, however and once again, institutions are part of the answer: in 2008-9 the EU lacked any responsibility for fiscal policy, and stimulus packages could only come from national budgets. The likes of the ECOFIN Council, the European Council, and the Eurogroup (born with the Treaty of

Amsterdam as an informal forum of discussion of the euro area ministers of finance) could only go as far as influence the direction of national policy, without, however, dictating it (Dinan, 2010, p. 164). The national interests of the single member states were put ahead of any policy coordination to salvage the EU. However, the sovereign debt crisis of 2010 that sprung in Greece and hit – although to a lesser extent – Spain, Portugal, Ireland, and Italy too, put significant pressure on the euro and its governance structure (Hallerberg, 2011, p. 128). This meant that the budget decisions of the euro area member states were forcefully connected with one another, despite the early attempt to insulate monetary and fiscal policy within EMU. Therefore, the deterioration of the public finances of a few member countries could potentially undermine the credibility of the SGP and the very fiscal foundation of EMU (Dinan, 2010, p. 163).

As Schelkle (2012, p. 28) argues, the initial separation of monetary and fiscal policies within EMU was seen as a success, since it lent credibility to the ECB independence; however, the sovereign debt crisis and the financial instability in European bond markets have renewed doubts about this peculiar structure. One way to stabilise the finances in the Eurozone, according to Hallerberg (2011), was to instil market discipline in its members: since countries borrow to finance their deficits, they have to come to terms with markets and anticipating their reaction is important to avoid further escalation.[8] Therefore, he proposes, there are good reasons to believe that market discipline could be effective in restraining states within EMU from spending too much (Hallerberg, 2011, p. 130). Three are the conditions for market discipline: (i) that markets have accurate information on member states finances; (ii) that market valuation of a given state includes a valuation on the sustainability of its finances; and (iii) that populations interpret market discipline as a signal about their government's competence and punish governments that face market pressure (Hallerberg, 2011). According to the author, by 2009 all three conditions obtained. Certainly, (i) and (ii) were provided by the SGP and the stability programmes that member states presented to the Commission, especially after the 2005 reform. The third condition, instead, is more relative to the notions of idea and of socio-political construct: it is a psychological condition whereby a Gramscian hegemonic idea – here that of fiscal and market discipline – trickles down to the populations. It is not easy to assess, but one could hazard the guess that those governments that did well in facing market pressure (i.e. those that at first followed the ordo-liberal ideal of market discipline) were confirmed in place, while those that deviated were electorally defeated. This hypothesis seems to be confirmed by looking at some of the protagonist member states of the Euro-crisis: in Germany Angela Merkel was confirmed as Chancellor in 2009; in the same year, Greece faced anticipated elections; in the following years, those countries that were faring less well due to the crisis, such as Britain, Ireland, Spain, Italy, and even France saw a change of leadership. Only in Portugal did the incumbent Socialist Party win again in 2009, although even here

[8] This is in line with the assessment provided by Buti and Carnot (2012, p. 900) regarding the setting up of EMU: "common provisions for budgetary discipline," they write "are justified to the extent that unsustainable fiscal dynamics in one country may eventually entail costs borne by all EMU participants. This could happen either via inflationary debt monetisation or through large fiscal transfers between countries. Both outcomes were seen as unacceptable." This pushed for the so-called "no-bailout clauses" in Articles 123 TFEU, regarding the monetary financing of budgetary deficits, and 125 TFEU, on intergovernmental bailouts. Hence, the framework set up in the 1990s opened up the way for markets "to play a role in sustainable policies" since market discipline would in theory "contribute to the maintenance of stability-oriented monetary and fiscal policies, in tandem with self-imposed rules and procedures" (Buti & Carnot, 2012, p. 901).

it lost a significant portion of votes compared to the previous electoral round. Nonetheless, as appealing as it sounds, and as centre-stage as the crisis had become, there are far too many variables that influence an election and it could not be all boiled down to economic performance – excluding, perhaps, Italy, where then Prime Minister Silvio Berlusconi was forced to step down because of the economic hardships he failed to promptly face. In sum, fiscal coordination at the European level was spurred mainly by three element: the financial crisis, which required hefty borrowing and turned, in the Eurozone, into a sovereign debt crisis, which forced a reframing of the SGP; the widespread idea that fiscal discipline had to match market discipline in order also to ensure the stability of the banking system (Schelkle, 2012, p. 29); and the deliberative consensus among the European elites that allowed for room of manoeuvre. Why, however, were *those* measures enacted, and what did it imply for the institutional equilibrium? It is clear at this stage that there was a preponderant prevalence of intergovernmentalism, as European leaders shrewdly exploited the uncertain climate to advance concerted agendas that were not necessarily in line with that of the Commission – but was this situation destined to last? These are questions that I aim to answer in the remaining sections.

3.2.2 The European Semester

On 12 May 2010, the Commission issued communication COM (2010) 250 final to other European institutions and committees, regarding the reinforcement of economic policy coordination. Here the Commission argued among other things that the recent crisis had "no precedent in [this] generation" and that "high levels of public debt [could] not be sustained indefinitely," thus underlining how the financial pressure had unveiled the degree to which the Eurozone economies had necessarily become interconnected (European Commission, 2010a, p. 2). Therefore, "urgent action" was to be taken immediately and the present communication stressed "the case for making *full use* of the surveillance instruments available under the Treaty" (European Commission, 2010a, p. 3, my emphasis). The wording is not casual. "Making full use" of the surveillance instruments meant two things: firstly it meant that the Commission regarded the SGP as essentially valid; on the other hand, however, it also meant that it acknowledged some of its shortcomings. Indeed, the communication went onto arguing that "the rules and principles of the Stability and Growth Pact are relevant and valid" and that it was *despite* the Pact that member states failed to build "adequate buffers" in times of economic upturn. At the same time, however, the communication conceded that "more prominence should be given to public debt and sustainability" and that "the debt criterion of the excessive deficit procedure should effectively be implemented" (European Commission, 2010a, p. 5).[9] In other words, the Commission was saying that the EU would continue to use the SGP as the basis for fiscal surveillance and consolidation in the Union, but that until then excessive attention had been devoted to the deficit criterion, rather than the debt one, as some scholars had been arguing for some years now (for instance, Heipertz, 2003, who wrote that there was an unjustified overemphasis

[9] Indeed, even though it was one of the Maastricht parameters, the debt criterion had not, until now, been operationalised. Moreover, as per Article 126(3) TFEU, an EDP is launched when a country violates "the debt rule by having a government debt level above 60% of GDP, which is not diminishing at a satisfactory pace. This means that the gap between a country's debt level and the 60% reference needs to be reduced by 1/20th annually (on average over three years)."

on deficits rather than the more substantial debt problem). It was in this communication that the Commission advanced a first detailed plan for a "European Semester", aimed at achieving "a more integrated surveillance of economic policies" and "synchronise the assessment of fiscal and structural policies of EU member states" (European Commission, 2010a, p. 8).[10] Four months later, on 7 September, the ECOFIN Council endorsed, among other things, "changes to the manner in which the EU's stability and growth pact is implemented in order to allow a 'European Semester' to be introduced...as part of a reform of EU provisions on economic policy coordination" starting from the following year, 2011 (ECOFIN Council, 2010a). Interestingly enough, the present Council's press release credits a particular informal group for the creation of the European Semester, the Van Rompuy Task Force (VRTF), so called after the then European Council President, Herman Van Rompuy. As the document states:

> "*The so-called European Semester is one of the first initiatives to emerge from a task force on economic governance set up at the request of the European Council in March and chaired by the President of the European Council, Herman Van Rompuy. The aim is to boost coordination of the member states' economic policies on the basis of expected results*" (ECOFIN Council, 2010a, p. 6)

This unusual accreditation that completely leaves out the Commission communication of 12 May, can be read in the light of a peculiar case of Principal-Agent (P-A) relationship, in which there is one principal (the European Council), one agent (the Commission), and one sub-principal/agent (the VRTF) in charge of the other agent, as Michele Chang (2013) did. In her paper, she emphasises how the Commission and the VRTF worked in parallel, but, by putting the latter in control of the former (at least for this particular task), the Commission "was robbed of its normal function as agenda-setter" (Chang, 2013, p. 259). This is in line with what was said in the previous subsection, as regards a prevalence of intergovernmentalism: states were reluctant to delegate more powers to supranational institutions, since people (i.e., voters) look at their national capitals rather than Brussels for solutions in difficult times. Staying in charge and thus in control of the situation, therefore, could give them more of a chance to avoid exacerbation. Hence a particularly weak delegation model that has come about in the past few years, in which *ad hoc* bodies (in this case the VRTF) are created to allow member states governments for more control (Dehousse, 2013). This particular dynamics concerning the creation of the European Semester, however, still does not answer some questions: how does the European Semester work? Why was it created? And what does it entail in terms of changes in relational institutional power?

[10] Truth be told, a first proposal for a "European Semester" was already present in the 2003 Sapir Report, commissioned by then Commission President Romano Prodi. A group of high-level economists and political economists led by André Sapir, after whom the Report is named, proposed that the budgetary calendar be divided into two semesters: a "European Semester" where common orientations would be agreed at the European level; and a "National Semester" in which such orientations would be reflected in the national budgetary processes (Sapir, 2014, p. 59). The 2010 Commission communication bears the merit of better delineating the details of the framework, but it is undeniable that it took after the 2003 Report, although in some parts they do differ, with the communication falling short of some proposals advanced a few years earlier, such as the possibility of ensuring that the national fiscal policies add up to a consistent fiscal stance for the Eurozone as a whole (Sapir, 2014, p. 63), that is, effective fiscal union. An even earlier embryonal idea of "European Semester" was present in the 1997 blueprint of an "Economic Policy Coordination Pact" put forward by erstwhile Commission President Jacques Delors and his think tank *Notre Europe* (Dehousse, 2015).

The European Semester is the EU's annual cycle of economic policy guidance and surveillance, as per the Commission DG ECFIN's definition. According to Hallerberg, Marzinotto and Wolff (2011), moreover, it introduced two procedural innovations: it shifted the timing of the budgetary process, as national governments should now submit their Stability and Convergence Programmes (SCPs) to the Commission before they are discussed by the national parliaments; and it aligned the timing of fiscal and structural reforms, since SCPs are now submitted at the same time as National Reforms Programmes (NRPs). This latter element was also first attempted with the 2005 revision of the SGP. Overall, the aim is to strengthen economic policy coordination in the EU by means of *ex ante* guidance (Hallerberg et al., 2011, p. 6). Table 3.1 below presents a timeline of the European Semester, which will then be discussed.

	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July
European Commission	Adoption: AGS						Adoption: CSRs, EARs		
Council of the EU			Debate and orientation on AGS					Finalisation and adoption of CSRs and EARs	
European Parliament					European Dialogue				
European Council					Endorsement of AGS			Endorsement of CSRs and EARs	
Member states			National Parliaments discuss SCPs and NRPs			Submission: SCPs, NRPs			

Source: *Hallerberg, Marzinotto and Wolff (2012).*

Table 3.1: European Semester timeline

The European Semester begins with the publication of the Annual Growth Survey (AGS) by the Commission, in November. The AGS is a list of policy priorities for the EU, and is based on the EU2020 strategy progress report, the Macroeconomic Report and the Joint Employment Report.[11] Between December and February of the following year, the Council, in its different formations, debates the AGS, and the European Council will endorse it during its spring summit in March. In the meanwhile, the national parliaments will draft SCPs and NRPs to be submitted to the Commission by the end of April, following the guidelines of the AGS, which are mandatory. As it was mentioned, these are submitted at the same time in order to increase the convergence of fiscal and structural policies in the EU, and thus facilitate an assessment thereof. Then, the Commission will evaluate the SCPs and NRPs and will issue country-specific recommendations (CSRs) and euro area recommendations (EARs), which the European Council will then have to endorse by the following month. Between June and July, finally, the Council will finalise

[11] These can be found at: `http://ec.europa.eu/europe2020/documents/documents-and-reports/type/latest-documents/index_en.htm` for the EU2020 strategy progress report, `http://ec.europa.eu/economy_finance/eu/forecasts/index_en.htm` for the Macroeconomic Report (also known as economic forecasts), and `http://data.consilium.europa.eu/doc/document/ST-6149-2016-INIT/en/pdf` for the latest Joint Employment Report.

and adopt the CSRs and EARs (the explanation of the timeline is taken from Hallerberg et al., 2012). The reader may note that, unlike what the table says, the European Parliament does not appear in the process described here. As a matter of fact, the original European Semester did not envision a role for the Parliament and only with the Six-Pack (discussed in the following subsection) was the Parliament allowed to engage in discussion with other European institutions and national representatives, be it to question the AGS or the CSRs, and thereby introducing an element of parliamentary accountability (Hallerberg et al., 2012). Nonetheless, the first cycle of the European Semester failed to set a good start record: Schelkle (2012, p. 33) called this experience "a top-down approach of one way communication" in which the member states' national parliaments completely failed to coordinate and respond to the supranational stimuli. Alongside the AGS, and starting from March 2011, the member states governments are invited to include in their reform plans references to the Euro Plus Pact (Hallerberg et al., 2011, p. 6), which consists of a political commitment between euro and some non-euro area member states to strengthen the SGP (S. Fabbrini, 2015, p. 51), by somehow mimicking the AGS priorities (e.g. competitiveness, employment, fiscal sustainability, and financial stability).[12]

Overall, the legal architecture of the European Semester is very intricate exactly because of its vague, yet wide goals (to enhance temporal consistency in EU economic policy coordination), and its scope, which covers not only fiscal supervision and sustainability, but also other areas falling under the dome of EU economic governance. Therefore, if its legal basis that lies in Articles 121(1) and 148 TFEU, respectively "economic policies as a matter of common concern" and "employment guidelines", already hints at a somehow large scope, the fact that the European Semester also builds on the Integrated Guidelines for Growth and Jobs (IGs) of 2005, which combine the Broad Economic Policy Guidelines (BEPGs) and the Employment Guidelines (EGs), shows how overarching its framework is. At the same time, the European Semester includes both non-binding (e.g. the IGs) and binding (the AGS) EU recommendations (Hallerberg et al., 2011, pp. 7-8), which make the degree of involvement of EU institutions ambiguous. What is noteworthy is that indeed the core idea of the European Semester was for the EU to provide annually early policy guidance to the member states, and for the latter to take on board this guidance to prepare fiscal and other reform plans (Hallerberg et al., 2012). The rationale behind this idea, therefore, was that a widespread belief among European elites had come to be regarding the inability of the pre-2007 design of European economic governance to prevent crises from occurring and spreading; from the belief that fiscal rules were not biting enough; and from the belief that the public sector was not the sole responsible for the countries' indebtedness (Hallerberg et al., 2011, p. 5). In sum, the European Semester was the result of a double compromise: first the need to act fast, which on the one hand pushed the European Council to set up an *ad hoc* temporary body, the Van Rompuy Task Force, to work in addition to the Commission; and on the other hand the Commission itself "recycling" an old proposal (i.e. the 2003 Sapir Report, see footnote 10), instead of starting from a clean slate. The second compromise was the unwillingness of the member states governments to devolve too much sovereignty, if any at all.

[12] More information on the Euro Plus Pact can be found at: `http://ec.europa.eu/epsc/pdf/publications/strategic_note_issue_3.pdf`.

This can be seen in three instances: first the fact that the Sapir Report was substantially weakened as regards its proposal for effective fiscal union (or at least a steadfast EU fiscal stance); secondly, in the unwillingness to give full powers to the Commission, which instead was to be controlled by the VRTF, and which engendered a convoluted and hardly effective double delegation system (Dehousse, 2013); and finally in the legal basis of the European Semester, which stretched the range of EU intervention rights to a maximum without devolving national sovereignty, that is, without altering the Treaty (Hallerberg et al., 2012). Therefore, despite its high degree of interference, the European Semester does not seem to clearly hint at a delegation of powers to EU supranational institutions. Nonetheless, it provided, as it was intended to be, a framework for fiscal guidance and surveillance, since most fiscal policies are now streamlined under the European Semester – formalised, incidentally, with the Six-Pack.

3.2.3 The Six-Pack

As was shown, at the centre of the European Semester is an information-driven surveillance system (Savage, 2016): in order to better coordinate fiscal and structural policies, the member states provide data to the EU institutions according to a well-defined and (more or less) strict timeline. The Six-Pack, chronologically the following measure enacted to counter the crisis, follows this path. Out of the six legislative proposal of which it is made up (five Council regulations and one Council directive), two in particular, Regulation No. 1174/2011/EU and Directive 2011/85/EU, highlight the need for availability of fiscal data for the proper functioning of the surveillance framework, and reliability thereof, respectively (Savage, 2016). Embedded in this information-laden framework of the European Semester, the Six-Pack was presented on 29 September 2010 (see European Commission, 2010b), and entered into force more than a year later, in December 2011, institutionalising, at the same time, the Semester in which it is enshrined. It is composed of six legislative proposals, summarised in Table 3.2, first made by the Commission on 12 May and 30 June 2010.[13] It has been described as "a major reform of EU economic governance" (Franchino & Mariotto, 2015) "containing the most comprehensive reinforcement of economic governance in the EU and the euro area since the launch of the Economic and Monetary Union" (European Commission, 2010b). A natural follow-up would be to ask why was the Six-Pack needed, and why it is innovative. As for why it was needed, the answer barely differs from the one provided for the European Semester. The then European Commission President José Manuel Barroso mentioned how, even though the economic governance of the EU had several tools at its disposal, "the crisis...put in evidence that these [had] not been fully used and that there [were] certain gaps in the current system of governance" (European Commission, 2010c). Therefore, once again, the Six-Pack was a way to make full use of the possibilities granted by the Treaty. The SGP was to be given more teeth with which to bite, thus making it more "rule based", with sanctions as the obvious and unavoidable consequence of rule breaching. In other words there was, at the decision-making level, a widespread belief of the need to comply with fiscal

[13] See IP/10/561 "Mastering economic interdependence: Commission proposes reinforced economic governance in the EU" and IP/10/859 "EU economic governance: the Commission proposes a reinforced macro-economic, budgetary and structural surveillance", respectively.

discipline to match market pressure: during this period, the Commission, in its agency (that is, in the action taken to further integration), was skewed towards fiscal conservatism (Hodson, 2013), particularly because of the climate of "restraining dissensus" created by the crisis; the member states, for their part, strongly relied on Germany as a "hegemonic economic stabiliser", thus more or less aligning with her ordo-liberal line of thought (Bulmer & Paterson, 2013); finally, the ECB has a historically prudent approach, mostly concerned with inflation – as only with Mario Draghi, after 2011, did things start to change – and in the Parliament the centre-right had a majority of seats during the 2009-2014 legislature, which means their preferences would mostly align with the Commission and the member states'.[14]

As a consequence, the political economy of this fiscal innovation is explained by institutional self-interest and political entrepreneurship of the EU bodies (Schelkle, 2013, p. 106): if the Commission ideologically leaned towards fiscal conservatism, at the same time it was rationally willing to supply the tool for this innovation. As Hodson (2013) remarked, between 2007 and 2011, the Commission was most willing to have an entrepreneurial role whenever it knew integration initiatives had little chance to be shot down. Since its ideological commitment was in line with that of the European Council and, by extension the Council, the Commission was therefore included in the process and took a proactive role with the proposal of September 2010. For their part, the member states' demand was embodied by the Van Rompuy Task Force that acted at the behest of the European Council. The VRTF, in fact, was to actively seek a way "to reach the objective of an improved crisis resolution framework and better budgetary discipline" (European Council, 2010b). Moreover, German Chancellor Angela Merkel put forth, in an address at the College of Europe in Bruges, the idea of a "Union method", opposed and complementary to the Community method, in which it was also the member states who could and had to be at the forefront to find European solutions for European problems (cited in Chang, 2013, p. 255). Hence, and in sum, not only was there an ideological alignment between European institutions; and not only were supply and demand for fiscal discipline (broadly) met, but also with the so-called Union method working in a highly intergovernmental setting, the member states were becoming at the same time demanders and suppliers of market and fiscal discipline.

Legal acts	Policy Aims
Regulation (EU) No. 1173/2011: it concerns the enforcement of budgetary surveillance in the euro area by imposing sanctions in the form of interest-bearing deposits or non-interest-bearing deposits for significant divergences in the budgetary position	Introduction of new sanctions on both the preventive and corrective sides of the SGP Approved through the ordinary legislative procedure

[14] For the composition of the European Parliament, see http://www.europarl.europa.eu/aboutparliament/en/20150201PVL00021/Previous-elections.

Regulation (EU) No. 1174/2011: it confers new powers on the ECOFIN Council to preserve the effective correction of excessive macroeconomic imbalances in the euro area	Reinforced mechanism for excessive macroeconomic imbalances Approved through the ordinary legislative procedure
Regulation (EU) No. 1175/2011: it strengthens the multilateral surveillance of budgetary positions and economic policies in order to prevent the occurrence of excessive deficits	*Ex ante* and *ex post* surveillance on convergence programmes or stability laws: medium-term objectives Approved through the ordinary legislative procedure
Regulation (EU) No. 1176/2011: it sets up an alert mechanism in order to facilitate the pre-emptive identification and monitoring of imbalances. Corrective action plans of member states, for which an excessive imbalance procedure is opened	Macroeconomic surveillance and alert mechanism Approved through the ordinary legislative procedure
Council Regulation (EU) No. 1177/2011: it speeds up the implementation of the excessive deficit procedure. It establishes new rules for sanctions in the preventive and in the corrective arts of the SGP, i.e. the reverse qualified majority voting (rQMV) procedure	Stricter voting procedures for excessive deficits Approved through the special legislative procedure
Council Directive 2011/85/EU: it provides detailed rules concerning the characteristics of the budgetary frameworks of member states	Requirements for budgetary frameworks of the member states Approved through a non-legislative procedure

Source: *S. Fabbrini (2015).*

Table 3.2: The Six-Pack

How is the Six-Pack innovative, on the other hand? Although one of its primary aims was to revise the Stability and Growth Pact, the Six-Pack is not strictly a fiscal measure. Regulations No. 1174/2011/EU and No. 1176/2011/EU, in fact, contain measures to prevent and correct macroeconomic imbalances in the euro area and outside it, in order. This is because the interconnectedness of the European economies, which the European Semester assumed the task to face, makes it so that fiscal discipline be balanced with market discipline. Indeed, as Caporaso et al. (2015, p. 896) noted, the financial crisis revealed large gaps in competitiveness and in the regulation of macroeconomic imbalances, both of which could not but be addressed together with the issue of fiscal profligacy. As such, the Six-Pack introduces, with these two regulations, a macroeconomic imbalance procedure (MIP), which is essentially a surveillance tool for macroeconomic imbalances. Like the SGP, it consists of a preventive arm, which triggers an alert mechanism to detect the emergence of macroeconomic imbalances; and of a corrective arm, which forces the noncompliant member state to correct them (Caporaso et al., 2015, p. 896). The first arm is based on the reading of a "scoreboard" with 11 indicators that are telling of the macroeconomic situation of a given country (for a rundown of its functioning, see European Commission, 2012a), to be assessed by the

Commission. The corrective arm, instead, can impose on the deviant member state an interest-bearing deposit after one failure to comply; after a second compliance failure, the interest-bearing deposit is converted into a fine up to 0.1 percent of the state's GDP (Caporaso et al., 2015, p. 904). Like for the EDP, the MIP fines are collected and transferred to the European Stability Mechanism (Franchino & Mariotto, 2015), thus enabling a self-sustaining cycle.

What I am concerned with here, however, is the innovations on the fiscal side. Aside from the already-mentioned institutionalisation of the European Semester, as well as that of a European Dialogue with the Parliament (both of which, at any rate, have a wider scope than fiscal discipline), the Six-Pack operationalised the debt criterion of 60 percent of the country's GDP, and introduced a new voting rule within the Council, relating to certain decisions on the preventive arm of the SGP and the MIP, the so-called reversed qualified majority voting (rQMV). As regards the former, it is aimed at strengthening the EDP, and it is accompanied by a more focused assessment of data sharing of national expenditures, in line with the information-driven framework of the European Semester. The operationalisation of the debt criterion means that states will now be sanctioned both if they exceeded the 3 percent threshold of the deficit parameter *or* the 60 percent threshold of the debt parameter, with the country's debt level not diminishing at a satisfactory pace (see footnote 9), whereas before only the former was in force. This, of course, entails stricter monitoring and less leeway for the member states, even though circumstantial factors are still taken into account, as per the 2005 SGP revision. Nonetheless, according to Regulation No. 1173/2011/EU, the Six-Pack also allows for "on-site methodological visits" by the Commission, were the data provided to the institution to be misrepresented or statistically manipulated (Savage, 2016), as was the case for Spain in 2012. The second innovation, the rQMV, entails that a majority of the member states within the ECOFIN Council must be in disagreement with a Commission proposal for the activation of an EDP or a sanction to be overturned (De la Porte & Heins, 2014). This was clearly intended to avoid a repeat of the 2003 debacle whereby the recommendation of the Commission to initiate an EDP against France and Germany was blocked in the Council, since now, according to such a voting rule, it would be very difficult to form a similar blocking majority. It is clear, therefore, that both these innovations strongly enhance the power of the Commission. The former by increasing surveillance and coercion, and the latter by increasing interference, with a strong empowerment, in particular, of Eurostat (one of the Commission's DGs). Why, then, given this strong intergovernmental environment that the Maastricht Treaty created and that the Lisbon framework perpetuated, did the member states agree to such an empowerment of the Commission?

It is very interesting to note that both intergovernmental-minded authors (S. Fabbrini, 2013; Hodson, 2013) and scholars that privilege more supranational approaches (Bauer & Becker, 2014; Dehousse, 2015) agree on the empowering role of the Commission and on the causes thereof. In particular, Renaud Dehousse succinctly explains it with one word: mistrust – specifically by Germany and some northern countries towards their southern counterparts, accused of not doing enough or not doing it well. Take the rQMV, for instance. As was noted, it was an attempt to avoid committing the same mistakes of 2003. Evidently, there existed a degree of distrust among states, and there was the need for a credible commitment to avoid reneging on pre-committed rules. Therefore, there was a need for third actors (here in particular the Commission) that could be credible in keeping the contracting parties aligned with the agreed aims of the Treaty (S. Fabbrini, 2013, p. 1025-6). As such it was barely an unintended consequence as was, for instance, the empowerment over time of the European Court of Justice (again, see Weiler, 1991). There was a rational and functional logic in rebalancing the equilibrium behind the European fiscal framework, since the crisis was proving how a soft law approach in which the role of plaintiff, judge, and defendant was being assumed by the same party, the member states, was miserably failing and the European Council was not as credible as it was at the beginning of the crisis. In this predicament, the Commission emerged as a natural fit for a supervisory function, and it was of paramount importance to let it properly perform its functions. Given these peculiarities, therefore, it would seem logical to assume *prima facie* that in this temporality cluster, a first change in relative institutional power is taking place.

3.2.4 An evaluation of the second temporality cluster

A reading of the second temporality cluster can be either broad or narrow. A broader reading would identify its beginning in the years 2004-5. Three key events took place during this period: the failed French and Dutch referenda for the approval of the Constitutional Treaty, the expansion of the Union from 15 to 25 members, and the revision of the SGP. The first one, in particular, opened up a period of reflection guided by Chancellor Merkel in 2006, which led to the ratification of the Lisbon Treaty in 2009. All three, however, are part and parcel of an analysis on fiscal integration and institutional change in the EU, as they created a sense of newness and uneasiness, even, to which the EU had to adjust. They help explain why the crisis had not become centre-stage in the agenda of the EU institution until 2009, if not 2010. In this sense, the critical juncture is said to last longer, and thus be...less critical. A broader reading of the cluster, however, would also entail that far too many external factors participate in the assessment on fiscal integration and institutional change. For its part, too narrow a reading of the cluster that pinpoints the beginning with the 2007 crash would have two consequences. On the one hand, it would follow a clear and logical pattern, whereby an economic problem begets runs on deficits as a consequence of continuous fiscal stimuli, and this in turns leads to fiscal discipline necessary to counter market pressures; on the other hand, the narrow reading would incur in the problem of leaving out of the frame external factors that contribute to the understanding of the reasoning behind particular political choices. Take for instance the ratification of the Lisbon Treaty, which happened in concomitance with the beginning of the crisis: a very narrow reading would obviate the necessity to take the process of ratification into account. In other words, it would make it appear as though every fiscal measure for countering the crisis was taken using a decade-old and stable legal framework for economic governance – which the Treaty of Lisbon evidently was not. The process of ratification, therefore, added to the uncertainty of the climate, and helped postpone the reaction of the European leaders. Hence, my reading of the cluster, while more narrow than broad, avoids taking *too* narrow an approach, and takes into account other priorities the Commission and the European Council had on the table at the time the crisis exploded – that is, 2007.

This second temporality cluster, at any rate, presents significant differences with the first one, and seems to be an important leap towards integration to fight the looming threats of the crisis. The most striking differences, underlining *what kind of change* has taken place, can be noted using the paradigm developed by Streeck and Thelen (2005). Especially as regards *layering*, there are many innovations compared to the pre-crisis period. The most evident one is the European Semester that, as was noted before, is the EU's annual cycle of economic guidance and surveillance, meant to strengthen coordination between countries and between macroeconomic and structural issues. The European Semester radically reformed the way Budgetary Surveillance and Coercion is carried out, by imposing a timeline for submitting the budgetary proposal and by forcing an *ex ante* assessment thereof. The Six-Pack also included a few innovations, such as the MIP, the European Dialogue (integrated in the European Semester), and the reverse qualified majority voting. All three equally empower supranational and intergovernmental institutions, with the former getting a slight edge. In fact, while the MIP confers new powers to the ECOFIN Council to ensure the correction of excessive macroeconomic imbalances (in the euro area) through Regulation No. 11174/2011/EU, the rQMV makes it harder for the Council itself to disregard the recommendations of the Commission. Nonetheless, it would be unfair to think that they annul each other, in a zero-sum kind of game: both the innovations, in fact, add up to pre-existing competences of the two institutions. For its part, the European Dialogue allowed the Parliament to have a say in a process in which so far had very little leverage. Another element that, according to Salines et al. (2012, p. 675) consists of a layering of competences, is the Euro Plus Pact: according to the authors, even though there existed a wide array of tools at the disposal of the European leaders, they decided still to add another one, and to embed it in the European Semester to ensure even stronger policy coordination for competitiveness.

Other categories present in Streeck and Thelen (2005) are those of *drift* and *displacement*. While it is true, as Franchino and Mariotto (2015) note, that the crisis unveiled the failure of a Council-centred fiscal policy, and rebalanced it in favour of the Parliament, and the Commission in particular, it is also true that the Council has neither been excluded in this field (drift), nor has it been displaced in its competences by other institutions. At the same time, nonetheless, there has been a redirection of some competences within the institutions. For this purpose, it would be more appropriate to talk of *conversion*, whereby new purposes are attached to the old structure. More particularly, there have been two kind of redirections. A first redirection concerned the scope of the SGP: on the one hand, the operationalisation of the debt criterion made it so that the EDP could be activated in situations other than a deficit breach (in this case, a debt breach); on the other hand, unlike before, fines were now not only foreseen at a late stage and mostly used as threat. In 2013 it was calculated that the number of countries that went under EDP before and after the crisis (2008 onwards) had increased from 13 to 24 (De la Porte & Heins, 2014), although this not always translated into stricter action, i.e. sanction, as many countries were given extensions. What is important, at the theoretical level, is that a redirection did take place, as fines were now enforceable. A second redirection concerned the European Commission: in the words of Bauer and Becker (2014, p. 226), the Commission went from policy entrepreneur to policy manager, and its functionality in fiscal policy-making thus switched from agenda setting to implementation. This is also seen in the competition it had to face in the Van Rompuy Task Force, with the European Council setting the direction for fiscal discipline and following the suggestion of the task force. Hence, rather than sidelined, the Commission experienced a reinterpretation of its role in the management of Budgetary Surveillance and Coercion, as it was deemed the natural fit for supervisor function.

Once understood what kind of change took place, it is also important to assign a value to it. The framework of the European Semester will serve to guide and streamline this assessment, using the categories developed by Börzel (2005), based on the breadth and depth of integration. As for the breadth, supranational institutions like the Commission gained a number of competences in Budgetary Surveillance and Coercion. The Commission now guides the process of the European Semester with the Annual Growth Survey and can issue strong Country-Specific Recommendations (or Euro-Area Recommendations). It also assesses the National Reform Programmes and the Stability and Convergence Programmes. The Parliament, as was seen, also gained some leverage with the European Dialogue. Nonetheless, the AGS and the CSRs/EARs need to be endorsed by the European Council, and debated, and then adopted by the ECOFIN Council. As such, an evaluation of 3, "shared competences medium" seems to be fair. For what concerns the depth of integration, it is somewhere in between "intergovernmental cooperation" and "joint decision-making I", thus giving it a value of 2.5. As a matter of fact, the Commission and the Council share the right of initiative, with the latter also being the main legislative body; but whether or not the Council acts by unanimity or by QMV (or rQMV) depends on the particular issue at hand. Moreover, whether or not an ordinary legislative procedure (OLP) is taken, according to Articles 289 TFEU and 294 TFEU depends on the Treaty base: for instance, Regulation No. 1177/2011/EU and Directive 2011/85/EU of the Six-Pack were adopted by either a special legislative procedure or a non-legislative procedure because they were based on Article 126(14), which explicits that "[t]he Council shall, acting unanimously in accordance with a special legislative procedure and after consulting the European Parliament and the European Central Bank, adopt the appropriate provisions;" the other four regulations, instead, being based on Article 121(6), only required an OLP: "[t]he European Parliament and the Council, acting by means of regulations in accordance with the ordinary legislative procedure, may adopt detailed rules for the multilateral surveillance procedure."[15]

Finally, following De la Porte and Heins (2014) and using the dimensions of interference, surveillance, and coercion, all the three present a degree of "high". Interference cannot move up to "very high" because none of the countries had to undergo "far-reaching" structural reforms to comply with the medium-term objectives. Surveillance, too, deserves a degree of "high", as the macroeconomic imbalances were based on a benchmark with 11 indicators, while the European Semester involved mandatory *ex ante* review of the national budgets and programmes, based on the Commission-issued AGS. Finally, coercion is also "high" because, bar Greece, which was under the eye of the International Monetary Fund (IMF), no country was outright denied financial assistance. Moreover, in spite of its empowerment, the Commission

[15] I am grateful to Camilla Mariotto for this clarification.

could only still issue recommendations, albeit financial sanctions did become a possibility. In sum, the second temporality cluster saw a migration of competences of the EU from simple regulation of markets to regulation of fiscal and stabilisation policies (Caporaso et al., 2015, p. 890). As regard the former, the Commission was lukewarm in its agency, and its initiative leadership was constrained by the success changes of the policies under consideration: back in 2008, Barroso warned against grandiose initiatives that had little chance of being accomplished (Hodson, 2013, p. 304). Only in 2010 did the Commission start to act, but only because there was a convergence of interests with the European Council. For what concerns stabilisation, instead, the Six-Pack is perhaps the example *par excellence* of the activity of the Commission, aimed at reinforcing EMU's fiscal rules, but also here, it took a few years for its engine to roar. As such, there are clues that show that, already in this cluster, a standard model of the EU as a regulatory polity completely independent of the functions of stabilisation and regulation is questionable (Caporaso et al., 2015, p. 900). In the framework of delegation of core state powers, as envisioned by Genschel and Jachtenfuchs (2013a), it could be said that the instrument of integration in this second temporality cluster was based more on regulation than capacity building. Indeed, no new capacities had been created for what concerns fiscal coordination and convergence, and it was mostly the traditional EU institutions – the Commission, the Parliament, the Council, and the European Council – that drove the process and appropriated the regulatory tools. Any other way would have most likely failed: two elements, already mentioned, to keep in mind are that during times of crisis, the voters look at their national capitals, as they do not confide in Brussels to provide surefire or quick solutions; and that there existed a certain degree of mistrust among member states. This meant that EU institutions had to proceed cautiously: any radical initiative for countering the crisis not coming from accountable governments would lack support. In other words, it was unlikely that member states would have made big integrationist leaps, since an unpopular measure delegating power to the EU would have meant defeat at home, and no government was willing to risk it. Moreover, the Commission was constrained by structural factors – namely, it still had little power in this field, as the evaluation of the first temporality cluster showed – and could not do anything but follow suit, that is, align with the preference of the member states. Hence the lack of capacity building, but also why much of the regulation that could have led to integration (for instance, the proposal from the Sapir Report for a unified European fiscal stance) was tweaked. In conclusion, this second temporality cluster shows that while the measures adopted during this period were sufficient and necessary to assume a leap in fiscal coordination, they are neither sufficient, nor necessary to detect a product of integrated (i.e. unified) fiscal stance, nor do they raise the probability of such a happenstance. At the same time, employing the minimal notion of causality, as defined by Gerring (2005), one could see how these reforms could be necessary (yet still not sufficient) to embrace a horizon of deeper integration which continues to evolve, as will be shown, throughout the third cluster. This is because, as the strictness of policy prescription has grown, no *transfer* of competences from the national to the supranational level has taken place, as making and approval of national budgets remain in the hands of the member states. By the same token, the European Semester and the Six-Pack, while necessary to understand a gradual process of change in relative institutional power (the Commission in particular was empowered), do not hold any definite proof of a stable change in equilibrium, as the third temporality cluster will show.

3.3 2011-2013: the years of the intergovernmental treaties

3.3.1 The European Stability Mechanism

The second temporality cluster showed that, even after streamlining the budgetary process under a single European timeline, and even after strengthening the Stability and Growth Pact, the EU still fell short of effectively appropriating a single fiscal stance. The path dependence created in this cluster may seem to point at a progressive empowerment of supranational institutions that is nevertheless constrained by the intergovernmental decision-making setting in which it operates.[16] Things, more or less, are like this, as various scholars have noted (Bauer & Becker, 2014; Dehousse, 2015; Schelkle, 2012). It is therefore fair to assume that the outcome of the previous section would be an increased probability in fiscal cooperation and integration, as the Fiscal Compact and the Two-Pack do show. At the same time, nonetheless, there are financial innovations that have strongly reshaped the European economic governance, such as the Single Resolution Mechanism and the Single Supervisory Mechanism for a European banking union, the European Systemic Risk Board for macro-prudential supervision, and the European Banking Authority, European Security and Markets Authority and European Insurance and Occupational Pensions Authority for micro-prudential supervision (see Emerson & Giovannini, 2014, for a more accurate overview). Alongside these, in 2012 the European leaders, by means of an intergovernmental treaty, have set up a European Stability Mechanism (ESM), to provide financial assistance to euro area member states experiencing financial difficulty (see European Commission, 2012b). Indeed, the ESM is not *per se* an instrument of fiscal integration. Nonetheless, it is important to study, or at least to mention because (i) it was created through an intergovernmental treaty, unlike the European Semester and the Six-Pack; (ii) it was more or less simultaneous to the creation of the aforementioned fiscal innovations, and thus acts more like a bridge between the second and third temporality clusters; and (iii), which is perhaps the most important part for what concerns path dependence, European leaders have gone to great lengths to establish the ESM, to the point of amending a Treaty article, more particularly Article 136 TFEU. The following paragraphs will briefly explain the origins of the ESM and tackle its political consequences, while only tangentially covering its functioning and its economic goals.

The history of the ESM begins with a first round of deliberations that started back in May 2010 (ECOFIN Council, 2010b). It was here that the predecessors of the ESM, the European Financial Stability Mechanism (EFSM) and the European Financial Stability Facility (EFSF) were created. The legal basis

[16] This, should be noted, is also emphasised by the numerous meetings of the European Council that took place over the present and the following period. According to Article 15(3) TEU, the European Council should meet twice every six months, that is, four times a year, approximately. Between 2010 and 2014, however, 33 rounds have taken place (over a legally established number that during this period should amount to 20, approximately).

for the former is Council Regulation No. 407/2010/EU of 11 May 2010, founded on Article 122(2) TFEU, which foresees the possibility of granting Union financial assistance to those member states experiencing hardships beyond their control, while Article 3 of the Regulation lays out the procedure. The Commission is allowed to borrow up to €60bn in financial markets on behalf of the Union under an implicit EU budget guarantee and then lends the proceeds on to the beneficiary member state. From a political-institutional standpoint, the most remarkable aspects of the Regulation are Articles 3(5), establishing a Memorandum of Understanding, which entails a quasi-conditionality on the Commission's part, as the beneficiary party (the ailing member state) pledges to undertake a series of bargained reforms at the request of the other party (the Commission), who clearly has the upper hand in negotiations;[17] Article 5(2), which expressly states that "[t]he Commission shall verify at regular intervals whether the economic policy of the beneficiary Member State accords with its adjustment programme," and on the basis of which it will decide whether or not to release the funds (Article 5(3)); Article 8(1), with which the Commission is granted the right, in liaison with the ECB, to establish the necessary arrangements for the administration of the loans; and Article 8(3), according to which "[t]he Commission...shall in particular have the right to send its officials or duly authorised representatives to carry out in the beneficiary Member State any technical or financial controls or audits that it considers necessary in relation to that assistance." All these points highlight a high degree of involvement of supranational institutions in a country's financial supervision that the fiscal measures outlined until now have yet to reach in their goal of Budgetary Surveillance and Coercion. The EFSM, in particular, was activated for Ireland and Portugal for three years and for a total of €46.8bn. It was concluded in 2014 after 15 disbursements.[18] After 2013, it could not provide more assistance, as it was superseded by the ESM. The EFSF, for its part, was limited to euro area member states. It was a *societé anonyme* (public-limited company) set up under Luxembourgish law on 7 June 2010 and was part of the aforementioned May package. It was meant as a temporary instrument (like the EFSM, it was superseded by the ESM in 2013) with a firepower of €780bn in guarantees (€726bn of which were effective and backed by the shareholder member states) and a lending capacity of €440bn. It was activated for Ireland, Portugal, and Greece.[19] For all its meddling, the Commission's increased responsibility in the two mechanisms should not be overestimated, since it is the Council that has to approve the terms laid out for assistance, as they require implementing powers (Whereas (6) of Regulation 407/2010/EU, see also Bauer & Becker, 2014, p. 216).

Finally, the ESM. Like the other two, it raises capital to provide assistance to member states in financial difficulty (albeit limited to the euro area). Like them, too, it has an intergovernmental treaty basis. Unlike

[17] A Memorandum of Understanding was signed between the Commission, the Government of Greece, and the Bank of Greece in August 2015. The 32-page document details a series of reforms that the beneficiary parties had to undertake to safeguard the country's financial stability, under the supervision of the Commission and the ECB. The document can be found at `http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/pdf/01_mou_20150811_en.pdf`. This kind of agreement is very reminiscent of the International Monetary Fund's (IMF) Structural Adjustment Programmes (SAPs). The SAPs contain conditionality clauses attached to the loans that usually reflect the will of the IMF and the World Bank, the institutions administering them.

[18] More information on this can be found on the Commission website, at `http://ec.europa.eu/economy_finance/eu_borrower/efsm/index_en.htm`.

[19] More information can be found on the official website, available at `http://www.efsf.europa.eu/attachments/20111019_efsf_framework_agreement_en.pdf`.

the other two, instead, it is a permanent international institution. This last point is important for reasons that will be clarified further on. A first agreement for the establishment of the ESM was reached during the European Council of 16-17 December 2010. Here, the Heads of State and Government were aligned on the decision to amend the Treaty "in order for a permanent mechanism to be established by the Member States of the euro area to safeguard the financial stability of the euro area as whole" (Whereas (1))(European Council, 2010a), which meant that Article 122(2) TFEU on which the EFSF and EFSM were based would no longer be needed for such purposes. The amendment was done through a non-legislative procedure (a European Council decision), based on Article 48(6) TEU, which allowed for a simplified revision procedure. As per this article, the Commission, the ECB, and the Parliament were notified and their opinion was taken into account; moreover, it is clearly stated that any amendment introduced under this procedure may not "increase the competences conferred on the Union in the Treaties." Therefore, the following paragraph was added to Article 136 TFEU:

> "*3. The Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality*" (European Council, 2011, Article 1).

Thus, a new institution was born that raised capital to provide assistance to euro area member states, with a subscribed capital provided by the member states of €700bn and an effective lending capacity of €500bn, to be operational since October 2012.[20] To do so, the ESM was given four instruments, moulded upon those of the EFSF: (i) it could provide loans to euro area member states in financial difficulty; (ii) it could intervene in debt primary and secondary market; (iii) it could act on the basis of a precautionary programme; and (iv) it could provide loans to governments for the purpose of recapitalisation of financial institutions.[21] Each is linked, like the other mechanisms, to a Memorandum of Understanding detailing the conditions the requesting member states negotiate with the Commission for financial support and monitoring. The ESM, however, is not strictly a tool of financial assistance, but it has a fiscal backdrop: it is meant to provide a minimal risk pool necessary for keeping fiscal policy-making national in a supranational monetary union; the aim, therefore, is to assist fiscal self-help, and not centralisation (Genschel & Jachtenfuchs, 2015a). It does so by employing the expertise of supranational institutions, in particular the Commission, who is entrusted with assessing the situation concerning the risk to the financial stability and sustainability of the concerned member state (Bauer & Becker, 2014, p. 217 and European Commission, 2012b, Article 13). Articles 4-7 of the Treaty establishing the ESM, instead,

[20] Part of this capital is gathered by collecting fines and interests in the context of the EDP, as mentioned in the previous section (Franchino & Mariotto, 2015).

[21] See more on this on `http://ec.europa.eu/economy_finance/assistance_eu_ms/intergovernmental_support/index_en.htm`. Some critiques have been moved, both on the economic and political side of the ESM, especially for what concerns the capacity of the ESM to deal with larger countries, and as regards the tendency of the member states to refuse assistance, unless in dire straits (see more on this in Nicoli, 2013, especially p. 2).

delineate its structure and governing bodies, as befit a permanent institution. In short, the ESM is made up of a Board of Governors consisting of the Ministers of Finance of the euro area member states (voting members), together with the European commissioner responsible for DG ECFIN and the President of the ECB (observers); a Board of Directors, whose members are appointed by the Governor to whom they respond, which will carry out specific tasks as delegated by the Board of Governors; and a Managing Director, appointed by the Board of Governors, with a term of five years, renewable once, and who chairs the meetings of the Board of Directors. What is important in the permanence of the ESM is that, by creating a *de novo* permanent institution, political leaders conceded that the notion of a costless crisis (from a political standpoint) had been illusory (Hennessy, 2014, p. 161). In fact, not only did the ESM (together with the panoply of new bodies mentioned at the beginning of this section) complicate European economic governance; it also represents the impossibility to take a soft law approach in matters of stabilisation, whether financial or fiscal (as the SGP initially set out to do). The following sections, dealing with the Fiscal Compact and the Two-Pack, will corroborate this point.

3.3.2 The Fiscal Compact

The framework for economic governance established in the Treaty of Maastricht was based on a rejection of overly strict discipline (as was seen in the laxity of the first Stability Pact), as well as a refusal of the member states to allow too much power to supranational institutions, embodied in the three compromises laid out at the beginning of this chapter (Dehousse, 2012). The necessity to face the market pressures that had come with the crisis partially reversed this approach. This can be seen in some of the measures adopted since 2010: the European Semester streamlined economic policy-making under a single timeline, and the Six-Pack tightened surveillance and bolstered the Commission's position as regards implementation monitoring. The Treaty on Stability, Coordination, and Governance (TSCG or Fiscal Compact), signed on 2 March 2012, continues this latter trend. Indeed, the new treaty aims at correcting the shortcomings and structural weaknesses that Maastricht had brought about: it reduces the discretion of national governments as regards budget-making; it empowers the Commission through its surveillance tasks; and it gives even the European Court of Justice (ECJ), until now mostly excluded from the process of fiscal coordination and integration, more powers of control (Dehousse, 2012). Moreover, like the ESM, the TSCG was signed as an intergovernmental treaty, outside the scope of EU Law. According to S. Fabbrini (2015, pp. 54-5) this was done because the UK in particular was wary of fiscal regulations that would prove too restrictive and that could potentially damage the London financial district.[22] Besides the justifications behind the choice to sign an intergovernmental treaty, it is important to note why a possible alternative that would have used the procedure of enhanced cooperation (as per Article 20 TEU) would have proved most likely unfeasible, even though some scholars saw it as far more preferable (in particular, see Azoulai et al., 2012, p. 3). Enhanced cooperation means that a group of

[22] To be sure, Britain in the end pulled out, but the intergovernmental solution was still appreciated by some governments that mistrusted the supranational features of the Lisbon Treaty, in particular France (again, see S. Fabbrini, 2015, p. 54).

member states is allowed to deepen integration in those policy fields in which the EU does not have exclusive competence or in the field of Common Foreign and Security Policy (Article 329(1) TFEU). The request is to be submitted to the Commission, which in turn, may or may not, if it deems so, submit a proposal for enhanced cooperation to the Council; this latter then, unanimously grants authorisation to proceed upon informing the Parliament (Article 329(2)). In short, enhanced cooperation entails, on the one hand, involvement of many institutions, and on the other hand, low leverage at the disposal of the member states. The latter implication in particular, is not unlikely, as S. Fabbrini (2015, p. 54) suggests, to have played a role in the decision not to proceed with enhanced cooperation, and favour an intergovernmental treaty outside Union law, instead. For instance, German Chancellor Merkel saw in enhanced cooperation a curtailed capacity to show leadership in the EU, which would and could have translated in weaker domestic support, also given the controversies surrounding the signature of the Compact and its economic implications.[23] What is, then, the Fiscal Compact about, and how does it advance fiscal integration in the EU?

The main goal of the Fiscal Compact is to have in place rules and implementing procedures that are more precise and strict than those contained in the SGP (Emerson & Giovannini, 2014, p. 49), since there still was a "need for governments to maintain sound and sustainable public finances and to prevent a general government deficit [from] becoming excessive" (European Commission, 2012c, in the Preamble). In other words, the goal reflects the widespread sentiment that a single supranational currency (coupled with no-bailout clauses, such as those present in Article 125 TFEU, see Hallerberg, 2011) requires tighter fiscal constraints in the euro area (F. Fabbrini, 2013, p. 2). The Fiscal Compact, in fact, breaks with the relative "laxity" of the SGP, which allowed government deficits up to 3 percent, and requires that "the budgetary position of the general government of the Contracting Parties shall be balanced or in surplus" (Article 3(1a), ofter referred to as "the golden rule"). Structural deficits (that is, "the annual cyclically-adjusted balance net of one-off and temporary measures," following the definition laid out in Article 3(3a)) are allowed so long as they do not go beyond a mere 0.5 percent of the state's GDP,[24] as per Article 3(1b). This is important because "[p]rogress towards, and respect of, the medium-term objective shall be evaluated on the basis of an overall assessment with the structural balance as a reference," which entails that the countries subjected to the Fiscal Compact need to be all the more careful when coordinating with other guidelines, such as the Commission's Annual Growth Survey and Country-Specific Recommendations.

[23] In this regard, economics Nobel laureates Joseph E. Stiglitz and Paul Krugman have voiced strong dissensus for what concerns the legal framework of the TSCG, its political implications, and its capacity to counter the crisis. See Krugman 's *Europe's Economic Suicide* on the New York Times (`http://www.nytimes.com/2012/04/16/opinion/krugman-europes-economic-suicide.html?_r=0`) and Stiglitz's interview with the German newspaper Handelsblatt (`http://finanza.repubblica.it/News_Dettaglio.aspx?code=633&dt=2013-01-03&src=TLB`, here reported by an Italian press agency).

[24] Three remarks regarding this value. Firstly, the value is more flexible than it first meets the eye, since structural deficits can be as high as 1 percent, but only so long as the state's debt-to-GDP ratio is well below the 60 percent threshold, as per Article 3(1d) of the TSCG – which is seldom the case in the EU. Secondly, according to Article 3(1c), some flexibility is also granted with regards to "exceptional circumstances", defined as unusual events outside of the states' control. Finally, some countries, namely Germany, have even tighter constraints: Article 115(2) of the Basic Law (Germany's constitution) states that "[r]evenues and expenditures shall in principle be balanced without revenue from credits...[and] this principle shall be satisfied when revenue obtained by the borrowing of funds does not exceed 0.35 percent in relation to the nominal [GDP]" (F. Fabbrini, 2013, p. 11).

This aim guaranteeing that government budgets be in balance or surplus is to be achieved through the enactment of laws at the national level (S. Fabbrini, 2015, p. 55). Article 3(2), in fact, requires the contracting parties to enact provisions "of binding force and permanent character, preferably constitutional." That is to say, it asks of states to enact the "golden rule" at a level that is hierarchically superior to ordinary legislative parliamentary acts and that can work as a benchmark "for the constitutional review of budgetary laws" (F. Fabbrini, 2013, p. 7). Not all the contracting states have implemented the rule in the same way, but all of them have placed it hierarchically above ordinary law. For instance, in Italy a Constitutional Revision Act was signed on 20 April 2012 to modify Article 81 of the Italian Constitution (which concerns government budget); in France, instead, a *loi organique*, a legislative act hierarchically interposed between the Constitution and ordinary legislation, and aimed at specifying the organisation of public powers, was adopted the following summer (for a review of the implementation of the "golden rule" in some European states, see F. Fabbrini, 2013, part II). Therefore, unlike previous measures such as the SGP and the Six-Pack, which were mainly concerned with strengthening fiscal coordination at the European level, the Fiscal Compact sets a new tally in the degree of interference in a core state power by European institutions. In particular, it was the Commission and the ECJ that gained the most. According to Article 7, in fact, the member states of the euro area *commit* to supporting the proposals of recommendations of the Commission to activate an Excessive Deficit Procedure, and only a qualified majority of the states can reject them. This means that the reversed qualified majority voting from the Six-Pack is extended, with the Fiscal Compact, to all stages of EDP (Bauer & Becker, 2014, pp. 221-2). This is also oddly in contrast to Article 126(6) TFEU, according to which it is up to the Council to decide over the existence of an excessive deficit, and that no intergovernmental treaty can override. Although the governments of the Contracting Parties acquiesced to this, it does not eliminate the legal uncertainty it creates (Dehousse, 2012). The "golden rule", therefore, further centralises at the EU level core policy-making functions in the fiscal domain, since it provides both *ex ante* and *ex post* powers to the Commission: the former by enshrining the rule in a peculiar position in the legal hierarchy of the Contracting Parties, and the latter by allowing semi-automatic sanctions against excessive deficits (F. Fabbrini, 2013, p. 27). Article 8, by contrast, refers to the empowerment of the ECJ. Any Contracting Party that fails to comply with Article 3(2), faces disciplinary action, as it can be brought before the ECJ – whose decisions shall be binding – by any other Contracting Party (Article 8(1)). The system of mutual surveillance created with the SGP is even extended, as the Contracting Party who failed to comply to the decision of the Court can be brought again before it (Article 8(2)). While the legal basis for this adjudication does exist in Article 273 TFEU, it is important to note that the ECJ is given competence only insofar as compliance with the "golden rule" is concerned (Dehousse, 2012, p. 3). This means that the ambiguity of the Fiscal Compact is perpetuated by the unwillingness of the member states to go the whole nine yards and accept overly strict supranational checks (Dehousse, 2012, p. 4): on the one hand it imposes strict terms that strongly enhance the interfering powers of supranational institutions; but on the other hand the member states would still sooner rely on mutual checks, probably because of their ingrained "you today, me tomorrow" mentality.

The reluctance over strict supranational checks is also expressed by the marginal role that the other supranational political institution, the European Parliament, is given in the architecture of the Fiscal Compact. Throughout the TSCG, the Parliament is mentioned in just three instances: once in Article 13, regarding the promotion of conferences between the committees of the European Parliament and those of the National Parliaments to discuss budgetary policies; and two other times with regard to another innovation: the Euro Summit, an informal meeting between the Heads of States and Government of the member states of the euro area who are also Contracting Parties[25] (Article 12(1)) to take place twice a year (Article 12(2)). Here, the President of the Parliament is invited to be heard, while the President of the Euro Summit shall report to the Parliament (Article 12(5)). It is clear that in none of the three instances does the Parliament play a significant role in decision-making regarding coordination of national fiscal policies, thus weakening the legitimacy of the transfer or political authority at the EU level (F. Fabbrini, 2013, p. 27). The exclusion of the Parliament, however, does not entail that the coercive powers of the Fiscal Compact are much diminished. The Contracting Parties, indeed, need to sign and ratify the TSCG if they are to be eligible for financial assistance under the ESM (Hallerberg, 2013, p. 99). While this is a strong incentive to join for those members states that did rely on the EFSF/ESM, such as Greece or Ireland, it did not deter others, namely Britain and the Czech Republic, from refusing to be part of the treaty. Normally, an international treaty is valid if all the contracting parties unanimously agree on the rules they draw. Therefore, while it may not matter much whether all the (at the time) 27 member states of the Union joined, Article 14(2) completely deviates from the standard norms and foresees the enter into force of the Treaty provided that "twelve Contracting Parties whose currency is the euro have deposited their instrument of ratification," thus by-passing the necessity for unanimity typical of an intergovernmental treaty (S. Fabbrini, 2015, p. 56).

In sum, on the one hand the Fiscal Compact brought about a significant degree of fiscal interference and centralisation at the European level (F. Fabbrini, 2013, p. 35); on the other, it continued to rely on limited supranational checks. Moreover, the member states acquiesced to legal uncertainties and contradictions (Dehousse, 2012), while at the same time making use of rather unorthodox exit ways to ensure its ratification. It is not surprising, therefore that it was one of the more debated innovations in European economic governance (see footnote 23). It is not surprising either that some scholars have defined it a "legal monster", "poorly drafted" and with a complicate relationship both with Union and national constitutional law (Azoulai et al., 2012, p. 3). While it is indeed true that the Fiscal Compact "adds another stone to the path of increasing centralisation in the EU constitutional framework" (F. Fabbrini, 2013, p. 27) and that it helps with "embracing a horizon of deeper integration" (Tocci & Faleg, 2014, p. 17), it is also true that all its inconsistencies and paradoxes risk to "undermine the [very] idea of the European Union." In other words, what picture of the EU is reflected by this text? (Azoulai et al., 2012). Leaving aside judgements of value, one answer is that, as Dehousse (2012) noted, the Fiscal Compact represents a strong desire to break with the past and centralise fiscal governance in the EU in a more assertive manner; at the same time, however, it also gives a picture of a EU that is still incapable of

[25] That is to say, all of them.

making a decisive leap towards a full-fledged fiscal federation. In all these contradictions, this was the path chosen and that the member states continued to take even after the Fiscal Compact.

3.3.3 The Two-Pack

A year after the Fiscal Compact was signed, the European leaders approved two new regulations, applicable to euro area member states only (thus based on Article 136 TFEU), and aimed at further strengthening the surveillance mechanisms in the Eurozone. Table 3.3 summarises the policy aims of the two regulations, which together make up the so-called Two-Pack. The first regulation, Regulation No. 473/2013/EU of 21 May 2013, as can be seen, introduces common provisions for monitoring and assessing draft budgetary plans. It tightens the SGP and it complements the European Semester by extending the timeline: in laying out the subject matter and the scope of the regulation, Article 1(1) specifies that the regulation "sets out provisions for enhanced monitoring of budgetary policies in the euro area and for ensuring that national budgets are consistent with the economic policy guidance issued in the context of the SGP and the European Semester for economic policy coordination." As such, following the Two-Pack, euro area member states are subject to a "reinforced European Semester" extended to a ten-month cycle: (i) the national governments must make their draft budgets public no later than 15 October each year (Article 3(2)), and the Commission may ask to revise or fix it before issuing an opinion (Article 6(2)); (ii) the Commission must adopt an opinion on the draft budgets at the latest by 30 November (Article 7(1)); and (iii) the euro area member states must adopt (or fix) their budget for the following year by 31 December (Article 3(3)) (S. Fabbrini, 2015, p. 61). In spite of these constraints, of course the national parliaments remain fully sovereign in their decisions to vote the budget law. The same regulation specifies in Article 10 how monitoring for member states under the EDP is supposed to be rendered more effective. Following Articles 126(7) TFEU on the decision by the Council regarding the existence of an excessive deficit and 126(9) TFEU on the failure by the part of the member state to comply with deficit reduction, Regulation No. 473/2013/EU states that: the member state is to report regularly to the Commission and the Economic and Financial Committee (Article 10(3)) and that this report can vary in its frequency: every six months if the member state is subject to a Council recommendation as per Article 126(7) TFEU (Article 10(4)), and every three months if it has failed to comply (Article 10(5)). This graduated monitoring and regular reporting allow the Union to detect in a timely manner the possibility for a member state not to correct its excessive deficit by the deadline set by the Council. If this is indeed the case, the Commission may invite the member state to take further or different action.[26] Finally, in order to achieve a credible monitoring, Article 5(1) proposes that member states have in place independent bodies for monitoring compliance. These are defined as "bodies that are structurally independent or...endowed with functional autonomy *vis-à-vis* the budgetary authorities of the member state, and which are underpinned by national legal provisions ensuring a high degree of functional autonomy and accountability" (Article 2(1a)). This description is consistent with that of a

[26] See more on the role of the EDP under the Two-Pack on http://ec.europa.eu/economy_finance/economic_governance/sgp/corrective_arm/index_en.htm.

national fiscal council, and will be treated in the last section of this chapter.

In sum, this first regulation entails further changes to national budget calendars and suggests a process of Europeanisation (here understood as the creation of authoritative European rules) of national fiscal policy (Hodson, 2015, p. 188). Nonetheless, in his assessment, Dermot Hodson employs a terminology that is reminiscent of that Heipertz and Verdun (2004) used with regard of the SGP, which they nicknamed "the dog that would not bite", and calls out this first regulation for having a bark that "looks worse than its bite" (Hodson, 2015, p. 188). According to him, the regulation neither specifies sanctions for the member states that fail to comply with Article 10, nor does it challenge the fact that member states have first and final say over national budgets, since they are sovereign in the voting of the draft and may decide not to comply. What Hodson seems to miss, however, is that Regulation No. 473/2011/EU does not work as a standalone, but is entrenched in the system of fiscal and economic governance of the EU, and that the Union enjoys a very high degree of interference, albeit admittedly, less so in coercion. As such, the "liberty" of the member states is only apparent, since sanctions need not be purely material or of pecuniary nature to work, and there exists a strong level of internal as well as peer pressure that pushes the noncompliant member states to avoid going further astray (for an analysis of institutional constraints applied to a theory of action, see Crawford & Ostrom, 1995).

Legal Acts	Policy Aims
Regulation No. 473/2013: it introduces common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficits of member states in the euro area. It completes the European Semester with a common budgetary timeline	• Common budgetary timeline and *ex ante* examination of drafts budgets by the Commission. • Crisis prevention mechanism. • Approved through ordinary legislative procedure
Regulation No. 472/2013: it strengthens economic and budgetary surveillance of member states in the euro area experiencing or threatened with serious difficulties with respect to their financial stability A member state subject to enhanced surveillance shall adopt measures aimed at addressing the source or potential sources of difficulties	• Enhanced surveillance. • Crisis management mechanism. • Approved through ordinary legislative procedure.

Source: *S. Fabbrini (2015).*

Table 3.3: The Two-Pack

The second regulation, Regulation No. 472/2013/EU of 21 May 2013, instead, is concerned with strengthening the economic and budgetary surveillance of those euro area member states experiencing or threatened with serious difficulties with respect to their financial stability or the sustainability of their public finances (Article 1(1a)), or those requesting or receiving financial assistance from the ESM or another international financial institution, such as the IMF (Article 1(1b)). The choice to be put under enhanced surveillance falls on the Commission (Article 2) and the monitoring is carried out in liaison with the ECB and other relevant financial institutions (Article 3(1)).[27] Articles 3(3)-3(9) lay out the procedure of enhanced surveillance. In short, it involves: (i) an obligation of the member states to adopt measures to address the source(s) of instability; (ii) regular in-field review missions by the Commission and the request of more detailed data, if need be; and (iii) quarterly reporting of the Commission to the Eurogroup Working Group (as per Articles 5 and 6).[28] Article 7, moreover, describes the procedure for deciding and monitoring a macroeconomic adjustment programme to address specific risks emanating from the member state under duress for the financial stability of the euro area, and to be approved by the finance ministers of the Eurozone member states. Finally, the regulation also foresees a post-programme surveillance until 75 percent of the debt is repaid (Article 14). In sum, the second regulation grants more powers to the Commission, who is now allowed to go beyond the monitoring requirements of the SGP for those member states experiencing or threatened with serious financial instability or who have unsustainable public finances (Hodson, 2015, p. 188).

There are contrasting interpretations of these two regulations. Intergovernmental scholars recognise that the member states have tied their hands by allowing more intensive and intrusive forms of cooperation and surveillance, but they still "retain a tight grip over the formulation and implementation of fiscal policies and structural reforms" (Hodson, 2015, p. 188). For their part, supranational scholars tend to focus more on the supranational constraints to which both formulation and implementation are subject. While it is true that both of them are still national prerogatives, the Commission's bark could prove more dangerous than the first impression might give. Indeed, economic and fiscal policy coordination is significantly tightened and straitjacketed due to the enhanced monitoring role of the Commission (Dehousse, 2016, p. 27). Moreover, as Bauer and Becker (2014, p. 221) note, the Commission cannot infringe national sovereignty on budgetary issues, but the enhanced surveillance does add to the toolbox for making recommendations, since its early opinions can later on turn into decisions for placing a member state under EDP – which, it should be reminded from the Fiscal Compact, the member states *commit* to observe, unless they overturn it by qualified majority. Whether or not the Two-Pack, together with the Fiscal Compact increased the probability of deeper fiscal integration, and whether or not it has helped to shift the institutional equilibria in favour of the Commission ultimately rests on the role this supranational institution is attributed. This issue will be subject to the analysis of the next section, evaluating the third temporality cluster.

[27] However, it should be noted that the closer monitoring of the fiscal situation as laid down in Article 10 of Regulation No. 473/2013/EU applies to a member state subject to enhanced surveillance irrespective of the existence of an excessive deficit in the state (Article 3(2)).

[28] The Eurogroup Working Group is a preparatory body composed of representatives of the euro area member states of the Economic and Financial Committee, the European Commission and the European Central Bank that provides assistance to the Eurogroup for later discussion. See more on this on `http://www.consilium.europa.eu/en/council-eu/eurogroup/eurogroup-working-group/`. It should also be noted that as of 2015, no member state has been placed under enhanced surveillance.

3.3.4 An evaluation of the third temporality cluster

The ever more tightening grips over fiscal rules, embodied by the likes of the Fiscal Compact and the Two-Pack, show that there is a clear rationale behind the decision-makers' choice of increasingly strict rule-based governance: from the very beginning of the crisis, it was the member states that failed to properly follow the rules of the SGP (Schmidt, 2015b). As a consequence, Europe had to be "governed by the rules" and "ruled by the numbers" to use Vivien Schmidt's expression. Indeed, if the SGP proved too lax, then there needed to be rules that member states could credibly commit to; as a corollary, more strictness entailed more exactness – that is, less room for discretion – and the operationalisation of the debt criterion in 2011 served this purpose. More particularly, the years going from 2011 to 2013, and which I dubbed "the years of the intergovernmental treaties" represent both a continuity with the governance by the rules, and a discontinuity with the methods of policy-making process. They are in continuity because they continue to enhance the interference and surveillance powers of the Union; but they also represent a discontinuity because they reach these objectives by a different route, that of intergovernmental treaty-making. How does this affect the evaluation of this cluster?

As regards the type of institutional change that has taken place according to Streeck and Thelen's (2005) framework, it could be argued that there has been a *displacement* of the EFSF/EFSM in favour of the ESM, but the temporary character of the former two may diminish the importance of the change; it would be more correct to say that the EFSF/EFSM have been depleted, and that they have come to an *exhaustion* of their functions as of 2013. By the same token, no effective institutional *drift* has taken place: no institution dealing with fiscal coordination at the European level has been deserted – although a minor case in point could be said for the Parliament. On the contrary, there have been both a *layering* of new elements and a *conversion* (or, again, better, redirection) of some institutional functions. As for the former, the Fiscal Compact and the Two-Pack have granted powers to the Commission, the ECB, and even the ECJ. The first two, together with the IMF, are to conduct stricter budgetary surveillance, and are to coordinate with the Euro Summit, while the ECJ is given adjudication as regards the implementation of the "golden rule", with the possibility of imposing fines where the member state(s) are found not to be compliant. The ECB, for its part, by partaking in the so-called "Troika" with the Commission and the IMF, deviates from its mandate of maintaining price stability in the euro area as laid out in Article 127(1) TFEU. Incidentally, this conversion of the ECB has taken place not only in the fiscal realm, but also and primarily in the realm of monetary policy. In 2012, then new ECB President Mario Draghi pledged to do "whatever it takes" to save the euro: this has led to unconventional measures, such as quantitative easing (roughly, an increase of monetary supply to rise inflation) and the purchase of bonds on secondary markets (the so-called outright monetary transactions, OMT) (European Central Bank, 2012). According to Schelkle (2013, p. 120), this represents a case of fiscal integration by default, since the ECB "cannot refuse to respond to pressures for playing a quasi-fiscal role when financial stability...is at stake." Indeed, even though the ECB has not formally deviated from its mandate, its actions have represented a novelty in the maintenance of price stability, and some actors, namely those adhering to the ordo-liberal principles of conducting economic policy-making, have (unsuccessfully) challenged the ECB's choice (Bulmer & Paterson, 2013; Dehousse, 2016). Finally, another institution, although informal, has experienced a slight redirection of its functions: the Eurogroup. Originally intended as a forum for the Finance Ministers of the euro area to discuss matters relating to their shared responsibilities related to the euro, thanks to the Two-Pack it has now the possibility to discuss over Commission reports on enhanced surveillance.

By using the grading scale developed by Börzel (2005), the expansion of competences given to the Commission, ECB, and ECJ in Budgetary Surveillance and Coercion represents an interesting paradox. On the one hand, there has been an increase in the breadth of integration (expansion by layering and redirection). The ECJ, as was mentioned, now has jurisdiction on the correct implementation of and compliance with the "golden rule"; the Commission, for its part, was responsible with handling the resources of the EFSF on behalf of the Union; the ECB, finally, now works in liaison with the Commission as regards enhanced surveillance. The Parliament, instead, has been mostly sidelined: to use, again, an expression employed by Vivien Schmidt (2015b), it had "no size at all" in crisis management during this period. While it is true that in some instances – namely in the Two-Pack – it did have a say, it largely gave the Commission the powers to apply the rules, waiving any possibility of oversight in favour of the Commission itself (Schmidt, 2015b). On the same note, the Fiscal Compact granted the Parliament mere consultatory powers. This means that a bit more than half of the competences are in the hands of EU institutions, with national parliaments left with the drafting, voting, and implementation of national budgets – although even here there exist significant external constraints (the Commission can ask to revise the budget) and pressures (the voting can be influenced by a willingness to "fit in" as well as fear of being an outcast within the Union, if not direct pressures coming from financial sanctions). As such, an evaluation of 3.5 (between "shared competences medium" and "shared competences strong") for what concerns the breadth of integration may seem fair: more than half of the competences in Budgetary Surveillance and Coercion are carried out by the EU, but they are far from being "most of the competences" as being directed by the Union, which would give it an evaluation of 4. On the other hand, the depth of integration is far more difficult to assess. It is indeed true that the Two-Pack was approved through the ordinary legislative procedure, but the ESM and the Fiscal Compact are outliers in this, being intergovernmental treaties outside the scope of Union Law. Therefore, it could be said that no real advancement has been had for what regards voting methods and procedures in Budgetary Surveillance and Coercion, and the depth of integration stayed at 2.5, with a mixture of joint decision-making (the Two-Pack) and intergovernmental cooperation (the Fiscal Compact and the ESM).

Finally, the expansion of tasks of the EU in Budgetary Surveillance and Coercion by means of layering or redirection can be better conceptualised by making use of the three dimensions employed by De la Porte and Heins (2014), interference, surveillance, and coercion. Interference, like in the second temporality cluster, remains "high": the medium-term objectives strongly impinge on and constrain the fundamental principles of budgetary policy in nation states, but they do not change them. National parliaments are sovereign in voting the draft budgetary proposals. Moreover, interference, while heightened by the "golden rule", once again does not require far-reaching structural reforms that change the foregoing principles. Surveillance, on the contrary, goes from "high" to "very high". On the one hand, the Two-Pack makes it so that *ex ante* and *ex post* reviews are not just "regular", but they are "frequent": in some cases, namely when a member state under EDP fails to comply, they can be every three months (Article 10(5) or Regulation No. 473/2013/EU). Moreover, Article 5(1) of the same regulation imposes the existence of independent fiscal councils that should have the power to oversee the budgetary process in the member states, with the aim of monitoring compliance with the European rules. This means that member states are indeed accountable to "their own policies" that must meet European targets, as De la Porte and Heins (2014) mention. Finally, coercion is variable and oscillates between "high" and "very high" depending on the financial and budgetary situation of the member states. Coercion, it should be reminded, refers to the "type of measures EU actors have at their disposal to ensure corrective action in the case of non-compliance or deviation from EU policy" (De la Porte & Heins, 2014). In the case of the Two-Pack, coercion stays "high" and actually could go as low as "medium" since, as Hodson (2015) notes, Regulation No. 473/2013/EU fails to mention any fines that the member state(s) in breach of Article 10 may incur into. On the other hand, the Fiscal Compact made it so that financial assistance under the ESM be conditional to the previous ratification of the Compact itself, and thus its coercive power is "very high" and relies on conditionality. Of course, in the sole case of Budgetary Surveillance and Coercion, this value cannot be "very high" as no conditionality or treaty-based corrective action exists for non-compliance or deviation from EU fiscal policy: the Commission issues recommendations with semi-automatic corrective functions, but they can still be overturned. At the same time, however, the Fiscal Compact managed to make of financial assistance under the ESM a *conditional* prerequisite, thus underlining the interconnectedness of fiscal and financial measures. Therefore, budgetary coercion is "very high" only insofar as (i) it is taken as a prerequisite rather than a consequence; and (ii) it is not context-isolated, but it is instead linked to the bigger picture of European economic regulation and stabilisation.

In sum, the years going from 2011 to 2013 are not only the years of the intergovernmental treaties, but also the years of paradoxes. There is both a trend and a discrepancy with the former temporality cluster: there is a trend in tightening fiscal surveillance, but there is a discrepancy in the policy-making process. However, aside from the Two-Pack, during these years, European leaders have preferred to resort to intergovernmental treaties that could increase their decision-making authority (S. Fabbrini, 2015, pp. 61-2). But the paradoxes do not end here: the very same European leaders have, at the same time, conferred new responsibility to supranational actors (the ECB and the ECJ in particular) without a clear demand on their part (Dehousse, 2015), and contributed to institutional fragmentation by setting up *de novo* bodies (in financial stability more so than in fiscal regulation) (Genschel & Jachtenfuchs, 2015a). These *de novo* bodies are more likely to be set up in relation to the material capacities entrusted to it, which explains why they are more common in financial stability.[29] Their proliferation, moreover, has had two

[29] Member states are less likely to delegate a core power like budgetary control than a power, monetary policy, that is already in the hands of a supranational institution.

consequences: on the one hand it has increased competition with the "traditional" European institutions: the Commission, who acted on the behalf of the Union in the handling of loans under the EFSF, now has far less powers with the existence of the ESM; on the other hand, it has fostered overlapping and variable geometries of opt outs (Genschel & Jachtenfuchs, 2015a, pp. 5-6): suffice it to think of the Fiscal Compact, that applies to 25 out of 28 member states, or the ESM, working for euro area member states only, but that can "force" opt-outs if a member states fails to ratify the Fiscal Compact.

All the three measures described in this section, the ESM, the Fiscal Compact, and the Two-Pack, apply primarily to euro area member states, who were deemed more vulnerable to instabilities. Indeed, as mentioned at the beginning of this chapter, the paths of economic and monetary integration on the one side, and of fiscal integration on the other are intertwined. One could go as far as suggesting that there exists some sort of pecking order of importance within the EU, with the euro area being given the precedence over non-euro member states. As such, it would be very difficult to assess a clear and smooth path of fiscal integration. There is far more supply of integration than demand (from the institutions' side) during these years, which makes the empowerment of the Commission, ECB, and ECJ all the more surprising. There is very limited capacity building for exercising a core state power, as the EU continues to draw on national capacities (Genschel & Jachtenfuchs, 2013c, p. 8). Therefore, integration is deepened more as regards the ever stricter policy recommendations by the Commission, and less so for what concerns a formal transfer of policy-making competences. As the analysis of this cluster has shown, in fact, there has been a layering of competences in surveillance, rather than a transfer thereof. Member states are now subject to a triple surveillance: by the fiscal independent bodies, by the other member states (who may bring noncompliant parties before the ECJ for what regards the implementation of and compliance with the "golden rule"), and by the Commission (in some cases in liaison with the ECB and IMF). In conclusion, therefore, while the content of the measures adopted for fiscal coordination did raise the probability of deepening fiscal integration (stricter surveillance and coercion prescriptions, and significant layering of competences), the process of their adoption (mostly by intergovernmental treaties) suggests that a further transfer of policy-making competences, and thus an increased relative power for the supranational EU institutions, has failed to take place. This does not mean that the third causal-process observation (fiscal integration as raising the probability of changes in relative institutional power) is falsified, but merely that it does not follow a supranational path. Again, to paraphrase the title of a paper by Genschel and Jachtenfuchs (2015a), it is a case of "more integration, less federation," or integration without supranationalism. This is all the more interesting when one takes into account the December 2012 – that is, between the adoption of the Fiscal Compact and the Two-Pack – "Four Presidents' Report". The document built on the conclusions of the October 2012 European Council and promoted a three-stage process for genuine Economic and Monetary Union whose last step (post-2014) foresaw the establishment of a "well-defined and limited fiscal capacity to improve the absorption of country-specific economic shocks, through an insurance system set up at the central level" (Van Rompuy, Barroso, Juncker & Draghi, 2012, p. 5). As such there was a need to move "towards an integrated budgetary framework ensuring both sound national budgetary policies and greater resilience to economic shocks" (Van Rompuy et al., 2012, p. 8), thus paving the way for the exploration of a euro area fiscal capacity. To this day, such contradictions are yet to be solved, and may impinge heavily on the ability to understand a clear process of integration.

3.4 Last-ditch attempts at integration

3.4.1 A link with the other temporality clusters

The integration paradox whereby states accept more integration but resist further supranationalism (Bickerton et al., 2015, p. 705; Puetter, 2012, p. 168) becomes ever more relevant in light of the initiatives that were taken during the years making up this last temporality cluster. The name of this section reflects, rather than the desperation to achieve political union, the puzzling contrast between the shirking principals (the member states) and the newfound proactivity of the supranational institutions, in particular the Commission (Savage & Verdun, 2016). Indeed, the reforms undertaken since 2010 and analysed throughout this chapter had the aim to cover for the shortcomings created by EMU, which lacked the necessary institutions, procedures, and economic flexibility to match the market pressure during the crisis (Nicoli, 2015). For this reason, in November 2014, the Commission published a review of economic governance on the application of the Six-Pack and Two-Pack, Communication COM (2014) 905 final. Here, the key question to answer was the extent to which the new rules have been effective in achieving their objectives, and that to which they have contributed to progress "in ensuring closer coordination of economic policies and sustained convergence of economic performance of the Member States" (European Commission, 2014a, p. 3). While economic performance is of lesser importance in this work, the degree to which coordination has changed bears more relevance. To be sure, the Commission concedes that due to the short timespan during which these rules have been in force and due to the particular circumstances begotten by the crisis, an assessment of the effectiveness is limited, and untested under normal circumstances. Overall, according to the Commission, the seven regulations have been effective in strengthening budgetary surveillance and in helping member states consolidate their public finances during economic downswings, especially since the possibility for the Commission itself to issue autonomous recommendations was a "significant addition" to monitoring (European Commission, 2014a, p. 5). Therefore, on the one hand these rules have allowed a balance to be found between sustainability and cyclical stabilisation requirements with the due flexibility granted by escape clauses; on the other hand, they have ensured closer coordination of policies that should help foster smarter and more sustainable growth, as per the Europe 2020 agenda, therefore significantly strengthening the EU's governance framework over different policy areas (European Commission, 2014a, p. 10). Intergovernmental treaties such as the ESM and the Fiscal Compact are excluded from this review, but their rules nonetheless also resulted in the Commission initiating and implementing internal changes to accommodate the new procedures and to increase its policy capacity to achieve its goals as Guardian of the Treaties (Savage & Verdun, 2016, p. 102). In spite of all of this, a recent study has found that the member states continue to edit and tweak Commission recommendations as regards budgetary surveillance, thus further proving their unwillingness to delegate too much power to the supranational bodies (Baerg & Hallerberg, 2016).

But the supranational institutions, and in particular the Commission, were relentless in advocating ever more coordination between investment, structural reforms, and fiscal responsibility, which would grant them more supervisory powers (see for instance European Commission, 2015a). In some cases, like for the interpretative communication COM (2015) 12 final provisional, the aim was to provide additional guidance for the implementation of the SGP, as regards the margins of interpretation, so as to develop a more growth-friendly fiscal stance in the euro area (European Commission, 2015a). This position echoed the overt stance taken by ECB President Draghi in his speech at Jackson Hole on 22 August 2014. Like in 2012, when he pledged to do "whatever it takes" to save the euro, President Draghi once again took a very pro-integration stance, in line with the theoretical framework of this study. He said:

> "*[I]t may be useful to have a discussion on the overall fiscal stance of the euro area. Unlike in other major advanced economies, our fiscal stance is not based on a single budget voted for by a single parliament, but on the aggregation of eighteen [as of 1 January 2015, nineteen] national budgets and the EU budget. Stronger coordination among the different national fiscal stances should in principle allow us to achieve a more growth-friendly overall fiscal stance for the euro area*" (European Central Bank, 2014).

Nonetheless, the ECB and the Commission's integrationist proactivity should not be overstated. While it is true that the reforms redirected or expanded their mandate, their agency is tied by the powers that the member states choose to delegate to them. What is undeniable, however, is a renewed demand of more integration in economic governance, regardless of whether it would directly grant them more powers or not. It was clear to them that the deficiencies that the Treaties of Maastricht and Lisbon generated, entailed an internal market unable to provide full mobility of labour and services, which in turn resulted in a Union incapable of matching the strong market pressures of the crisis. The solution, to them, if not complete political union (which is still politically unrealistic), had to pass at least through one or more of three ways: a proper fiscal union, a full-fledged banking union, or a European Central Bank with a widened mandate, which most likely is meant as a pursuit for growth and employment, beside its typical inflationary targets (Nicoli, 2015). A unified fiscal stance, therefore, was a prerequisite to all of them: it was so for the fiscal union proper since it requires, by definition, fiscal integration; for the banking union, since it needs a common fiscal backdrop for their joint deposit guarantee; and for a widened mandate of the ECB, since it would entail that monetary policy would necessarily have redistributive effects, and therefore a fiscal backdrop[30] (Nicoli, 2015). In short, the goal was to move towards genuine EMU, and fiscal integration was part of this plan.

[30] For the role of the ECB in fiscal integration, see again Schelkle (2012; 2013).

3.4.2 Towards genuine Economic and Monetary Union?

The idea that the solution to the crisis that the European institutions (in particular those of supranational nature) foresaw had to pass through at least one between fiscal union, banking union, and a renewed ECB takes after the aforementioned 2012 Four Presidents' Report. This very idea is proposed again in the June 2015 institutional report, "Completing Europe's Economic and Monetary Union" sponsored by the President of the Commission, in collaboration with the Presidents of the ECB, Euro Summit, Eurogroup, and Parliament (Juncker, Tusk, Dijsselbloem, Draghi & Schulz, 2015) and which is subject of analysis of the following paragraphs. The report, also commonly known as the Five Presidents' Report, explicitly states that it builds on the 2012 blueprint set out by the Commission and the Four Presidents' Report (Juncker et al., 2015, p.2). In order to ensure the convergence of the member states of the euro area, it aims to set out four fronts, or four unions, to be created in parallel and in incremental steps, and all depending one on the other: first Economic Union to lay out the structural features, then Financial Union to guarantee the integrity of the currency, then Fiscal Union for stabilisation and sustainability of public budgets, and finally Political Union to be achieved through "genuine democratic accountability, legitimacy, and institutional strengthening" (Juncker et al., 2015, pp. 4-5). The report also makes clear that the path it sets out involves an inevitable sharing of sovereignty, which would require member states to increasingly make use of the Community method by accepting joint decision-making procedures for elements that have so far been national prerogatives, i.e. national budgets and economic policies. At the same time, it concedes that an incrementalist approach is necessary because some profound changes to the legal framework of the EU would be needed for the four unions to obtain. As such, and on the wave of the Four Presidents' Report, it lays out a three-step process. In the first stage ("deepening by doing"), which is being implemented at the moment of writing and which should last up until June 2017, the member states build on the existing instruments to make the best use of the Treaties, as communication COM (2015) 12 final provisional also set out to do; during the second stage, "concrete measures of a more far-reaching nature would be agreed to complete EMU's economic and institutional architecture" by means of benchmarks for convergence and by participation in a "shock absorption mechanism"; in the last stage, to be achieved no later than 2025, the euro area should become attractive enough to expand and allow other EU member states to join (Juncker et al., 2015, p. 5). Out of the four unions, the most relevant for this work is the fiscal one. The following paragraph will give a quick rundown of the rationale behind it and on the ways the European institutions are paving to achieve it.

The first step towards fiscal union is coordination of national fiscal policies, which are now streamlined under the European Semester. This is important because due to the high interconnectedness of the economies of the member states, runs on deficit in one country can easily create contagions by harming the financial stability of the Union. As such, responsible *national* fiscal policies should have a double objective: to guarantee that national public debts are sustainable, and ensure that fiscal automatic stabilisers can cushion country-specific economic shocks (Juncker et al., 2015, p. 14). Before achieving fiscal union, therefore, the first stage should be concerned with strengthening the current governance framework, which is what the SGP, the Fiscal Compact, and the Six- and Two-Packs have tried to do until now. Alongside these innovations, the Five Presidents' Report also proposes the creation of an advisory European Fiscal Board (EFB) to coordinate with the national fiscal councils for a better compliance with common fiscal rules. In the longer run, this setup should lead to the creation of a fiscal stabilisation function to better deal with shocks that cannot be managed at the national level alone (Juncker et al., 2015, p. 14). Such a mechanism, according to the Report, should follow four guiding principles: (i) it should not lead to permanent or unidirectional transfers between countries, which means that it should be flexible enough to adapt to changing circumstances; (ii) it should be tightly linked to compliance with the broader EU economic framework in order to avoid moral hazards and undermining sound fiscal policy-making; (iii) unlike the Fiscal Compact, it should be developed within the framework of Union law and governance, so as to ensure its consistency; and (iv) it should not be an instrument for crisis management (which is a function that the ESM already performs), but it should aim to improve overall economic resilience in EMU (Juncker et al., 2015, p. 15).

Overall, the optimistic assessment of the Five Presidents' Report paints a much better picture than the vibe of legal monstrosity the Fiscal Compact gave off (see Azoulai et al., 2012), mostly because, as was mentioned, the four unions are to be achieved within the legal framework of the EU. What is important to note, moreover, is that this Europeanisation by fiscal (and financial and economic) integration that the Report lays out does not merely represent an incremental change in EU competences; rather, as Nicoli (2015) notes, it could raise the likelihood of a paradigm shift in the very nature of the EU, since the accrued competences of the EU could become redistributive in nature, as per the Report's planning (from Stage 2 onwards). As such, on 21 October 2015, the Commission began the implementation of Stage 1 of the Five Presidents' Report. It adopted a package of reforms spanning four areas: (i) the external representation of the euro area; (ii) steps towards financial union; (iii) a revamped European Semester, with quicker country reports; and (iv) the improvement of the tools of economic governance, with the introduction of the likes of the EFB and national Competitiveness Boards (European Commission, 2015b). While all the four seem to point towards more integrationist stances, it is the third and the fourth areas that are most relevant to the scope of this work. The revamped European Semester aims to foster economic convergence and presents novelties such as a more sustained focus on the euro area, with discussions and recommendations about the euro area taking place first, ahead of country-specific discussions; a strengthened social dimension; and an increase in democratic ownership, with the member states governments, the national parliaments, the social partners, and the European Parliament playing a key role in the European Dialogue.[31] The system of National Competitiveness Boards is in charge of tracking performances and policies in the field of competitiveness (European Commission, 2015b) with the aim of reducing divergences in EMU. The member states are free to choose over their design, and the Commission will promote coordination within the system.[32] The following paragraphs, by contrast, will lay out more in depth the relationship between

[31] More on this can be read on the factsheet, available at `http://ec.europa.eu/priorities/sites/beta-political/files/factsheet-revamp-semester_en.pdf`.
[32] More information can be found on the factsheet, available at `http://ec.europa.eu/priorities/sites/beta-political/files/factsheet-ncbs_en.pdf`.

national fiscal council, the newborn EFB, and the function of fiscal stabilisation at the European level.

3.4.3 A focus on fiscal councils and the advisory European Fiscal Board

As was seen, the Five Presidents' Report foresees the creation of an advisory European Fiscal Board that, among other things, should coordinate with the national fiscal councils of the member states so as to better evaluate the implementation of the EU fiscal framework and provide fairer advice. Before venturing in a brief analysis of this innovation, a good question is, what are fiscal councils, and which purpose do they serve? According to Calmfors and Wren-Lewis (2011), they are basically fiscal watchdogs whose main purpose is to advise in order to avoid deficit bias – that is, the tendency of governments to allow deficit and public debt levels to increase.[33] There are two reasons behind their creation, the former being legal, and the latter being political-economic. As for the legal reasons, what the Five Presidents' Report proposes follows prior Union legislation that had already foreseen the creation of such independent fiscal bodies. A first mention was present in Article 6(1b) of Directive No. 2011/85/EU, which states that country-specific numerical fiscal rules promoting compliance with the TFEU are to contain elements such as "the effective and timely monitoring of compliance with the rules, based on reliable and independent analysis carried out by independent bodies or bodies endowed with functional autonomy *vis-à-vis* the fiscal authorities of the Member States." The Fiscal Compact, too, tangentially mentions a role for these independent fiscal bodies. As the reader might remember, Article 3 of the TSCG represents the so-called "golden rule" whereby the member states would include in the national legislation a balanced budget rule as a commitment to fiscal sustainability. As such, there was a need for monitoring institutions so as to bolster the member states' credibility in their effort to comply with the rule. The Commission, therefore, was tasked with the provision of common principles that, according to Article 3(2) of the Treaty, concern "the role and independence of the institutions responsible at the national level for monitoring compliance" with the rule. It was only with the 2013 Two-Pack, and in particular with Regulation No. 473/2011/EU that independent fiscal institutions for monitoring are explicitly required. According to the regulation, in fact, member states are to have in place independent bodies that produce or endorse national medium-term fiscal plans; moreover, they are to indicate whether those fiscal plans were produced or endorsed by independent fiscal bodies or not (European Parliament, 2016b). With regard to the numerical fiscal rules, Article 5 establishes that these independent bodies are tasked with monitoring the member states' compliance with these rules, and when appropriate, to provide public assessment concerning any (un)justified deviation from them. The obligation deriving from these rules helps explain not only their creation, but also the subsequent and spectacular spread – at least in the EU. As the IMF notes, their number has doubled between 2005 and 2013 (International Monetary Fund, 2013, p. 11), and the fact that not all the EU member states have already established a fiscal council can only further increase the tally.[34]

[33] This definition is taken from a glossary provided by the Irish fiscal council, which can be consulted at `http://www.fiscalcouncil.ie/wp-content/uploads/2012/09/Glossary4.pdf`.

[34] Two considerations are important, here. First of all, while the IMF talks about "fiscal councils," the EU uses the expression "independent fiscal bodies/institutions." Although they are not strictly or necessarily the same (a fiscal council

The political and economic rationale behind their creation and surge is a bit more complicated, and shows why their rise is not exclusive to the EU. Once again according to Calmfors and Wren-Lewis (2011, pp. 651-2), the recent explosion in government debt suggested that an approach to fiscal discipline purely based on rules, such as the SGP, was not sufficient. In some cases, such as Greece, the deficit ceiling had become some kind of moot suggestion; in other cases, the registered outcomes of austerity measures to respect the parameter did not leave any room for contingencies, leaving the profligate countries in a state of uncertainty – which certainly did not help their case: what if the situation worsened after the austerity measures were implemented? The measures left the countries no leeway to play with, and this was a dangerous situation to be in. As such, these fiscal predicament led to a quest to find new ways to ensure fiscal discipline, one of which was the establishment of independent fiscal institutions (Calmfors & Wren-Lewis, 2011, p. 652). Overall, a study commissioned by the European Union found two main reasons behind the rationale to create fiscal councils: the alleged ineffectiveness of fiscal rules on the one hand, and problems of time inconsistency on the other (European Commission, 2014b, p. 54). I say "alleged" because there exists a substantial body of evidence documenting a strong link between fiscal rules and fiscal performance (European Commission, 2014b, p. 55). Majone (1996b) echoes the argument made in 1977 by economics Nobel laureates, Finn Kydland and Ed Prescott (1977), according to whom policy discretion leads to time inconsistency, and explains the latter as occurring "when a policy which appears to be optimal at time t_0 no longer seems optimal at a later time t_n." As such, discretion leads to reneging on promises because there is no binding commitment making policy-makers stick to the original plan. The fact that the SGP, and as such fiscal rules, were based on soft law, allows for a reasonable leeway that member states could exploit, like in 2003. This argument holds all the more true for those countries that are not subjected to the SGP: in the absence of fiscal watchdogs, it is not unlikely that the governments could tinker with public finances and create a deficit bias. These two elements, therefore, rather than showing the inutility of fiscal rules, point towards a need to complement them with more supervision – which is why more often than not, scholars see fiscal councils as complementary to, rather than substitutes of, fiscal rules. This argument is also expressed by Calmfors and Wren-Lewis (2011, p. 656): when fiscal rules are something to strive for *ex ante*, but not to achieve *ex post*, any *ex post* assessment bereft of policy reaction weakens the incentives to achieve the *ex ante* targets. Therefore, the role of the fiscal councils is to provide an evaluation that could assess whether or not deviations from the *ex ante* targets are due to economic shocks, and thus are justified.

In order to do so, the independent fiscal institution should abide by three criteria: (i) it should enjoy a high degree of independence from the political system, so as to ensure its effectiveness; (ii) it should have

is a kind of independent fiscal institution), for the sake of simplicity I will mostly use the two terms interchangeably, a practice the Union also seems to adopt. Secondly, this explains why the number of independent fiscal institutions in the EU registered by the Commission (43 in 2013 and 47 in 2014) differs widely from that of fiscal council presents in the IMF dataset (29 in 2013). For the definition of fiscal council used by the IMF, see International Monetary Fund (2013, p. 8); for that used by the Commission, visit the following link: `http://ec.europa.eu/economy_finance/db_indicators/fiscal_governance/independent_institutions/index_en.htm`. The present webpage also contains a database of fiscal institutions in the EU, defining their remit, their tasks, the interaction with the government and the national parliament, their involvement in fiscal policy-making, whether or not they provide independent forecasts, whether they issue more normative statements or whether their recommendations are mostly advisory (usually the latter), their composition and legal status, and their public influence and visibility.

macroeconomic competence (rather than mere auditing functions); and (iii) it should have an explicit watchdog function (Calmfors & Wren-Lewis, 2011, p. 667). The composition, remit, and tasks assigned to the different national fiscal councils may vary from country to country (see, for instance, the analysis conducted by Debrun & Kinda, 2014, pp. 16-8 in particular, on the IMF dataset) and the degree to which they are in the full hands of the council impinges on its effectiveness. Appointment, too, is important, since when the council members are appointed by the national government, the fiscal council can align more easily to the governmental preferences, thus weakening its credibility. Nonetheless, four are the tasks that experts agree they should be required to perform: (i) *ex post* evaluations of whether the fiscal policy of a particular country has met the targets in the past; (ii) *ex ante* evaluations of whether fiscal policy is likely to meet its targets in the future, also called "policy costing"; (iii) analysis of the long-run sustainability and optimality of fiscal policy; and (iv) analysis of fiscal transparency, usually based on the "comply or explain" principle, according to which governments either comply with the recommendations of the fiscal council, or publicly explain the reason(s) for not doing so (Calmfors & Wren-Lewis, 2011). Three considerations on the tasks are in order: first of all, beside policy costing, fiscal council could engage in macroeconomic forecasting to be carried out before budget submission, in order to induce governments to prepare realistic drafts (European Commission, 2014b, p. 59); secondly, optimality and sustainability do not necessarily match: a policy that is optimal at a time t_0 may not be sustainable in the long run – which is why fiscal councils can be tasked with preparing macroeconomic forecasts, if the optimal governmental forecast can lead to profligacy and unsustainability; finally, according to the Commission, independent fiscal institutions can also make normative recommendations on fiscal policy (European Commission, 2014b, p. 60). This, however, is rarely the case, and no fiscal council within the EU does it. This is because issuing normative recommendations creates a "two-way accountability" whereby not only profligate countries are accountable to the evaluation of fiscal councils (for instance, by having to enhance fiscal transparency), but the latter, too, become accountable in virtue of the transitive property. In other words, they become accountable for the relevance of their policy advice – which can lead to clashes with their characteristic of independence.

Having assessed the legal and political-economic rationales for the creation of fiscal councils, one question remains unanswered, still: how do they coordinate with the EFB? This final paragraph has the goal of understanding how the EFB works and how it is supposed to coordinate with the national fiscal councils. The Commission Decision (EU) 1937/2015 of 21 October 2015 establishing an independent advisory European Fiscal Board differs slightly from the proposals set out in the Five Presidents' Report. According to the Report, the EFB was meant to be part of the first stage towards fiscal union in the EU, and aimed no higher than at achieving and maintaining responsible fiscal policies at a national level (Juncker et al., 2015, p. 5). Indeed, the Report explicitly stated that the EFB is meant to lead to "better compliance with the common fiscal rules, a more informed public debate, and stronger coordination of national fiscal policies" (Juncker et al., 2015, p. 14). Very much like most fiscal councils in the EU, it will be composed of few selected experts, one Chair and four members, with a three-year mandate, renewable once (Articles 3(3) and 3(4) of Commission Decision (EU) 1937/2015). Unlike the Report, the Commission Decision makes no mention of a "pluralistic composition" of the EFB. The Chair and one member are appointed by the Commission "upon proposal of the President, after having consulted the Vice-President for the Euro and Social Dialogue and the Commissioner for Economic and Financial Affairs, Taxation and Customs" (Article 3(2)); the other three members are also appointed by the Commission and upon proposal of the President, but also "after having consulted the national fiscal councils, the European Central Bank and the Eurogroup Working Group" (Article 3(2)). It can be seen from this article that the European Parliament is completely excluded from the procedure, and it is no wonder that it bemoaned that the EFB should at least be accountable to it and that its assessments should be public and transparent (cited in European Parliament, 2016a). The four members are engaged in an equal number of tasks. According to the Commission Decision, the EFB will (i) provide the Commission with an assessment of the implementation of the Union fiscal framework (Article 2(2a)); (ii) advise the Commission on the prospective fiscal stance appropriate for the euro area as a whole based on economic judgement, and when it identifies risks jeopardising the proper functioning of EMU, it will accompany its advice with a specific consideration of the policy options available (Article 2(2b)); (iii) it will cooperate with the national fiscal councils to facilitate the exchange of best practices and common understanding on matters related to the Union fiscal framework (Article 2(2c)); and (iv) it will provide the Commission – and the Commission only – with *ad hoc* advice, at the request of the President (Article 2(2d)), while the other institutions will have to be content with annual activity reports containing summaries of the advices and evaluations.

The ECB, for its part, saw the EFB as a step in the right direction (European Central Bank, 2015, p. 30), but not without reserves. In particular, it claimed that "its mandate could be clarified and strengthened further" so that it can play a bigger role in transparency and compliance with fiscal rules (European Central Bank, 2015, pp. 30-1). It can do so in four ways: by not limiting itself to annual activity report, as it should be able to "provide and publish assessments of the European Commission's SGP-related decisions in real time;" secondly, by clarifying how its advice will "feed into the fiscal surveillance framework at the European level" by giving the Chair the right to make submissions to the Parliament and to the relevant Council meeting; thirdly by spelling out the interplay "between its assessment of the application of the SGP and its assessment of the prospective fiscal stance" in particular by ensuring that "SGP compliance in all Member States and debt sustainability risks form key elements of the assessment of the fiscal stance;" and finally by being granted more independence and its own legal personality (European Central Bank, 2015, p. 31). Moreover, the ECB regretted that the EFB was not given a strong public voice as envisaged in the Five Presidents' Report, due to the impossibility to issue public opinions and the absence of the "comply-or-explain" principle (European Central Bank, 2015, p. 30). In sum, while the composition, remit, and tasks of the EFB are very similar to those of the national fiscal councils, and as such should not constitute a novelty, on the governance level in the EU, the Board represents a significant innovation, since the Union set up an independent supranational organ to link with and coordinate independent national bodies. The EFB is not a panacea, but certainly, to paraphrase the ECB, a first step, most likely in the right direction.

3.4.4 Evaluation of the clusters and concluding remarks: an inevitable fiscal integration?

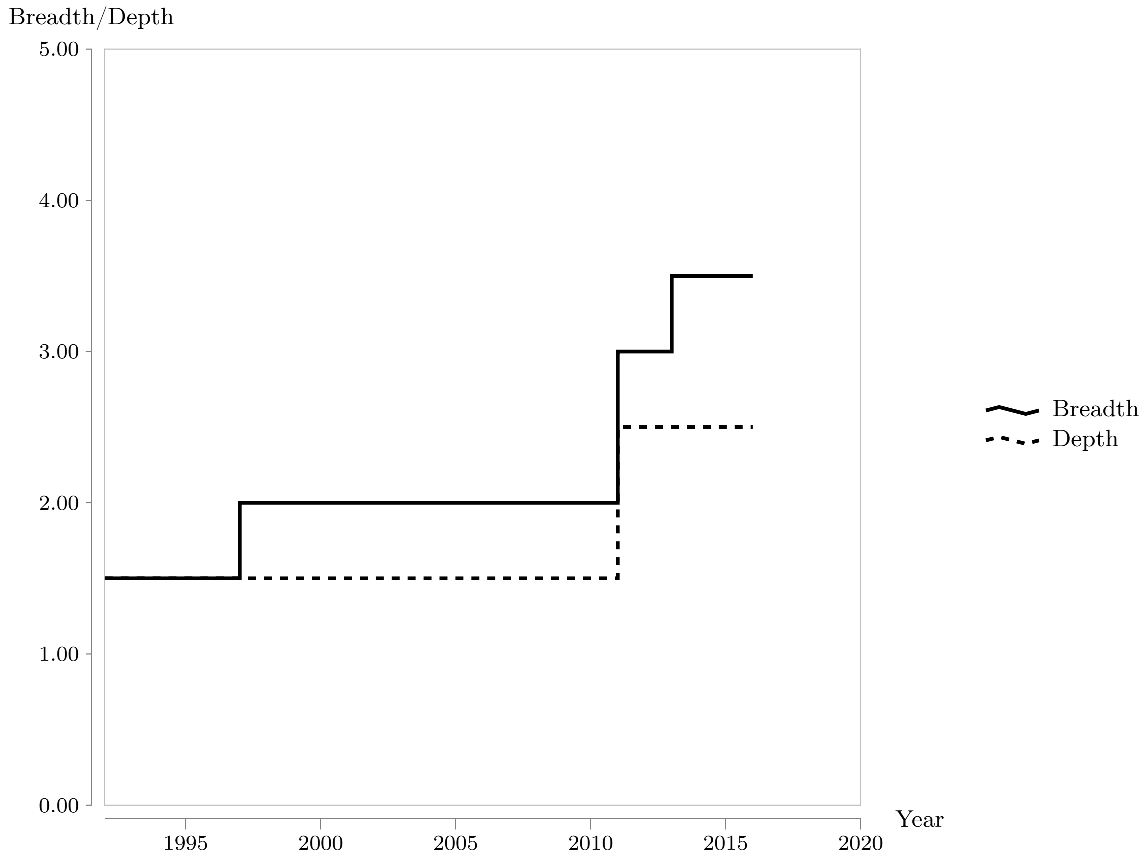
I have arrived at the end of this work. Unlike the other sections, this one will not contain an in-depth analysis of the temporality cluster just described. This is because the innovations proposed in the Five Presidents' Report have just taken foot, and an analysis regarding their political implications is simply not feasible. What is doable, instead, is a brief assessment of the new possibilities that the new advisory European Fiscal Board offers with regard to fiscal integration. This can be done by following the theoretical framework (Genschel & Jachtenfuchs, 2013a) and the methodology (Börzel, 2005; De la Porte & Heins, 2014; Streeck & Thelen, 2005) employed so far. For what concerns the former, it is clear that the EFB represents a case of integration by capacity building and that this capacity building was supply-driven, as it was born from the June 2015 report. As regards the latter, the EFB constitutes *in primis* a particular case of *layering*, whereby a new institution or body (the EFB) is created at the edge of the old ones (the Commission and the fiscal councils in particular). However, due to the novelty of the EFB, the process of layering is so far incomplete and it cannot be said where it will lead. One certainty is that the Commission Decision of 21 October 2015 has already tweaked the Board as envisioned in the Five Presidents' Report, which means that the process of layering, coupled with the advisory nature of the EFB, is very likely to have minor effects in the overall change in relative institutional power. At the same time, the creation of yet an *ex novo* body tasked with regulative functions, seems to replicate the trend present in financial supervision, where such a phenomenon seems to be far more common.[35]

Moreover, all of this adds up to the fact that the EFB as approved by the Commission does neither broaden nor deepen the competence of the EU and the involvement of supranational institutions. As paradoxical as it may sound, it is easily explainable. First of all, the Board has an advisory role, which means that the Commission continues to carry out its everyday functions, but can now rely on an unbiased, independent non-majoritarian institution. This, however, barely means that the Commission has widened its scope – its competences remain the same. Secondly, the Parliament is not consulted in the appointment of the members of the EFB, nor is the latter accountable to the former – which means that the second pro-integrationist institution also falls short of gaining from the institutionalisation of the EFB. Thirdly, the ECB has bemoaned the weakened role the Board plays in the fiscal surveillance framework, which means its input does not properly feed into the supranational institutions scheme. Finally, the fact that it has been established via the ordinary legislative procedure does not mean that fiscal coordination in the EU will be carried out in this manner. As such, no change along the dimensions envisioned by Börzel (2005) can be said to have taken place. As a consequence, the supranational institutions do not really interfere more in this core state power of the member states, nor do they monitor or coerce national governments to a degree that is higher than before (De la Porte & Heins, 2014). Nonetheless, it should be

[35] In the past fifteen years, the Union has created bodies such as the European Banking Committee, the European Banking Authority, the Committee of European Banking Supervisors, the Single Resolution Board, the European Systemic Risk Board, the European Insurance and Occupational Pensions Authority, and the European Securities and Markets Authority, among many (see Emerson & Giovannini, 2014).

remembered that these years represent only the first stage in the implementation of the Five Presidents' Report, and that this "deepening by doing" of Stage 1 aims mostly to make use of the instruments that are already present and ready to use (Juncker et al., 2015). In sum, the EFB represents an innovation on the governance level in the EU only insofar as it can indeed help to lead to Stage 2 as envisioned in the Report – even though, as has been shown, the first impressions of the implementation of Stage 1 have been mostly lackadaisical, at least in the path towards fiscal union.

This last part of the work also aims to give a final assessment of the evolution of fiscal integration and changes in relative power between EU institutions. The graph present in Figure 3.2 traces the process of broadening of EU competences (breadth) and involvement of supranational institutions (depth) in Budgetary Surveillance and Coercion, as evaluated in this work, and following the heuristic model provided by Börzel (2005).



Source: author's own elaboration.
Note: the values of breadth and depth of EU integration in fiscal policy are taken from Börzel (2005) and can be consulted in Chapter 2, Table 2.1.

Figure 3.2: Breadth and depth of EU integration in fiscal policy

As can be seen in the graph, economic policy coordination, and in particular Budgetary Surveillance and Coercion have radically changed since the Maastricht Treaty. Nonetheless, the path they have followed was barely straightforward as there have been long years of stasis, and the increase differentials are at times very little. The starting point for both breadth and depth of fiscal integration is 1.5 (between "shared competences light" and "shared competences medium" for breadth, and between "intergovernmental coordination" and "intergovernmental cooperation" for depth), along the lines of other scholars (in particular Börzel, 2005 and Genschel & Jachtenfuchs, 2015a). It goes to show how both range and degree of EU involvement in Budgetary Surveillance mostly stagnated until 2011. It was the crisis that, starting from 2009-2010, acted as a spur to find collective action solutions in order to minimise losses. However, alongside the need to solve this collective action problem, political constraints also played a role. This can be seen in how, after the establishment of the European Semester that strongly increased breadth and depth, member states were reluctant to go the whole nine yards. During the second temporality cluster, in fact, the European Semester and the Six-Pack alike strongly increased the remit of the Commission, and even the Parliament, with the European Dialogue. By the same token, the Two-Pack and the Fiscal Compact both delegated more surveillance powers to the Commission, thus further expanding their competences; however, the fact that some of the measures were adopted outside the scope of Union Law means that EU involvement in policy-making did not significantly advance. Finally, stagnation in the advancement of fiscal integration continued throughout the last temporality cluster, since no transfer of policy-making competences took place, and the little bit more of supervision that the EFB provides lacks a "comply or explain" clause. Table 3.4 below summarises how fiscal integration engendered a certain (not-so-clear) path of institutional change during the period taken into account in this work.

It could hardly be said that EU institutions and member states were at sixes and sevens during the process of fiscal integration. By acting as rational actors, the institutions aimed to promote their own intersts, be they pro-integrationist, or more linked to national interests. For instance, the Commission had an interest in streamlining economic policy-making under the European Semester, since it would certainly increase its supervisory role. On the other hand, fiscal policy being a core state power meant that member states were still unkeen on losing this speck of sovereignty to the EU. Thus, most often integration advanced when there was both demand and supply thereof (as in the SGP or the Six-Pack). In some cases, though, integration (here meant as transfer of powers, or expansion of competences) was supplied even in the absence of demand (like during the Fiscal Compact, which conferred oversight powers to the ECJ). The fact that both breadth and depth of involvement of EU institutions – in particular supranational institutions – have increased over time certainly hints at an increase in power of the likes of the Commission, despite the strongly intergovernmental environment in which the policies were conceived. Nonetheless, as Table 3.4 shows, there exists no clear path of institutional change towards supranationalism. As such, neither scholars that profess the emergence of a "new supranationalism" or the victory of the Commission (Bauer & Becker, 2014; Dehousse, 2015), nor those that see in the European Council the engine that carried the EU (Dinan, 2010; S. Fabbrini, 2015; Puetter, 2012) could be said to be completely in the right. It is indeed true that the setting the crisis had created favoured an intergovernmental arrangement of European economic policy-making, since, as was noted early in this chapter, people tend to look at their national capitals rather than Brussels. At the same time, it is also true that the growing mistrust between northern and southern member states was eroding this very same intergovernmental setting, and pushed for the need to find credible commitments, thus making better use of supranational institutions. As such, it would be unfair, as some scholars did, to label integration in the EU as bereft of federal elements (Genschel & Jachtenfuchs, 2015a). It is true that there is still a long way ahead, but a fair application of the Five Presidents' Report could, from Stage 2 onwards, move the EU towards that direction – yet much remains to be seen. Indeed, both Figure 3.2 and Table 3.4 paint a rather pessimistic view of further integration, especially if no radical reforms are undertaken to revisit the framework of economic governance in the EU, similar to those being attempted in the financial sector, with the soon-to-be-established third pillar of the Banking Union to create a common pool to pay out deposits when a bank is insolvent.[36] Finally, Table 3.4 could also be a fair indicator of the likelihood of fiscal integration engendering institutional change by moving around the power equilibrium between European institutions. Indeed, as was shown throughout this chapter, to each temporality cluster (bar the last one) corresponded an empowerment or a weakening of particular institutions, although it would be wrong to say that one period was "supranational" and another was "intergovernmental" depending on which institution was being empowered. Once again, it should be stated that no clear path of supranationalism can be identified and that the *decision-making setting* has been mostly intergovernmental. This is because fiscal integration is but one facet of Europeanisation and general deepening and broadening of the scope of the EU, which is also one of the main reasons this work adopted a minimal definition of causality (again, see Gerring, 2005).

What about the link with the regulatory polity? How does the change in power between EU institution affect the nature of the EU as a regulatory polity? As a reminder, the standard model takes the lack of a sizeable EU budget as an impossibility for the Union to undertake redistributive policies, or at least policies that are *strongly* redistributive in nature and that involve large sums of money (Majone, 1994, 1996a). As such, the EU is confined to market-regulating activities (Genschel & Jachtenfuchs, 2013c). Fiscal policy being a core state power should not be counted among these activities. Therefore, the three classic governmental functions – regulation, stabilisation, and distribution – were incompletely fulfilled by the Union, which focused mostly on the first one (Caporaso et al., 2015). Yet, the crisis has proven that a higher degree of coordination and more involvement by the EU in these matters were not only needed, but did, in fact, take place.[37] In the field of fiscal policy, the EU has certainly always had a regulative function in shaping national taxation (see Genschel & Jachtenfuchs, 2011), even though it was a minor one, as Tanja Börzel's framework suggests (according to her, both breadth and depth of EU integration in the "Tax" policy field have been no higher than 1.5 throughout the existence of the EC/EU). Even before the crisis Börzel (2005, p. 224) wrote that it would be unwise to see the EU as constrained to mere regulative activities. Yet it was after 2010 that the two other functions became most relevant. As for stabilisation, the tightened rules of the SGP, embodied by the Six-Pack, Two-Pack and

[36] More of this can be read on the Commission website, at `http://ec.europa.eu/finance/general-policy/banking-union/index_en.htm`.

[37] A corollary to this could be, from the side of democratic legitimacy, that the EU could not do without both input and output legitimacy. Thus, it was in the interest of the Commission to do whatever it could to restore not only faith in the Union, but also to have once again a good record in efficiency (for this argument, see Majone, 2014a, 2014b and Nicoli, 2015).

	Supranationalism	Intergovernmentalism
Temporality Cluster 1	+ With the SGP, the member states have to submit stability programmes and provide data on their national budgets to the Commission	++ The corrective arm of the SGP is firmly in the hands of the Council, even after the 2005 reform
Temporality Cluster 2	++ The Commission guides the process of the European Semester and rQMV makes it harder to overturn a Commission's recommendation	+ The AGS needs to be approved by the European Council and member states can still overturn recommendations from the Commission to initiate an EDP
Temporality Cluster 3	+ The Commission, the ECB, and the ECJ are given more oversight under the Fiscal Compact and the Two-Pack	+ The Community method is an outlier and member states favour intergovernmental decision-making
Temporality Cluster 4	0* The EFB is considerably weakened in respect to what was envisaged by the Five Presidents' Report, and its advisory role does not confer more powers to the Commission	0 The EFB does not impinge on, nor does it strengthen national sovereignty

Source: author's own elaboration.
Note: + = little/medium expansion, ++ = strong expansion, 0 = no expansion. The asterisk (*) means that the evaluation of "no expansion" was given according to effective legislation (Commission Decision No. 1937/2015/EU) rather than potentiality (The Five Presidents' Report).

Table 3.4: Path of institutional change

Fiscal Compact, and embedded in the European Semester, proved an asset that the Union could use to expand its stabilisation functions through surveillance and coercion. Moreover, the European Stability Mechanism, by creating a minimal-risk pool, was involved not only with stabilisation, but also with redistribution. There are reasons to believe that a conceptualisation of the EU as a regulatory polity independent of the functions of stabilisation and redistribution is questionable (Caporaso et al., 2015, p. 900). As was seen, however, the degree to which this kind of fiscal integration can aspire is heavily contingent on political constraint, and the existence of these functions does not in any way suggest that the Union is turning into a Weberian state.

In conclusion, is fiscal integration inevitable, as the title of these last few paragraphs suggests? To answer this question, three considerations are in order. First of all, this work has shown how the history of European economic policy-making, especially after Lisbon, has always been riddled with political compromises. This applies particularly in those sectors in which member states are jealous of their national sovereignty. Fiscal policy is certainly one of them. Both the TSCG and Commission Decision No. 1937/2015/EU are clear examples of this. The former since member states proceeded in spite of two member states (Britain and the Czech Republic) opposing the agreement, and thus opting for an intergovernmental treaty; the latter by tweaking the suggestions present in the Five Presidents' Report. But such examples were present even before the crisis: the SGP itself was the result of many intergovernmental conferences, and even the name was chosen to appease a member state, France (Heipertz & Verdun, 2004). The second consideration is that of interconnectedness. One of the reasons why the European Semester aimed to streamline national budgetary drafting under one single timeline was exactly because euro area national economies are very much interlinked, and harmonisation can reduce issues of temporal inconsistency. From a functional point of view, it is not unlikely that a heightened degree of coordination can spill over into integrationist action, but this also depends on the first of these considerations, political constraints. In other words, there needs to be a willingness to supply, after demand is created. Finally, a couple paragraphs ago I emphasised that it was the decision-making setting that has been mostly intergovernmental. This is, in fact, the third consideration. The key point about fiscal integration does not concern decision-making. This can be seen in the Börzel scheme, by looking at how little depth has increased, compared to breadth. The key point, instead, concerns remit. The Commission, the ECB, the Parliament, and even the ECJ have been empowered in fiscal policy (or better, so far, fiscal coordination) not because of a much higher degree of involvement, but because their remit has been expanded. In most cases, the layering of competences has brought about a redirection of the institution, too – although, truth be told, it was mostly a partial redirection, since each institution's core functions remained the same. Bauer and Becker (2014, p. 225) have underlined this in the conclusion to their study. Here, they noted how, while it was true that the agenda-setting power of the Commission was being kerbed (hence the mainly intergovernmental decision-making setting), its relevance remained unaltered in the worst case and was strongly increased in the best case by looking at its newfound role in implementing European fiscal rules by providing monitoring and by imposing sanctions. That is to say, by looking at its expanded remit. A very similar line of thinking can be applied to the ECB, ECJ, and Parliament, although to a lesser degree.

Is fiscal integration inevitable, then? Some (notably Nicoli, 2015) claim that the lack of input legitimacy brought about by the crisis has trapped the EU in a policy deadlock: it needs efficiency to legitimise its actions, but at the same time it needs democratic legitimisation for greater efficiency. The way out of this functional trap, he claims, is an unavoidable, yet costly, fiscal integration, that will transform the EU into a redistributive polity (Nicoli, 2015). From an economic standpoint, Stiglitz (2016) has claimed that, although the euro has always been a political project, the politics have not been strong enough. As such, the Eurozone is in dire need for a common fiscal framework based on the mutualisation of debt, since structural reforms have not been incisive enough. Here, I will not make grand claims for future predictions, nor will I take democratic legitimacy into account. Starting from the considerations above, what could be said is that, on the one hand, fiscal integration is not unavoidable. Even taking into account other substantial innovations, such as Banking Union or the European Fund for Strategic Investment (EFSI),[38] fiscal integration is not a foregone conclusion. This is because, so long as political constraints play a hand in economic policy-making, sub-optimal results will follow. This may seem an obvious conclusion, but it should be noted that it comes down to a framework bigger than that of demand and supply: the role of ideas (in particular, see Schmidt, 2010, 2015b). This is not the place to talk about it, but it should be noted that for a consensus to be reached on drastic reforms, there needs to be an alignment of preferences both at the national and supranational levels, no easy feat by any means. On the other hand, even if fiscal integration were unavoidable, how would this translate in terms of change in institutional equilibria? Most likely, it would mean that supranational institutions will be empowered, but there is no telling of the degree to which this will happen. At the same time, Genschel and Jachtenfuchs (2015a) noted a trend in both institutional fragmentation due to the proliferation of *de novo* bodies in European governance, and overlapping geometries of opt-outs, which seems to be in contrast with a direct empowerment of the traditional supranational institutions, and a federal direction of the EU. Whatever happens, whether the EU will dissolve (nigh-on impossible), whether the EU will continue to be riddled by paradoxes (more likely), or whether the EU will become a federal state (very unlikely), it is certain that the three considerations of these concluding remarks – political constraints, interconnectedness, and policy remit to the institutions – will play a significant role.

[38] More on this is available on the European Investment Bank website, at `http://www.eib.org/efsi/`.

Conclusions

The present work set out to retrace the process of fiscal integration in the European Union, starting from the 1992 Treaty of Maastricht up to the most recent innovations. The research question it sought to answer, in particular, was how the recent Euro-crisis impacted on the standard model of European Regulatory Polity through the integration at the European level of fiscal policy, whether and how it could change institutional equilibria at the European level, and what this could mean for the "nature of the beast". The argument was that, being fiscal policy a core state power, stabilisation and redistribution functions are intrinsic to it, thus helping to make of the state a *Weberian* state. However, the present work established that, in the aftermath of the crisis, these functions are, to a lesser extent, also present in the EU, even though they would be at odds with the standard model of regulatory polity. How could the crisis account for the discrepancy between the theoretical and empirical side of the model?

To answer this question, the work was divided in three parts. A first part was devoted to a short literature review of the theories of integration and governance. It showed that the thin line separating them can be exploited, so as to link the two traditions. The first part, indeed, showed how an approach such as Majone's, focused on governance, can be so telling of the workings of the EU so as to define its very nature. And the regulatory nature of the "beast" was *de facto* enshrined in the very Treaty of Rome, as the Community was being set up. Instead of taking an historical approach to the issue, I opted for a theoretical one mainly for two reasons: (i) because an historical *excursus* starting from 1957 has not only been done time and again (Dinan, 2010, for instance), but would also prove very cumbersome for the scope of this work; and (ii) to put in light how Majone's work best encapsulates past and present approaches to integration in the EU – at least until the crisis. The concluding remarks of the first chapter were meant to underline what the EU as a regulatory polity can and cannot do, and does and does not deal with. And according to the standard model, it should not meddle with fiscal policy (Genschel & Jachtenfuchs, 2013a), yet it did so, and to a greater extent than it was expected.

Understanding this discrepancy and highlighting in what way it was resolved was one of the main goals of this work. This has led me to formulate two main hypotheses: that the crisis engendered a process of fiscal integration unlike before, which is defined along the dimensions of transfers of policy-making competences, and strictness and intricacy of policy prescriptions (Héritier, 2013); and that the stabilisation and redistribution functions attached to it caused, in turn, a change in the power equilibrium at the institutional level in the EU – that is to say, changes in relative power between the likes of the

Commission, the Parliament, the ECB on the one hand, and the Council and the European Council on the other. I also supposed that the latter was a causation of the former. However, due to the radical changes in economic policy-making and management that the crisis brought about, I adopted a minimal definition of causation, whereby fiscal integration *raised the probability* of changes in relative institutional power, rather than being a direct cause of it. The best way to study this relationship, from a political standpoint, was to retrace the process of fiscal integration to detect those mechanisms (causal-process observations, CPOs) that could enhance the probability of causing such a change. Therefore, process-tracing techniques were employed in order to understand (i) whether or not fiscal integration did, in fact, occur; (ii) whether or not institutional change did, in fact, occur; and (iii), whether or not the chance of (i) happening increased that of (ii). The CPOs were regrouped under four temporal clusters, each of which seemed to give a particular direction to fiscal integration, whether in the expansion of scope and level thereof (Börzel, 2005; De la Porte & Heins, 2014), or in the change at the institutional level (Streeck & Thelen, 2005). Figure 3.2 and Table 3.4 in Chapter 3 summarise the direction that the EU has undertaken for what concerns fiscal coordination and integration.

In the third part, evaluations of the reforms for fiscal stabilisation in each temporality cluster were carried out. The reasons behind the adoption of these policies and the goal each set out to reach differed either widely (the ESM and the SGP, for instance) or minimally (the Six- and Two-Packs), and most of the time they were layering of new elements to reinforce older ones. The first temporality cluster consisted in an assessment on the birth and development of the SGP until before the crisis. Here, the decision-making structure was still strongly intergovernmental and there was limited involvement of the supranational institutions. Even with all its weaknesses, almost no elements suggested that the SGP would evolve the way it did, and it was the crisis that spurred, out of sheer need, the panoply of innovations. This can be seen in the 20-year-long stasis of breadth and depth of Budgetary Surveillance and Coercion that Figure 3.2 draws. To be sure, pan-Europeanists advocated full political union from the start, but their voice was not properly heard, and nothing within the SGP tended for certain towards fiscal union. The second temporality cluster saw a huge expansion in the remit to and involvement of supranational institutions. The European Semester meant that the economic policy-making calendar was now guided by the Commission, with the AGS, and the Six-Pack established, among other things, the rQMV, which meant the Commission now had reinforced and more credible surveillance and sanctioning powers. The Parliament, too, was empowered thanks to the European Dialogue. All these novelties constituted the first reaction to the crisis, and unlike the first temporality cluster, they did suggest an advancement in fiscal integration, as well as a change at the inter-institutional level. With the ESM, Two-Pack and the Fiscal Compact in the third cluster, the remit of supranational institutions was further strengthened, but not their involvement, because of the mostly intergovernmental decision-making approach. Finally, the latest stabilisation measures, such as the mandatory establishment of the fiscal councils and the EFB in the fourth cluster did not advance neither, thus slowing down the process of integration.

Overall, the approach was consciously eclectic and drew from different traditions (supranationalism, intergovernmentalism) and approaches (rational choice institutionalism, with its principal-agent relationship, and historical institutionalism, with context-based institutional change, see Thelen, 1999). Such eclecticism, as was noted, has been used on the one hand to avoid falling in self-fulfilling traps caused by too much theoretical rigidity: for instance, taking a solely intergovernmental approach would fall short of conceiving of the foregoing fiscal innovations as anything more than a means to increase member states' power in national budget-making, since the ultimate decision on the budgets rests on the national parliaments. On the other hand, this eclecticism was meant to allow more flexibility in the understanding of the process of fiscal integration by looking at it from different angles, as some scholars had done for instance for the SGP (namely Heipertz & Verdun, 2005). The common denominators, however were two: first of all, that integration was mostly spurred by the meeting of demand and supply thereof; and secondly, that it was carried out either by increasing regulation (the Six- and Two-Packs, for instance), or by capacity building (the ESM and the EFB), as per the model delineated by Genschel and Jachtenfuchs (2013a).

In conclusion, this work has shown that the EU, in line with Genschel and Jachtenfuchs (2013a) and Caporaso et al. (2015), and at least in the field of fiscal policy, may indeed still be a regulatory polity, but is certainly one in which the importance of the stabilisation and redistribution functions is growing. In other words, to use again the vocabulary employed by Streeck and Thelen (2005), this work has unveiled a process of institutional change in which polity redirection obtains by means of policy layering. Although the EU will probably never change direction so much so as to reach the status of full welfarist state, the past few years seem to have paved a clearer path and garnered more consensus among the elites over the road to take, especially in light of the Five Presidents' Report. What remains to be seen is the modality by which fiscal integration will continue to proceed and what it will lead to. The recent Commission Decision establishing the EFB has already tweaked what the Report foresaw, and it is not unlikely that such a trend could continue throughout Stage 2, which aims to introduce more legally binding benchmarks and standards, alongside the establishment of a shock absorption mechanism for the euro area (Juncker et al., 2015, p. 5). How the redistribution function in particular will fit any model of fiscal union is probably the trickiest of the issues: it would entail a reformed EU budget capable of properly addressing the shortcomings of EMU (for a possibility on how to do it, see Nicoli, 2013), and thus a degree of unprecedented involvement of European supranational institutions. Member states giving up this power is in no way a foregone conclusion. There is still a long way ahead, and understanding the nature of the beast is of paramount importance to the process of integration. To paraphrase Azoulai et al. (2012), after almost twenty years of fiscal integration, what picture of the EU is reflected by this process? Will the EU become a "federation lite" (Bonino & De Andreis, 2012)? Will it lead to a Europe *à la carte*, as Margaret Thatcher had suggested? Will there be a "menu Europe" (Schmidt, 2015a)? Or will the EU continue, riddled by paradoxes, towards a path of ever more differentiated integration? (Holzinger & Schimmelfennig, 2012; Schimmelfennig, Leuffen & Rittberger, 2015)? Today there are many issues on the table that make the question very difficult to answer: the rise of Euroscepticism, the refugee crisis, the unfinished financial supervision, and the British withdrawal reach newspapers' front pages on a daily basis. Facing these challenges is not easy, and the European people need to prove to be up to them. But what is most, is that the EU itself needs to prove it can be much more than just a regulatory polity.

Summary

Introduction

Knowing what you are dealing with is necessary for a successful outcome of your endeavours. By the same token, understanding the nature of the European Union (EU or Union) is not only a matter of academic relevance, but it is also a powerful tool for better policy-making. One of the greatest issues today is exactly understanding what the European Union as a polity stands for. While this work does not aim to settle once and for all the argument over the nature of the European polity, it does strive to understand how and why particular shifts in the political architecture of the EU – for which the shorthand "institutional change" will sometimes be employed – take place, and which mechanisms may be particularly apt to explain them.

More specifically, the argument runs as follows: the recent Euro-crisis has pushed European leaders to adopt a series of countering measures, among which is something akin to fiscal integration at the European level. In turn, these fiscal measures have reshuffled the institutional equilibrium between supranational and intergovernmental European institutions. What is peculiar about the field of macroeconomic policy coordination and fiscal integration is that, by conceiving of the EU as a regulatory polity, the foregoing measures should either not be present at all, or should be very limited in scope. This is because the EU as a regulatory polity is not meant to deal with issues of stabilisation and redistribution, which are instead the very gist of fiscal policy. This argument will be developed further on in this summary, where the definition of European Regulatory Polity will be fully laid out.

As such, the research question that needs answering is the following: How has the recent Euro-crisis challenged the notion of European Regulatory Polity and how has it engendered institutional change by means of fiscal integration at the European level? To answer this question, two main hypotheses are put forward, the second of which is divided in two parts. First, it is proposed that the policies enacted to counter the crisis have engendered some sort of fiscal integration at the EU level unlike before; secondly, this fiscal integration has brought about changes in the equilibrium between supranational and intergovernmental European institutions; and as a corollary, this change in equilibrium might suggest a transformation in the nature of the European polity. For these hypotheses to be put to test, this work is structured in three parts: a first part dealing with the nature of the EU, beginning with an historical analysis of theories of integration and governance, and aimed at explaining what the EU as a regulatory polity can and does or cannot and does not do; a second part concerning the theoretical framework and the methodology of research; and a third, longer, part completely devoted to the testing of empirical cases. These are identified with the European policies enacted to advance fiscal integration and are divided in four temporality clusters, which will be laid out further down. For the sake of brevity, this summary will forego the re-examination of the historical excursus of theories of integration and governance, and will focus solely on the EU as a regulatory polity, as well as some definitional issues.

Some definitional issues

The title includes three key terms: regulatory polity, political implications, and fiscal integration. What exactly do they refer to? Regulation *strictu sensu* refers to the "sustained and focused control exercised by a public agency, on the basis of legislative mandate, over activities that are generally regarded as desirable to society" (cited in Majone, 1996a, p. 9). Therefore, regulation has two intrinsic characteristics: first, it can be extremely technical, which means that sectorial expertise, independent from political power (or whims, even), is usually needed; and secondly, that regulation obviates whenever society does not deem such an activity worth their while. The European Union is a regulatory state insofar as its restricted budget does not allow for policies concerning stabilisation and redistribution, and pushes its action towards market-improving policies. Once again according to Majone (1994), regulation in this sense has one single normative justification: to improve the efficiency of the economy by correcting market failures, that is to say, to act when the market is incapable of producing a social Pareto optimal. It should be noted that a Pareto optimal obtains when it is impossible to improve the well-being of one single individual without making at least another individual worse off. By following this definition, therefore, regulation *cannot* be of redistributive nature. As Simon Hix (2007, p. 144) remarked, the EU can be seen as a settled regulatory polity where "the European level of government is responsible for the creation and regulation of the market...[and] the domestic level of government is responsible for taxation and redistribution." As such, out of the three typical functions of a Weberian state – regulation, stabilisation, and redistribution – only one is relevant at the European level.

By political implications, it is meant institutional change. But institutional change is a tricky term. In the American political science literature (for instance, Streeck & Thelen, 2005), it usually refers to policy change. This work, instead, assumes it to mean first a change in the equilibrium between (European) institutions as a consequence of policy layering; and secondly as the subsequent polity redirection due to the alteration in the inter-institutional equilibrium. The next section of the summary will better explain these nuances. Finally, the notion of fiscal integration takes after that of deepened integration employed by Héritier (2013). It is defined along the dimensions of transfer of policy-making competences to the supranational level and the strictness and intricacy of policy prescriptions issued by the supranational level. For the scope of this work, it is also supposed that the latter is a causation of the former. This relationship, too, is better explained in the following section.

Theoretical framework and methodology of research

The theoretical framework employed in this thesis is a functional-rational institutionalist approach based on a supply-and-demand model of integration. It is moulded upon the recent work by Genschel and Jachtenfuchs (2013a) on integration of core state powers. A core state power is not so because of its relevance to "high politics" or the national interest. The boundary between "high" and "low" politics is today very fuzzy and it has lost much of its explanatory leverage. On the contrary, a core state power, such as fiscal policy here, is what makes of a state a Weberian state, with its typical monopoly of violence, taxation, and bureaucratic organisation. It is no wonder, indeed, that beside a cross-sectorial analysis of integration, Genschel and Jachtenfuchs focused on three core state powers: defence, fiscal policy, and public administration. At the European level, the instrument of integration can be either regulation or capacity building. In the former case, it will be the classic European institutions that will carry out the new functions; in the latter, new bodies will be created to better accomplish the goal the EU set out to achieve. The choice between the two can vary depending on the background conditions (political will and resources) and field of action (some fields, mainly financial regulation, are more susceptible to capacity building).

The choice for an institutionalist approach is justified as the units of analysis are the European institutions themselves. This approach is three-fold: first it explains institutional change as defined above; secondly, it analyses the mandate and task expansion of the European institutions; and finally it lays out the different dimensions of fiscal integration. For each step, a heuristic model developed by different scholars is employed. As for institutional change, it was mentioned that it takes into account policy layering as well as polity redirection. Following the schematisation by Streeck and Thelen (2005) and the adaptation by Salines et al. (2012), policy layering is defined as the attachment of new elements to the existing institutions so as to change their structure. For the purpose of this work, an example is the layering of the Six-Pack to the Stability and Growth Pact (SGP), and of the Two-Pack to the Six-Pack. While fundamentally dealing with similar issues, the layering of policies changes the remit of the institutions by granting new or more powers to some (particularly the Commission). Polity redirection is a consequence (although not the only one) of policy layering: as the remit and scope of the European institutions change, so does the equilibrium *between* institutions. This, in turn, engenders a redirection of the fundamental purposes and of the nature of the EU: by allowing the European level to deal with core state powers, policy-makers are *de facto* allowing it to deal with issues of stabilisation and redistribution. And as Hix has remarked (see above), this should be a prerogative of the national level of government, although it no longer seems to be.

This kind of task expansion should also be operationalised. Tanja Börzel (2005) provides a mapping of task expansion in the EU for various policy fields. Tasks are expanded either in breadth or in depth (in same cases in both). Breadth stands for the level of authority, and is about the number of issues that fall under EU competence, ranging from no involvement (exclusive national competences) to full powers (exclusive EU competences). Depth, instead, is the scope of authority, and deals with the involvement of European institutions in policy-making (e.g. voting modalities within the Council, judicial review by the Court of Justice, right of initiative by the Commission, co-legislation of Council and Parliament, and so forth). As such, the depth of integration can go from no coordination at all at the EU level, to full supranational centralisation for each policy field.

At the same time, there are different dimensions of integration. According to De la Porte and Heins (2014), these are interference, surveillance, and coercion, each with vary degrees of intensity (from low to very high). Following the authors' schematisation, interference refers to the "extent to which the EU interferes in member states' sovereignty...by requiring policy changes;" surveillance is the "extent to which the EU is endowed with power to control whether member states are implementing the agreed policies and respecting or moving towards EU benchmarks and/or national targets;" and finally, coercion is "the type of measures EU actors have at their disposal to ensure corrective action in the case o non-compliance or deviation from EU policy." A recent study by Bauer and Becker (2014) has drawn on Tanja Börzel's classification to adapt some of her policy fields to the post-crisis setting. Following this reasoning of evolution and constant adaptation, this work conceptualises a "new" policy field that best encapsulates what the reforms have been trying to do and how they relate to institutional change: Budgetary Surveillance and Coercion.

Moreover, the chronological nature of the reforms falling under the field of Budgetary Surveillance and Coercion makes a compelling case for the use of process-tracing techniques. This methodology of research aims to detect causal mechanism between a time t_0 and a subsequent time t_1. In between these two times, some intervening factors (in this case the policies taken as empirical cases, compounded by the context and their implications) occur. These factors are meant to explain why a particular outcome Y at the time t_1 has occurred, starting from the background variable X present at the time t_0. Following this pattern, there could be a further outcome Z at a time t_n ($n > 1$) in which the consequences of policy layering present in Y translate into polity redirection. To better detect these mechanisms, moreover, the empirical cases are bundled in four temporality clusters, analysed in the following section. At the end of each cluster, an evaluation of the advancement of fiscal integration and institutional change is put forth. However, due to the restricted scope of Budgetary Surveillance and Coercion and its impossibility to redirect the European polity as a whole, a minimal definition of causation is employed. According to Gerring (2005, pp. 167-9, my emphasis), this minimal definition entails that "a cause raises the *probability* of an event occurring," or in other words that "the probability of an event Y will be increased by X." Again, for the purpose of this work, the process tracing of causal mechanisms would entail a pattern like the following:

$$\mathrm{X} \rightarrow m,\ n,\ o \rightarrow \mathrm{Y} \rightarrow p,\ q,\ r \rightarrow \mathrm{Z}$$

This schematisation, taken from Caporaso (2009), can be explained as follows: given an independent event X (the crisis), there are a series of mechanisms (or factors) m, n, o that lead – or better, increase the chance of leading – to an outcome Y (the decision to integrate a core state power). In turn, this outcome Y has its own consequences in Z (change in relative institutional power, and subsequent polity redirection). How can this technique be applied to the empirical cases?

A timeline of the empirical cases

So far, when mentioning the empirical cases, only vague references to what they are have been given. This section lays out the reforms by embedding them in their respective temporality cluster. The choice concerning the duration of a cluster is not completely arbitrary and mirrors a particular trend in fiscal integration. The first temporality cluster goes from the 1992 Maastricht Treaty to the pre-crisis years between 2005 and 2007. The Treaty of Maastricht is a logical starting point, since no project involving fiscal integration had been enacted before then. It was European and Monetary Union (EMU), created with the Treaty, that paved the way for this kind of fiscal integration. Already from the onset it was clear that a monetary union bereft of fiscal union would have incurred in some problems. But the parameters of 3 percent deficit to GDP ratio and of 60 percent debt to GDP ratio, introduced to avoid fiscal profligacy, lacked tools for enforcement. For this reason, the 1997 Amsterdam Treaty included a pact to prevent and correct deviations from the parameters, the SGP. The Pact was very much a soft law approach to fiscal profligacy: the Council had the last word on whether or not excessive deficits existed (the debt criterion would only be operationalised in 2011). The 2003 refusal by Germany and France, the two biggest member states, to allow the initiation of an excessive deficit procedure (EDP) laid bare the weaknesses of the SGP. In 2005 the Pact was revisited to allow more flexibility, but even here not much changed in terms of inter-institutional balance: the Council, as per the Court of Justice's ruling, still had the last word, even though it could no longer refuse to adopt a Commission recommendation to initiate an EDP (Heipertz & Verdun, 2004). In sum, the decision-making structure was stilly strongly intergovernmental and almost no elements suggest that the SGP would evolve towards hard law approaches.

The border between the first and second temporality cluster is very fuzzy. Generally speaking, all the clusters except the first one deal with those fiscal measures enacted to counter the crisis. Therefore, no matter its initial starting point (which could be pinned more or less in 2007), the empirical cases at hand in the second temporality clusters are the 2010 European Semester and the 2011 Six-Pack. These two reforms strongly changed the fiscal framework of the EU, by streamlining the coordination of national fiscal and structural policies (Hallerberg et al., 2012). As such, it entailed a sizeable remit to the Commission, on whose Annual Growth Surveys the Semester hinges, and whose country-specific recommendations are to be adopted by the member states. The Six-Pack, made up of five regulation and one directive, instead, is embedded in the European Semester and is aimed at tightening fiscal surveillance as foreseen by the SGP, as well as dealing with macroeconomic imbalances. Moreover, it contains rules for stricter voting procedures, so as to make it harder to overturn a Commission recommendation to initiate an EDP. For what concerns Budgetary Surveillance and Coercion, therefore, this cluster represents a huge increase in both breadth and depth of integration, but it does not delineate a clear path of integration.

Indeed, as the third cluster – going from 2011 to 2013 – shows, while the level of authority of supranational institutions increases, its scope stagnates. The three innovations under consideration here, the 2012 European Stability Mechanism (ESM), the 2012 Treaty on Stability, Coordination and Governance (TSCG or Fiscal Compact), and the 2013 Two-Pack all increase the mandate of supranational institutions, but restrict their action to strongly intergovernmental constraints. Indeed, while the Commission, the European Central Bank (ECB), and the Court of Justice are given more oversight powers, the voting procedure do not change. Moreover, both the ESM and the Fiscal Compact are examples of intergovernmental treaties. As such, in this third temporality cluster, the Community method based on joint decision-making is an outlier.

The final cluster, going from 2013 to 2015, deals with the establishment of the national fiscal councils, as mandated by the Two-Pack, and of an advisory European Fiscal Board (EFB). Even though the EFB, like the ESM, is an example of integration by capacity building, its novelty does not allow for an assessment of its political implications. Therefore, in this last cluster, no clear trend of fiscal integration is discernible. Nonetheless, it should be noted how the October 2015 Commission Decision to establish the EFB (Commission Decision 1937/2015/EU) already differs from what was foreseen in the June 2015 Five Presidents' Report (see Juncker et al., 2015). The tweaks adopted have already been reprimanded by the ECB (European Central Bank, 2015), but are unlikely to be overturned – at least in the near future.

A final note on the empirical cases. Although in all the cases an analysis of the legal documents is carried out, it is not the document *per se* that represents the causal mechanism. First of all, the adoption of the legislation is context-sensitive. This means that a reform that seems good at at time t_1 may not be so at a time t_2 and vice-versa. For this purpose, in some cases, an exercise of comparative statics, aimed at probing other possibilities to advance fiscal integration, as well as explaining the actors' choice, is carried out. Moreover, the enacted policies have different effects whose aftermath represents the link between one trend and another – and even here the adoption of the subsequent policy is context-sensitive, as the choice of intergovernmental treaty for the Fiscal Compact shows, with the UK (and the Czech Republic) straight up refusing to be part of it. Finally, it should be kept in mind that the reforms only *increase the probability* of a particular outcome happening, rather than directly causing it. The discrepancy between the trends in the second and third temporality clusters are once again testament to this.

Findings and concluding remarks

The findings of this work are summarised in the graph represented in Figure 3.2 for what concerns the pattern of breadth and depth of fiscal integration and in Table 3.4 as regards the path of institutional change. Generally speaking, these findings aim to understand how increased depth and breadth of integration and the shape of their path can affect and influence the European polity as a whole. As such, and in line with other academics (Caporaso et al., 2015; Genschel & Jachtenfuchs, 2013a, 2015b), the breadth of integration increased much more and much more rapidly than the depth of integration. In a few words, it means that fiscal integration has increased the remit to supranational institutions (as in, they do more than before, in particular the Commission has much more oversight over budgetary control), but at the same time, it has eschewed granting too much power to them, with the Council still playing an important role in policy-making.

This also means that the claims whether the EU is experiencing an intergovernmental (S. Fabbrini, 2015; Hodson, 2013) or a supranational (Bauer & Becker, 2014; Dehousse, 2015) trend are neither wholly true nor false. There is no particular path towards either direction, with the four clusters showing how the relevance of the institutions in the breadth and depth of fiscal integration goes back and forth between the supranational and the intergovernmental ones. To be sure, the instrument of regulation is far more used in fiscal integration than capacity building, thus underlining how touchy a policy field this is; but regulation here integrates the functions of stabilisation and – to a lesser extent – redistribution. Therefore, the assessment made by Caporaso et al. (2015) of the EU being a strongly regulatory polity, but with the functions of stabilisation and redistribution also playing an ever more important role seems to be the most sensible one.

In sum, this work has first tried to bridge the gap between studies of integration and studies of governance by embedding the analysis of integration in a core state power within the framework of regulatory governance. Secondly, it has tried to infer polity implications from changes at the policy level, thus bridging yet another gap. Finally, it has underlined the growing importance of the functions of stabilisation and redistribution of and within the EU. This is not to say that fiscal union is unavoidable and that the EU is going towards the direction of a Weberian state. Instead, many hindrances exist: for instance, political constraints will continue to play a big role so long as supply and demand of integration are not backed by an alignment of preferences both at the national and supranational level, which ultimately comes down to the role of ideas (see for instance Schmidt, 2015a).

It should also be noted that the framework presented in this study is hardly definitive and can be vastly improved. Matter-of-factly, for the sake of simplicity and narrative smoothness, some caveats are included: European institutions are treated as monolithic entities with an *a priori* set of preferences, rather than polycentric bureaucratic organisations with many vested interests; moreover, no linkages with domestic politics are seriously attempted; and finally, as has been noted above, a minimal definition of causality is adopted, thus making the relevance of the causal mechanisms more tenuous. There are many roads that can be taken to improve the explanatory power of this study. Indeed, the bargaining between and within institutions can be studied from different perspectives: it can be analysed under the lens of game theory by employing analytic narratives (Levi, 2002), of socialisation and construction of identity (as did Checkel, 2005, on his study on Europeanisation), of bureaucratic organisation, or of domestic implications (as Heipertz & Verdun, 2005, did for the SGP) to name a few. Similar studies, finally, can also be done for other policy fields, better if other core state powers, thus following and improving the groundwork laid by Genschel and Jachtenfuchs (2013a).

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