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How have EU 'Fire-fighters' Sought to Douse the Flames of the Eurozone's Fast- and Slow-Burning Crises? The 2013 Structural Funds Reform

Ramona Coman[1]

Abstract

This article examines the debates surrounding the Regulation 1303/2013 on structural funds, arguing that the rules adopted in the midst of the eurozone crisis to strengthen the governance of the euro area had spill-over effects on cohesion policy. It shows how, in the fast-burning phase of the crisis (2010-2013), some actors pushed forward the idea of suspending structural funds in case of non-compliance with the rules of the Stability and Growth Pact, making funding conditional on Member States' compliance with the rules of the new economic governance, and how, after the entry into force of this Regulation, in the slow-burning phase of the crisis (from 2013 onwards), a greater number of actors has been calling for a more flexible interpretation of the rules. To explain said disruption between *t1* and *t2*, the article examines the change in the power relations between and within institutions and the change in ideas.

Keywords

Fast-burning crisis, slow-burning crisis, conditionality, eurozone crisis, Stability and Growth Pact, European Structural and Investment funds (ESI)

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The economic crisis that hit the European Union (EU) in 2010 has strained European integration. In order to save the euro while ensuring its stability, when the crisis erupted in Greece, the EU institutions unanimously required the adoption of new rules to enhance the coordination of macroeconomic policies and to increase the credibility of the Stability and Growth Pact (SGP). Remarkably, most of these decisions not only changed eurozone policies (Fabbrini, 2013; Puetter, 2012; Bickerton et al., 2015; Schmidt 2015b), but also impacted other policies of the EU. This article scrutinises how some EU institutions struggled to introduce the principle of macroeconomic conditionality in Regulation 1303/2013 on European Structural and Investment funds (ESI) and how, as soon as the fast-burning phase of the eurozone crisis moved towards its slow-burning phase, some actors at the EU level have sought to reinterpret those rules, while others have stuck to their initial positions.

In 2008, prior to the eurozone crisis, the Commission launched a first round of consultations concerning the reform of regional policy for 2014-2020. Its aim was to simplify the procedures of structural funds (Berkowitz et al., 2015). In contrast, in the context of the Greek public debt crisis, the EU institutions put forth the idea of fiscal and budgetary discipline as an imperious necessity (Béland et Cox, 2013; Schmidt, 2016a, b; Boriello, 2017). Thus, the prevailing debate on fiscal discipline, rule compliance and the need for sanctions intensified. As a result, in 2010, the aim of the institutions involved in the adoption of Regulation 1303/2013 shifted from that of seeking to simplify procedures to establishing a strong and close bond between regional policy and EU economic governance in order to ensure the efficiency of ESI spending.

The article shows that in the policy formulation stage (2010-2013), the Commission—backed by the president of the European Council and powerful Member States in the Council—put forward the need of conditionality and strict rules in order to maintain the stability of the euro area. The European Parliament (EP), though, opposed the idea of making the payment of ESI conditional on Member States' compliance with the rules of the new economic governance. However, weakened by the influence of intergovernmentalism at the beginning of the crisis (Fabbrini, 2013; Bickerton et al., 2015), the EP did not manage to alter the discourse of some dominant actors within the Commission and the Council. Conversely, in the implementation stage of the Regulation (after 2013), some Member States and members of the Commission have been calling on the reinterpretation of the rules (Schmidt, 2016) that the EP only reluctantly and under constraint had approved in 2013.

How did EU institutions engage and interact in the reform of EU policies during the fast-burning phase of the eurozone crisis (2010 to 2013); and how have those actors sought to readjust such policies or their implementation in the slow-burning phase of the crisis?

The structural funds reform is empirically relevant to examine the disjunction between *t1* and *t2*. Drawing on this case, the article seeks to open the black box of the EU decision-making process in hard times to explain how the rules adopted *de iure* in *t1* change their implications when applied *de facto* in *t2*. In so doing, the article seeks to theorise about the dynamics of institutional and ideational change by looking at how disruption from *t1* to *t2* may be influenced by shifts in the perceptions of EU institutional actors about the intensity of the eurozone crisis. To do so, the article distinguishes between the fast and slow-burning phases of said crisis, defined as specific moments in time that vary depending on the subjective assessments of EU institutional actors of the intensity of the crisis. In each phase, the article examines change in the power relations between and within the EU institutions involved in the decision-making process (the Commission, the EP and the Council) and change in their ideas put forward to shape the content of Regulation 1303/2013. Overall, the article contends that change in power relations between and within institutions as well as the ideational structure of their discourses should be considered together to explain the focus on conditionality in *t1* and the flexible reinterpretation of the rules as soon as the crisis started to 'cool' in *t2*.

To puzzle out this change, the article is organised as follows. Section 1 theorises about policy change and proposes a framework that combines three explanatory factors: time, change in the power relations and change in the ideational structure of institutional discourses. Section 2 focuses on the policy formulation of Regulation 1303/2013 through the ordinary legislative procedure in the fast-burning phase of the eurozone crisis, while section 3 discusses the shift from conditionality to flexibility following the entry into force of Regulation 2013/1303 in the slow-burning phase of the crisis.

The article draws on official documents adopted by the Commission, the EP and the Council during the ordinary legislative procedure period, as well as interviews conducted with the drafters of Regulation 1303/2013, parliamentary debates, committee meetings that took place in 2013 and 2016, newspaper articles (2010-2017) and the audio-visual debates on the dialogue between the EP and the Commission in October 2016 on suspending the ESI for Spain and Portugal.

Policy change in fast- and slow-burning crises

While Kingdon (1984) in his seminal book conceptualised the stages of policy-making, providing explanations for each stage of the policy-process (agenda setting, alternative solutions and decision-making), he did not look at the systemic whole while 'the trajectory and outcomes of one component process affect those of the others' (Barzelay and Gallego, 2006:539). The interdependences between stages need to be conceptualised. The originality of this article lies in the attempt to understand how change in the stages of policy-making shape policy outcomes. To propose a set of novel hypotheses about policy change in EU governance in times of crisis, this article builds on institutional processualism, a framework of analysis which is attentive to temporal contexts and to the interactions among actors and ideas (Barzelay and Gallego, 2006). To do so, the analysis takes into account three interrelated factors.

First, in order to capture the temporal dynamic, the article draws on the distinction introduced by Seabrooke and Tsingou between slow and fast-burning crisis (Tsingou 2014; Seabrooke and Tsingou, 2014; Seabrooke and Tsingou, 2016). Second, it seeks to capture change in the power relations between and within institutions (Carstensen and Schmidt, 2016). Finally, the article scrutinizes the ideational structure of EU institutional discourses, distinguishing between a discourse of conviction and a discourse of persuasion. By bringing together these concepts and integrating them into the broader institutionalist processualism agenda, the aim is to provide a comprehensive framework that can elucidate decisions adopted at the EU level when the crisis was 'hot' and later when it started to 'cool'.

How these concepts are intertwined is explained below, drawing on Barzelay and Gallego (2006), Tsingou (2014), Seabrooke and Tsingou (2014, 2016), Carstensen and Schmidt (2016), Farrell and Quiggin (2017) as well as Charaudeau (2009). While

Seabrooke and Tsingou have conceptualised fast- and slow-burning crises by looking at how the perceptions of professionals and experts about the intensity of crises shape the solutions put forward to douse their flames, this article extends this theoretical reflection to the role of political actors acting at the EU level. On the other hand, while Carstensen and Schmidt have in an innovative way theorised about different types of power exercised by EU institutional actors (2016), this article adds a new analytical dimension by looking at the ideational structure of discourses, distinguishing between persuasion and conviction. The following part explains how the interplay between power relations and ideas leads to change in the policy outcome in the fast-burning phase (*t1*) and in the slow-burning phase of the eurozone crisis (*t2*).

Fast- and slow-burning crises

Whilst the origins of the eurozone crisis go back to the establishment of Economic and Monetary Union (EMU), until the eruption of the crisis in Greece in 2010, the EU institutions seemed to be in a 'zone of indifference' and continued to perform their tasks without revising their practices and ways of doing (Lefkofridi and Schmitter, 2014:13; 2015). Only when the problems reached a critical level in 2010 did change become inevitable. At the beginning of the crisis, EU institutional actors invoked time either as a resource or as a constraint to legitimise the speed of the decision-making process. While some observers lamented that the EU institutions had done 'too little, too late', pointing out how slow and timid initiatives at the EU level were, others deplored that they had rather done 'too much, too soon'. While central bank representatives criticised the slow tempo of political decisions—arguing that the unwillingness of European politicians to make decisions forced central banks to overstep their roles—conversely, constitutional judges and members of the EP tried to slow down the process, criticising those political actors in the European Council, the Council and the Commission for pushing fast-track decisions and for insulating policies from politics. German constitutional judges strongly opposed the 'speedocracy' (Berliner Zeitung, 11/07/2011), that is the ability to take decisions without taking the time to deliberate (*Berliner Zeitung*, 11/07/2011). EU institutional actors invoked time to legitimise decisions as a necessity (constraint) or as an opportunity. As Dyson put it, 'time-rules offer a method of securing compliance by pre-commitment through binding bands' (2009: 291).

To calm the markets and regain credibility, between 2010 and 2013 meaningful decisions about policies and institutions were negotiated rapidly as a 'fire-fighting action'[2] to, on the one hand, prevent the disintegration of the euro area and, on the other hand, to reform the EU's modes of governance. Most of these decisions allowed to 'douse the flames' of the crisis, to quote Seabrooke and Tsingou (2016: 71), but in the meantime they dramatically affected the economic and social situation in various Member States, increasing the intensity of the slow-burning phase of the crisis (Matthijs, 2017).

Against this backdrop, drawing on the financial reform and the case of fertility policy, Tsingou argued that in fast-burning crises, 'the time available for reaction is limited' (Tsingou, 2014: 418), while 'in slow burning crises, professionals engage to define what the problems are and how they should be framed (Seabrooke and Tsingou, 2016: 71). I argue in this article that in the context of the eurozone crisis, the fast-burning phase from 2010 to 2013 is a sequence of quick action, while the slow-burning phase (starting in 2013) is a sequence of contestation and deliberation of the decisions taken in the previous phase. After 2013, the perceptions of the intensity of the crisis changed. The pressure of the markets diminished or was at least less invoked by EU institutional actors as an argument to adopt fast-track decisions. They managed to calm the markets and to regain credibility. However, as soon as these decisions entered into force, the slow-burning phase of the crisis took over as the measures adopted to save the euro dramatically altered the economic and social conditions of a wide range of citizens in EU Member States. As a result, the shift in the intensity of the crisis led to an increased contestation of the rules adopted to douse the flames between 2010 and 2013. This is the puzzle to be explained. To understand why EU institutional actors behave differently in fast- and slow-burning crises, additional factors need to be taken into account such as change in the power relations between and within EU institutions, and change in the ideational structure of discourses.

Change in power relations between and within institutions

As many scholars have argued, at the beginning of the eurozone crisis, intergovernmentalism was reinforced whereas the community method was impaired (Dehousse, 2011; Puetter, 2012; Fabbrini and Puetter, 2016). In the first years of the crisis, crucial decisions were adopted outside the Treaties, with the European Council leading the agenda and the decision-making process instead of the Commission and the EP (Fabbrini, 2013; Bickerton et al., 2015). Against this backdrop, Bickerton and his co-authors attested an increase in the power of Member States in the Council and a more prominent legislative role of the European Council, arguing that the EP and the Commission were complicit of Member States' attempts to promote 'integration without supranationalisation' (Bickerton et al., 2015).

I argue that the fast-burning phase of the eurozone crisis strengthened the agenda-setting powers of the European Council (Fabbrini, 2013: 64; Bickerton et al., 2015) to the detriment of the supranational actors, while the EP remained largely a 'talking shop' (Schmidt, 2015a). As Schmidt argued, in the first years of the crisis, intergovernmental actors and presidents of the EU institutions were in the driver's seat and pushed for fast-track decisions (Schmidt 2016a). In contrast, as this article shows, the EP, whose power had been impaired by an unbalanced intergovernmentalism (Fabbrini, 2013) and by the primacy of the European Council in the management of the crisis, found itself in confrontation with them. While the president of the EP, Martin Schultz, encouraged the adoption of rapid decisions throughout trialogues, in contrast, the Members of the European Parliament (MEPs) strongly insisted that decisions had to be discussed in the EP's committees and in its plenary sessions rather than behind closed doors. However, in the first years of the crisis, the EP remained a vocal but still isolated actor, weakened institutionally by the strong alliance between some members of the Council and some members of the Commission. In contrast, the slow-burning phase of the crisis weakened the power of some Member States in the Council and strengthened the alliance between the EP and the Commission.

Not only does change in the power relations between institutions matter but also change within institutions, as neither the Council, the Commission nor the EP act as unitary actors. At the beginning of the eurozone crisis, a small group of actors exercising presidential powers (Armstrong, 2014) acted as *primus inter pares*. Within the Commission, not only the president was empowered but also the role of the DG ECFIN was strengthened at the expense of other DGs such as those charged with structural funds and regional policy (Schmidt 2015a, 2016). In the first years of the crisis, contestation was growing within the Commission; but it was not publically voiced. In contrast, in the slow-burning phase, contestation became more visible, with commissioners making public statements in favour or against various decisions. Shifts within the Commission were noticeable already in 2013. They become observable after the nomination of the new Commission in 2014, as the institution was more divided than the previous one and divisions among the commissioners were publically voiced and debated.

Within the EP, the role of the president had been strengthened in the fast-burning phase of the crisis, as Martin Schulz negotiated decisions and compromises directly with the presidents of the other institutions, despite the objections of MEPs. In contrast, in the slow-burning phase, he expressed the EP's support for the Commission in order to weaken the position of the Council.

Within the Council, while in the first years of the crisis Angela Merkel and Nicolas Sarkozy were able to impose decisions, once the crisis slowed, they were challenged not only by other Member States within the Council but also by some members of the Commission and the EP. As the empirical section shows, in the fast-burning phase of the crisis, on the one hand, contestation increased between the big countries economically important for the euro area and the small countries, and on the other hand between Germany and the others.

Ideational change: discourse of conviction versus discourse of persuasion

To understand the disruption from *t1* to *t2*, it is essential to conduct an analysis of ideas (Farrell and Quiggin, 2017). Ideas are understood as a 'web of related elements of meaning' (Carstensen, 2011: 600), used by actors to identify what their interests are, to create the content of their policies, and to legitimise them (Carstensen, 2011: 603). Although the narrative of ideational change was central in the first years of the crisis, ideational change was in short supply. Despite the 'hot' context, the EU institutional actors responded with lowest-common-denominator solutions through the reinforcement of long-standing neo-liberal ideas (Gamble, 2013). EU leaders reinforced the old rules and numerical targets of the SGP (Schmidt, 2015a, 2016a). As a result, austerity and structural reforms were seen as the only way forward (Schmidt and Thatcher, 2013; Matthijs and Blyth, 2016; Crespy and Vanheuverzwijn, 2017).

Thus, in terms of ideas, the fast-burning crisis generated a strong inter-institutional consensus on the need to increase fiscal and budgetary discipline. In the first three years of the crisis, certain ideas were taken for granted as the right and the only way forward. Most of the ideas guiding policy reforms were defined by common positions signed by the German chancellor, Angela Merkel, and the President of the French Republic, Nicolas Sarkozy, who were the 'original creators of ideas' (Carstensen, 2011: 605). As Farrell and Quiggin put it (2017), the spread of these ideas was 'as a process of contagion, similar in many respects to the spread of an infectious disease'. Being members of the European Council, the power of their ideas was backed up by their institutional power (Carsensen and Schmidt, 2016).

Seeking to examine the ideational structures of institutional discourses, I distinguish between a discourse of conviction—promoted by dominant actors in the European Council, the Council, and the Commission and focused on rule compliance and a stricter discipline for European governance—and a discourse of persuasion — promoted by the EP. The former leaves very little room for debate, as it seeks to convince other actors to think or act in the same way (Charaudeau, 2005: 25) putting forward 'rules', 'penalties' and 'conditionality' as imperious necessities (Borriello, 2017). In contrast, the EP, which was in the position of the 'rival actor' (Carstensen, 2011: 605) opposing the extension of macroeconomic conditionality to the structural and investment funds, developed a discourse of persuasion. As the empirical section shows, through its discourse, the EP sought to make the other EU institutional actors believe in the validity of its argumentation (Charaudeau, 2005: 29). However, it didn't have the capacity to persuade other actors to accept and adopt its views (Carstensen and Schmidt, 2016). Despite its institutional power derived from the ordinary legislative procedure applicable to the adoption of Regulation 1303/2013, the discourse developed by the main political groups in the EP did not manage to substantially alter the core ideas promoted by the Council and the Commission in *t1*. Institutional power prevailed at the expense of ideational power (Carstensen and Schmidt, 2016).

In contrast, the slow-burning phase is characterised by increased contestation and discussion of alternative policy ideas. As soon as the crisis slows down, actors have time to reflect and consult more widely. While the EP stepped up its criticism, denouncing from the beginning the extension of macroeconomic conditionality to structural and investment funds, within the Commission, since 2013 officials gradually re-interpreted the rules with greater moderation (Schmidt, 2016a). Thus, starting in 2014, the Commission seizes on its new responsibilities to take action and to exert greater discretion in the interpretation of the decisions taken during the fast-burning phase of the crisis with regard to the strict application of SGP rules. This coincided with the beginning of the slow-burning crises in a wide range of Member States who were facing the dramatic effects of the deteriorating economic and social conditions. As an illustration, the article shows how, after the entry into force of Regulation 1303/2013, the rules have been re-interpreted with greater flexibility with regard to the breach of deficit rules on the part of France, Italy, Portugal, and Spain. Examining the decision of the Commission in 2015 to lift sanctions in the case of Spain and Portugal, whose deficits exceeded the limits established in the SGP, the article goes beyond the conclusion that institutions reinterpret the rules. It shows how said reinterpretation is contested, constrained, and negotiated.

Strengthening the rules in fast-burning crisis

In 2008, the European Commission chaired by José Manuel Barroso drafted the new Regulation on regional policy for the period 2014-2020. In April 2009, the Commissioner for Regional Policy, Danuta Hübner tabled a Reflection Paper on Future Cohesion Policy. After a series of consultations, the Commission issued a communication in 2010 designed to support the implementation of the EU's 2020 Strategy. However, the beginning of the eurozone crisis guided the reform towards a set of principles which were not at the top of the agenda during the consultations in 2008 (Berkowitz et al., 2015). When the crisis erupted in Greece, the political agenda was dominated by discussions about how to save the euro. Although the new governance for the euro zone and the new rules for cohesion policy were discussed separately, the core ideas of these policies were discussed together within the college of commissioners as the ESI funds became important tools in the fire-fighting action of the EU institutional actors to sanction non-compliance with the rules and to increase the credibility of the instable Stability and Growth Pact.

As a reminder, since its entry into force, the SGP has been a pact of 'wobbly stability' (*Politico*, 9/25/02). Neither at its beginning, nor prior to 2010, did Member States ever follow its rules *à la lettre.* By 1997, five Member States had already been 'excused' from failing to get their budgets deficits below 3% of the GDP or their public debt down 60% of the GDP (*Politico*, 5/14/1997). In 2002, the Commission decided 'to give Member States an extra two years to bring their budgets close to balance' (*Politico*, 9/25/02), including France, Germany and Italy. One year before the crisis, the number of countries that were in breach of EU fiscal rules increased, with Spain, France, Greece, Latvia, Malta and Ireland facing serious difficulties. In this context, one year before the eruption of the crisis in Greece, commissioner Almunia declared that 'to preserve a sustainable position of the public finances over the medium to long term, we need to implement the pact' (*Politico*, 2/18/09). While the Commission sought to put pressure on Member States to put their public finances in order, various political leaders declared their inability to meet the deadlines. In 2009, the French finance minister, Christine Lagarde, acknowledged that 'it was really not realistic for France to reduce its budget deficit below 3%' (*Politico*, 11/11/2009).

Against this backdrop, when the crisis became 'hot' in Greece, in 2010, under the pressure of financial markets, the president of the European Council declared—following a series of meetings with José Manuel Barroso, Angela Merkel and Nicolas Sarkozy—that the countries of the euro zone 'will take co-ordinated and determined action to safeguard financial stability' (*Politico*, 2/11/2010). In June 2010, the task force led by Herman Van Rompuy met to identify the radical steps to be undertaken in order to strengthen the EU's economic governance. The crisis set the frames of discussion of Regulation 1303/2013 on structural and investment funds.

Institutional struggles over spending less and better

As soon as the ordinary legislative procedure got underway, Germany made its position known, promoting strict rules. Even before the publication of the Commission's proposal, in August 2011, Angela Merkel and Nicolas Sarkozy highlighted the essence of the reform in a joint letter sent to the President of the European Council, Herman Van Rompuy: '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 (…) 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' (Joint letter from Nicolas Sarkozy and Angela Merkel to Herman Van Rompuy, 17/08/2011). This statement was in line with Angela Merkel's aim to introduce 'a new stability culture where governments keep their budgets under control in order to support the euro'. In the first years of the crisis, Angela Merkel constantly underlined the need of stripping non-compliant Member States of their voting rights (*Politico*, 6/16/2010).

Strong alliances emerged within the Council among a group of powerful Member States. Some of them were preoccupied by the amount of the ESI, while others were pushing towards the use of ESI as a sanctioning mechanism in case of non-compliance with the SGP rules.

Concerning the budget, Germany pushed not only for 'better spending' but it also declared in favour to freeze the budget (*EurActiv*, 23/11/2012). The UK 'called for the EU to reduce its budget in a "symbolic gesture", threatening to use its veto should this not be met' (*EurActiv*, 23/11/2012), while Sweden and the Netherlands took similar stances. While Sweden called for a cut of 100 billion euro of the total trillion planned for the period 2014-2020, the Netherlands took also a 'hard-line' stance and favoured 'to purely and simply remove funding instead of suspending it' (*EurActiv*, 27th April 2012). In contrast, France and Poland defended the Common Agricultural Policy (*EurActiv*, 23/11/2012). 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, while maintaining the budget for the Common Agricultural Policy intact (*EurActiv*, 27th April 2012). Germany put forward a similar argument, saying that the funds should be redistributed toward climate, energy and competitiveness, under the rule of 'better spending' (*EurActiv*, 23/11/2012). In contrast, the Italian government followed none of these positions. The 'Friends of Cohesion' including Southern and Eastern European Member States were sceptical about the idea of reducing the budged for cohesion (*EurActiv*, 20/12/2011). Spain was in a difficult situation due to unemployment levels above 25% and the risk of losing 'one-third of its structural funds and 17% of its agricultural subsidies' (*EurActiv*, 23/11/2012).

Moreover, in 2010, when Angela Merkel and Nicolas Sarkozy underlined in their letter the importance of coupling the ESI funds to compliance with the rules of sound economic governance, the Commission in general and Ollie Rehn, in particular, pointed out the importance of '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), an expression used also by Angela Merkel in reference to a 'culture of stability'. Although the Commission followed the reasoning line of the powerful members in the Council, internally it was divided (Interview, former member of the Cabinet, European Commission 8/02/2015). Some commissioners, such as the EU's budget commissioner Lewandowski, came out in defence of cohesion policy (*EurActiv*, 3/10/2012), while commissioners Rehn and Hahn were in favour of 'restoring sound public finance, structural reforms for improving competitiveness and targeted investments for growth and jobs' (*EurActiv*, 15/10/2012). As Commissioner Johannes Hahn 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 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).

While the EP was opposed to these trends, its power was relatively reduced. Though the rules of the ordinary legislative procedure (that put the EP and the Council on equal footing) applied to the adoption of Regulation 1303, the crucial decisions were adopted through inter-institutional negotiations and trialogues. The proliferation of such practices fuelled criticism owing to the lack of transparency during institutional negotiations behind closed doors and their potential to distort the community method (Rasmussen et Reh, 2013; Dehousse, 2011). Regulation 1303/2013 was not an exception to this trend. As the Lithuanian President of the Council declared in the EP plenary session in Strasbourg, the adoption of Regulation 1303/2013 was subject to a record number of 200 trialogues (Vytautas Leškevičius, EP, November 19th 2013). MEPs criticized the agreements between the president of the institution, Martin Schultz, and his homologues from the Council and the Commission, who, according to the

Greens/ALE MEP Karima Delli, tied the hands of the members of the Parliament, 'stifling thus, democratic debate (…)' (EP, November, 19th, 2013).

Despite the objections of some commissioners, the initial proposal of the Commission (COM(2011)0615) 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 (Coman and Sbaraglia 2018). The Commission proposal sought to extend conditionality to all funds in order to make the process of their suspension 'almost automatic' (Memo 13/678). The aim was to allow the suspension of a part of the structural and investment funds or all payments and commitments where 'a Member State fails to take effective action in the context of the economic governance process' (COM(2012)0496).

Conviction versus persuasion

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. They questioned the very essence of conditionality, a principle likely to break the solidarity logic underlying the cohesion policy since its inception. For the vast majority of MEPs, the integration of macroeconomic conditionality into this Regulation was redundant 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. It was 'a double penalty' (Liem Hoang Ngoc, MEP, S&D, 19th December 2013). As a result, all the committees of the EP voted against its inclusion in Regulation 1303/2013, while trying to bring forward the validity of their arguments and to alter the discourse of conviction promoted by the Council with the support of the Commission.

On behalf of the Committee on budget, the Rapporteur Derek Vaughan (S&D Group) declared that 'on the proposed macro-economic conditionality (…) the value added of this measure is also questionable as it could result in punishing regions for Member States' mistakes and taking money away from regions where is it needed to overcome their budgetary deficits. Your rapporteur therefore suggests deleting this conditionality' (EP, Draft Opinion, 2011/0276(COD)). The Rapporteur of the Committee on Agriculture and Rural Development, Salvatore Caronna (S&D Group) stated that 'In its proposal, the Commission provides for the tightening up of the rules on macro-fiscal conditionality which, as a last resort, make the partial or full disbursement of funds subject to compliance with the new Stability and Growth Pact enforcement measures. Your rapporteur totally objects to this provision, and therefore proposes that it be deleted (EP, Draft Opinion, 2011/0276(COD))'. Even the Rapporteur of the Committee on Economic and Monetary Affairs, Nikolaos Chountis (GUE-NGL Group) rejected 'any attempt to establish a link between cohesion policy and related funds on the one hand and the Stability and Growth Pact, economic governance and any economic and financial convergence between Member States on the other' (EP, Draft Opinion, 2011/0276(COD)).

Despite the arguments put forward throughout the opinions of the committees and discussions, the EP remained until the end of the ordinary legislative procedure the only institution on the rival position, fighting alone against the idea of linking structural funds to the emerging economic governance. According to MEP Danuta Hübner, former Commissioner for Regional Policy, not one Member State in the Council, nor the Commission, supported the European Parliament's position (EP, November, 8th, 2013)

The controversial provisions on macroeconomic conditionality remained in the amended proposal submitted by the Commission in April 2013. The compromise reached by the EP, the Commission and the Council, lay in the change of terminology. In the common position of the EP and the Council, the wording 'macroeconomic conditionality' was replaced by 'measures linking effectiveness of European Structural and Investment Funds to sound economic governance' introduced in Article 23. On the substance, the EP rapporteurs secured that funding suspension would be assessed after seriously taking into account the economic and social conditions of the members states concerned. In terms of institutional power, the EP secured in Regulation 1303/2013 the right to review all decision-making processes related to the suspension of funds within a framework called structured dialogue with the Commission.

In the end, Article 23 (former Article 21) on the 'Measures linking the European structural and investment funds with the sound economic governance' was adopted. Thus, the new economic governance designed to strengthen the coordination of Member States' macroeconomic policies in the framework of the European Semester was linked to cohesion policy as on the basis of Regulation 1303/2013 the Commission can suspend funds if a State has failed to correct its excessive deficit, submit a corrective action plan for macroeconomic imbalances, implement an adjustment plan or a macroeconomic adjustment plan. Put differently, the new provision establishes that if a Member State's performance is far from the objectives provided by the SGP, then European funding could be reduced, suspended, and even cancelled in the worst cases.

Calls upon rule reinterpretation when the crisis slows down

Since 2013, a disjunction is observed between policy formulation (that is the emphasis on rule compliance and sanctions) and policy implementation (that is an increased demand for flexibility on how the Commission and the Council should apply the newly adopted rules). As a reminder, in 2010, both Spain and Portugal, dramatically affected by the eurozone crisis, adopted austerity plans that were, in the words of commissioner Rehn 'appropriate and ambitious'. Prime Minister Mariano Rajoy introduced harsh reforms, announcing cuts in spending that were the most austere in decades. In the fast-burning phase of the crisis, this set of reforms was intended to calm investors and to bring the budget deficit down to 5.3% in 2012 and 3% in 2012 from 8.5% in 2011. Nevertheless, in 2012, the Commission issued a critical report on Spain's situation and also questioned the ability of France to meet the targets set by the SGP. One year later, it announced its intention to relax deficit-reduction targets for Spain, France and the Netherlands, commissioner Ollie Rehn stating that the Commission was ready to give them extra time to meet their deficit reduction targets: 'a two-year period for France and for Spain and one year for the Netherlands' (*Politico*, 5/7/2013). Soon after the entry into force of Regulation 1303/2013 and before the nomination of the Jean-Claude Juncker Commission in 2014 on November 1st, several Member States approached the Barroso Commission to establish 'how much flexibility' was 'allowed in interpreting the eurozone rules' (*Politico*, 9/25/14).

Under the new rules adopted in 2013, the Commission can impose fines on non-compliant Member States that start at 0.2% of the GDP. Only a qualified majority in the Council can block such a decision. While big Member States were pushing forward the idea of increased flexibility of the rules, the representatives of some small Member States declared in the ECOFIN Council in September 2014 that they would oppose the idea of granting France a further exception, 'stressing that the rules should apply equally to all Member States, regardless of their size and importance to the EU economy' (*Politico*, 9/25/2014).

Not only the Council, but also the Commission was divided on this issue. While some new members of the college of commissioners were in favour of increased flexibility, those who served under Barroso's Commission were supporting the strict application of the rules to preserve the credibility of the decisions taken at the EU level. Thus, commissioner Katainen repeatedly declared that 'there was no room for higher debt in Member States, or deficits' (*Politico*, 10/9/2014). In the same vein, in November 2014, commissioner Valdis Dombrovskis said that if France, Italy and Belgium 'did not follow through on their commitments, the eurozone budget rules would be applied in full – implying sanctions' (*Politico*, 11/28/2014). However, when France was in trouble, the President of the Commission explained why France would escape sanctions from breaching budget rules by saying 'It's France'.

The tensions within the Commission and the Council increased in July 2015, when the Commission concluded that Spain and Portugal failed to adopt sufficient measures to reduce their excessive deficits in 2014 and 2015. On the 12th of July 2015, the Council 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 23.9, Regulation 1303/2013).

Thus, in October 2016, the EP and the Commission initiated a structured dialogue to debate on the situation of Spain and Portugal. Commissioners Jyrki Katainen and Corina Cretu insisted on the legal obligation of the Commission to make a funds suspension proposal[3]. Whilst commissioner Cretu underlined that the EP voted in favour of Article 23, MEPs pointed out that they had fought 'until the very last minute' against that provision (Younous Omarjee, GUE/NGL on the 3rd October 2016)[4], highlighting that it was the trialogue that had accepted conditionality following the Commission's request (MEP Andrea Cozzolino, S&D, 3rd October 2016)[5]. Thus, representatives of the EP REGI and ECON Committees—the PPE MEP Lambert van Nistelrooij and S&D MEP Andrea Cozzolino—called on the Commission to play a political role. Although the two commissioners were concerned about the socio-economic situation in Spain and Portugal, both argued that the legal obligation of the Commission should not be interpreted as a 'sanction' because only 'commitments were suspended but not payments'. Within the EP, the REGI and ECON Committees proposed a suspension of 0 per cent.

Although divided, the Commission decided not to apply sanctions. Some members of the college invoked the need to apply at least symbolic sanctions. Valdis Dombrovskis, commissioner for the Euro and Social Dialogue and Jyrki Katainen, commissioner for Jobs, Growth, Investment and Competitiveness, and the German commissioner, Gunther Oettinger were in favour of 'applying the rules' (*EurActiv*, 28th July 2016; *Spiegel International*, 17th June 2016, *Politico*, 7/4/2016). In contrast, in the Brussels bubble, observers argued that it was unfair to sanction Portugal for applying the rules imposed by the Commission to reduce its budget deficit and for the lack of results following harsh austerity measures that didn't turn out as expected (*Politico*, 6/16/2016). As far as Jean-Claude Juncker was concerned, on the one hand, as former president of the Eurogroup, observers maintained that he does not believe in the power of sanctions and fines. However, as new president of the Commission, he wanted to strengthen the credibility of Brussels' rules and hesitated on how to handle the deficit problems in Spain and Portugal.

In the end, the Commission recommended the Finance Ministers zero sanctions. Jean-Claude Juncker received the support of the president of the EP, Martin Schultz, who informed him in a letter about the right of the EP to intervene if fines are imposed on Spain and Portugal. Ironically, he even declared that he was against sanctions, calling for a greater solidarity among eurozone countries (*Politico*, 6/4/2015). In the Council, French Finance Minister called to spare Portugal from EU sanctions (*Politico*, 7/11/2016). In contrast, neither the President of the Eurogroup, Jeroen Dijsselbloem, nor the legal experts of the Council were very enthusiastic about the flexible interpretation of the rules (*Spiegel International*, 17/06/2016). The German Finance Minister, Wolfgang Schäuble, as well as a series of Finnish and Dutch political representatives criticised the Commission (*Politico*, 27/7/2016). The European Central Bank made similar remarks, as it feared that the decision of the Commission 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). In the end, Wolfgang Schauble changed his position and supported the idea of not imposing fines (*Politico*, 7/27/2016), which allowed commissioner Moscovici to explain 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' (*EurActiv*, 27/07/2016). With this decision, said Pierre Moscovici, the College of Commissioners 'has proven its technical credibility and political solidarity' (27th July 2016). On the 9th of August 2016 he declared: 'Today's decisions reflect an intelligent application of the SGP', arguing later that that the rules governing Member States' excessive deficits are 'too complex' (*Politico*, 9/27/16) and that 'the punitive approach would not be the most appropriate in a moment where people were doubtful of Europe' (*EurActiv*, 27th July 2016). Ultimately, to avoid misinterpretations, Jean-Claude Juncker declared that 'we must not be more Catholic than the Pope, but please make it known that the Pope wanted a fine of zero' (*Politico*, 7/27/16), a reference that can give rise to interpretations about who the Pope is and who bears the responsibility of a flexible interpretation of the rules.

Conclusion

The ambition of this article was not only to disentangle how, in the midst of the eurozone crisis, the EU institutions acted as fire-fighters to douse its flames, but also to bring a theoretical contribution to current debates by proposing a dynamic framework that takes time, changes between and within institutions as well as the ideational structures of discourses as relevant explanatory factors for the disruptions observed between *t1* (when sanctions for the non-respect of the rules set in the SPG are institutionalised in Regulation 1303/2013) and *t2* (when, as soon as this Regulation entered into force, a wide range of actors called for the flexible reinterpretation of its rules). The ambition was not only to trace back the process and to shed light on how the EU institutional actors acted as fire-fighters, but also to see how they seek to blow out the flames of the slow-burning crisis that affects the economic and social conditions of Member States, where austerity did not solve the problems; on the contrary, it aggravated them.

Drawing on this case, theoretically the article sought to capture the interplay between three interrelated factors that together explain the adoption of Regulation 1303/2013 and its reinterpretation soon after its entry into force. First, the concepts of fast- and slow-burning phases of the crisis are valuable heuristic devices as they provide explanations of how actors perceive crises and use time either as an opportunity or as a constraint to legitimize their decisions. How time is invoked can explain how they handle crises in terms of policy solutions, policy formulation, and decision-making. Second, the case under consideration shows how important it is to capture change both within and between institutions, how alliances are established, and how they change depending on the intensity of the crisis. Ultimately, the intensity of the crisis (how it is perceived by actors) shapes also the ideational structure of institutional discourses. The article distinguished between a discourse of conviction that put forward one solution as the only one valid and available, and a discourse of persuasion, that opposes through arguments 'ready-made solutions'.

Empirically, the article shows that the move from strict conditionality (*t1)* to greater flexibility *(t2)* was not an easy journey. Like conditionality in the fast-burning phase of the crisis, decisions about flexibility are divisive and highly controversial. This shift has been paved by a wide range of formal and informal discussions within and between institutions whose alliances shifted both in the fast-burning phase of the crisis as well as in its slow-burning phase. As the EU institutions are not unitary actors, their internal divisions also play a role in explaining outcomes as well as their perceptions of the intensity of the crisis.

To conclude, this article shows that shifts in the intensity of the crisis from 2010 to 2013 and from 2013 onwards alter not only decision-making procedures and relations between institutions, but also decision-making and balances of power within institutions where actors put forward ideational structures in line with their views and interests. Neither power relations nor ideational structures are fixed in time. They change depending on the intensity of the issues at stake as crises move from their fast- to slow-burning phases.

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Notes

2. I am grateful to the anonymous reviewers for this suggestion.
3. The debate can be followed on the audiovisual service of the EP http://audiovisual.europarl.europa.eu/Assetdetail.aspx?id=94ef130f-8015-41f7-92ae-a694011f21f8 (accessed on the 23rd March 2017).
4. The debate can be followed on http://audiovisual.europarl.europa.eu/Assetdetail.aspx?id=35878beb-9c79-4333-872a-a6940119ad70 (accessed 24th March 2017).
5. The debate can be followed on http://audiovisual.europarl.europa.eu/Assetdetail.aspx?id=5605582f-cb02-4738-ad21-a69401183e61 (accessed 24th March 2017).

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