Research finding summaries

WP1 Legitimacy of European Modes of Governance

Ramona Coman, WP1 academic coordinator, IEE-ULB

Institutional change, power relations and policy change

Hypothesis: "The decisions taken in the fast-burning phase of the Eurozone crisis… (re) shaped EU's policies and modes of governance and may have had consequences on the outcome of interest in the slow-burning phase."

Institutional change and power relations: The EU policy-making witnessed several transformations since the entry into force of the Maastricht Treaty. The intensity of institutional change has been fuelled by the Eurozone crisis, which put the decision-making process under considerable strain and shifted the balance of power at the EU level. In 2010, when it was unclear how to respond to the problems of the eurozone (Van Rompuy 2014), EU institutional actors reacted rapidly to reassure the markets and to save the euro. The decisions taken from 2010 to 2012 altered prevailing modes of governance as the crisis forced the EU to adjust the decision-making process.

The degree of institutional change is disputed in the literature. Scholars remain divided over whether the transformations introduced since the Maastricht Treaty and the Eurozone crisis have strengthened the power of Member States to the detriment of supranational institutions or vice-versa. While Bickerton, Hodson and Putter (2015) emphasized the growing empowerment of Member States, other argued that the Commission has been granted new roles and power (Bauer and Becker 2014; Dehousse 2015; Savage and Verdun 2015; Coman and Ponjaert 2016). Against the dichotomy opposing in EU studies the new intergovernmentalism to the new supranationalism (see also Schmidt 2016), in the research conducted in WP 1 Coman and Ponjaert (2016) have pointed out forms of hybridization of pre-existing modes of governance (trend which was also underlined by other scholars such as Pollack, Wallace and Young 2010; Dawson 2015; Schmidt 2016). In other words, our finding is that when the crisis was 'hot', the European Council and member states saw their role increased confirming the new intergovernmentalists' hypotheses.

As soon as the crisis entered in its slow-burning phase after 2012, the Commission gained significant action capacity both in scope (e.g. by entering policy fields outside its area of competence) and depth, echoing the 'new supranationalists' tenants as the modes of governance born from the crisis positioned the Commission at the helm of a set of new iterative and differentiated relationships with each Member State (Coman and Ponjaert 2016).

In terms of policy change: there is without doubt a change in ideas (to be further developed below). There is a change in the way polices are framed at the EU level. Policy change is however disputed at the implementation level, that is the degree of compliance of member states with the decisions adopted in Brussels in the framework of coordination of macroeconomic policies. For example, back in 2010, scholars have deplored the focus of EU institutions on numbers, fiscal discipline and austerity. Change has been observed in 2012 and 2013; it became more visible after the nomination of the new Commission that has to a greater extent included “social fairness” in the design of macroeconomic adjustment programs and argued the centrality of investment to any future growth. It doesn’t mean that this has radically changed the centrality of the formal fiscal and macro-economic priorities.

While the initial broadening of the agenda witnessed in 2012 and 2013 has led some scholars to argue that the Semester has been “socialized” (Zeitlin and Vanhercke, 2014) through the introduction of several social recommendations, several practitioners and experts have contended the opposite by arguing that the Semester has ‘economized’ a series of policies like education, housing etc. The institutional frame as set up clearly maintains the fiscal and budgetary considerations as the guiding principles of the process, although there is a more flexible interpretation of the rules as we saw in 2014 and 2015 when Spain and Portugal failed to take ‘effective action’ to meet EU’s deficit rules. See another example below.

Making the policy change tangible

The rules adopted for the coordination of macroeconomic policies at the inception of the eurozone crisis led to spill over effects that reshaped other European policies. For example, the eurozone crisis has essentially influenced the adoption of the Regulation **on structural and investment funding** (1303/2013). This new regulation establishes a new link between fund allocation and the prevention and correction mechanism under the framework of the Stability and Growth Pact. It also establishes a stronger link between structural and investment funds, economic governance and other domestic policies aimed at creating employment as well as generating growth.

I would mention here the example of cohesion policy. In the context of the Eurozone crisis, conditionality became a universal remedy for every political and institutional failure that the crisis crudely brought to light. In this sense, under the leadership of the Commission chaired by José Manuel Barroso, a set of new decisions aimed at imposing stricter rules accompanied by penalties for non-compliance with the Stability and Growth Pact were adopted. While this dominant discourse had considerable consequences with regard to the institutional architecture of European economic governance, the underlying principles for the management of the eurozone crisis gradually became the dominant ideas for the reform of a set of other policies such as **regional policy**, for example.
In 2008, Commissioner Hahn for Regional Policy and Commissioner Andor for Employment, Social Affairs and Inclusion were assigned to draft the Regulation on regional policy for the period 2014-2020. The Commission had been launching consultations on that matter since 2008, and on this basis, in 2010 it issued its communication particularly focused on innovation, research, specialisation and growth. Prior to the eurozone crisis, the aim was to simplify procedures and reinforce results in order to support the EU’s 2020 Strategy. However, the inception of the eurozone crisis guided the

reform towards a set of principles which were not on the top of the agenda during the consultations in 2008 (Berkowitz et al., 2015). While in the Commission communication of 2011 (COM2011(613), the words 'solidarity' and 'conditions' were used in the same proportions, from that moment onwards, the vocabulary of the official Commission documents substantially shifted to integrate key ideas at the core of the new economic governance developed by the task force led in 2010 by the president of the European Council, Herman Van Rompuy. Thus, the idea of linking structural and investment funds to macroeconomic conditionality resurfaced in 2010 within the context of European economic governance debates, when Commissioner for Economic and Monetary Policy, Ollie Rehn, emphasised the Commission's desire to implement a framework for the coordination of macroeconomic policies based on 'macroeconomic conditionality principles and stricter recommendations' (Declaration 10/127). By proposing to link the allocation of funds to compliance with macroeconomic recommendations, the objective of the Commission was to 'develop a strong culture of European responsibility' (Speech 11/497). As Johannes Hahn, Commissioner for Regional Policy stated, the aim was 'to steer the policy more decisively towards results and enact the reforms needed in order to achieve these results, whilst cutting red-tape and simplifying the daily management of the policy' and this 'while preserving its overall objective' (Speech 10/640). When presenting the explanatory memorandum of the reform, the President of the European Commission, José Manuel Barroso, explained: 'That is what I call positive conditionality and that is how we will succeed to obtain maximum benefit from every single euro spent' (Speech 11/497).

The Commission was nonetheless divided on that matter. Within the college of commissioners and some DGs, officials were against this type of conditionality (Interview, former member of the Cabinet, European Commission 8/02/2015). Despite these objections, the initial proposal (COM(2011)0615) of the Commission developed a new article 21 related to macroeconomic conditionality with a view to entwining the conditions linked to the coordination of economic policies of the member states under the framework of the European semester with the new regional policy.

The ideas of reform came essentially from member states. Within the Council, Sweden claimed to cut 100 billion euros of the total trillion planned for the period 2014-2020. The United Kingdom appealed for 'tighter budgets' (EurActiv, 27th April 2012). The Netherlands also took a 'hard-line' stance and favoured 'to purely and simply remove funding instead of suspending them' (EurActiv, 27th April 2012). Jean Leonetti, Minister for European Affairs in France, underlined his country's wish to cut the budget for regional policy and to lower the proposed amounts (EurActiv, 27th April 2012), while maintaining the budget for Common Agricultural Policy intact. Since the beginning of the ordinary legislative procedure, Germany constantly promoted ex-ante macroeconomic conditionality in a series of letters signed by Chancellor Markel. In August 2011, a few months before the Commission's proposal was published, Angela Merkel and Nicolas Sarkozy highlighted in a joint letter sent to the President of the European Council, Herman Van Rompuy, the essence of the reform: 'Structural and cohesion funds should be used to support essential reforms to enhance economic growth and competitiveness in the Euro Area. Macroeconomic conditionality of the Cohesion Fund should be extended to the structural funds. They should be targeted at improving competitiveness and reduction of imbalances (…) In the future, payments from structural and cohesion funds should be suspended in Euro Area countries not complying with recommendations under the excessive deficit procedure'.

By contrast, the Italian government, which had been drafting concrete reform proposals for the 2014-2020 regional policy since 2008, did not follow the five member states mentioned above. Although the 2009 report from the Italian Finance Minister Fabrizio Barca, expert in regional development, proposed a substantial review of the policy, it was however not in favour of imposing financial sanctions or penalties on member states failing to reach their objectives. Other countries such as Malta, Ireland and Romania reported the discriminatory nature of the European Commission's proposed sanctions (EurActiv, 20/12/2011). Southern and Eastern European States were sceptical about the idea of extending macroeconomic conditionality to the structural and investment funds. The Polish presidency of the Council was impatiently waiting for the submission of the first version of the Commission proposal (which came three months later) so it could leave its mark on it and safeguard its interests (Interview, Head of Unit DG EMPL, 28/04/2015). However, as a negotiation strategy, 'with a view to maximise their influence, the Pols understood they had to sing the conditionality song as well' (Interview, Director, European Commission, 15/05/2015). In the end, the compromise achieved between new and old member states was to maintain in the new Regulation both conditionality and administrative simplification for the access to funds. In 2013, member states seemed satisfied with this compromise.

This provision was subject to strong controversy in the EP. Once the Commission proposal was published in September 2011, the EP almost unanimously voiced opposition to macroeconomic conditionality. MEPs argued that it would be inappropriate to sanction regions – the main recipients of the structural and investment funds – where member states failed to comply with the macroeconomic conditions; on the other hand, they questioned the very essence of conditionality, a principle likely to break the solidarity logic underlying the cohesion policy since its inception. For many, the integration of macroeconomic conditionality into the Regulation 1303/2013 was redundant insofar as the set of directives and regulations on the coordination and budgetary surveillance adopted in 2013 – the Two and Six-Packs – already established virtually automatic penalties, which were extremely constraining on member states. The incorporation of macroeconomic conditionality into the regional policy was 'a double penalty' (Liem Hoang Ngoc, MEP, S&D, 19th December 2013). The committees of the EP voted against the inclusion of this provision in Regulation 1303/2013. In spite of this strong opposition of the EP, in the end, 'the controversial provisions remained, while the amendments proposing their deletion were removed', highlighted the EP in a report published in 2015. The macroeconomic conditionality was included in the Regulation. It establishes that if a member state's performance is far from the objectives provided by the Stability and Growth Pact, then European funding could be reduced, suspended, and even cancelled in the worst cases.

How policies and modes of governance have been (re) shaped during the crises

This question is again about power relations at the EU level and the ability of EU institutional actors to frame/change policies. The is a consensus in the literature to say that in the first three crucial years of the crisis (that we call the fast-burning phase of the eurozone crisis), Member States have been empowered to the detriment of the EP and the Commission. The adoption of Regulation 1303/2013 mentioned before is an illustration of this tendency that has prevailed even in the realm of the community method. Many have argued that in the context of the eurozone crisis, intergovernmentalism has been reinforced whereas the community method has been impaired (Dehousse, 2011; Puetter, 2012; Fabbrini et Puetter, 2016). This is not only an outcome of the crisis. Since the beginning of the 1990s onwards the ordinary legislative procedure has evolved, institutional agreements and trialogues flourishing with an aim to ease the way for compromise and to avoid institutional deadlock at the EU evel. The proliferation of such practices has fuelled criticism owing to the lack of transparency during institutional negotiations behind closed doors and their potential to distort the community method (Rasmusen et Reh, 2013; Dehousse, 2011).

Taking again the example of Regulation 1303/2013, although the rules of the ordinary legislative procedure applied, crucial decisions were made through inter-institutional negotiations gathering a small number of representatives of the Council, the EP and the Commission. Its adoption was subject to a record number of more than 200 trialogues, as the presiding Lithuanian President of the Council declared in the EP plenary session in Strasburg (Vytautas Leškevičius, EP, November, 19th, 2013). The EP's choice or acceptance of the increased number of trialogues was backed up by the EP President, Martin Schultz, but contested by MEPs who deplored the lack of debate and plenary deliberation. According to the Greens/ALE MEP Karima Delli: 'the Parliament has just sacrificed the cohesion policy on the altar of austerity. (…) Seconded by our president M. Shultz who acted independently, when changing the voting procedure and tied our hands, stifling thus, democratic debate (…)' (EP, November, 19th, 2013).

To sum up, the decisions taken to save the Euro increased the perception that the EP and the Commission find themselves at the losing side and that they fail to shape fundamental policy choices in the new economic governance in accordance with their political views (Crum 2015: 1). From 2010 to 2012 the role of supranational institutions such as the European Commission and the EP had been drastically reduced, most of the decisions related to the Eurozone's new governance architecture being adopted through opaque negotiations in intergovernmental meetings (Coman and Ponjaert 2016). Thus, it has been argued that the room for manoeuver of the Commission in the different stages of the policy process (agenda-setting, formulation, decision-making, implementation and evaluation) is diminishing. In contrast, in the slow burning phase of the crisis, the Commission's power had been strengthened. Those who maintain that the Commission lost power, highlight that in the new economic governance the Commission plays a "technical role" "not a decision-making one" (Fabbrini 2015: 46), which entails "a gradual transfer of decision-making authority and resources from the Commission to the intergovernmental level and to the European Central Bank" (Da Coneicao-Heldt 2016: 95). For example, Crum suggests that the new prerogatives conferred to the Commission, in particular the monitoring competences to analyze the performance of Member States along a set of economic and fiscal indicators, are "administrative in kind" but also subject to political instructions from Member States (2015: 5). However, the analysis of the production of the Country Specific Recommendations in the framework of the European Semester suggests that the

Commission has been empowered both in its political and administrative roles.

The European Semester's role

In the fast-burning phase, certain ideas were taken for granted as the right and the only way forward. A small group of EU institutional actors, including representatives of the European Council, the Commission and the Council, intervened as *primus inter pares* in the definition of the new EU policies. Together they developed a discourse of conviction focused on rule compliance and a stricter discipline for European governance. This type of discourse has left very little room for debate, as it sought to convince other actors to think or act in the same way. This set of ideas was translated in the first decisions adopted in the fast-burning phase of the Eurozone crisis.

The European Semester is a case in point.

In terms of power relations: During the fast-burning phase of the crisis the European Semester strengthened the agenda-setting powers of the European Council to the detriment of the supranational actors. The resulting process was purely top-down and the relationship between institutions antagonistic rather than cooperative. Although the Commission was also involved in the formative stage of the processes, most notably through the expert input of DG ECFIN, it was the report of the President of the European Council's Task Force that served as the blueprint for the institutionalization of both the content and the processes that would come to define the European Semester (Bocquillon and Dobbles 2014: 31).

In a second phase, as the fast-burning crisis slowed, the Commission seized on its new responsibilities to take action and exert greater discretion. This would fundamentally alter its relations with individual Member States. Ultimately the Six-Pack adopted in December 2011 would not merely enhance the Commission's authority in the multilateral budgetary and macro-economic supervisory, but more importantly it also institutionalized an increasingly far-reaching and political macroeconomic dialogue with each Member State (Chang 2013: 256).

Finally, although the role of the European Parliament had initially been relatively minimal, over time it gained greater voice and presence throughout the process. These findings confirm the staggered establishment of an increasingly complex set of interactions which have gone from a top-down enforcement mechanism set-up by ECOFIN to a complex multi-institutional exercise in macro-economic coordination shepherded by the Commission's SECGEN. This speaks to the nature of the European Semester as an evolving governance process.

As shown, although the crisis was structural enough to prompt major changes and the implementation of previously discussed but politically non-viable policy options, it did not however prompt a change in competences within the EU. The Semester is therefore above all a policy instrument seeking to reinforce pre-existing governance processes.

In terms of ideas: As a rapid response from EU institutional actors to the policy shortcomings exposed by the eurozone crisis, the first cycle of the European Semester was framed as a technocratic exercise with the support of the Commission, the EP, the Council, and the European Council (Coman and Ponjaert 2016). Designed as it was behind closed doors, though, the first European Semester was criticised by a wide range of political actors within the EP and in member states. In 2012 Paul Magnette, Belgian Minister, denounced the Commission's actions and its recommendations as 'ultra-liberal prescriptions' (*Le Monde*, 27 February 2012). Magnette, like many others political actors within the EP, lamented the lack of legitimacy of the Commission to shape domestic policies that remained at the core of national sovereignty. As MEP Karas (EPP) declared, the first iteration of the European Semester was an 'emergency solution' (EP, 30 November 2011).

Although the role of the EP in the establishment of the Semester was marginal initially, it scrutinised both its iterations and outcome to coerce EU institutional actors into increasing the number of those involved in the coordination of macroeconomic policies at the supranational level. From the outset, the rapporteurs of the EP – Marije Cornelissen and Pervenche Berès – deplored the opacity of the process through which the European Council adopted the Annual Growth Surveys to be implemented by member states (Berès, EP, 15 February 2012). Moreover, MEPs from the four political groups in the EP – EPP, S&D, Greens and ALDE, joined by a more sceptical voice from GUE – deplored not only the opacity of the process through which the European Semester had been designed but also the excessive focus on expenditure reduction and fiscal consolidation (Eickhout, Verts, EP, 25 October 2011).

The mounting pluralism and widening debates surrounding the European Semester in the EP stood in stark contrast to the mainstream ideological conformism of José Manuel Barroso's Commission and the Council (Interview, MEP, the Greens, February 2016). Thus, countering the bureaucratic 'one-size-fits-all' approach proposed by the Commission – which rested solely on 'indicators and figures,' as MEP Anni Podimata (S&D) and Sylvie Goulard (ALDE) put it – the EP called on the Commission to change its policy paradigm when establishing the Annual Growth Survey (AGS) and 'to focus on people and on vulnerable social groups rather than on numbers' (Coman and Ponjaert 2016).

Put in another way, the EP contested both the input legitimacy of the European Semester (how the AGS and the Country Specific recommendations were produced) as well as its output (the ideas put forward by the Commission to shape reforms in member states). The first iterations of the Semester were very much about austerity and internal devaluation. Over time the European Semester has become incrementally more progressive as attention for social and employment affairs has seemingly increased; yet this this has not led to a formal change in the Semester's priorities or enforcement mechanisms which remain primarily concentrated on fiscal and macro-economic balance.

In summary, if at the inception of the crisis, the Semester was born from strong inter-institutional conflicts at the EU level, since 2013, energies have shifted towards fostering greater co-construction and cooperation with an eye on improving ownership and compliance, which in turn has led to a broadening of the Semester's policy agenda.

Research finding summaries

Fast-burning and slow-burning solutions

Hypothesis: In the fast-burning phase *"EU institutional actors privileged feasible legal solutions and pragmatic arguments while in the slow-burning phase, they favoured feasible political solutions that also meet technical standards and needs."*

This hypothesis still stands but needs to be amended. **In the slow-burning phase of the eurozone crisis, EU institutional actors have sought to solve the legitimacy problems generated by their responses to the crisis in its fast-burning phase.** They have had to find solutions to strengthen both the input, output and throughput of the European Semester.

Since its first iteration, the EP, the Commission and Member States have sought to strengthen the input, output and throughput of the European Semester. It has been rationalized several times to avoid administrative overload. It has been also focused on a set of priorities in terms of policies.

Particular attention has been devoted to the role of each actor involved in the process. For example, research conducted in WP1 shows that the most noticeable change and interlinkage is the bilateral dialogue between Commission and member states articulated around the Country Specific Reports and recommendations. These meetings represent crucial moments both for the Commission and for member states as the actors can exchange information and explain the nature of the reforms to be undertaken. The practice is new and tends to take different forms varying from one country to another.

For instance, while high-level officials in the bilateral meetings with the Commission represent some Member States, technical experts represent others. The ever-growing centrality of the Commission's bilateral relationship with each Member State is a core innovation at the heart of the European Semester's workings. These bilateral relationships empower the Commission. The Commission is *"very active"* and *"very knowledgeable in contacting stakeholders like Parliaments, like the different cabinets, organizing informal meetings to explain things to people*" (Interview, Permanent Representation of Belgium to the EU).

In addition, the Commission has since 2012 used the 'comply or explain' rules of the European Semester to oblige the Council to provide a written explanation of its reasons for modifying any of the Commission's recommendations (Article 2-ab(2) of Regulation (EU) No. 1175/2011 of the European Parliament and the Council). The Commission holds to this principle both in the meetings of the Council and in the technical committees with Member States experts. As one official of the Council stated, the Commission often reminds in these meetings that the Council *"is expected to, as a rule, follow the recommendations and proposals of the Commission or explain its position publically"* (Interview, General Secretariat, Council of the EU).

Research finding summaries

Scientific and societal impact of the "solutions"

The crisis invited scholars to review a set of theoretical assumptions in EU studies. **The EU as it is today cannot be taught as it was. Not only European integration (as a political project) needs to be rethought, but also the EU's institutional framework as well as the evolutions of its main policies need to be reassessed in the light of the recent transformations.**

The integration process has never followed a clear path. In contrast, it developed as a result of a succession of painful negotiations and compromises, followed at times by moments of political enthusiasm marking historical decisions. Over the last decades, the widening and deepening of integration has gone hand in hand, to varying degrees, with mounting popular discontent; attempts to create unity and to make the EU more akin to a federal state have received little support or failed. Instead of putting pressure on elites to transfer power to a higher level of governance, as predicted by neo-functionalists in the 1950s, from the 1990s onwards citizens have called for "less Europe". Their voices are backed by mainstream and marginal political parties that have amplified discourses on disintegration, rather than the pursuit of integration. The pursuit of an "ever closer union" and federalist ambitions have been abandoned. Instead, the way has been paved for closer cooperation, without transfer of power from member states to the supranational institutions. **Born from crises and deepening its scope and depth in reaction to other crises, the EU has proved its ability to constantly adapt to sudden disruptions, social and political changes. But at what costs and with which social, political and economic implications?** These questions needs to be addressed in the aftermath of the Eurozone crisis.

Relevant "ideational entrepreneurs"

Several actors are relevant in the coordination of macroeconomic policies.
I would say that in order to have a more accurate view on their roles and impact capacity we, scholars, should analyse them as heterogeneous actors instead of analysing the Commission as a unitary actor. It has been mentioned several times that DG ECFIN has played a crucial role in the crisis. Other DGs play also an increasingly important role. To this one should add the important role of the college of commissioners (in particular since the nomination of a more political Commission in 2014). Another important actor is the Sec Gen in charge with the coordination of the European Semester. Concerning the Council, crucial decisions are adopted at the level of committees in charge with the preparation of the *dossiers* to be discussed by ministers. How they work and reach agreements needs further investigation. WP 1 is conducting a research on this facet of the process. The European Parliament is a forum of ideas pushing both the Commission and the EP to adopt decisions that resonate with citizens needs and preferences. I would add also the role of Brussels based think tanks. A few of them have been extremely active in the context of the crisis, framing the problems and trying to influence decision-makers on how to solve the problems of the Eurozone.

Research finding summaries

The societal impact within the European institutions of "externalising" expertise

EU institutional actors seek legitimacy in many ways.

After 2013, the European Commission and the EP has sought to involve more actors in the debate to increase the legitimacy of the decisions adopted to secure the future of the Euro.

EU institutions, like their national counterparts, are dependent on **knowledge/expertise** in different ways. **The political demand for expert economic knowledge increased** in a context of strong doubts about the irrefutable character of economic laws and when the battles between 'freshwater' and 'saltwater economists' intensified in the United States (Jorion and Colmant 2014). At the inception of the eurozone crisis, in search for ideas to calm the markets and to prevent the disintegration of the Euro area, EU institutional actors strengthened their ties with European/domestic/international experts and EU institutions (Coman, forthcoming). Not only supranational institutions like the Commission seemed to be inclined to use expert knowledge, but also technocratic institutions like the ECB, as well as directly and indirectly elected institutions such as the European Parliament and the Council sought to boost their legitimacy by calling upon sustainable economic expertise when appropriate. When the crisis was 'hot', both Jean-Claude Trichet and Mario Draghi stressed the importance of **'scientifically-informed monetary management**' (Mudge and Vauchez 2015). For example, the ECB's monetary policy is defined by a wide range of committees that bring together actors holding different forms of legitimacy (Lebaron 2012: 114). Although each EU institution poses its own office in charge of strategy and policy prospection, the proportion of 'in-house academic expertise' prior to the crisis was relatively reduced. As the debt crisis in Greece worsened, the ECB established its own Research Unit, delivering with regularity a wide range of studies and reports (Mudge and Vauchez 2015). The Commission increased its staff at DG ECFIN (Interview February 2016). The Research Department of the European Parliament amplified its collaborations with research centres and universities across Europe. It also increased the staff of its Research Unit, hiring in particular academics holding a PhD degree in the field of social sciences. Finally, high-level officials in Brussels engaged in discussions with renowned American and European economists such as Paul Krugman and Thomas Picketty.

To summarize, in the context of the crisis EU institutional actors have sought on the one hand to strengthen their ties with a wide range of ideational entrepreneurs and, on the other hand, to strengthen their units/research department to be able to rely on internal expertise. In the same vein, the Commission has strengthened its relations with member states with the attempt to exchange data and ideas in order to provide a more accurate picture of the state of the EU in terms of socio-economic conditions.

The externalisation of expertise is not without risk as it can generate additional problems of legitimacy/representativeness as not all the actors have the same level of resources to be involved in the process.

Power relations during the crisis

Hypothesis: *"The relations of power changed as the crisis moved from its fast-burning to slow-burning phase, which allowed greater influence and discretion to supranational actors."*

In the slow-burning phase, the alliances between EU institutional actors have changed. As a result, the Commission led by Jean-Claude Juncker seems to be in favour of rule reinterpretation and greater flexibility, as opposed to the Commission chaired by José Manuel Barroso, which had insisted on conditionality and strict compliance with the rules. The EP supports the Commission, while the Council seems to be more reluctant to accept the political interpretations coming from the college of commissioners. One concrete example is that in July 2015, the European Commission concluded that Spain and Portugal had failed to adopt sufficient measures to reduce their excessive deficits in 2014 and 2015. On the 12th of July 2015, the Council subsequently found that both countries had not taken effective action to correct their excessive deficits. Pursuant to the provisions adopted in the fast-burning phase of the eurozone crisis, if the Council decides that a member state has not taken any effective action to correct its excessive deficit, the Commission shall make a proposal to the Council to suspend part or all of the commitments or payments for the programmes of a member state (article 23 paragraph 9 of the Regulation 1303/2013).

Thus, in October 2016, the EP and the Commission initiated a structured dialogue to debate on the situation in Spain and Portugal. Commissioners Jyrki Katainen and Corina Cretu insisted on the legal obligation of the Commission to make a funds suspension proposal. Both commissioners were in favour of rule enforcement, while trying to highlight that suspension would not affect the two countries' social and economic development. However, using the same discourse promoted in 2011 and 2013, the REGI and ECON Committees of the EP proposed a suspension of 0 per cent.

Although divided, the Commission decided not to apply sanctions. The decision was taken within the college of commissioners. Some members of the college invoked the need to apply at least symbolic sanctions on Spain and Portugal. Valdis Dombrovskis, commissioner for the Euro and Social Dialogue and Jyrki Katainen, commissioner for Jobs, Growth, Investment and Competitiveness, were in favour of applying the rules (EurActiv 28th July 2016; Spiegel International 17th June 2016). However, Jean-Claude Juncker did not follow that position. In the end, the Commission recommended the Finance Ministers of the Member States not to sanction the two countries.

The Commission, which promoted a strong discourse on rule compliance during the fast-burning phase of the Eurozone crisis, embraced the idea of flexibility, especially after Jean-Claude Juncker took office. Although at the inception of the crisis the Commission had been reinterpreting the rules without acknowledging it in its discourse (Schmidt, 2016a, p. 1032), in 2016 it nonetheless sought to justify its decisions. Thus, in July, an official of the Commission anonymously told EurActiv that for the Commission **'it was about an intelligent application of the provisions'** included in Regulation 1303/2013 (EurActiv 28th July 2016). This statement predicted the explanation given by Pierre Moscovici, commissioner for Economic and Financial Affairs on the 9th August 2016: 'Today's decisions reflect an intelligent application of the Stability and Growth Pact'.

With this decision, said Pierre Moscovici, the College of Commissioners 'has proven its technical credibility and political solidarity' (27th July 2016). The Commission considered both countries made 'massive efforts and sound structural reforms, however insufficient under the rules'. Nonetheless, commissioner Moscovici explained that: 'We have found that the punitive approach would not be the most appropriate in a moment where people were doubtful of Europe' (27th July 2016). The EP welcomed the Commission's decision. On the other hand, neither the President of the Eurogroup, Jeroen Dijsselbloem, nor the legal experts of the Council were so enthusiastic about it (Spiegel International, 17/06/2016).

The German Finance Minister, Wolfgang Schäuble, as well as a series of Finnish and Dutch political representatives accused the Commission of not enforcing the rules (Politico, 27/7/2016). **The European Central Bank made similar remarks, as it feared that the decision would undermine the credibility of the euro if the rules adopted in the fast-burning phase of the Eurozone crisis were not complied with by member states** (*Financial Times*, 5/06/2016). The Council could have decided to impose sanctions on Spain and Portugal, because it was not bound by the Commission's proposal. But in order to do so, the Council should have gathered sufficient votes by reversed qualified majority to make such a decision. In other words, the Council should have obtained a qualified majority against the Commission. In the end, Commissioner Moscovici explained that the non-adoption of sanctions received 'great support' in the Eurogroup where 'many finance ministers suggested that there was political consensus not to sanction Spain and Portugal' (27th July 2016).

Power players (winners and losers)

Both the Commission and member states have been empowered. The political and administrative role of the Commission has been strengthened. Each of the EU's main actors has integrated the new European Semester and thus been in varying degrees empowered by it *de iure* (by the Two and Six Packs) or *de facto* (through interactions and interinstitutional agreements). Thus, to give unequivocal answer to the question "who governs" is rather complicated and it will always be given the *sui generis* nature of the EU and the co-existence of multiple modes of governance in each policy area. Drawing a picture in black and white would be an oversimplification as institutional interdependencies are enshrined in the treaties. Not only the *de iure* empowerment of EU institutional actors matter, but also their behavior *de facto.*

The involvement of national parliaments and national actors in general in the coordination of macro-economic policies is not sufficiently visible nor analysed.

Research finding summaries

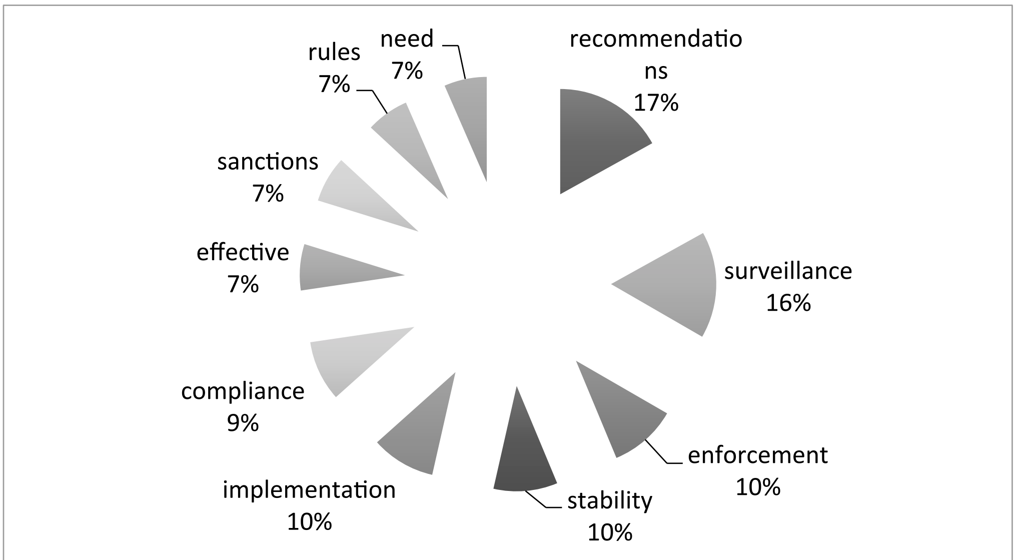
The resilience of ideas

The fast-burning phase of the eurozone crisis strengthened the agenda-setting powers of member states to the detriment of the supranational actors, while the EP remained largely a 'talking shop'. As a mirroring effect of the transformation of power relations between institutions, in terms of ideas, the fast-burning crisis generated a strong inter-institutional consensus at the EU level on the need to **increase fiscal and budgetary discipline**, while the EP stepped up its criticism, denouncing the extension of macroeconomic conditionality to structural and investment funds. In the first three crucial years of the crisis (2010-2013) certain ideas had been assumed as the right and the only ways forward.

While arguing there were no other alternatives, the European Council, the Commission and the European Central Bank (ECB) promoted **a stricter budgetary discipline entailing reduced public expenditure and drastic structural reforms** (Crespy et Vanheuverzwijn, 2016; Schmidt, 2016a).

In the context of the Greek public debt crisis, EU institutional actors put forth the idea of fiscal and budgetary discipline as an imperious necessity (Lebaron, 2011, 2015; Boriello, 2017; Blyth, 2013; Béland et Cox, 2013; Schmidt, 2016b). The prevailing debate on fiscal discipline, rule compliance and the need for sanctions intensified. This reform agenda aimed at reinforcing fiscal and budgetary consolidation resulted in neoliberal solutions and austerity policies that have influenced the European political agenda as well as national policies of the member states. In 2010 the words 'rules', 'penalties' and 'conditionality' occupied a central place in the reform of European economic governance. They crystallised in a set of governance principles that shaped the European Semester and the coordination of macroeconomic policies.

Graph 1: 10 words defining the goals of the task force on European economic governance chaired by Herman Van Rompuy in October 2010



By contrast, the slow-burning phase is characterised by increased contestation and discussion of alternative policy ideas. Within the Commission, members of the college seek to re-interpret the rules with greater moderation; and this against the preference of some of their colleagues and member states in the Council. New ideas and principles have been put forward. For example, the governance principles at the outset of the Semester in 2010 (i.e. rules, conditions, sanctions) have been replaced by others: ownership and flexibility.

Ownership is understood in EU governance as a way to ensure that national actors 'own' the process through which European integration reshapes realities at the domestic level. This principle creates ease of consensus and appeases political tensions, as it underlines the idea that domestic actors are to play a role in determining how they will meet European requirements in the framework of the Semester. While attempts to translate this principle into practice have been numerous, arising both from legal provisions and informal practices, in 2017 ownership remains central in the discourse of EU institutional actors. As Commissioner Moscovici stated in 2017: '**we do not need, as I said, more rules or more bureaucracy**; what we need is stronger national ownership, better incentives for Member States to take on the necessary national responsibility, and we need stronger, deeper democratic accountability' (SPEECH/17/1509).

Transparency, accountability and legitimacy in the EU

The eurozone crisis has exacerbated the problems of legitimacy, giving rise to concerns regarding the ability of the EU to elaborate 'good' policies that resonate with citizens' values (i.e. output legitimacy) in ways that are responsive to European citizens' needs and expectations (i.e. input legitimacy) and *accountable* to the community and stakeholders (i.e. throughput legitimacy) (Schmidt, Coman and Ponjaert 2015). In the fast burning phase of the eurozone crisis a series of *ad hoc* solutions had been adopted through intergovernmental decisions reached behind closed doors (Fabbrini 2013; Bickerton et al, 2015; Vauchez 2015). From the point of view of citizens, the decisions adopted at the EU level ignored the rules of democracy by failing to respond to their needs and/or demands. **This led to input legitimacy problems.**

On the other hand, EU institutional actors sought to reform the EMU by strengthening the rules on fiscal discipline, by adopting new ones to prevent macroeconomic imbalances, by improving the coordination of macroeconomic policies, and by putting in place mechanisms of financial assistance (Fabbrini 2013; Bickerton et al, 2015; Coman and Ponjaert 2016). In addition, this has given rise to a problem of **output legitimacy** (Schmidt 2015). EU institutional actors responded with lowest common denominator solutions through the reinforcement of long-standing neo-liberal ideas (Schmidt 2010; Gamble 2013).

As a result, austerity and structural reform appeared as the only way forward (Blyth 2013; Matthijas and Blyth 2016). In the attempt to strengthen the economic architecture, EU institutional actors produced their own ideational and institutional blend of German ordo-liberalism and contemporary finance-driven neo-liberalism (Schmidt and Thatcher 2013; Crespy and Vanheuverzwijn 2016). Yet, the resilience of neo-liberal and ordo-liberal ideas in the EU's policy-making (Schmidt and Thatcher 2013; Ryner 2015; Schmidt 2016b) stood in stark contrast to the ability of other international organisations to consider alternative policy solutions.

If legitimacy rests on the EU's ability to solve problems and to promote values and rights (Collignon, 2007), the eurozone crisis in its first crucial years created a **'legitimacy trap'**, by generating increasingly dissonant political dynamics at various levels of the EU's multi-level governance structure and between different EU institutional actors (Schmidt, Coman and Ponjaert 2015). Accordingly, debates surrounding the EU have moved from the more procedural concerns regarding the 'democratic deficit' to a near ontological question regarding EU's very *raison d'être*.

How to attain legitimacy is an old question in political science. As Best put it, 'any institution's or government's legitimacy is therefore always potentially fragile, if enough people raise doubts about the sufficiency of an institution's legitimacy (asking whether it is complying with its own claims of legitimacy), or question the basis on which legitimacy is claimed (asking whether procedural or outcomes-based legitimacy is enough, for example)' (2007). In the context of the eurozone crisis, EU institutional actors have sought to strengthen the legitimacy of their decisions in many ways.

To escape this legitimacy trap, they forward a series of governance principles seeking to reconsider their relations with domestic actors (i.e. input legitimacy), the nature of policies (i.e. output legitimacy), and the principles through which decisions should be taken at the supranational level (i.e. throughput legitimacy).

One way to solve some of the legitimacy problems generated by the solutions adopted since the beginning of the eurozone crisis was to rebalance power relations at the EU level. For example, since 2010 onwards, **conditionality, ownership and flexibility** have been used in different ways by the European Commission, the European Parliament (EP), the European Council and the Council to legitimise the **European Semester** both in terms of input legitimacy (i.e. power relations among actors) and in terms of output legitimacy (i.e. policy ideas) (Coman and Ponjaert 2016).

By means of fixing meanings of governance principles, EU institutional actors sought to exercise power, solve their legitimacy gaps, and appease political conflicts. First, at the discursive level, there is an increased emphasis on 'tailor-made' sets of policy recommendations rather than 'one-size-fits-all' approaches; second, IOs, including the IMF, the Council of Europe, the OECD, the World Bank and the EU are in search of 'ownership', meaning that reforms are not simply 'exported' from A to B, but that B should participate in reflecting on the reform to be undertaken at the domestic level under the prescriptions of IOs (Coman 2017: 165). Since the 2000s, the IMF has led the way by introducing in its jargon a set of principles to rethink its programme designs (Nuri Erbas 2004). What was at stake within the Fund was its attempt to '**obtain deep political legitimacy'**; to do so for example the IMF staff sought to 'change its relationships with borrowing countries by revising its conditionality guidelines', by introducing more flexibility and by pursuing greater domestic 'ownership' over the reforms that it requires (Best 2007: 469).

While at the outset of the crisis the Commission, the Council and the European Council insisted on enforcement and semi-automatic sanctions of non-compliance, in 2012 José Manuel Barroso redefined the philosophy of the Semester, arguing that this policy tool had to be conceived as a system 'based on guidance, not on corrections', as 'an informal discussion' between member states and EU institutions before deliberating and adopting their national budgets (Speech Barroso 11/29).

As one official from the Council maintained, over time the Commission has become ever more reluctant to formulate 'harsh recommendations' because of the increasing hostile political context both at the EU and member states' levels (Interview, Principal Policy Advisor, Office of the Chairman of the Eurogroup Working Group, General Secretariat, Council of the EU).

Since engaging with the European Semester, the Commission expressed an increasing concern not to be perceived as 'breaching national sovereignty' (Speech 11/724; Document 11/64). This growing political awareness in the Commission saw **talk of sanctions and conditionality move to the back-burner as interactions and recommendations came to focus on needed structural reforms**. The European Semester was no longer considered an instrument **of ex-post coercion, but as one of ex-ante guidance and socialisation** (Speech Barroso 11/29).

Ownership was not a new principle in EU governance. Commissioner Almunia invoked its importance in 2004 when France and Germany failed to meet the conditions of the Stability and Growth Pact. Following a similar reasoning to that of the IMF's staff, Commissioner Almunia lamented the inability of member states to cope with the conditions of the SPG due, according to him, to the lack of effective implementation:

> 'The implementation of the fiscal framework has not been always consistent with the ambition of the Treaty and the Stability and Growth Pact. To a certain extent, this has led to a loss of **credibility and ownership** and even to institutional uncertainty at the European level'[1].

In recent years, ownership has been translated into legal provisions. On the other hand, ownership has been a matter of negotiations between EU institutional actors.

First, in terms of legal provisions, by 2013, the European Semester was fully institutionalised by way of two European legislative acts known as the Six-Pack (December 2011) and Two-Pack (May 2013). The five regulations adopted as part of the Six Pack would, on the one hand, give to the European Parliament the right to invite the President of the Council, the Commission, the President of the European Council or the President of the Eurogroup to appear before EP's committees to discuss the broad guidelines for economic policy adopted by the European Council in the context of the Semester and the recommendations addressed to member states; and on the other, provide the legal basis for the European Economic Dialogue aimed at initiating formal exchanges of ideas between all three major EU institutions.

The number of EU and domestic actors involved in this process of economic coordination increased spectacularly, leading ironically to problems of efficient coordination within the Secretariat General of the Council (Coman and Ponjaert 2016). **Thus, the new legal basis of the European Semester translated ownership into practice by establishing a series of interlinkages between levels of governance through: the bilateral dialogue between Commission and member states articulated around the CSRs**; the Economic Dialogue seeking to enhance the exchange of ideas between EU

[1] Almunia, 'Economic governance in a European Union of 25 Member States', Conference on EMU and economic governance, Crowne Plaza Hotel, Brussels, 28 September 2004.

institutions on the Annual Growth Survey (AGS); or the interparliamentary meetings which bring together national politicians and MEPs on the subject of the National Reform Programmes (NRP) and the Stability and Convergence Programmes (SCP).

Second, **interviews revealed that ownership gained meaning also through informal practices**. For example, the 2015 Annual Growth Survey was first presented by the Commission in the EP before its publication, thus opening the possibility of a substantive ex-ante dialogue between the two institutions (EP Report, Rodrigues, 2015/2285(INI): 12/31); this idea was not new, it had been proposed by Commissioner Rehn in 2012. In the same vein, a more accommodating draft schedule made it possible for the European Semester to be scrutinised in several EP committees and for some MEPs to enjoy regular formal and informal contacts with Commissioners Valdis Dombrovskis and Pierre Moscovici (Interview, consultant S&D group, EP, February 2016).

These informal changes have opened a new window of opportunity for a *de facto* increase of the EP's role (Fasone 2014). Some interviewees argued that the above-described opening was a scheduling accident due to discussions and disagreements between the wider Commission and DG ECFIN; whereas others emphasised that the change was a deliberate decision specifically requested by Martin Schultz when he negotiated the EP's support for Jean-Claude Juncker's confirmation as the *Spitzenkandidaten* for Commission President with the biggest parliamentary backing (Coman and Ponjaert 2016).

Even civil servants interviewed in Brussels maintained that the Commission led by Jean-Claude Juncker sought to introduce some changes in the coordination of macroeconomic policies, trying not only to be more 'political' but also to be 'more inclined to look at the political reality in the Union' (Interview, Eurogroup, Council of the EU, June 2016). The establishment of bilateral meetings of the Commission with member states was another way to increase ownership.

Overall, ownership has been understood in EU governance as a way to ensure that national actors 'own' the process through which European integration reshapes realities at the domestic level. This principle creates ease of consensus and appeases political tensions, as it underlines the idea that domestic actors are to play a role in determining how they will meet European requirements in the framework of the Semester.

An interesting finding is that the Commission is divided when it comes to choosing between conditionality and flexibility. To conclude, whilst ownership and flexibility have been introduced as key governance principles **to solve the legitimacy gaps of the European Semester**, in turn they create additional legitimacy dilemmas, as it remains unclear who decides as well as the degree of flexibility and the ways to ensure ownership.