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Crises and Opportunities:
Strengthened European Union
Economic Governance after the 2008
Financial Crisis

Wen Pan

Crises and Opportunities: Strengthened European Union Economic Governance after the 2008 Financial Crisis

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➤ **Acronyms**

ACFTA	ASEAN–China Free Trade Area
AGS	Annual Growth Survey
ALDE	Group of the Alliance of Liberals and Democrats for Europe
AMAFI	French Association of Financial Markets
AMICE	Association of Mutual Insurers and Insurance Cooperatives in Europe
AMR	Alert Mechanism Report
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
BBC	British Broadcasting Corporation
BEPGs	Broad Economic Policy Guidelines
BIS	Bank for International Settlements
BoP	Balance-of-Payments
BRICS	Brazil, Russia, India, China and South Africa
CACs	Collective Action Clauses
CAP	Common Agricultural Policy
CBPP	Covered Bond Purchase Programme
CDOs	Collateralized Debt Obligations
CDS	Credit Default Swap
CDU	Christian Democratic Union
CEA	Comité Européen des Assurances
CEBS	Committee of European Banking Supervisors
CEE	Central and Eastern European
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CESR	Committee of European Securities Regulators
CFSP	Common Foreign and Security Policy
CJEU	Court of Justice of the European Union
CNN	Cable News Network
CoR	Committee of the Regions
CRAs	Credit Rating Agencies

CRD	Capital Requirements Directive
CRD/CRR	Directive and Regulation on Capital Requirements for Credit Institutions
CRR	Capital Requirements Regulation
CRR/CRD	Capital Requirements Regulation and Directive
CSD	Commission on Sustainable Development
CSRs	Country-Specific Recommendations
CSU	Christian Social Union
CU	Customs Union
DI	Discursive Institutionalism
EACB	European Association of Co-operative Banks
EAGGF	European Agriculture Guarantee and Guidance Fund
EBA	European Banking Authority
EBF	European Banking Federation
EC	European Community
ECB	European Central Bank
ECJ	European Court of Justice
Ecofin Council/	Council of Ministers of Economics and Finance/Economic and Financial Affairs Council
Ecofin	
ECSC	European Coal and Steel Community
ECU	European Currency Unit
EDA	European Debt Agency
EDP	Excessive Deficit Procedure
EEA	European Economic Area
EEAS	European External Action Service
EEC	European Economic Community
EESC	European Economic and Social Committee
EFAMA	European Fund and Asset Managers Association
EFC	Economic and Financial Committee
EFM	European Finance Ministry
EFSF	European Financial Stability Facility

EFSM	European Financial Stabilisation Mechanism
EFTA	European Free Trade Association
EGs	Employment Guidelines
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
EIP	Excessive Imbalance Procedure
EMCO	Employment Committee
EMF	European Monetary Fund
EMIR	European Market Infrastructure Regulation
EMS	European Monetary System
EMU	Economic and Monetary Union
EP	European Parliament
EPC	European Political Cooperation
ERT	European Round Table of Industrialists
ESA(s)	European Supervisory Authorit(ies)
ESBG	European Savings Banks Group
ESCB	European System of Central Banks
ESFS	European System of Financial Supervision (in de Larosi ère Report)
ESFS	European System of Financial Supervisors
ESM	European Stabilisation Mechanism (temporary, composed of the EFSM and the EFSF)
ESM	European Stability Mechanism (permanent)
ESMA	European Securities and Markets Authority
ESRC	European Systemic Risk Council
ESRB	European Systemic Risk Board
ETUC	European Trade Union Confederation
EU	European Union
Euratom	European Atomic Energy Community
EWG	Eurogroup Working Group
FAQs	Frequently Asked Questions
FDP	Free Democratic Party
FEACO	F é d ération Europ éenne des Associations de Conseils en Organisation
FESE	Federation of European Securities Exchanges

FFA	Financial Assistance Facility Agreement
FOA	Future and Options Association
FSB	Financial Stability Board
FSOC	Financial Stability Oversight Council
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GMOs	Genetically Modified Organisms
GNI	Gross National Income
GNP	Gross National Product
G-20	Group of Twenty
HI	Historical Institutionalism
HICP	Harmonised Index of Consumer Prices
ICMA	International Capital Market Association
IDRs	In-Depth Reviews
IGs	Integrated Guidelines
IGC	Intergovernmental Conference
IMF	International Monetary Fund
IR	International Relations
ISDA	International Swaps and Derivatives Association
IPE	International Political Economy
JHA	Justice and Home Affairs
LI	Liberal Intergovernmentalism
LIBA	London Investment Banking Association
M&As	Mergers and Acquisitions
MEPs	Members of the European Parliament
MLG	Multi-Level Governance
MoU	Memorandum of Understanding
MIP	Macroeconomic Imbalance Procedure
MRQ	Main Research Question
MTO	Medium-Term Objective
NRPs	National Reform Programmes
NATO	North Atlantic Treaty Organization
OLP	Ordinary Legislative Procedure

OMC	Open Method of Coordination
OMTs	Outright Monetary Transactions
OTC	Over-the-Counter
PHARE	Poland and Hungary: Aid for Restructuring of the Economies
PPS	Purchasing Power Standard
PSI	Private-Sector Involvement
QMV	Qualified Majority Voting
RQMV	Reverse Qualified Majority Voting
SCPs	Stability and Convergence Programmes
SEA	Single European Act
SGP	Stability and Growth Pact
SMP	Securities Market Programme
SPD	Social Democratic Party of Germany
SPV	Special Purpose Vehicle
SRM	Single Resolution Mechanism
SRQs	Sub-Research Questions
SSM	Single Supervisory Mechanism
TEC	Treaty of the European Community
TEU	Treaty on European Union (“Maastricht Treaty”)
TFEU	Treaty on the Functioning of the European Union
TSCG	Treaty on Stability, Coordination and Governance
UNICE	Union des Industries de la Communauté européenne (later renamed as BusinessEurope)
UN	United Nations
US	United States
VAT	Value Added Tax
WTO	World Trade Organization

➤ **Abbreviations for EU Member States**

BE	Belgium
BG	Bulgaria
CZ	Czech Republic
DK	Denmark
DE	Germany
EE	Estonia
IE	Ireland
GR	Greece
ES	Spain
FR	France
HR	Croatia
IT	Italy
CY	Cyprus
LV	Latvia
LT	Lithuania
LU	Luxembourg
HU	Hungary
MT	Malta
NL	Netherlands
AT	Austria
PL	Poland
PT	Portugal
RO	Romania
SI	Slovenia
SK	Slovakia
FI	Finland
SE	Sweden
UK	United Kingdom

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1 Chapter One: Introduction

After more than half a century's development, the European Union (EU) has set up a prominent example of regional integration.¹ The EU was created by, developing through and drawing its legitimacy from a series of Treaties signed by participating nation states. From the Treaty Establishing the European Coal and Steel Community (ECSC, 1951), to the Treaties of Rome (the EEC and the Euratom Treaties) (1957), to the Merger Treaty (i.e. the Brussels Treaty, 1965), to the Single European Act (SEA, 1986), to the Treaty on European Union (TEU, i.e. the Maastricht Treaty) (1992), to the Treaty of Amsterdam (1997), to the Treaty of Nice (2001), and then to the Treaty of Lisbon (2007),² history witnessed the EU's gradual but steady enlargement in both its membership and its policy-making areas, and so far the EU has achieved the goal of keeping the European continent as an area of stability, security and prosperity.

The introduction of the Lisbon Treaty was regarded as a historical landmark of the European integration project. This new treaty brings institutional changes to the EU, among which two institutional reforms are eye-catching. The first one is the creation of two new permanent posts — the President of the European Council and the High Representative of the Union for Foreign Affairs and Security Policy. The second one is more powers allotted to the European Parliament (EP), as the previous co-decision procedure got legalized as the “ordinary legislative procedure” (OLP, defined in Article 294 TFEU (the Treaty on the Functioning of the European Union)), extending into most EU policy decision-making, and thereby the EP became a true co-legislator with

¹ “Europe has *integrated*” in the sense that “the linkages between politics on the EC level and politics on the national level have expanded in scope and deepened in intensity” (Stone Sweet and Brunell 1998, 63), and “the horizontal and vertical linkages between social, economic, and political actors (...) are constructed and sustained by EC rules” (Stone Sweet and Sandholtz 1998, 9).

² Cooperation among European national states evolved. First, it was the ECSC, then the EEC (European Economic Community), later the EC (European Community), and finally the EU (since the Maastricht Treaty). These different names refer to the same object: the European regional integration project at its various developing stages against specific historical backgrounds. These terms are used to mention the EU in different periods of time. Moreover, it is worth mentioning that the Lisbon Treaty abolished the three-pillar structure of the EU since the Maastricht Treaty, enabling EU legislative procedures and legal personality originally reserved for the European Community (the first pillar) to cover the full extent of the EU.

the Council as it assumed equal importance of the Council.³ The intention of these institutional innovations was to make the EU stronger, more efficient, democratic and externally coherent.⁴ Nevertheless, the Lisbon Treaty took effect in December 2009 in the wake of the 2008 global financial crisis, and the EU met its most serious challenge at the beginning of the millennium: the eurozone sovereign debt crisis.⁵ Breaking out first in Greece in the fall of 2009, then Ireland in 2010, and Portugal in 2011, the eurozone sovereign debt crisis, with potential contagious risk to other euro countries, Italy and Spain in particular (e.g. Shi et al. 2012; Pan et al. 2011; Yurtsever 2011), later spread into Spain in 2012⁶ and Cyprus in 2013^{7, 8}. Due to the fact that the worsening sovereign debt crisis in the euro countries causes financial instability and affects economic recovery in the euro area in the wake of the 2008 global financial crisis, as well as endangers European Economic and Monetary Union (EMU) to fall apart, the crisis this time was also referred to as the euro crisis. It is widely acknowledged that if the sovereign debt crisis is not addressed properly, it may cause the collapse of the euro system, and “if the euro failed, so too would the EU”.⁹ The evolution of the euro member states’ sovereign debt crisis essentially decides the fate of the common currency and influences EU policy-making and the reform of EMU. The sovereign debt

³ See, for example, “Glossary, Codicision Procedure” (European Union) and “Legislative Procedures” (European Union); also see Lelieveldt and Princen (2011, 102-103) and Warleigh-Lack and Drachenberg (2013, 204-206).

⁴ See “Treaty of Lisbon, Questions and Answers” (European Union).

⁵ The formal usage to indicate EU member states which have adopted the euro as their currency is the “euro area”, which consistently appears in EU Treaties and other official documents, while the term “eurozone” is popularly used in news reports. Nevertheless, the EU official website particularly dedicating to the euro area utilizes the word “eurozone” to indicate the official portal of the euro area, see <<http://www.eurozone.europa.eu/>>.

⁶ See, for example, “Financial Assistance for the Recapitalisation of Financial Institutions in Spain” (European Commission).

⁷ See, for example, “Eurozone Approves Problematic Cyprus Bailout” (*EUbusiness* 13 April 2013); European Parliament-20130507IPR08063 (8 May 2013).

⁸ Accompanying the euro member state debt crisis was the devaluation of the common single currency — the euro (e.g. Hosli et al. 2011a, 99-102), as the statistics of the European Central Bank (ECB) show that the exchange rate of the euro against the US dollar declined from 1: 1.5120 on 3 December 2009 to 1:1.1942 on 8 June 2010. See the ECB official website: <<http://www.ecb.int/stats/exchange/eurofxref/html/eurofxref-graph-usd.en.html>>. Viewed from the whole history of the euro, the decreased external value of the euro during the eurozone sovereign debt crisis is not the worst, and it appears acceptable against the whole records of the euro in the past. Moreover, the depreciation of the euro is not always a bad thing – it makes EU goods more competitive with lower prices in the international market, which an efficient way to boost economic recovery and growth.

⁹ See “Eurozone Must ‘Resist Alarmism’, Olli Rehn Says” (*BBC News* 16 November 2010).

issue is not only a thorny problem for the euro countries, but also for the non-euro EU member states, and therefore, addressing the sovereign debt crisis is relevant to EU economic governance as a whole.¹⁰ Additionally, the debt issue has appeared as a global phenomenon, as other major developed countries in the world, such as the United States (US) and Japan, also have alarming and unsustainably high government budget deficits and debts. Thus, the EU's dealings with this crisis are situated in a broader international context and the EU's lessons and experience can make contributions to the solution of this worldwide issue.

1.1 Research Questions and Objectives

Imposing financial, economic and political instability and disintegrative threats to EMU and the whole EU, the euro area sovereign debt crisis urgently demands the EU and its member states to take effective measures to counter the crisis. How to contain and solve the crisis as well as how to strengthen EU economic governance remains a hotly debated topic among EU politicians, economists and academics. In order to solve the sovereign debt crisis, EU institutions have been taking various new initiatives and measures, and the crisis, originally being a serious challenge to EMU and the EU, also turns out to be an opportunity for the EU to reform and develop (e.g. Hosli 2011b; Shi et al. 2011b, 2012; Pan et al. 2011). As the crisis exposes the institutional problems of EMU and EU economic governance, there is an increasing consensus among politicians and scholars to solve the debt crisis via closer economic and political coordination at the EU level, among which the calling for political integration grows as the monetary union needs a political union to support it (e.g. Almunia 16 January 2013; Issing 1 October 2012; Yurtsever 2011, 693)¹¹ and pro-integrative propositions like

¹⁰ The term “(EU) economic governance” can be used in a narrow sense differentiating from fiscal and financial initiatives and policies (see e.g. Table 1.2), while it can also be utilized in a general sense encompassing fiscal, economic, and financial policy areas related to the distinct category of “economy” (i.e. the first pillar of the EU) rather than “foreign affairs” (i.e. the second pillar of the EU) or “police and justice affairs” (i.e. the third pillar of the EU) (for the EU's pillar structure, see footnote 111 of this dissertation, and the pillar structure was repealed by the Lisbon Treaty, see footnote 2 of this dissertation). Throughout this dissertation, if not otherwise indicated, the general meaning of “economic governance” is applied, covering fiscal, economic and financial policy areas.

¹¹ Almunia (16 January 2013, *BBC Hardtalk*); Issing (1 October 2012, *BBC Hardtalk*). Joaquín Almunia (1948 —) is a vice President of the European Commission and the competition Commissioner since February 2010; Otmar Issing (1936 —), serving as a member of the Executive Board of the ECB from its creation in 1998 to 2006, has been the Chairman of the Advisory Board of the House of Finance (Goethe University of Frankfurt) since 2007, and the President of the Center for Financial Studies since 2006.

“Europe is now more than ever a constitutional project” (Habermas 2012, 1) emerge. So here rises the research question of this dissertation: Along with the EU’s new measures and developments to counter the eurozone sovereign debt crisis after the 2008 global financial crisis, what path are the EU and EMU embarking on? This main research question (MRQ) can be re-stated by several sub-research questions (SRQs): Is the EU on the way towards a political union/political integration (SRQ1)? Do the current developments of the EU signify supranationalism over nationalism (SRQ2)? Why did the EU and member states agree to take these new measures (SRQ3)? What are the implications and consequences of the new developments of the EU during the crisis (SRQ4)? What are the prospects for the EU and EMU in the future (SRQ5)?¹² To answer these questions, this dissertation has recourse to European integration theories, which provide conceptual tools and analytical frameworks to understand and explain the European integration process (i.e. a philosophical relationship between ontology and epistemology).¹³ Equipped with the selected EU integration theories, this dissertation explores their predictions on the basis of case studies, which suggests other SRQs related to the MRQ.

The necessity and the main reason to resort to European integration theories to understand and explain the outcomes of EU decision-making is due to the fact that analyses of political processes do not situate in a theoretical vacuum. Rather, they are always based on certain assumptions and concerns: on the one hand, “empirical findings are always inspired by some theoretical perspective, perhaps without the researcher being aware of it”, while on the other hand, “[t]heoretical frameworks structure our observations and are useful in terms of choosing variables and collecting data for conducting empirical research” (Niemann 2006, 1). In a philosophical sense, human beings understand, grasp and change the ontological external world under the help of various epistemic tools. In the context of the EU, for one thing, the sovereign debt crisis happens — it is going on with new stories each day and both the EU and

¹² To answer the main research question (MRQ) of this dissertation, several sub-research questions (SRQs) highly relevant to finding the answers to MRQ are raised. For the convenience of narrating, organizing, and summarizing, the SRQs put forward in the chapter Introduction are numbered “SRQ1, SRQ2, SRQ3, ...”; accordingly, the last chapter Conclusions offers answers to each numbered question on the basis of the research results of this dissertation, and finally, answers to the MRQ are given.

¹³ For more discussions of these issues, see, for example, “Box 4.1 Ontology”, “Box 4.2 Epistemology” and “Box 4.3 Methodology” in Bache et al. (2012, 65-67); “Basic Ontology” in Niemann (2006, 24-27) and “Epistemology” (2006, 52-53).

national governments are making their efforts with the hope to end this crisis as early as possible; for another, there are already abundant theoretical accounts and predictions on the European integration project in academic circles. All these lead to another SRQ of this dissertation: What is the explanatory and predictive power of different European integration theories when assessing the EU's recent developments during the eurozone sovereign debt crisis (or in a broader sense during the post-2008 crisis era) (SRQ6)? That is, do the causal mechanisms provided by the three EU integration theories account for EU recent developments well? Are there any other variables or new causal mechanisms that should be added to the existing theoretical frameworks? What sort of light do the academic discussions shed on the current crisis and on the various measures adopted by the EU to combat this crisis? This dissertation is to apply theoretical reflections to empirical phenomena so as to understand the EU in the post-2008 crisis era and particularly the on-going euro area sovereign debt crisis better, as well as to make possible contributions to the existing academic debates on both theoretical framework constructions and EU developing trends. Accordingly, this dissertation first will offer a literature review of European integration theories, from which hypotheses about the EU's development during the post-2008 crisis era thematically dominated by the eurozone sovereign debt crisis are derived; then it will take the new measures, policies, and mechanisms adopted by the EU to solve the crisis as cases to validate or falsify these hypotheses; if the causal chains suggested by the hypotheses drawn from each integration theory are present in the selected cases, the hypotheses will be vindicated, and if not, the hypotheses lack sufficient evidence to support and thus require further examinations and modifications; when a hypothesized mechanism fails wholly or partially in the case studies, the reasons causing such a failure will be probed, and thus new variables, hypothesized mechanisms or theoretical explanations are possibly developed; finally, regarding various discussions of how to end this crisis, theoretical reflections on the EU's recent developments will cast light on the general developing trend of the EU and EMU in the future as well as possible constructive ideas to address the issue concerned, and this is also a way to strengthen the bridge between theory and practice where "academic research might contribute to the search for solutions in practice" (Hosli 2008, 5).

To be specific, this dissertation will focus on three main European integration theories: neo-functionalism, intergovernmentalism, and historical institutionalism (HI), whose explanatory and predictive powers are going to be tested by three cases of the

EU's recent development during 2010-2012 combating the European sovereign debt crisis: the European Semester, the European Systemic Risk Board (ESRB), and the European Stability Mechanism (ESM). The selection of only three integration theories is because of the trade-off between numbers of theories and depth of literature reviews within the given space of a dissertation, and this dissertation goes to a detailed and deep literature review of a limited number of theories instead of a general and shallow literature review of many theories. Then why are these three theories chosen? As the oldest and most influential European integration theories, neo-functionalism and intergovernmentalism have offered two competing as well as complementary theoretical frameworks to account for the European integration process; in comparison, exploring institutional aspects of the EU from a historical point view, HI highlights and particularly focuses on the prominent feature of the institutionalized EU, which also represents a converged point where the two traditional rivals — neo-functionalism and intergovernmentalism — meet. As for the selection of the three cases, the main consideration is that each of them falls into three distinctively different categories of approaches adopted by the EU to address the post-2008 crisis situation, while representing a typical measure of its category, and thus the cases selected bear enough variation. Each theory posits particular hypothesized causal mechanisms of ordered steps binding independent and dependent variables, and with the congruence method and the process-tracing technique, this dissertation has acquired the tools to confirm or reject the hypotheses, to possibly discover new variables or causal paths, and, more likely, to synthesize multiple causal chains linking the independent and dependent variables in a given hypothesis. The purpose of resorting to EU integration theories is to unravel the complicated EU project, to understand and to grasp the developing trends of the EU. Each hypothesis test and possible theoretical revision offers a particular explanation and/or prediction of the European integration project, and all together point to the answers to the MRQ of this dissertation: Along with the EU's new measures and developments to counter the eurozone sovereign debt crisis after the 2008 global financial crisis, what path are the EU and EMU embarking on?

1.2 Theoretical Framework

1.2.1 A Summary of European Integration Theories

The EU is multifaceted and complex, and so are the theories accounting for it. The EU's evolution is accompanied by the vicissitudes of various theoretical schools. Diez

and Wiener (2009) divide the development of EU integration theories into three broad phases, from which a rough contour of European integration theories can be obtained as follows:

Table 1.1 Three Phases of European Regional Integration Theories

Three phases	When?	Main themes	Main theoretical reference points	Integration theories and approaches ¹⁴
<i>Phase 1:</i> Explaining integration	1960s onwards	How can integration outcomes be explained? Why does European integration take place?	Liberalism; Realism; Neo-liberalism	Federalism; ¹⁵ Neo-functionalism; Liberal Intergovernmentalism (LI)
<i>Phase 2:</i> Analyzing governance	1980s onwards	What kind of political system is the EU? How can the political processes within the EU be described? How does the EU's regulatory policy work?	Governance; Comparative Politics; Policy Analysis	Governance Approaches; Policy Networks; New Institutionalisms (Rational Choice Institutionalism, Sociological Institutionalism and HI); Social Constructivism
<i>Phase 3:</i> Constructing	1990s onwards	How does integration develop?	Social Constructivism;	Discursive Approaches; Gender Approaches;

¹⁴ Diez and Wiener (2009) make a distinction between “theory” and “approach”: the former means “the *field* of theorizing the process and outcome of (European) integration”, while the latter refers to “the *individual* ways of dealing with integration, some, but not all of which may be classified as theories in the narrow sense” (2009, 3, their emphasis). In this dissertation, these two terms are used exchangeably in both senses. In comparison, Rosamond (2013) regards neo-functionalism and intergovernmentalism as two grand integration theories, while other theorizings after the two as “new approaches”. From Rosamond’s (2013, 88) point of view, there are “five pathways beyond integration theory”: comparative political science, the governance approach, normative political theory, international relations, and critical theories.

¹⁵ According to Haas (1971, 20-21), federalist approaches to European regional integration fall into two kinds: the activist/actor group and the theorist/observer group. The federalist activists, being more consistently ideological and emphasizing “the imputed need of peoples and nations”, concerned “developing a theory of action designed to realize a regional federation”, while the federalist theorists focused on “tracing and observing patterns of federal integration” (1971, 20); nevertheless, both of them have failed to account for “why and how actual integrative outcomes occur” — the main theme and task of neo-functionalism, as the former “despise(d) the recourse to functional means” while the latter “believe(d) in the federal end but may be willing to use functional means” (Haas 1971, 21, note 22). Before the initiation of the European integration project in the 1950s, the federal entities like the US and West Germany were already there; nevertheless, the existing federalist ideas and propositions turned out to be weak in explaining the newly emerging entity in the European continent, so a new theory specialized in theorizing this novel project in Europe was demanded and born naturally. In such a sense, neo-functionalism, instead of Federalism, is the first theory that is of, by and for European integration.

the EU	What are the social and political consequences of integration? How are integration and governance conceptualized? How should they be?	Post-Structuralism; International Political Economy (IPE); Normative Political Theory; Gender Approaches	Normative Theory; Critical Political Economy

Sources: Own compilation on the basis of “Table 1.1 Three Phases in Integration Theory” by Diez and Wiener (2009, 7) and the Table of Contents by Wiener and Diez (2009).

Table 1.1 illustrates the shifted research themes of European integration theories in different periods of time, from explaining the dynamics behind the European integration process in the 1960s to examining the consequences and impact of integration in the 1990s, which agrees with Rosamond’s (2010, 108) analysis that EU scholars, from the 1990s onwards, started to take the “Euro-polity” as an independent variable rather than a dependent variable. Still, Diez and Wiener (2009) give several cautions to their classification. Most importantly, these three phases and their theoretical implications do not suggest absolute clear cuts and endpoints among each theory and approach. Rather, they signify theoretical shifts to new approaches and research tendencies in certain periods of time, which in turn are also open for further debate. When a new tendency emerges, traditional approaches are not dying out; instead, they continue explaining the EU, on the basis of which their propositions are confirmed, rejected, or revised, and thereby over time form peculiar theoretical trajectories of the so-called “old”, “classical” or “traditional” European integration theories. As Diez and Wiener (2009, 17-18) point out, theories function differently: they can be explanatory/understanding, analytical/descriptive, or critical/normative; meanwhile, theories can be applied for different areas, dealing with polity (i.e. the political community and its institutions), policy (i.e. actual measures and theoretical analyses, comparisons or reflections on them) or politics (i.e. the process of policy-making and the daily strategies and behavior of various political actors) (Diez and Wiener 2009, 18-19). The combination of these two dimensions gives rise to a “mosaic of integration theory”; yet, the mosaic picture of current EU studies is far from completion, as the everyday-developing EU and newly emerging perspectives to the EU continuously add new “bricks and stones” to change this picture (Diez and Wiener 2009, 19-20). Though newly born integration theories may not always perfectly fit into

the two-dimensional classification, Diez and Wiener's categorization has reflected the nature and tendencies of current EU research. Each theory provides us with a special lens to view the EU; as the mosaic picture of integration theories becomes more colorful and diversified, we are equipped with more available conceptual tools to understand the EU. Along with the progress of the integration project and the newly developed integration theories, two older and traditional European integration theories — neo-functionalism and intergovernmentalism — have been evolving and rejuvenated over time, providing a basis to understand the regional integration project as well as the new integration theories after them.

1.2.2 The Focus on Neo-Functionalism, Intergovernmentalism and Historical Institutionalism (HI)

Among the diversified approaches and theories of European integration, this dissertation only focuses on three of them: neo-functionalism, intergovernmentalism, and HI (a sub-school of new institutionalism), and certainly, there are promising studies of other theories and approaches along with the development of the EU. Within a limited space of this dissertation, there is a trade-off between the number of theories to discuss and the depth of the elaboration of each selected theory. Without a thorough and in-depth literature review, theories tend to be general, shallow and even superficial, and at the same time, hypotheses drawn from them seem to lack substantive contents to support. In contrast, a detailed and solid discussion of a theory not only reveals the trajectory of this theory — what it is, where it comes from and where it is going — thus enabling us to understand the theory better, but also possesses several merits that contribute to a rigorous theory test: first, it provides a comprehensive background for hypothesis derivation; second, it throws light on the general research methodology entailed in that theory, enlightening the common academic practice dealing with the theory; finally, it states causal chains linking independent and dependent variables and explains the indicators to measure these causal mechanisms more clearly and meticulously. So this dissertation limits itself to three main European integration theories and their updates: neo-functionalism and intergovernmentalism as well as their converged point HI. The reasons to select neo-functionalism and intergovernmentalism are as follows.

First, neo-functionalism is the first attempt to theorize the European integration project, whereas intergovernmentalism was born as a competing theoretical rival to

neo-functionalism.¹⁶ Originally, they argued for different propositions, and the hypotheses derived from them may exhibit contrasting extremes on the same issue, so via the vindication or falsification of the possible contrasting hypotheses concerning the same issue, the explanatory and predictive powers of these two theories can be compared. Besides, as Hooghe (2001a, 3) suggests, theories of European integration by nature are macro-models which actually are “more impervious to testing”; therefore, in order to test integration theories, “one needs either credible competition from a rival macro-theory, or a means to carve up the larger theory into hypotheses pertaining to clearly delineated parts”. The selection of competitive neo-functionalism and intergovernmentalism obviously meets the requirement to test macro-integration theories; moreover, as literature reviews and hypothesis derivation in chapter two, chapter three and also chapter four¹⁷ illustrate, each theory has been carved into several hypotheses (and some of them even have been divided into several sub-hypotheses) which make up the main propositions of each theory. Nevertheless, “[h]istory rarely defeats one theory or fully vindicates another” (Moravcsik 1998, 12), and it is almost impossible to prove one theory entirely correct or incorrect, so besides neo-functionalist and intergovernmentalist potential contrasting positions on certain issues, the evaluation of these two theories should not be exclusively dichotomous. Rather, the two theories underscore different factors with different weights to explain the EU integration process. Theories from competing paradigms may encourage one-on-one testing of unicausal theories, but researchers should not ignore “the proper (and sometimes overlapping) scope of paradigms, or the construction of multi-paradigmatic syntheses”; this suggests that the unicausal theory testing should be combined with clarifying empirical scope conditions and making possible fruitful multi-theory syntheses (Moravcsik 2001, 1). Accordingly, this dissertation will not only test the causal mechanisms posited by the two rival theories to judge their explanatory and predictive power, but will also look at their convergent points, specify scope conditions for the effectiveness of hypothesized causal mechanisms, and bring together possible multi-causal chains (i.e. “equifinality” in the words of George and Bennett 2005) that link the independent and dependent variables in a given hypothesis. As a matter of fact, HI is a convergent point between the two competitive integration

¹⁶ Cf. chapter two and chapter three of this dissertation.

¹⁷ Except otherwise indicated, when “chapter(s)” and “section(s)” are mentioned, they refer to the chapter(s) and section(s) in this dissertation.

theories, and chapter four specially focuses on HI.

Second, neo-functionalism and intergovernmentalism have dominated European integration theoretical discussions for such a long time that the two once formulated a classical dichotomy on the trend of European integration: supranationalism and nationalism, providing two classical models — a supranational model and an intergovernmental model — to account for European regional integration (Bromley 2001, 13-17; Cini 2010; Rosamond 2010). Highlighting the intrinsic dialectical features of the European integration project — supranationalism and nationalism — the two macro-models have been continuously revised and updated alongside the development of the EU. On the one hand, various supranational institutions have been established, developed, and functioning within the EU arena, and supranational elements do exist; on the other hand, nation states are the foundations upon which the EU is built and from which it draws its legitimacy.¹⁸ Therefore, since the onset of the ECSC, the tension between supranationalism (i.e. the authority and competence at the supranational level) and nationalism (i.e. national sovereignty and interests) has been lingering there. Supranationalism-v.s.-nationalism is an inborn characteristic of the European integration project, and no wonder new institutional changes introduced by the Lisbon Treaty mainly involve the relationship and competence between the EU and its member states.¹⁹ As the EU's membership has increased to 27 by 2007 and to 28 by 2013, the scenario of the competence division between the EU and its member states has become more complicated. Needless to say, it is worth examining the EU's intrinsic characteristics against a new context.

Third, apart from formulating the classical dichotomy and spotlighting the inborn nature of the EU, neo-functionalism and intergovernmentalism, as the first two main efforts to theorize European integration, discuss the fundamental issues about the EU: What is the EU? What are the dynamics and driving forces behind the integration process? And where is it heading? These concerns are highly relevant to the MRQ of this dissertation, so a close examination of the two theories in current empirical contexts will help us to unravel these basic issues and thus to understand and grasp the developing trends of the EU after the 2008 crisis better. On the issue of the dynamics

¹⁸ The EU is based on the rule of law agreed upon by its participating nation states, which means that every action taken by the EU is founded on the Treaties that have been approved voluntarily and democratically by all EU member states. For instance, if a policy area is not cited in the EU Treaties, the Commission cannot propose a law in that area. See "EU Treaties" (European Union).

¹⁹ See "Treaty of Lisbon, Questions and Answers" (European Union).

and driving forces pushing forward the integration project, neo-functionalism proposes “spillover effects” and emphasizes supranational actors alongside national governments, while intergovernmentalism argues for “interstate bargaining” and attributes national governments as the most important and prominent actors within the EU arena. Though offering different explanations, neo-functionalism and intergovernmentalism do have the following convergence (Lelieveldt and Princen 2011, 39): first, member states do not possess full autonomy in their preference formation and negotiation activities because of domestic circumstances and interest groups’ lobbies of their governments, and hence, the knowledge of domestic forces is a requirement to understand member state positions in negotiations; second, supranational institutions are more than mere administrators for interstate negotiations, and it is impossible to understand the EU without examining the behavior of these institutions; finally, the role and weight of different actors varies in different policy areas and different decision-making modes, and what is true in one policy area may not be applicable to another. As a matter of fact, these common grounds suggest some “common sense” for us when we study the EU: (1) there is autonomy of both supranational institutions and the participating member states, and the former suggests the necessity and significance of institutional studies on the EU (and as a matter of fact, HI, representing an institutionalist approach to the EU, is selected as the third theory to explain the EU as well as to be tested); (2) different actors in the EU arena may assume different role and weight in different policy formation. Such “common sense” has provided a useful epistemic lens for us to understand the EU better. Moreover, making up a pair of dialectic approaches, neo-functionalism and intergovernmentalism also complement each other, so choosing the two will also enable us to have a more rounded understanding of the basic issues of the EU.

Forth, though there are the limits and shortcomings of the classical debate between neo-functionalism and intergovernmentalism and both of them have failed accurately to explain some aspects of the EU (Risse-Kappen 1996), neo-functionalist and intergovernmentalist controversies actually have laid down foundations for new theorization in the later days, which starts to focus on the actual functioning of the EU rather than on its origination, raising different questions and offering answers from more diverse perspectives (Lelieveldt and Princen 2011, 41). Scholars tend to criticize the two traditional EU theories as being “actor-centered”, which means the two pay most attention to the prominent actors, the supranational institutions or the member

states, while saying little about the contextual factors that shape actors' behavior, such as rules, traditions, and cultures (Lelieveldt and Princen 2011, 41). The theoretical weaknesses of the two macro-models, on the one hand, have prepared a ground for the exploding of new theories and approaches, pushing the development and flourishing of European integration theories from the stage of "explaining integration" to "analyzing governance" and then to "constructing the EU" (see Table 1.1). On the other hand, the explanatory impotence of the two also has encouraged scholars to adapt and revise their previous arguments and thus, as the literature review in chapter two and chapter three illustrates, has promoted the revival and updates of both theories. EU studies are in a state of flux, but still, the two classical approaches have exerted far-reaching influence on later theorization on the EU. For instance, multi-level governance (MLG) and policy network analysis are regarded as the theoretical cousins of neo-functionalism,²⁰ while intergovernmentalism is generally held to represent the theoretical camp which takes nation states as gatekeepers (Pollack 1996, 429). Having been more or less building upon the neo-functionalist and intergovernmentalist debate, later European integration theories and approaches show their indebtedness and connections to both theories. For instance, Pierson's (1996, 1998) "path dependence" is classified as one of "locking-in" theories under the rubric of the evolution of intergovernmentalism (see chapter three), but it is also cited by neo-functionalists to support their arguments for EU supranational governance (see chapter two, section 2.4.1). As a matter of fact, Pierson's "path dependence" is one of the core propositions of HI which constitutes a sub-category of new institutionalism (see chapter four). So to discuss the two classical paradigms will shine light on later EU integration theories and approaches, while selecting HI as the third tested theory to carry out an institutionalist study will also reinforce our understanding of the two main theories as well as of the EU. All in all, the study of the "two overlapping meta-debates" (i.e. neo-functionalism and intergovernmentalism") can "help us to think about the development of theory in EU studies" (Rosamond 2013, 86).

Fifth, the research trend of EU studies from the middle of the 1990s is not to construct a one-size-fits-all grand theory to encapsulate the whole integration project, but rather to focus on certain elements or specific policy areas of the EU (Rosamond

²⁰ Niemann (2006, 302-305) elaborates on recent approaches' resemblance to neo-functionalism, including the supranational governance approach, MLG, the policy network approach, and new institutionalism.

2010, 105); consequently, “middle-range theories” have gained in popularity among scholars (Rosamond 2010, 108). In recent years, to seek a single theory to capture the EU’s dynamic evolution becomes impossible; rather, “different kinds of theories are appropriate for different pieces of the EU puzzle” (Sandholtz 1996, 427). Neo-functionalism and intergovernmentalism, therefore, among various theoretical frameworks, make their shares of contributions to unraveling some parts of the EU puzzle, particularly by explaining the dynamics for the integration project. It is also true for HI which constitutes one of the approaches analyzing EU governance. Each theory and approach examine the EU from its own peculiar angles, focusing and highlighting different elements and aspects of the integration project, so bringing them together will help us resolve the EU puzzle better.

Finally, it is worth emphasizing again that both neo-functionalism and intergovernmentalism, the two traditional European integration theories, alongside the EU’s development and newly rising theories and approaches, also evolve and develop. The limits and disadvantages of the two classical theories do not mean the end of them. Rather, having been tested by EU empirical developments, they are modified to accommodate the growth of the EU; at the same time, by absorbing advancements in other disciplines and theories, they get enriched. Over time, some of their propositions got revised, rejected or even abandoned, but they never died out; instead, adapting themselves to the new situations empirically and theoretically, they develop with renewed vigour to account for the EU (see, for instance, Tranholm-Mikkelsen 1991). To test their propositions with the EU’s new developments after the 2008 crisis, particularly during the eurozone sovereign debt crisis, means to reify and reinterpret classical theories in a new context with the possibilities to make further theoretical developments, and this also applies to HI and other European integration theories and approaches. The recourse to EU integration theories and to test their propositions with new EU developments, in the end, serve the interest of a better understanding of the EU.

After stating the considerations leading to the selection of the two classical models, the reasons to choose HI also become clear. First, HI is a point where the two competitive integration theories converge, so HI research, in one respect, addresses a basic issue in EU studies: supranational institutions and their autonomy, power and competence, and in another respect, it enlightens our understanding of the two rival classics. Second, as different theories are apt to account for the different part of the EU

puzzle, HI, as a sub-school of new institutionalism which specifically deals with “institutions”, unravels EU governance from a historical institutionalist perspective, thus differing itself from the two traditional theories’ primary concerns about integration dynamics. Moreover, new institutionalist research on the EU was born out of the classic neo-functionalist-intergovernmentalist debate and it is believed to have overcome the impasse of such a dichotomy by offering new insights into the EU (Pollack 1996, 430). Finally, any European integration theories, as useful epistemic tools to understand the EU, need to be checked by EU empirical developments, and to test HI by the EU’s new developments during the euro area sovereign debt crisis suggests possible theoretical developments for HI. Apart from these considerations, the particular traits of HI make the selection of this theory more significant: (1) as one of the three schools of new institutionalism, HI possesses an eclectic feature of both two other schools — rational choice institutionalism and sociological institutionalism; situating itself between the two extremes of rational choice and sociology, HI is moderate and inclusive, offering complementary rather than competitive explanations, so among the three new institutionalist variants, HI can represent new institutionalist approaches in general most (see chapter four); (2) in reality, various EU institutions were created and developed and the EU has become a highly institutionalized entity; EU institutions are the organs where EU decision-making takes place and where EU-level policies and functions have been carried out; at present, in order to solve the euro area sovereign debt crisis, the EU has adopted new policies and established new institutions, so carrying out an institutionalist study on the EU’s recent developments during the crisis is meaningful, and HI analyses of the EU’s new measures address the core issue of the integration project — institutionalized EU economic governance.

In short, as Table 1.1 illustrates, theories accounting for the EU are diverse and sophisticated, and within a limited space, it is impossible and unrealistic to make a thorough and detailed literature review of all of them, so this dissertation only focuses on three European integration theories: neo-functionalism, intergovernmentalism, and HI (a convergent point of the two classics and a sub-category of new institutionalism). Based on the arguments and assumptions of each theory, this dissertation formulates hypotheses on the EU, which will be tested by the cases of the EU’s developments after 2008, particularly during the current euro area sovereign debt crisis, and thus the three theories’ explanatory and predictive power will be checked. Subsequently, the vindication or falsification of each hypothesis provides answers to the research

questions of this dissertation and leads to a better understanding of the EU. It should also be noted that while it is possible and reasonable to compare the relative explanatory and predictive power of neo-functionalism and intergovernmentalism, it is, in a strict sense, not suitable to compare the relative power among neo-functionalism, intergovernmentalism and HI, because they deal with different “topics”: the former two models seek answers to the dynamics and driving forces of EU integration, while the latter (HI and new institutionalism as a whole) is particularly dedicated to analyzing EU governance (see Table 1.1). Still, each theory’s explanatory and predictive power can be evaluated in the way that hypotheses derived from these theories will be confirmed or rejected by the same set of given cases. The relationship between theories and EU integration has been vividly illustrated by the metaphor of the blind men and an elephant: each theory seems to touch, emphasize and thus explain different aspects of the elephant of the integration process, so “any general explanation of integration cannot rest on a single theory, [...] but must rest on a multi-causal framework that orders a series of more narrowly focused theories” (Moravcsik 1998, 15). Accordingly, this dissertation in case analyses will also look at the possibilities to synthesize multi-causal chains posited by the three selected theories that (1) link the same independent and dependent variables and (2) contribute to a better understanding and a more rounded explanation of empirical cases. Different theories offer different lenses to view the EU, and each theory possesses its own value and merits as well as blind points and disadvantages, so a synthesis of causal mechanisms proposed by different theories will offer us a more inclusive and comprehensive theoretical lens to examine and understand empirical phenomena, and in the end, to answer the research questions raised in this dissertation. Without doubt, besides the selected three, there is promising and meaningful research with other European integration theories and approaches against the EU’s developments during the post-2008 crisis era, and by using the same set of cases, to test the explanatory and predictive power of each theory and approach listed in Table 1.1 is possible.

1.2.3 Hypotheses Formulation

Chapter two, chapter three and chapter four will consecutively describe neo-functionalism, intergovernmentalism, and HI in detail, including their origins, their core concepts, the critiques against them, their theoretical revisions and developments, and their particularities and contributions to EU studies. For the convenience of

narrating the theories and deriving hypotheses, neo-functionalist hypotheses in chapter two are formulated along with the proceeding of the literature review, while hypotheses of intergovernmentalism in chapter three and of HI in chapter four are drawn at the end of each literature review. After each hypothesis formation follow clarification, explanation and preliminary analyses and tests (if possible) of the hypothesis concerned.

The value of a solid and detailed theoretical review mainly lies in two aspects: first, it “permits us to formulate more detailed and consistent explanations, to test them more rigorously and in ways that are replicable, and finally to generalize the results to other situations” (Moravcsik 1998, 18); second, it delineates evolutionary paths of these theories over time, which not only may indicate the turning points in EU history and a changing international context, but also shed light on the problems of and the debates on the EU today. Hoffmann (1995, 1) once commented that “many of the issues that trouble the EU today have plagued it from the beginning and have not been resolved”, and it is still true for the EU in the 21st century, so tracing the trajectory of the theories would enable us to have a broader historical view on EU current issues, encouraging deep reflections on the newly adopted solutions to the crisis and the future of the regional integration project.

1.3 Research Design and Methodology

This dissertation will first present a literature review and then derive hypotheses from each theory. To test these hypotheses, this dissertation follows the general rules of theory tests in social sciences and relies on the case study methods elaborated by George and Bennett (2005): the congruence method and process-tracing.

Waltz (1979, 13) suggests seven steps to test a theory:

- “1 State the theory being tested.”
- “2 Infer hypotheses from it.”
- “3 Subject the hypotheses to experimental or observational tests.”
- “4 In taking steps two and three, use the definitions of terms found in the theory being tested.”
- “5 Eliminate or control perturbing variables not included in the theory under test.”
- “6 Devise a number of distinct and demanding tests.”
- “7 If a test is not passed, ask whether the theory flunks completely, needs repair and restatement, or requires a narrowing of the scope of its explanatory claims.”

This dissertation generally follows the seven steps outlined above, among which the steps of (1), (2) and (4) are dealt with in the next three chapters (i.e. chapter two, chapter three, and chapter four), while the steps of (3), (4), (5), (6) and (7) are addressed in chapter six, chapter seven and chapter eight. As step (4) points out, it is important to make a clear statement of the meaning of the independent and dependent variables prescribed by the tested theory, and meanwhile, the significance of theory tests lies at the final step (7) where the tested theory possibly gets modified, revised and developed as new factors and/or causal mechanisms are explored. It should also be kept in mind that “a theory is made credible only in proportion to the variety and difficulty of the tests, and that no theory can ever be proved true” (Waltz 1979, 14), that is, every theory should be subject to further empirical tests and be open to further debate and possible revisions.

1.3.1 The Congruence Method and Process-Tracing

To test the derived hypotheses from each theory, this dissertation will carry out case studies resorting to the congruence method and process-tracing, which are taken as an alternative and supplement to comparative methods (George and Bennett 2005, 153).²¹ The congruence method is meant to test whether a theory is congruent or not congruent with the outcome in a case, while process-tracing aims at uncovering causal mechanisms posited by a theory coupling independent variables with dependent variables (George and Bennett 2005, 153). George and Bennett describe the congruence method as follows:

“The essential characteristic of the congruence method is that the investigator begins with a theory and then attempts to assess its ability to explain or predict the outcome in a particular case. The theory posits a relation between variance in the independent variable and variance in the dependent variable; it can be deductive or take the form of an empirical generalization. The analyst first ascertains the value of the independent variable in the case at hand and then asks what prediction or expectation about the outcome of the dependent variable should follow from the theory.

²¹ Haverland and Blatter (2012) and Blatter and Haverland (2012) argue that there are three different approaches to case study research: co-variational analysis, causal-process tracing and congruence analysis. The first one refers to cross-case comparisons, while the latter two — causal-process tracing and congruence analysis — are two variants of within-case analysis. Accordingly, this dissertation conducts within-case causal analysis to test the validity of EU integration theories.

If the outcome of the case is consistent with the theory's prediction, the analyst can entertain the possibility that a causal relationship may exist." (2005, 181)

Nevertheless, in order to have a high quality congruence test, "an investigator must establish the level of concreteness and differentiation with which variance in the dependent variable will be measured", and "[h]ow well this task is performed may well determine whether one can find congruence between the independent variable in the theory and outcomes on the dependent variable" (George and Bennett 2005, 182). Therefore, whenever a theoretical model is discussed and hypotheses are derived, the independent variable and dependent variables must be stated clearly, and the methods or scales of measuring the variance of the dependent variable should also be clarified as much as possible.

A salient feature of the congruence method is that it "does not require a search for data that might establish a causal process from independent to dependent variables" (George and Bennett 2005, 182). Applying the congruence method, researchers do not need a great deal of data about the cases in study, because the congruence method "does not have to trace the causal process that leads from the independent variable to the case outcome" (George and Bennett 2005, 182), and therefore, it is necessary to combine the congruence method with process-tracing, as the latter "attempts to identify the intervening causal process — the causal chain and causal mechanism — between an independent variable (or variables) and the outcome of the dependent variable" (George and Bennett 2005, 206). Tracing the causal chains, on the one hand, helps narrow the list of potential spurious causes; on the other hand, it forces researchers to take equifinality (multiple causes) into account, that is, to consider possible alternative paths which also lead to the same outcome in a single case (George and Bennett 2005, 182; 207). In such a way, with more cases, a typological theory can be developed so long as the repertoire of causal paths that are consistent with a given outcome and the conditions under which they occur are clearly mapped out (George and Bennett 2005, 207). The usefulness of the process-tracing technique is further emphasized and explained by Panke (2012). Compared with correlation-based analyses which tell the ratio of corresponding variation between the independent and dependent variables, process-tracing, studying "the unfolding of an event over time" and examining "the chain of events", gives explanations for the changes of the dependent variable(s)

caused by the independent variable(s) and specifies the causal chain(s) between the independent and dependent variables (Panke 2012, 129), answering both “why” and “how-come” questions (Panke 2012, 136). Deriving conclusions from large-n data for given topics is a distinct advantage of quantitative methods, while process-tracing offers complementary tools, notably in studies focused on a small number of cases. Moreover, Panke also suggests that qualitative researchers tend to overlook the in-case variation of independent and dependent variables, which actually is “a common feature of a case study” and “in effect increases the number of observations”, and the value of process-tracing is that, besides avoiding false conclusions based on spurious correlations, it “allows for definition of fine-grained observable implications of causal processes as well as outcomes, which enables qualitative researchers to test multiple hypotheses even in small-n settings and establish causality”, and with the process-tracing technique, “a single case study can be utilized to test multiple hypotheses” (Panke 2012, 126). Panke further sets up two requirements to utilize process-tracing: (1) “specify the causal mechanisms expected by each of the hypotheses”, and (2) “specify indicators for the mechanisms” (2012, 129). So basically, process-tracing adds one more step of causal explanations to the congruence test; accordingly, this dissertation will first clearly present the causal mechanisms linking the independent and dependent variables assumed by the derived hypotheses; second it will check whether these hypothesized mechanisms are present or absent in the selected cases, which will lead to the acceptance or rejection of the relevant hypotheses. The crucial factor that contributes to a credible hypothesis test is to have a clear prescription of the indicators and measurements for the causal chains, and one way to achieve this, as step (4) by Waltz (1979, 13) above suggests, is to “use the definitions offered by the tested theory”, so when narrating theories and formulating hypotheses, this dissertation will state indicators, measurements and term definitions as clearly as possible.

For each single case, there might be competitive explanations and predictions offered by the three distinctive theories on the causal processes thought to have taken place in the case (i.e. the hypothesized causal paths), which contain necessary steps of a particular order linking the posited independent and dependent variables. By applying congruence testing and process-tracing, this dissertation has the means to compare, confirm or reject the alternative hypotheses, to possibly discover new causal paths or to synthesize the multiple causal chains linking the independent and dependent variables in a single case. As the chapters of the literature review suggest, neither

neo-functionalism nor intergovernmentalism has ever been proved fully correct, while HI is only one of the three sub-categories of new institutionalism, and the other two schools of new institutionalism will explain the same case from different angles, so the aim of this dissertation is not going to prove one theory entirely correct or incorrect, but to test each theory's propositions, and thus its relative explanatory and predictive power, against the same set of cases and to assess the relative importance of various factors in different cases. Therefore, besides possible rival propositions, other propositions stressing different factors from each theory may offer to-be-vindicated multi-causal mechanisms for case studies, and new causal chains or a synthesis of a typological theory is possible outside the already-existing causal explanations. If evidence in the cases consistently confirms the preeminence of certain factors, it is a conclusion rather than an assumption of the empirical analysis, which, of course, is subject to further empirical tests and possible theoretical revisions. All these hypothesis tests and theoretical constructions provide us effective epistemic tools to understand and grasp the EU today, and the case study results definitely offer answers to the MRQ and the SRQs of this dissertation.

1.3.2 Defining Case Studies in this Dissertation

After comparing several definitions of case studies, Gerring (2004, 342) proposes that a case study is “*an intensive study of a single unit for the purpose of understanding a larger class of (similar) units*”, and a unit, explicitly or implicitly, “connotes a spatially bounded phenomenon — e.g., a nation state, revolution, political party, election, or person — observed at a single point in time or over some delimited period of time” (his emphasis). Accordingly this dissertation will focus on a spatially bounded phenomenon observed over a delimited period of time: the EU's new measures dealing with the post-2008 crisis situation, especially countering the euro area sovereign debt crisis, which were adopted after the effectiveness of the Lisbon Treaty and became effective during 2010 to 2012. To clarify his definition of the case study method, Gerring distinguishes “units” from other terms: “[a] ‘population’ is comprised of a ‘sample’ (studied cases), as well as unstudied cases. A sample is comprised of several ‘units,’ and each unit is observed at discrete points in time, comprising ‘cases’. A case is comprised of several relevant dimensions (‘variables’), each of which is built upon an ‘observation’ or observations” (2004, 342). These terms (i.e. population, sample, unit, case, and observation) are nested within each other, and to different propositions and in

different research designs, these terms are generally in flux (Gerring 2004, 342). Following Gerring's logic, units constitute a sample as well as cases, and in this dissertation, the observed units are the EU's new measures to address the post-2008 crisis challenges, particularly to solve the eurozone sovereign debt crisis, which comprise the cases that serve as a litmus to test the three selected European integration theories. The intensive study of the selected cases of the EU's new developments will cast an enlightening understanding of a larger class of the EU's handlings of the crisis as well as the trends of EU economic governance.

For Gerring, the case study method is "a particular way of defining cases, not a way of analyzing cases or a way of modeling causal relations" (Gerring 2004, 341), and such a view is shared by George and Bennett (2005). George and Bennett define a case as "an instance of a class of events" (2005, 17), while a case study is "a well-defined aspect of a historical episode that the investigator selects for analysis, rather than a historical instance event itself", and such a selection, together with the to-be-tested theories, decides what kind of data will be relevant to the investigator's research (2005, 18). The Lisbon Treaty, introducing a series of remarkable institutional reforms and coming into force from 1 December 2009, is regarded as the latest milestone of the integration project; the EU's developments after the Lisbon Treaty, however, have many facets and dimensions, and this dissertation purposively selects the aspect of its economic governance, particularly its dealings with the euro area sovereign debt crisis after the 2008 global financial crisis. As the focus and thrust of the post-2008 crisis era, the euro area sovereign debt crisis firstly broke out in Greece in the fall of 2009, and it is not until May 2010 that the euro countries for the first time reached their agreement to provide bilateral loans to Greece; later, the bailouts for Ireland and Portugal, for Greece for the second time, and for Spanish banks and Cypriot banks, all were carried out after the implementation of the Lisbon Treaty. In recent years, the most urgent task for EU economic governance is to stop the spreading of the sovereign debt crisis and to end this crisis as soon as possible, so this dissertation selects the new measures implemented by the EU from 2010 to 2012 under the effectiveness of the Lisbon Treaty to combat the crisis as cases to examine the historical episode of EU economic governance after the Lisbon Treaty as well as after the 2008 global financial crisis. Thereby case studies in this dissertation have the following characteristic: addressing the post-2008 crisis situation, particularly the eurozone sovereign debt crisis, the selected cases represent instances of EU economic

governance after the Lisbon Treaty as well as after the 2008 crisis, and thus they reflect the general nature and trends of EU economic governance after the Lisbon Treaty as well as after the 2008 crisis.

1.3.3 An Overview of the EU's New Measures and Strategies to Solve the Sovereign Debt Crisis

The eurozone sovereign debt crisis is one of the consequences as well as an evolution of the 2008 global financial crisis originating from the US, and to solve the collective national debt crisis is the EU's most dominant task during the post-2008 crisis era. The financial crisis this time, which is generally regarded as the worst one since the Great Depression in the 1930s, has affected the EU economy in two prominent ways: first, it causes the EU's economic recession in the context of the global economic downturn; second, it triggers the euro area sovereign debt crisis, which first started in Greece in 2009 and then spread to Ireland in 2010 and to Portugal 2011, with potential contagious spreading to other euro countries (e.g. Hosli et al. 2011a, 2011b; Pan et al. 2011; Shi et al. 2011a, 2012; Yurtsever 2011). According to the EU website (see "European Financial Stabilisation Mechanism", European Union), three negative impacts have been exerted by the global financial crisis on the economies of EU countries: (1) "the destabilisation of financial markets", (2) "the downturn in economic growth", and (3) "the deterioration in the budget deficits and debt positions of the Member States". Obviously, the economic recession and the eurozone sovereign debt crisis are interwoven with each other and mutually reinforcing. Against such a background, two thematic topics dominate the EU's economic governance after the effectiveness of the Lisbon Treaty: (1) keeping financial stability across the EU and EMU against external and internal financial shocks, and (2) carrying out fiscal and economic reforms to correct national government excessive budget and deficit situations and to realize economic recovery and growth. Naturally, the issue of the euro countries' sovereign debt crisis must be addressed in both the external and internal contexts.

The eurozone sovereign debt crisis after the 2008 financial crisis has exposed the disadvantages of the euro system and EU economic governance as a whole, and accordingly, the EU and its member states are making efforts to address the revealed problems so as to solve the crisis and to improve EU economic governance. Based on the information provided by EU institutions' official websites (the Commission's

website in particular) and inspired by Hosli et al. (2011b) and Yurtsever (2011), an overview of the EU's and its member states' efforts to deal with the post-2008 crisis situation, mainly about combating the euro area sovereign debt crisis, is conducted as follows:

Table 1.2 The EU's New Measures to Solve the Eurozone Sovereign Debt Crisis

Factors contributing to the crisis, being classified into three related aspects I, II, and III	Exposed problems	New measures adopted by the EU and its member states	Other suggestions and opinions
I Fiscal and economic aspects			
(A) Member states' high budget deficit and debt rates, much above 3% and 60% of Gross Domestic Product (GDP) respectively, the criteria prescribed by the Stability and Growth Pact (SGP) (see Appendix 1);	Member states' excessive and unsustainable deficits and debts as well as the general global economic recession;	(1) To meet the fiscal criteria laid down by the SGP, member states need to make budget cuts and take austerity measures, and meanwhile to carry out domestic reforms to realize economic growth and employment creation; (2) The EU and its member states set up economic strategies and priorities, such as Europe 2020 and the Euro Plus Pact; (see Appendix 1)	a) To establish new institutions specialized in monitoring and disciplining member state fiscal behavior and dealing with the sovereign debt issue, such as a European Finance Ministry (EFM), European Debt Agency (EDA), and European Monetary Fund (EMF); b) Worries are expressed about the probability of the disintegration of EMU and even the EU.
(B) The general economic recession across EU countries and worldwide after the global financial crisis of 2008 originating from the US;			
(C) The SGP rules have not been strictly enforced: an excessive deficit may ultimately result in a fine of as much as 0.5 percent of a member state's GDP, but the EU has never imposed such financial sanctions against the euro states who have violated the SGP	Powerless fiscal supervision and a watered-down punishment mechanism;	(3) New rules and regulations on the effective enforcement of budgetary surveillance in the euro area entered into force on 13 December 2011 (i.e. the so-called "six-pack"), composed of four main components: (a) stronger preventive and corrective action through a reinforced SGP and deeper fiscal coordination; (b) minimum requirements for national budgetary frameworks; (c) preventing and correcting macroeconomic and competitiveness imbalances; (d) enforcement of sanctions strengthened by the expanded use of "reverse qualified majority voting" (RQMV) ²² ;	

²² Firstly suggested by the Task Force Report (21 October 2010), RQMV is introduced to strengthen the enforcement of the SGP. It means that when imposing sanctions, "a Commission proposal will be considered adopted unless the Council overturns it by a qualified majority", see "A New EU Economic Governance-A Comprehensive Commission Package of Proposals" (European Commission). The article of Van Aken and Artige (2013) reflects a history of the practice of reverse voting modes: reverse consensus was introduced in the dispute settlement system of the World Trade Organization (WTO) in 1995; reverse simple majority was introduced in the EU's antidumping policy

limits;		(4) On 23 November 2011, the Commission proposes another two new Regulations to further strengthen budgetary surveillance in the euro area (i.e. COM(2011) 821 Final and COM(2011) 819 Final); later, the so-called “two-pack” became effective as of 30 May 2013;
(D) The euro system encompasses common monetary policy conducted by the ECB, while lacking corresponding unified fiscal policy;	Institutional disadvantage of EMU;	(5) On 20 June 2012, <i>Communication on Common Principles for National Fiscal Correction Mechanisms</i> (COM(2012) 342 Final) suggested seven common principles for the contracting parties of the TSCG (Treaty on Stability, Coordination and Governance) in EMU to design automatically-triggered national fiscal correction mechanisms;
(E) EMU, as its name suggests, should be built on two pillars: the economic pillar and the monetary pillar. The function of the Monetary pillar (i.e. to keep price stability in the euro area) is fulfilled by the ECB, but the economic pillar, composed of three parts: the fiscal regime enshrined in the SGP, national frameworks of economic policy-making, and the system of mutual surveillance, is lamed, and thus the EU/EMU has failed to implement sound and sustainable fiscal policy for the euro area.	Poor economic functions of EMU and feeble EU economic surveillance and coordination, which are caused by member states’ unsound fiscal policies, inappropriate macroeconomic policies, and an inadequate system of surveillance.	(6) The European Semester, a new mechanism of coordinating national economic and fiscal policies, started from 1 January 2011, the implementation of which requires and implies the convergence of public accounting systems, forecasting methods, and numerical fiscal rules and transparency; (7) The TSCG (also popularly known as the “Fiscal Compact”) entered into force on 1 January 2013, aiming at strengthening fiscal discipline in the euro area by the “balanced budget rule” and the automatic correction mechanism.
II Financial supervision aspects		
(F) The eurozone sovereign debt crisis is triggered by the 2008 global financial crisis originating from the US;	Loopholes in financial market regulation and lacking EU-wide financial supervision and a risk prevention network;	(8) The EU established the ESRB for macro-prudential oversight and three European Supervisory Authorities (ESAs: the EBA, the EIOPA and the ESMA, which superseded three existing supervisory committees: the CEBS, the CEIOPS and the CESR, respectively) for micro-prudential oversight of the EU financial system; the ESRB and the three ESAs entered into force from 1 January 2011; (see section 1.3.4) (9) The EU tightened existing rules and

in 2004, and reverse qualified majority voting (RQMV) was introduced in the “six-pack” in 2011 (i.e. the sanction mechanism of the Excessive Deficit Procedure (EDP) of the SGP’s corrective arm) and the new Fiscal Compact contained in the Treaty on Stability, Coordination and Governance (TSCG), which, binding to all euro member states plus 8 other EU member states (without the UK and the Czech Republic), entered into force on 1 January 2013 and “introduces RQMV in all the key steps of the EDP procedure under strict deadlines” (Van Aken and Artige 2013, 31; see also Appendix 1). According to the database used by Van Aken and Artige, the EU’s practice of reverse majority voting can be traced back to 2002 (2013, 5).

		established new regulations on financial services (e.g. banking, insurance, and securities) to reduce short-term financial risks; (10) Bank stress tests were carried out to overhaul the financial resistance ability of the major banks across the EU; (11) In September 2012, the Commission put forward proposals on a single supervisory mechanism (SSM) for all eurozone banks, making the first step towards the establishment of an integrated “bank union” lead by the ECB;	
(G) The world’s three big credit rating agencies (CRAs) — Moody’s, Fitch, and Standard & Poor’s — all are American companies. They are criticized for their failures to predict the US subprime mortgage crisis in 2007 which in turn causes the global financial crisis in 2008, and they are also blamed for adding oil onto the fire of the European sovereign debt crisis.	The role of the CRAs during the financial and the sovereign debt crisis.	(12) Stricter EU rules on CRAs are on the way of formulation. On 16 January 2013, the EP approved new rules prescribing when and how CRAs may rate sovereign debts and private firms’ financial health, and meanwhile private investors were enabled to sue CRAs for their negligence; (13) On 14 March 2013, the European Council reached Conclusions on the ongoing work to build a sounder structure for EMU, including developing (a) common banking supervision (i.e. the SSM) with stricter rules on capital requirements for banks, (b) bank resolution and deposit guarantee schemes, (c) single resolution mechanism, and (d) Euro Summit rules of procedure; it was agreed that to establish the banking union is “the most pressing priority”.	
III Direct financial assistance and crisis management aspects			
(H) The increasing yield rates of government bonds make it difficult and unsustainable for member states to finance from the markets and the troubled member states lack capital liquidity capacity; these debt-ridden countries are posed on the edge of sovereign debt default and national bankruptcy;	A typical problem for countries in a debt crisis;	(14) Strategies aiming at easing severe tensions in the euro area sovereign debt market and restoring investors’ confidence are adopted: (a) in May 2010, the financial assistance mechanisms — the EFSM (European Financial Stabilisation Mechanism) and the EFSF (European Financial Stability Facility) — were agreed to be established, and the two constituted a temporary European Stabilisation Mechanism (the temporary ESM);* (b) in October 2012, after the Treaty revision and national ratification, the permanent financial assistance mechanism to euro member states — European Stability Mechanism (ESM) — was inaugurated, replacing the temporary ESM; (c) the International Monetary Fund (IMF) also agreed to provide loans accompanying financial assistance to the euro states; (d) the ECB took initiatives to purchase national debts on secondary markets by the Covered Bond Purchase Programme (CBPP) and the Outright Monetary Transactions (OMTs) (two indirect ways to purchasing the treasury bonds of national governments); (see Appendix 2) (15) Commission <i>Green Paper on the Feasibility of Introducing Stability Bonds</i> (COM(2011) 818 Final) were proposed for a debate on the joint	c) The euro countries should together issue collective Eurozone bonds;
(I) When the crisis first broke out in Greece in the fall of 2009, for a long time, there were a lot of controversies on whether and how to help Greece and to deal with the on-going	Exposing a vacuum in the European integration project: even the latest Lisbon Treaty hasn’t provided the EU a specific		d) More money should be put into the ESM so as to increase its financial assistance capacity.

sovereign debt crisis in the euro states.	mechanism or tool to cope with serious financial and budgetary challenges, such as the sovereign debt crisis.	issuance of debt in the euro area; (16) Financial assistance was granted to Greece twice: €110 billion in May 2010 (bilateral loans) and €130 billion in March 2012 (financed by the EFSF+the IMF); besides, in July 2011, the Task Force for Greece was launched by the Commission, which consisted of EU officials and national experts with the aim of providing technical assistance to help the Greek government implement reforms and absorb different available EU funds better; (17) With the help of the temporary financial backstop mechanisms — the EFSM+the EFSF+the IMF, Ireland (December 2010) has been granted €85 billion (i.e. €22.5 billion (the EFSM)+€22.5 billion (the EFSF+bilateral loans from the United Kingdom (UK), Denmark and Sweden)+€22.5 billion (the IMF)+€17.5 billion (Ireland)), and Portugal (May 2011) €78 billion (i.e. €26 billion each from the EFSM, the EFSF and the IMF); (18) Financial assistance for the recapitalisation of financial institutions in Spain was reached in July 2012: up to €100 billion via the EFSF which is subsequently taken over by the permanent ESM; (19) Balance-of-Payments (BoP) assistance is available for non-euro area member states to ease their external financing constraints, and three countries (Latvia, Hungary and Romania) have received financial assistance under the BoP programs; (20) ESM financial assistance facility agreement (FFA) for Cyprus up to €10 billion was granted in May 2013 (€9 billion (the ESM) + €1 billion (the IMF)); (21) All financial assistance programs are conditioned by the beneficiary countries' fiscal, economic and financial reform, mainly including the following promises from national governments: (a) to reduce government debts and deficits, (b) to promote growth and jobs, and (c) to keep financial stability; (22) From 1 July 2013, the ESM becomes the sole mechanism for new financial assistance programmes to the euro countries, while the EFSF stops engaging in new financing programmes or entering into new loan facility agreements, but still remaining active in financing the ongoing programmes for Portugal, Ireland (which officially exited the EFSF programme on 8 December 2013) and Greece.

Notes: Table 1.2 only lists the main measures adopted by the EU and its member states to deal with the post-2008 crisis situation, particularly the eurozone sovereign debt crisis. Appendix 1 on the evolution of the SGP's preventive arm provides some background information and explanations to Table 1.2, while for more details and other EU efforts and

initiatives, please visit the official websites of EU institutions, such as the Commission's and the ECB's.

* On 9 May 2010, the Ecofin Council adopted the temporary European Stabilization Mechanism (ESM) with a total volume of up to € 500 billion, which consists of two parts. First, €440 billion would be provided by the euro area member states by means of a Special Purpose Vehicle (SPV), guaranteed on a pro rata basis by participating Member States, in a coordinated manner. This first part is called the European Financial Stability Facility (EFSF) and would expire after three years. Second, €60 billion would be raised by the Commission and guaranteed by the EU budget based on the relevant articles of EU Treaties (i.e. Article 122.2 TFEU), and this part is called the European Financial Stabilisation Mechanism (EFSM). Alongside the EFSF and the EFSM, the IMF would also provide up to € 250 billion, and thus through the temporary ESM, almost €750 billion could be mobilized (see Shi et al. 2011a). Sources: Own compilation on the basis of Hosli et al. (2011b), Yurtsever (2011), the websites of EU institutions (the Commission, the ECB, the European Council and the Council of the European Union) and the official websites of the EFSF, the ESM and the ESRB.

Similar to the three types of general categorization in Table 1.2, the Commission also has classified the EU's new developments since the financial crisis into three broad categories (see Table 1.3), which actually suggests a simplified version of Table 1.2.

Table 1.3 New EU Economic Governance Evolving through the Financial Crisis		
"The crisis exposed fundamental problems and unsustainable trends in many European countries. It also made clear just how interdependent the EU's economies are. Greater economic policy coordination across the EU will help us to address these problems and boost growth and job creation in future."		
		
New EU economic governance (based on three main blocks)		
Block I	Block II	Block III
<i>A reinforced economic agenda with closer EU surveillance:</i> ● The Europe 2020 strategy; ● The Euro Plus Pact; ● The SGP Reforms via the "six-pack" and "two-pack"; ● The Macroeconomic Imbalance Procedure (MIP); ● The European	<i>Action to safeguard the stability of the euro area:</i> ● In May 2010, setting up the temporary ESM (i.e. the EFSM and the EFSF) to help euro member states plagued by the sovereign debt crisis; ● Establishing the permanent ESM, which entered into force in October 2012; ● Providing financial support, closely cooperated with the IMF, with conditions on	<i>Action to repair the financial sector:</i> ● Establishing new rules and agencies to detect and prevent financial problems earlier (e.g. the ESRB and the three ESAs); ● Making sure all financial actors are under proper regulation and supervision; ● More initiatives

Semester.	rigorous national fiscal consolidation and economic reforms.	to block the loopholes in the financial market and system (e.g. to ensure banks across the EU possessing sufficient capital reserves to withstand future financial shocks).
Main themes		
Fiscal discipline and economic growth.	Establishing assistant mechanisms to provide urgent “financial blood” to the euro states while promoting national economic reforms.	Patching up the loopholes in the financial system and strengthening financial supervision.
		
“Emerging stronger from the crisis” and “more united than ever”: finding solutions to the crisis after 2008, the EU reinforces its economic governance and EMU, “paving the way towards a strong political union”.		

Sources: Adapted from “Economic Governance” (European Commission).

As far as the new developments of the EU during the post-2008 crisis era are concerned, several points are worth emphasizing. First, the eurozone sovereign debt crisis was so severe that the troubled nation states cannot solve it by themselves, and as the sovereign debt issue became a common challenge, seeking solutions at the supranational level became natural, necessary and unavoidable. Second, representing the overall interests of the EU, the Commission has fulfilled its functions well, actively tabling relevant proposals to deal with the crisis. Third, all the newly adopted policies and implemented measures can be divided into two kinds: (a) those totally created from scratch, and (b) those revising and strengthening the existing rules. Fourth, though the new measures mirror the development of the regional organization at the macro-level, their addressees are the various actors at the micro-level and the concrete implementation of the new rules and regulations require member states’ and the addressees’ cooperation and commitments. Fifth, the sovereign debt issue cannot be treated in isolation; rather, to solve the crisis is a complex project, demanding communication, coordination and cooperation of EU economic, fiscal and financial policies, which are interwoven with each other at both the EU and the national level. Finally, the classification of the three categories presented in Tables 1.2 and 1.3 does not mean an absolute clear-cut system, but rather, it is a way to conceptualize and grasp the social phenomena of the EU’s responses and actions to the crisis so as to facilitate our understanding and research. Needless to say, the three interconnected categories

are mutually reinforcing and the effective solution to the euro area sovereign debt crisis must be born out of the sound coordination and cooperation among them. In short, the post-2008 crisis era dominated by the eurozone sovereign debt crisis has exposed the potential disadvantages of the EU and EMU, and those new developments demonstrate the EU's efforts in patching up the loopholes in the integration project as well as strengthening and advancing EU economic governance.

1.3.4 The Selection of Three Cases

Among these new initiatives and strategies of the EU to deal with the post-2008 global financial crisis era themed by the eurozone sovereign debt crisis, three new measures are selected as cases for the research in this dissertation:

(1) The “European Semester”, implemented from 1 January 2011;

Prior to 2011, EU member states would coordinate their economic policy plans after adopting their national budgets, and at that time, the existing procedures of policy coordination were carried out independently from each other. The economic recession in the wake of the 2008 global financial crisis and the outbreak of the Greek sovereign debt crisis in autumn 2009 have illustrated the importance and urgency of achieving better economic policy coordination and bringing broader macro-economic policies under surveillance. Accordingly, the European Semester was created to synchronize and streamline the procedures of coordinating national budgets, economic growth and employment plans in line with the Union's objectives as well as to prevent excessive macro-economic imbalances. The European Semester is one of the earliest initiatives put forward by the Task Force chaired by Herman Van Rompuy, which was established by the European Council meeting decision on 25-26 March 2010 during the height of the Greek sovereign debt crisis with the purpose of exploring all possible legal options to boost EU economic governance. On 17 June 2010, the European Council agreed on introducing the European Semester from 2011 onwards, and accordingly as follow-ups to this European Council decision, the Ecofin Council (i.e. Council of Ministers of Economics and Finance) on 13 July 2010 exchanged views on putting member states' budgetary and structural policies under the European Semester's surveillance; in September 2010, the Ecofin Council adopted the Commission's proposal on the issue concerned, and consequently, the European Semester became effective on 1 January 2011. This new mechanism prescribes a clear timetable to coordinate individual national policies from the beginning of each year for

a six-month period (the so-called “European semester”) before member states adopt their next year’s budgets in the second half of the year (the so-called “national semester”): the time when member states receive EU-level advice and guidance (i.e. Annual Growth Survey (AGS)), when they submit their policy plans (i.e. Stability and Convergence Programmes (SCPs) and National Reform Programmes (NRPs)) to be assessed at the EU level, when they are given individual recommendations (i.e. country-specific recommendations (CSRs)) on their national budgetary and reform policies, and when, if necessary, they receive recommendations to correct macroeconomic imbalances. As a result, under this new policy coordination and surveillance mechanism, during the first six months annually from 2011 onwards, EU member state fiscal situations and economic policies are reviewed, based on which any incoordination and newly emerging imbalanced situations will be detected and relevant recommendations will be given and then taken into account before member states finalize their budgets and reform programmes; in such a way, the EU dimension gets embedded in national policy-making.²³ To summarize, the European Semester means “[a] six-month period each year when EU Member States’ budgetary, macro-economic and structural policies are coordinated so as to allow these countries to translate EU considerations into their national budgetary processes and into other aspects of their economic policymaking” (“Glossary”, ESM).

(2) The ESRB, starting from 1 January 2011;

The global financial crisis in 2008 exposes that the EU urgently needs an EU-wide financial supervision system to assess and prevent potential systemic risks so as to keep financial stability within the EU and to mitigate negative impacts of financial turmoil on the EU’s internal market and real economy (see ESRB Regulation (i.e. Regulation (EU) No 1092/2010) (10) and Article 3; also see Council Regulation (EU) No 1096/2010, (1)). In November 2008, European Commission President José Manuel Barroso requested a group of high level experts, chaired by Mr Jacques de Larosi re (the former Managing Director of the IMF), to make recommendations to establish a more efficient, integrated and sustainable financial supervisory framework. On 25 February 2009, the de Larosi re group submitted its final report, proposing two key recommendations: to establish a European Systemic Risk Council (ESRC) for

²³ See, for example, “The European Semester” (European Commission) and “Special Reports, the European Semester” (Council of the European Union).

macro-prudential supervision and to establish a European System of Financial Supervision (ESFS) for micro-prudential supervision. The first one shall supervise EU macro-economic aspects and give early risk warnings and directions to EU supervisors, while the second one shall provide complete and accurate information of micro-prudential developments to the first (see de Larosi è Report 25 February 2009, 57; also see ESRB Regulation (24)).²⁴ Based on these two suggestions, the European Systemic Risk Board (ESRB) for EU macro-prudential supervision and the European System of Financial Supervisors (ESFS) for micro-prudential supervision are established.²⁵ The de Larosi è Report (39) highlighted that “[t]he present EU supervisory arrangements place too much emphasis on the supervision of individual firms, and too little on the macro-prudential side”, and also “too little [...] on inter-linkages between developments in the broader macroeconomic environment and the financial system” (ESRB Regulation, (11)), so the ESRB, created as a Union level body, means to make up those weak points by carrying out macro-prudential oversight of the EU financial system as a whole with the objectives of “avoid(ing) periods of widespread financial distress” and “contribut(ing) to the prevention or mitigation of

²⁴ In contrast to micro-prudential supervision whose main objective “is to supervise and limit the distress of individual financial institutions, thus protecting the customers of the institution in question”, macro-prudential supervision means to “limit the distress of the financial system as a whole in order to protect the overall economy from significant losses in real output” (de Larosi è Report, 38).

²⁵ When firstly mentioned in the de Larosi è Report (57), the acronym ESFS stood for “European System of Financial *Supervision*”; later on 23 September 2009 in the legislative draft put forward by the Commission, the ESFS represented the “European System of Financial *Supervisors*”, and it was agreed that the ESFS, consisting of a network of national financial supervisors working in tandem with the three new European supervisory authorities (i.e. ESAs of the EBA, the EIOPA and the ESMA), should be responsible for micro-prudential supervision of national firms (see COM(2009) 499 Final 23 September 2009, 2). In both the de Larosi è Report and the Commission’s proposal, the ESFS refers to national financial supervisors together with the three new EU-level micro-prudential supervisory authorities, but later when the Ecofin Council adopted the *Financial Supervision: Council Adopts Legal Texts Establishing the European Systemic Risk Board and Three New Supervisory Authorities*, the term ESFS referred to the whole EU financial framework, as it is clearly stated: “[t]he four new bodies (i.e. the ESRB and the three ESAs) will be part of a European system of financial supervisors, which will include the supervisory authorities of the member states” (Council of the European Union-16452/10 PRESSE 303, 17 November 2010, 1). So in a broad sense, the ESFS, which originally only stood for the micro-prudential supervision framework parallel to the ESRB (or the ESRC), is used to indicate both the macro and micro supervisory authorities within the EU; consequently, the ESFS subsumes the ESRB, as ESRB Regulation (14) also prescribes that “[a] European System of Financial Supervision (ESFS) should be established, bringing together the actors of financial supervision at national level and at the level of the Union, to act as a network”, which “should comprise the ESRB and three micro-supervisory authorities [...] (hereinafter collectively referred to as the ‘ESAs’)” (see also ESRB Regulation Article 1; “Establishment of the ESRB”, ESRB). As a result, an EU-wide financial supervision system has gradually been formed.

systemic risks to financial stability in the Union” as well as “to the smooth functioning of the internal market and thereby ensur(ing) a sustainable contribution of the financial sector to economic growth” (ESRB Regulation Article 3 (1)). On 16 December 2010, two legislations establishing the ESRB entered into force: (a) Regulation (EU) No 1092/2010 (ESRB Regulation — legislative acts) and (b) Council Regulation (EU) No 1096/2010 (“Conferring Specific Tasks upon the ECB” — non-legislative acts)²⁶. Moreover, on 20 January 2011, the ESRB adopted ESRB Decision 2011/C 58/04 to specify the ESRB rules of procedure.

(3) The ESM, becoming effective as of 8 October 2012;

Developed after the temporary European Stabilization Mechanism (i.e. the EFSM and the EFSF) established in May 2010, the European Stability Mechanism (ESM), with its main features built on the EFSF, is a permanent crisis resolution mechanism providing loans and other forms of financial assistance for the euro countries via different debt instruments, so as to ensure financial stability of the euro area as well as the EU. On 17 December 2010, the European Council agreed to create a permanent stability mechanism. On 25 March 2011, the European Council adopted Decision-2011/199/EU to amend Article 136 TFEU so as to lay down the legal basis for the creation of the permanent stability mechanism for the euro states. The Treaty revision naturally requires all EU members’ national ratification with different constitutional requirements. On 11 July 2011, the finance ministers of 17 euro countries signed the Treaty establishing the European Stability Mechanism (ESM Treaty). Later, on 2 February 2012, the ESM Treaty got amended and signed again. On 27 September 2012, the ESM Treaty, after national ratification by the euro area states, entered into force. On 8 October 2012, the ESM was inaugurated.²⁷ The financial assistance provided by the ESM does not mean fiscal transfers, but shall function as “a liquidity bridge that allows euro area countries in distress to ‘buy time’ to take the necessary

²⁶ See “Establishment of the ESRB” (ESRB).

²⁷ See “About the ESM” (ESM), “European Stability Mechanism Treaty Signed” (Council of the European Union 2 February 2012), and the ESM Treaty. The modifications to the original version of the ESM Treaty are about incorporating the decisions taken by the Heads of State and Government of the euro countries on 21 July and 9 December 2011 aiming at improving ESM effectiveness. For the main changes made by the amended ESM treaty, see ESM Treaty Factsheet (2 February 2012). Though the establishment of the ESM was conditional upon the amendment of Article 136 (3) TFEU, which was subject to national ratification and finally entered into force on 1st May 2013 after the Czech Republic’s completion of ratification on 3 April 2013, the European Court of Justice (ECJ) clarified that “the ratification of the ESM treaty can be concluded before the entry into force of the 136(3) amendment” (Novak 15 January 2014, 4).

measures to restore fiscal sustainability and competitiveness in the medium term” (*ECB Monthly Bulletin* July 2011, 71).

The reasons to choose these three are as follows:

First, as the classification of Tables 1.2 and 1.3 suggests, each of the three comes from the three different distinguishable categories, representing the EU’s intentions to address the effects of the 2008 crisis from three different rationales and approaches respectively: (a) strengthening fiscal and economic surveillance and coordination among EU member states while promoting economic growth and job creation via the European Semester, (b) establishing the ESRB responsible for EU-wide macro-prudential oversight to repair one of the loopholes of the financial sector so as to keep the financial stability, and (c) setting up the permanent crisis management mechanism ESM to provide direct financial assistance to the troubled euro states so as to ease the liquidity problems and boost investors’ confidence in EU financial markets. Obviously, the three types of policies are mutually supportive and reinforcing, as approach (c) also contributes to maintaining financial stability (approach b) and the recovery of the economy (approach a). Clearly standing for three different policy dimensions of distinctive rationales — fiscal and economic policy, financial supervision, and the practical crisis assistance mechanism, the three selected cases, therefore, bear enough variations for theory tests so far as their nature, purposes and functions are concerned, and such variance “is valuable because the theoretical scope of models is more thoroughly challenged and ascertained on diverse settings” (Niemann 2006, 4). Besides, the three cases ensure variation of the dependent variables, which is important to minimize the bias of case selection.

Second, representing the EU’s new developments after the global financial crisis, the three themselves are typical in their own categories as being the EU’s responses to the external and internal challenges. To begin with, the European Semester is a newly invented mechanism of the EU to supervise and coordinate national government economic and fiscal policy planning, by which policy guidance at the EU level gets embedded in national policy-making through the SCPs and the NRPs; besides, it possesses another two distinct characteristics: (a) it was born from the adoption and implementation of one of the earliest proposals put forward by the Task Force chaired by European Council President Van Rompuy, so the selection of this case also provides an opportunity to examine the functioning of the newly established post by the Lisbon Treaty; (b) stressing both fiscal supervision and economic growth, the European

Semester is an inclusive policy coordination and supervision framework, under which Europe 2020, the Euro Plus Pact, the preventive arms of the SGP and the MIP,²⁸ and the country-specific minimum benchmark figure demanded by the “balanced budget rule” of the TSCG, all have been integrated under the same umbrella (see Table 8.4). As a result, this new policy supervision and coordination mechanism covers national fiscal policy, growth-enhancing economic reforms, macroeconomic imbalance problems and financial sector issues, implying a more inclusive and comprehensive study of EU economic governance. As for the case of the ESRB which is constructed as a macro-prudential financial supervision system for the whole EU, compared with the micro-prudential supervision framework composed of national supervisory authorities and the three ESAs — the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), and the European Securities and Markets Authority (ESMA), which replace the former three supervisory committees at the EU level: the Committee of European Banking Supervisors (CEBS), the Committee of European Insurance and Occupational Pensions Committee (CEIOPS), the Committee of European Securities Regulators (CESR), respectively,²⁹ the ESRB is a totally novel institution placed under the leadership of the President of the ECB and located at the ECB. The ESRB is supposed to cooperate closely with the micro-prudential supervisory bodies of the ESAs and national supervisory authorities, international financial organizations (e.g. the IMF and the Financial Stability Board (FSB)) and other macro-prudential oversight bodies in other countries.³⁰ With regard

²⁸ As Table 5.3, footnote 123 and Appendix 1 of this dissertation suggest, the European Semester was created on the basis of the preventive arm of the SGP, but it operates separately from the preventive and corrective sanction mechanisms of the SGP. As a consequence, the Commission clearly explains that member states cannot be fined or taken to court if they fail to implement the European Semester’s recommendations, see European Commission-MEMO/12/386 (30 May 2012). For an overview of the origins and recent developments of the SGP, see, for example, Hosli and Pan (2014).

²⁹ The ESFS and its relations with the ESRB are defined by ESRB Regulation Article 1(2) as follows: “The ESRB shall be part of the European System of Financial Supervision (ESFS), the purpose of which is to ensure the supervision of the Union’s financial system”, and Article 1(3) states the composition of the ESFS: (a) the ESRB; (b) the EBA established by Regulation (EU) No 1093/2010; (c) the EIOPA established by Regulation (EU) No 1094/2010; (d) the ESMA established by Regulation (EU) No 1095/2010; (e) the Joint Committee of the European Supervisory Authorities (i.e. the EBA, the EIOPA and the ESMA) provided for by Article 54 of Regulation (EU) No 1093/2010, of Regulation (EU) No 1094/2010 and of Regulation (EU) No 1095/2010; (f) the competent or supervisory authorities in the Member States as specified in the Union acts referred to in Article 1(2) of Regulation (EU) No 1093/2010, of Regulation (EU) No 1094/2010 and of Regulation (EU) No 1095/2010.

³⁰ See ESRB Regulation Articles 3 (2) (g)-(j) and 15 (2).

to the third case, the creation of the permanent ESM involves Treaty revisions and national ratification for the Treaty revisions by all EU member states and for the ESM Treaty by all euro member states. The permanent ESM fulfills the vacuum of crisis resolution mechanisms in the EU/EMU project. All in all, as Cœuré (23 September 2012), a member of the executive board of the ECB, points out, Europe is “experiencing an institutional transformation”, and thus an intensive study of the institutional changes in each of the three categories offers sharp insights into the developing EU and its future.

Finally, to resolve the on-going sovereign debt crisis — the dominant thematic topic of EU economic governance after the 2008 global financial crisis — requires efforts from both EU institutions at the macro-level and member states at the micro-level. The three selected cases, like other new EU measures to deal with the crisis, reflect a demand of mutual communication and cooperation between the EU and its member states. A close analysis of them will reveal the interactions among various actors at different levels within the EU, and thus enable us to have a better understanding of the daily working mechanisms and institutional procedures of the EU.

1.3.5 Sources of Evidence for the Selected Cases

The observations on those cases will rely on two types of sources: primary and secondary literature. The primary literature includes regulations, documents, data, figures and press releases published by EU institutions (e.g. the Council of the European Union, the Commission, the EP, and the ECB), national governments, and (trans)national organizations and companies, all of which are available on each institution’s, government’s and organization’s official websites. The secondary literature is composed of articles from academic journals, think tanks (e.g. Notre Europe, Centre for European Reform, and Robert Schuman Foundation), and reputable news agencies (e.g. BBC, Spiegel, and CNN), which offer recounting, comments and analyses. Consequently, this dissertation resorts to quite lot of internet websites due to the sources of the evidence for the cases, but it limits to the EU official websites and the reliable press and media as much as possible. These two types of literature once have been labeled by Moravcsik as “hard” and “soft” sources, respectively, as the primary (“hard”) sources provide “direct evidence of decision making”, while the secondary (“soft”) sources offer “public statements and journalistic or academic commentary in which authors have less incentive to report motivations accurately”

(1998, 10). So when it comes to the analyses of decision-making or actors' strategies, this dissertation will go to the "hard" sources if possible and available.

1.3.6 The "Most-Likely" Approach: Strengths and Shortcomings of Case Studies

EU recent developments after the 2008 global financial crisis demonstrate that EU member states' cooperation gets closer and the European integration process is on the way. This regional integration project started from the economic cooperation among European nation states, and the new measures adopted and implemented by the EU to address the post-2008 crisis era are the concrete examples and expressions of such cooperation in the new era against new backgrounds. These new EU measures make up the "most-likely" cases to test European integration theories, because these theories, targeting accounting for the EU's developments, grow out of the EU empirical practice and their hypothesized causal mechanisms based on the EU integration process and results are expected "most-likely" to be found in the new developments of the EU. Representing the EU's initiatives to meet the new challenges as well as the outcomes of the EU integration process, the three selected cases, therefore, formulate a "most-likely" research design, which Ross (2004, 37) explains as follows: "a scholar examines in depth a single case in which a hypothesized causal relationship is believed 'most-likely' to be found; if it is present, the hypothesis is pronounced plausible, and if not, it is deemed 'falsified'". Accordingly, in this dissertation, hypotheses are derived from each theory to be tested; if evidence of a hypothesized causality is present, the hypothesis is vindicated, and if not, the hypothesis is falsified. Both the vindication and rejection of the hypotheses will lead to the answers to the MRQ and SRQs put forward by this dissertation.

As for the pros and cons of a "most-likely" research design of case studies, Ross states clearly:

"Similar to other small-N methods, the most-likely approach has valuable properties: it plays close attention to the validity of concepts and to causal linkages; it helps account for variables that are difficult to measure; and it is sensitive to case-specific factors. The heightened attention to validity, however, has a cost: because the sample is biased, the finding cannot be generalized to some larger set of unexamined cases. Still, a systematic study of most-likely cases can probe and refine the plausibility of existing hypotheses and generate new ones for future, out-of-sample tests." (Ross

Ross's evaluation has pointed out the strengths and weaknesses of case studies, on which George and Bennett (2005) also make a detailed elaboration. The merits of the case study method include "conceptual validity", "deriving new hypotheses", and "exploring causal mechanisms" (George and Bennett 2005, 19-22), whereas the limitations and potential pitfalls of case studies indicate possible "case selection bias", only tentative conclusions on "identifying scope conditions and 'necessity'" (i.e. "on how much gradations of a particular variable affect the outcome in a particular case or how much they generally contribute to the outcomes on a class or type of cases"), "lack of representativeness", "potential lack of independence of cases" (George and Bennett 2005, 22-34). Due to the strengths and weaknesses of different research methods, there is an increasing trend to resort to the complementarity and combination of various methods, such as case studies, statistical methods, and formal models (George and Bennett 2005, 34-35). Coming from three different categories, the three selected cases for hypotheses tests in this dissertation also are the typical representatives of each category, so they bear adequate variations and thus the potential problems of "case selection bias", "lack of representativeness", and "potential lack of independence of cases" more or less have been overcome; moreover, the problem of "determining such relative causal weights for variables [...] with any precision in a single case or a small number of cases" could be properly addressed by "process-tracing evidence and congruence tests" (George and Bennett 2005, 27).³¹ As a matter of fact, one of the core arguments threading through George and Bennett (2005) is that all the potential weaknesses of case studies can be countered by the congruence method and process-tracing in a most-likely research design to test a theory's explanatory and predictive power where causal mechanisms under certain conditions are explored (i.e. being confirmed, refuted, refined or uncovered) with the possibility to develop new hypotheses and theories which are open to further debate and modifications. Following George and Bennett's (2005) instruction, case study research in this dissertation, which aims at checking the explanatory and predictive value contained in the three main integration theories so as to understand the EU and answer the MRQ and SRQs raised

³¹ In Panke's (2012, 137) opinion, case studies with the process-tracing methodology are of high internal validity but of a limited external validity (the potential for generalization); nevertheless, this downside of single case studies can be complemented by increasing the number of cases within a research design.

in the dissertation, can be fully justified.

1.3.7 Three Methodological Principles

In his book *The Choice for Europe*, Moravcsik employs three research techniques: “the formulation of concrete and falsifiable hypotheses from competing theories, the disaggregation of case studies to multiply observations, and the reliance whenever possible on primary sources” (1998, 19). Similarly, case studies in this dissertation also rely on three methodological principles. First, hypotheses drawn from the three theories are tested consistently by each case, that is, each case tests the same set of hypotheses — this actually corresponds with Panke’s (2012) arguments of testing multiple hypotheses by a single case with process-tracing; second, each case is disaggregated into sufficient observations in light of the hypothesized causal chains linking the independent and dependent variables so as to test the derived hypotheses; third, evidence presented in the cases comes from primary and secondary literature, and this dissertation will stick to the primary literature whenever it is available, thus trying to avoid potentially controversial descriptions of, for example, actors’ motivations, calculations, or strategies as well as new causal relationships.

1.4 Summary

To summarize, the post-2008 crisis era saw a sort of “institutional and policy explosion” of the EU, as a series of new measures were proposed, debated, adopted, and implemented so as to address the EU member states’ fiscal, financial and economic crisis after 2008 as well as to strengthen EU economic governance. Then the research question is naturally posed: Along with the EU’s new measures and developments to counter the eurozone sovereign debt crisis after the 2008 global financial crisis, what path are the EU and EMU embarking on? This is the main research question (MRQ) of this dissertation, and five sub-research questions (SRQs) are put forward to study different parts of the MRQ. To unravel the development of the EU, this dissertation resorts to three main EU integration theories — neo-functionalism, intergovernmentalism and HI — whose propositions are expected to explain the EU’s recent developments and give predictions about the EU in the future. This leads to another specific SRQ of this dissertation, focused on theories of European integration: What is the explanatory and predictive power of three different European integration theories when studying the EU’s recent developments after 2008 (SRQ6)? That is, do

the causal mechanisms offered by the three EU integration theories account for EU recent developments well? Are there any other variables or new causal mechanisms that should be added to the existing theoretical frameworks? What sort of light do the academic discussions shed on the current crisis and on the various measures adopted by the EU to combat this crisis? Relying on the congruence method and the process-tracing technique, hypotheses derived from the three theories on the EU's developments after 2008 will be tested, based on which new variables might be added, new hypotheses formulated, and predictions made. The acceptance, rejection or revisions to the hypotheses, on the one hand, make a possible contribution to the on-going debated EU studies and the ever developing European integration theories, and on the other hand, provide answers to the SRQs of this dissertation, which finally lead to the answers to the MRQ.

Accordingly, apart from the introduction and conclusions, the main body of this dissertation is divided into three parts: chapter two, chapter three and chapter four each present the literature review and hypotheses derivation for the three integration theories; chapter five first gives a summary of the hypotheses formulated and to be tested in this dissertation, then it illustrates the relationships among the hypotheses and their sub-hypotheses, and finally it offers a general description of the three selected cases; chapter six, chapter seven and chapter eight carry out case studies and hypotheses tests, each chapter for each theory with research results, new findings and predictions presented in Propositions; lastly, chapter nine draws conclusions of the research in this dissertation and answers the SRQs and MRQ, as well as points out research limitations and considers possible research for the future. One of the main findings of this dissertation is that the crisis is also an opportunity for the EU to develop and mature, and to address collective issues and challenges from holistic approaches is a tendency of EU economic governance in the future, which, tending to cut across different policy areas, requires effective communication, coordination and cooperation among EU institutions and national agencies. The rationale behind collective EU-level solutions is to achieve more than the sum of individual parts, bringing about maximal synergistic effects among each individual member state as well as individual EU institutions and policies.

2 Chapter Two: Neo-Functionalism

Neo-functionalism is often considered as the first theory to account for European integration (Jensen 2010). Starting from Ernst B. Haas's book *The Uniting of Europe: Political, Social and Economic Forces 1950-1957* published in 1958, neo-functionalism made its debut on the stage of international relations (IR) theories; it differs from former IR theories by giving prominence to supranational institutions and non-state actors (such as interest groups and political parties), which are held as the important driving forces behind regional integration, besides national states (Jensen 2010, 71-73). Initiating the first theorizing of European regional cooperation, Haas's book of 1958 is regarded as "the founding moment" of EU studies (Rosamond 2005, 238). Originally, via constructing a theoretical framework to explain the process of European integration starting from the ECSC, Haas aimed at formulating a scientific grand theory which was capable of accounting for regional cooperation elsewhere after the Second World War.³² But as soon as neo-functionalism took the European integration project as its case study, the fate and evolution of this theory was inextricably bounded to the vicissitudes of this enterprise in practice (Jensen 2010, 72).

Neo-functionalism contends that economic integration leads to political integration, and supranational institutions will gradually develop and gain their own political agenda, which over time will "tend to triumph over interests formulated by member states" (Jensen 2010, 75). Compared with traditional IR approaches which stress the gains and losses among national states, such as realist "zero-sum" games, neo-functionalism claims that there should be a win-win situation for all that involve in processes of economic and political integration (Jensen 2010, 74-75). Though neo-functionalists like Haas (1971) would say that neo-functionalism does not support

³² See also Niemann and Schmitter (2009, 47). Haas once hoped that his findings could "serve as propositions concerning the formation of political communities" (Haas 1958, xv) which share similar economic patterns and political ideologies with open industrial economies, pluralist societies, and democratic political systems (1958, xv-xvi). As for his theory's potential application, he stated clearly: "Hence, I would have little hesitation in applying the technique of analysis here used to the study of integration under NATO (North Atlantic Treaty Organization), the Scandinavian setting, the Organisation for European Economic Co-operation, or Canadian-United States relations. I would hesitate to claim validity for it in the study of regional political integration in Latin America, the Middle East, or South-East Asia" (Haas 1958, xvi).

a political agenda of federalism similar to that of the US, to argue that economic integration will lead to political integration obviously demonstrates neo-functionalists' pro-integration assumptions (Jensen 2010, 72; 78), and such a pro-integration stance has been criticized by interdependence theorists as neo-functionalist "teleological and regional orientation" (Tranholm-Mikkelsen 1991, 8-9).

2.1 The Core Concepts of Neo-Functionalism

For half of a century, neo-functionalism, tested by the EU's successes, stagnation, and sometimes failures, has been modified and developed by its proponents such as Lindberg (1963), Schmitter (1969), Lindberg and Scheingold (1970, 1971), Nye (1971), Tranholm-Mikkelsen (1991), Stone Sweet and Sandholtz (1998), Rosamond (2005), Niemann (2006), and Jensen (2000, 2010). As a result, according to Jensen (2010), three kinds of distinctive neo-functionalist propositions on the dynamics of the European integration process have been formulated: (1) the spillover thesis, (2) the elite socialization thesis, and (3) the supranational interest group thesis. These three approaches have formed the core thinking of neo-functionalist theory.

2.1.1 Spillover

Above all, "spillover" is generally considered as the key concept to understand the propositions of neo-functionalism, and the term "spillover" is utilized in two senses: (1) to describe the occurrence of (further) integration, and (2) to "identify the driving force and inherent logic of integration via increased functional/economic interdependence" (Niemann and Schmitter 2009, 49). Haas first applied the term "spillover" to present his assumptions that economic integration in one sector, for example, in coal and steel, will trigger other economic and political cooperation; consequently, "[t]he 'spillover' effect in sector integration is believed to lead inevitably to full economic unity" (1958, 283) and European economic integration will "complete the 'spillover' from ECSC to Euratom and its promise of independence from oil imports, from sector common markets to the General Common Market" (298). As sector integration "begets its own impetus toward extension to the entire economy" (1958, 297), Haas defined it as "the expansive logic of sector integration" (1958, 283-317; 1967b, 321). Later Lindberg formulated the concept of spillover as follows: "the initial task and grant of power to the central institutions creates a situation or a series of situations that can be dealt with only by further expanding the task and the grant of power" (1963, 10). In *Theories of*

European Integration, Rosamond defined “spillover” as “the way in which the creation and deepening of integration in one economic sector would create pressures for further economic integration within and beyond that sector, and greater authoritative capacity at the European level” (2000, 60). From Haas (1958) to Lindberg (1963), and to Rosamond (2000), the idea of spillover suggests two layers of integration: the economic dimension and the political dimension, with the latter being mentioned as a “full economic unity”, “(the) grant of power to the central institutions” and “greater authoritative capacity at the European level”, respectively. In addition, the concept of spillover implicitly assumes that “economic growth would continue unabated in the capitalist world, and that all member states would benefit more or less equally from that growth” (Niemann and Schmitter, 52). Anyhow, “spillover” is a dynamic process “where cooperation in one field necessitates cooperation in another” (Jensen 2010, 73), that is, cooperation in one policy area would take cooperation in other related neighboring policy areas as a prerequisite, and a new political agenda will be generated and must be fulfilled properly so as to realize the original planned cooperation. In such a way, European integration is viewed as “a self-perpetuating process”: as soon as the first integrative steps get started, those integrative initiatives are moving ahead towards further integration (Lelieveldt and Princen 2011, 34), and meanwhile, integration in the economic fields will spill over into the political areas, promoting a kind of political integration, as “integration processes, once started in a field of ‘low politics’, will create a dynamic of their own and sooner or later affect other policy fields” (Diez 1999, 605). So “spillover” indicates both economic and political cooperation. Cameron (1992) dissects the spillover dynamic into several analytical phases:

- (1) “Supranational institutions are assigned tasks that are *inherently expansive*.”
- (2) “Interest groups, political parties, and other national political elites begin to press for a strengthening and expansion of the functions of supranational institutions so that they can perform those tasks.”
- (3) “As those new functions are carried out, support builds for the strengthened supranational institutions among both elites and the mass public.”
- (4) “Thus, to the extent that *inherently expansive* tasks are assigned to supranational institutions, the responsibilities and powers of, and support for, those supranational institutions will tend to increase in a spillover effect.” (Cameron 1992, 25)

The above four steps suggest the ideal effects and consequences entailed in spillover for the integration process. An “inherently expansive” task means the task at issue is functionally interdependent from other issues, and its fulfillment requires cooperation in other related policy areas (Lindberg 1963, 10; Niemann and Schmitter 2009, 51), and this suggests the possibility, and quite often the necessity, to enlarge the competence and functions of existing institutions or to establish new institutions so as to carry out the initial tasks. From the neo-functional point of view, the expansion of supranational institutions’ functions and powers is the logical development of economic integration, during which the power of governments is “constrained by rules whose production they do not control” (Stone Sweet and Sandholtz 1998, 18) and thus causes “unintended” consequences for “the actors involved in decision making” (Jensen 2010, 77). Therefore, the reinforcement and expansion of existing supranational institutions or the establishment of new institutions can be taken as the most direct and visible evidence of spillover effects. As far as the EU’s newly established mechanisms to deal with the sovereign debt crisis are concerned, spillover is happening to the EU and EU economic integration is on the way.

2.1.1.1 From Economic Integration to Political Integration

As spillover is in effect, economic integration will lead to political integration, “whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activities toward a new center, whose institutions possess or demand jurisdiction over the pre-existing national states” and “[t]he end result of a process of political integration is a new political community, superimposed over the pre-existing ones” (Haas 1958, 16). Political integration is a key concept for neo-functionalists; however, there are disagreements among neo-functionalists on Haas’s proposition of actors’ loyalty transferring to the new center (Niemann 2006, 13; Niemann and Schmitter 2009, 46; Jensen 2010, 75), and even at the initial stage of neo-functionalism, Lindberg (1963, 6) suggests that political actors “shift their expectations and political activities” rather than shift their loyalties (i.e. “shifts in values and any reference to a political Community end point”) to the new center (see also Niemann 2006, 14-15). As for Haas himself, he gradually changed his first position, taking out loyalty transferring from the defining characteristics of political integration, as Niemann and Schmitter (2009) summarize:

“Contrary to the conventional reading and misinterpretation of neo-functionalism, Haas actually held that such a shift in loyalties need(s) not be absolute or permanent, allowing for multiple loyalties (Haas 1958, 14). In addition, soon after devising his original definition of integration, Haas downplayed the previously amalgamated endpoints (Haas 1960), and also abandoned shifting *loyalties* as a defining characteristic of integration. Instead, he emphasized the transfer of *authority* and *legitimacy* (Haas 1970, 627-8, 633).” (Note 4, in Niemann and Schmitter 2009, 64; their emphasis)

So the loyalty transferring should not be taken as an indicator to gauge integration, and “[t]he essence of political integration”, Lindberg argues, “is that governments begin to do together what they used to do individually; namely, they set up collective decision making processes that in greater or lesser degree handle actions, engage in behaviors, and make allocations of goods or values that used to be done (or not done) autonomously by governments and their agents” (Lindberg 1971, 59). Collective decision-making, therefore, is the core of political integration. Combining “A Scale of the Locus of Decision-Making” by Lindberg and Scheingold (1970, 69; see also Lindberg 1971, 69) and “Stage of Decision Process” by Lindberg (1971, 71-72) with “Table 1: Political Integration” by Jensen (2000, 78), a scale to measure the degree of political integration can be illustrated as in Table 2.1:

Table 2.1 The Scale of Political Integration

Political integration indicator: collective decision-making	Locus of activity	Degree of political integration	Score
Mode 0: All policy decisions are made by national processes and no decision behavior in the collective system. No collective administration of policy.	All activity at the national level.	None	0
Mode 1: A narrow range of problems is carried to specific policies or rules, or a few important problem areas are involved but decisions are only made into goals or general policies. Very little direct administration by the collective system; national governments have almost complete discretion, subject to some “coordination”.	Only the beginning of Community decision processes; preponderance at national level, some at collective level.	Level 1	1
Mode 2: A few important areas are regarded as common and approached as such, but decisive issues are still subject to national processes. (A few important problems are carried to specific	Policy decisions on both, but national activity predominates.	Level 2	2

policies or rules, or decisive problems dealt with at the collective level are as many as that at the national level, but only in the formation of goals or general policy).			
Mode 3: Within a given issue area, problems dealt with collectivity are equivalent in number or importance to these subject to national systems alone.	Both, roughly equal.	Level 3	3
Mode 4: Collective administration exists for most of the policies; data is gathered and alternatives are generated in the collective system. The most decisive problems are decided collectively in the form of policies and rules, but important areas are still subject to autonomous national activities, where collective decisions are reached only to goals or broad policies. (Most decisions must be taken jointly, but substantial decisions are still taken autonomously at the national level).	Both, community dominates, but of substantial national activity.	Level 4	4
Mode 5: Only a narrow range of problems is still decided upon in national systems autonomously. The great bulk of recognition, communication and problem solving take places in the European system. All problems are dealt with authoritatively, but implementing policies and rules is still subject to governmental discretion.	Both, the community dominates, with a small national role.	Level 5	5
Mode 6: Distinction between internal policy and collective policy disappears. All policy decisions and all the implementation of rules take place in collectivity.	All community.	Level 6	6

Notes: Level 1-6 indicates a low-high degree of political integration. On the scale of 0-6, no political integration is given the score of 0, and the degree of political integration increases from the score of 1 to 6, where full political integration bears the highest score of 6.

Sources: Own compilation based on Lindberg and Scheingold (1970, 69), Lindberg (1971, 69-72) and Jensen (2000, 78).

In neo-functionalist logic, European economic integration leads to European political integration. Accompanying its economic success during the 1980s, the Community's "[p]olitical integration has moved forward in fits and starts" (William Wallace 1990, 3), while throughout the 1990s, there was increasing political integration in EU social policy and labour market areas (Jensen 2000). The condition for political integration, as William Wallace once pointed out, is that it results from economic cooperation accompanied by "high levels of economic and social

interaction” (1990, 9). As the economic and social interactions among EU member states and EU citizens become more frequent and deeper against the trend of globalization, it is expected that EU political integration will also get intensified and broadened. Following these arguments, this dissertation formulates its first hypothesis:

H1: European economic integration, via spillover effects, leads to European political integration; with more intense economic cooperation and social interaction among member states, the degree of political integration increases.

As analyzed above, the expansion of existing supranational institutions or the establishment of new institutions can be taken as the most direct and visible evidence of spillover effects; accordingly, the three selected cases in this dissertation, representing the EU’s newly established mechanisms to solve the sovereign debt problem, suggest the effectiveness of the neo-functionalist spillover dynamic. Along with the Community’s development, there are increasing numbers of national issues dealt with on the basis of various collective decision-making modes at the EU level, and this fact shows that European political integration is happening, just to different degrees. If H1 is correct, then in case studies we should observe certain collective decision-making modes indicating political integration in the newly developed policies and mechanisms, and meanwhile, these collective decision modes entailed in the selected cases should also show a rising level of political integration compared with previous practices along with the rising level of economic and social interactions. Though William Wallace (1990) does not specify the indicators for the “high levels of economic and social interaction”, the measurement of them can be indicated by the data on trade and personnel mobility in the Community across EU national states. This hypothesis test is going to ascertain the nature of political integration, and the connection among economic cooperation, social interaction, and the degree of political integration.

2.1.1.2 Functional Spillover

Three kinds of spillover processes are further differentiated by neo-functionalist writers: functional (or technical) spillover, political spillover, and cultivated spillover (Lelieveldt and Princen 2011; see also Jensen 2010, Niemann 2006, Rosamond 2000,

and Tranholm-Mikkelsen 1991).³³ Functional spillover refers to a situation in which a successful cooperation in one sector requires support and cooperation in other adjacent sectors (Jensen 2010, 72-73). The creation of the Single Market is a good example to illustrate the rationales behind the functional spillover dynamic. In order to forge an internal integrated market to realize the free movement of goods, labor, capital and services, national states must reach agreements on various existing regulations and standards on, for example, payments, working hours, and the working environment. In addition, as the Single Market means the cancellation of border checks among member states, further coordination in police affairs and immigration policies is necessary and required. Furthermore, along with the establishment of the Single Market, transnational trade increases, and so does the vulnerability of national economies to the fluctuations of national currencies. To reduce financial risks and transaction costs related to expanding trade, EMU was created as a functional logical necessity to streamline the Single Market and protect national economies. The functional spillover mechanism, which consists of the first sub-hypothesis of spillover effects, can be stated as follows in the context of the euro area sovereign debt crisis:

H1a': To solve the debt crisis (i.e. a fiscal issue) requires support and cooperation in other related areas and thus pushes further integration in both the original and these related areas.

As Table 1.2 and Table 1.3 illustrate, in order to solve the sovereign debt crisis, there should and must be coordination among fiscal, economic and financial policies.

³³ These three terminologies were not put forward by the first-generation neo-functionalists (see Niemann 2006, 29-30). Adopting from Stephen A. George who calls the third category “the role of the Commission” (George 1985, 27) or “Commission leadership” (George 1985, 24), Tranholm-Mikkelsen (1991) first makes such a three-fold distinction from previous neo-functionalist literature which is believed to lack explicit and exact definitions of “spillover” (see note 17 in Tranholm-Mikkelsen 1991). In fact, the term “cultivated spillover” was put forward by Nye as early as in 1971 from Haas’s general idea of “spillover”, as Nye (1971, 200) writes: “Haas used the term to cover both perceived linkages between problems arising out of their inherent technical characteristics and linkages deliberately created or overstated by political actors (what might be called ‘cultivated spillover’).” Other scholars may make their own distinctions in these three categories with different names and emphasis. For example, Burley and Mattli divide the three as “functional spillover, political spillover, and upgrading of common interests” (1993, 55-56; 65-69); Jensen (2000) states that there are four integration dynamics described by traditional neo-functionalists: (1) functional spillover; (2) the formation of coalitions and cultivated spillover; (3) shifts in loyalty preferences and elite socializing; and (4) the approval of, or political support from, internationalized/supranational interest groups (2000, 84), based on which Jensen puts forward a new form of dynamics for the EU: institutional/legalistic spillover. Later Jensen (2010) adapted his previous classifications, arguing for three kinds of spillover and the three theses of EU dynamics.

The three selected cases — the European Semester, the ESRB, and the ESM — indicate that functional spillover is effective: to solve the debt crisis, basically a fiscal issue, requires and thus promotes cooperation in other policy areas. Niemann (2006, 62) proposes the following detailed operational processes to identify the functional spillover dynamic: (1) there is an original goal A; (2) there is a functional interdependence between issue A and issue B; (3) actions taken in the area of B, which may require further action, must affect issue A and this is necessary to achieve the original goal A; and (4) the salience of issue A determines the strength of the functional requirement, and besides B, if no other means can be adopted to reach the original objective A, the functional connection between A and B tends to be strong. So the case studies in this dissertation will use these indicators to examine the effectiveness and magnitude of the functional spillover effect.

In accounting for the transitional history from the ECSC to EMU, functional spillover is properly justified, and additionally, two types of economic integration results have been identified: negative integration and positive integration (Tranholm-Mikkelsen 1991, 5). The former means the removal of barriers on exchange and discrimination of trade, while the latter refers to “the formation and application of coordinated and common policies in order to fulfill economic and welfare objectives other than the removal of discrimination”, and it is argued that these two together comprise European economic integration which will lead to an economic union (Pinder 1968, 90).³⁴ Blauberger (2009, 1044, note 1) suggests the distinction between the two in the way that “[p]olicies of negative integration aim at goals of market-making [...] by abolishing national barriers to free trade or protecting undistorted competition” while “policies of positive integration aim at both goals of market-making and market-correction by defining common European rules.” So basically, negative integration indicates deregulation of national discrimination and trade barriers, while

³⁴ The two terms can be traced back to Tinbergen’s (1954, 122) “negative integration” and “positive policy of integration” (or “positive action”), from which Pinder makes his adaptations. Tinbergen distinguishes these two terms on the basis of whether policy instruments are to be eliminated or new policies are formed, whereas Pinder judges on the basis of whether the purpose is to remove discrimination or to maximize welfare in other ways (see note 3 in Pinder 1968). Hoffmann (1964, 88) also argued for the two different ways to promote integration, and he claimed “[o]n the whole it has been easier for the Six to agree on ‘negative’ than on ‘positive’ policies, i.e. to eliminate tariffs, quotas, obstacles to competition or to mobility, than to take measures that require a more painful, deliberate and persistent transformation of existing practices.”

positive integration moves further to formulate common rules at the EU level; if negative integration means deregulation, then positive integration implies reregulation (Wolf 2011, 16). According to Tranholm-Mikkelsen, negative integration will, in one respect, result in reducing state sovereign autonomy because it deprives member states of a number of policy instruments which “have been, or will be, prohibited by EC law as market distorting” (1991,12), and in another respect, it causes problems such as “social dumping” (i.e., a downward spiraling of worker’s rights and social benefits), uneven wealth distribution, and the aggravation of the disparities between center and periphery; the way to solve these potential problems, however, is either through spillback — “retreating from the original commitment to the internal market” — or spillover — “going further with positive integration” (1991, 12-13). For Lelieveldt and Princen (2011, 189-192), creating the common market via negative integration would suggest a long way of “a cumbersome procedure”, as each time relevant actors (e.g. individuals, companies, member states, the Commission) would go to the Court to ask for adjudicating on the cases of possible “unjustified barriers to trade”; besides, for some cases, the abolishment of national laws “may threaten other values, such as environmental or consumer protection”; therefore, the alternative of positive integration (“also known as harmonization or the approximation of laws”) by adopting EU legislation to set up EU wide norms and standards appears more attractive, as new EU laws tell what the member states shall adopt instead of eliminating national laws and telling then what cannot be adopted. Viewed in a historical perspective, the EU’s development from the 1950s onwards exhibits the general trends of “going further with positive integration” in spite of political crises and the harsh economic environment sometimes, and member states become to realize that international cooperation is irreversible and it is a precondition for them to maximize economic, social and security benefits. Nevertheless, due to the diversity of member states, moving from negative to positive integration would be difficult, for such moves involve reaching agreements on common substantive policies (Tranholm-Mikkelsen 1991, 17). In case studies, this dissertation will also check the way functional spillover was realized: via negative integration or positive integration or both, and the functional spillover hypothesis H1a’ can be reformulated as follows:

H1a: Solving the debt crisis (i.e. a fiscal issue) requires support and cooperation in other related areas and thus pushes further integration in both the original and these related areas via positive integration rather than negative integration.

2.1.1.3 Political Spillover

Whereas functional spillover focuses on the technical aspects of European integration, political spillover, on the other hand, concentrates on “a more deliberated political process” initiated by actors such as governmental elites, interest groups, political parties or private agents, because these actors believe they could get more benefits via further integration (Jensen 2010, 76). It is argued that in order to solve common problems successfully, supranational cooperation turns out to be a must, so national actors prefer European-level solutions to those at the national level and these actors become the supportive forces for European integration. The political spillover process, therefore, is “the process of adaptive behavior”, which implies “the incremental shifting of expectations, the changing of values, and the coalescing at the supranational level of national interest groups and political parties in response to sectoral integration” (Burley and Mattli 1993, 55). One often-cited example of interest groups’ influence is the activities of the European Round Table of Industrialists (ERT) (e.g. Cowles 1995, Sandholtz and Zysman 1989): during the 1980s, the ERT actively pushed for the creation of the Single Market and then in the 1990s and the 2000s, it promoted the accession of the Central and Eastern European (CEE) states to the EU, because the ERT held that an integrated and larger single market promises huge profits to industrial companies; accompanying those activities, the expectations and interests of national actors involved in the ERT obviously have been diverting to the supranational level (Jensen 2010, 76). Besides the interest group pro-integrative activities and values, the role of individual leaders are also emphasized by neo-functionalist political spillover propositions. For instance, Tranholm-Mikkelsen particularly stresses the political impetus injected by interest group leaders, as these elites believe that supranational solutions serve their interests better and thus shift their activities, expectations and even loyalties to the new center — a phenomenon described by Tranholm-Mikkelsen as “a learning process” (Tranholm-Mikkelsen 1991, 5; see also Haas 1958, 16; 1961, 365-67; Niemann and Schmitter 2009, 49). In comparison to the learning processes, there are “socialization processes”, that is, as EU institutions, working groups, and sub-committees are proliferating, contact and communication among national officials and Commission officials also increase and become intensified, which leads to “a complex system of bureaucratic interpenetration” and “interaction patterns” within the framework of supranational institutions where consensus among national agents is

fostered (Niemann and Schmitter 2009, 50). The socialization process of the building-up of consensus suggests a supranational problem-solving mode among national delegates, which Haas calls “a cumulative pattern of accommodation in which the participants refrain from unconditionally vetoing proposals and instead seek to attain agreement by means of compromises upgrading common interests” (Haas 1967a, 66). In short, political spillover assumes a pro-integrative position, attitude, and role of both governmental and non-governmental actors towards further integration. *In recent years, as each individual member state normally cannot solve global challenges and collective issues (e.g. climate change, global warming, pollution, and nuclear non-proliferation) on its own and partnership and cooperation are the world trend to do so, one should expect political spillover to be a more common phenomenon in the EU.* All in all, political spillover “is the result of deliberate pressure exerted by national interests because they expect to benefit from further integrative steps” (Lelieveldt and Princen 2011, 36), and concerning the current eurozone sovereign debt crisis, the political spillover mechanism suggests the following:

H1b: Confronted with the collective sovereign debt problem, national interest actors, both governmental and non-governmental, support further integration and promote European-level solutions over national-level means because to do so brings more benefits.

Can we indeed put governmental actors and interest groups into one category? This dissertation put them together in H1b because the connotation of “political spillover” refers to attitudes, opinions and activities of various ACTORS towards the EU integration process. Regarding the three types of spillover, functional spillover deals with the technical aspects of European integration, cultivated spillover focuses on EU institutions, and in comparison, political spillover particularly highlights the subjectivity of ACTORS; moreover, placing them together, this dissertation will examine whether the positions of governmental actors are in line with or contradict those of interest groups so far as the issue of the sovereign debt crisis is concerned. To test H1b, this dissertation will mainly focus on the political leaders of the member states and national/transnational interest groups, which typically represent governmental and non-governmental attitudes towards the EU’s actions to deal with the debt crisis respectively. As argued previously, loyalty transferring is not “a defining characteristic of integration”, and moreover, it is empirically difficult to trace EU decision-makers’ and national elites’ loyalty transferring (see section 2.1.2), but still,

the general positions of governmental elites and interest group leaders (i.e. non-governmental elites) and their attitudes towards the solutions to the crisis can be ascertained as the indicators of the effectiveness of political spillover. If the political spillover mechanism suggested by H1b has occurred, there should be evidence in the cases to show national actors' interests, activities, or expectations as regards supranational decisions and policies. Besides, the general explanation — “to do so brings more benefits” — should be specified case by case. Furthermore, when looking for actors' support for supranational solutions, this dissertation, as suggested by Niemann (2006, 66), will also examine (1) the connection between actors' supportive attitudes to a policy and the degree of political integration of that policy area, (2) whether member state positions are in line with or contradict or shift towards that of organized interests, and (3) if possible, the level of national actors' support for supranational solutions at different points in time, which can be used to indicate the potential intensification of learning and socialization processes. As for the positions of governmental elites, this dissertation will focus on the heads of state or government of the EU member states in the European Council and the Ministers in the Council of the European Union, while for the attitudes of national/transnational interest groups, this dissertation will select BusinessEurope and the European Trade Union Confederation (ETUC) as the research nodes. The choosing of those two non-governmental interest groups is based on two major considerations: first, as “the overarching EU business group” and “the federation of European labour unions” respectively, BusinessEurope and the ETUC are the most important and typical cross-border organizations for employers and employees within the EU vis-à-vis the European institutions (Lelieveldt and Princen 2011, 136), which in one respect, represent the broad interests of companies and workers in Europe, and in another respect, offer a comparison of policy orientations between two rival interest groups; second, the eurozone as well as the whole EU sovereign debt crisis has been exerting huge impact on both industries and employment rates, directly affecting the benefits and welfare of both employers and employees, so to examine their positions toward the EU's new measures is also a way to ascertain the ordinary people's general stance on the EU's handlings of the sovereign debt crisis.³⁵

³⁵ The representative and importance of the two transnational interest groups over others are supported by their memberships and missions, which are available at their official websites.

Against the euro area sovereign debt crisis, it is meaningful to observe the activities of the President of the European Council Herman Van Rompuy who is also the President of the Euro Summit and thus is expected to play a leading role in eurozone governance (see “Euro Summit President”, Eurozone Portal). As political spillover captures deliberate political processes initiated by various actors, obviously, facing serious financial and economic challenges, Van Rompuy actively engages in promoting solutions to the crisis at the EU level, which illustrates elites’ and leaders’ support for further integration. Without doubt, the nature and function of the European Council and its President are already expressions of the dynamic of political spillover, which are prescribed by the first part of the Lisbon Treaty, Article 15.³⁶ With the enforcement of the Lisbon Treaty, the European Council has obtained the legal status as one of the EU’s official institutions, and the activities of its leader (i.e. Van Rompuy) as well as of the European Council can also be studied from the perspective of “cultivated spillover”.

2.1.1.4 Cultivated Spillover

Cultivated spillover focuses primarily on a different dimension of European integration: the role of supranational institutions. It has been argued that relying on formal powers or informal means, supranational institutions, such as the European Commission, the EP and the European Court of Justice (ECJ), have played an active role in fostering and thus cultivating further integration (Lelieveldt and Princen 2011, 36). One way to promote collective interests is via “package deals”, that is, via binding heterogeneous issues together to a single composite item. During intergovernmental negotiations, by initiating “package deals”, supranational institutions (prominently represented by the European Commission) urge the member states to make concessions to support each other so as to get their different interests in different policy areas safeguarded, via unanimous or majority voting modes (Jensen 2010, 76; see also Haas

³⁶ According to the first part of the Lisbon Treaty, Article 15, the European Council should inject impetus to EU development, outline general political directions and define priorities for the EU, while “[t]he President of the European Council: (a) shall chair it and drive forward its work; (b) shall ensure the preparation and continuity of the work of the European Council in cooperation with the President of the Commission, and on the basis of the work of the General Affairs Council; (c) shall endeavour to facilitate cohesion and consensus within the European Council; (d) shall present a report to the European Parliament after each of the meetings of the European Council”.

1967a, 65-66, Lindberg and Scheingold 1970, 116-17).³⁷ Via “splitting the difference” among national bargaining positions, the essence of the package deals is to push negotiations moving beyond a “minimum common denominator” to an “upgrading of the common interest”, with the result of redefining the conflict as well as expanding the power of the supranational agencies (Tranholm-Mikkelsen 1991, 6).³⁸ The swaps of concessions among member states posit that participants in negotiations are rational actors who feel that by conceding something, they can gain something else without jeopardizing those areas where consensus prevails (Niemann and Schmitter 2009, 50), and swapping concessions occurs under “the services of an institutionalized autonomous mediator”, where participants “refrain from vetoing proposals and [...] seek compromise, which in turn bolster the power base of the central institutions” (Burley and Mattli 1993, 56). In contrast to functional spillover, the main force to forge package deals does not originate by technological necessity, but from “political and ideological projections and political possibilities” (Nye 1971, 202). Member states must balance their gains and losses during such bargaining processes, but evidently, supranational institutions have assumed driving-engine roles in facilitating negotiations and maximizing bargaining outcomes. To summarize, the rationale behind cultivated spillover is like this: rational actors seek a common stand by splitting the differences and swapping concessions under the auspices of supranational institutions such as the Commission so as to safeguard each other’s specific interests. As a result, common interests get upgraded and supranational institutions gradually extend their mandate “as commensurate with the increasing breadth and depth of integration, thus providing the process with yet more impetus” (Niemann and Schmitter 2009, 50).

Many researchers throughout the 1990s have already illustrated the pro-integrative role of the Commission. Bornschier and Fielder (1995), Cameron (1992), Cowles (1995), and Sandholtz and Zysman (1989) have highlighted the leadership role of the Commission on the internal market programme; Peterson (1991), Pollack (1994) and Sandholtz (1992a) on technology policy; Sandholtz (1992b) on

³⁷ Haas describes this as “to swap concessions in related fields” (Haas 1967a, 65), while Lindberg and Scheingold call it “coalition formation” (1970, 117) which is regarded as the dynamic properties of the Community system (1970, 116).

³⁸ Originally, Haas (e.g. 1961; 1967a, 65-66) called it “upgrading common interests”, and sometimes the term “upgrading of the common interest” or “upgrading common interests” is used as a substitute for “cultivated spillover” to describe the third element of the neo-functional dynamics of integration (e.g. Burley and Mattli 1993).

information technology; Sandholtz (1993a) on telecommunications; Matlary (1997) on energy; Jabko (1999) on the establishment of EMU; O'Reilly and Stone Sweet (1998) on air transport policy; Marks (1993) on structural policy; Sbragia (1993a) on environmental policy; Cram (1993), Eichener (1992) and Majone (1994) on social policy; Ross (1993) on industrial policy; and Hooghe (1996) and Marks (1996) on cohesion policy.³⁹ An early study of the Commission by Cram (1993), for example, points out that as far as the EC's social policy regulation is concerned, the Commission is an active integrative force rather than a neutral bureaucracy, as the Commission tends to maximize its initiative power by various ways, such as exploring both non-binding soft law and process law,⁴⁰ carrying out research programs, and pursuing the use of qualified majority voting (QMV) on issues of worker's health and safety rules, so as to prepare the ground for future regulatory policy action (Cram 1993, 143-144). As a result, the Commission has developed a degree of autonomy of its own, pursuing sets of goals of its particular interest (Cram 1993, 136). Cram (1993, 135; 137; 141-42) attributes the Commission's opportunistic nature of preparing the ground for future regulatory action to the relatively costless budget expenditure on regulatory policy-making from the Commission's side. Based on previous debates and the traditional neo-functionalist propositions on the Commission's pro-integration role, Jensen (2000) probes into EC social and labour market policy and puts forward a new neo-functionalist spillover mechanism: legalistic/institutional spillover, with the conclusion that the Commission acts as an initiator and "dynamo" as assumed by neo-functionalism rather than just a mediator, as expected by intergovernmentalist-oriented theories.⁴¹ Jensen's legalistic/institutional spillover is a further development and clarification of neo-functionalist cultivated spillover, as it specifies how the Commission links its new proposals to the original objective:

³⁹ The literature review here is based on Marks, Hooghe, and Blank (1996, 365) and Niemann and Schmitter (2009, 61).

⁴⁰ Cram divides the existing EC social legislation into four categories and thus outlines four patterns for EC social policy development: "1. Process – establishing rules and procedures at a Community level, setting up Committees and organisations. 2. EC action/direct expenditure – requiring direct Community expenditure and intervention, e.g. through the European Social Fund. 3. Regulatory – setting standards, establishing rules of conduct with which national governments, businesses and individuals must comply. 4. Soft law – non-binding legislation which nevertheless has political significance"(1993, 138). Cram (1993, 145) explains that the fourth category includes EC Recommendations, Opinions and Declarations.

⁴¹ The hypothesis derivation of the legalistic/institutional spillover effect is formulated later in this chapter, see "2.4.2.1 Jensen's Institutional/Legalistic Spillover".

“Following the adoption of the Social Charter by the Member States in 1989, the Commission drew up its action plan, which was intended to ensure that the Charter was implemented. The plan has served — since 1990 — as a basis for regulation-oriented initiatives implemented by the Commission in the field of social and labour market policy. It originally listed 47 proposals for measures, all of which have now been implemented in one form or another.

[...]

One example of the Commission’s dynamic and integrating behavior was its choice of legal basis for a number of proposals related to social and labour market policy submitted in connection with the action plan.” (Jensen 2000, 86-87)

Originally, the adoption of the action plan was to secure the implementation of the Social Charter; taking such opportunity, the Commission presented its proposals related to social and labour market policy by connecting them to the action plan which takes QMV instead of unanimity as the legal basis. For instance, when tabling proposals on atypical work, the Commission chose Art. 100A (single market) and 118 A (working environment) of the SEA as the legal basis, and consequently, QMV, rather than unanimity, in the Council of Ministers was applied to adopt the Commission’s proposals in both cases; however, the Commission’s approach was contested by interest groups, companies, and employers’ associations (e.g. the European employers’ organization UNICE⁴²) disagreed, who argued that the atypical work proposals were related to workers’ rights and interests, and hence they should be covered by Art. 100A para.2 of unanimous voting in the Council of Ministers (Jensen 2000, 87). Anyhow, the Commission, via linking proposals to the original goal, deliberately selected QMV rather than unanimity as the legal basis for member states to reach agreement, thus exhibiting a pro-integrative position. As a result, the Commission’s such initiatives, according to Jensen (2000, 88), have strengthened and promoted the supranational tendency of the EU in the following ways: (1) the use of QMV rather than unanimity increases the chances for the relevant proposals to be adopted, and the veto exercised by a single member government is then utterly impossible; (2) the application of QMV enables the Commission to have more freedom to set pro-integration agenda and more maneuver room to build coalitions with some of

⁴² UNICE stands for *Union des Industries de la Communauté européenne*, which was officially established in March 1958 and changed its name into BusinessEurope as from 23 January 2007.

the key member states or with the international trade union movement so as to create and prepare “an improved treaty basis for future initiatives”; (3) when QMV voting procedures are used in the Council, the EP is involved, consulted, and even making decisions together with the Council (i.e. the co-decision procedure), so along with the increasing application of QMV, the EP gradually exerts greater influence, and this is believed to be a main reason for the EP’s always-supporting stance to the Commission’s usually “offensive” strategies; and (4) as the case of social and labour market policy shows, the Commission, by drawing out proposals that may contradict other actors’ interpretations of the legal basis provided by the Community Treaty, sends a clear signal to the member states: there are the limitations of the current Treaty, so if member states want to achieve their original goal, “then the Treaty should be amended so as to facilitate closer integration” (Jensen 2000, 88).

To sum up, the Commission, by various creative ways, such as binding different national interests in different policy areas via “package deals”, exploring non-binding soft law or process law, carrying out research programs, or linking new proposals to the original objective to deliberately choose QMV as the legal basis so as to be adopted, has been acting not only as a mediator but also as a political entrepreneur to promote negotiators to reach agreements and thus push EU integration further (Jensen 2010, 77; Schmitter 2005, 266). The EU’s history does demonstrate that the Commission has been successfully cultivating both functional and political spillover continuously (Tranholm-Mikkelsen 1991, 15), and by using its agenda-setting powers effectively, the Commission has advanced regional integration and increased its own weight in policy reform (Ross 1995). The results of cultivated spillover, as Keohane and Hoffmann (1990, 296) once indicated, are that EU supranational institutions’ authorities gradually extend (typically represented by the Commission) and meanwhile joint decision-making is incrementally deepened, which implies that there is mutual support among supranational institutions. To wrap up, the discussions above on the political spillover effects of the Commission can be illustrated as follows:

Table 2.2 An Overview of Political Spillover Effects Initiated by the Commission

Pro-Integrative Approaches by the Commission	Possible Consequences and Impacts
Strategy 1: Formulating “package deals”; Strategy 2: Exploring binding process law and/or non-binding soft law; Strategy 3: Carrying out research programs; Strategy 4: Pursuing QMV by linking new proposals to the original objectives; (Extension possible)	● Some other actors may oppose the Commission’s proposals, while the Commission builds coalitions with some key national governments and/or interest groups; ● Along with the increasing application of QMV and the co-decision procedure, the EP exerts greater influence, which tends to support the Commission’s proposals suggesting the involvement of the EP in decision-making; ● The Commission expands its power and autonomy; ● The Commission’s proposals may signal the limits of the current legal basis prescribed by EU Treaties for member states to reach certain goals in certain policy areas, preparing the ground and planting the seeds for pro-integrative initiatives in the future; (Extension possible)

Sources: Own compilation on the basis of the literature review of this section.

Based on Table 2.2 and in the context of the ongoing euro area sovereign debt crisis, the cultivated spillover mechanism can be captured as follows:

H1c': By making proposals for the solutions to the sovereign debt crisis, the Commission takes pro-integrative approaches to address the crisis; as a consequence, the Commission, while building coalitions with the key member states and/or interest groups, expands its power and autonomy, and meanwhile, the EP tends to support the Commission’s proposals which imply the application of QMV where the EP is involved.

The purposes of this hypothesis test are to examine the following aspects: (1) When the Commission puts forward proposals to solve the debt crisis, does it take an obvious pro-integration stance? And in what a specific way does the Commission act as a promoting force for EU integration? In other words, is any of the pro-integrative approaches listed in Table 2.2 present in the selected cases? If not, what are the new strategies adopted by the Commission to foster European integration? The various ways the Commission can resort to have formulated a sort of “scheme” (see Table 2.2),

and by looking into the Commission's agenda-setting behavior in these cases, the first half of H1c will confirm or develop the elements of the overview of Table 2.2; (2) Was there any opposition to the Commission's proposals? Did the Commission establish certain coalitions (patterns) with certain actors? (3) Did the Commission expand its power and autonomy after the proposals were adopted and implemented? Or did the proposals prepare the ground for the Commission's further initiatives? And (4) what were the EP's positions as regards the Commission's proposals? If the EP always supported the Commission's "offensive" proposals which suggested the use of QMV rather than unanimity to reach decisions, a new element should be introduced into the cultivated spillover hypothesis: mutual support among EU supranational institutions to "cultivate" integration. As the Lisbon Treaty entered into force on 1 December 2009, the co-decision procedure (i.e. the decision-making procedure involving the EP, with subsequent QMV in the Council) has become the OLP, and the EP became a constant factor in EU decision-making for most policy areas; in line with the neo-functionalist cultivated spillover thesis, the EP as a supranational EU institution should hence also act as a driving force for European integration.⁴³ Accordingly, H1c' can be reformulated as follows:

H1c'': By making proposals for the solutions to the sovereign debt crisis, the Commission takes pro-integrative approaches to address the crisis; as a consequence, the Commission, while building coalitions with the key member states and/or interest groups, expands its power and autonomy, and meanwhile, the EP also takes pro-integration positions and tends to support the Commission's proposals.

In addition to testing neo-functionalist cultivated spillover effects generated by the Commission, the reformulated H1c will also examine cultivated spillover effects generated by the EP: first, whether and how does the EP demonstrate its pro-integration role? Second, does the EP always support the Commission? If so, then we can say that there is mutual support between the Commission and the EP to promote integration; if not, what is the divergence between the Commission and the EP and what are the reasons that cause such divergence? As the co-decision procedure has

⁴³ Box 5.4 of Jensen (2013, 65) summarizes neo-functionalist expectations on the EU main institutions, among which the EP "is expected to have a supranational orientation and to be the natural ally of the European Commission. Although MEPs (Members of the European Parliament) are elected by the nationals of their home country, they are divided politically and ideologically in their daily work. Neo-functionalists expect MEPs to develop loyalties towards the EU and the 'European idea', so that they will often (although not always) defend European interests against national interests."

become the OLP after the implementation of the Lisbon Treaty, QMV obviously is no longer the prominent factor accounting for the EP's always-supporting stance for the Commission; third, is there any sign suggesting that the EP is also seeking to extend its power and authority? The reformulation of H1c is due to legislative procedures changes brought by the Lisbon Treaty, and the Lisbon Treaty can be taken as an intervening factor; as the EP co-decides with the Council of Minister, H1c actually studies the position and role of the Commission, the EP and the Council who are the actors involved in EU legislative procedures concerning the euro area sovereign debt crisis.

It is worth mentioning that as the European Council has obtained a legal basis via the Lisbon Treaty as one of the seven EU official institutions, the study of cultivated spillover should also extend to this EU institution. There is no need to elaborate the cultivated spillover effects of the European Council, however, as providing the EU with necessary integration impetus is one of its prescribed functions. With the common practices of the co-decision procedure, three main EU institutions are involved in EU legislation: "[i]n principle, the Commission proposes new laws, and the Parliament and Council adopt them. The Commission and the member countries then implement them, and the Commission ensures that the laws are properly applied and implemented" ("EU Institutions and Other Bodies", European Union). What is interesting here is the role of the European Council under the leadership of its President: what are the suggestions the European Council and its President make to the Commission? Though the European Council has no power to pass laws, it does set up the political agenda and provide the general directions for the EU, thus exerting its influence over the Commission's proposals and even the EP's and the Council's co-decision. In a general sense, the European Council delineates and frames the potential activity grounds for EU legislative procedures. So the case studies of this dissertation will also examine the linkages between the European Council guidelines and the concrete Commission proposals so as to (1) specify the origin as well as the originality of the Commission's proposals, and (2) evaluate the influence the European Council has exerted on the Commission proposal formation. To sum up, H1c' can be further reformulated as follows:

H1c: By making proposals for the solutions to the sovereign debt crisis, the Commission, under the framework laid down by the European Council, takes pro-integrative approaches to address the crisis; as a consequence, the Commission,

while building coalitions with the key member states and/or interest groups, expands its power and autonomy, and meanwhile, the EP also takes pro-integration positions and tends to support the Commission's proposals.

Combining functional, political and cultivated spillover together, Burley and Mattli (1993) have set an example to test and confirm the three types of spillover mechanisms in accounting for the building-up of the EC legal system, hence advocating EC legal integration: functional spillover is the logic of law, where the Court gradually extends its juridical power by establishing new decisions to address whatever obstacles so as to secure the common market; political spillover exhibits a trend of “transnational incrementalism” where member states follow the Court’s legal prescription positively; and finally, the upgrading of common interest dynamics has ever been effective in the way that the Court serves as an arbiter more than a mediator, continually “justify(ing) its decisions in light of the common interests of the members as enshrined in both specific and general objectives of the original Rome treaty” (Burley and Mattli 1993, 69). After applying former neo-functionalists propositions to analyze the development of the EC’s legal system, Burley and Mattli clearly state: “the legal integration of the community corresponds remarkably closely to the original neo-functionalist model developed by Ernst Haas in the late 1950s” and “the independent variables posited by neo-functionalist theory provide a convincing and parsimonious explanation of legal integration” (Burley and Mattli 1993, 43). Mattli and Slaughter (1995, 1998) further support the ECJ’s cultivating role in the EU project.

2.1.1.5 Conditions for Spillover

The three different types of spillover — functional, political, and cultivated — have spotlighted three important dimensions of the European integration project: technical necessities and operation, national interest group actors, and supranational institutions. Are there any particular context requirements needed for spillover to take place? It has been claimed that early versions of neo-functionalism are devoid of “a comprehensive, refined and integrated specification of the conditions under which spillover may occur” (Niemann 2006, 21; see also Niemann and Schmitter 2009, 52). Nevertheless, Schmitter (2005) suggests that the criticisms of Haas’s failing to address the conditions for the occurrence of spillover are a misreading. From Schmitter’s point of view, Haas actually has discussed the necessary conditions for spillover, only without an explicit hypothetic formulation, and Schmitter makes a summary of Haas’s hints on spillover

conditions: (1) “increase in economic interdependence between member countries”; (2) “crises of sufficient magnitude due to unintended consequences”; (3) “development of political competence and autonomy for intervention by regional bureaucrats”; and (4) “emergence of interest associations capable of acting on the regional level independent of national constraints” (2005, 258).

These four can be taken as the criteria to assess whether there are mature conditions for the spillover effect to take place. Schmitter further contends that as the integration process expands into other initially unattended areas (which he terms “*engrenage*”)⁴⁴ and affects more actors (which he terms “politicization”), however, the likelihood of controversiality and difficulty in reaching agreement also increases, which could lead to the expectation of a slowing-down integration progress over time (2005, 261; 263). In the process of “*engrenage*”, the EU is already engaging in nearly all policy areas and only few areas such as a common energy policy and certain aspects of transport infrastructure seem to have potential spillover effects; moreover, the expansion of EU membership to twenty-seven and more in the future, the diversity and heterogeneity of member state interests make reaching agreements and package deals much more difficult (Schmitter 2005, 268). In the process of “politicization”, when common citizens, political parties, large social movements, national politicians and civil servants, regional officials and other invisible interest representatives all together begin to include the EU into their political agenda and pursue their interests at the EU level, the monopolized decision-making in Brussels shall be challenged, and the integration progress is not viewed as an “all winners” game, but “winners and losers” within member states (Schmitter 2005, 268).⁴⁵ So from a neo-functionalist perspective, there is still a risk of “self-disconfirming” (Schmitter 2005, 263), and the “unanticipated functional interdependencies may have exhausted itself [sic]”

⁴⁴ Niemann (2006, 18-19) gives a detailed explanation of the term “*engrenage*”. Different scholars would define this term in different ways and the various notions of “*engrenage*” “can be seen as a variation of functional spillover” (note 35, in Niemann 2006, 18-19; see also note 7, in Niemann and Schmitter 2009, 64). “*Engrenage*” is quite often treated as a synonym for the “socialization process”, as Niemann (1998, 436) writes: “*Engrenage*, the process whereby national civil servants through their increasing involvement with each other are encouraged to take integrative decisions, has also been termed ‘socialization process’”. This is different from Schmitter’s definition of “*engrenage*” discussed here.

⁴⁵ This actually is in line with Nye’s early argument: “the low-cost integration and technocratic style decision-making procedures are unlikely to last very long and certainly not until a widespread popular support or a powerful coalition of intensely concerned interests have [sic] developed to the point at which they determine the decisions of political decision-makers” (1971, 224).

(Schmitter 2005, 268). Put simply, spillover is not without limits. Nevertheless, the neo-functionalist spillover thesis may remain “the most insightful and helpful in understanding its (the EU’s) underlying dynamics” (Schmitter 2005, 265). Schmitter’s propositions on the conditions and the limits of spillover are the development and extension of former neo-functionalism, which can be stated in hypothesis form as follows:

H2: The presence of four factors (i.e. increasing economic interdependence between member states, crises of sufficient magnitude as unintended consequences, regional bureaucrats’ competence and autonomy to intervene, interest associations’ capability to deal with problems independently from national constraints) contributes to the occurrence of spillover; however, the integration process tends to slow down due to the increase of “engrenage” and “politicization”.

The four factors look reasonable, and as far as the serious challenges brought by the euro area sovereign debt crisis to the EU are concerned, those factors are very likely to be present and effective. Haas and Schmitter do not specify the indicators for the four conditions of spillover, and hence this dissertation proposes the following measurement in the context of the sovereign debt crisis. 1. The economic interdependence between the member states can be assessed on the basis of internal trade statistics. 2. The magnitude of the crisis on the basis of (a) the growth rates of the GDP, (b) government budget deficit and debt rates, (c) inflation rates, (d) unemployment rates, and (e) bond yield rates for governments to finance from the market. 3. Regional bureaucrats’ competence and autonomy to intervene on the basis of the integrative proposals and activities of EU institutions and their leaders, such as by the President of the Commission, José Manuel Barroso, the President of the ECB, Mario Draghi, and the President of the European Council, Herman Van Rompuy. 4. Interest associations’ independent capability on the basis of transnational interest groups’ policies and activities, such as BusinessEurope and the ETUC. These four factors show neo-functionalists’ concerns with member states’ economic interdependence and reliance on each other, the vicious impact of a crisis and its logical demand for further integration, supranational institutions’ and their leaders’ pro-integration role, and the assumed non-governmental organizations’ proactive role towards EU integration, respectively. What needs to be further specified is “*crises of sufficient magnitude as unintended consequences*”, which could be internal and/or external, institutional and/or non-institutional. Concretely, through case studies, the

presence of each factor and the interactions among them will be examined. As for the slowed-down claim, the EU's initiatives and developments presented in Table 1.2 and 1.3 disconfirm such a hypothesized prediction, while the explanatory chain of “*due to the increase of ‘engrenage’ and ‘politicization’*” should get clarified. Put in another way, why does a slowed-down of the EU not happen if the policy areas for member states to reach agreement are going to be exhausted and there are decreasing policy areas left for member states to reach agreement (i.e. *engrenage*), and if the participation of various national actors pursuing their political rights at the EU level increases (i.e. *politicization*)?

Schmitter's (2005) four-factor summary offers a tentative contextual explanation for the general phenomenon of spillover, and a more detailed elaboration of the conditions for the three types of spillover has been developed by Niemann and Schmitter (2009; cf. Niemann 2006, Schmitter 2004). To start with, the set of conditions for functional spillover is proposed as follows: (1) functional pressures have to be perceived by actors as compelling and persuasive, that is, the original task and objectives therein are salient and the interdependence with other areas to take further action is strong — a case in point to illustrate this is the spillover effect from the single market to the policy domain of justice and home affairs (JHA) such as the border control and asylum policy) (Niemann and Schmitter 2009, 57); (2) decision-makers, restricted by their time horizons, anticipate that: (a) further integration in one area should not cause problems in other areas, which in turn shall trigger further unintended integration, or (b) the benefit of the first step of further integration is “sufficiently salient that it outweighs the concerns about later spillover effects into other areas” (Niemann and Schmitter 2009, 58). Normally, functional spillover mechanisms become effective under condition (b), but still, there are examples when condition (b) is not met while the features of condition (a) arise. For instance, negotiations at the Amsterdam Intergovernmental Conference (IGC) which intended to bring services under the scope of the Common Commercial Policy failed because some member states feared that to apply Article 113 to trade in services would “foster the process of internal Community liberalization in the area of services and [...] the Commission could use the backdoor of Article 113 to regulate in areas which fell under member states' competence”, so such an integration step of expanding the scope of Article 113 was believed to be going to cause an undesired spillover effect in other areas in the near future: internal Community services liberalization — a result that was judged by

national governments as more costly than the benefits brought by extending the policy scope (Niemann and Schmitter 2009, 58). Additionally, functional spillover happens most likely in the areas of “high issue density”, that is, a high presence of the connections and interdependencies between issue areas. As Pierson’s (1996, 137-138; 1998, 39-41) figure “the growth of issue density” illustrates, the number of possible connections and interactions among actors and policies increase geometrically along with the increase of issue areas at the European level. With two issue areas, there is only one possible connection between the two issues, but with four issue areas, the possible connections increase to six, and then with an expansion to eight, the number of potential connections goes up to twenty-eight; therefore, as the EU proceeds with new issues, areas and policies, the potential for functional spillover processes also grows (Niemann and Schmitter 2009, 58). This implies a perpetual motion for functional spillover as there are always newly rising issues, problems and challenges for the EU to deal with. A number of studies have highlighted the effectiveness of functional spillover from the 1992 program, for example, to EMU (Mütmir 1989), to the area of social policy (Pierson and Leibfried, 1995) and to the domain of energy policy (Matlary 1997).

Second, when interest groups and national governments tend to seek solutions at the EU level rather than at the domestic level, there is political spillover. As for the political spillover dynamic of non-governmental elites, the conditions include: (1) “the potential gains from European integration are high”; (2) “interest groups can easily ascertain the benefits of EU activity”; (3) “the relevant issue area has for some time been governed by the EU/EC, so that organized interests had a chance to familiarize themselves with the Community policy process, to coordinate on the European level, and for learning processes to occur”; and (4) “functional spillover pressures or — as some of the revised neo-functionalist approaches would allow for — internationally induced incentives drive or reinforce the rationale for seeking supranational solutions” (Niemann and Schmitter 2009, 59). As for the political spillover concerning governmental elites, that learning and socialization processes leading to their turning to supranational solutions: (1) “need time to develop”; (2) “tend to be significantly constrained if important members of a working group/committee are distrusted”; (3) “are impaired when issues become politicized”; (4) “can be offset in the case of adverse bureaucratic pressures in national ministries and administrations”; (5) “tend to be obstructed when negotiations are rather technical in nature and negotiations do not

possess enough expertise”; (6) “may be impeded when officials are a priori against changing their norms and habits and feel that they have been dragged into EU/EC cooperation” (Niemann and Schmitter 2009, 60).

Apart from the typical example of the ERT’s pro-integration stance on the Single Market and EU eastern enlargement (Cowles 1995), cases to vindicate interest groups’ and non-governmental elites’ political spillover include aspects such as the pro-integrative stance of the transnational community of European central bankers to help the debate on EMU at Maastricht (Cameron 1995), and business and consumer groups’ support to transfer national competence concerning air transport to the Community (O’Reilly and Stone Sweet, 1998). Still, there are also cases where the political spillover dynamic is less substantial, as Niemann (1998, 2006) argues that relevant interest groups such as the *Fédération Européenne des Associations de Conseils en Organisation* (FEACO) was a rather weak player with regard to the PHARE programme (Poland and Hungary: Aid for Restructuring of the Economies), which did not correspond to neo-functionalist predictions, and the 1996-97 Amsterdam IGC negotiations on the extension of the Common Commercial Policy’s scope to the area of services also saw little organized group interests at the EU level. The main reason to hinder interest groups’ involvement in both cases, explained by Niemann and Schmitter (2009, 59), is the opaqueness and complexity of rules and decision-making procedures, which obscured interest groups’ perceptions of the benefits of supranational governance and caused their confusion about where to start lobbying. Nevertheless, Niemann’s (1998, 2006) case study of the PHARE programme prove that there were political spillover effects among governmental elites as the conditions listed above were largely met and favorable to fostering socialization and learning processes; by contrast, the case of the 1996-97 intergovernmental negotiations on the reform of EU trade policy does not indicate the impact of political spillover among governmental elites, as the above conditions were partly/largely not met (Niemann and Schmitter 2009, 60). Moreover, studies have suggested the following: over time the Council committees tend to develop an *esprit de corps* of their own, and national officials who participate intensively in EU committees also tend to enact supranational allegiances (Trondal 2002); there is intense informal communication and cooperation among national delegates who tend to adopt common attitudes towards different negotiation patterns (Beyers and Dierickx, 1998); national institutions and the domestic environment, similar to the supranational institutions of the EU, also have a

socialization function, affecting actors' adoption of supranational conceptions (Beyers 2005); national elites involved in EU decision-making have an overall willingness to make a change in their positions, reflecting a considerable degree of collective responsibility (Egeberg 1999, 471).

Finally, in terms of the conditions for cultivated spillover, the main focus, according to Niemann and Schmitter, is on the entrepreneurship of the Commission, and the favorable factors fostering cultivated spillover of the Commission include: (1) "its ability to forge internal cohesion"; (2) "the Commission's capacity to shape the agenda — not only where it has an exclusive right of initiative, but also in the second and third pillars and at IGCs — for example by proactively tabling proposals, skillful timing of proposals, and maintaining close ties with the Presidency"; (3) "the cultivation of relations with member governments, interest groups, or other actors, i.e. securing support for its policies by making use of its strategic position of being centrally located within a web of policy networks and relationships"; (4) "its ability to build consensus and broker compromises, often while upgrading common interests"; (5) "the instrumentalization of functional (and exogenous) spillover pressures, i.e. promoting further integration by drawing on such rationales in the debate"; (6) "the Commission's capacity to know the limits of its entrepreneurial leadership so as not to overplay its hand *vis-à-vis* the member states" (Niemann and Schmitter 2009, 60-61). Besides, other factors can also affect the cultivated spillover dynamic of the Commission: powerful member states' support, interest group allies, and the historical context where "institutions may register the greatest impact on policy outcomes in periods of swiftly changing events, uncertainty and incomplete information and during periods of policy adaptation" (Niemann and Schmitter 2009, 61). As the literature review in section 2.1.1.4 has shown, lots of studies have demonstrated the Commission's proactive and integrative entrepreneurship, and many of the cases do largely meet the favorable conditions that foster the Commission's cultivated spillover dynamic as suggested by Niemann and Schmitter. Still, there are cases where the Commission's cultivated spillover effects are constrained due to the absence of favorable conditions, and one example in point is the failure of the Amsterdam IGC negotiations on the Common Commercial Policy, where the favorable conditions for cultivated spillover were largely absent as "the Commission lacked internal coherence, overplayed its hand and was largely unsupported by interest groups or key member states", and consequently, the Commission's influence in this case was rather limited

(Niemann and Schmitter 2009, 61).

All the conditions/factors discussed above draw up the overview of aspects that contribute to the effectiveness of the three classic spillover mechanisms posited by neo-functionalists (Table 2.3). Case studies of this dissertation will first check the presence (or absence) of the proposed conditions and then try to ascertain the relationship among them. Neo-functionalism is an old but evolving theory, and the potential for developing neo-functionalism lies “not least in further specifying the conditions under which the different types of spillover pressure are likely to unfold” (Niemann and Schmitter 2009, 64).

Table 2.3 Conditions Fostering Spillover

General Conditions for Spillover Effects and Proposed Measurement	
Factors	Measurement
1. Increasing economic interdependence;	Internal trade data; (Extension possible)
2. Crises of sufficient magnitude;	● Institutional aspects: crises due to unintended institutional consequences; ● Non-institutional /economic and financial aspects: (1) GDP growth rates; (2) Government budget deficit and debt rates; (3) Inflation rates; (4) Unemployment rates; (5) Bond yields for governments to finance from the market; (Extension possible)
3. Regional bureaucrats' competence and autonomy to intervene;	Supranational institutions' and their leaders' pro-integration attitudes and activities: e.g. The Commission and its President Jos éManuel Barroso; The ECB and its President Mario Draghi; The European Council and its President Herman Van Rompuy; (Extension possible)
4. Interest associations' capability to deal with problems independently from national constraints;	Non-governmental organizations' independent integration-oriented positions, policies and activities: e.g. BusinessEurope and the ETUC (Extension possible)
 Favorable Conditions for Each of the Three Spillover Mechanisms	
5. Conditions for functional spillover	(1) Compelling and persuasive technical pressures to complete the original task and objectives; (2) Decision-makers anticipate that (a) further integration in

	the concerned area shall not cause problems in other areas, which in turn shall trigger further unintended integration, and/or (b) the benefit of further integration is salient and outweighs the concerns about later spillover effects into other areas; (3) High presence of the connections and interdependencies between issue areas (i.e. “high issue density”); (Extension possible)
6. Conditions for political spillover	● Representing the stance of nation states’ and governmental elites’ turning to supranational solutions: (1) Involves time to be developed; (2) Will be heavily constrained when important members of a working group or committee are distrusted; (3) Will be impaired, offset and obstructed if issues are politicized, adverse bureaucratic pressures permeate in national ministries and administrations, and/or issues in negotiations are rather technical, which require special expertise that negotiators lack; (4) Will be impeded if officials reluctantly and resist to adapt their norms and habits to EU integration; ● Non-governmental elites representing positions of interest groups tend to support supranational solutions when: (5) Further integration brings more benefits and interest groups can ascertain those potential gains; (6) The issue of concern for further integration has already been under EU governance for a while, thus learning processes may happen and interest groups have the time to become familiar with relevant rules and existing policy-making processes, and thus can better exert influence and coordinate at the EU dimension; (7) Functional spillover pressures and international incentives and worldwide trends of cooperation and partnership reinforce the rationale of seeking solutions at the EU level; (Extension possible)
7. Conditions for cultivated spillover (of EU institutions, typically represented by the Commission)	For the Commission: (1) The ability to forge internal cohesion; (2) The capacity to table pro-integrative proposals and shape its own agenda; (3) By formulating a coalition with some actors (e.g. powerful member states, interest groups) to secure adequate support for its proposed policies;

- (4) The ability to foster consensus and broker compromises by various means (e.g. package deals);
 - (5) Making use of functional and exogenous pressures (e.g. the historical context of the period of crisis, dramatic changes, uncertainty and incomplete information, and policy adaptation) as the rationales to promote future integration;
 - (6) Having knowledge about the limits of its entrepreneurial leadership, avoiding to overplay its hand vis-à-vis the member states;
- (Extension possible)

Sources: Own compilation on the basis of the Schmitter (2005), Niemann (2006), Niemann and Schmitter (2009).

2.1.2 Elite Socialization and Supranational Interest Groups

As for the thesis of elite socialization and the thesis of supranational interest groups, both emphasize the trends of supranationalism over nationalism. The former asserts that officials and politicians, the so-called elites who participate in EU decision-making, tend to shift their loyalties from their national states to the European institutions. For example, Haas (1958, chs. 5 and 6) stresses the role of non-governmental elites, while Lindberg (1963, ch.4) concentrates on governmental elites (see also Niemann 2006, 15; Niemann and Schmitter 2009, 48). The latter argues that interest groups, in a supranational context, try to match their activities with the regional integration development, placing their demands on national governments and pressing for more integration. By doing so, they also become Europeanized (Jensen 2010, 77-79). It was estimated that at the end of the 1990s, in the EU, “thirteen of the seventeen most important policy domains are [...] influenced by transnational groups” (Fligstein and McNichol 1998, 88). These two theses underscore the forces that support further integration, contending that governmental and non-governmental elites and relevant interest groups tend to hold that a further step of integration will bring more benefits, and such a positive perception leads those actors to “move part of their activity to a higher level of aggregation and therefore gradually shift their focus and expectations to European institutions” (Niemann and Schmitter 2009, 49). Since the leader(s) of an interest group can be seen as the speaker(s) and promoter(s) for that group’s position and policy towards the integration process, interest group stances on further integration can also be traced from their leaders’ attitudes towards issues concerned. As a matter of fact, the elite socialization thesis and the supranational

interest group thesis can be viewed as extended elaborations of “political spillover”, and consequently their basic propositions can be tested under the rubric of political spillover.

Though political spillover and the thesis of elite socialization are “closely related” (Jensen 2010, 76; 2013, 63), “it is difficult”, as Jensen once commented, “to conduct an empirical study of the neo-functionalist thesis of elite socialization. As Taylor suggests, it will always be possible to argue that shared experience generates shared attitudes. [...] my analysis fails to provide an adequate basis for confirmation of the neo-functionalist thesis of elite socialization” (Jensen 2000, 88-89). To detect an official’s loyalty transferring accurately, this dissertation argues, one needs to trace and compare his/her attitudes at different times towards similar and even the same issues. That is, the loyalty shift assertion, in a strict sense, should be set in a structured comparison of the opinions of the same subject on EU general integration or on a specific policy and issue at two (or more) different points of time. Meanwhile, under the influence of many other factors — being internal and external, national and international — officials’ attitudes are subject to changes, and the exact mechanisms behind these changes are difficult to be defined. Literally, politicians’ attitudes and positions towards a specific EU issue can be ascertained via interviews or questionnaires, but loyalty “shift”/“transferring” indicates a comparison with previous or later data involving a certain time gap. In an extreme sense, it is decision-makers’ current choices, not their past loyalties or future intentions, that influence the EU’s policy-making. Moreover, an individual official’s loyalty normally cannot exert a decisive impact on EU outcomes, but rather, a collective stance of a committee and group stands out as an important force. In such logic, to examine the shifting of loyalties turns out to be impractical and trivial, and this may account for the reason why Haas (1970, 1971) abandoned loyalty shifts as a defining characteristic of integration. Normally, neo-functionalist followers, such as Stone Sweet and Sandholtz (1998) prefer to treat loyalty transferring as an open question, while the rival intergovernmentalists tend to reject this proposition (e.g. Scharpf 1988) or argue for multiple loyalties (e.g. Wessels 1997). Niemann (1998, 436) possibly gives a more cogent and appropriate comment on loyalty transferring, as he says: “[d]espite the high level of cross-border bureaucratic interaction, it is doubtful that a change of loyalties to Brussels has occurred. However, there is some evidence for increasingly favorable attitudes of certain civil servants *vis-à-vis* the European project” (Niemann 1998, 436).

So this dissertation will not deal with individual official's loyalty shifts/transferring. However, what we should not ignore is national citizens' attitudes: citizens' support and position changes towards the EU are important, meaningful and even decisive for the fate of the EU. As discussed in section 2.1.1 about the analytical dissection of the spillover dynamic by Cameron 1992, neo-functionalism assumes that spillover effects connote both elites' and public support for the supranational institutions. All the three new measures represent EU approaches to the eurozone sovereign debt crisis and they are initiated, pushed and supported by the EU officials/elites. Due to the seriousness of the current crisis, individual nation states cannot address it on their own, and the resort to supranational means becomes a natural and unavoidable choice for national governments; against such a background and following the neo-functionalist logic (e.g. Cameron 1992, 25), this dissertation proposes that:

H1d: As the inherently expansive task (i.e. to solve the eurozone sovereign debt crisis) is assigned to EU supranational institutions, the autonomy and power of EU institutions — typically represented by the Commission — expand; meanwhile, European citizens' support for the EU project also tends to increase.

The first half of this hypothesis displays a sort of overlap with the latter part of H1c, and the purpose of the testing of this hypothesis is to see whether functional spillover will trigger a proportionate increase in both the powers of supranational institutions and the support of elites and national citizens for the EU project. It should be noted, however, that even if neo-functionalist assumptions are correct (i.e. elites' and national citizens' support for the EU tends to increase as functional spillover is in effect), there will be a limit to an "increasing room" of support rates, that is, after reaching a certain level or "plateau", a further increase of support rates might become difficult or even impossible. In an extreme theoretical sense, if the support rates already reach 100%, the proposed "increasing trends" shall be inaccurate. But for now, this dissertation expects that there still is an "increasing room" for the support rates, and the second half of this hypothesis is to see whether the EU's initiatives and efforts to address the crisis help to enhance its credibility and thus promote support for the EU project. If the support rates constantly display a pattern of "stability", this dissertation will make a tentative assumption on the "plateau" level. In addition, by assessing the support of the public, H1d also addresses the issue of EU legitimacy and the so-called

“permissive consensus”,⁴⁶ checking whether there is an obvious “disconnect between elites and masses” (Rosamond 2013, 88). Finally, what needs to elaborate and specify is the term “support for the EU project”: as far as the theme of this dissertation is concerned, case studies will focus on the support for EMU (and the euro) and EU solutions to address the crisis.

To summarize, as the three theses of spillover, elite socialization and the supranational interest group illustrate, neo-functionalism emphasizes the role of supranational institutions and non-governmental actors, advocating a supranational tendency for EU integration. The essence of supranationality, as Haas claims, “lies in the tendency for economic and social decisions to ‘spill over’ into the realm of the political, to arise from and further influence the political aspirations of the major groupings and parties in democratic societies”, that is, supranationality has exhibited an “indirect penetration” from the economy to politics (Haas 1967a, 65). Moreover, supranationality is built upon common interests and must be realized through certain supranational institutions, as Haas argued that “the upgrading of the parties’ common interests relies heavily on the services of an institutionalized mediator, whether a single person or a board of experts, with an autonomous range of powers” (Haas 1961, 368), and one of the lessons drawn from European integration is that “*institutionally*, supranational bodies most readily lend themselves to accommodation on the basis of upgrading common interests” (Haas 1961, 377, his emphasis). Obviously, supranational institutions assume indispensable functions during the EU integration process, and hence Haas has also been regarded as a pioneer in theorizing the logic of institutionalization at the supranational level (Stone Sweet and Sandholtz 1998, 5-6).

2.2 Theoretical Roots of Neo-Functionalism: Functionalism

Neo-functionalism, as its name suggests, can be traced back and compared with an antecedent integration theory: functionalism.⁴⁷ The idea of functionalism starts from David Mitrany’s work *A Working Peace System* (1943),⁴⁸ in which he proposes ways

⁴⁶ Cini and Borragán (2013, 401) describe “permissive consensus” as “[t]he political context that allowed elites in the post-1945 period to engage in European integration, without involving Europe’s citizens”.

⁴⁷ Niemann and Schmitter (2009, 45-46) suggest that neo-functionalism finds its theoretical roots at the juncture between functionalist, federalist and communication theories and also draws inspirations indirectly from the “group theorists” of American politics.

⁴⁸ The evolution of functionalism can be studied through Mitrany’s chronological works: *The Progress of International Government* (1932), “A War-Time Submission: Territorial, Ideological or

to do away with wars and conflicts between national states: to set up world organizations not based on national territories but on functional tasks. Different organizations should be designed according to the requirements of different governmental tasks; in the way of carrying out specific tasks across national frontiers, these organizations could bring more welfare rewards to citizens than those obtainable within the national states — the rationale of such a functionalist approach is that form follows function (Lelieveldt and Princen 2011, 35). As a result, there would be a proliferation of international or transnational organizations to serve different purposes. Mitrany's time witnessed the cruelties of the First and the Second World Wars, so the intention of functionalism was to reduce nation states' conflicts and to realize world peace. As soon as governmental tasks are organized and fulfilled properly, it was believed that citizens would gradually transfer their loyalties to these newly formed organizations, because they would learn and experience the greater benefits of international cooperation, and thereby reduce their nationalist chauvinism which often leads to warfare between states. Believing nationalism was the root of war holocausts, Mitrany rejected organizations of governments in the federal form,⁴⁹ because this might just reproduce another sort of nationalism at a higher level (Lelieveldt and Princen 2011, 35; see also Taylor 1974, x, Mitrany 1944, 5-7; 1965, 123-34). Besides, Mitrany also disagreed with the idea to forge an association of nations, like the League of Nations, because he believed that this kind of loose association would still perpetuate the traditional link between authority and a definite territory (Mitrany 1975, 125).

Functional International Organisation?" (1941), and *A Working Peace System* (1943). For more about Mitrany's later works and his functionalist approach see Imber's (1984) "Re-Reading Mitrany: A Pragmatic Assessment of Sovereignty".

⁴⁹ After the two destructive World Wars, many efforts and research were dedicated to eliminating wars and ensuring world peace, and the US has always been taken as a comparative model to explore such possibilities. For example, Deutsch *et al.* (1957) suggest that "'integration' does not necessarily mean the merging of peoples or governmental units into a single unit", but also could be achieved by another two ways: "amalgamation" and "the pluralistic security-community". The first one refers to "the formal merger of two or more previously independent units into a single larger unit, with some type of common government after amalgamation", as the US is an illustrative example, while in the second form, countries still retain their legal independence with separate governments, as the combined territory of the US and Canada would suggest. To maintain peace, any political community, being amalgamated or pluralistic, must become a security-community, that is, must achieve integration. "Integration" and "amalgamation" overlap, but not completely: amalgamation can be without integration, and vice versa (Deutsch *et al.* 1957, 5-7). For Jean Monnet, the architect of the ECSC, two routes were available at that time to realize continental peace: federalism and military unification; he chose "a second-best indirect solution": integrate the two industrial sectors, coal and steel, which were necessary to any warfare in future (Schmitter 2005, 256-257).

2.2.1 Mitrany's Functionalism

When Mitrany formulated his functionalist ideas, the dominant trend of IR theorization was the normative school represented by Norman Angell; nevertheless, the normative idealistic approach got discredited by increasing anarchy in the international society during the 1930s, which stimulated the revival of a realist approach led by Hans Morgenthau; functionalism at that time received little attention (Taylor 1974, xii). As a new phase in IR theorization in the 1950s, two developments heralded the resurgence of functionalism: behaviouralism and scholars' attention to the problem of world order (Taylor 1974, xiii-xvi). Traditionally, nation states quite often compete and fight for military security and natural resources, so the dominant themes in IR literature are conflicts and cooperation, swords and ploughshares, war and peace; however, Mitrany offered another alternative: the development of a "working peace system" (Taylor 1974, xi). Mitrany attributed the root of violence and wars to people's dissatisfaction with their social and economic circumstances, so if people are given a "moderate sufficiency of what they want and ought to have they will keep the peace" (Mitrany 1944, 15; see also Taylor 1974, xi). Following such logic, Mitrany proposes a transnational "working" system to meet people's demands and to serve them better and more efficiently than national governments can. Mitrany argues that in a modern society, international organizations, no matter in what kind of form and manner, in one aspect, must do the same things as national governments do; endowed with autonomous tasks and powers, functional bodies, in another respect, would not merely discuss but must do things jointly so as to enlarge and co-ordinate the social scope of authority in the hope of overcoming "the deep-seated division between the needs of material unity and stubborn national loyalties" (Mitrany 1975, 125-126). Functionalism is a theory of action (Cornett and Caporaso 1992, 237). Then what are the principles to divide and assign tasks to the international organizations? Mitrany (1941, 115) puts forward "a natural organic selection" to bind together common interests under the essential principle that

"activities would be selected specifically and organized separately, each according to its nature, to the conditions under which it has to operate, and to the needs of the moment. It would allow, therefore, all freedom for practical variation in the organization of the several functions, as well as in the working of a particular function as needs and conditions altered." (Mitrany 1941, 116)

This suggests that there is no fixed rule or rigid pattern to allocate different functional segments to different international organizations, so on the one hand, these organizations are open and flexible to the changes of human needs, which may emerge, alter or vanish over time across space without commitments to any particular integrated end state (Rosamond 2000, 34), while on the other hand, there might be an overlapping of these functional bodies (Lelieveldt and Princen 2011, 35). The purpose of this approach is to prioritize human needs or maximize public welfare as opposed to “the sanctity of the nation-states or the celebration of any particular ideological credo”, and to realize this, human beings must be rational about their needs and choices and be creative to construct institutions that can perform the functions assigned to them; therefore, function determines structure, hence the term “functionalism” (Rosamond 2000, 33). Moreover, functionalism connotes technical self-determination, that is, function determines organs as well as the political instrument most suitable to its activities, which “by the same means provides for its reform at every stage” (Mitrany 1941, 118). To entrust the real tasks of the government to international organizations on the basis of social needs and political developments, national sovereignty, not by conquest or revolution, but by consent, must be gradually transferred to a new world authority, and the new authority’s status depends on “how far the transfer of sovereignty from national groups is both willing and continuous”; nevertheless, “[s]overeignty cannot in fact be transferred effectively through a formula, only through a function” (Mitrany 1975, 128). Mitrany regards this transfer as a sharing rather than the surrender of sovereignty: by pooling sovereign authority, separate national states would perform tasks jointly and better (Mitrany 1975, 129). Countries’ participation in an international organization is decided by the weight of their interests and resources, and all would benefit from the general service of this organization even if they have no part in its control (Mitrany 1941, 119). In this way, the dilemma that “we can neither ignore the deep roots of nationality in search for material efficiency, nor deny the urgent cry for social betterment for the sake of a hollow independence” gets resolved; without offending “the sentiment of nationality or the pride of sovereignty”, the functional approach can also offer the weakest countries an equal opportunity to enjoy the benefits brought by any functional activities they participate in and assure non-domination of stronger countries (Mitrany 1965, 139). Neither would national countries be supplanted — instead, they become links in a functional system (Mitrany

1941, 122), nor are they formally separated sovereign entities — instead, they are of “material interdependence” (Mitrany 1933, 101; also see Rosamond 2000, 34-35). Besides, the functional structure entails a union of people not of the states, so citizens can be the democratic representation for a specific function (Mitrany 1941, 119).

As for the federal system, Mitrany believes it is both rigid and limiting: it binds a few things to be done in common while also maintaining a separate status quo through constitutions which are difficult to change. So in Mitrany’s opinion, politically, the federal idea goes too far: it cannot be realized on a world scale, while economically and socially, it goes not far enough: it offers less to realize “a unified peaceful development” (Mitrany 1975, 129). The essence of Mitrany’s proposal is to develop a working instrument of world governance — “a universal league” (Mitrany 1933, 116) — so as to realize world peace. As a response to the problem of the so-called democratic accountability, Mitrany distinguishes two aims/functions of international organizations: one is “to create a forum for the expression of progressive world opinion”, and the other is “to build up an effective instrument of common policy”, and being over-zealous in the first one would debilitate the second (Mitrany 1975, 131). So Mitrany argues that if we want to build up an effective world system where power can be restrained, voting democracy may need to yield to working democracy (Mitrany 1975, 132).

2.2.2 Evaluation of Functionalism

Functionalism takes a positive view on human nature and believes a rational and peaceful progress is a possibility; it stretches the liberal-idealist tradition of IR from Kant through Woodrow Wilson and beyond, putting non-governmental organizations as a central object of study and challenging the traditional state-centric view of “power politics” (Rosamond 2000, 31). Functionalism offers a new way of thinking to construct post-war order; nevertheless, there are also criticisms to this approach, which, according to Rosamond (2000, 38-42), fall into four categories.

First, functionalism holds that the determination of needs is objective and technocratic, but to make such a decision could be a fundamentally political task, which is difficult to operate with the laissez-fair capitalist market logic: complex coordination among sectors and fierce market competition mean there are both losers and winners. Second, functionalism was attacked for its rational-technocratic argument on human being’s rational choices and governments’ rational movements towards

maximizing citizens' welfare and happiness; by separating welfare from power, it underestimates the continuing salience of politics. Besides, it assumes that the fulfillment of needs will automatically generate support for the institutions that carry out the task, but it does not specify the mechanism through which the needs should be identified first and it also lacks a theory of communicative action to explain how actors would come to believe certain things about the world. Third, functionalism has not been shown to be predictive as its advocates suggest, and reality has not been unfurling in the way that Mitrany has envisaged, so it may be treated just as a theory of political intervention. Finally, functionalism has been criticized for lacking scientific rigor as some scholars argued that "there is no foundational theoretical statement in functionalism" (Rosamond 2000, 41), which, however, can be accounted by Mitrany's multiple roles as being a journalist, corporate consultant and foreign affairs analyst whose intended audience are not always academic researchers, but from Mitrany's point of view, theoretical rigor may cause problems as it "denoted practical rigidity and creative closure" (Rosamond 2000, 42).

Despite those criticisms, the influence of functionalism was far-reaching, and it is regarded as the "intellectual ancestor" for many other diverse approaches to international order such as interdependence theory, the world society image of IR, linkage politics and regime theory (Taylor 1990a, 125). It also anticipated works on transnationalism and governance without government (Rosenau and Czempiel, 1992). Mostly, it laid the foundations for neo-functionalism, the first integration theory specialized in accounting for the EC.

2.2.3 Neo-Functionalism and Functionalism: Continuity and Difference

2.2.3.1 The Influence of Functionalism on Neo-Functionalism

Functionalism and neo-functionalism share similarities. Above all, both are dedicated to find solutions to avoid the calamity of wars among the traditionally-defined national states and thus to maintain European/world peace. Besides, both theories emphasize the supremacy of citizens' welfare, advocating welfare-dominated policies of international organizations. History has proven the European integration project's success in maintaining peace, stability and realizing prosperity among its member states for more than 60 years. Moreover, both functionalism and neo-functionalism represented a new way of thinking different from traditional ideal federalism, architecting a new path to post-war unity by incremental and strategic means rather than by pursuing a

constitutional design; meanwhile, functionalism offered an innovative and distinctive approach beyond conventional categories to do IR research (Rosamond 2000, 39; 51). Consequently, the traditional state-centric approach to IR gives its way to supranational institutions and officials, multinational interest groups and political parties. As functionalism was the starting point for Haas and Lindberg to develop neo-functionalism (Taylor 1974, xiii), the indebtedness of neo-functionalism to functionalism is quite noticeable.

First, the functionalist “emphasis on the technocratic fulfillment of needs as the basis for more profound and lasting systems of peace, along with the evolutionary logic” anticipated neo-functionalist arguments on “spillover” (Rosamond 2000, 38-39). According to Cornett and Caporaso (1992), a functionalist action strategy consists of three steps: “(1) identify areas of society where people can cooperate, (2) arrange cooperative behavior functionally — not along territorial lines, and (3) take advantage of inter-sectoral imbalances to extend cooperative arrangements into related areas once initial cooperation has taken root”; the final stage involves “cooperation on many different fronts along with appropriate political institutions” (Cornett and Caporaso 1992, 237). These three steps prepared neo-functionalist spillover arguments, as Cornett and Caporaso maintain that “[t]he key to the process-level component of functionalist theory lies in the concept of spillover” which “refers to the purported self-expansive tendency of integration within pluralistic socioeconomic environments” (Cornett and Caporaso 1992, 238). The authors further distinguish two types of spillover contained in functionalism: the first one is about the integration tendency transmitting from one sector to another, such as tariff reductions in trade putting demands on exchange rate policy; the second one refers to the integration movement from economic issues to political ones, such as informal and private cooperation becoming institutionalized (Cornett and Caporaso 1992, 238). These two types of the functionalist integration rationale herald the two layers of the core concept of neo-functionalist spillover: economic and political integration.

Second, functionalist propositions on the way to organize governmental tasks based on their functions and the consequent effects of functional division were inherited and further developed by neo-functionalism as follows: (1) to carry out governmental tasks, establishing supranational institutions is necessary; (2) in the process of transnational cooperation, citizens transfer their loyalties to the new higher authority; (3) functionalist advocating for citizens’ democratic representation in

functional bodies is the precursor to the EP, as Mitrany once asserted that “[t]he sum of these functions’, not any preconceived formula, must in the end shape the character of an eventual European executive, and hence also of an European parliament” (Mitrany 1965, 132). In such a way, the neo-functional approach can be taken as an expansion of the logic of functionalism.

2.2.3.2 The Differences and Disagreements between Neo-Functionalism and Functionalism

Besides the similarities, neo-functionalism is different from functionalism in several respects. With spillover effects, European cooperation, in the neo-functional approach, leads to a regional political system, with which functionalism disagrees at least on two points.

First, politically, functionalists believe that a new political community will simply recreate all traditional problems of the international society on a larger scale (Taylor 1974, xiv). The ultimate future of Europe, from Haas’s point of view, is not a federation, confederation or intergovernmental organization, but a supranationality, that is, a “supranational scheme of government at the regional level” which “bears a very striking resemblance to the prevailing nature of government at the level of the industrial nation in everything but constitutional terminology”, serving as “the appropriated regional counterpart to the national state which no longer feels capable of realizing welfare aims within its own narrow borders, which has made its peace with the fact of interdependence in an industrial and egalitarian age” (Haas 1967a, 71). In contrast, Mitrany opposes any schemes for a world government or any state-like entities dispensing world governance, because a political Union or a “United States of Europe” by nature must be nationalistic too, which “must impede, and may defeat, the great historic quest for a general system of peace and development” (Mitrany 1965, 145). Mitrany further explains:

“Under the pressures of a planned and radical social transformation it is bound to shape towards a centralized system — closed, exclusive, competitive; and whatever else it may do, such a system would hardly be suited to mediate between the new ideological divisions, or temper the raw nationalism of the new states so as to steer them towards the greener pastures of a mutual international community.” (Mitrany 1965, 145)

For Mitrany, the result of functional developments would “not create a new

system”, but rather “merely rationalize and develop what is already there” and “[e]verywhere social activities [...] are organized and continually reorganized in that way” (Mitrany 1941, 118). In such a sense, “functionalism is not really a theory of integration at all because the term ‘integration’ is suggestive of a particular institutional end stage” (Rosamond 2000, 34). Regional unions, from the vantage point of functionalism, are similar to the state building-up process, reproducing territorial state-like functions at a higher level with unchanged decision-making systems transferred from component national states, which would lead to the domination of the powerful states as the old IR themes suggest (Mitrany 1943).

Second, geographically, functionalism rejects “the territorial closure implicit” in a European regional scheme, and as a matter of fact, Mitrany questioned the definition of “Europe” in terms of its geographic boundaries, for the territorial logic of the European unions would create potential “interregional antagonisms” by differentiating between members and outsiders (Mitrany 1965; Rosamond 2000, 37). In other words, geographical unions connote exclusion and separation. Meanwhile, among the member states of a regional union, there lacks a kind of “natural cohesiveness” between nations, and it is also difficult to construct an “imagined community” for the new union (Rosamond 2000, 38), and this would imply an identity problem for the new authorities. In short, functionalism regards any European integration project, in Rosamond’s words, as being both “atavistic” and “recidivist”: the former for generating interregional antagonism, and the latter for repeating governance on the basis of “the anachronistic foundations of statehood and territory” at a higher level (Rosamond 2000, 38). Naturally, Mitrany (1965) approved the technical and functional logic behind the development of the ECSC and the Euratom, but he did not think the ECSC and the Euratom should be developed into any defined institutions such as the EEC. European integration, therefore, from the functionalist point of view, has gradually evolved beyond the functional logic into a formal process which duplicates the old problems at a supranational level with a new version.

The above two lead to the third major difference: though having opened a new door for IR research on non-governmental factors, functionalism provides “a weak account of power and institutions” (Cornett and Caporaso 1992, 238). Functionalists

such as Mitrany and Jean Monnet⁵⁰ contend that power and institutions are inextricably tied with sovereignty and national prestige, and such a belief leads them to highlight technical integration potentials while undervaluing the importance of the political consensus and struggles behind the technical integrative experiments. By comparison, neo-functionalists, while acknowledging functionalist insights on social and economic cooperation and integration, attach great importance to supranational institutions (Cornett and Caporaso 1992, 238). Besides, neo-functionalism also stresses politicians' initiatives which would be termed "elite socialization", as Haas points out that "the 'purely' economic decisions always acquire political significance in the minds of the participants" (1967a, 65) and in the modern industrial system, everything is political (1967a, 71). Niemann and Schmitter (2009, 46) offer the following summary: "[l]ike functionalism, neo-functionalism emphasizes the mechanisms of technocratic decision-making, incremental change, and learning processes", but different to functionalism, "neo-functionalists attached considerable importance to the autonomous influence of supranational institutions and the emerging role of organized interests", and "[m]oreover, where Mitrany attached importance to changes in popular support, neo-functionalists privilege changes in elite attitudes."

2.3 Critiques of Neo-Functionalism

Neo-functionalism, once being ambitious to provide a grand framework to summarize and explain the dynamics of regional integration in any context (Rosamond 2005, 243; see also Barrera and Haas 1969; Haas 1961, 1967b; Haas and Schmitter 1964), has been criticized on both empirical and theoretical grounds, with the main critiques coming from Haas (1975, 1976), Keohane and Hoffmann (1991), Keohane and Nye (1975, 1977), Moravcsik (1993, 1998, 2005), Risse (2005), Taylor (1990, 1993), and Schmitter (2005).

⁵⁰ Jean Monnet (1888-1979), one of the founding fathers and architects of the EC, is regarded as another important precursor to neo-functionalism. Tranholm-Mikkelsen (1991, 3) suggests that neo-functionalist ideas have already got an embryonic form in the Schuman Plan (1950) promoted by Monnet. Rosamond (2000, 51-54) discusses Monnet's role in the process of building up the Community. Schmitter (2005, 256) clearly states that Haas's neo-functionalism is the synthesis of both Mitrany's conception of functionalism and Monnet's pragmatic strategy for running the ECSC and developing it into the EEC. Niemann and Schmitter (2009, 46) also regard Monnet as an important intellectual antecedent of neo-functionalism.

2.3.1 Neo-Functionalism's Failure to Capture EC Political Stagnation during the 1970s

On empirical grounds, the neo-functionalist approach as a whole was discredited by the general sluggishness in the pace of European integration in the 1970s when political integration did not happen as neo-functionalists had predicted: “neo-functionalism appears to mispredict both the trajectory and the process of EC evolution” (Moravcsik 1993a, 475-76). Neo-functionalist failure to capture the reality of the EC in the 1970s, according to Schmitter (2005), was caused by neo-functionalism's intrinsic “dual paradox”. The first paradox is that the integration process starts with member states' willingness to cede certain national autonomy or sovereignty, so naturally nation states prefer to “converge upon some relatively non-controversial and apparently separable issue arena where tangible gains from co-operation were sufficient to warrant giving up some portion of their respective autonomy to a common institution”; however, if so, “there was little reason to expect any further expansion”, and the regional organization would keep its stagnant inter-statist structure; furthermore, the finitude of non-controversial and separable policy areas also suggest the limitation and potential exhaustion of integration. The second paradox is that national politicians, on the one hand, realize that there are rising costs for their countries to retreat from the integration process where they have been reaping great benefits, while on the other hand, they are also aware that in the long run, sovereignty would be diminished, so with such an anticipation, they might rationally refuse to be involved in the first place, as the de Gaullian case illustrates, and also design their institutions to avoid or minimize sovereignty shrinkage (Schmitter 2005, 262-63). Apart from the two paradoxes to explain the stagnating pace of the EU, another argument is that it takes some time for the underlying functional interdependencies to become manifest and mature to push actors to take pro-integrative stances and measures (Schmitter 2005, 257; 266). Additionally, the adverse economic environment during the 1970s also contributed to the political stagnation and the trend of intergovernmental decision-making by member states; under unfavorable economic circumstances, nation states “have appeared both uncertain and defensive and frequently unwilling to take the Community option” (Webb 1983, 21; also see Niemann and Schmitter 2009, 52).

Since neo-functionalist prediction of a progressive and linear integration process was refuted by reality and consequently abandoned by scholars, new concepts and theories arose, trying to encapsulate the European integration project better. For

example, Taylor (1993) put forward a new concept, “consociationalism”,⁵¹ to suggest that functional cooperation may be both positive and negative for the integration process: being positive “in the sense that links are fostered, attitudes modified, and community strengthened”, while being negative in the sense that segmental autonomy may get reinforced (Taylor 1993, 84). The idea of “consociationalism” indicates “an end situation which has built into it pressures for the maintenance of segmental autonomy within a cooperative system, i.e., a symbiotic arrangement” (Taylor 1993, 84). Therefore, for one thing, to strengthen functional integrative systems “may help to sharpen rather than soften the cleavages in the existing society of nations” (Taylor 1993, 85); for another, the concept of consociationalism implies a symbiotic relationship between separate national states (the participating segments) and the supranational entity EC (the collectivity), where the two depend on each other as mutually sustaining parallel evolving powers (Taylor 1993, 92; 252). Taylor believes that as regional federalism might merely reproduce old problems of the international society, the EC’s consociational structure and symbiotic relationship between member states and supranational institutions avoid repeating the old story (1993, 255). Taylor argues that the processes of consociationalism proceed alongside the neo-functionalist dynamics of integration (Taylor 1993, 90), and the result of European integration is that “the sovereignty of states has not been challenged fundamentally” — though the conditions for sovereignty have been changing — in spite of “the appearance of schemes for advanced federalism in the European Community” (1993, 1), because “[t]he symbiotic relationship between the region and the member states encourages governments to see the strengthening of the region as a way of enhancing their own sovereignty” (1990c, 246). Taylor’s theory of “consociationalism” and “symbiosis” could be viewed as a reconciliation as well as a synthesis of neo-functionalism and intergovernmentalism.

In addition to the stagnant scenarios in EC politics, there are another three “pieces of reality” that traditional neo-functionalism has failed to address. First, as it concentrates on sectoral spillover and various actors’ activities, it overlooks the functionalist power expansion of the ECJ in the 1970s when there was political

⁵¹ The idea of consociationalism could be traced back to Lijphart’s “consociational democracy” (1968, 1969, 1977). It is utilized to characterize the stable democracies of the Low Countries, Switzerland and Austria nevertheless with fragmented subcultures, where “the centrifugal tendencies inherent in a plural society are counteracted by the cooperative attitudes and behavior of the leaders of the different segments of the population” (Lijphart 1977, 1).

stagnation of the EC. This part is supplemented by later neo-functionalists when neo-functionalism revived in the 1990s. Second, neo-functionalism has not recognized or problematized the significance of the expansion of EC membership, and “[a]ll the discussion about ‘widening v.s. deepening’ is taking place in a theoretical vacuum that neo-functionalism is incapable of filling” (Schmitter 2005, 267). Finally, regional integration also provides a forum for minorities and their leaders to voice their specific interests as “[t]he minority seeks to consolidate direct contacts with regional level organization” and “direct links between local groups and the Community” are being built up, but traditional neo-functionalism seems to neglect “this observable political fact” of minority’s separate representation in the EC (Taylor 1993, 86). While pointing out this deficiency of neo-functionalism, Taylor claims that his theory of “consociationalism”, which proposes a symbiotic relationship between the participating segments and the collectivity, can account for “the observed pattern of behavior of the minorities in the European Community” (1993, 87); later Cini and Borragán (2010a, 440, emphasis added) directly define the term “consociationalism” as “a political model which brings together distinct communities in shared decision-making, whilst *protecting the interests of the minority*”.

2.3.2 Criticism of Neo-Functionalist Core Concepts

On theoretical grounds, according to Jensen (2010), criticism of neo-functionalism could fall into four categories. The first kind of objections addresses neo-functionalist core theses, mainly focusing on the spillover thesis and the elite socialization thesis.

2.3.2.1 Spillover and Countervailing Forces

As early as in the very beginning of the 1970s, neo-functionalist proponents Lindberg and Scheingold have put forward the disintegrative counterpart of the concept of spillover: the “spillback” — “a situation in which there is a withdrawal from a set of specific obligations” and “[r]ules are no longer regularly enforced or obeyed” with the result that “[t]he scope of Community action and its institutional capacities decrease” (1970, 137). Haas (1971) also has been aware that integrative activities may result in “self-encapsulation” or “spill-around”, and he explained: in some areas, there is a lack of new demands by actors after successful accomplishments, which will lead to a state of self-encapsulation (e.g., activities relating to public health, transportation, telecommunication, and the protection of human rights); by comparison, the term

“spill-around” means in some areas, integrative activities will lead to the creation of rival organizations defying political centralization, which might or might not contribute to the overall integration process (Haas 1971, 11).⁵² Later, Tranholm-Mikkelsen clarified and summarized the counter-integrative factors as “countervailing forces” that lie on the other side of the equation of the dynamics of European integration: (1) nationalism, represented by “dramatic-political” actors such as de Gaulle in the 1960s and Thatcher in the 1980s; and (2) diversity of member states, in the social, economic, political and administrative sphere (1991, 16-17). In addition to spillover dynamics and countervailing forces in the equation, there are other factors which may either promote or impede integration, such as the external security environment, security within the Community, or member states’ interdependent relationship with other countries outside the Community (Tranholm-Mikkelsen 1991, 17-18). Therefore, integration is

“a dialectical process determined by the twin forces of a ‘logic of integration’ and a ‘logic of disintegration’. The ‘logic of integration’ contains the logic of spill-over, but it also encompasses aspects of interdependence and security. The ‘logic of disintegration’ consists of adherence to the symbols of sovereignty, the diversity of the member states and other aspects of interdependence and security.” (Tranholm-Mikkelsen 1991, 18)

Viewing integration as a dialectical process denies the “automaticity” of spillover and deprives the predictive power of neo-functionalism, but the future pace and direction of integration can be assessed on the basis of the strength of the two forces (Tranholm-Mikkelsen 1991, 18).⁵³ Agreeing with the proposition of “a

⁵² At the same period of time, Schmitter (1971, 241-242) offered a different explanation of the two terms and he distinguished all together six alternatives to spillover in terms of an actor’s strategies: (1) spillover (i.e. “to increase both the scope and level of his commitment concomitantly”); (2) spill-around (i.e. “to increase only the scope while holding the level of authority constant or within the zone of indifference”); (3) buildup (i.e. “to agree to increase the decisional autonomy or capacity of joint institutions but deny them entrance into new issue areas”); (4) retrench (e.g. “to increase the level of joint deliberation but withdraw the institution(s) from certain areas”); (5) muddle-about (e.g. “to let the regional bureaucrats debate, suggest, and expostulate on a wider variety of issues but decrease their actual capacity to allocate values”); (6) spill-back (i.e. “to retreat on both dimensions, possibly returning to the status quo ante initiation”); and (7) encapsulate (i.e. “to respond to crisis by marginal modifications within the zone of indifference”).

⁵³ Schmitter argues that some of Haas’s ideas have been misrepresented and distorted, and one of the fallacious inferences from neo-functionalism is that “spillover occurs automatically” (Schmitter 2005, 257-258; 261). To claim that the statement— “spillover occurs automatically” — is a misinterpretation of Haas’s ideas can be justified by Haas’s own writing: “[t]he spillover process, though rooted in the structures and motives of the post-capitalist welfare state, is far from automatic” (Haas 1967a, 77). This dissertation, however, would like to treat Haas’s (1967a) disconfirmation of

dialectical process”, Niemann (2006, 47-51) further developed the concept of “countervailing forces” in his revised neo-functionalist framework which embraced three kinds of disintegrative forces: sovereignty-consciousness, domestic constraints and diversities, and a negative integrative climate. First, sovereignty-consciousness encapsulates actors’ unwillingness and opposition to delegate sovereignty/competences to EU supranational institutions and it is “linked to (national) traditions, identities and ideologies and may be cultivated through political culture and symbolisms”, which may exhibit themselves in the extreme form of nationalism and can impede the EU’s development as during de Gaulle’s and Thatcher’s period of time. The incorporation of this countervailing force into revised neo-functionalism suggests the drop of the original neo-functionalist “end of ideology” argument,⁵⁴ and according to this perspective, nationalism still accounts for the outcomes of the European regional project (Niemann 2006, 48). Second, domestic constraints and diversities are proposed to signify national governments’ reduced autonomy to act due to the direct constraints posed by domestic actors (such as lobby groups, opposition parties, and the media/public pressure) or indirect constraints from domestic structural limitations (such as a country’s economy, demography, legal tradition or administrative structure) (Niemann 2006, 48-49), which are “exacerbated by the economic, cultural, legal, demographic or other diversities between member states” (Niemann and Schmitter 2009, 56). These domestic constraints and diversities “may entail considerable adjustment costs for some and thus obstruct integrative endeavours” (Niemann and

spillover’s automaticity as a clarification and revision of his original thinking, that is, the so-called “fallacious inferences” might be “correct inferences” from Haas’s earliest works. This dissertation holds that Haas’s (1958) work does imply an automatic spillover process without clear specification, and such suggestive automaticity was further reinforced by Lindberg as he defined “spillover” as “a situation in which a given action, related to a specific goal, creates a situation in which the original goal can be assured only by taking further actions, which in turn creates a further condition and a need for more action, and so forth” (Lindberg 1963, 10). Rosamond (2005, 244) also pointed out that the initial thoughts of “spillover” embedded in *The Uniting of Europe* do suggest automaticity in the sense that “the logic of integration is somehow self-sustaining, rational and teleological”, and Haas’s (1967a) disconfirmation came at a time when the assumption of automatic spillover encountered severe empirical troubles when de Gaulle recalibrated the development of the Community into a more overtly intergovernmental direction (Rosamond 2005, 245). Haas himself also noted that decision-making within the Community in the middle of 1960s demonstrated the tempo of spillover slowed down and “the initial *élan* of the supranational style was dissipated” (Haas 1967a, 77). In such a way, Haas actually revised his ideas. In light of neo-functionalism, the statement “spillover is an automatic process” suggests that the European integration process was viewed as a self-sustaining or self-perpetuating process without taking the external environment into consideration.

⁵⁴ Cf. section 2.3.3.

Schmitter 2009, 56). The inclusion of this countervailing force into the revised neo-functionalist framework can make up one deficiency of neo-functionalism: domestic constraints and diversities can help to explain member states' variation in choices for integration (Niemann 2006, 49). Finally, a negative integrative climate is utilized by politicians to take public attitudes and opinions, especially during the national election period, on European integration into account. As a worsening economic situation tends to provoke an unsupportive climate for the Community in general, the accommodation of this countervailing force is against "the erroneous neo-functionalist assumption that growth would continue unabated in Western Europe" (Niemann 2006, 49). Overlapping with the factor of "domestic constraints" (such as electoral pressure), the "negative integrative climate" is conceptualized as a broad variable to take the role of the public into account in the integration process (Niemann 2006, 49-50).

Representing disintegrative pressures as opposed to the integrative pressures generated by spillover, countervailing forces may either lead to stagnation (staying at the status quo or remaining at a standstill) or cause reversal of integration (spilling back and retreating from previous commitments) (Niemann 2006, 47). To take countervailing forces into account and thus to understand the European project as a dialectic process of both a "logic of integration" and a "logic of disintegration" is helpful to ascertain the relative strength and the causal significance of the dynamics of integration (Niemann 2006, 47). The dialectic process is an equation made up of spillover effects which serve as dynamics of European integration on the one side, and of countervailing forces which discourage further integration on the other side. As a result, a particular mode of decision-making or the integration process is the outcome of, and also can be explained by, "[t]he strength, variation and interplay of various pressures on both sides of the equation" (Niemann 2006, 50). Moreover, empirical analyses suggest that there is no so-called "unitary" national interest. Rather, national interests and the interests of national decision-makers are influenced by various domestic, intrastate and international factors, and "[i]n short, the interest perceptions of national (and other) decision-makers involved in EU decision-making are decisively shaped by the various spillover and countervailing pressures" (Niemann 2006, 51). Based on the achievement of the EU and the breadth and depth of European integration so far, it is reasonable to conclude that the countervailing forces are not strong enough to counterbalance the integrative spillover effects, and it is supposed that the

integrative process will further continue despite possible unforeseen spillback forces such as further enlargement and unfavorable international situations. In addition, it is also assumed that over time diversity among member states is likely to diminish because of the learning and socializing processes where the EU increasingly exerts its influence on constructing actors' preferences, norms and identities, which, however, might be at the same time offset to different degrees by other countervailing developments (Niemann 2006, 51).

In addition to the concept of spillback and countervailing forces, some scholars suggest there are limits to the spillover effect. For example, Keohane and Hoffmann (1990, 290-293) admit spillover does exist and happen, but successful spillover requires prior intergovernmental agreements. When those agreements are fresh and viable, pressures for further cooperation in initial policy areas as well as in related areas appear, but those pressures do not automatically lead to common policies and institution creation, and the materialization of the spillover pressure depends on a new round of intergovernmental bargains. What will happen next will be determined by various factors: national domestic politics, the external environment, at the time Western Europe's economic situation, political leaders of nation states, and the supranational institutions (Keohane and Hoffmann 1990, 293). Meanwhile, apart from centripetal momentums, the Community also shares centrifugal forces coming from poorly coordinated national and sectoral bureaucratic coalitions (Keohane and Hoffmann 1990, 293). To sum up, EU integration is a dialectic process of the logic of integration and the logic of disintegration, and the EU's developments can be viewed as the result of an equation where integration forces outweigh disintegration forces, as shown in Figure 2.1.

Niemann (2006, 7) attributes the failure of the 1996-97 Amsterdam IGC to modernize Article 113 as a weak spillover dynamic with strong countervailing pressures. Figure 2.1 suggests that the EU's developments or failures can be explained by either stronger spillover effects or stronger countervailing forces, which can be further calculated by the presence and prominence/strength of selected factors mentioned above.

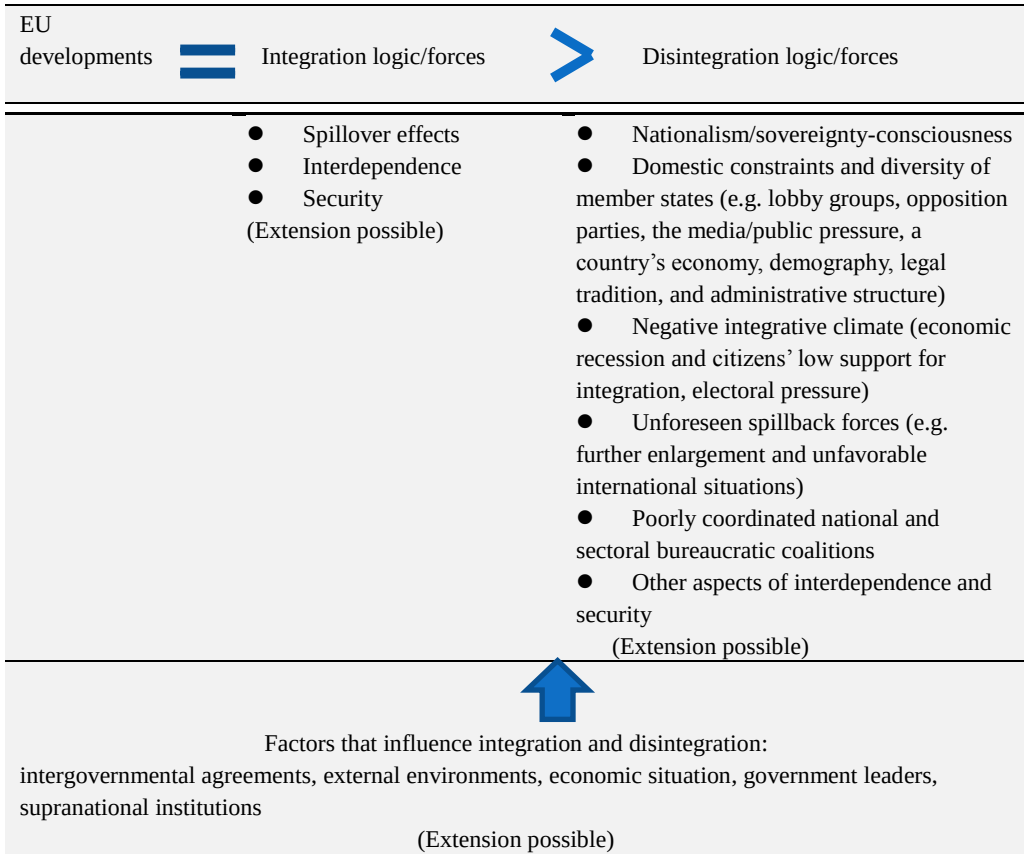


Figure 2.1 An Equation Accounting for EU Integration

Sources: Own compilation on the basis of Lindberg and Scheingold (1970), Haas (1971), Schmitter (1971), Tranholm-Mikkelsen (1991), Keohane and Hoffmann 1990, Niemann (2006), and Niemann and Schmitter (2009).

2.3.2.2 Disconfirmation of Elite Socialization and Loyalty Transferring Assumptions

With the concept of consociationalism, Taylor (1990, 1993) challenged the idea of elite socialization and denied the trends of transferring national loyalties to supranational institutions. Instead, Taylor suggested that it is the interests of the member states who, by sending national politicians and civil servants to supranational institutions such as the Commission, intensify EU political integration, as he argues that there is “an increasing determination to insist upon proportionality in the central institutions, and indeed an increasing tendency for particular elites to identify their nationals in those

institutions as their representatives”, leading “the tendency for the collegiate principle in the Commission to become weaker [...] and for state governments to act as if Commissioners from their states were their representatives” (Taylor 1990b, 180; Taylor 1993, 89). The Commission is acting as “an umpire rather than a promoter of any specific ideology” (Taylor 1990b, 179; Taylor 1993, 88) and meanwhile “pressures to enlarge the role of the Commission as umpire are increased rather than diminished as integration proceeds” (Taylor 1990b, 180; Taylor 1993, 89). In the context of consociationalism, the integration process “sharpens the identity of the cartel of elites” and “encourages the clearer definition of minorities and the articulation of their separate interests in the larger framework” (Taylor 1993, 87). Hooghe (2002) argues that civil servants in EU supranational institutions tend to be more nationally oriented when issues of vital political interests to member states are concerned. Moreover, research also shows that, besides the insulated elites, public opinion, party competition, and the mass media are also vital to European integration (Hooghe and Marks 2007).

Loyalty transfer implies an underlying neo-functionalist reasoning: those who profit most from the EU integration process should be the most supportive of the EU enterprise, like women and farmers who, during the integration process, have obtained an equal pay and treatment as men within EU’s labor market or received huge agricultural subsidies under the common agricultural policy (CAP). Risse’s (2005) research, however, disconfirms this proposition, and shows that women in general are less supportive of the EU than men are, and farmers’ satisfaction with the EU’s performance also turns out to be rather low (Risse 2005, 297). Risse’s findings suggest that material benefits do not naturally lead to loyalty transfer, because “socialization into European identity works not so much through transnational processes or through exposure to European institutions, but on the national levels in a process whereby Europeanness or ‘becoming European’ is gradually being embedded in understandings of national identities” (Risse 2005, 305). Risse applies his research results to explain the double puzzle of European integration: “the persistent balance in the EU’s constitution-building between supranational and intergovernmental institutions, on the one hand, and the lagging behind of foreign/defense affairs in European integration, on the other”, as European identity is built upon and must be understood from national processes and “the compatibility between European identity and national identities varies by country in a similar way as national constitutional traditions resonate with European integration to rather different degrees” (Risse 2005, 305). In short, Risse’s

argument is against neo-functionalist predictions on the trends of shifting loyalties from national levels to supranational institutions. It also demonstrates that there is a big gap in support of the EU between the elites and common people.

2.3.3 Haas's Self-Critiques and Revisions

The second kind of negation to neo-functionalism came from Haas himself. As the core concept "spillover" failed to encapsulate the EC in the 1970s, Haas took recourse to another approach to explain European integration: theories of interdependence developed by Keohane and Nye (1975, 1977). According to Keohane and Nye (1977), "dependence" is "a state of being determined or significantly affected by external forces", and "interdependence" suggests mutual relations among those dependences; in world politics, interdependence, as a result of international transactions, "refers to situations characterized by reciprocal effects among countries or among actors in different countries" (Keohane and Nye 1977, 8). The key to understanding such interdependence is the involved "costs", as Keohane and Nye state: "interdependent relationships will always involve costs, since interdependence restricts autonomy; but it is impossible to specify *a priori* whether the benefits of a relationship will exceed the costs. This will depend on the values of the actors as well as on the nature of the relationship" (1977, 9-10). Interdependent relationships, therefore, are not necessarily mutually beneficial, and this leads to other arguments: first, increasing joint benefits gained from an interdependent relationship do not guarantee a conflict-free distribution, and "large-net-benefit cooperation" does not exclude competition; second, interdependence is not "evenly balanced mutual dependence", and there are asymmetries in dependence for different actors where powers and processes of political bargaining emanate (Keohane and Nye 1977, 10-11). As the world is extensively interdependent, world politics is characterized by international regimes of "networks of rules, norms and procedures that regularize behavior and control its effects", where relationships of interdependence often occur and have been defined and affected (Keohane and Nye 1977, 19).

While having a lot in common with neo-functionalism,⁵⁵ interdependence theory

⁵⁵ Tranholm-Mikkelsen (1991, 8) compares the similarities between neo-functionalism and interdependence theory: both "are usually associated with the so-called 'pluralist' or 'cobweb' image of international relations. Both downplay the significance of formal state boundaries; both stress the

differentiates itself most from neo-functionalism in the aspect that it does not prescribe or envisage the outcome of international cooperation or integration: interdependence is a condition, not a process; it is shaped by political acts that are not predicted by theory (Tranholm-Mikkelsen 1991, 8-9). Interdependence theory, as argued by Taylor, actually implies contradictory propositions at two different levels: at the regional level, it suggests “a concentration of power, and the placing of functions within common frameworks”, while at the global level, it shows “the way in which powers might be disaggregated, and administrations and national interests fragmented by transgovernmental or transnational coalitions” (Taylor 1993, 2). The harsh reality of the 1970s pushed Haas to part with neo-functionalism to the degree that “the study of regional integration should be both included in and subordinated to the study of changing patterns of interdependence” (Haas 1976, 208). As a result, the notion of “integration” was defined as “*institutionalized procedures devised by governments for coping with the condition of interdependence*: coping, it must be stressed, may take the form of increasing, decreasing, or maintaining interdependence” (Haas 1976, 210, his emphasis). For Haas, in the 1970s, the EC once of a distinctive “supranational” style evolved into “a huge regional bureaucratic appendage to an intergovernmental conference in permanent session” (Haas 1975, 6; quoted in Jensen 2010, 80). In fact, as early as in the 1960s, Haas had already observed that “[d]isintegration and nationalist *immobilisme* appear to dominate, rather than the advance of regional government” (1967a, 62, his emphasis), and meanwhile, the automaticity of spillover got changed from a status of certainty to probability (Tranholm-Mikkelsen 1991, 9; see also Haas 1967a, 77). As a response to the drama of de Gaulle’s policies and Hoffmann’s criticism, Haas admitted the smooth functioning of integration requires certain conditions: the goals pursued by statesmen and non-governmental elites must be “‘incremental-economic’ rather than ‘dramatic-political’” (Tranholm-Mikkelsen 1991, 9). These pragmatism and technocratic policy-making steps led to what Haas calls “the end of ideology” (Haas 1967b, 334), that is, the doctrines and ideologies emanating from the political thought of the 19th and early 20th century could not adequately describe the dramatic economic and social changes as well as European regional integration since 1945 (Haas 1967a, 62), which implies that “as societies became richer,

importance of non-governmental actors in world politics; and both emphasize the prevalence of non-military issues in the dealings among non-socialist, developed states”.

they would become more concerned with the pursuit of wealth rather than with nationalist, socialist or religious ideals” (Niemann 2006, 16).

As for the “contrived” or “deliberate” package deals, Haas admitted that as the political linkage of package deals became longer and more complex, the uncertainty surrounding the EC’s integration process also increased so much that policies designed by virtue of deliberate issue linkage could be “fated to fail” (Haas 1976, 209). Furthermore, by switching to interdependence theory, Haas also acknowledged another shortcoming of the original neo-functionalist theory: it focuses too narrowly on the regional integration process/entity while ignoring other external factors; the European integration project is only a part of the world economy, which cannot be insulated from the external changing environment (Jensen 2010, 80; Niemann 2006, 22).

2.3.4 Critiques of Supranationalism by Intergovernmentalism

The third set of criticisms is directed against neo-functionalists’ “excessive” emphasis on the supranational components in the European integration process. This kind of critique argues that the core of regional integration lies in cooperation among national states involved, and regional integration forms such as the EC/EU should be considered as intergovernmental organizations. The initial critics of this kind were Stanley Hoffmann (1966) and Roger Hansen (1969). While Hoffmann (1966) put forward the logic of diversity opposing the neo-functionalist logic of integration, Roger Hansen (1969), while asserting that neo-functionalism had neglected the effects of external structural imperatives on member states’ integration preferences at the EU level, refuted neo-functionalists’ proposition that societal pluralism is a precondition to European integration. Haas believed that a “New Europe” had to be built on the basis of “capitalism, industrialism and pluralistic democracy” (Haas 1967a, 62),⁵⁶ but from Hansen’s point of view, societal pluralism is a disintegrative force retarding the integration process because “sophisticated societies are better able to receive messages about potential threats (such as those posed by supranational institutions) to their integrity” (Rosamond 2005, 248). In line with Hansen’s argument, neo-functionalist theory was criticized to be of a typical American optimism, which simply believes that “problem-solving and resolution of conflicting interests within a pluralist political

⁵⁶ Deutsch et al. (1957, 200) possess a similar opinion, and they assert that policies of pluralism which increase “the machinery and traditions of mutual consultation, communication, and cooperation” seem to be the most effective approach to promote integration.

system could overcome the obstacles to European union” (William Wallace 1982, 58). National states and national interests, Hoffmann and Hansen would say, are the key to answering all the questions of integration, and these kinds of objections to neo-functionalism can be classified under the rubric of liberal intergovernmentalism.⁵⁷ Though traditional intergovernmentalism is on the opposite side of neo-functionalism, it is true that without cooperation and engagement of national states, any integration progress is impossible. This also leads to the revelation of another weakness of neo-functionalism: an inadequate account of domestic political processes and structures (Niemann 2006, 23; Niemann and Schmitter 2009, 53).

2.3.5 Critiques of Neo-functionalism’s Elitist Nature

Finally, neo-functionalism was attacked for its elitist nature which implies that European citizens were not considered to be actively involved in the integration process; without mass participation, the so-called “integration model” is undemocratic (Jensen 2010, 81). This also applies to the debate on the EU’s “democratic deficit”, and the fact that national referendums in France and the Netherlands rejected the EU Constitutional Treaty in 2005 shows another weakness in the theory of neo-functionalism: democratic accountability. The fathers of neo-functionalism, like Haas and Lindberg, did not attach much importance to the role of public opinion and citizen’s support for the integration project; rather they reached the conclusion that “there was a ‘permissive consensus’ in favor of European integration (Lindberg and Scheingold 1970, 41) and that this would suffice to sustain it” (Niemann and Schmitter 2009, 48). The EU project is not only planned, set up, and pushed forward by political elites, but also needs the understanding and support of the ordinary citizens of Europe.

2.4 Neo-Functionalism’s Renaissance during the 1990s

Along with the European integration progress in the 1980s and 1990s, such as the creation of the Single Market and the establishment of the EU with the three-pillar structure, neo-functionalism gained a renaissance after years of obsolescence.⁵⁸

⁵⁷ See chapter three of this dissertation.

⁵⁸ Schmitter (2005, 264) has attributed the EC’s turnaround development in the mid-1980s to two changes in the European policy environment: one is the rising competitive power of other regions and countries, especially Japan; the other is that national states became incapable of achieving desired macro-economic outcomes, or even worse, got undesired outcomes as regards economic growth and monetary stability, as, for example, demonstrated by the Socialist government of Fran çois Mitterrand

Mostly, the Community's development during this period has soundly justified the "spillover" effects as advocated by neo-functionalism. As Taylor observes, EC integration in the 1980s gained new momentum where "a new balance between the autonomy of the states and the integration of the European Community had been struck" (Taylor 1993, 75), and to understand the EC better, students need to return to the long-time unfashionable theory: neo-functionalism (Taylor 1993, 77). In 1991, Tranholm-Mikkelsen's paper: "Neo-Functionalism: Obstinate or Obsolete? A Reappraisal in the Light of the New Dynamism of the EC" signaled the "re-opening of the debate on neo-functionalism as an approach to the study of the EC" (Tranholm-Mikkelsen 1991, 2).⁵⁹ This theoretical revival trend was represented by, for example, Sandholtz (1996), Stone Sweet and Sandholtz (1997; 1998), Stone Sweet and Brunell (1998), Stone Sweet (2004), and Niemann (2006). Though neo-functionalism offers no clear direction for theoretical revisions and modifications and some neo-functionalist concepts are of limited usefulness to researchers (Niemann 2006, 23), neo-functionalist core ideas such as spillover effects and supranational tendencies appear to be galvanized.⁶⁰

2.4.1 Stone Sweet and Sandholtz's Supranational Governance and "Transaction-Based" Theory

2.4.1.1 Towards Supranational Governance: The Process of Institutionalization

Stone Sweet and Sandholtz (1998) argue that though the traditional dialectical distinction between supranationalism and intergovernmentalism is no longer sufficient to capture European integration, the two forge a continuum that can explain EU different policy areas effectively, with intergovernmental politics and supranational politics located at the left and right ends, respectively. From left to right, this

(1981–83). Schmitter emphasizes the external pressures pushing actors to be more integrative, such as the oil shocks and the collapse of the Bretton Woods System in the 1970s, to the degree that "[m]uch of what has happened since the mid-1970s can better be attributed to external trends and shocks than to purely internal processes and functional *engrenages*" (Schmitter 2005, 266-67).

⁵⁹ Tranholm-Mikkelsen's paper won the F.S. Northedge Essay Competition (established in 1986) of 1991, and the quotation here is also the editors' comment on Tranholm-Mikkelsen's paper (see Tranholm-Mikkelsen 1991, 1).

⁶⁰ It is worth pointing out that besides neo-functionalism, other theories and approaches were also applied to explain the re-launching of West European integration during the 1980s and 1990s. For instance, Cornett and Caporaso (1992) compared different explanations offered by neo-classical economic theory, neo-realism, neo-liberal institutionalism, functionalism and neo-functionalism to "EC 1992", each theoretical tool approaching the Community from different perspectives.

continuum can measure the mode of governance of any given policy sector in the EU with the growing presence and intensity of three factors: EC rules, EC organizations and transnational society, as some areas are characterized by (more or less) supranationalism and others by (more or less) intergovernmentalism (1998, 8-9). Stone Sweet and Sandholtz illustrate the continuum as follows:

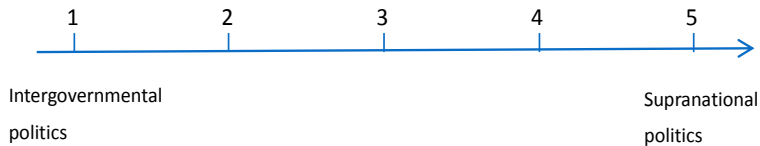


Figure 2.2 Patterns and Trends of Governance in the European Union

Notes: From left to right, the presence of three factors (1) supranational organizations, (2) supranational rules, and (3) transnational society increases; this continuum is used to measure the influence of the three factors on EU policy-making processes and outcomes within any given policy sector as well as the developing trend of EU supranational governance.

Sources: Adapted from Stone Sweet and Sandholtz (1998, 8).

On the left pole, intergovernmental politics means the central players in policy-making are the national executives of the member states, who reach policy agreements via bargaining which in turn is shaped by the relative powers of member states as well as the state preferences originating from various domestic groups; the mode of intergovernmental politics is applicable, for instance, in the Council of Ministers, and governance at the EC level serves as “a passive structure that enhances the efficiency of interstate bargaining” (Stone Sweet and Sandholtz 1998, 8). By contrast, on the right pole, supranational politics refers to a governance mode of centralized-governmental structures, where “organizations constituted at the supranational level possess jurisdiction over specific policy domains within the territory comprised by the member states” and thus the behavior of all actors, including the member states, is constrained (Stone Sweet and Sandholtz 1998, 8). Moving from the left end to the right suggests a momentum towards supranational governance.

Stone Sweet and Sandholtz define supranational governance as “the competence of the European Community to make binding rules in any given policy domain” (1998, 1) as a consequence of rising levels of transnational exchanges in trade and investment as well as the development of Euro-groups, networks and associations (1998, 2).

Supranational governance happens because rising exchange costs activate governments to “adjust their policy positions in ways that favor the expansion of supranational governance” (Stone Sweet and Sandholtz 1998, 4). The behavior and processes of these transnational exchanges, on the one hand, are “decisively shaped by the institutional context of the EC”, while on the other hand, tend to “produce or reinforce supranational rule-making” (Stone Sweet and Sandholtz 1998, 2). As a result, along with “the expansion of transnational society, the pro-integrative activities of supranational organizations, and the growing density of supranational rules”, the processes of transnational exchange, while sustaining and getting embedded in intergovernmental bargaining and decision-making, “gradually, but inevitable, reduce the capacity of the member-states to control outcomes” (1998, 5). The prominent formal characteristic of supranational governance is its “centralized governmental structure”, that is, institutions at the supranational level, such as the European Commission, the ECJ, while the essence of supranational governance lies in the supranational institutions’ juridical power over the national member states in specific policy domains, whereby “supranational organizations are capable of constraining the behavior of all actors, including the member-states, within those domains” (Stone Sweet and Sandholtz 1998, 8). Therefore, the indicator to measure the degree of supranational governance is the binding power of EC rules on its member states, and this measurement is furthermore based on three interrelated dimensions: (1) “EC rules: the legal, and less informal, constraints on behavior produced by interactions among political actors operating at the European level”, (2) “EC organizations: those governmental structures, operating at the European level, that produce, execute, and interpret EC rules”, and (3) “Transnational society: those non-governmental actors who engage in intra-EC exchanges — social, economic, political — and thereby influence, directly or indirectly, policy-making processes and outcomes at the European level” (Stone Sweet and Sandholtz 1998, 9). The presence and intensity of each of the three factors increase along the scale from left to right, so from point 1 to point 5, one should observe the following aspects and developments (Stone Sweet and Sandholtz 1998, 10).

First, the presence and the degree of clarity and formalization of EC rules increase. At point 1, rules are few and their binding powers are weak as “they do not trump individual governmental interests that conflict with them”; as we move towards the right end, the presence of informal and formal rules increases and the binding

powers of EC rules grow. At point 5, rules are “highly formal, codified in treaty law, secondary legislation, and the ECJ’s jurisprudence” (Stone Sweet and Sandholtz 1998, 10). In any given policy area, rules “grow more dense and elaborate” in “governing the interactions of all actors” along the continuum from left to right (Stone Sweet and Sandholtz 1998, 10).

Second, EC supranational institutions’ influence on policy-making processes and outcomes increases, that is, the autonomy of supranational bodies increases. Autonomy means EC institutions’ “capacity to define and pursue, on an ongoing basis, a politically relevant agenda” (Stone Sweet and Sandholtz 1998, 10). At point 1, EC institutions only facilitate intergovernmental negotiations and logistically lower the transaction costs for involved governments. At point 3, EC institutions may succeed in policy innovation — a form of relative but meaningful autonomy. At point 5, EC institutions can innovate even when facing member states’ indifference or hostility — a form of substantial autonomy. As soon as supranational organizations obtain autonomy, they acquire and exert the ability to “shape not only specific policy outcomes, but also the rules that channel policy-making behaviors” (Stone Sweet and Sandholtz 1998, 11). Therefore, EU institutional autonomy can be measured by the actions the Commission initiates, the policy outcomes the EU finally realizes, and the decision-making rules the Council applies.

Third, the presence and influence of transnational actors (e.g. interest groups, businesses, knowledge-based elites) on policy-making processes and outcomes increase. At point 1, national executives, who “mediate between domestic actors and supranational organizations and rules” have the ultimate say (Stone Sweet and Sandholtz 1998, 10), while at point 5, transnational actors exert their influence, targeting national or supranational bodies and often playing one level off against the other.

These three dimensions are considered to be the “crucial indicators of levels of integration in the EC”, which can help explain the unevenness of integration across policy areas, the degree of the EU’s supranational governance competence, and the dynamic nature of European integration over time (Stone Sweet and Sandholtz 1997, 304; 1998, 9). Stone Sweet and Sandholtz claim that this scale is useful for two purposes. First, it can be used to compare different degrees of supranational governance and development in various policy areas, as from left to right along the continuum, there is a growing presence and intensity of each of the three factors. For

example, policy sectors located at point 2 show a tendency towards intergovernmental politics, while those at point 4 exhibit strong features of supranationalism. Second, the scale can be used to measure the degree of EC integration, which means to measure the degree of EC institutionalization, as “integration” is defined as “the process by which the horizontal and vertical linkages between social, economic, and political actors emerge and evolve” and “these linkages [...] are constructed and sustained by EC rules”, that is, they are institutionalized to different extents (Stone Sweet and Sandholtz 1998, 9).

Stone Sweet and Sandholtz label those three — organizations, rules, transnational society — as “the supranational trio”, which mutually reinforce each other in the following logic: “[a]n expansion of the tasks or autonomy of supranational organizations creates opportunities for political action, which actors and groups will seek to exploit, thus expanding transnational society”; as “societal actors adjust their behaviors in response to new supranational rules, these rules can gradually be locked in” (Stone Sweet and Sandholtz 1998, 11). The dynamics of European integration consist of the mutual reinforcement of the three factors, as a movement in one dimension tends to push the other two also to move — this is what Stone Sweet and Sandholtz call “an internal dynamic of institutionalization” (Stone Sweet and Sandholtz 1998, 11). Rules and rule-making are the core of the logic of institutionalization, and once the process towards the supranational pole begins, it is difficult to reverse what has already occurred, because current supranational settings and rules shape the context for subsequent interactions, defining actors’ objectives and interests, possible means to pursue self-interests, and dispute resolution mechanisms (Stone Sweet and Sandholtz 1998, 16-17); moreover, current supranational rules “delineate the contours of future policy debates as well as the normative and organizational terms in which they will be decided” (Stone Sweet and Sandholtz 1998, 17) — those views actually reflect the ideas of HI (cf. chapter four of this dissertation). Put simply, institutionalization is the process of rule creation, application and interpretation by those who live under them (Stone Sweet and Sandholtz 1998, 16), and the binding force and intensity of the presence of rules are the indicators of the degree and strength of institutionalization. In the EU context, the EU Treaties directly created by the member states enjoy the legal status as primary Union law, and naturally, policy domains prescribed by the Treaties move more quickly towards supranational governance than other policy areas which are not contained in the Treaties. This supports the research result of Fligsten and

McNichol (1998, 85) that “[m]ost of the arenas in which the EU built competencies were laid down in the Treaty of Rome and the original language and definitions gave rise to organizational structures oriented towards producing legislation in those domains” — a tendency Fligstein and McNichol term “a path dependent fashion”. To sum up, the degree of EU supranational governance is corresponding to the EU’s process of institutionalization: if supranational governance is taken as a trend or result, institutionalization is the process and dynamic leading to such a supranational trend or outcome. Both the degree of the EU’s supranational governance and strength of institutionalization can be measured by the binding powers and the intensity of the presence of EU rules of the three interrelated dimensions: supranational bodies’ autonomy, the presence and the degree of clarity and formalization of EC rules, and the presence and influence of transnational actors on policy-making processes and outcomes.

2.4.1.2 The Mechanism behind Institutionalization: Transaction-Based Theory

An important deviation made by Stone Sweet and Sandholtz from traditional neo-functionalism is that they do not use the term “spillover” to explain European integration and the formation of supranational institutions within the EU. Instead, they develop a new approach called “transaction-based theory” for their research. The starting presumption is that societal actors, especially non-state actors, depend on European transactions: as there are expanding transactions across EU borders, transactors’ demands for regulation at the European level — European standards, rules, and dispute resolution mechanisms — definitely increase, which leads to the process of institutionalization and the establishment of supranational governance (Stone Sweet and Sandholtz 1998, 11-12). Nevertheless, Stone Sweet and Sandholtz (1998) do not offer an unequivocal definition of what they call “transactions” and “transactors”, but they mention the term here and there: “exchange across national borders”, “transnational economic interests”, “intra-EC exchange”, “rules and organizations have favored economic actors with a stake in cross-border transactions (trade, investment, production, distribution)”, “transnational exchange (e.g. trade, investment, the development of Euro-groups, networks, and associations” (1998, 2); Stone Sweet and Sandholtz emphasize that “transaction-based theory” is the foundation on which they build their arguments of supranational governance:

“Our starting point is society, in particular, non-state actors who engage in transactions and communications across national border, within Europe. These are the people who need European standards, rules, and dispute resolution mechanisms — who need supranational governance. In the beginning, the causal mechanism is quite simple: increasing levels of cross-border transactions and communications by societal actors will increase the perceived need for European-level rules, coordination, and regulation.” (1998, 11)

Therefore, “transactions” is quite an inclusive term to refer to any form of exchange across national borders, and the main feature of “transactions” is economic interests, while “transactors” are persons involved in transaction activities and demanding supranational rules and governance. Transactions and transactors are case specific, as the examples after Stone Sweet and Sandholtz’s (1998) chapter illustrate: when Sandholtz (1998) applies the transactions-based theory to the telecommunications sector, transaction activities are defined in the area of transnational telecommunications illustrated by the figures and tables titled “Annual Percentage Change in EU Population, Intra-EU Trade, and Intra-EU Telephone Traffic” (138), “Correlations between Intra-EU Cross-Border Telephone Traffic and Trade, GDP, and Population” and “Pooled Cross-Sectional Time-Series Analysis: Intra-EU Cross-Border Telephone Traffic” (139), with the transactors interested in promoting pan-European telecommunications (i.e. equipment manufacturers, business users, new services providers, and alternative infrastructures), while Cameron (1998), who contends that the extension of supranational authorities of monetary and exchange-rate policy from the creation of the EEC to EMU was ultimately caused by increased economic interdependence among member states who then demanded tension resolutions at the EU level over monetary and exchange-rate issues alongside the progressive expansion of the single internal market (Cameron 1998, 190), utilizes the data of “Trade Dependence of the EU Member States, 1958-1995” (193), “The Concentration of EU Trade within the EU, 1958-1995” (194), “Realignments in the European Monetary System (EMS), March 1979-August 1992” (201), “The Balance of Trade within the European Community, 1973-1990: Cumulative Surplus (+) or Deficit (-) with Other EC Member States (in \$bn.)” (203), “Growth and Unemployment in the European Union, 1995-1997” (207), and “Public Support in the EU for Introduction of a Single Currency, October-November 1996” (212). So the specification of transactions and transactors and accordingly, the relevant statistics, are subject to

specific policy areas and research topics, but a commonality stands out: cross-border economic activities among member states, that is, intra-EU trade and the mutual dependence of economies.

European integration, indeed, has a “spillover mechanism”, but it is of transactions, by transactions and for transactions. The rationale is like this: “As the most obvious hindrances to cross-national exchange are removed, or their effects reduced by the transaction-cost-reduction behavior of supranational organizations and rules, new obstacles to such transactions are revealed and become salient”, and the new emerging obstacles must be tackled properly due to the demand of transactions and transactors (Stone Sweet and Sandholtz 1998, 15). Three causal factors are behind this integration logic: transnational exchange, supranational organization, and EC rules (Stone Sweet and Sandholtz 1997; 1998, 25). This transaction-based theory is held to have explained the uneven integration speed for different EU policy areas, as “variation in the levels of cross-border interactions and in the consequent need for supranational coordination and rules” has decided the degrees of supranational governance for different issue areas (Stone Sweet and Sandholtz 1998, 14). The higher are the intensity and values of cross-nation transactions, the stronger is the demand for the coordination of rules and dispute resolution mechanisms at the EU level; the lower the intensity and values of cross-border transactions, the less, weak or fewer demand there is for supranational rules and governance. So naturally “the EC has moved farthest towards the supranational pole with respect to managing the internal market”; by contrast, for the Community’s Common Foreign and Security Policy (CFSP), “few societal transactors find its absence costly” and “[t]here is therefore minimal social demand for integration in that policy domain” (Stone Sweet and Sandholtz 1998, 14). In addition, “higher levels of transactions push the EC to legislate, the Court to clarify the rules, and interests to organize” (Stone Sweet and Sandholtz 1998, 14), and it is not surprising that the Commission exercises greater autonomy in the policy areas where transaction levels are high than in other areas where they are relatively low. Pollack’s research (1998) supports this argument as he finds that the Commission assumes more power in competition policy than in structural funds or in external trade, while within competition policy, the Commission has gained more authority in telecommunications than in the energy sector. This shows that a low level of cross-frontier transactions does not push supranational governance in the policy domains which though have ever been prescribed by the EU Treaties, whereas a high level of transactions leads to the creation

and growth of supranational governance even in a new area which has not been mentioned by the EU Treaties previously (e.g. the telecommunications sector) (Stone Sweet and Sandholtz 1998, 17-18). Because the impetus behind the newly established rules is to facilitate cross-border transactions, the new rules definitely will promote a higher level of transactions after their application, which in turn leads to new demands for new rules to facilitate transactions further, with transactors' interests accumulatively entrenched in the supranational rules and causing "a high degree of 'stickiness' in movement along the continuum" towards supranational governance (Stone Sweet and Sandholtz 1998, 19). So transaction-based theory expects more EC rules as there is an increasing level of transnational exchange (Stone Sweet and Sandholtz 1997, 310). Along with new rules, policies and mechanisms, expanding transactions push forward the EU's institutionalization process.

In addition to their deviation from the concept of "spillover", Stone Sweet and Sandholtz do not agree with Haas's argument on political actors' loyalty transferring from the national to the European level. Rather, they treat it as an open question, and supranational governance does not necessarily lead to "an ultimate shift in identification" (Stone Sweet and Sandholtz 1998, 6). Still, Stone Sweet and Sandholtz's supranational governance argument is based on the rationales provided by neo-functionalism where "integration is the process by which the EC gradually but comprehensively replaces the nation-state in all of its functions" (Stone Sweet and Sandholtz 1998, 4), with the result that "member-state governments become less and less proactive, and more and more reactive to changes in the supranational environment to which they belong" (1998, 6).⁶¹ Stone Sweet and Sandholtz state clearly that the three ingredients of their theory "are prefigured in neo-functionalism: the development of transnational society, the role of supranational organizations with meaningful autonomous capacity to pursue integrative agenda, and the focus on European rule-making to resolve international policy externalities" (Stone Sweet and Sandholtz 1998, 6). The history of the Community in the 1980s and 1990s appears to have justified transaction-based theory as Treaty revisions were a response to the demand for more cooperation at the European level caused by the growth in transactions across

⁶¹ Stone Sweet and Sandholtz acknowledge their indebtedness to Deutsch's ideas (e.g. Deutsch et al. 1957; Deutsch 1966) on social exchange, communication and transaction, and to Haas's thinking about the relationship between global interdependence, political choice, and the development of supranational institutions (see Stone Sweet and Sandholtz 1998, 5).

national borders, while from another perspective, Treaty revisions are also “partially precipitated by the limits of the institutions and organizations of the EC to deal with these activities” (Fligstein and McNichol 1998, 86). Stone Sweet and Sandholtz’s “supranational governance”, however, attracted two kinds of criticism: first, it neglects the potential effects of external changes, and second, it again falls into the old “neo-functionalism-intergovernmentalist” dichotomist pit as it privileges certain actors (i.e. supranational institutions) and concentrates only on a partial empirical aspect (i.e. day-to-day developments) of the EU (Niemann and Schmitter 2009, 54). The first kind of criticism appears justifiable, and as a matter of fact, later Niemann’s (2006) new concept of “exogenous spillover” can be regarded as a revision and supplement to this weakness of neo-functionalism, but the second type of criticism seems not to be fully justified as the dichotomous neo-functionalism-intergovernmentalist debate serves as a source for later new approaches and theories on the EU.

In sum, based on transaction-based theory, Stone Sweet and Sandholtz’s propositions on the dynamics of European integration (i.e. the internal dynamic of institutionalization) and supranational governance can be captured by the following hypothesis:

H3: Rising cross-border transactions increase transactors’ demand for more regulation at the EU level (i.e. European standards, rules, and dispute resolution mechanisms), and this leads to the process of EU institutionalization where the degree of EU supranational governance increases while member-states’ capacity to control policy outcomes decreases, as the presence and the degree of clarity and formalization of EU rules, the Commission’s autonomy, and the presence and influence of transnational actors on policy-making increase and get mutually reinforced.

If this mechanism is valid, then in case studies there should be evidence that: (1) cross-border transactions expand in one area while the absence of regulations in that area at the EU level is costly for transactors; (2) transactors demand more regulation at the supranational level; (3) the tasks or autonomy of EU institutions expand (such as the Commission exercising greater autonomy and/or the Court clarifying the rules); (4) transactors exploit the opportunity to influence the policy-making processes and the outcomes reflect transactors’ preferences; (5) EU rules are introduced, reinforced, revised or further clarified; (6) the application of new rules facilitates cross-border transactions, and the level and value of transactions increase after the implementation of new rules; (7) transactors adjust their behavior to adhere to the new rules and the

new rules are normalized as being “givens”; (8) when the urgent or most obvious hindrances to cross-national exchange are alleviated or removed, other related or new rising obstacles to transnational transactions become salient and pressing, and as a consequence, transactors demand more regulation at the EU level to facilitate transactions further; (9) as transactors’ interests accumulatively get entrenched in EU supranational rules, the EU moves along the scale towards a high degree of supranational governance; (10) EU supranational governance is realized through the process of institutionalization, exhibiting a path dependent fashion which is difficult to reverse as current supranational rules not only provide means for transactors to pursue their interests and the mechanisms to resolve their disputes, but also shape the context for their subsequent interactions and delineate the normative and institutional contours of EU future policy; (11) there is a trade-off between supranational governance and intergovernmental politics, that is, increasing supranational governance implies decreasing control of member states on policy outcomes, a process by which nation state functions are gradually replaced by supranational institutions, national governments become reactive rather than proactive to changes in the supranational environment, and national executives gradually lose an ultimate say on policy formation. In short, the higher intensity and values of transnational exchange there are, the more and elaborated EU rules are; transactions are the engine to push forward the process of EU institutionalization and a higher degree of supranational governance, which also explain the degree of variation in supranational governance in difference areas and growing supranational governance in some areas which may have not been mentioned by the EU Treaties previously. Hypothesis 3 can be dissected into three sub-hypotheses of the internal dynamic of institutionalization, the trade-off between increasing supranational governance and member state control over EU policy-making, and the irreversible trend of EU supranational governance, each of which, against the background of the eurozone sovereign debt crisis, can be stated as follows:

H3a: Increasing cross-border transactions among euro states demand more regulation at the EU level (i.e. European standards, rules, and dispute resolution mechanisms), leading to a process of EU institutionalization where rules are introduced or reinforced on the basis of the mutual enforcement among EU institutions, EU rules, and transnational society.

H3b: Along with the process of institutionalization during the eurozone sovereign debt crisis, EU supranational governance increases while national capacity

to control economic and monetary policy outcomes is reduced.

H3c: During the eurozone sovereign debt crisis, the EU's new developments, which result from increasing cross-border transactions and transactors' demand for more regulation at the EU level, lead to a higher degree of EU supranational governance, which is hard to reverse as current supranational rules both define transactors' means to pursue their interests and dispute resolution mechanisms that shape the context for subsequent interactions and delineate the normative and institutional contours of future policy.

The mechanism suggested by H3a consists of consecutive steps of (1) (2) (3) (4) (5) (6) (7) (8) (9), while H3b indicates a causal chain connecting (1) (2) (3) (4) (5) (6) (7) (8) (9) (11). *H3c*, stating a causal relationship with the sequence of (1) (2) (3) (4) (5) (6) (7) (8) (9) (10), actually is an expression of the idea of path dependence of HI, and its test can also be carried out under the banner of Pierson's path dependence or HI. Obviously, the ultimate forces underlying H3 as well as H3a, H3b, and H3c are transnational economic activities and trade interdependence among member states, as the common causal chains of (1) (2) (3) (4) (5) (6) (7) (8) (9), summarizing the propositions of Stone Sweet and Sandholtz's transactions-based theory, start from the expansion of cross-nation trade. Compared with *H1*, H3 can be seen as an extension of *H1*, exhibiting the continuity of neo-functionalist core arguments: supranational tendency and supranational governance, where transnational economic trade is the cornerstone of both *H1* and H3. The core of political integration is EU collective decision-making, which is actually a part of EU rules, so theoretically, *if there is any European political integration, there should also be EU supranational governance, and if political integration increases, so does the degree of EU supranational governance*. In case analyses, this dissertation will also explore the connection between *H1* and H3.

2.4.1.3 Pierson's HI and Pollack's Principal-Agent Analysis

When Stone Sweet and Sandholtz (1998, 19) explain their arguments of transactors' entrenched interests for EC rules and the "stickiness" of the EC's movement towards supranational governance along the continuum, they resort to "two logics": Pierson's (1998) path dependence, an historical institutionalist approach, to the development of

social policy⁶² and Pollack's (1998) principal-agent analysis to the Commission's autonomy, both of which support and reinforce Stone Sweet and Sandholtz's supranational governance arguments. Pierson's HI contains two themes: first, the EC's political development must be viewed through time — it is historical; second, the temporal process of the EU is defined by and embedded in institutional rules, structures, or norms — it is institutionalist (Pierson 1998, 29). Once institutional and policy changes are there, actors will adapt themselves to these changes, which may cause unexpected or undesired outcomes that are difficult to unwind; meanwhile, adaptations to previous decisions will raise the “sunk costs” for governments to exit from supranational governance. As a result, a reversal of a supranational governance course is unattractive and difficult (Pierson 1998, 45). In comparison, Pollack employs a principal-agent model to explore the relationship between the Commission and national governments as far as structural policy, competition policy and external trade policy are concerned. According to Pollack's principal-agent model, member governments have delegated their powers to the Commission, and the Commission *de facto* has gained independent preferences for policy-making and policy implementation, possessing considerable autonomy to pursue its “more European” interests, but such preferences and autonomy “have been constrained in particular by the preferences of the member governments, by the varying possibilities for sanctioning available to dissatisfied member governments, by the information available to the Commission and the member governments at different points in time, and by the Commission's varying ability to strike up alliances with transnational actors and with other supranational organizations such as the European Court of Justice” (Pollack 1998, 224; see also Pollack 1997). Pollack's argument is another way to assert the existence and influence of EU supranational governance and EU supranational institutions' autonomy, which is conditioned by the state of policy institutionalization at a given time and may vary in degree for different policy areas. As a consequence of the process of institutionalization and supranational governance, Treaty amendments and expansion are necessary and possible, and once a shift towards supranational governance has occurred, the supranational tendency is hard to reverse.

⁶² For a more detailed elaboration on Pierson's HI, see chapter three and chapter four of this dissertation.

2.4.2 Supranational Governance and the European Court of Justice

Having been building up its supranational authority and supremacy over national legal systems over time, the ECJ is frequently taken as an example to illustrate the EU's supranational governance and its institutional autonomy (e.g., Burley and Mattli, 1993; Stone Sweet 2004; Stone Sweet and Caporaso 1998). For instance, Burley and Mattli (1993) argue that in the EC there is a “legal integration” process in which EC law has gradually penetrated member states’ domestic law via two principal ways: (1) formal penetration — the expansion of supranational legal acts (i.e. Treaty law and secondary community law) taking precedence over domestic law and the increasing numbers and types of cases in which individuals resort to community law directly in their national courts; (2) substantive penetration — the spillover effect of legal regulation from the economic domain to social and political areas such as political participation rights and occupational health and safety. Accompanying those penetration processes is the legal uniformity in interpreting EC law (Burley and Mattli 1993, 43). Burley and Mattli (1993, 65-69) claim that neo-functionalism’s three dynamics (i.e. functional, political and cultivated spillover) are working well in the building-up of the EC legal system and are appropriate to account for the EC’s legal integration (see also section 2.1.1.4). They point out that during the 1960s and 1970s, the ECJ has set up its legal doctrines over national legal affairs and thus has propelled European political integration. The reason for the effectiveness of law is the perception of the separation between law and politics, where legal integration is regarded as “a nominally nonpolitical sphere” (Burley and Mattli 1993, 69). Nevertheless, from Burley and Mattli’s point of view, law is a mask and shield, which “hides and protects the promotion of one particular set of political objectives against contending objectives in the purely political sphere”; in fact, legal decisions are inevitably of political significance, and as a result, gradually “economic integration might ultimately lead to political integration” (1993, 72). Burley and Mattli conclude that the Court does have the power to pursue its own pro-integration agenda, and meanwhile, the autonomy of the Court embarks on a particular developing path which is difficult for member states to monitor or control (Burley and Mattli 1993, 74). Burley and Mattli acknowledge their affinities to neo-functionalism and especially express their indebtedness to Haas’s neo-functionalist ideas (Burley and Mattli 1993, 43), and they believe “neo-functionalism offers a genuine political theory of an important dimension of European integration” (Burley and Mattli 1993, 76).

Stone Sweet and Brunell (1998) also propose a theory of European legal integration. They list three causal factors that contribute to EU legal integration: transnational exchange, triadic (i.e., of two disputants and a dispute resolver) dispute resolution, and the production of legal norms, based on which they argue that “on crucial points, intergovernmentalists have gotten it wrong” (Stone Sweet and Brunell 1998, 63). According to Stone Sweet and Brunell, these three factors, while being analytically independent, exert interdependent effects on each other and the theoretical logic for the supranational polity is as follows: transnational exchange (factor 1) leads to transnational social frictions and disputes, which, in one respect, promote dispute resolutions (transnational triadic dispute resolution — factor 2), and in another respect, demand for normative solutions (transnational rules — factor 3) because these frictions and disputes expose problems which require collective action, and thereby supranational governance is established; once the causal connections between the three factors have been forged, the legal system will gain self-sustaining and expansionary dynamics to move further (Stone Sweet and Brunell 1998, 64-65). Stone Sweet and Brunell highlight the Treaty system’s transformative power of constitutionalization — “the process by which the EC treaties have evolved from a set of legal arrangements binding upon sovereign states into a vertically integrated legal regime conferring judicially enforceable rights and obligations on all legal persons and entities, public and private, within EC territory” (e.g., Article 177 of the Rome Treaty establishes and explains a preliminary reference to the ECJ) — which make the EC of intergovernmental cooperation evolve into “a multi-tiered system of governance founded on higher law constitutionalism” (Stone Sweet and Brunell 1998, 65). As a consequence, within the EC, “the operation of the legal system has progressively reduced the capacity of national governments to control policy outcomes, while it has enhanced the policy influence of the EC’s supranational institutions, national judges, and private actors” (Stone Sweet and Brunell 1998, 77).

The arguments of Stone Sweet, Sandholtz and Brunell are in line with Haas’s initial propositions, as Stone Sweet writes: “[o]ur results provide broad support for some of the core claims of ‘neofunctionalist’ theory, first developed by Ernst Haas (1958; 1961). [...] We formalized these insights as hypotheses, gathered data on the processes commonly associated with European integration, and tested out hypotheses in diverse ways. The evidence supports Haas’s basic intuitions” (Stone Sweet 2005, 6). One thing is in common with neo-functionalists: analyzing the EU project from the

economic interests of transnational exchange (e.g. for Haas, the starting research point is economic integration, for Stone Sweet and Sandholtz, cross-border transactions, and for Stone Sweet and Brunell, transnational exchange). This could be justified by the nature and purposes of the Community, which is “DESIRING to contribute [...] to the progressive abolition of restrictions on international trade” (The Treaty of Rome, p.2); “[t]he Community shall be based upon a customs union which shall cover *all trade in goods* and which shall involve the prohibition between Member States of customs duties on imports and exports and of all charges having equivalent effect, and the adoption of a common customs tariff in their relations with third countries” (The Treaty of Rome, Article 9, emphasis added). As for political integration as argued by Haas (Haas 1958; 1961), the “loyalty transfer” and the establishment of “a new political community” might be doubted or only partially confirmed, but the EU’s supranational jurisdiction over national legal systems has happened, and it is acknowledged by some political scientists that “legal integration had significantly outpaced economic and political integration” (Mattli and Slaughter 1998, 177). The supranational tendency is fully confirmed as regards EU juridical development.

2.5 Neo-Functionalism’s Development in the New Millennium

2.5.1 Jensen’s Institutional/Legalistic Spillover

In its revival trend since the 1990s, neo-functionalism has been developed, enriched and invigorated. Jensen (2000) applies the traditional neo-functionalist concept of “spillover” to analyze the EU’s social and labour market issues since the mid-1980s. Adapting the scale set out by Lindberg and Scheingold (1970) to his study,⁶³ Jensen reaches the conclusion that there is increasing political integration in EU social policy and labour market fields, and on the basis of the neo-functionalist concept of spillover, he develops and supplements traditional neo-functionalism by introducing a new integration dynamic — “institutional/legalistic spillover” — to illustrate and capture the increasingly significant integrative effects of the treaty negotiations on the development of co-operation in these areas. This new form of dynamic mechanism, derived from the amendments to EC Treaties (see Jensen 2000, 86-87), can be stated in

⁶³ See “Figure 3.2. A Scale of the Locus of Decision-Making” by Lindberg and Scheingold (1970, 69) or “Figure 5. Locus of Decisionmaking” by Lindberg (1971, 69). Cf. Table 2.1 of this dissertation.

hypothesis form as follows:⁶⁴

H4: When institutional and legal rules and procedures are applied in the policy areas where political integration has reached the most advanced stage of development (i.e. decisions by QMV in the Council), there is a spillover effect of these rules and procedures which tend to affect other related areas where political integration is least developed (i.e. unanimity in the Council) as the Commission tends to choose the use of QMV as its proposals' legal bases for member states to reach agreement and thus arouses member states' attention to the limits of current decision-making of unanimity.

Jensen confirms the validity of H4 by the evidence that three Treaty revisions in a decade, from the SEA (1986), to the TEU (1992), and then to the Amsterdam Treaty (1997), gradually but steadily extended the legal/institutional basis for EU cooperation: the QMV mode in the Council of Ministers was applied for an increasing number of issues, while the use of unanimity was constrained into less areas. According to Jensen (2000, 86), roughly speaking, in the original Treaty of Rome, unanimity is the norm for decision-making; nevertheless, along with the three treaty revisions from the middle of the 1980s to the end of the 1990s, decisions reached by QMV expanded, spilling over from the creation of the Single Market to other policy areas, and at the same time, the practice of the veto by member states has been abolished in many cases. Obviously, Jensen uses the decision-making mode in the Council of the Ministers to measure the degree of EU political integration, and he regards the application of QMV in the Council for EU decision-making as the most advanced stage for the cooperation among member states while the practice of national veto and the unanimous voting mode as the least developed form of EU political integration. Jensen's institutional/legalistic spillover expects more application of QMV in newly revised EU treaties (e.g. the Lisbon Treaty of 2009) and also in less politically integrated policy areas, because the Commission, acting as a promoter rather than a mediator, tends to formulate its proposals in reference to the legal basis of using QMV rather than unanimity for member states to reach agreement. Due to the implementation of the Lisbon Treaty from 1 December 2009 onwards, the co-decision procedure, where the EP co-decides with the Council using QMV, has obtained the legal status of the OLP and extended into most EU policy decision-making areas — just like the OLP ("ordinary legislative

⁶⁴ Jensen (2000) does not explicitly formulate his institutional/legalistic spillover as a testable hypothesis, and here this dissertation puts forward the hypothesis as an effort to summarize and conceptualize Jensen's arguments (especially Jensen 2000, 86-87).

procedure”) name suggests, “ordinary” means the “[d]ecision-making procedure that is most commonly used in the EU for adopting legislation” (Lelieveldt and Princen 2011, 301).⁶⁵ Such a fact justifies Jensen’s institutional/legalistic spillover, and it also shows that the decision-making mode prescribed by the Lisbon Treaty is both the fundamental basis as well as the ultimate limit for current EU policy-making, as Jensen (2000, 90) argues that institutional/legalistic spillover also indicates that “political integration of specific areas of policy (e.g. social and labour market policy) is subordinate to more general legalistic and institutional principles in the Community”. The rationale behind institutional/legalistic spillover is like this: in order to facilitate the adoption of certain policies and realize a closer union, current limits of policy-making by unanimity should be broken through; as a result, Treaty amendments to broaden the legal basis for QMV decision-making are necessary and unavoidable. A good example to support this, Jensen (2000, 88) says, is that the Commission drew member states’ attention to the limitations of the SEA when they were negotiating revisions to the EU Treaties. In light of institutional/legalistic spillover, we can expect that after the Lisbon Treaty, if there is be any grand treaty revisions, QMV should be applied for even more policy areas than what are prescribed in the Lisbon Treaty. In short, the core idea of Jensen (2000) is that institutional/legalistic spillover causes the expansion of the use of QMV in the Council, and at the same time it also signals an increasing degree of EU political integration.

Clearly, H4 — Jensen’s institutional/legalistic spillover — deals with the voting mode changes in the Council between EU Treaty revisions, assuming a progressive expansion of QMV; accordingly, this dissertation will test this spillover mechanism by examining the QMV changes in the Lisbon Treaty. At first glance, institutional/legalistic spillover appears to be in effect, as the Lisbon Treaty legalized the co-decision procedure as the OLP covering most policy areas; as a consequence, the use of QMV gets expanded into more policy areas and the degree of EU political integration increases. Nevertheless, the process leading to institutional/legalistic

⁶⁵ Piris (2010) gives a comprehensive legal and political analysis on the Lisbon Treaty, and for detailed information on the changes of legal bases introduced by the Lisbon Treaty, see the Appendices 4-8 in Piris (2010, 365-97). One thing deserves mentioning: not only are there legal bases switched from unanimity to QMV, but also from QMV to unanimity in the Council (i.e. related to the enhanced co-operation in CFSP) (see Piris 2010, 394). Moreover, unanimity or common agreement continues in a number of important areas (around eighty cases), “such as taxation, social security and social policy, (...) the multiannual financial framework, (...) as well as most of the measures in CFSP including defence” (Piris 2010, 213).

spillover of the Lisbon Treaty (i.e. “*as the Commission tends to choose the use of QMV as its proposals’ legal bases for member states to reach agreement and thus arouses member states’ attention to the limits of current decision-making of unanimity.*”) still needs to be confirmed, which suggests the study and comparison of the legal basis of Commission proposals before (i.e. under the Nice Treaty) and after the Lisbon Treaty. As for the research of this dissertation, we will see whether there were any differences if the three new measures selected as cases studies would be proposed with different legal bases by the Commission before the Lisbon Treaty. In addition, when H4 posits that QMV expands from the most advanced political integrated area to the least politically integrated area, it implies the following: (1) in the Council of Ministers which represents nation state’s interests, QMV is the most advanced form of European nation states’ cooperation and unanimity is the least developed form of political integration; and (2) political integration of specific policy areas is subordinated to EU general legalistic and institutional principles, that is, no policy-making should be beyond the decision-making mode of QMV prescribed by the Lisbon Treaty, and the form of QMV laid down in the Lisbon Treaty should represent the highest degree of EU political integration up to now. In case studies, we will examine whether there is any supporting evidence for those.

Two points need to be clarified and elaborated further. First, when arguing for institutional/legalistic spillover, Jensen (2000) focuses on EU Treaty revisions and the role of supranational actors (in particular the Commission) in promoting co-operation of social and labour market policies, thus exploring “the integrative effects of the treaty negotiations on the development of co-operation”(71); however, EU decision-making is multi-faceted and complex. According to Warleigh-Lack and Drachenberg (2013, 201), EU decision-making can be grouped into two basic types: the first type refers to those of “history-making”, such as treaty changes and setting out strategies for the whole EU for a period of years; the second type is about those of daily law-making (see Table 2.4). Jensen’s research reflects the characteristics of both types of decision-making, particularly analyzing the Commission’s pro-integrative role in the Community’s legislative process, which, however, in light of Table 2.4, only deals with the most characteristic policy-making within the EU: the Community method. Second, describing as well as prescribing decision-making in the Council, the term “QMV” has different variations as it developed through EU history. QMV simply means the “[d]ecision-making rule in the Council which requires a majority that is substantially

larger than a simple majority of (50%+1), but does not require unanimity” (Lelieveldt and Princen 2011, 302). As Warleigh-Lack and Drachenberg (2013, 202-204) stress, the Community method at the EU level starts from a two-fold power separation between the Commission and the Council, with a unanimous rule in the Council, which over time evolves into a three-fold power separation between the Commission, the Council and the EP; alongside the evolution, two significant components have been introduced into the Community method: QMV in the Council and a powerful legislative role of the EP. Accordingly, decision-making of the Council has undergone two stages: from the Rome Treaty to the 1970s, “unanimity in the Council was the decision rule in all legislative decisions”; in the mid-1980s, the process of making changes to the Community method as well as the Council decision rules was initiated due to the requirement to complete the European single market (Warleigh-Lack and Drachenberg 2013, 202). Nevertheless, when Jensen said “[r]oughly speaking, in the original Treaty of Rome, unanimity was the norm for adopting proposals on co-operation between the member states, whereas the three revisions referred to above (i.e. the SEA, the EU Treaty and the Amsterdam Treaty) have led to a situation in which decisions (on a very wide range of issues) are reached by a qualified majority” (2000, 86), it does not mean the term QMV was invented in the later days; in fact, the Treaty of Rome has already laid down both decision-making rules for the Council. For example,

“The Commission shall take all appropriate steps to ensure that such negotiations shall be undertaken before the end of the second year after the entry into force of this Treaty and be concluded before the end of the first stage.

If, for certain products, no agreement can be reached within these periods, the Council shall, on a proposal from the Commission, acting unanimously until the end of the second stage and by a qualified majority thereafter, determine the duties in the common customs tariff.” (The Treaty of Rome, Article 20)

In practice, however, during the empty chair crisis caused by De Galle’s vetoes, “[t]ensions further increased when de Gaulle objected to a scheduled change in decision-making rules in the Council that would introduce a new rule for making decisions, called qualified majority voting (QMV)” (Lelieveldt and Princen 2011, 13-14), and it is not until in the 1980s that QMV was “effectively introduced” into the

Council as the member states agreed to give up their veto powers and national sovereignty in some areas so as to realize market integration (Warleigh-Lack and Drachenberg 2013, 202). Since the Treaty of Rome of 1957, QMV, embodying an attempt to strike a balance between larger and smaller member states and based on weighted votes attributed to member states, implies two rules needed to be specified: (1) how to distribute votes among the member states, and (2) the threshold to adopt a decision (Lelieveldt and Princen 2011, 97), so along with Community enlargement, the power distribution entailed in QMV also gets changed.⁶⁶ The current QMV in the Council (of EU-27) is defined by the Nice Treaty, which requires “a triple majority”: (a) a minimum 255 votes out of the 345, (b) a simple majority of member states (14 out of 27 member states), and (c) those member states represent at least 62% of the EU population (see e.g. Piris 2010, 213-14; Lelieveldt and Princen 2011, 97; see also Table 6.23). After the Nice Treaty, the Lisbon Treaty introduced a new regime of QMV called a “double majority” with two thresholds of (a) at least 55% of the members of the Council and (b) at least 65% of the EU population; besides, a decision can be blocked by a minority group of at least four member states (Article 16 (4) TEU).⁶⁷ This new voting system will enter into force on 1 November 2014, but there is a transitional period from 1 November 2014 to 31 March 2017 during which the current QMV is still applicable at the request of a member state (Lisbon Treaty, Protocols of (No 9) and (No 36)); this means the new QMV method will become fully effective from 1 April 2017. The most prominent impact introduced by the new QMV regime is the changes of member state voting weights. For instance, the voting weight of Germany will almost double to 16%, while Ireland’s voting weight will be reduced from 2% to less than 1% (Lelieveldt and Princen 2011, 98).⁶⁸ Despite the fact that the voting weights of member states evolve and change over time, in reality, formal voting does not take place often in the Council and around 90% of the Council decisions are adopted by informal consensus; still, the distribution of votes plays in the background of Council negotiations, as a nation state’s bargaining position largely depends upon its capacity to forge a blocking minority (Lelieveldt and Princen 2011, 98-99).

⁶⁶ See “Box 28. Evolution of the Weight of Council Members’ Votes since 1957” in Piris (2010, 218-19).

⁶⁷ For more details about the rules that may lead to a blockade in the Council, see Article 238(2) TFEU; more explanation relating to the implementation of Article 16(4) TEU, see “Box 30. The 2009 ‘Ioannina-Bis’ Mechanism” in Piris (2010, 224).

⁶⁸ See “Figure 4.2 Voting Weights under QMV before and after 2014” in Lelieveldt and Princen (2011, 98).

Table 2.4 EU Daily Decision-Making: Policy-Making Patterns, Decision-Making Procedures, and Types of Decisions⁶⁹

Policy-making pattern (represented by typical policy)	Key features of policy-making pattern: different degree of the involvement of EU main institutions (a. the Commission; b. the Council; c. the EP; d. the Court of Justice of the European Union (CJEU))	The spectrum of decision-making procedures (legislative procedures): between the community method (A) and the intergovernmental method (B)	Types of decisions (the legal tool-kit): four basic instruments and other types of instruments
1: The Community method (e.g. the CAP, trade policy)	● Legislative function - a: taking policy lead and monopolizing drafting and tabling of legislative proposal; - b&c: usually get involved in the OLP where the EP jointly decides with the Council using QMV; if not, the EP must be consulted before any final decision can be taken; - d: final judicial power	A A: a way of making decisions in which the EU's supranational institutions play an important role, typically referring to the OLP (i.e the co-decision procedure), where a: exclusive (i.e sole) right of initiative; b: a QMV decision rule; c: full power of amendment and consent;	Roughly alongside the policy-making pattern and the spectrum of decision-making, four basic legal instruments, that is, Regulations (I), Directives (II), Decisions (III), and Recommendations and Opinions (IV), as a whole or partially, are applicable to most EU policy areas with different degrees of binding powers upon the member states;

⁶⁹ Lelieveldt and Princen (2011, 79-104) make a distinction between “types of decisions taken within the EU” and “types of decision-making procedures existing in the EU”. The first category refers to a range of different types of legal instruments which differ in the degree of the binding power to the member states, represented by the four basic legal instruments prescribed by Article 288 TFEU: Regulations, Directives, Decisions, and Recommendations and Opinions; the second category includes the “ordinary legislative procedure”(OLP) and “special legislative procedures”. In comparison, Warleigh-Lack and Drachenberg (2013) argue for EU “policy-making patterns” from another perspective, and they mention the four basic legal instruments as four types of EU legal acts. It should be emphasized once more that EU decision-making is multilevel, diversified, and complicated, and there is no “one-size-fits-all” summary of various forms of EU decision-making, and for different categorizations, there are always exceptions and special cases. For instance, normally, the European Council has no formal role in the legislative procedures, but it can act as an “appeal body” by unanimity for the Council, and the decisions of the CFSP can be adopted by the Council and/or the European Council; as no legislation can be adopted under the CFSP, strictly speaking, decision-making procedures under the CFSP are not “special legislative procedures” (Lelieveldt and Princen 2011, 94). Therefore, Table 2.4 is just an attempt to make a rough generalization.

	over all legislation.			
2: The regulatory mode (e.g. competition, single market, environmental policy)	● EU institutions have strong relatively independent decision-making powers - a: agenda setter, engaging with stakeholders, experts, and agencies to develop regulations; - b&c: co-legislate; - d: playing significant role in ensuring implementation;		b&c: have to agree to a proposal before it can be adopted, and can adopt amendments to the proposal; Generally, in policy areas of taxation and budget, judicial and police cooperation, and foreign policy, the OLP is complemented with additional safety valves or is replaced by another procedures.	I,II and III: having the legally binding power to different addressees: I: binding in its entirety and applicable in all member states; II: binding upon each member state who needs to choose national forms and methods to transpose EU legislation into domestic law; III: binding in its entirety, but concerning individual cases; I & II: constituting the EU's legislative acts/two types of legislation, meaning creating a fixed legal framework across all member states or allowing variations between member states; IV: no binding force, which may assume other names, such as "(broad) guidelines" by the Council.
3: The distributional mode (e.g. budget)	- a: agenda setter and overseeing implementation; - b: main legislator, deciding mainly by unanimity; - c: being the key actor in deciding the Budget; - d: having a marginal role.			
4: Intensive transgovernmentalism (e.g. the CFSP)	- a: not an exclusive agenda setter, member states also having the right of policy initiation; - b: decisions by unanimity (also in the European Council); - c: in weak consultative position (in regard to consent to international agreements); - d: being excluded.	 B	B: a way of making decisions where member state governments play a central role; various other legislative procedures, collectively known as "special legislative procedures", where, to a greater or lesser extent, a: has to share its right of initiative with	Special legal instruments beyond the basic four are applied, such as those for the CFSP (which only have legal effects "between" rather than "within" the member states and where the CJEU does not have the competence to review CFSP decisions).

		member state governments; b: makes decisions by unanimity; c: has only an advisory role or no role at all.	
5: Policy coordination (e.g. employment, aspects of fiscal policy)	● The Open Method of Coordination (OMC) is the main policy-making instrument ● Focusing on benchmarking best practices in decentralized approach in line with the principle of subsidiarity a: playing increasingly important monitoring and agenda-setting role; b: setting policy goals and guidelines by unanimity; a&b: member states submit to the Commission and the Council annual reports on their progress; c: being excluded; d: playing a marginal role.	Introduced in March 2000 by the Lisbon Strategy*, the OMC is a policy-making procedure that does not yield any binding decisions, but aims at realizing social-economic policy coordination and convergence via processes of benchmarking and policy learning (no penalties and relying on the incentives of “peer pressure”); The OMC fills the gaps of the policy areas where member states do not want to be bounded by EU legislation, while realizing that policy coordination is necessary to achieve economic ambitions, thus being strongly of intergovernmental nature.	No binding decisions are allowed, so the OMC never takes the form of regulations (I), directives (II), or decisions (III).
The working mechanism of the OMC, largely driven by the member states themselves assembled in the Council and assuming various forms in different policy areas: ● The Council determines the objectives to be achieved in an area as well as the indicators to measure the attainment of those objectives; ● Each member state formulates an action plan for reaching the objectives; ● Based on those indicators, the performance of each member state is “benchmarked” (i.e. being assessed and compared to the performance of other member states); As being “soft law” measures but never taking the form of directives, regulations or decisions, the OMC takes place in policy areas of national competence, such as employment, social protection, social inclusion, education, youth and training.			

The EP and CJEU play no role in the OMC process.			Two general categories and applications of decisions and legal instruments
Three decision-making procedures (the ordinary, special, OMC)			
Differ in the power distribution and role of the EU's three main institutions a: exclusive ("sole") right of initiative or not; b: unanimous or a QMV decision rule; c: consent required or not			Category 1: normal types, the four basics (I,II,III,IV), applicable for most decisions and policy areas; for some policy areas, all types of the four are aviable (e.g. the establishment of the single market), while in other areas, not all of them are applicable (e.g. in the social policy area, the EU can adopt Directives, not Regulations, and for the sensitive issues relating to social exclusion and social protection within the social policy, EU legislation is not allowed, that is, no EU binding legislation is there at all); Category 2: Other types: special legal instruments for certain policy areas (e.g. for the CFSP).
A ←————→ B			
greater power to supranational institutions		greater power to national governments	
The Community Method:		The Intergovernmental Method:	
the OLP ("ordinary legislative procedure");		"special legislative procedures" (in most cases combining an advisory EP with a unanimous Council)	
		The OMC: for the social and economic aspects	
Example: decision-making procedures in EU social policy			
Ordinary	Special	OMC	
● Occupational safety and health ● Working conditions ● Information and consultation of workers ● Equality between male and female workers ● Integration of persons excluded from the labour market	● Employment conditions for immigrants from outside the EU ● Collective representation of workers and employers ● Employment protection ● Social security and social protection	● Combating social exclusion ● Modernization of social protection	
Legislation allowed (but only Directives in this field)		NO legislation	
The differentiation between legislative and non-legislative acts is made through the type of adoption procedure and not through the denomination of the act. The ordinary and special legislative procedures result in legislative acts and otherwise the act does not belong to the cateory of legislative			

acts (Article 289(3) TFEU).

The closer to member state vital interest or more politically sensitive an issue is, the more likely the Council decides unanimously, and the smaller the role of the Commsision and the EP will be. In the OMC, the EP and the CJEU play no role.

No legislation can be adopted without the consent of the Council, while the role of the Commission and the EP varies among different issues.



The logic behind and navigating the maze of EU decision-making

(1) Fostering EU-wide approaches to issues;		Allowing for variation in the balance between common EU policies and the national government powers.
(2) Protecting member state sovereignty;		
(3) Installing an element of democracy by the participation of the EP.		

Notes: the lowercase letters a, b, c, d stand for the Commission, the Council of Ministers, the EP, and the CJEU (the ECJ), the uppercase letters A and B for the Community method and the intergovernmental method, the Roman numbers I, II, III, and IV for the four basic decision types and legal instruments, representing Regulations, Directives, Decisions, and Recommendations and Opinions, respectively.

The OMC and the Lisbon strategy *: The origins of the OMC can be traced back to the European Employment Strategy, “where it provided a new framework for cooperation between Member States by directing national policies towards common objectives in areas which fall within the competence of the Member States, such as employment, social protection, social inclusion, education, youth and training”. As an intergovernmental instrument of “soft coordination” with peer evaluation pressures, the OMC tends to assign the Commission a surveillance role and be used “as a reporting device rather than one of policy development”. (European Commission-SEC (2010) 114 Final, 21)

Sources: Own compilation and adaptation from Warleigh-Lack and Drachenberg (2013, 203), Lelieveldt and Princen (2011, 79-104), Piris (2010, 92-94), and the European Commission website of Glossary:

<http://europa.eu/legislation_summaries/glossary/open_method_coordination_en.htm>.

Obviously, EU policy-making is diversified and multileveled, where EU main institutions are involved in different degrees and assume different weights. In light of the propositions of H4, the Community method of the OLP (which includes patterns 1 and 2 in Table 2.4) stands for the most advanced stage of political integration of the EU up to now, as the EP and the Council co-legislate where the Council adopts the decision rule of QMV, so Table 2.4 appears to have confirmed H4, but still the mechanisms suggested by H4 require a closer examination in the case studies before drawing conclusions. Moreover, according to the categorization of Table 2.4, if the policies originally covered by patterns 3, 4 and 5 with unanimity in the Council get changed into QMV rules, H4 then will be vindicated to be correct. As the topic of this dissertation is related to employment and fiscal policy, case studies of this dissertation

will check whether the policy-making patterns for and of the EU's new measures indicate any movement from unanimity to QMV. Originally, Jensen's institutional/legalistic spillover (H4) intends to hypothesize and explain the developments between EU treaty revisions, but this dissertation will test whether H4 is also effective in accounting for the EU's new developments during the euro area sovereign debt crisis. Last but not least, when putting forward institutional/legalistic spillover, Jensen makes use of the evidence of increasing political integration in the social and labour market fields to support his argument, but he finds that traditional neo-functional spillover concepts are inadequate to account for such developments, so he puts forward institutional/legalistic spillover as a supplement to the traditional spillover theses. Hence, carrying out the test of H4 also implies the correctness of H1, and from Jensen's (2000) vantage point, *institutional/legalistic spillover accompanies EU political integration*.

2.5.2 Niemann's Revised Neo-functional Framework and Exogenous Spillover

Adopting early neo-functional ideas, Arne Niemann (2006) develops a new neo-functional framework to analyze the PHARE programme, the reform of the Common Commercial Policy, and the communitarisation of visa, asylum and immigration policy. To be specific, Niemann revises early neo-functional assumptions in the following way: first, he rejects neo-functionalism as "a grand theory"⁷⁰; instead, he takes it as a useful "partial theory" in a wider sense to account for only some parts of the EU; second, he dismisses European integration as an automatic and exclusively dynamic process, but rather views it as a dialectical process of both dynamics and countervailing forces defined by certain conditions; third, he proposes the components of countervailing forces: sovereignty-consciousness, domestic constraints and diversities, and a negative integrative climate, which mainly account for nationalism, variation among member states in choices for integration, and unfavorable opinions of European integration during economic recession, respectively; fourth, while admitting elites play a primary role to enhance European integration, he

⁷⁰ Risse-Kappen mentions this is neo-functionalism's "n=1" problem, which hopes to make an integration theory *sui generis* to explain the EU, while liberal intergovernmentalism, from Risse-Kappen's point of view, does avoid this problem, as "it is linked to general theories of domestic preference formation, bargaining, and international cooperation" (1996, 56).

also emphasizes the publics' impact on the evolution of EU integration in a wider view, pointing out that electoral pressure is an important aspect of domestic constraints and a negative integrative climate; finally, Niemann not only accepts neo-functionalism as being a soft rational-choice ontology, but also takes constructivism as a complementary building brick to his revised neo-functionalist framework, departing from actor-centeredness to attributing structures and agents an equal ontological status where structures and agents mutually constitute each other (Niemann 2006, 27-29; 52). To facilitate his hypotheses tests, Niemann further clarifies the dynamics of integration — the concept of spillover — via adding another two new forms of spillover into the traditional distinction between functional, political and cultivated spillover: exogenous spillover and social spillover.

Exogenous spillover extends the concept of spillover to outside factors which affect the behavior of actors and structures at both the EU level and the national domestic level, and thereby the EU project is analyzed in a global context instead of being viewed by the traditional neo-functionalists as an insulated entity from the outside (Niemann 2006, 32).⁷¹ Haas's turning to theories of interdependence in the 1970s suggests his awareness to include some exogenous factors into the neo-functionalist framework; Niemann contends that exogenous factors, though constituting obstacles to further integration, generally serve as integrative forces, and he offers the following logic: first, some exogenous events are threats or shocks to the EU's stability and development, but they are also regarded as being conducive to regional integration as the external threats and shocks push closer cooperation among member states to find common solutions — cases in point include the Cold War pushing the creation of the EC in the 1950s, and US and Japanese economic

⁷¹ There is a trajectory of Niemann's thinking on "exogenous spillover", which can be traced back to his early argument on "induced spillover" (a term coined by Geoffrey Edwards) in 1998. Niemann (1998, 431-32) expresses his indebtedness to traditional neo-functionalists, as he explains: at the very beginning, Haas (1958, 313-17) uses the "geographical spillover effect" to conceptualize the possible enlargement of the Community; later in line with Haas's idea, Schmitter (1969, 165) develops an "externalization hypothesis" to suggest the Community's "collective external position" against nonparticipant third parties, a concept that connects the Community to the external environment. Schmitter (1969, 165) contends that the formation of a common external policy comes from voluntary motives (i.e. responses to the inducements, such as to enhance the bargaining power of the Community) and involuntary motives (i.e. responses to the threats of others, such as extra-Community demands and unforeseen threats to Community interests) (see also Niemann 1998, 431-32). Niemann (1998, 432) says that his "induced spillover" describes Schmitter's "involuntary motives" and thus belongs to a sub-hypothesis of Schmitter's externalization hypothesis. All those exhibit the continuity and evolution of the old and new neo-functionalism.

competition to the EC in the 1980s promoting the creation of the Single Market and the agreement on the 1992 programme (Niemann 2006, 33)⁷²; second, the nature and magnitude of many problems, such as migration, environmental destruction, climate change, terrorist attacks, go beyond an individual state's potential governance and competence and thus require a collective approach to those issues, and regional integration can actually act as an effective buffer against uncertain or serious external shocks and damages; at the same time, due to more global problems and increasing regional interdependencies, national governments' power to deliver the economic, social and other well-being to their citizens has been decreased during the process of globalization, and EU countries tend to circumvent this disadvantage via closer cooperation at the European level (Niemann 2006, 33); third, once common policies are developed, participating states will find themselves compelled (which may contradict their original intentions) to take a collective external position and common policies against non-participant third parties so as to "increase the collective bargaining power of the Community *vis-à-vis* the outside world as well as involuntary motives such as the demands of the extra-Community environment reacting to (successful) developments within the regional integration project", and this is "likely to rely increasingly on the new central institutions" (Niemann 2006, 34); finally, actors' preferences are not given, and "[t]he external environment/system, just like EU membership, to some extent, constitutes decision-makers' preferences", that is, exogenous spillover exerts a certain structural pressure (Niemann 2006, 34). The final logic is difficult to trace in empirical cases, but the introduction and adaptation of "internationally prevailing policy paradigms and discourses" into the EU project by internal actors can serve as an indicator to show the wider external context's impact on EU decision-makers. A case in point is that the agreement to create the Single Market and to liberalize many policy areas shows Community leaders' gradual acceptance of Anglo-Saxon neo-liberal economic ideas (Niemann 2006, 34). All in all, the logic of

⁷² It is worthy to note that Schmitter (2004), as a former student of Haas and a devoted disciple of neo-functionalism, also highlights this shortcoming of traditional neo-functionalism and shares the same opinion with Niemann that external pressures are not just an impediment but also a potentially facilitating force to push forward the integration process. Schmitter (2004) puts forward "initiating cycles" and "priming cycles" to account for the changes of member states in between decision cycles, where national actors become more receptive as regional integration proceeds through crises, as he argues: "With each successive crisis resolved as the common institutions emerge from the initiation cycles, regional-level rules (...) gain in significance to the point that they begin to overshadow the opinions and actions of national governments, associations and individuals" (Schmitter 2004, 61).

exogenous spillover, linking the EC's internal development to the changes of the external environment, in hypothesis form suggests the following:

H5: Because problems are beyond individual states' potential ability (which is also decreased by national interdependencies) to address and a regional integrated block can serve as a buffer against the harsh external environment, exogenous threats and crises push the EU integration process forward rather than impede it, as member states cooperate closely at the EU level to seek common solutions with the result that participating member states, who might rely on the new central institutions, forge a collective common position against non-participant third parties so as to increase the EU's collective bargaining power and/or its ability to meet the outside world demand, and/or with the result that EU decision-makers' preferences are shaped by a wider internationally prevailing policy paradigms and discourses.

H5 is a summary of Niemann's four logics of exogenous spillover, each arguing for the general nature and effectiveness of exogenous spillover, the factors contributing to exogenous spillover, the possible results of the exogenous spillover effect, and the structural impact of the external environment on internal actors' preferences and choices, respectively, which suggest that the overall exogenous spillover mechanism can be further dissected into four sub-hypotheses. In the context of the euro area sovereign debt crisis which was triggered by the 2008 global financial crisis, H5, the mechanism of exogenous spillover, can be tested on the basis of the following four sub-hypotheses:

H5a: The exogenous threats and crises imposed by the global financial crisis of 2008 as well as the world-wide economic recession afterwards push the EU integration process forward rather than impede it, as member states seek closer cooperation at the EU level to forge common solutions to the eurozone sovereign debt crisis triggered by the global financial crisis.

H5b: The reasons for EU countries to seek common solutions at the supranational level are due to two facts: (1) the nature and magnitude of the global financial crisis, economic recession and the eurozone sovereign debt crisis go beyond each state's individual capacity to cope with and the EU acts as an effective buffer to the external financial turmoil and economic crisis; (2) against the trend of globalization, increasing economic interdependence among EU member states decreases the power of individual national governments to solve the sovereign debt crisis, as national economies and the financial market become more sensitive and

susceptible to each other's economic and financial disturbance.

H5c: Along with the adoption and implementation of the common measures, participating states forge collective external positions, which may contradict their original intentions, against non-participant third parties so as to increase the EU's collective bargaining power and/or its ability to meet the outside world demand, and as the expression and realization of the common external positions increasingly rely on EU supranational institutions, national government reliance on EU (new) institutions also increases.

H5d: The external environment exerts structural pressures on EU decision-makers' choices for the solutions to the eurozone sovereign debt crisis, that is, EU decision-makers' preferences are shaped by wider internationally prevailing policy paradigms and discourses.

As far as the nature, magnitude and impact of the financial crisis of 2008 and the euro area sovereign debt crisis as well as the EU's efforts to solve the crisis are concerned (see Table 1.2 and 1.3), H5a and H5b appear to be correct, but still the mechanisms presented in H5a and H5b need to be closely examined in the framework of case studies. If H5 is valid, then all four sub-hypotheses should be vindicated in case studies, and this dissertation will check whether there is evidence in the selected cases to justify all the causal chains posited by exogenous spillover.

Compared with exogenous spillover, "social spillover", a concept that is split off from political spillover, is used to explain learning and socialization processes (Niemann 2006, 5).⁷³ From early neo-functional literature, Niemann specifies two propositions of traditional neo-functionalism about the idea of social spillover: "emphasis on the quality of interaction, reflexive learning and the role of communication" and "learning and socialization not constant but subject to conditions", based on which Niemann makes his extension by incorporating the concept of

⁷³ Niemann (2006, 37) explains his use of "socialization" in two ways: "the induction of new members [...] into the ways of behavior that are preferred in a society" (Barnes, Carter and Skidmore 1980, 35), and complementarily, "the process by which actors internalize norms which then influence how they see themselves and what they perceive as their interests" (Risse and Wiener 1999, 778). It is also worthy to note that Moravcsik (1998, 489) once analytically split the neo-functional term "spillover" into two categories: "social spillover" and "political spillover": the former refers to the situations where previous decisions can induce changes — economic, ideological or ideational adjustments — in national preferences, which then promote further integration, whereas the latter is attributed to describe the processes in which "international institutions may alter the terms under which governments negotiate new bargains" (Moravcsik 1998, 489).

communicative and norm regulated action (2006, 53). The idea of social spillover actually can be considered as a sub-hypothesis of political spillover, which highlights the social interaction of agents and the mutual influence between decision-makers' norms and values and a wider structural environment.

2.6 Summary: The Features of Neo-Functionalism's Revival During and After the 1990s

Neo-functionalism's new development during and after the 1990s indicates its openness and dynamics, and there is an "apparent possibility of developing and modifying neo-functionalism in a meaningful way" and "many of the more recent micro-level concepts can sensibly be accommodated within the larger neo-functionalist framework" (Niemann 2006, 3). After examining neo-functionalist literature in two decades, Jensen points out the prominent characteristic of this neo-functionalist revival trend. When scholars reuse neo-functionalist theory, they do not take it as a grand theory to explain the whole integration project like the former neo-functionalists once did; rather, they accept it as a partial theory only applicable for some aspects of the European integration process (Jensen 2010, 82). Through adapting and revising previous neo-functionalist ideas, scholars have formed new insightful frameworks to explain the EU project's various policy areas, such as defense policy (Guay 1996), social and labour market policy (Jensen 2000), telecommunications policy (Sandholtz 1998), competition policy (McGowan 2007), attitudes among European civil servants (Hooghe 2001b; 2002), and transnational civil liberties (Newman 2008).⁷⁴ Neo-functionalism's renaissance and new developments show the theoretical validity and power of the core concept of neo-functionalism: spillover, based on which later scholars reevaluated and reformulated neo-functionalist propositions according to their research topics and purposes, and the theory itself got revitalized. In the 2004 edition of *The Uniting of Europe*, Haas offers his reflections on neo-functionalism against the new trends in IR and political theories, whereby he incorporates the elements of constructivism and institutionalism into his previous neo-functionalist propositions; in the introduction of this newly edited book, he discusses the benefits of an institutionalist thinking on neo-functionalism, stating that neo-functionalism "can become part of a respectable constructivism" (Haas 2004, xvii; quoted in Niemann and

⁷⁴ This literature review is based on from Jensen 2010 (82-83).

Schmitter 56) while by absorbing and adapting to new thoughts, traditional neo-functionalism “has a new lease on life” and is “no longer obsolescent” (Haas 2004, liii; quoted in Niemann and Schmitter 56). Drawing new insights from institutionalism and constructivism, the revised neo-functionalism manages to bridge as well as go beyond the old divide of the classical neo-functionalist-intergovernmental debate (Niemann 2006, 11). To sum up, neo-functionalism’s development from the 1990s onwards exhibits two features: the first one is to be taken as a partial theory to be selected to explain certain aspects of the EU, and the second one is taking the shortcomings of traditional neo-functionalism into account to complement as well as absorb new ideas from other disciplines to develop. As a result, the revised neo-functionalist framework becomes more adaptive and useful to explain European integration.

Nevertheless, offering a summary of neo-functionalism is not an easy task, as the theory means different things to different scholars while the original theoretical accounts were revised and modified by a number of writers (Niemann 2006, 13; Niemann and Schmitter 2009, 46), but still, from the above literature review, a vital characteristic of neo-functionalism emerges: the concept of spillover, which has originally been put forward by traditional neo-functionalism and become modified and expanded along the vicissitudes of the European integration project. Case studies of this dissertation will test the validity of neo-functionalist core assumptions by the EU’s new challenges during the eurozone sovereign debt crisis, which shall lead to the further confirmation, rejection, modification or new development of this classic European integration theory.

3 Chapter Three: Intergovernmentalism

As soon as the stagnant political scenario appeared, neo-functionalism, the first and most thorough theory to explain the European integration project, was challenged, doubted and even abandoned by scholars. Neo-functionalism's failure to capture the EC's reality in the 1960s and 1970s led to the emergence of another new integration theory focused on the European integration project: intergovernmentalism. The origin of intergovernmentalism was destined that it is different from as well as competing to the neo-functionalist emphasis on supranationalism; as a matter of fact, it stands at the opposite end of neo-functionalism — intergovernmentalism is a theory of state-centrism — so much that the two theories have formulated the so-called classical dichotomous approaches to understand and explain European integration (Cini 2010; Rosamond 2010). Throughout the 1990s, theoretical disagreements on the EU have always been disputes between intergovernmentalists and supranationalists (Stone Sweet and Brunell 1998, 63).⁷⁵ So it is also useful to take neo-functionalism as a lens to understand intergovernmentalist propositions, and vice versa. The two theories' contrasting assumptions emanate from their different starting points: neo-functionalism views the EU as a process which has its own dynamics, while intergovernmentalism tends to look into the isolated historical events especially the grand negotiations among member states of the EU (Niemann 2006, 15).

Intergovernmentalist studies on the European integration project were initiated by Stanley Hoffmann, typically represented by his journal article "Obstinate or Obsolete? The Fate of the Nation-State and the Case of Western Europe" in 1966 (e.g. Cini 2010, 90-93; Lelieveldt and Princen 2011, 37-38). Encountering various criticisms, intergovernmentalism underwent modifications and revisions from the 1970s onwards, developing into several variants which may not always have been named "intergovernmentalism" but shared the basic premises of "state-centrism" (Cini 2010):

⁷⁵ Stone Sweet and Brunell claim that previous intergovernmentalists and supranationalists have forged different imageries to the EU: intergovernmentalists' imagery is drawn from the international regime literature, such as Garrett 1992, Keohane and Hoffmann 1991, Moravcsik 1991, 1993, Taylor 1983, while supranationalists' imagery is often federalist, inspired by writers such as Burley and Mattli 1993, Leibfried and Pierson 1995, Sandholtz 1993b, 1996, Sbragia 1993b, Stone Sweet and Sandholtz 1997 (see Stone Sweet and Brunell 1998, 63).

nation states' autonomy has not been challenged by European integration (e.g. Mann, 1993; Milward 1992; Streeck, 1996). The main assumptions of state-centrists, according to Marks et al. (1996, 342), can be summarized as follows: (1) national sovereignty is untouched or even strengthened through participation in the EU; (2) the EU is driven by intergovernmental bargains among its member states; (3) the negotiated results represent the lowest common denominator of the wishes and preference of member states; (4) the function of supranational actors is to streamline and assist national negotiations; (5) policy outcomes reflect national executives' interests and relative power; (6) supranational actors have little independence. However, those state-centric propositions have been proven to be problematic when they came to explain the EU in the 21st century, and some of them were rejected and abandoned by intergovernmentalist descendants, especially by the revised liberal intergovernmentalism (LI).

Having been indebted to Hoffmann's work and along with the Community's development, intergovernmentalist variants in later days, according to Cini (2010), can be categorized into four groups: the first group emphasizes a confederal characteristic of the EU; the second highlights the importance of domestic politics; the third one, in light of institutionalist research, argues for how national states, still being the central actors, have been "locked into" the European integration process; and finally, Moravcsik's liberal intergovernmentalist (LI) theory of European integration, standing out as an influential theory, constitutes the fourth group of the variation of classical intergovernmentalism. It is worth pointing out that Hoffmann's initiation and the four categories of intergovernmentalist variants are characterized by the consecutive historical periods of European regional integration, mirroring the pace and the general trend of the EU process in different times. Accompanying the Community's development, intergovernmentalism, like neo-functionalism as an integration theory, underwent modifications and revisions, and its later descendant and representative — LI theory — actually denies some of the previous intergovernmentalist state-centrist assumptions. Before delving into the thoughts of Hoffmann and the literature of the four camps of intergovernmentalism, this chapter first presents an elaboration of the core concepts of intergovernmentalism and its intellectual sources.

3.1 Three Core Concepts of Intergovernmentalism

Intergovernmentalism, as the words “inter” and “government” suggest, is a theory that highlights the role of nation states and governments. In accounting for the European integration process, it is state-centric, privileging the role of each national member state in promoting the development of the EU, arguing that it is the interests and actions of nation states that drive European integration (Cini 2010, 87; Hix 1999, 15). It views integration as a zero-sum game where the winner takes all as “on a vital issue, losses are not compensated by gains on other (and especially not on other less vital) issues: nobody wants to be fooled” (Hoffmann 1966, 882); consequently, European integration, in this perspective, is limited to certain policy areas while leaving fundamental issues of national sovereignty untouched (Cini 2010, 87). The core ideas of intergovernmentalism can be summarized as “cooperation”, “sovereignty” and “delegation” (Cini 2010, 88-90).

First of all, intergovernmentalists prefer to talk about European “cooperation”, rather than European “integration”. There are always benefits and costs for member states to be involved in the EU project, so naturally nation states’ participation in the EU, in terms of depth and width, is based on their pragmatic calculation of gains and losses; cooperation has nothing to do with ideology or idealism, but purely with national governments’ rational choices to seek solutions to common problems that they are all facing in modern times (Cini 2010, 89) — such views actually have been revised by Moravcsik and Schimmelfennig (2009) when they specified the scope conditions for the application of LI: geo-politics or ideology could play prominent roles in national preference formation for non-economic issue areas. So despite the EU’s highly institutionalized form, intergovernmentalists tend to see nothing special about it, and member states’ involvement in the EU is just one example in the general trend of international cooperation. Normally, intergovernmentalists do not consider what has happened to the EU as a process, because all cooperation occurs in fits and starts based on the pragmatic calculation and realistic consideration of problem solution. As a result, intergovernmentalism has not provided an ultimate goal for the EU: being a kind of European political community, a federal state or any other regime form (Cini 2010, 89). Not surprisingly, the idea of cooperation, rather than integration, leads some intergovernmentalists to predict the decease of the EU at the end of the Cold War as the context of the bi-polar competition after 1945 dissolved (Cini 2010,

89).⁷⁶ In the perspective of intergovernmentalism, cooperation among European nation states will not lead to a supranational state, but rather “an international order, controlled by intergovernmental relations between sovereign nation states, that serves as a domestic order for a transnational economy” (Streeck 1996, 64).

Second, the concept of the sovereignty of nation states lies at the heart of intergovernmentalism. Sovereignty might be defined as “the right to hold and exercise authority” (McCormick 2005, 10) or “the legal capacity of national decision makers to take decisions without being subject to external restraints” (Nugent 2010, 428); quite often, the notion of sovereignty is taken as a synonym for “independence” (Cini 2010, 89). Traditional intergovernmentalists contend that when member states participate in the EU, they do not cede their sovereignties, because nation states cooperate with each other in situations and conditions they can control, and it is the existence of such control that “allows all the participating states to decide the extent and nature of this cooperation”, leaving national sovereignty not directly undermined (Nugent 2010, 428). Besides, the EC’s unique institutional structure “is acceptable to national governments only insofar as it strengthens, rather than weakens, their control over domestic affairs, permitting them to attain goals otherwise unachievable” (Moravcsik 1993a, 507). In the EU arena, nation states are still by far the most important actors, and the history of the EU is a pooling or sharing of sovereignty, as opposed to the neo-functionalist argument of transferring sovereignty from the national to the supranational level (Keohane and Hoffmann 1990, 277) — Moravcsik’s LI, as a later representative variant of traditional intergovernmentalism, however, has accepted the usage of “transferring sovereignty to international institutions” (Moravcsik and Schimmelfennig 2009, 72; see also e.g. Moravcsik 1998, 9; 492). What matters most to the analysis of the dynamics of the Community, despite the revival of supranationality after the SEA and the loss of national sovereignty to the Community institutions, are the bargains among the major players (Keohane and Hoffmann 1990, 295); still, “states will make further surrenders of sovereignty if, but only if, they have to in the attempt to survive” (Milward 1992,

⁷⁶ This shows the affinity between neo-realism and intergovernmentalism. From a neo-realist viewpoint, state security depends ultimately on the policies of others rather than on their own, so cooperation among Western European states thus has relied significantly on the US-Soviet bipolarity, which is regarded as a necessary condition for European integration. As the bipolar competition came to an end at the beginning of the 1990s, neo-realism also predicted that cooperation would become less attractive as the international system was moving back towards multipolarity, and the future of Europe is, therefore, heading towards instability (Grieco 1995, 28).

446). As for the role of elites, intergovernmentalists regard the governmental elites as the key actors and “the motivation for integration is the preservation of executive capacity at the national level, not its erosion” (Rosamond 2000, 139). Thus sovereignty still rests with EU member states.

The above two conceptions of “cooperation” and “sovereignty” lead to the third core assumption of intergovernmentalism: as EU institutions are set up to facilitate intergovernmental cooperation, there is a “delegation” of sovereignty rather than the transfer of sovereignty. Intergovernmentalists admit there is a transfer of certain functions from the state executives and even from the national parliaments to the supranational level only for the sake of increasing the efficiency and credibility of cooperation. EU institutions, especially the Commission, do not assume independence or autonomy in EU policy-making — they are just little more than the servants of the member states and even when the facts suggest that the supranational institutions have played a more important role in sensitive policy areas, their functions are severely curtailed (Cini 2010, 90). This is what Pierson would term “the instrumentality of institutions” (Pierson 1998, 32-33). However, neo-functionalist research has tabled evidence for the pro-integrative role of EU institutions, the Commission and the ECJ in particular (see chapter two of this dissertation), and as a matter of fact, Moravcsik (e.g. 1998), a successor of traditional intergovernmentalism, has acknowledged the autonomy of EU institutions.⁷⁷ As for institutional structures and their functional extension, intergovernmentalism contends that participating member states will carefully weigh long-term costs and benefits — the benefits are calculated as the transaction-cost-reductions brought by EC institutions, while the costs refer to “any risk of lost autonomy” (Pierson 1998, 33), and EC supranational institutions are agents rather than autonomous actors (Pierson 1998, 37). So from an intergovernmentalist point of view, only the Council of Ministers and the European Council really matter as they represent national governments and thus are the real power center for the European integration project (Scharpf 1988, 243). Moreover, when “intergovernmentalism” is taken as an integration model to prescribe rather than as an integration theory to explain the EU, it tends to advocate reducing the role of supranational institutions while promoting a greater role for the Council and the European Council, even to the degree to suggest “a reinstatement of unanimous voting

⁷⁷ For the detailed explanation, see section 3.7.2.

in the Council and the repatriation of European policies to the national level” (Cini 2010, 88). Naturally, when explaining the direction and the pace of EU integration, intergovernmentalism makes its inferences mainly from the decisions and actions taken by the governments of EU member states (Nugent 2010, 433). This gives rise to what Pierson calls “the centrality of intergovernmental bargains”, which depicts intergovernmentalists’ overwhelming focus on explaining the “grand bargains” that established the Community’s basic features of institutional design, such as the Rome Treaty, the SEA (e.g. Moravcsik 1991; Garrett 1992) and the Maastricht Treaty (e.g. Garrett 1993; Lange 1993; Martin 1993) while paying almost no attention to EC political developments during the periods between these bargains (e.g. Pierson 1998, 33). Additionally, despite the fact that the competence and influence of the EP have grown substantially since the 1980s (even obtaining co-decision legislative power with the Council), member states are still in a privileged position within the EU, for it is the member states who can change the general institutional framework of the EU via treaty reform and even potentially withdraw from the EU (Cini 2010, 5).

To summarize, traditional intergovernmentalism is state-centric, privileging national governments’ foundational and decisive role in European regional cooperation; nevertheless, corresponding to the EU’s growth, the traditional core concepts of intergovernmentalism got modified and certain propositions have been abandoned. Still, from the intergovernmentalist perspective, the contemporary European integration project, evolving from the ECSC in the 1950s until today, is “the result of deliberate state choice” (Moravcsik and Schimmelfennig 2009, 86).

3.2 Theoretical Roots of Intergovernmentalism: Realism, Neo-Realism, Liberalism and Neo-Liberalism

3.2.1 Realism and Neo-Realism

Intergovernmentalism derives from classical theories of IR, notably from realist or neo-realist analyses of interstate bargaining (Cini 2010, 87). Traditional realism argues that the whole world is anarchic — there is no global authority being capable of keeping the world order — and nation states are self-interested, rational, unitary actors who “define their interests based on an evaluation of their position in the system of states” (Cini 2010, 88; see also Rosamond 2000, 131). In light of realism, the primary interest of a state is to survive and “states are motivated by the relentless search for power in their mutual relations in order to protect their security” (Taylor 1993, 4). This

implies zero-sum games in the sense that “the quest for security by any state by necessity leaves all other states less secure” (Rosamond 2000, 132). The key words to understand realism, therefore, are anarchism, nation states’ interests, power and security. From the vantage point of realism, nation states “are the key actors in international affairs and the key political relations between states are channeled primarily via national governments”; in contrast to neo-functionalism, realism holds that supranational and non-governmental actors have only limited importance and influence (Nugent 2010, 432-433).

Developing from realism, neo-realism not only argues for the anarchic nature of the world order, but also sees a potential to realize a world order on the basis of international cooperation. In *Theory of International Politics* (1979), a representative book of neo-realist IR, Waltz introduces structural factors to explain international relations, instead of referring to human nature or the inherent properties of states (Rosamond 2000, 132). After pointing out the deficiencies of reductionist theories (i.e. to know the whole through the study of individual parts), Waltz offers a systematic approach to international politics (1979, 38-59), which consists of two dimensions. First, a system is composed of interacting units; second, the system has a structure and it is the system-level components that enable the interacting units to form into a distinct set rather than a mere collection, from which two different types of changes are distinguished: changes of structure and changes taking place within the structure (Waltz 1979, 40). In light of Waltz’s systematic approach, neo-realism is “a theory of how the structural properties of anarchy provide a particular set of limitations upon possibilities for action in international politics” (Rosamond 2000, 132; see also Stone 1994, 449). Such an emphasis on the systematic level, however, does not diffuse neo-realism’s state-centrism, as neo-realists view the EU as “a mechanism for interstate cooperation that fulfilled the survival imperatives of a group of West European states [...] driven by the preferences of the most powerful states” (Rosamond 2000, 133). The first concern of states is their security and independence, and having been “sensitive to costs”, states tend to choose instrumental policy options that can guard and promote their security and independence (Grieco 1995, 27). In short, the hard core of neo-realism is made up of three assumptions: (1) nation states are the key actors in world politics; (2) they are conceived as unitary entities with instrumental rationality; (3) their preferences and choices are largely shaped by inter-state anarchy. In addition, neo-realism also holds that interstate negotiations are zero-sum games, which take

place in the arena of a regime with the outcomes shaped by, as well as reflecting, the distribution of state power within that regime. Due to the different external and internal environment for each state, the convergence of national interests and policy preferences is rare, so any attempt to build “a community *beyond the state*” is difficult (Cini 2010, 88, her emphasis). There are two assumptions inferred from neo-realism: the first one is that “states find it hard (but not impossible) to work together because of fears about cheating, dependency, and relative gains”, and the second one is that “international institutions are unable to dampen these state fears substantially, and therefore states do not ascribe much importance to them” (Grieco 1995, 27).⁷⁸ So the purpose to establish international institutions, such as the EU, is to “reduce the level of anarchy within the states system [sic]” (Cini 2010, 88) and institutional establishments are just “the by-product of a particular distribution of world power in the post-World War II era” (Grieco 1995, 27).

⁷⁸ Neo-realism as a theory is also in the process of revision and development (see Rosamond 2000, 133-135). Grieco (1995) applies neo-realism to analyze the Maastricht Treaty and EMU, from which he identifies four serious problems of the neo-realist approach to IR: (1) neo-realist assumptions of the instrumental rationality of states’ behavior and the limited importance of international institutions to states are put in doubt; (2) anarchy is not the major structural feature of Western Europe, and it is also not the key factor that shapes national preferences; (3) neither have member states decreased their support to the EC nor have they sought to rectify the ever growing asymmetric power and influence of Germany, as neo-realism posits that the purpose of cooperation is to balance against a more powerful third party; (4) other competing theories have generated more empirically plausible premises than neo-realism has done. Confronted with those theoretical challenges, Grieco put forward a revised neo-realist argument — the “voice opportunities” hypothesis: *“If states share a common interest and undertake negotiations on rules constituting a collaborative arrangement, then the weaker but still influential partners will seek to ensure that the rules so constructed will provide sufficient opportunities for them to voice their concerns and interests and thereby prevent or at least ameliorate their domination by stronger partners”* (Grieco 1995, 34). Thus EC institutional structures can be explained as a way for weaker states to secure mutual gains and to avoid becoming a vassal of the stronger partners (Grieco 1995, 34); the so-called “institutional rule trajectory” of EMU sketched by the Maastricht Treaty could induce and ensure a greater symmetry in voice opportunities for all member states in economic and monetary affairs (Grieco 1995, 36). The reason for the collective national decision to move from the EMS towards EMU is because the EMS has “become emphatically dominated by Germany”, and the creation of EMU provided member states opportunities to address previous asymmetries; meanwhile, the ideas of adopting competing currencies or a “hard ECU” (European Currency Unit) proposed by the UK got little support, because both proposals would continue Germany’s domination and control over European monetary policy (Grieco 1995, 37). Then why did Germany accept the would-be constraints on its power within EMU? Apart from the explanation from German domestic institutions, there are another two main reasons: first, EMU was shaped mainly by German propositions, such as setting price stability as the ECB’s primary goal, and Germany could also defend its interests via EMU institutional procedures; second, Germany needed a more effective EC coalition against its economic competitor — Japan (Grieco 1995, 38).

Realist and neo-realist state-centralism was inherited by intergovernmentalism, as Hoffmann declares clearly: “[t]he critical issue for every student of world order is the fate of the nation-state” (1966, 862). Intergovernmentalism shares neo-realist ideas that member states agree to cede or delegate authorities to supranational institutions only because these organizations serve their national interests best, in such a way that “[i]f the states wish, they can recall or revoke that authority” (Cameron 1992, 28). But the intergovernmentalist conception of the state is more sophisticated than that of realists, as Hoffmann claims that states, more than just “black boxes”, represent communities of identities and belongings (Cini 2010, 92; O’Neill 1996, 60): states are “constructs in which ideas and ideals, precedents and political experiences, and domestic forces and rulers all play a role” (Hoffmann 1995, 5). National interests, from an intergovernmentalist perspective, therefore cannot be simply reduced into power and status, but should include various historical, cultural and political factors (Cini 2010, 92; Hoffmann 1995, 5). This idea has been emphasized and illustrated by Moravcsik and Schimmelfennig’s (2009) re-account of national preference formation of the LI model.

3.2.2 Liberalism and Neo-liberalism

Another theory, neo-liberalism, is regarded as a source to the variants of intergovernmentalism, such as the domestic politics approach and Moravcsik’s LI (Cini 2010, 94). Neo-liberalism differentiates itself from neo-realism in three ways: first, neo-liberalism views states not as being “like units”, but polities of differently composed constituents which influence the totality of a state at the systemic level; second, “several games”, rather than “one undifferentiated game”, are conducted variously in international politics due to the unit-level variation; finally, the “state of nature” of international politics does not refer to wars, but cooperation among states (Stone 1994, 459). Consequently,

“Neorealism is a theory primarily about how states use power to bargain, threaten, and war with one another; neoliberalism is a theory about how state preferences are formed in the first place, before the bargaining begins. The overall mix of state preferences is the key variable of neoliberalism, not the distribution of capabilities: viewed as process, international politics work from the bottom up (whereas neorealist politics work from the system-level down).” (Stone 1994, 460)

Cini (2010) further points out the difference between neo-realism and neo-liberalism when those two IR theories are applied to EU studies:

“Whereas neo-realism is focused exclusively on politics between nations, neo-liberalism draws attention to the content of the “black box” of domestic politics and tries to address from where national interests originate. It therefore places the national polity, rather than just national executives, or governments, at the heart of the European integration project.” (Cini 2010, 94)

Neo-liberalism, as its name suggests, develops from classic liberalism, and Moravcsik (1993b) identifies his theoretical links to traditional liberalism. From Immanuel Kant, John Stuart Mill, Richard Cobden, Woodrow Wilson, Norman Angell, Joseph Schumpeter to John Maynard Keynes, traditional liberal thinkers can be divided into four groups: republican liberalism, pluralist liberalism, commercial liberalism and regulatory liberalism; however, these liberalisms, though providing distinct theoretical criticisms of realism, stand separately and fragmentarily, and Moravcsik tries to propose a single and coherent framework for them (Moravcsik 1993b, 1; 1997; 2001).⁷⁹ The basic premise of liberalism, Moravcsik contends, is that states are embedded in a social context of a specific domestic and international environment, which decisively constrains states’ actions (1993b, 7). Moravcsik suggests three core assumptions of liberalism: (1) “the fundamental actors in politics are members of domestic society, understood as individuals and privately-constituted groups seeking to promote their independent interests” (Moravcsik 1993b, 6-7); (2) “all governments represent some segment of domestic society, whose interests are reflected in state policy” (Moravcsik 1993b, 9); (3) “the behavior of states — and hence levels of international conflict and cooperation — reflect the nature and configuration of state preferences” (Moravcsik 1993b, 10).

Three variables are derived from those three core assumptions: “the representativeness of domestic institutions”, “the level of social equality and cohesion”, and “the extent of transnational economic interaction” (Moravcsik 1993b, 16; see also Stone 1994, 460). The core assumptions of liberalism characterize its difference to realism: the former emphasizes domestic preference formation, while the latter interstate bargaining (Moravcsik 1993b, 11). All in all, liberalism takes preference

⁷⁹ Moravcsik (1997) further distinguishes three major variants of liberal theory: ideational liberalism, commercial liberalism, and republican liberalism.

formation as a key determinant of interstate bargaining outcomes (Moravcsik 1993b, 13). Moravcsik proposes three advantages of liberalism over realism: first, it offers a historical rather than a static or cyclical view on international politics; second, it “goes beyond explanations of aggregate levels of cooperation and conflict” and “predicts the substantive content of state policies”; and finally, it has both an unit-level and a systemic dimension (Moravcsik 1993b, 36-37). Nevertheless, Moravcsik advocates “a productive synthesis” of both liberalism and realism, as he writes:

“By formulating Liberalism as a theory of the formation and interaction of state preferences and Realism as a theory about the effect of the strategic environment on interstate bargaining, the two become theoretically compatible. Both theories share a common underlying model of international politics [...] based on the assumption of rational state action in international bargaining, but shifting preferences.” (Moravcsik 1993b, 37)

The synthetic result is a hybrid paradigm that Moravcsik calls “minimalist liberalism”: the priority of preferences over capabilities (Moravcsik 1993b, 14-16).⁸⁰ No wonder Forster comments that the core ideas of LI are “essentially neo-realist with an interdependence corrective”, as it “grafts liberal interdependence theories onto regime theory” (1998, 349). When explaining the intellectual sources to his “intergovernmental institutionalism” (Moravcsik 1991) (the precursor to his later LI), Moravcsik says his theory is consistent with Robert Keohane’s “modified structural realist” proposition, which stresses the traditional notion of national interests and power (Moravcsik 1991, 21). While affirming his realist foundations, Moravcsik states his theoretical difference from modified structural realism: regime (i.e. EC) reform is caused not only by the changes of power distributions but also by the changes of state interests, because the changing state interests could be decisive to the European integration process in which, nevertheless, the shifts in the relative power of states may not be traced (Moravcsik 1991, 27). Compared with classic realism, Moravcsik contends that economic interests rather than geopolitical interests are essential to the formation of national preferences, which, at the same time, vary from issue to issue and are in flux due to different group coalitions in domestic politics; furthermore, interstate

⁸⁰ In comparison, Moravcsik describes “maximalist liberalism” as follows: “[i]nterstate conflict is likely when the underlying conflict of interest between the social groups represented by each state is high, while cooperation is more likely when conflict of interest between the social groups represented by each state is low” (Moravcsik 1993b, 13).

bargaining can result in positive-sum rather than simple zero-sum outcomes (Hix 2005, 16).

This section explains the theoretical roots for traditional intergovernmentalism and its variants, and the section thereafter will present the evolutionary trajectory of intergovernmentalism from Hoffmann's (1966) the "logic of diversity" to Taylor's (1975; 1982) and Wallace's (1982) confederalism, Bulmer's (1983) domestic politics approach, Putnam's (1988) "two-level games", then to the theories of the "locking-in" of states which are typically represented by Scharpf's (1988) joint-decision trap, Wessels's (1997) fusion thesis and Pierson's (1996, 1998, 2000) path dependence, and finally to Moravcsik's (1991, 1993, 1998) LI and Moravcsik and Schimmelfennig's (2009) modifications and supplements to LI. The hypotheses on intergovernmentalism will be derived on the basis of the revised LI model suggested by Moravcsik and Schimmelfennig (2009).

3.3 Hoffmann's Intergovernmentalism and the Critiques

Generally, the systematic intergovernmentalist studies on the European integration project are believed to start with Hoffmann (1966) (e.g. Cini 2010; Lelieveldt and Princen 2011; Rosamond, 2000) as Cini (2010, 90) once commented that "[i]t was Stanley Hoffmann who laid the foundations of the intergovernmentalist approach to European integration". While observing de Gaullism within the Community in the mid-1960s, Hoffmann (1966) argued that neo-functionalism had failed to grasp the enduring impact of national interests on the European integration process. From Hoffmann's perspective, a nation state not only is "a form of social organization", but also "a factor of international non-integration" (Hoffmann 1966, 862). National interests, as the core of IR theory, are the multiplied results of specific national situations and different outlooks (nationalist or non-nationalist) of the foreign policy-makers, which Hoffmann formulates as follows: "N.I. = National situation X outlook of the foreign policy-makers" (Hoffmann 1966, 869). As a consequence, the propelling power for European integration is "severely constrained by the associates' views and splits on ends and means" (Hoffmann 1966, 881). Moreover, "[c]oming from diverse pasts, moved by diverse tempers, living in different parts of the house, inescapably yet differently subjected and attracted to the outside world" (Hoffmann 1966, 865), the Community's member states have various responses to their domestic and external environments, so it is difficult to forge converged national interests to build up a community beyond nation states. Based on those analyses, Hoffmann argues for the "logic of diversity" as the fundamental dynamic principle among member states against the neo-functionalist "logic of integration".

Table 3.1 Hoffmann's Comparison of the "Logic of Diversity" with the "Logic of Integration"

	The neo-functionalist "logic of integration"	The intergovernmentalist "logic of diversity"
Spillover effects	The necessity of functional integration of social sectors and the actions of the supranational agents push European integration forward. National situations are enmeshed in one supranational entity where national consciousness has been impregnated by an awareness of the higher interests in union. The freedom of movement of the national governments has been gradually restricted. (the neo-functionalist "spillover" thesis)	The degree of the "spillover" process and the scope of functional integration are limited and restricted by the diverse national interests.
National diversities	Ambiguity (i.e. national diversity) helps rather than hinders EU integration, as each "ingredient" can hope that its influence will prevail at the end; a "blender" synthesizes and overcomes individual different tastes, and presumably replaces them with one.	In areas crucial to the national interest, nations prefer the certainty or the self-controlled uncertainty of national self-reliance to the uncontrolled uncertainty of the untested "blender".
National gains through integration	Integration is a win-win game: member states' overall gain will exceed their occasional losses, and it is also possible to fool each member state some of the time.	Integration is a zero-sum game: on a vital issue, losses are not compensated by gains on other (and especially not on other less vital) issues; nobody wants to be fooled.
The supranational function process	The logic of integration deems the uncertainties of the supranational function process creative.	The logic of diversity sees the uncertainties of the supranational function process as destructive past a certain threshold: the functional integration's gamble can be won only if the method had sufficient potency to promise a permanent excess of gains over losses, and of hopes over frustrations; and this may be true for economic integration while not for political integration ("high politics").

Sources: Adapted from Hoffmann (1966, 881-882).

Obviously, Hoffmann rejects the neo-functionalism spillover thesis, highlights different national interests and preferences among member states, and emphasizes both the internal domestic arena and the global context where integration takes place as national diversity arises from the unique context of internal domestic politics and a country's status in an international system; hence, national domestic politics and the external environment are regarded as two "inexorable centrifugal forces placing limits on European integration" which have been neglected by neo-functionalism (Cini 2010, 91; see also Rosamond 2000, 76). From Hoffmann's point of view, the European integration project, due to the "logic of diversity" and the limits of functional methods, would halt when member states started quarrelling over what integration is for (Hoffmann 1966, 886) and the prospect for European integration "might simply be the agglomeration of many smaller nation-states into fewer, bigger ones" (Hoffmann 1966, 911). Hoffmann emphasized three things. First, interstate cooperation may lead to the set-up of European institutions with a varying degree of autonomy, power, and legitimacy, but no transfer of allegiance or loyalty advocated by neo-functionalism happens, and meanwhile, the authority of these institutions is "limited, conditional, dependent, and reversible" (Hoffmann 1966, 909). Second, while looking forward to gaining benefits from European integration, member states assume various roles, as an initiator, a pace-setter, a supervisor, and in some cases, a destroyer in the process; the nation state is "still the highest possessor of power" (Hoffmann 1966, 909) — they give the justification for his article title: nation states are "obstinate" rather than "obsolete". Nation states, from Hoffmann's point of view, are "modified but omnipotent", ever being the core actors in European integration (O'Neill 1996, 60). Finally, Hoffmann makes a distinction between economic integration and political integration, with the former termed "low politics" and the latter "high politics" (Cini 2010, 91).⁸¹ There are clear boundaries between the two types of politics: "high

⁸¹ Hoffmann unequivocally uses "high politics" to refer to political integration in his 1966 article, but gives no explicit and exact usage of the term "low politics". In Hoffmann's 1964 article (89-90), he distinguishes two different realms: the welfare area and the area of high politics. Nye (1971, 197) follows Hoffmann, writing that "[t]hese latter types of electoral or 'support' politicians tend to be guardians of the security and 'pooled self-esteem' aspects of national life that Stanley Hoffmann has referred to as 'high politics'", but Nye specifically uses the term "low politics", as he argues: "[t]his is not to say that all economic issues are emotionally laden 'high politics' in less developed countries and technically soluble 'low politics' in developed settings" (1971, 228). Later when O'Neill (1996, 65) accounted for Hoffmann's ideas, he wrote: "[c]ommentators who have taken this line of thought have challenged Hoffmann's rather dogmatic conviction that, while transnational cooperation and the sharing of functions might well occur in those 'low' policy or functional issue areas which did not

politics” refers to issues touching on national sovereignty and national identity (e.g. military defense and foreign policy), while “low politics” associates with less controversial and more technocratic policy areas (e.g. various economic sectors); the former is “impermeable” to integration, whereas functional spillover might occur in the latter (Cini 2010, 91-92; O’Neill 1996, 61). As a result, European integration is of “the dialectic of fragmentation and unity” (Hoffmann 1966, 908), and nation states’ resilience contributes to the coexistence of nation states with the European enterprise (O’Neill 1996, 64).

Hoffmann’s intergovernmentalism has been criticized in two ways. First, his rigid demarcation between high and low politics has been disproved by reality and rejected by scholars. The development of European Political Cooperation (EPC) (the forerunner of European foreign policy), the introduction of the single currency, the establishment of the CFSP, and the creation of the European External Action Service (EEAS), all have demonstrated that there is a certain degree of integration in the so-called “impermeable” high politics. Particularly, the CFSP and EMU are regarded as “instances where member states *willingly* surrendered control over issues of central importance to national sovereignty” (Rosamond 2000, 79, his emphasis). In addition, comparative foreign policy analyses have suggested that “the distinction between ‘low’ and ‘high’ politics is flawed”, as at least high politics, such as foreign policy, “depends to a large degree on the nature of the political institution and domestic structures in general” (Risse-Kappen 1996, 57). Along with the progress of the EC, Hoffmann also admits that there are limits to the distinction between high and low politics (Cini 2010, 92). Second, Hoffmann failed to see the novelty and the complexity of the European integration project, and intergovernmental bargains, immersed in unique domestic contexts, should not be simply reduced to a set of national interests (Rosamond 2000, 79); meanwhile, he played down the constraints imposed on states by the external factors as well as the increasing “interdependence” among national states: states cannot always act unconstrained, and at least some regional issues or global problems require common solutions (Cini 2010, 92; O’Neill 1996, 65-68). In spite of these weak points,

challenge to any great extent fundamental national interests, the scope for such integration in the more sensitive areas of ‘high’ politics remained slight”. He continues: “[t]he case for holding out for such a rigid demarcation between those areas of low political significance available for integration and core national interests, was questioned on the basis of accumulated evidence from students of contemporary political economy” (O’Neill, 1996, 65). This suggests the distinctive contrast of “high” and “low” politics.

Hoffmann's theory has exerted a great impact on later research: it has broken new ground for various intergovernmentalist approaches to the EC in later days, especially for confederalism, the domestic politics approach, the "locking-in" of states, and Moravcsik's LI.

3.4 Confederalism

In response to the very changes of circumstances and new institutional procedures adopted by the EC during the 1970s, such as the development the EPC and the formalization of the European Council (the latter becomes an EU institution since the Lisbon Treaty), another new approach to the EC, confederalism, emerged. It was mainly developed by Paul Taylor (1975; 1982) and is regarded as "the most cogent attempt" to make a theoretical revision to intergovernmentalism (O'Neill 1996, 70).

Confederalism is a perspective on a special form of intergovernmental arrangements where "national sovereignty remains intact despite the establishment of a common institutional framework" (Cini 2010, 93), and a confederation is always taken as the antithesis of a federation⁸² (O'Neill 1996, 70-71). Compared with intergovernmentalism, confederalism recognizes the distinctive institutionalized nature of the EC and regards these institutional devices as practical procedures to smooth conduct of interstate relations and to facilitate cooperation among member states (O'Neill 1996, 71). The European integration project, therefore, is seen as a kind of international club where member states rationally regroup themselves in order to survive the ravages of global changes and to cope with common exigent pressures and problems better, yet keeping their distinctive and abiding national interests precluded from deeper integration (O'Neill 1996, 71). Taylor elaborates:

"Each state perceived the benefits of membership in the club for its own interests but also, in the existing institutional context, was reminded of the costs of moving towards greater "supranationalism" in the procedures for

⁸² Regarded as two distinct ways to organize political systems and providing two different political models, a confederation "involves a loose grouping of states, characterized by the fact that *the centre has fewer powers than the states or regions*" (Cini and Borragán 2010a, 440), whereas a federation "involves the constitutionally-defined sharing of functions between a federal centre and the states", which "will usually have a bicameral parliament, a constitutional court and a Constitution" (Cini and Borragán 2010a, 444). William Wallace (1982, 60-61) discusses the definition of a federation and suggests the distinction between a federation and an international regime "lies in the presence or absence of authority and resources at the centre which effectively limit the behavior of the member states and which impose obligations on them which are generally accepted".

coordinating foreign policy. The state of each member in diversity was increased by the very procedures that were intended to assist with coordination. [...] In reinforcing the governments' propensity to stress their immediate separate interests within the common system, the problems of tackling "positive" integration were increased: governments become less willing to make the kind of mutual commitment necessary in those politically more sensitive areas." (Taylor 1982, 764)

Taylor (1975, 336) divides the European integration process into three chronological stages: the Federal phase (from 1950 to 1954), the neo-functional phase (from 1955 to 1969), and confederal phase (after 1969). As European integration entered a confederation phase, it carried three major features: "first, the broadly defensive stance of the governments in their conduct of relations with the Brussels institutions; second, the appearance of a system of political interaction which may be called a 'managed Gesellschaft'; and third, the oscillation between advanced schemes for integration and retreats into nationalism which can be seen in the stated intentions of governments" (Taylor 1975, 336). So in light of confederalism, governments confronted with an increasing range of regional constraints are expected to become more defensive to their sovereignties, because the process of losing authorities to the European Community and the influence of nongovernmental international organizations have pushed members states to be more watchful and alert (Taylor 1975, 337). The governmental defensive style decides the inborn nature of the institutions of the Community: the Commission was created for the purpose that it would "draw up detailed proposals to which governments could respond at greater leisure" (Taylor 1975, 339), and the powers of the Brussels institutions "are exercised within the framework of policies agreed on by national governments and only with their approval" (Taylor 1975, 343). Therefore, the development of EC institutions does not pose a fundamental challenge to the existence of national governments.

Regional integration in Europe, from the confederalist point of view, is a political strategy of European nation states to pursue their own national interests, and a way for them to maximize their common interests and their global leverage through collective action; the bottom line of integration is the inviolability of national sovereignty (O'Neill 1996, 74-75). A confederal Europe has been forged by regional cooperation where "the scope of integration is extensive (a wide range of matters has been brought within the integrated area), but the level of integration is low" (Taylor 1975, 343). Although there is an integration tendency in the juridical aspect of the EC,

confederalists stick to the belief that “the critical boundaries between the domestic and Community competencies remained intact” (O’Neill 1996, 75), as Taylor argued, “the Community legal system was indeed unique, and might be justifiably called supranational, but it was still an expression of the states’ adjustment to new conditions. [...] the supranational elements helped states to survive rather than placed them in new integrated structures” (Taylor 1983, 53).

Obviously, confederalism, like the intergovernmental model, also holds that the states are the central actors in regional integration, and “further progress towards integration was the reassertion of the separate identity of the government actors and their engagement in a higher level of diplomacy than had hitherto been the case” (Taylor 1975, 349). States are strengthened via integration. As the confederal phase of European integration is “decentralized but highly interdependent, potentially autarchic but in practice united by entrenched practices of consultation” (Taylor 1975, 343), confederalists believe that European integration will not ultimately lead to a European unification, but a Community which, due to the paradox of the need for more effective common action and the inability or unwillingness of the member states to concede their authorities (William Wallace 1982, 68), “is stuck, between sovereignty and integration” (William Wallace 1982, 67). The success of neo-functionalism’s explanation of the early development of the Community “depended upon national governments not noticing — in effect — the gradual draining away of their lifeblood to Brussels” (William Wallace 1982, 64-65). The Community, complementing rather than displacing national activities, is neither supranational nor international, but “extranational” and “alongside”, not above or below, the nation state (William Wallace 1982, 65-66; see also Pinder 1981). The fate of the Community is predicted to drift towards an international regime if the Community’s authority is continuously undermined by worse external and internal situations (William Wallace 1982, 68), and such a view is similar to the neo-functional prediction on the future of the Community though traditional neo-functionalists neglect domestic factors and the external environment.⁸³ All in all, confederalists view institutions as primarily being functional and technical, which, nevertheless, leads to the critiques against the approach itself: it focuses on

⁸³ Different to Taylor’s rejection of the EC’s legal integration, William Wallace values the importance of supranational law in differentiating confederalism from intergovernmentalism (see Cini 2010, 93), and this demonstrates an early reconciliation and convergence between neo-functionalism and intergovernmentalism.

institutions rather than on processes, on structures rather than on functions — it looks like a theory of formality, so it lacks the power to account for the political status and the dynamics of the Community (O'Neill 1996, 73). Nevertheless, confederalism has its merits: it bridges the gulf between two previous mutually exclusive paradigms — supranationalism and state-centrism; it sees European integration as a two-way process, opening up a new line of debate of the intrinsic paradoxes (nationalism v.s. supranationalism) embedded in regional integration politics (O'Neill 1996, 77-78). In line with confederalism, later Taylor (1993) put forward a new concept, “consociationalism”, arguing that there is a symbiotic relationship between the member states and the EC where, though the processes of consociationalism proceed alongside the neo-functional dynamics of integration, national sovereignty has not been challenged fundamentally and states are also strengthened via integration (see also chapter two of this dissertation). The gap between the traditional dialectical dichotomous approaches is further filled, as Taylor’s consociationalism acknowledges the value of supranational institutions and admits certain propositions of neo-functionalism.

3.5 The Domestic Politics Approach

The domestic politics approach, which focuses on the impact of domestic politics on EC policy-making, is another theoretical development and revision of the previous intergovernmentalism (Bulmer 1983). Though not considered as a theory of European integration *per se*, the domestic politics approach is the origin of today’s so-called “Europeanization” literature, and it links Hoffmann’s intergovernmentalism to later state-centric theories, especially LI (Cini 2010, 94).

From the 1970s, European studies began to focus on various EC policy-making patterns in different policy areas, yet until to the early 1980s, there still lacked research on “the linkages between the domestic and EC tiers” (Bulmer 1983, 349). Bulmer defines the term “domestic politics” in three ways (Bulmer 1983, 352-353). First, it is used to explain how policy-making at the EC level is affected by the behavior within the member states where various domestic sources have shaped different national negotiation positions. Second, it highlights the fact that “the lower decisional tier of the EC” is influenced by the policy environment that differs between and within member states for different policy areas. Third, it emphasizes nation states’ positions or strategies in an increasingly interdependent world of various international regimes and

regional organizations: nation states decide at which level to defend their interests, that is, whether the EC is the best choice when there are economic crises and uncertainties.

Bulmer's analysis adds another dimension to Taylor's confederalism, as Bulmer examines the links between national domestic politics and the Community and tries to explain how the former vitally affects policy-making of the latter. There are two aspects of those links: one is the domestic policy-making *structures* and the other is the *attitudes* of the member states towards the EC (Bulmer 1983, 350). Bulmer combines these two to analyze the behavior of individual national states within the EC and adopts the concept of "policy style" as an analytical framework to examine different policy environments for nation states (Bulmer 1983, 352). Originally, Richardson et al. (1982, 13) defined the term "policy style" as "the interaction between (a) the government's approach to problem-solving and (b) the relationship between government and other actors in the policy process" (see also Bulmer 1983, 352). Bulmer borrows the idea of "policy style" to explain both national policy-making and the integration process, and argues that integration follows the logic of decision-making processes — not vice versa as claimed by neo-functionalism — which originate from the power structures of the nation states (1983, 353). Altogether, Bulmer (1983, 354) puts forward five assumptions for the domestic politics approach: (1) "The national polity is the basic unit in the European Community"; (2) "Each national polity has a different set of social and economic conditions that shapes its national interests and policy content"; (3) "European policy only represents one facet of a national polity's activity"; (4) "In formal terms the national governments hold a key position at the junction of national politics and Community politics"; (5) "The concept of policy style is employed to analyze the relationships between government and other domestic political forces *vis-à-vis* European policy".

Though domestic politics research uses "national polity"⁸⁴ instead of "national government" so as not to pre-suppose intergovernmentalism (Bulmer 1983, 356), these five assumptions serve as detailed evidence to support intergovernmentalist state-centrism. The domestic politics approach contributes to European studies in the way that it connects specific national cases with the policy-making results at the supranational level, and more importantly, it provides a coherent way to measure the relations between the two levels, which is absent in classical intergovernmentalism (Cini 2010, 94).

⁸⁴ Cini and Borragán (2010a, 450; 2013, 402) defines "polity" as "a politically organized society".

3.6 The “Locking-in” of States

Another kind of evolution of intergovernmentalism is the approach of the “locking-in” of states, which emphasizes the importance of institutional factors and explains “how states have become *locked into* the European integration process” (Cini 2010, 95, her emphasis). These types of theories and research methods draw on literature from transnational relations through the lens of comparative politics, especially from the concept of “interlocking politics” (*Politikverflechtung*) which, in German federalism studies, focuses on “interactions between different levels of government” (Cini 2010, 95), “particularly horizontal and vertical linkages among state and non-state actors on the regional and national levels” (Risse-Kappen 1996, 61). To be more specific, “interlocking politics” is defined as “the establishment of intermediating structures linking the politics — namely, the decision processes — and policies — the substantive responsibilities — of initially autonomous organizations” (Lehmbruch 1989, quoted in Risse-Kappen 1996, 61). Indebted to the idea of “interlocking politics”, theories of the “locking-in” of states are represented by Scharpf’s joint-decision trap, Wessels’s fusion thesis, and Pierson’s path dependence (Cini 2010, 95-96).

3.6.1 Scharpf’s Joint-Decision Trap

Scharpf views the European integration progress until the 1980s as a paradox of “frustration without disintegration and resilience without progress”, which should be systematically examined and analyzed from the Community’s decision pattern: the “joint-decision trap”, a term first ascribed to West Germany’s institutional context of federal-*Länder* (states) relations and then utilized by Scharpf to describe the EC’s “characteristic pattern of policy choices under certain institutional conditions” (Scharpf 1988, 242).

Compared with the US federal model where the federal government, while carrying out nationalized functions effectively, formally functions independently from each American state, German federalism has offered an idea as well as practice of sharing many of the important governing functions between the *Länder* governments and the federal government, which, Scharpf believes, is comparable to explain the relations of the EC and its member states despite the fact that the EC’s relations with its member states are much weaker than that of the German federal government with its *Länder* (Scharpf 1988, 242-245). Scharpf offers a parallelism between European and

German institutions. Just like the most prominent feature of the German institutions, labeled as “*Politikverflechtung*”, where member governments are directly participating in central decisions and unanimous consent prevails at the federal level,⁸⁵ EC policy-making is also characterized by these two conditions: (1) individual states’ direct participation in EC policy-making and (2) the unanimous voting mode to reach agreements, based on which Scharpf puts forward his “joint-decision trap” (Scharpf 1988, 244). The “joint-decision trap” entails “two simple and powerful conditions” of institutional arrangements: one is that “central government decisions are directly dependent upon the agreement of constituent governments”; the other is “the agreement of constituent governments must be unanimous or nearly unanimous”, and it is these institutional structures that cause the substantive deficiencies (i.e. inefficient, inflexible, unnecessary, and quite undemocratic) of joint policy-making in both West Germany and the EC (Scharpf 1988, 254). Two features characterize the “joint decisions”: one is intergovernmental negotiation and bargaining, and the other is the unanimity rule (Scharpf 1988, 254). The first one opposes federal or supranational decision-making rules, while the second one rejects the majoritarian decision-making system, and the EC’s policy outcomes follow from these rules (Pollack 1996, 440). After distinguishing and analyzing the specific combination of a decision style (i.e. “problem solving”, “bargaining” or “confrontation”) with a decision rule (i.e. “unanimous”, “majority” or “unilateral/hierarchical” assent) which determines the capacity of the decision system, Scharpf concludes that “it is the combination of the unanimity rule and a bargaining style which explains the pathologies of public policy associated with joint decisions in Germany and in Europe” (Scharpf 1988, 265).

Here rises the vulnerability/trap of the joint-decision systems if no agreement sets in: “they may be incapable of reaching effective agreement, and they may lose the independent capabilities for action of their member governments”, and consequently, “their overall problem-solving capacity may decline” (Scharpf 1988, 258). In an ongoing joint-decision system, the exit option is foreclosed, and non-agreement would “assure the *continuation* of existing common policies” and thus formulate a “fault condition” (Scharpf 1988, 257, his emphasis; see also Pollack 1996, 440). Alter (1998) offers a concise summary of Scharpf’s theory: “a joint-decision trap emerges when (1) the decision making of the central government (the Council in the case of the EU) is

⁸⁵ For more literature references to “*Politikverflechtung*”, see Scharpf (1988, 244).

directly dependent on the agreement of constituent parts (the member states), (2) when the agreement of the constituent parts must be unanimous or nearly unanimous, and (3) when the default outcome of no agreement is that the status quo policy continues” (Alter 1998, 137).

As for the EC, “joint-decision traps” illustrate situations “where governments are locked into undesirable policies by the need to muster unanimous support for any new legislation or treaty amendment” (Moravcsik 1998, 491). National member states, as not entirely being satisfied by what integration has offered, are trapped in the Community without escape so long as retreating from integration is not an option, and this may cause the slowed-down of the integration process (Cini 2010, 95). As a matter of fact, the “joint-decision trap” is “an institutional arrangement whose policy outcomes have an inherent (non-accidental) tendency to be sub-optimal” (Scharpf 1988, 271).

The joint-decision trap makes it difficult for the Community to reform its existing policies and institutions. As unanimous intergovernmental voting is required to make changes, member states are “locked” into existing policies and institutions and even some of these may manifest inefficiency or unfairness, such as the persistence of the CAP despite the ever-growing agricultural product surpluses and the Community budgetary system in the 1970s and early 1980s (Scharpf 1988, Pollack 1996, 441). So once being created, policies and institutions tend to “remain in place, rigid and inflexible, even in the face of a changing policy environment” (Pollack 1996, 440). Due to unexpected internal and external challenges, however, EC institutional changes are not impossible, which would imply the acceptance of short term losses for some member states (Scharpf 1988, 271). The vulnerability of the joint-decision systems also suggests the possibility to overcome this trap: a member state can adopt confrontational bargaining styles, like threatening to exit or exchanging something that others want, and then “intensely held interests by one state can lead to hard bargaining and reform of entrenched policies if the state will subjugate other issues to a single goal” (Alter 1998, 140).

Scharpf argues that previous neo-functionalism, though having made “several varieties of *ad hoc* explanations” by including “background” or “historical uniqueness of De Gaulle and his personal intervention” variables in the theory, does not treat institutional arrangements as a powerful independent variable (1988, 266). From Scharpf’s point of view, EC institutions do matter, and the “joint-decision trap” is set

up by the EC's two institutional conditions where national governments are making European decisions which, nevertheless, require unanimity. Such a joint decision-making system is also attributable to the blocking of the EC's further institutional evolution as it tends to preserve the institutional status quo and institutional reform is not a political priority (Scharpf 1988, 267). Besides, Scharpf disagrees with other neo-functionalism presumptions: in spite of an integration trend in Community law, national control exercised in the decision processes is not weakened, but gets strengthened (1988, 268); so long as national governments want to preserve their veto rights, learning processes, which may lead to institutional transformation suggested by neo-functionalism, will not happen (Scharpf 1988, 269); interest groups' pro-integration pressures "seem to be blocked or seriously weakened", as national governments are the final Community decision-makers, who mediate between interest groups and the Community and whom interest groups have to persuade, and the loyalty transfer claimed by neo-functionalists is unlikely to happen; moreover, due to "the pathological decision logic inherent in its basic institutional arrangements", the dynamic process moving towards "a higher level of political integration" "have been retarded and, perhaps, reversed" (Scharpf 1988, 269). However, Risse-Kappen (1996) holds that as the EU evolves into a multi-level structure of governance in which informal networking could join the initiation and preparatory stages for intergovernmental negotiations, Scharpf's "joint-decision trap" argument becomes not so convincing, because by exploring the informal networks through which deliberative processes can be systematically incorporated over formalized bargaining, this kind of trap can be avoided (Risse-Kappen 1996, 73). Furthermore, as the "joint-decision trap" is conditioned by three rules, intergovernmentalism, unanimity and the default condition of a status-quo, any changes in these three (e.g. from the unanimous voting mode to a supranational or QMV mode, the expiration of policies and institutions or their periodical reauthorization) could lead to the failure of Scharpf's locking-in model (Pollack 1996, 441).

3.6.2 Wessels's Fusion Thesis

In view of various paradigms and approaches to account for the EU, Wessels advocates a dynamic middle range theory to understand the integration process, that is, researchers "should look for indicators and factors to explain the evolution of a political system in a delimited area and over a delimited period of time — Western

Europe after World War II”, and moreover, it is “appropriate to pursue a macro-political approach using overall aggregate data —as far as they exist — to identify fundamental trends” (1997, 270); in other words, macro-political and micro-political approaches should be integrated into EU studies. Accordingly, Wessels (1997) combines macro-political approaches with aggregate data to test four different propositions regarding the dynamic integration process of the EU (i.e. how the EU has evolved and will develop) on the basis of previous academic discussions and their different readings of the Maastricht Treaty:

(1) The neo-functional/neo-federal assumption of a linear growth of the EU. This hypothesis is drawn from Haas’s neo-functionalism (1964, 1968) and Schneider’s neo-federalism (1986) with the expectation of the EU forming a federal union in a rather smooth process (Wessels 1997, 273; see also Pinder, 1991, Schneider and Wessels, 1994). Consequently, the Maastricht Treaty is regarded as an incremental step, not a qualitative jump, forward to the federal union (Wessels 1997, 273).

(2) The governance/pendulum view of cyclical ups and downs. This hypothesis is formulated on the basis of Helen Wallace’s pendulum thesis (Helen Wallace 1996, 12), which depicts the European integration process as “some kind of cyclic up and down between ‘fusion and diffusion’” (Wessels 1997, 273, his emphasis; see also Helen Wallace 1996, 13). As a result, the Maastricht Treaty is taken as “a more permanent fixture” where these oscillating ups and downs would lead the EU to an “unstable equilibrium” (Wessels 1997, 273; see also William Wallace, 1996, 450).

(3) The realist view of a declining development of the EU. This hypothesis comes from the literature of realism and stresses the idea of “geopolitical revolution” (e.g. William Wallace 1996, 443) where a “radical transformation of the political context” would cause the EU to disintegrate back to a nation-state system as in the old days. In light of such a realist view, the Maastricht Treaty is “already outdated at the time of its signature”, and there should be other clear evidence of the decline of the EU to prove its disintegration tendency (Wessels 1997, 273).

(4) The fusion thesis of structural growth and differentiation. This is the hypothesis that Wessels tries to validate. He argues that the EU has witnessed “long-term trends of considerable structural growth and differentiation, which are sometimes overshadowed by cyclical ups and downs”, and the prominent feature of this process is the “fusion” of public instruments from several state levels linked with the respective Europeanization of national actors and institutions (Wessels 1997, 273).

In order to improve their problem-solving efficiency and effectiveness, member states, having been involved in ever-increasing interdependencies with each other against the background of globalization, will make rational choices turning to EU institutions so as to provide their citizens' welfare services better, but still struggle to keep their ultimate say. As a result, the process and the fate of European integration are closely linked to the evolution of the member states (Wessels 1997, 273-74). Wessels uses the term "fusion" to characterize the European integration process: more than referring to "a horizontal 'pooling of sovereignties'", "fusion", particularly drawing its inspiration from Scharpf's works on "cooperative federalism" (1976) and "*Politikverflechtung*" (1985, 1988), means "a 'merger' of public resources located at several state-levels", and consequently, the responsibilities and the accountability for specific policies are diffused and thus cannot be traced (Wessels 1997, 274).

Wessels chooses five indicators to judge the EU as an evolving system from the 1960s to the 1990s. They are:

(1) Binding outputs. Judging from the large quantity of quasi-legislative and administrative outputs, such as the legislative outputs from the Council and the Commission, so-called "soft law",⁸⁶ and the Community's budgetary means, the EU moved towards a high level plateau and beyond (Wessels 1997, 275-78).

(2) Scope enlargement of public policies. The number of policy fields pursued by the EU has been increasing considerably, indicated by, for instance, the increasing number of ministerial compositions of the Council and of the working groups of the Council, which suggests the scope of the EU's agenda set-ups is towards a state-like being (Wessels 1997, 278-79).

(3) Transfer of competences. There is a tendency of transferring national competences for the operation of state-like public policies to the European level; however, this means a challenge to nation states, so the Maastricht Treaty introduced the subsidiarity clause to limit the transfer of competences. Still, via "package deals", national interests are merged, leading the EU to evolve into a mixed system where there is "a messy and ambiguous vertical division of labor between the national level and the EU level, [...] with a highly differentiated 'mixture' of public instruments

⁸⁶ Wessels (1997, 276-77) explains that "soft law" refers to the declarations of the European Council or decisions taken in the second and the third pillar of the EU, "which are not subject to control by the Court, but have nevertheless some kind of binding character and further impact"; less binding agreements like action programmes also get presented in the first pillar.

located originally on several levels” (Wessels 1997, 279).

(4) Institutional growth and procedural differentiation. There is a growth of EU institutions and increasing procedure differentiation within the EU policy cycle. Most notably, national governments and administrations are participating in all phases of the EU’s policy cycle comprehensively and intensively, and a process of Europeanization results (Wessels 1997, 280). Europeanization exerts its impact on nation states, leading member states into “a functional and sectoral decentralization” and “a political deparlamentarization” (Wessels 1997, 282).

(5) Involvement of intermediary groups in channels of influence. There are widening and deepening channels for intermediary groups to access and exert influence, contributing to a feature of the EU: the asymmetrical involvement of various groups has been forging the EU as “a diversified, atomized and complex political space with many, though not all, national actors” (Wessels 1997, 282-84).

All indicators above, combined with data analyses, have hit home the argument that the EU process is characterized by considerable growth and differentiation, exhibiting the trends of merging public resources at several state levels while causing “increasing complexities, a lack of transparency as well as difficulties in reversing current development” (Wessels 1997, 267). Wessels explains the observed trends as a dynamic “closer fusion” caused by “rational strategies of European welfare states faced with growing interdependencies and spillovers, furthered by the institutional logics of EU bodies” (Wessels 1997, 267). The fusion thesis formulates three patterns to explain the evolution of EU member states. Pattern one refers to the erosion of the virtuous circle where “the stability of parliamentary democracy, the evolution of the welfare and service state, and the growing economy have reinforced each other” (Wessels 1997, 285). This virtuous circle has transformed into a vicious one as increasing interdependencies deprive national governments of means to fulfill their role and to maintain the balance between socio-economic performance and democratic legitimacy, that is, the emerging gap between “the high demands for allocative (regulatory), distributional (welfare) and stabilization (macroeconomic) policies of the state” and “the decreasing ability of governments to use effective instruments” leads to disappointment among the citizens and thus the loss of citizens’ support for the government and for political parties. As a “mutually reinforcing correlation between economic growth and political stability” is at stake, nation states resort to the EU to guarantee expected performance so as to ensure legitimate support and political

stability. Though nation states try to participate in EU decision-making directly and intensively so as to maintain their sovereignty, such turning to the EU would “undermine some fundamental pillars of its own constitutional foundation”, and “[f]or the sake of its own political stability, the state has to promote a process which leads to its very erosion” (Wessels 1997, 286). This leads to pattern two: how to break the vicious circle? The exits from the “multilevel dilemma” — institutional inefficiencies and sovereignty erosion — lie at the core of the fusion thesis which assumes that the EU, serving as an efficient and effective public instrument for its member states, is the “third way” for national governments to realize their own interests while rising above being seized-up “between a *de facto* erosion (intergovernmental exit from the multilevel dilemma) and a constitutional erosion (federal exit from the multilevel dilemma)” (Wessels 1997, 287). Through “fusing” both national and supranational instruments, nation states, as being the “masters of the treaties”, still maintain “a major say through broad and intensive participation” on the EU level while taking the advantage of EU institutions and procedures as effective public instruments to serve their citizens’ welfare (Wessels 1997, 287). This joint-policy-making pattern leads to pattern three: the spillover thesis does work and there is even a territorial spillover to the European Free Trade Association (EFTA), as several former EFTA members (i.e. the UK, Denmark, Portugal, Austria, Sweden, and Finland) applied to join the Community while exiting from the EFTA and the fact is that “the governing elites of the EFTA countries [...] seemed to be also more interested in trading off some of their *de jure* sovereignties for a guaranteed say in effective policy-making” (Wessels 1997, 289). Pushing forces behind this pattern include independent institutions who “develop their own dynamics and turn into actors with their own weight and influence on the (EU) agenda and policy outcomes”, intermediary groups who increasingly and proactively join the integration process, and package deals of functional spillover effects, all of which contribute to “the inherent propensity of member states to enlarge the scope of EU activities” (Wessels 1997, 288). In a nutshell, the fusion thesis views the EU’s evolution through the adaptation and mutation of its member states which are in another process of state building, illustrating European nation states’ rational strategies of trading off some sovereignty so as to fulfill the function of welfare states better while still maintaining a decisive role in effective EU policy-making. The EU is a polity representing both the evolution of its member states and a novel form of representative government (Wessels 1997, 267).

Wessels admits that though the increasing role of supranational institutions does not lead to the substitution of national actors, but “[i]f anything, the growing significance of non-national actors is leading to a more intensive and differentiated incorporation of national actors in the whole EC process” (1997, 280-281). As for neo-functionalist propositions on loyalty transfer, Wessels disagrees and he argues that the EU political system is shaped by multiple loyalties held by people and European identity or loyalty is just one of them (Wessels 1997, 291). Besides, the fusion thesis indicates that a new kind of democratic system — indirect democracy — is exercised on a larger scale (Wessels 1997, 291).

3.6.3 Pierson’s Path Dependence⁸⁷

While acknowledging the EU’s institutional arrangements for collective governance, Pierson defends intergovernmentalism by seeking “a more persuasive account of member state government constraints” to explain why “gaps emerge in COG (Chiefs of Government) control over the evolution of European organizations and public policies” (Pierson 1998, 29). Pierson’s acknowledgments of his indebtedness to neo-functionalism (which “has serious problems of its own”) highlight the theoretical limitations of intergovernmentalism, so from an *ex post* point of view, he adopts “HI” to account for the EU (Pierson 1998, 29). The term HI indicates that European integration should be explained from two angles: first, the EU is historical as its political development unfolds over time; second, the EU is institutionalist as its process and current developments are “embedded in institutions — whether these be formal rules, policy structures, or social norms” (Pierson 1998, 29; Pierson 2000, 264-65).

Under the theoretical framework provided by HI, Pierson claims that when actors initiate their positions on the basis of the purpose to maximize their interests, institutional and policy reforms carried out by the actors also transform these actors’ or their successors’ initial positions with unanticipated or undesired consequences (Pierson 1998, 30). In contrast to the traditional intergovernmentalist view to treat EC institutions only as being functional bodies to serve national interests, Pierson stresses the difficulties to control institutional evolution, and it is necessary to take an

⁸⁷ Pierson gives a full elaboration of HI in his 1996 article, which later has been integrated into the edited work of Wayne Sandholtz and Alec Stone Sweet (1998) under the same title with a slight adaptation. The citations in this section come from Pierson (1998), which can also be referenced from Pierson (1996), but with different page numbers. When addressing the discussions of Pierson’s HI, scholars may refer to Pierson (1996).

“evolving” rather than a “snapshot” view to examine the EU (Pierson 1998, 30). Pierson states:

“Just as a film often reveals meanings that cannot be discerned from a single photograph, a view of Europe’s development over time gives us a richer sense of the nature of the emerging European polity. At any given time, the diplomatic maneuvering among national governments looms large, and an intergovernmentalist perspective makes considerable sense. Seen as a historical process, however, the authority of national governments appears far more circumscribed, and both the interventions of other actors and the cumulative constraints of rule-based governance more considerable.” (Pierson 1998, 30-31)

These suggest three basic positions of Pierson’s HI on the EU: (1) national governments always exert influence on EU policies (i.e. intergovernmentalist perspectives are helpful to explain the EU); (2) national control over EU policy-making is constrained; (3) the interventions of other actors and incremental institutional reinforcement assume considerable weights in explaining the EU. Pierson (1996, 1998) elaborates his propositions by answering two questions: Why do national governments lose control over EU institutions and policy-making? Why do they not regain it? Pierson’s answers to the two questions underscore HI’s core ideas: path dependence and a historical view of institutional evolution.

To explain gaps in member state government control of EC institutions and policy-making, Pierson lists four factors: the partial autonomy of EC organizations, the restricted time-horizons of decision-makers, the large potential for unanticipated consequences, and the likelihood of shifts in COG preferences over time (1998, 34-43). Pierson argues for each factor as follows: first, the appearing autonomy of EC supranational institutions is more apparent than real because it is the result of “principles’ deft use of oversight” (Pierson 1998, 37); second, the creation of institutions is bounded by the time-horizons of political decision-makers who always only take a short-term effect into consideration, and the long-term institutional effects are the by-products of decision-makers’ purposive behavior (Pierson 1998, 39); third, the complex social process, the growth of issue density, the asymmetrical access to information, and the spillover effect in the “tightly coupled” government policies could lead to widespread unintended consequences (Pierson 1998, 39-41); and finally, a number of reasons such as changes in circumstances, new information and

governments of different partisan complexions can cause the shifts of COG policy preferences (Pierson 1998,41). Pierson's four reasons actually have provided "a particularly rich set of assumptions about the preferences of member governments", which can "help explain why member governments might agree to adopt EC policies and institutions that they (or their successors) might later come to regret" (Pollack 1996, 442). Then how can member states address the control "gaps" where formal institutional set-ups and highly developed policies do not meet their expectations? According to Pierson, normally there are two ways: via competition or learning; however, both ways have been proved unrealistic because for the former, it is impossible to find a "market" to demonstrate that other international regimes may be better than the EC, whereas for the latter, it is also nearly impossible for member state governments to go back to re-design the institutions and policies; so once the gaps appear, they are hard to close (Pierson 1998, 42-43).

From Pierson's point of view, three factors in the context of the EC make it difficult for member states to regain the control over EC institutions and public policies: the resistance of supranational actors, institutional barriers to reform, and the rising price of exit (Pierson 1998, 43-50). Pierson lays great emphasis on the third factor: the rising cost of exit from the existing supranational institutional arrangements (i.e. "sunk costs"), from which he proposes his path dependence theory: initial choices and decisions have encouraged the emergence of certain social and economic networks, which make other once-possible alternatives costly to take and at the same time, also increase member states' exiting costs from the current policy path where national governments are locked in (Pierson 1998, 46). To be more exact,

"The evolution of EC policy over time may constrain member-state governments not only because institutional arrangements make a reversal of course *difficult* when COGs discover unanticipated consequences or their policy preferences change. Individual and organizational adaptations to previous decisions may also generate massive sunk costs that can make policy reversal *unattractive*. When actors adapt to the new rules of the game by making extensive commitments based on the expectation that these rules will continue, previous decisions may 'lock-in' member-state governments to policy options that they would not now choose to initiate. Put another way, social adaptation to EC organizations and policies drastically increases the cost of exit from existing arrangements." (Pierson 1998, 45-46, his emphasis)

Based on Pierson's earlier (1994) work, Pollack (1996) incisively points out that the logic of "sunk costs" rests on the constraints *from below*, that is, societal actors at the micro-level incrementally build-up their vested interest in the maintenance of EU policies over time compared with the institutional constraints *from above* (i.e. the decision rules at the EU macro-level) (Pollack 1996, 442, his emphasis), which Pierson also terms micro-level adaptations (see Figure 3.1). Due to high sunk costs, previous decisions not only prescribe membership commitments but also reduce the room for member states to maneuver; consequently, "initial actions push individual behavior onto paths that are hard to reverse" (Pierson 1998, 47) and member states in the Community "find themselves locked into a system which narrows down the areas for possible change" (Shackleton 1993, 20, quoted from Pierson 1998, 47). Even if the member states find their agents have captured too much authority and then decide to regain the authority, the supranational actors can make use of their political resources to take autonomous actions through which they may become "more significant players in the next round of decision-making" (Pierson 1998, 48). In short, increasing sunk costs and the existing decision rules have made the price for reasserting control too high to be possible. Pollack (2009) reinforces those points and argues that "national constitutions and international treaties can create significant transaction costs and set high institutional thresholds (such as a supermajority or unanimous agreement) to later reforms" (Pollack 2009, 127). Via the process of constitutionalization and treaty-conclusion, institutions are resistant to change; additionally, the reward and penalty mechanisms prescribed by institutions, embedded in policies and supported by law, and the coercive power of the state make certain institutions and policies "remarkably durable", because these "policy arrangements fundamentally shape the incentives and resources of political actors" (Pierson 2000, 259). As early as in the 1990s, scholars have realized that national governments' influence is "increasingly circumscribed and embedded in a dense, complex institutional environment that cannot easily be described in the language of interstate bargaining" (Pierson and Leibfried 1995a, 6). The power of the member state, according to Pierson and Leibfried (1995a, 10), is constrained and limited in four ways: (1) "the autonomous activity of EU organizations", especially the Commission and the ECJ; (2) "the impact of previous policy commitments at the EU level, which lock member states into initiatives that they otherwise might not choose", that is, the cumulative path dependence pressure from past policy decisions and treaty commitments; (3) "the growing scope and overlap of

issues (or ‘issue density’) in the European Union, which produces spillover to new initiatives and widespread unanticipated consequences”; and (4) “the activity of non-state actors, operating independently rather than exclusively through member states”.

Later, Pierson (2000, 2004) gives a detailed elaboration of the concept of path dependence and restates the conditions for path dependence; against a broad theoretical background, Pierson’s path dependence derives from the historical-institutionalist school in political science (see chapter four of this dissertation). Hix (1999, 2005) summarizes HI into a three-step analytical model (*T0-T1-T2*) and corresponding to such three-step analysis, Pierson (1996, 149; 1998, 49) maps out “the path to European integration” in a *T0-T1-T2* framework to explain EU policy outcomes:

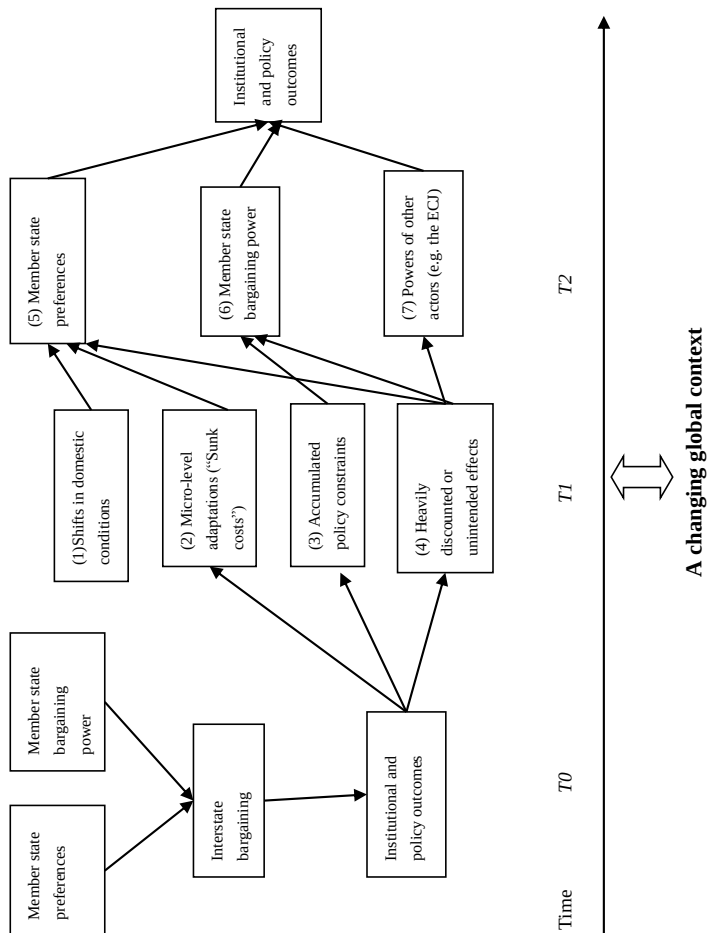


Figure 3.1 EU Policy Analyses in a Path Dependence Framework
 Source: Adapted from "Fig. 2.2. The path to European integration" by Pierson (1996, 149; 1998, 49); the factor "A changing global context" is added by this dissertation.

Designating *T0* as the initial bargains of IGC, *T2* as the next intergovernmental grand bargain and *T1* as the time period between the two grand bargains, Figure 3.1 highlights Pierson's basic propositions: (1) unintended consequences: institutional and policy outcomes at *T2* may not be predicted by national governments when they establish institutions or adopt policies at *T0*, and as the consequences of the bargain at time *T0*, there emerge considerable gaps in national government control which contribute to the altered context for *T2*; (2) a historical and institutionalist approach to the EU: the analyses of institutional and policy outcomes at *T2* are put into a specific institutional context over a period of time — how decisions and choices in the past influence today's policy-making (i.e a path dependent approach); (3) national governments' control over the outcomes at *T2* is circumscribed compared with that at *T0* as certain national competences and powers are delegated to EU institutions. All of these propositions will be tested under the rubric of HI in chapter four of this dissertation.

Pierson compares his HI analysis with neo-functionalism and traditional intergovernmentalism. Like neo-functionalism, Pierson argues, HI points to the significance of supranational actors, spillover effects and possible unintended outcomes, but it denies the neo-functionalist proposition that authority will be gradually transferred from nation states to supranational institutions; instead, HI maintains that the structured polity "restricts the options available to *all* political actors", which offers explanations for the two questions that neo-functionalism has failed to answer: "why would member state governments lose control, and even if they did why would they not subsequently reassert it" (Pierson 1998, 48, his emphasis). Moreover, arguing that functionalist relative efficiency is not the only plausible causal explanation in political science, historical institutionalists normally go back and look into history. From the functionalist point of view, the outcome X (e.g., an institution, policy, or organization) exists because it serves the function Y, whereas from the HI perspective, it is possible for many other alternatives to lead to the outcome X, and the outcome X exists because of the dynamic of increasing returns or path dependence of a particular option — this option may originate by accident and the factors giving it an initial advantage may have disappeared (Pierson 2000, 263-264). Choices in the past do matter. While compared with intergovernmentalism which focuses on the initial bargain at *T0*, HI traces the consequences (*T1*) of "grand bargains" on EC treaties over time and puts intergovernmental bargains (*T2*) in an evolving historical context constrained by "their

predecessors and the micro-level reactions to those preceding decisions” (Pierson 1998, 48-50). Nevertheless, the starting point of Pierson’s explanation is still state centric: nation states are the most important actors of the Community; they create supranational institutions only to serve their own purposes, but due to the locking-in effect of path dependence, national control is heavily circumscribed (Pierson 1998, 57).

3.7 Moravcsik’s LI

3.7.1 Putnam’s “Two-level Games”

To understand Moravcsik’s influential theory — liberal intergovernmentalism (LI) — Putnam’s “two-level games” (1988) accounting for the dynamics of domestic and international politics played by nation states are the starting point (Cini 2010, 96). Putnam’s article (1988) puts forward a conceptual framework to understand how national diplomacy and domestic politics interact, filling the void of previous state-centric works which “do not purport to account for instances of reciprocal causation, nor do they examine cases in which the domestic politics of several countries became entangled internationally” (Putnam 1988, 433). Utilizing the metaphor of “two-level games”, Putnam combines both international and domestic spheres and explains the entanglements and interactions between the two. Putnam argues that many international negotiations should be interpreted as two-level games, as he argues,

“At the national level, domestic groups pursue their interests by pressuring the government to adopt favorable policies, and politicians seek power by constructing coalitions among those groups. At the international level, national governments seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments. Neither of the two games can be ignored by central decision-makers, so long as their countries remain interdependent, yet sovereign.” (Putnam 1988, 434)

By labeling the international level and the national level as Level I and Level II respectively, Putman proposes three sets of factors that could affect the win-set size which is crucial for nation states to ratify international agreements via formal domestic voting procedures: Level II preferences and coalitions; Level II institutions; and Level I

negotiators' strategies.⁸⁸ These factors suggest the size of the win-set depends on: first, the distribution of power, preferences, and possible coalitions among Level II constituents; second, Level II political institutions; and third, the strategies of the Level I negotiators (Putnam 1988, 441-452). Putnam advocates the analysis of the entanglements and reciprocal influence between domestic and international affairs. As a matter of fact, Putnam's "two-level games" is an extension of Bulmer's (1983) domestic politics approach. While Bulmer starts the connection between the two levels by emphasizing national domestic environments' influence on Community policy-making, Putnam examines the interactions between the two levels, stressing domestic factors' effects on national ratifications of the Treaties. The preferences, coalitions and institutions at the national level (Level II) posited by Putnam are comparable to Bulmer's disaggregated analytical elements of domestic politics: member states' attitudes and their domestic policy-making structures; meanwhile, both Putnam and Bulmer emphasize national sovereignty and the key role of nation states in formulating EC policies. Bulmer's and Putnam's approaches are precursors to Moravcsik's LI.

3.7.2 Moravcsik's Liberal Intergovernmentalism

The distinction and interaction between the levels in the "two-level games" left their imprints on Moravcsik's theory. Defining the community as "a unique, multileveled, transnational political system" (Moravcsik 1998, 1), Moravcsik proposed that the dynamic of European integration is grounded in "state preferences, interstate bargaining, and institutional choice" (1998, 2), and policy coordination and cooperation at the EU level emerges "from a process of domestic political conflict" (1998, 3). Moravcsik borrows the idea of "two-level games" from Putnam, arguing that "national governments employ EC institutions as part of a 'two-level' strategy with the aim of permitting them to overcome domestic opposition more successfully" and "much EC decision-making has been difficult to explain except as a two-level game" (Moravcsik 1993a, 515). As a matter of fact, Moravcsik's LI consists of two levels: national preference formation at the domestic level and interstate bargaining at the

⁸⁸ Putnam writes: "we may define the 'win-set' for a given Level II constituency as the set of all possible Level I agreements that would 'win' — that is, gain the necessary majority among the constituents — when simply voted up or down", and the win-set contours at Level II are important to understand the agreements reached at Level I (Putnam 1988, 437).

international level (Risse-Kappen 1996, 63). Compared with Hoffmann, as Lelieveldt and Princen (2011, 39) point out, “Moravcsik pays more attention to the role of domestic, economic influence on the positions of national governments in international negotiations and organizations.” Moravcsik’s book *The Choice for Europe* (1998) provides a cogent summary of his LI arguments.

The research question for Moravcsik (1998) is why European national governments have surrendered some of their sovereign prerogatives within an international institution — the EU. Moravcsik makes a structured comparison across five grand bargains (i.e. five major decisions or five most salient negotiations) which he regards as the turning points in EC history: the negotiation of the Treaty of Rome signed in 1957, the consolidation of the Common Market and the CAP in the 1960s, the process towards European Monetary Integration from 1969-1983, the SEA negotiated in the mid-1980s, and the TEU signed in 1992. Moravcsik claims that three factors have contributed to European regional integration since 1955: patterns of commercial advantage, the relative bargaining power of important governments, and the incentives to enhance the credibility of interstate commitments (1998, 3). Moravcsik believes that those three constitute a theoretical framework which is generalizable to any international negotiation (1998, 9).

Above all, the first factor — the consistently important converging economic interests — is of fundamental importance, as Moravcsik clearly states that “European integration resulted from a series of rational choices made by national leaders who consistently pursued economic interests [...] that evolved slowly in response to structural incentives in the global economy” (Moravcsik 1998, 3). It is the economic interests rather than geopolitical interests that underlie national preferences (Moravcsik 1998, 24). Not only is the EC shaped by the convergence of national preferences, but also is the outcome of interstate hard bargaining, which reflects the relative power of nation states and patterns of asymmetrical interdependence — a factor that “dictates the relative value of agreement to different governments” (Moravcsik 1998, 7). Asymmetrical interdependence rather than supranational entrepreneurship explains the efficiency and national distributional outcomes of interstate bargaining (Moravcsik 1998, 24). Finally, to secure the negotiated agreement they’ve reached, national governments delegate and pool sovereignty to EC institutions to commit one another to

cooperate.⁸⁹ The choice of governments to delegate and pool sovereignty in international institutions, for one thing, goes to various forms, ranging from extensively delegating proposal and implementation powers to supranational authorities to the adoption of different voting modes, such as unanimity, national veto, simple majority or QMV (Moravcsik 1998, 8); for another, it is the effort of a government to constrain and control other governments' behavior so as to enhance the credibility of commitments (Moravcsik 1998, 9). European national governments have reaped huge joint gains from their cooperation, but quite often they are tempted to defect from previously agreed commitments; therefore, in order to guarantee the fulfillment of commitments, they prefer to delegate some governmental tasks to the Commission, and in certain policy areas, the QMV mode is applied (Moravcsik 1998, 3-4). Governmental wishes to adhere to already-made agreements and to ensure a more credible commitment, rather than federalist ideology or centralized technocratic management, account for the transfer of sovereignty to international institutions (Moravcsik 1998, 24). Starting from the Treaty of Rome, European national governments have begun to employ supranational institutions to lock in reciprocal commitments which governments may be tempted to cheat on in later days (Moravcsik 1998, 157). As a result, the EU, as a modern form of power politics, is "peacefully pursued by democratic states for largely economic reasons through the exploitation of asymmetrical interdependence and the manipulation of institutional commitments" (Moravcsik 1998, 5), and the major EC negotiations can be divided into a causal sequence of three stages: national preference formation, interstate bargaining, and institutional choice (Moravcsik 1998, 18; 20). Moravcsik labels his theory "liberal intergovernmentalism",⁹⁰ as he concludes,

⁸⁹ Moravcsik considers "pooling" and "delegating" as two forms of transferring national sovereignty, and the EC distinguishes itself from other international regimes "by pooling national sovereignty through qualified majority voting (QMV) rules and by delegating sovereign powers to semi-autonomous central institutions" (Moravcsik 1993a, 509).

⁹⁰ Moravcsik stresses his research findings support liberal theories of IR against realism, as "[t]he central claim of liberal international relations theory is that the pattern of underlying national preferences, not the distribution of power resources or institutionalized information, is the most fundamental determinant of state behavior in world politics" (Moravcsik 1998, 497). Besides, his liberal argument also counters realist relative gains-seeking, security externalities, hegemonic stability, and "relative capability" models (497-498).

“The central argument of this book — the ‘liberal intergovernmentalist’ argument — holds that European integration was a series of rational adaptations by national leaders to constraints and opportunities stemming from the evolution of an interdependent world economy, the relative power of states in the international system and the potential for international institutions to bolster the credibility of interstate commitments.” (Moravcsik 1998, 472)

It is a liberal theory, for it emphasizes how economic interdependence influence national interests; it is an intergovernmentalist theory, for it stresses international bargains and negotiations (Moravcsik 1993a). Moravcsik’s LI consists of two separate dimensions: the supply side and the demand side. Both the national polity’s demand for cooperation and the supply of integration deriving from intergovernmental negotiations have forged European integration outcomes (Cini 2010, 97; Hix 2005, 16; see also Moravcsik 1993a, 481-482), which actually exhibits an affinity to the argument of “two-level games”.⁹¹

Moravcsik contrasts his LI with neo-functionalism as follows: (1) domestic coalitional struggles v.s. domestic technocratic consensus; (2) the role of relative power v.s. the opportunities to upgrade the common interest; (3) passive institutions and the autonomy of national leaders v.s. the active role of supranational officials in shaping bargaining outcomes (Moravcsik 1993a, 518). As for the forces driving European integration forward, Moravcsik rejects neo-functionalist technocratic imperatives, federalist European idealism and geopolitical concerns held by the critics of neo-functionalism (1998, 4). Though neo-functionalists do stress the role of economic interests as the engine for European integration, from Moravcsik’s point of view, they fail to provide micro-foundations to explain precisely “what those interests are, how conflicts among them are resolved, by what means they are translated into policy, and when they require political integration”, that is, “neo-functionalism lacked explicit theories of interest-group politics, interstate bargaining, and international institutions” (Moravcsik 1998, 16). The fundamental weakness of neo-functionalism, therefore, is that it explains European integration in broad structural processes of dynamic endogenous effects (i.e. incremental feedback, unintended consequences, and the resulting change over time) without providing “a baseline theory of exogenous constraints (state economic interests, political constraints, and delegation) through

⁹¹ Also see “Figure 1: The Liberal Intergovernmentalist Framework of Analysis” by Moravcsik (1993a, 428).

which dynamic change must take place” (Moravcsik 1998, 15) — an advocacy of the primacy of societal actors by liberal IR theory (Moravcsik 1997, 516-17). In other words, integration theory should be societal-actor-oriented, and Moravcsik’s theory highlights the micro-level of integration: the purposive choice of states and social actors as well as the interactions among them, so Moravcsik advocates generalizable “mid-range” theories rather than the so-called “grand” or “classical” theories of integration (Moravcsik 1998, 19).

In addition, Moravcsik disconfirms HI’s path dependence argument that “shifting national preferences are an unintended consequence of prior integration”, which he regards as a revived successor to neo-functionalism and still lacking a theory of individual decisions (Moravcsik 1998, 489). European integration consequences are neither unforeseen nor unintended, but rather, they are “the *deliberate triumphs*” (“not the *unintended side-effects*”) of governmental cooperation (Moravcsik 1998, 491, his emphasis). The phenomenon of “the transfer of sovereignty and autonomy to supranational institutions is “not an unintended consequence of major EC decisions” but is “*their primary purpose*” to construct institutions to enhance member states’ credibility of commitments (Moravcsik 1998, 492, his emphasis). Opposed to the historical institutionalist argument that national interests and preferences are unstable and unpredictable which may cause the divergence of short- and long- term national interests, Moravcsik argues for “*the stability and continuity of preferences*” because in forty years, though economic integration in some areas got deepened, “the relative position of major governments on core issues such as CAP reform [...] have hardly changed” (1998, 493, his emphasis). Moravcsik holds that the weakness of HI is similar to that of neo-functionalism: lacking appropriate account of actual state behavior; nevertheless, he accepts the merits of HI: future decisions are made in the context of shifted preferences and institutional environments (Moravcsik 1998, 494).

As for the status of supranational institutions, Moravcsik sees EC institutions as a means for national governments to strengthen their control over domestic affairs and also as a way to attain goals otherwise unachievable (Moravcsik 1993a, 507). Because of the “two-level games” structure, EC decision-making efficiency has been increased and national political leaders’ autonomy got strengthened; EC institutional structures are “the result of conscious calculations by member states to strike a balance between greater efficiency and domestic influence, on the one hand, and acceptable levels of political risk, on the other” (Moravcsik 1993a, 507). Nevertheless, Moravcsik

acknowledges the autonomy of EC institutions, as he writes that “the EC’s complex institutions include a semi-autonomous legal system, parliament, and bureaucracy as well as detailed norms, principles, rules, and practices governing direct relations among national governments” (1998, 1). Moravcsik also acknowledges the growing power of the ECJ:

“The expansion of judicial power in the EC presents an anomaly for the functional explanation of delegation as a deliberate means by national governments of increasing the efficiency of collective decision-making. While supranational delegation undoubtedly creates benefits for governments, the decisions of the court clearly transcend what was initially foreseen and desired by most national governments. The ‘constitutionalization’ of the treaty of Rome was unexpected.” (Moravcsik 1993a, 513)

Besides, as the EC progressed towards flexible concessions to national particularities, “unprecedentedly autonomous centralized institutions”, such as the ECB, have been constructed (Moravcsik 1998, 471). Despite the establishment of these autonomous institutions, European integration, Moravcsik would argue, “is grounded fundamentally in the preferences and power of member states” (Moravcsik 1993a, 514). Even though Moravcsik’s theory belongs to the intergovernmentalist camp, some neo-functionalists such as Leon Lindberg believe that a portion of Moravcsik’s ideas can be used to support certain neo-functionalist arguments. For example, Moravcsik’s analysis of the relative autonomy of nation states when participating at the EU level in relation to their domestic constituencies is valued by Lindberg, who writes: “exactly the same analysis can be applied to an understanding of the Commission in this process of national interest formation! This is [...] what neo-functionalists were trying to do or what I think I was certainly trying to do” (Lindberg 1994, 83; quote in Rosamond 2000, 145). Lindberg would compare national governments’ ability to manoeuvre and represent divided domestic interests with the Commission’s ability to do so among the diversified preferences of member states (Rosamond 2000, 145). As for the usefulness of LI, Moravcsik and Schimmelfennig praise that LI actually has acquired the status of a “baseline theory”, carrying the quality and possibility for a dialogue and synthesis with other theories (2009, 67).

In short, Moravcsik’s LI consists of three elements: a liberal theory of national preference formation, an intergovernmentalist theory of inter-state relations and

bargains, and a theory of institutional delegation. Those three factors formulate a tripartite explanation of European integration; in particular, his theory supplies a rich account of bargaining in the Council, highlighting national preference formation and underlining domestic economic interests as the powerful determiner of national interests (Cini 2010, 96-102).

3.7.3 Critiques of LI

Moravcsik once commented that “neo-functionalism remains a touchstone for scholarship on European integration” (1998, 13), while in turn, his theory is also revered as “a touchstone against which all integration theory is now judged” (Cini 2010, 96). Moravcsik’s LI provides a competing model to explain the European integration process (Rosamond 2000, 145) and offers a theoretical approach of much more rigorousness than its antecedents (George and Bache 2001, 13). Still, it has been subject to the following criticisms.

First, Moravcsik’s theory is criticized for its focus on the grand bargains of treaty negotiations while not accounting for day-to-day politics and daily work in the EU well (Cini 2010, 99-100). For Moravcsik, “[t]he most fundamental task facing a theoretical account of European integration is to explain these bargains” (1993a, 473). Critics point out that treaty negotiations are always history-making decisions, which must result from intergovernmental bargains, so member states are naturally the key players. Nevertheless, Moravcsik maintains that his theory can also help to explain day-to-day decision-making in EC institutions. For instance, member states can employ majority voting in the Council, but they always seek a consensus and unanimity, which, Moravcsik believes, demonstrates that each national interest is maximally protected (Lelieveldt and Princen 2011, 39). Moravcsik and Schimmelfennig (2009) admit that LI is more appropriate to explain decision-making that is under a decentralized setting of unanimous voting rather than under an institutionalized environment of delegated or pooled sovereignty, but they defend LI in the way that “recent empirical research suggests that LI theory applies far more broadly than is commonly supposed, including much everyday EU decision-making”, and the reason for this, as it has been mentioned previously, is that “many decisions within the EU are taken by *de facto* consensus or unanimity, even when the formal rules seem to dictate otherwise” (Moravcsik and Schimmelfennig 2009, 74). The fact that decisions in the Council of Ministers often turn to informal consensus even when QMV could be applied may lead to the

conclusion that “factors like precise institutional design, the composition of the Parliament, or the views of the Commission appear to have almost no impact on outcomes” (Moravcsik and Schimmelfennig 2009, 74; cf. Achen, 2006)⁹². Nevertheless, due to an ever faster speed of globalization and the need to deal with new rising challenges, to improve decision-making efficiency in the EU, which now has 28 member states already and still has the potential to enlarge, is necessary and unavoidable. As a matter of fact, the adoption of the Lisbon Treaty aims to do so. Accordingly, this dissertation would boldly suggest that in order to improve collective decision-making efficiencies in front of severe crises, such as the on-going sovereign debt crisis in recent years, formal rules, especially QMV, will gradually replace the informal consensus practices in the Council, which could be stated in hypothesis form as follows:

H6: Confronted with the severe sovereign debt crisis, the Council of Ministers tends to apply the formal rules of QMV rather than take decisions on the basis of informal consensus, so as to improve the collective decision-making efficiency to meet challenges of globalization.

If this prediction is correct, in case studies one should observe the application of QMV in the Council of Ministers when it is prescribed as the formal rules instead of resorting to the informal unanimity to reach agreement. Furthermore, due to the implementation of the Lisbon Treaty, the new post of European Council President brings out changes to the consensus decision-making scenario of the European Council, and here raises the question: how can Van Rompuy’s activities be appropriately accounted for by LI? (in hypothesis form, see H7h)

Second, Moravcsik’s conception of the state is believed to be quite narrow, and his LI pays little attention to the disaggregated components of the state and thus lacks a subtle analysis of domestic politics; besides, his LI is said to be simplistic, solely focusing on economic interests while ignoring other factors that also exert influence on government preferences, such as domestic structures (Cini 2010, 100). Despite

⁹² Achen also argues for states’ willingness to follow the decision-making mode of informal consensus rather than the formal decision-making rules: “[h]owever EU decision-making is carried out, it does not seem to be well described solely by the formal rules. Informal norms and procedures appear to play a more central role” (2006, 295), and “[t]he case study literature has repeatedly emphasized the role of compromise and the striving for unanimity in EU decision-making. States are disinclined to follow the letter of their legal rights if doing so makes an enemy. Bargaining matters more than the official decision-making rules” (Achen 2006, 297-98).

Moravcsik's advocating for the analysis of domestic politics — as he argues that “[d]omestic analysis is a precondition for systemic analysis, not a supplement to it”, and to understand the formation of various national preferences and diplomatic strategies requires “further research into the domestic roots of European integration” (Moravcsik 1991, 55). LI “neither disaggregates the state satisfactorily, nor explains how the motivations of the executive cause a government to make certain choices and not others” (Forster 1998, 358). Moreover, the reality of EU politics today presents “multi-level” rather than “two-level” games (Rosamond 2010).

Third, it is frequently argued that Moravcsik's theory has played down the role of supranational institutions and non-state transnational actors (Cini 2010, 100-101). For example, when unwrapping reasons for the success of the SEA, Moravcsik clearly states that “[t]he historical record does not confirm the importance of international and transnational factors” (1991, 44), and the SEA got “launched independently of pressure from transnationally organized business interest groups” (1991, 45). Moravcsik rejects neo-functionalist propositions that supranational institutions and transnational interest groups play vital roles in pushing European integration forward, because “[n]one of the three supranational variables — European institutional momentum, transnational business interest group activity, and international political leadership — seems to account for the timing, content, and process of negotiating the SEA” (Moravcsik 1991, 47). Instead, Moravcsik puts forward “intergovernmental institutionalism”, the precursor for his later LI, to explain the SEA negotiation, which consisted of three elements: intergovernmentalism, lowest-common-denominator bargaining, and protection of sovereignty (1991, 48-49). The EC's reform of the internal market is the result of interstate bargains among three big leading states: the UK, France, and Germany, the success of which was preconditioned by the convergence of their national economic policy preferences (Moravcsik 1991, 20-21). National interests and states' relative power are the primary sources of European regional integration, while EC supranational institutions are functioning in the sense of cementing existing interstate bargains (Moravcsik 1991, 56). In contrast to Moravcsik's conclusion, researchers (especially neo-functionalists), however, have demonstrated the influence of the Commission on EU policy outcomes (e.g. Cram 1993), EC legal integration and the increasing power of the ECJ (e.g. Burley and Mattli 1993; Wincott 1994), the autonomy of supranational institutions (e.g. Pollack 1997; Stone Sweet and Sandholtz 1998) and the lobbying power of non-state actors such as European firms and European

interest groups for EU integration (e.g. Cowles 1995). All in all, Moravcsik “does not provide a full enough account of the supply side of his model when focusing solely on interstate negotiations” (Cini 2010, 100), and he looks at the formal aspects of the European integration process but looks over informal politics which also shape EU policy outcomes (Cini 2010, 101).⁹³

Finally, LI has been disclaimed as a theory, for it lacks the specification of the conditions to assert or refute its premises and it fails to provide a final vision of European integration. Rather, it should be taken as a sort of approach, offering a “pre-theory” or “analytical framework” composed of three existing theories: national preference formation, intergovernmental bargaining, and institutional delegation (Cini 2010, 101-102; see also Forster 1998). Forster (1998) tests LI’s analytical and predictive power in three dossiers of the UK’s role in the negotiations for the Maastricht Treaty: social policy, foreign and security policy, and enhancing the powers of the EP. Forster’s case studies of the UK cast doubt on LI’s proposition of national preference formation, governments as being purposeful and instrumental actors, and intergovernmental bargaining (Forster 1998, 347).

Forster (1998, 350) first draws out six core assumptions from Moravcsik’s LI: (1) nation states are assumed to be rational actors with rational behavior; (2) producers express their preferences and governments aggregate them; economic interests shape national preferences; (3) government policy preferences, their ranges and government negotiation flexibility are shaped by three factors: (a) the magnitude of benefits that would be realized from cooperation, (b) the certainty of benefits and costs, and (c) producer groups’ relative influence (differential mobilization) on policy formation; (4)

⁹³ William Wallace (1990) makes a distinction between “formal” and “informal” integration. Informal integration refers to intense patterns of interaction and interdependence flowing from “the dynamics of markets, technology, communications networks, and social change” without the impetus or sanctions of deliberate political decisions, while in the opposite, formal integration means “changes in the framework of rules and regulations which encourage — or inhibit, or redirect — informal flows”, that is, political leaders’ deliberate actions of institutional building (William Wallace 1990, 9). Informal integration is a continuous process originating from transactions of individuals pursuing private interests, while formal integration is about discontinuity, from treaty to treaty and bargain to bargain (William Wallace 1990, 9). Two different kinds of formal integration are further distinguished: the responsive and the proactive (William Wallace 1990, 11), which could be viewed as a reaction to informal integration — might promote, constrain or prohibit it (Rosamond 2000, 130). State primacy stands out in two types of routes: first, compared with informal integration, formal integration involves interstate bargaining, so it determines the width and depth of the European level governance; second, without national government political decisions, informal integration’s promotion into formal integration is not possible (Rosamond 2000, 130).

it is difficult for self-interested nation states to make concessions beyond their own objective interests, and EC negotiated results tend to embody the lowest common denominator. So the outcome of governmental bargaining is decided by the relative intensity of preferences and at the same time, reflects the interests of recalcitrant states. Government concessions happen not because of the action of supranational leaders, but because of government autonomy from their domestic interest groups; (5) policy areas are discrete and unconnected. Linkage occurs as a last resort to reach agreements and tends to relate to financial issues or symbolic side-payments rather than to substantive issues; (6) different issues and policy areas prescribe different constraints on government options and hence generate predictable patterns of interstate bargaining.

Based on those assumptions, Forster (1998, 350-351) outlines the predictions for UK government behavior in each of the three dossiers:

(1) As for the social policy dossier, the cost for the UK will be predictably high. Domestic interest groups backed up by coalitions of interested parties will articulate their concerns and thus the UK government will be under a tight constraint on the issue of social policy. Therefore, the UK government will be resistant to make any concession on this issue and even be impervious to issue linkage and side-payments. The UK's decision to opt-out from the Social Protocol was based on its calculation of the benefits and costs to be involved. The UK government believed that firms would benefit more by its opt-out, so there was no reason to compromise.

(2) The foreign and security policy area seems far away from exerting direct economic impact on domestic interest groups, and private producers have little interest in foreign and defense cooperation. So cost-and-benefit calculations of private groups are generally weak, uncertain and diffuse. Such untraceable distributional consequences will leave a wide maneuver space to ideologically motivated state leaders. Government compromises and issue linkages are quite possible, which are justified on the basis of symbolism and ideology.

(3) The EP dossier shares many features of foreign and security bargaining: a weak cost-and-benefit calculation; uncertain and diffuse consequences; more negotiation room for political elites. Because the implication of strengthening the EP is obscure and less predictable, there will be more space for concessions and the negotiated result may be greater than the lowest common denominator.

Then Forster examines the empirical record of these three dossiers, from which he gets the following research results:

(1) As for social policy, the UK government's resistance to compromise does suggest high costs for the UK to accept the Social Protocol, but these costs are not reduced to economic nature only: they are also political due to the struggle for the control over the ideological direction of the Conservative Party after the downfall of Ms Thatcher (Forster 1998, 352). The LI model is not absolutely correct in the sense that the opt-out decision is principally political rather than economic; besides, domestic producer groups do not impose a tight constraint on UK negotiations; on the contrary, despite their reluctance, domestic producer groups are generally supportive of a comprised social policy. Thus the LI model has missed the political and symbolic nature of the social policy debate in the UK (Forster 1998, 353-354).

(2) In the area of foreign and security policy, as the LI model predicts, the domestic influence from private groups and producers on the UK government's negotiation is weak, but the space for government to freely negotiate is not as great as the LI model suggests, nor is it solely determined by the UK Prime Minister's (i.e. John Major's) ideological motivations (Forster 1998, 354). The historical context of France's pressures for a common foreign and security policy and the weight of the UK's previous policy decisions, such as its affirmation to American-led North Atlantic Treaty Organization (NATO), have curtailed the government's freedom to compromise (Forster 1998, 354-356).

(3) On the issue of the EP, the LI model is right in its way to predict the loose public constraints on increasing the powers of the EP; however, the UK government's scope for compromise is far more restricted by its domestic Eurosceptic considerations than the LI model expects (Forster 1998, 356-357).

Therefore, the LI model appears incomplete and inadequate to explain and predict the UK's positions on these three dossiers. The six core LI assumptions could be grouped into three dimensions where the shortcomings of LI may lie: preference formation, governments as purposeful actors, and intergovernmental bargaining (Forster 1998, 357), and accordingly, based on the UK cases, the LI model's weak points can be classified into three categories:

(1) Few domestic producer interest groups placed their specific demands on government negotiations in 1991. The UK position was much more shaped by preferences stemming from within the government itself, and the government was likely to impose its views on interest groups rather than *vice versa*. National preferences were not formulated fixedly before strategies were put forward. Rather,

they were subject to continuous redefinition as the negotiation went on, which was constrained by a mix of factors: “international pressures, departmental and organization interests, powerful political rivalries, and the need to maintain domestic support” (Forster 1998, 358). Government negotiation freedom, in addition, was further infringed by “party management considerations, ideological as well as policy based” (Forster 1998, 358). LI’s economic dimension failed to account for “a fundamentally contingent *political* process” where the language used in the Maastricht Treaty, the pillar image of the EU constructed by the Treaty, and the majority voting mode implying a concession of national sovereignty all appeared to have assumed greater importance (Forster 1998, 359, his emphasis).

(2) In contrast to the LI model, to preserve sovereignty was not an overriding and the only goal of the UK government, and its preferences are not hierarchically ordered (Forster 1998, 359). Negotiations muddle through disjointed incrementalism and mutual adjustments, which challenge LI’s notion of rationality; though states are still the final arbiters, government executives, due to the domestic and international constraints, are not as powerful as LI suggests (Forster 1998, 360).

(3) LI emphasizes interstate bargaining of coalitions, preferences of the large member states, the limited practices of linkage, and side-payments, but in the case of the social policy dossier, the UK position undermines LI’s assumption that “the threat of exclusion is sufficient to ensure agreement from recalcitrant member states” (Forster 1998, 360), and the negotiation outcomes do not embody the logic of the lowest common denominator (Forster 1998, 361). Meanwhile, common positions within issue areas did get upgraded through long-rolling and forward linkage techniques related to neo-functionalist thoughts (Forster 1998, 362).

To sum up, in the UK cases mentioned above, LI is correct in highlighting the influence of domestic interests and constituencies on government preference formation and on the motivations of member states (Forster 1998, 363). Nevertheless, government preference formation is not only based on economic welfare, but also on political concerns, implying certain unpredictable decision-making, because “[p]olitics is not always a rational process: ideology, belief and symbolism can play as important a role as substance” (Forster 1998, 364). Additionally, LI fails to recognize the significance of the political context and unique nature of each negotiation leading to the Maastricht Treaty (Forster 1998, 364). All in all, the parsimonious explanatory and predictive power of LI has been questioned, as Forster concludes:

“LI is thus perhaps best regarded less as a theory of intergovernmental bargaining, than as pre-theory or analytical framework. It provides some very useful insights but, as empirical testing proves, it must be supplemented by other models in order to explain fully how and why a government chooses among various outcomes. Similarly, other models are needed to explain the determinants of politicians’ choices among competing alternatives. The irony is that, like neo-functionalism, LI’s aspiration to generality ultimately renders it ‘oddly apolitical’.” (Forster 1998, 365)

Forster’s research steps actually represent the congruence method to test the explanatory and predictive power of the theory of LI: first, Forster derives assumptions from Moravcsik’s LI; second, he makes predictions of the UK government’s behavior in three dossiers in line with those assumptions; third, he examines the empirical records of these three cases to see to what kind of degree the predictions made by LI are correct; finally, after comparing the outcomes in each case with the assumptions, he summarizes the shortcomings of LI and points out other factors neglected by LI. As a result, Forster’s (1998) research not only sets up an example to test Moravcsik’s LI model by the EU’s new developments, but also offers possible alternatives to complement the LI model, such as partisan ideological struggles and domestic and international constraints on government executives. It must be pointed out, however, that Forster’s test is based on Moravcsik’s (1991, 1993a, 1995) initial thoughts on LI, and actually the LI model presented in Moravcsik’s 1998 work has avoided some pitfalls mentioned by Forster; moreover, when Moravcsik and Schimmelfennig (2009) add the scope conditions for the application of LI to the theory, Forster’s research results become explainable: first, national preference formation is “issue-specific” — in economic areas, economic calculations prevail in national preference formation, but in non-economic areas, other factors such as geo-politics and ideology weigh more; second, LI works better to explain and predict policies where domestic societal interests are well organized and represented, so accordingly, the three cases selected by Forster, for one thing, represent national preference formation in non-economic areas where non-economic factors are prominent and influential; for another, they do not meet the ideal conditions for the application of LI — the societal interest representation in the three cases is diffuse and uncertain. All of those illustrate the theoretical trajectory of LI that underwent revisions and supplements along with EU empirical practice.

3.7.4 Modifications and Development of LI by Moravcsik and Schimmelfennig

Alongside the EU's development and the criticisms leveled at LI propositions, Moravcsik and Schimmelfennig (2009) restate the key points of LI proposed by Moravcsik in the 1990s, justify LI as a theory, specify the scope conditions for the LI model, and test the LI model against two cases: EU agricultural policy (the CAP) and EU enlargement, based on which they conclude that LI, in the study of European integration, has obtained the status of a "baseline theory", ever being open and ready to dialogue and synthesis with other theories and approaches, indicating the theoretical usefulness and modesty of LI in explaining and predicting the EU.

3.7.4.1 Three Stages of the LI Model

Moravcsik and Schimmelfennig (2009) use "national preferences", "substantial bargains" and "institutional choice" to re-account the three stages of the LI model. As for the national preferences, LI treats nation states as unitary actors, assuming a consistent preference is possible despite multiple representation and various domestic actors involved in preference formation, and the fundamental goals of a state (i.e. state preferences) are "neither fixed nor uniform: they vary among states and within the same state across time and issues according to issue-specific societal interdependence and domestic institutions" (Moravcsik and Schimmelfennig 2009, 69). The key to understanding preference formation is "issue-specific", which implies different interest formation models for substantively different policy areas: in economic issue areas, the economic component is prominent and important, and the model for national interest formation is based on a balance or equilibrium between producers on the one side and taxpayers and actors interested in regulation on the other side; in those economic areas, issue-specific preferences mainly concern how to manage globalization and to meet the challenges brought by globalization, and the latter part of the equilibrium has greater impact in policy areas such as environment, immigration and development aid where the regulatory element is more salient; by contrast, in non-economic issue areas, such as foreign and defense policy, the proper model of preference formation derives from non-economic concerns rather than economic calculation (Moravcsik and Schimmelfennig 2009, 70). This "issue-specific" elaboration helps to dismiss the common misinterpretation of LI's basic claim as "producer interests prevail" or

“economics dominates policy” (Moravcsik and Schimmelfennig 2009, 70). So as for the EU, most of the initial policies do deal with economic issues, and Moravcsik’s LI confirms that national preferences do “have mainly reflected concrete economic interests rather than other general concerns like security or European ideals” (Moravcsik and Schimmelfennig 2009, 70). Concrete national interests emerge “from a process of domestic conflict in which specific sectoral interests, adjustment costs and, sometimes, geopolitical concerns played an important role”, and governments’ participation in integration is “subject to regulatory and budgetary constraints and the macro-economic preferences of ruling governmental coalitions” with the purpose to “secure commercial advantages for producer groups” (Moravcsik and Schimmelfennig 2009, 70; Moravcsik 1998, 3, 38). The re-account here conveys the idea that Moravcsik’s LI also takes other factors besides economic interests into account, as 15 case studies in *The Choice for Europe* show that economic interests driven by globalization play an important role in all cases, while geo-politics and ideology also have a secondary but still important effect in half of the cases (Moravcsik and Schimmelfennig 2009, 70). The key point of this re-account is to tell researchers that Moravcsik does not say economic interests are the sole factor to explain government preferences, but rather, it is the primary factor and other factors also weight on the basis of an “issue-specific” consideration. This clarification also shows the affinity between traditional intergovernmentalism and LI today: Hoffmann (1995, 5) has suggested that nation states are not “black boxes” — they are communities of identities and belongings, so national interests cannot be simply reduced to power and calculated from a state’s place in a regime; rather, other factors, being historical, political, and cultural, also play a role. So the re-account here resonates with something that is in the blood of intergovernmentalism.

As different states rarely have precisely converged preferences, nation states come into the bargaining stage where cooperation decisions and negotiated outcomes depend on the relative bargaining power of the actors involved in the negotiation. The bargaining power, in the EU context, is mainly decided by national asymmetrical interdependence, “that is, the uneven distribution of the benefits of a specific agreement (compared to those of unilateral or alternative possibilities known as ‘outside option’)” and information acquiring on actors’ preferences and institutional mechanisms. All those imply that first, actors in the least need of a specific agreement compared to the status quo are “best able to threaten other actors with non-cooperation”

and thus capable of forcing others to make concessions (this represents a minimal common-denomination proposition); second, actors who have acquired more and better information about other actors' negotiation stances or preferences and the working procedures of institutions are "able to manipulate the outcome to their advantage" (Moravcsik and Schimmelfennig 2009, 71). So LI assumes that due to asymmetrical interdependence, member states who economically benefit the most from EU integration tend to "compromise the most on the margin to realize gains",⁹⁴ while those who benefit the least tend to impose conditions and are not easily ready to make concessions, and hard bargains would witness governmental threats to "veto proposals", "to withhold financial side-payments" or "to form alternative alliances excluding recalcitrant governments" (Moravcsik and Schimmelfennig 2009, 71). To elaborate on this bargaining stage, Moravcsik adopts a bargaining theory that follows rationalist institutionalism but downplays the role of informational asymmetries (Moravcsik and Schimmelfennig 2009, 70-71). Compared to federalism or neo-functionalism which would argue that "ideational entrepreneurs" such as the federal idealists Jean Monnet or a Commission president are armed with better information and expertise and thereby exert influence on national governments, LI posits that "such third parties are usually not required to reach efficient interstate agreements, precisely because they rarely possess information or expertise unavailable to states" (Moravcsik and Schimmelfennig 2009, 71); such a view challenges the traditional assumption of potential inefficiencies of bargaining due to asymmetrical information acquiring, contending that intergovernmental negotiations in the EU can reliably produce efficient outcomes and arguing against supranational entrepreneurs' role in enhancing negotiation. Nevertheless, Moravcsik does admit that in some "exceptional" cases such as the negotiation for the Single Act, supranational entrepreneurs did exert influence and hence promote the integration process (Moravcsik and Schimmelfennig 2009, 71). These exceptional cases indeed show that LI also cannot serve as a grand theory to account for all aspects of the EU, and sometimes, intergovernmentalists must

⁹⁴ This is termed "the simple logic of asymmetrical interdependence"—"those who benefit the most from a policy must sacrifice the most on the margin", which always turns out to be "the most profound factor shaping the negotiations" (Moravcsik and Vachudova 2002, 3). Expressing their indebtedness to Keohane and Nye (1977), Moravcsik and Vachudova (2003, 44) argue that "interstate bargaining outcomes reflect patterns of 'asymmetrical interdependence' — all other things equal, more 'interdependent' countries tend to benefit more from liberalizing markets and are, thus, willing to make concessions to do so."

acknowledge the appropriateness of the certain parts of competing theories, such as neo-functionalism.

As for institutional choice, LI follows neo-liberal institutionalism and values some claims by neo-functionalists and historical institutionalists: “states deliberately delegate authority to supranational organizations capable of acting against the subsequent preferences of governments; and institutions incorporate unintended, and unwanted consequences under conditions of uncertainty — an essential component of regime theory” (Moravcsik and Schimmelfennig 2009, 72). Here again institutions’ functions get emphasized: first, institutions help governments to reduce the transactions costs of future interstate negotiations on the same issue and at the same time provide information for governments to speculate about other actors’ future preferences and behavior; second, governments set up rules to distribute gains, reduce coordination costs, monitor and sanction governmental non-compliance. Hence, “the severity of distributional conflict and enforcement problems”, “uncertainty about the preferences of other actors”, and “the future states of the world” lead to concrete cooperation on a specific issue as well as different institutional designs (Moravcsik and Schimmelfennig 2009, 72). LI proposes that different issue areas display and require different degrees of delegating and pooling sovereignty, which reflects national government concerns about each other’s future ability to commit to the reached agreement. Two possibilities or forms of delegation are distinguished. The first one is to only lay down norms and procedures to facilitate interstate bargaining and reduce negotiation costs as well as uncertainty, exhibiting the purpose of “pure coordination” where “governments may delegate decisions to common decision-making, or delegate them to the EU — as in the case of some ‘standard-setting’ decisions — in order to reduce the transaction costs of determining a common solution”. Cases for this purpose of outright delegation are rare, as governments can handle such situations. The second one is to delegate sovereignty more extensively, such as making use of QMV, the Commission’s right to put forward proposals and to negotiate with third parties, the independent operation of the ECB and the judicial power of the ECJ, the EU’s modest centralized fiscal capacity, quite often aiming at “resolving problems of control, sanctioning, and incomplete contracting through credible pre-commitment”. The purpose of such a transferring of sovereignty to EU institutions is to help “governments effectively remove issues from the varying influence of domestic politics and decentralized intergovernmental control, which might build up pressure for non-compliance if costs for powerful domestic actors are

high” (Moravcsik and Schimmelfennig 2009, 72). The intention to establish EC/EU institutions, therefore, is to guarantee “credible domestic commitment by strengthening the national executive or the national judicial branch or the very domestic groups that support the policy in the first place *vis-à-vis* other domestic forces favoring non-compliance” (Moravcsik and Schimmelfennig 2009, 73). In short, from LI’s point of view, European integration is of nation states, by nation states, and for nation states, and such integration and the process of Europeanization is not to replace the nation states, but to “rescue” (in the sense suggested by Milward (1992, 2000) and help them to cope with globalization (Moravcsik and Schimmelfennig 2009, 73).

3.7.4.2 The Specification of Scope Conditions of the LI Model

Taking the common criticisms leveled at LI into account, especially rational choice institutionalism’s charges on LI’s failure to explain EU everyday decision-making and thus attributing “a disproportionately small role” to EU institutions and HI’s criticisms of LI’s neglect of the unintended or underside consequences caused by treaty revisions, Moravcsik and Schimmelfennig (2009) justify the value of the LI model via answering “[t]o what extent can LI accurately account for European integration as a whole? And where does it reach its limits?” (73). For rational choice institutionalists’ criticism, Moravcsik and Schimmelfennig (2009, 74) argue that LI’s emphasis on institutional choices does suggest that a deliberate delegation and pooling of sovereignty is happening, and some EU institutions do presume semi-autonomous legal power, so institutions matter; meanwhile, LI can also apply to everyday EU decision-making besides “treaty-amending decisions”. As for the critiques from HI, Moravcsik and Schimmelfennig (2009, 75) insist that not only is LI able to explain undesired consequences, but it also assumes their existence, as unintended consequences are starting points “for international institutions to elaborate ‘incomplete contacts’” so as to specify agreements and “credibly lock in compliance against defection by future unsatisfied governments.” The interstitial changes between intergovernmental grand bargains as well as the changes of unanticipated consequences can also be explained by the changes in state preferences, power, and information, and thus LI helps to understand and resolve “the uncertainty and indeterminacy inherent in the initial bargain — or any political process” (Moravcsik and Schimmelfennig 2009, 75); since nation states’ preferences for integration “tend to be rather stable over time” and “European governments were quite aware of the consequences of their actions”, the

commonly-believed unintended outcomes, such as the CAP and the EU Social Protocol (both of which have been elaborated on by Pierson (1996, 1998) as unanticipated consequences), actually have been foreseen by governments at the beginning (Moravcsik and Schimmelfennig 2009, 76).

Though disagreeing with rational choice institutionalists' and HI's criticisms, Moravcsik and Schimmelfennig acknowledge that "LI is not a universal theory" and it "explains integration under most conditions, but not under those that violate its assumptions about preferences, bargaining, and credible commitments" (2009, 76). Moravcsik and Schimmelfennig specify two limitations to the application of LI:

"First, LI best explains policy-making in issue areas where social preferences are relatively certain and well defined", that is, the weaker and more diffuse/the more intense, certain and institutionally represented societal interests there are, the less predictable/more certain national preferences are; as a matter of fact, LI assumes a correlation between the variance of outcomes and the underlying uncertainty of interest representation of the domestic constituency, and the less "substantive implications of a choice" there are, "the more likely ideological preferences and beliefs, or other factors, may be influential" (Moravcsik and Schimmelfennig 2009, 76). Consequently, among various EU policies, the most reliably predictable national preferences are in agricultural and trade areas "where economic preferences are stable" (i.e. countries hold consistent preferences for decades), and shifted national preferences result from governments' incremental responses to changing market conditions and more sudden responses to "overt policy failures"; when nation states predict "downside risks", the construction of institutions tends to maintain national prerogatives by privileging the status of national minister, restricting the role of the EP or employing unanimous voting to obtain tighter national control, as the case of agriculture suggests (Moravcsik and Schimmelfennig 2009, 76). Less predictable national preferences are "in economic areas such as monetary policy, where economic knowledge is more uncertain and the distribution of costs and benefits more diffuse" and the consideration of monetary policies' efficacy may have assumed as much importance as the underlying political economy (Moravcsik and Schimmelfennig 2009, 76-77); however, "[e]ven less predictable are the politics of constitutional reform" (e.g. European Constitutional deliberations), "where substantive concerns are not invariably salient" and "weak ideological beliefs" matter (Moravcsik and Schimmelfennig 2009, 77). So LI works best to explain and predict policies where domestic societal interests are better and

institutionally represented and organized, and thus countries have more stable preferences based on those more-clearly defined domestic pressures, which shows a cause-effect relation between the diffusion of issue-specific societal interests and the uncertainty (unpredictability) of state preferences.

“Second, intergovernmental bargaining based on asymmetrical interdependence dominates interstate bargaining except in rare conditions of high transaction costs and asymmetrical information, when supranational entrepreneurs may wield influence” (Moravcsik and Schimmelfennig 2009, 77) — to argue that the Commission can provide information services and reduce transaction costs actually is also a proposition of rational choice institutionalism (e.g. Pollack 1996, 438-439; see chapter four of this dissertation). Those “rare conditions”, Moravcsik (1999) argues, only have applied to the case of the SEA, where supranational entrepreneurs in the Commission and the EP took the advantage to initiate the SEA due to the failure of European multinational firms, interest groups, and domestic ministers to aggregate various disparate proposals into an integrated one and thus a lack of effective collective action among different interest groups. So Moravcsik believes that supranational entrepreneurship is effective “not so much in situations where international bargaining is complex, difficult or new, per se, but when domestic coordination problems are severe” (Moravcsik and Schimmelfennig 2009, 77; Moravcsik 1999, 282-85). Accordingly, Moravcsik’s LI holds the basic tenets that as for international bargaining, “decentralized non-coercive negotiation will be more efficient where information is plentiful and distributed widely” and “[o]nly when governments lack critical information, expertise, bargaining skills, and legitimacy that third parties can provide are the latter likely to be influential” (Moravcsik and Schimmelfennig 2009, 77). The exceptional conditions and cases, however, from another perspective, confirm the validity of transaction-based theory and EU supranational institutions’ — especially the Commission’s — autonomy and their roles in promoting EU integration.

3.7.4.3 Case Studies: Applying LI to Agriculture and Enlargement

To illustrate their propositions on the scope conditions for LI as well as LI’s empirical power, Moravcsik and Schimmelfennig (2009) select two cases: an easy case — agriculture (the CAP), and a more difficult one — enlargement, and their analyses for each case are largely based on Moravcsik (1998) and Moravcsik and Vachudova (2002, 2003), respectively.

As for the case of agriculture, it has the ideal conditions for the application of LI proposed above: “certain and intense preferences, clear positive-sum benefits, and clear credible commitment problems”, as “[f]armers associations have intense preferences, are highly organized, and exercise a strong influence on governments”; and at the same time, agriculture remains one of the most important issues for any industrialized government and it is still a core issue for “European bargaining”, which consumes a large part of the EU budget. In short, the formation of the CAP (i.e. a policy outcome) is closely related to the relevant national domestic groups’ interests and demands (which contribute to and explain state preferences), hence providing an ideal condition for LI theory (Moravcsik and Schimmelfennig 2009, 77). Regarding the three stages of the LI model, the elements of the analysis of the CAP are as follows.

First, the initial task is to ascertain and explain national preferences from “the structure of issue-specific domestic societal interests — in this case economic ones”, and in agriculture, “national preferences [...] were skewed toward producer interests” because of the big size of the farm sector and its better organization and interest representation in contrast to “the diffuse and unorganized groups of taxpayers and consumers who were forced to foot the bill” (Moravcsik and Schimmelfennig 2009, 78). Major governments’ preferences concerning the CAP in the 1960s varied largely and were closely related to domestic producers’ preferences. In France, 25 percent of the population worked in agriculture, in Germany 15 percent, and in the UK only 5 percent; commensurately, France became the biggest surplus producer and exporter of agricultural goods, while Germany and the UK were large net importers with marginal exports — the latter two were uncompetitive in agriculture compared to France; consequently, France, as a large exporter, preferred intra-EC market liberalization and higher prices for agricultural products relative to the world market; in contrast, the UK, as a net importer, wanted to be offered with lower priced agriculture products by both the Community and the Commonwealth. As for Germany, due to “its still sizeable and politically influential agricultural sector”, it also pressed for high prices. As a result, each national preference reflected the size and competitiveness of its agriculture sector as well as the variance of the intensity of producers’ interests in the three big countries: France intensely favored the liberalization of the Community’s market with modest support prices, but strongly opposed to do so in the General Agreement on Tariffs and Trade (GATT); Germany objected to the liberalization of the intra-Community market “unless very high common support prices were paid” while it was willing to make

concessions in the GATT due to its domestic arrangements; finally, the UK was skeptical to any kinds of the CAP, and it “favored a liberalization of global agricultural trade” (Moravcsik and Schimmelfennig 2009, 78).

Second, carrying varied national preferences, these big three countries entered into the stage of interstate bargaining, where LI predicts that France’s strongest interests for the CAP would place it in an inferior bargaining position, implying that France should make more concessions or press other negotiators to reach agreement (Moravcsik and Schimmelfennig 2009, 78). The conventional explanation, or rather from a neo-functionalist perspective, is that France, via issue-linkage or package deals, made concessions on unrelated issues that were of less interests to France; consequently, the French government linked the issue of internal tariff removal to the creation of the CAP so as to threaten Germany to give up its favored bilateral agricultural trade agreements, and at the same time, France changed its previous tough stances on the negotiations of the GATT and supported the Kennedy round of GATT negotiations so as to force Germany into making concessions on the CAP. However, those explanations are problematic: how or to what extent can a state “impose losses on other interest groups in the name of cross-issue linkage”? The fact is that “there was [...] no real *quid pro quo* at the level of sectoral interests” since neither did the French industrialists really oppose GATT agreements, nor did German farmers reject the CAP (Moravcsik and Schimmelfennig 2009, 78). LI offers a different explanation: the bargaining process shows a “convergence of interest — collusion — between German and French farming interests at the expense of French and German consumers, taxpayers and technocrats, as well as third-country (e.g. US) producers and the European Commission” (Moravcsik and Schimmelfennig 2009, 78-79). The negotiated results were as follows: French agricultural commodities obtained higher support prices and a preferential access to German markets; in return, the construction of the CAP followed the German government’s will, which includes “long transition periods for bilateral quotas, high subsidies, and price support”; meanwhile, German farmers’ slight disadvantage in wheat prices was “compensated” by “extremely high EU support prices for animal products, the mainstay of German agriculture”, which led to a huge increase of animal production and exportation in Germany (Moravcsik and Schimmelfennig 2009, 79). It was not the farmers but some officials who opposed such a deal, and to persuade those opponents, de Gaulle pretentiously made a credible threat that France would withdraw from the Community if the CAP were not established —

“pretentiously” because when he made good on such a threat, he lost domestic support and backed down (Moravcsik and Schimmelfennig 2009, 79). Moreover, geopolitical ideology did play a role as de Gaulle tried to “embarrass German politicians into accepting a deal by threatening to undermine the EEC”, but the Commission, which is always regarded as a “supranational entrepreneur” by neo-functionalists, exerted little influence on the final outcomes. The reason is that member states were well informed about each government’s preferences and the intricacies of agricultural policy, and in fact, the CAP turned out to be based on an opposite design to the Commission’s proposal (Moravcsik and Schimmelfennig 2009, 79).

Finally, LI asserts that the institutional prescription for the CAP as well as for the common market reflected concerns about member states’ credible commitments. Despite the de Gaulle government’s “purportedly ideological aversion to supranational institutions”, France pressed for a centralized CAP to lock Germany’s compliance into a permanent mechanism of high price financing before it finally agreed to let the UK join the Community; meanwhile Germany insisted on the unanimous voting mode, because it was worried that the protection to its agricultural goods might be reduced to a lower level in the future if QMV were adopted. So from the very starting point, EU agricultural policy was decided by unanimity without the Commission’s right to propose — national agricultural ministers have acquired an incomparable privileged status (Moravcsik and Schimmelfennig 2009, 79). From the LI perspective, because domestic agricultural interests were very strong and all industrialized governments favored subsidization to the agricultural sector, to put agricultural issues on the agenda of EU-level negotiations was necessary, and this was another way to maximally protect national interests (Moravcsik and Schimmelfennig 2009, 79).

In contrast to the agriculture case, the LI model encounters difficulties to explain EU enlargement, a case where intergovernmental negotiations with unanimous voting are applied. The reason is that despite that candidate states’ national interests tend to exhibit more concrete and intense propensities because of their economic orientation to qualify for membership, the exiting members’ interests turn out to be more diffuse (Moravcsik and Schimmelfennig 2009, 80). When new members are admitted into the EU club, they must adopt the *acquis communautaire* and the existing policies almost remain unchanged; at the same time, new members’ size and budgetary impact are small compared to the existing EU members, and the latter’s primary concerns are issues of Community budgetary flows, trade and investments. On the issue of

enlargement, the existing member states' calculations of the costs and benefits become more diffuse and imprecise (Moravcsik and Schimmelfennig 2009, 80). But still, LI predicts that, first, "members will calculate the advantages of enlargement in terms of the costs and benefits of social-economic interdependence of various types"; second, new members will actively and strongly seek membership in the EU, while old members will promote new members' accession process more slowly, among which those who have the closest and most positive interdependent relationship with potential new members will lead the process; finally, existing members will exploit their bargaining superiority to impose conditions and create exceptions to mitigate the impact and disadvantages brought by new members, such as the competition for subsidies and markets (Moravcsik and Schimmelfennig 2009, 80).

Moravcsik (1998) offered an analysis of the UK's accession to the Community in the 1960s. In light of LI, both the UK's wishes to join the Community and France's opposition were "economically motivated": the UK's wanted to become a member of the Customs Union (CU), reflecting a strong demand of UK commercial and trade interests, while France's objection to the UK's membership was due to the UK's opposition to the CAP and a low-price commercial competition that would be brought by the UK; the CAP was France's key concern, and only after the CAP was created, France finally agreed to the UK's entry but with the demand for "a permanent financing arrangement for the CAP" (Moravcsik and Schimmelfennig 2009, 80).⁹⁵

⁹⁵ With its objectives laid down first in the Rome Treaty of 1957 (Article 39) and later at the Stresa Conference in July 1958, the CAP was launched in 1962; later the grain price was agreed in December 1964, and the Commission's proposed measures on financing the CAP triggered the "empty chair" crisis from mid-1965 to early 1966, which led to the application of unanimity rules as the normal practice within the Agricultural Council. At the very beginning, in order to implement the CAP, national governments established the European Agriculture Guarantee and Guidance Fund (EAGGF) which was agreed to be directly financed by national contributions only for the first three years, and after that a new funding arrangement should be adopted; however, the Commission's proposal to replace member state's direct contribution with the Community's own resources after July 1965 sparked the "empty chair" crisis, and it was only in 1970 that the EC finally financed the CAP from its own resources, that is, "revenue from agricultural import levies and a proportion of VAT (Value Added Tax) payments" (Dedman 2010, 104), rather than from members' annual "membership fee" (see Dedman 2010, 82-108; Fouilleux 2010, 341-45; Dinan 2010, 329-35). As for the UK's membership in the Community, De Gaulle vetoed against the UK's two accession applications in 1963 and 1967, and only after De Gaulle resigned as French President in 1969, did the UK finally conclude accession terms with the EEC in June 1971 and joined it in 1973 (Dedman 2010, 93; 106); the main reason for De Gaulle's successor, Georges Pompidou (1969-74), to change French government stances toward the UK, according to Dedman (2010, 104-105), is that France was alarmed by German "Ostpolitik" (Eastern Policy) and thus hoped to counterweigh Germany's growing influence in the Community by admitting the UK's membership.

During the entry negotiations, the UK government bargaining power was weak, because “Britain was more commercially dependent on the Six than vice versa”, and France, expressing “little economic interest in British membership”, gave up its veto against the UK’s accession in exchange for extracting more concessions mainly on the CAP (Moravcsik and Schimmelfennig 2009, 80). LI’s explanation is different from the conventional stories told from ideological or geopolitical perspectives, such as French politicians’ anti-Americanism and the national hatred caused by the Second World War.

Moravcsik and Schimmelfennig (2009) supplement LI’s case studies with the EU’s recent eastern enlargement. To begin with, each member state’s preference “can be largely — but not entirely — explained by their patterns of interdependence, geographical position, and economic structure”, and national positions towards eastern countries’ accession to the union differ in terms of both the speed (i.e. to be the “drivers” or “brakemen”) and extent (i.e. pushing for a limited enlargement only focusing on the central European states, or for an inclusive enlargement for all 10 candidate countries) (Moravcsik and Schimmelfennig 2009, 80-81). All 15 old member states’ preferences could be illustrated by “the speed” x “the extent” matrix⁹⁶, and LI can account for these preference distributions as it proposes that when governments lack intense economic interest, geo-political or ideological interests emerge to be the old member states’ main concerns (Moravcsik and Schimmelfennig 2009, 81). LI takes the existing members’ geographic position as “a proxy variable” for “the imperatives induced by interdependence, and, in particular, the [...] exogenous increase in opportunities for cross-border and capital movements’ that should determine national preferences”; therefore, countries bordering the Central and Eastern European (CEE) candidate countries, except for Greece and Italy, became “drivers” for enlargement, while countries far from the CEE candidates, except for the UK, turned out to be “brakemen” (Moravcsik and Schimmelfennig 2009, 81). Greece and Italy’s negative attitudes reflect that, in line with LI’s predictions, being “the poorer, less highly developed, and more agricultural among existing members”, these two countries feared potential losses in trade, agriculture and fund budget competition with the new members, as the latter were also less developed countries with “the same traditional and resource-intensive industries” (Moravcsik and Schimmelfennig 2009, 81). Though the CEE countries are

⁹⁶ See “Table 4.1 Member State Enlargement Preferences” by Moravcsik and Schimmelfennig (2009, 81).

“neither geographically close nor economically important to Britain”, the UK government strongly supported EU expansion, not only acting as a “driver” instead of a “brakeman” but also pressing for an “inclusive” rather than an “limited” enlargement, which follows LI’s expectations that when intense economic interests are absent, other factors, like geopolitical or ideological interests play decisive roles in accounting for national states’ preferences (Moravcsik and Schimmelfennig 2009, 81). Still, there are other kinds of explanations. Some scholars hold that the UK’s supportive stance comes from its conservative government’s Europhobia, and the UK hopes that the widening process could prevent or at least dilute the EU’s deepening process, while others contend that the UK is devoted to a stable Europe, and the inclusion of the CEE countries was essential to avoid war calamities like those in Yugoslavia; yet, LI is correct in predicting the general trends of state preferences for or against EU eastward enlargement (Moravcsik and Schimmelfennig 2009, 81-82).

In terms of substantive bargains, LI’s logic of “asymmetrical interdependence” works well to account for the old members’ and candidates’ bargaining powers: the sum of all 10 candidate countries’ Gross National Product (GNP) was less than 5 percent of that of the existing members, while their exports and imports to the EU took up a large share of their total foreign trade, increasing to between 50 and 70 percent during the 1990s, which, nevertheless, also only accounted for less than 5 percent of the sum of the old member states’ foreign trade at that time. Besides, inflows of capital from western Europe was critical to the CEE countries, whereas the CEE’s economic impact on old members was far smaller — all these illustrate candidate countries’ one-sided dependence on EU markets. Therefore, though the market expansion was profitable for both the old and the new members, new members appeared to benefit more. As a result, the existing members gained superior bargaining positions and “[a]pplicant countries consistently found themselves in a weak negotiating position *vis-à-vis* their EU partners, and accordingly have conceded much in exchange for membership” (Moravcsik and Schimmelfennig 2009, 82). Moreover, the negotiated results meet LI’s expectations: the CEE states accepted conditions set up by the existing members, such as “temporary restrictions of the free movement of labor and the phasing in of agricultural subsidies over a 10-year period”, while by imposing transitional restrictions, old member states guaranteed their benefits and reduced the negative impact of enlargement on their economies as much as possible (Moravcsik and Schimmelfennig 2009, 82). In short, the high asymmetrical interdependence

between the applicants and the existing members determined a weak and strong bargaining position for each group, respectively.

As far as institutional choice is concerned, LI turns out to be not as convincing as it explains national preferences and intergovernmental bargaining, and the puzzle is that since there was already an “association” regime for the current members to negotiate with the CEE countries, why not just stick to this association regime which, with the similar functions to the EU, could also facilitate current members to access CEE markets while protecting the CEE countries’ vulnerable sectors, trade and budget competition with the existing members? The reason, some argue (e.g. Skalnès, 2005), was the old member states’ concern for continental stability and security, which “could be achieved much better through the strong incentives and ties of membership rather than through association” and the wars in the former Yugoslavia and in Kosovo precipitated the EU’s preparation for the eastern enlargement and the extension of its prospective membership to the western Balkans (Moravcsik and Schimmelfennig 2009, 82). Other scholars (e.g. Schimmelfennig, 2001, 2003) contend that it is the EU’s identity as being a liberal democratic community that “obliged the EU to admit democratic European countries as full members if they so desire” (Moravcsik and Schimmelfennig 2009, 83). All in all, LI explains most parts of the difficult case — EU enlargement.

Moravcsik and Schimmelfennig’s (2009) case studies on the CAP and EU enlargement provided examples of testing LI by the selected three cases in this dissertation, which suggest two essential dimensions. The first one is to ascertain the nature of each case: an easy case or a harder case for LI, applying the judgments of “limitations” to see whether the selected cases possess the features of ideal conditions; the second dimension is to dissect the LI model into three stages with various sub-hypotheses, and to ascertain the explanatory and predictive power of LI means to test the validity of each sub-hypothesis.

3.7.5 The Revised LI Model and Hypotheses Derivation

The literature above depicts the origins, formation and evolutionary track of LI: by synthesizing neo-liberalism and traditional intergovernmentalism, Moravcsik first put forward “intergovernmental institutionalism” (Moravcsik 1991), then adapted it to LI (liberal intergovernmentalism) (Moravcsik, 1993a, 1995), and later systematically elaborated LI propositions and tested them on the basis of EU empirical developments

(Moravcsik, 1998). Moravcsik and Schimmelfennig (2009) further clarify and supplement LI, exhibiting visible theoretical revisions on the basis of empirical tests and criticisms leveled at LI's previous assumptions. So according to the updates offered by Moravcsik and Schimmelfennig (2009), a revised LI model can be framed as follows:

“EU integration can best be understood as a series of rational choices made by national leaders. These choices responded to constraints and opportunities stemming from the economic interests of powerful domestic constituents, the relative power of states stemming from asymmetrical interdependence, and the role of institutions in bolstering the credibility of interstate commitments.” (Moravcsik and Schimmelfennig 2009, 69; cf. Moravcsik 1998, 18).	
	
National preference formation (Stage 1)	(1) Preference formation is “issue-specific”, implying two different models: (1a) Model 1: In economic issue areas, the preference formation model is based on a balance between producers and taxpayers and actors interested in regulation, mainly concerning how to manage globalization and to meet the challenges brought by globalization; (1b) Model 2: In non-economic issue areas, the proper model of preference formation derives from non-economic concerns rather than economic calculations, such as geo-politics and ideology. (2) Concrete national interests emerge from (2a) specific domestic sectoral interests, (2b) considerations of adjustment costs, and/or (2c) geopolitical concerns or other factors. (3) A government integration position can be derived from (3a) regulatory and budgetary constraints (costs and benefits calculations), (3b) ruling governmental coalitions’ macro-economic preferences, and/or (3c) the purpose to secure commercial advantages for producer groups.
Interstate bargains (Stage 2)	(4) Bargaining power is decided by two factors: (4a) national asymmetrical interdependence, that is, the uneven distribution of the benefits of a specific agreement; and (4b) national information acquiring of other actors’ preferences and institutional mechanisms. (5) These two factors imply: (5a) member states who economically benefit the most from EU integration tend to compromise the most on the margin to realize gains, whereas those who benefit the least tend to impose conditions and are difficult to make concessions; (5b) the Commission or its President or other ideational entrepreneurs of supranational institutions will influence national governments and enhance negotiations only when the transaction costs involved are high and they are armed with better information and expertise than national governments, because these entrepreneurs rarely possess information or expertise unavailable to states. (6) Hard bargains might witness governmental threats: (6a) to veto proposals; (6b) to withhold financial side-payments; or (6c) to form alternative alliances excluding recalcitrant governments.
Institutional	(7) The purposes to establish supranational institutions are: (7a) to help

choice (Stage 3)	governments to reduce the transactions costs of future interstate negotiations on the same issue; (7b) to provide information for governments to estimate other actors' future preferences and behavior; and (7c) by setting up rules to distribute gains, reduce coordination costs, monitor and sanction governmental non-compliance. (8) Three factors contribute to different institutional designs: (8a) the severity of distributional conflict and enforcement problems; (8b) uncertainty about the preferences of other actors; and (8c) the future states of the world. (9) Two forms of sovereignty delegation: (9a) to only set up norms and procedures to facilitate interstate bargaining and reduce both negotiation costs and uncertainty, with the purpose of "pure coordination" and reducing the transaction costs of determining a common solution; (9b) to delegate sovereignty more extensively, such as by the application of QMV, the Commission's right to put forward proposals and to negotiate with third parties, the independent operation of the ECB and the judicial power of the ECJ, the EU's modest fiscal centralization, quite often aiming at resolving problems of control, sanctioning, and incomplete contracting through credible pre-commitment. (10) The intention to establish EU institutions is to guarantee credible domestic commitments by strengthening (10a) the national executive; or (10b) the national judicial branch; or (10c) the very domestic groups that support the policy in the first place <i>vis-à-vis</i> other domestic forces favoring non-compliance so as to help nation states to cope with globalization. (11) National non-compliance will happen when an agreement leads to high costs for powerful domestic actors.
 Two limitations to the application of LI	(12) LI best explains policy-making in issue areas where social preferences are relatively certain and well defined, which implies the following: (12a) the most reliably predictable national preferences are in agriculture and trade areas; (12b) less predictable national preferences are in economic areas such as monetary policy, where economic knowledge is more uncertain and the distribution of costs and benefits more diffuse; and (12c) even less predictable are the politics of constitutional reform where substantive concerns are not salient and ideological beliefs matter more. So LI works better to explain and predict policies where domestic societal interests are well organized and represented, exhibiting a cause-effect relation between the diffusion of issue-specific societal interests and the uncertainty (unpredictability) of national preferences. (13) It is rare for supranational entrepreneurs to wield influence, which could happen only when domestic coordination and interest representation get severe problems and/or only when governments lack critical information, expertise, bargaining skills, and legitimacy that third parties can provide.

Figure 3.2 A Revised LI Model: National Preferences, Substantial Bargains and Institutional Choice
Sources: Own compilation on the basis of Moravcsik and Schimmelfennig (2009).

As an integration theory, the revised LI model, for one thing, offers enlightening explanatory matrices to account for national interest formation, interstate bargaining

and institutional set-ups, and for another, it should be empirically tested by the ever developing EU, with the potential to be further revised and developed. This dissertation will test this revised LI model on the basis of the three selected cases representing the EU's new developments so as to examine LI's explanatory and predictive power. In the context of the eurozone sovereign debt crisis, the revised LI framework suggests the following:

H7: The EU's new developments during the eurozone sovereign debt crisis are a series of rational choices made by national leaders, which are forged by three factors consecutively: national preference formation based on the economic interests of powerful domestic constituents, intergovernmental bargaining where asymmetrical interdependence decides the relative power of states, and institutional arrangements to guarantee the credibility of intergovernmental commitments.

 This hypothesis can be disaggregated into the following sub-hypotheses:

Stage 1: National preference formation

Due to the economic nature of the EU's measures to counter the crisis, "issue-specific" preference formation is based on (1a) Model 1 with salient economic concerns:

H7a: The EU's new measures and policies to solve the sovereign debt crisis reflect the economic interests of powerful domestic constituents.

If this mechanism is valid, then one should observe in the selected cases that states formulate their preferences for these new EU measures and policies on the basis of the economic interests of powerful domestic constituents rather than on the basis of geopolitical interests or ideological concerns, exhibiting the interest formation pattern which involves producers on the one hand and taxpayers and actors interested in regulation on the other hand, displaying concerns about how to deal with globalization.

In addition to the examination of the economic interests of specific domestic constituents, this dissertation will see whether other factors mentioned by LI are prominent in the selected cases: (2b), (3a), (3b) and (3c), so as to get a more rounded picture of concrete national interest formation and national government integration positions.

Stage 2: Interstate bargains

Because different states express different interests, states enter the intergovernmental bargaining stage where (4a) and (5a) suggest H7b, while (4b) and (5b), together with (13), can be stated in H7h

H7b: National asymmetrical interdependence (i.e. the uneven distribution of the benefits of a specific agreement) determines the relative bargaining power of the nation states, so member states who economically benefit the most from the EU's new measures and policies tend to compromise the most on the margin to realize gains, whereas those who benefit the least tend to impose conditions and make hard bargains.

To test the validity of this hypothesis, this dissertation will compare the bargaining power of the traditional big three: Germany, France, and the UK.⁹⁷ The UK is not a euro country while Germany

⁹⁷ The three EU member states, Germany, France and the UK, are traditionally defined as "the big three" of the EU, see, for example, Janning (2005), Wagnsson (2010), and Geis et al. (2011).

and France, two core euro members, have strong interests in seeking solutions at the EU level to fight against the sovereign debt crisis, so if LI's prediction is correct, then in case studies one should observe that the UK has a superior bargaining position, and it may exploit its superior bargaining power to impose conditions or cause hard bargains, whereas Germany's and France's strong interests in regulation and solutions at the supranational level put them into inferior bargaining positions, and they tend to make concessions on the margin to realize gains. If hard bargains appear in the cases, this dissertation will check in what kind of way: (6a) and/or (6b) and/or (6c). Moreover, to compare the negotiation positions of Germany, France, and the UK is also a way to judge LI's following predictions:

H7c: The EU's new measures and policies to solve the euro area sovereign debt crisis reflect big countries' will rather than supranational entrepreneurship, because EU entrepreneurs rarely possess information or expertise unavailable to the member states.

If H7c is not valid in case studies, then the selected cases in this dissertation suggest "exceptional" situations to the LI model: (4b) and (5b), which, combined with the second limitation to LI's application (13), can be stated in hypothesis form of H7h.



Stage 3: Institutional choice

H7d: In order to solve the debt crisis, nation states make institutional choices to delegate and pool sovereignty to EU supranational institutions so as to guarantee the credibility of intergovernmental commitments.

To test this hypothesis, this dissertation will examine the following factors: first, what are the nation states' institutional choices and how do the institutional choices work, by adjusting existing institutions or establishing new institutions? Second, how do member states delegate sovereignty to EU supranational institutions, in the form of (9a) and/or (9b)? Third, are the new institutional arrangements designed to guarantee member states' credible commitments to the reached agreements? If the new institutional arrangements are dedicated to ensure member states' commitments, then the dissertation will further examine in which way, (10a), (10b) or (10c), domestic commitments get guaranteed, which suggests the following:

H7e: Member states' credible commitments can be guaranteed and realized via strengthening the national executive, the national judicial branch and/or the very domestic groups that support the policy in the first place vis-à-vis other domestic forces favoring non-compliance.

For the situation of national defection from the agreed agreements, LI (see (11) in Figure 3.2) predicts that

H7f: National non-compliance will happen when an agreement leads to high costs for powerful domestic actors.

Moreover, LI offers three factors, (8a), (8b) (8c), to account for institutional designs, and other rationales (7a, 7b, and 7c) besides the commitment concerns to explain the setting up of institutions, so this dissertation will also see whether these factors suggested by LI are prominent in the selected cases.



Mutual reinforcement between LI's three stage propositions and the limitations to LI's application

Two limitations to the application of LI

The EU's new measures and policies to solve the sovereign debt crisis belong to the general category of EU economic governance, and they are related to many EU policy areas, such as fiscal, financial,

and monetary policies. According to (12), LI's predictive power is moderate as the EU's new measures and policies almost fall into the category of (12b). So this dissertation will see whether domestic societal interests are well organized and represented in the selected cases and whether the assertion of a cause-effect relation between the diffusion of issue-specific societal interests and the uncertainty (unpredictability) of national preferences is confirmed in case studies. The first limitation suggests the following:

H7g: The stronger and better-organized (the weaker and more diffuse) representation of domestic societal interests is, the more (the less) predictable and more certain (uncertain) national preferences are, and the better (worse) LI works.

As for the role of supranational entrepreneurs, LI predicts that they will wield influence only in exceptional cases, as an alternative to H7c. During the sovereign debt crisis, the Commission and European Council President Van Rompuy were actively engaging in their activities and fulfilling their functions, so the second limitation implies the following:

H7h: During the eurozone sovereign debt crisis, the Commission and European Council President Van Rompuy exert influence only because the transaction costs involved are high, domestic interests are poorly coordinated and represented, and/or national governments lack critical information, expertise, bargaining skills, or legitimacy that the Commission and Van Rompuy can provide.

H7h also offers explanations for the exceptional cases to H7c, and the case studies in this dissertation will check whether the EU's new developments in economic governance are "exceptional cases" for LI or not. If H7h is effective in the selected cases, it also confirms neo-functional propositions on the pro-integrative roles of EU institutions' entrepreneurs.

Finally, the assumption that "the EU's new developments during the eurozone sovereign debt crisis are a series of rational choices made by national leaders" should be clarified in case studies. As the effectiveness of the new post of European Council President from 1 December 2009, the nature of Van Rompuy's activities should be properly defined.

Figure 3.3 The Framework to Test LI in the Context of the Eurozone Sovereign Debt Crisis
Sources: Own hypothesis derivation and compilation based on "Figure 3.2 A Revised LI Model" in this chapter.

3.7.6 LI and the EU Today

LI theory, according to Moravcsik and Schimmelfennig (2009, 83), throws light on "the most striking" feature of the European integration project today: the EU's substantive and institutional stability, which has forged a normative plateau where incremental EU policy-making changes rather than "substantive reforms" are occurring. This suggests the existence of a "European Constitutional Settlement" (Moravcsik 2006; 2007) — from the Amsterdam, to the Nice, and then to the Lisbon Treaties, there is an "incremental movement along slow trends toward reforms within the existing constitutional structure" without "a grandeur change" like the SEA or the Maastricht Treaty, and the main reason, from the LI perspective, is that "the absence of national preferences for a functional grand project [...] sufficient to motivate cooperation", as the creation of the SEA and the single currency once did (Moravcsik and

Schimmelfennig 2009, 83). Two propositions are derived. First, the EU has reached the point where its constitutional system is mature enough to sustain its stability, which, for one thing, rejects federalists' "bicycle theory", that is, "the EU must keep moving toward federal union or risk collapse" (Moravcsik and Schimmelfennig 2009, 84), and for another, implies an *incremental* reform trend within the EU's existing institutional framework, such as to strengthen the Council and the EP, and deepen or enlarge certain EU policies (Moravcsik and Schimmelfennig 2009, 83). This argument is similar to H4 on Jensen's institutional/legalistic spillover (see chapter two of this dissertation), which expects that QMV is the most advanced development of EU decision-making and the QMV mode has a tendency to spread ("spillover") into other EU policy areas where political integration is less developed — another way to claim the stability and maturity of the EU's constitutional structure. From LI's point of view, the EU has become "the most ambitious and successful" multilateral organization of multilateral governance with epochal achievements (Moravcsik and Schimmelfennig 2009, 84). Second, LI predicts that "[a]bsent a major and unforeseen exogenous shock, the EU is likely to develop incrementally, improving and reforming policies within the current confederal constitutional framework, with member states ruling by quasi-consensus and fiscal, administrative, and coercive powers decentralized to the states" (Moravcsik and Schimmelfennig 2009, 83), which, in the case of the sovereign debt crisis, implies the following:

H8: Due to the global financial crisis, a major and unforeseen exogenous shock with the internal consequence of the euro area sovereign debt crisis, the EU is likely to embrace substantive reforms, developing and improving policies outside the current EU institutional framework, which might change the scenario where member states rule the EU by quasi-consensus and/or fiscal, administrative, and coercive powers are decentralized to the level of the states.

As the first chapter of this dissertation elaborated, the eurozone sovereign debt crisis was triggered by the global financial crisis originating from the US in 2008, and the general trend of the sovereign debt crisis in Europe is regarded as an aftermath as well as an extension of the financial crisis of 2008, but still, the most direct cause of the debt crisis are the excessively high government debt and deficit rates. The ongoing euro area sovereign debt crisis indeed is a "major" and "unforeseen" shock, but this shock was caused by both exogenous and endogenous factors. In order to solve the crisis, the EU does embrace reforms, as new mechanisms and institutions are set up

and new policies are carried out; accordingly, this dissertation in case studies will check: (1) whether there is any “substantive” policy-making beyond the current EU institutional framework, that is, whether there is any “drastic” reforms — if not, how the new measures adopted by the EU demonstrate an incremental change under the EU’s current institutional structure, by strengthening the existing institutional arrangements (e.g. the Council and the EP) or deepening or enlarging a certain EU policy; this is also the way to ascertain the maturity of the EU constitutional structure; and (2) whether the EU’s recent developments challenge the national control scenario assumed by LI. In light of LI, the EU is a choice made by nation states to rescue and strengthen themselves against the trend of globalization. As a result, “[p]olitical control over the major fiscal activities of the modern state — policies like taxation, social welfare, health care provision, pensions, infrastructure, education, criminal prosecution, defence spending and, therefore, immigration and citizenship — are likely to remain national” (Moravcsik and Schimmelfennig 2009, 83), while there are “exceptional cases where EU policy-making is salient for some subset of the population — trade policy, CAP reform, GMOs (Genetically Modified Organisms), services deregulation, immigration, constitutional reform, domestic defence reform, right down to a relatively minor issue like the recognition of Kosovo — European governments remain responsive to publics” (Moravcsik and Schimmelfennig 2009, 84). So case studies in this dissertation will also see whether developments in EU economic governance pushed by the crisis make any changes to the current picture of decentralized fiscal, administrative, and coercive powers of member states; if so, how and to what extent does “centralization” happen?

LI’s assumption on the “exceptional cases” leads to another prediction of LI: “[t]he lack of saliency of EU issues in the minds of Europeans is the main reason why they do not participate actively in European-level elections or debates” (Moravcsik and Schimmelfennig 2009, 84; also see Moravcsik 2007, 40-42).⁹⁸ Obviously, LI believes that a salient EU issue for common citizens will stimulate and increase citizens’ participation in EU affairs. As for the so-called “democratic deficit”, LI argues that it “stems from the general unpopularity of government, and from the unfortunate

⁹⁸ Moravcsik (2007, 40) makes a much bolder and absolute assertion: “I consider only one such reason — arguably the most important among them — namely that the issues dealt with by the EU are far less salient to the public than issues dealt with by national governments,” and “as long as voters view the matters handled by the EU as relatively obscure, they have little incentive to debate or decide them” (2007, 42).

decision to force unnecessary public debates and referenda about a confusing constitutional reforms [sic]" (Moravcsik and Schimmelfennig 2009, 84; see also Moravcsik 2006); checks and balances among EU institutions, especially the increasing powers of the EP, "ensure that EU policy-making is, in nearly all cases, clean, transparent, effective and politically responsive to the demands of European citizens" (Moravcsik 2002, 605; also quoted in Moravcsik and Schimmelfennig 2009, 83). In recent years, how to stop the spreading of the eurozone sovereign debt crisis and to finally resolve it has been a top issue for EU economic governance, and national austerity measures such as welfare cuts do influence common citizens, so it appears that the sovereign debt crisis has become a salient EU issue to Europeans. In line with LI, the following hypothesis is derived:

H9: The salience of the sovereign debt crisis to EU citizens will increase the turnout of EP elections.

Ideally, the validity of this hypothesis could be confirmed or rejected by the comparison of citizens' participation rates in EU elections in 2004, 2009, and 2014, but since 2014 statistics are not yet available, the test of this hypothesis will be carried out in the future. Moreover, because the sovereign debt crisis and the countering-back measures are also nationally specific, when we come to this hypothesis test, "the salience of the sovereign debt crisis to EU citizens" should be deliberated further (i.e. the claim that "the sovereign debt crisis has become a salient EU issue in the minds of Europeans" should be confirmed first).

3.7.7 LI: A Baseline Theory Open to Dialogue and Synthesis

LI is open to dialogue and synthesis with other integration theories and approaches, and LI theory itself is a combination of three theories: preference formation, bargaining, and institutions (Moravcsik and Schimmelfennig 2009, 84)—a sort of acceptance of Forster's (1998) criticism, but with the specification of its application conditions, Moravcsik's LI has acquired the status as being a "theory"—a visible evolution and development of LI. Indeed, Moravcsik's LI has synthesized "multiple theories and factors into a single coherent approach appropriate to explaining the trajectory of integration over time", and thus provides a framework of multicausal explanations (Moravcsik and Schimmelfennig 2009, 68).

The necessity and potential to synthesize with other theories, for example, have been demonstrated by the enlargement case, which suggests the possibility to borrow

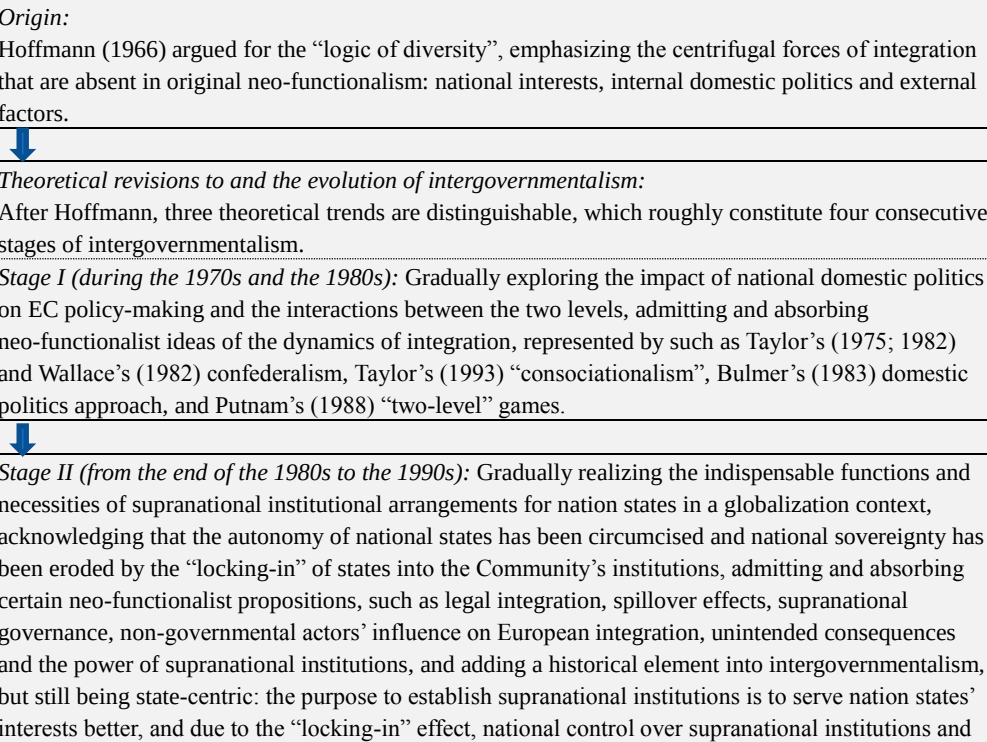
ideational explanations (e.g. ideological concerns and geopolitics) from social constructivism when LI faces cases in which “economic interests are weak and cause-effect relations are uncertain”; sometimes, identity and norm effects tend to have a substantive influence on the negotiated outcomes when “an issue has a strong constitutive or identity dimension” or “the norms involved have high legitimacy in the EU and resonate strongly with domestic ideas of the actors” (Moravcsik and Schimmelfennig 2009, 85; Schimmelfennig 2003). Moravcsik and Schimmelfennig suggest some easiest synthesis avenues for LI: theories that “share LI’s rationalist foundations and its empirical (positivist) methodological commitments”; as a matter of fact, LI can coexist with rational choice institutionalism, and HI “is also better seen as extension of LI than as an alternative to it”, because individual decisions, such as those proposed by LI, are a precondition to analyze and model institutions’ impact on national governments’ strategies (2009, 84).

Nevertheless, LI’s openness for dialogue and syntheses should not obscure or even be used to disconfirm LI’s explanatory and predictive power as an European integration theory — actually, it has been empirically tested out as being “the strongest starting point for explaining the basic processes, and outcomes of European integration”; the reason causing such obscurity, however, is due to “LI’s role as a baseline theory” (Moravcsik and Schimmelfennig 2009, 85). It is true that LI cannot explain all aspects of European integration, but neither can other theories do so; sometimes, there are exceptional cases, but LI variables have been confirmed by “the most consequential EU policies”, which constitute the substantively important issues of the EU, such as CAP reform, external trade policy, and free movement of people (Moravcsik and Schimmelfennig 2009, 85). Moravcsik and Schimmelfennig emphasize that LI has its scope conditions and works better for cases where issue-specific societal interests are more certain and better defined and national preference formation is related to the equilibrium of producers and consumers, whereas applying LI to issue-specific areas where societal interests are diffuse and not well represented while non-economic concerns weigh more, like social policy and the constitutional innovation OMC, is not justifiable to reject the validity of the tripartite — as a matter of fact, “very little has been accomplished” in social policy and “the OMC process has achieved [...] almost no policy outputs to date” (Moravcsik and Schimmelfennig 2009, 85). The significance of LI is that as a baseline theory, it focuses on the detailed empirical components of the EU project: national preferences, intergovernmental

bargaining and institutionalization, while it is also open to other theories and approaches to make possible syntheses, transcending the old problem in theorizing the EU: “the tendency to frame debates in terms of disagreements among ‘grand’ theories” (Moravcsik and Schimmelfennig 2009, 86). All in all, the European integration project today, LI would argue, is “the result of deliberate state choice” (Moravcsik and Schimmelfennig 2009, 86).

3.8 Summary

Taking a close examination of the above literature, we find a prominent theoretical thread running through the evolution of intergovernmentalism: state-centrism that stands on the opposite and complementary side of traditional neo-functionalism, but with a gradual acknowledgement and even the absorption of some neo-functionalist propositions as the EU project progressed, that is, the development of intergovernmentalism was accompanied by the admission and acceptance of certain neo-functionalists ideas. Figure 3.3 summarizes and illustrates the trajectory of intergovernmentalism as an EU integration theory.



policy-making is believed to get

- (a) strengthened rather than being weakened (Scharpf 1988)
- (b) and heavily circumscribed (Pierson 1996, 1998, 2000);

Consequently, a novel form of representative government and indirect democracy is evolving, and the responsibilities and accountability for specific policies are diffused and cannot be traced (Wessels 1997).



Stage III (from the 1990s to the new millennium): Moravcsik's (1991, 1993, 1998) LI, proposing that European countries' cooperation at the EU level comes from domestic political conflicts, and the dynamics of European integration are decided by factors such as national preferences, interstate bargaining, and institutional choice. These three factors frame up the LI model which exhibits a synthesis and adoption of the previous intergovernmentalist ideas developed at Stage I and II, showing LI's convergence with neo-functionalism and HI at certain points: the transfer of national sovereignty to supranational institutions, the autonomy of institutions, and the context of intergovernmental negotiations conditioned by shifted preferences and institutional environments.



Stage IV (in the new millennium) modifications to LI: Moravcsik and Schimmelfennig (2009) specify the scope conditions for LI and define LI's status as a baseline theory for EU studies, being open to other approaches and theories, and thus with the potential to be tested, modified and developed.

Figure 3.4 The Trajectory of Intergovernmentalism Theorizing the EU

Sources: Own compilation on the basis of the literature review of this chapter.

The trajectory of intergovernmentalism also highlights its own theoretical critiques of the theory itself. Table 3.2 illustrates the changes and differences of revised LI, a later descendant of intergovernmentalism, made to the main assumptions of intergovernmentalist state-centrism:

Table 3.2 Revisions to Intergovernmentalism by LI

Main assumptions of intergovernmentalist state-centrism	LI's Propositions	LI's Convergence with Neo-functionalism and HI
(1) The concept of sovereignty: national sovereignty is untouched or even strengthened through participation in the EU.	Certain national sovereignty has been transferred to EU institutions to guarantee a credible intergovernmental commitment.	(1) Nation states surrender some of their sovereign prerogatives, delegating and pooling sovereignty to EU supranational institutions.
(2) EU dynamics: the EU is driven by intergovernmental bargains among its member states.	√	
(3) The negotiated results represent the lowest common denominator of the wishes and preference of member states.	√ When actors in the least need of a specific agreement compared to the status quo threaten other	

	actors with non-cooperation and force others to make concessions — this represents a minimal common-denomination negotiation.	
(4) The function of supranational actors is to streamline and assist national negotiations.	√	
(5) Policy outcomes reflect national executives' interests and relative power.	√ Policy outcomes mirror the relative power of states which stems from asymmetrical interdependence.	
(6) Supranational actors have little independence.	EU institutions include a semi-autonomous legal system, parliament, and bureaucracy, and there are a power-growing ECJ and unprecedentedly autonomous centralized institutions, such as the ECB.	(2) LI admits the autonomy of EC institutions, and also acknowledges the growing power of the ECJ and the independence of the ECB.
(7) The preference to describe the EU project as a sort of European “cooperation” rather than “integration”: cooperation has nothing to do with ideology or idealism, but purely with national governments' rational choices to seek collective solutions to common problems in modern times.	In non-economic issue areas or when an intense economic interests are absent, geo-politics or ideology could play prominent roles in national preference formation.	
(8) EU integration will not lead to a supranational state, but an international order, serves as a domestic order for a transnational economy.	√ The process of Europeanization is not to replace the nation states, but to “rescue” and help them cope with globalization.	

Notes: “√” stands for LI's approval of the state-centric assumptions of traditional intergovernmentalism, exhibiting a theoretical continuity and heredity.

Sources: Own compilation on the basis of the literature review of this chapter.

As the literature review reveals, LI is a later revision and development of intergovernmentalism applied to EU studies, so this dissertation takes the LI model to explain the selected cases so as to test the explanatory and predictive power of intergovernmentalism today. Intergovernmentalism as a theory to explain EU integration starts from the opposite side of neo-functionalism, so the validation or the

rejection of the neo-functionalist hypotheses in chapter two of this dissertation can serve as a way to refute or support the typical state-centric assumptions; moreover, as the literature shows, intergovernmentalism as an evolving theory also exhibits a self-critique quality (see Figure 3.4, Tables 3.2 and 3.3 of this dissertation): intergovernmentalist researchers have gradually admitted and adopted certain neo-functionalist ideas — there are even converged points between the two classical theoretical camps — and these modifications themselves show a self-rejection to some traditional intergovernmentalist state-centric propositions. As a result, along with the empirical development of the EU project, intergovernmentalism also got revised and developed by absorbing and synthesizing ideas from other theories and disciplines.

Table 3.3 Comparing LI with Neo-functionalism and HI

<i>LI's critiques of neo-functionalism and HI</i>	
Neo-functionalism and HI are considered as macro theories lacking the micro-level explanation of integration, that is, lacking appropriate account of the purposive choice of states and social actors as well as the interactions among them.	
<i>Compared with neo-functionalism</i>	<i>Compared with HI</i>
● Difference: (1) Domestic coalitional struggles v.s. domestic technocratic consensus; (2) The role of relative power v.s. the opportunities to upgrade the common interest; (3) Passive institutions and the autonomy of national leaders v.s. the active role of supranational officials (“ideational entrepreneurs”) in shaping bargaining outcomes.	● Difference: (1) The unintended consequences regarded by HI are deliberate triumphs of intergovernmental cooperation, and sovereignty transferring is the result of nation states’ purposive choice to construct institutions so as to enhance the credibility of commitments; (2) National preferences exhibit stability and continuity, rather than being unstable and unpredictable as suggested by HI.
● Convergence: In exceptional cases, such as the creation of the SEA, ideational entrepreneurs exert influence on national governments and they do enhance negotiations and promote integration.	● Convergence: LI acknowledges the merits of HI: decision-making happens in a certain historical and institutional context.
	
<i>LI's converged points with neo-functionalism and HI</i>	
(1) Nation states surrender some of their sovereign prerogatives, delegating and pooling sovereignty to EU supranational institutions; (2) LI admits the autonomy of EC institutions, and also acknowledges the growing power of the ECJ and the independence of the ECB.	

Sources: Own compilation on the basis of the literature review.

As suggested by Forster (1998), some parts of the early LI might turn out to be inadequate and even a failure in accounting for specific cases, and the critiques on Moravcsik's LI actually offer possible alternatives to complement the LI model as well as contribute to a more rounded picture of EU studies: in addition to the grand bargains on treaties, EU studies also include research on EU daily operation and informal politics; besides economic interests, various other factors (e.g. domestic structures, partisan political struggles, redefined national preference caused by international pressures, departmental and organization interests, powerful political rivalries, and the need to keep voters' support) may also account for national choices; apart from the role of national governments and leaders, supranational institutions and other non-state actors also exert impact. To develop a grand theory to account for every aspect of the complex EU project is impossible; rather, different theories highlight certain parts of the EU, privileging certain constituents and offering different angles to understand and explain the EU. Intergovernmentalism, as an opposite and competing theory to neo-functionalism, focuses on the factors that have been neglected or devalued by neo-functionalists and thus provides a complementary approach to unwind complicated European integration.

4 Chapter Four: Historical Institutionalism (HI)

HI is generally regarded as one of the three schools of modern new institutionalism (e.g. Hall and Taylor 1996; Aspinwall and Schneider 2001; Pollack 2009, 2010; Rosamond 2010, 2013; Lelieveldt and Princen 2011). Hence, this chapter will first introduce the theoretical background of HI (i.e. the origins of new institutionalism and its applications in EU research), then elaborate on the basic propositions of HI and review the most typical and representative HI analyses of the EU (i.e. Pierson's path dependent theory), and finally, derive hypotheses.

4.1 The Theoretical Background of New Institutionalism

4.1.1 Limits of the Classical Debate between Neo-functionalism and Intergovernmentalism and New Thinking on the EU

In the 1990s, the two grand theories of neo-functionalism and intergovernmentalism, representing two classical debated models — supranationalism and nationalism — to account for EU integration, drew various critiques as they failed to provide accurate explanations for the ever growing EU project. Generally speaking, as was also discussed in the previous chapters, the traditional neo-functionalist-intergovernmentalist debate has been subject to three kinds of criticisms: first, both theories fail to reflect and capture the unfolding reality of the integration project, as neo-functionalism was unable to explain the EC in the 1970s and intergovernmentalism only focused on one dimension of the project while neglecting the fact of EU governance; second, as the derivatives of IR studies, both theories have fallen into the entrapment of the IR perspectives, such as the simple zero-sum opposition between member states and a “superstate” and the characteristic academic practice of “state fixation”; and finally, both theories have their “scientific” limitations, being ambitious to provide a general theory for the whole integration project (Rosamond 2010, 106-109). Despite these critiques, neo-functionalism and intergovernmentalism are two cornerstones that EU studies cannot simply circumvent and these criticisms also stimulated both theories' new developments during and after the 1990s.

The explanative failure of both neo-functionalism and intergovernmentalism (represented by LI), according to Risse-Kappen (1996, 55-57), is rooted in their common weaknesses. First, both assume that the driving forces behind European integration are self-interested actors “whereby the utility functions are defined in economic terms”; as a result, neo-functionalism has no account for “the transition from utility maximizing self-interest to integration based on collective understandings about a common interest”, while LI fails to examine whether EU institutions and the integration process influence actors’ interests and preference formation (Risse-Kappen 1996, 56). Second, both utilize “low” and “high” politics to make a distinction between the easier integrated economic policy areas and other difficult integrated areas such as foreign policies (Risse-Kappen 1996, 56): neo-functionalists hold that “‘low politics’ can be successfully depoliticized through Europeanization”, while intergovernmentalists claim that nation states get strengthened rather than weakened through integration because “transferring issues from the domestic to the foreign policy sphere moves them into the ‘*domaine réservé*’ of executive control” (Risse-Kappen 1996, 57). Third, both adopt a conventional concept of the state, “implicitly adhere(ing) to a Weberian notion of the state as a hierarchical structure of authoritative decision-making enjoying external and internal sovereignty” (Risse-Kappen 1996, 57). Finally, both fail to make a distinction “between domestic structures, i.e. the nature of political institutions, of society, and of state-society relations” (Risse-Kappen 1996, 57).

The controversies between traditional neo-functionalism and intergovernmentalism also suggest that to develop a grand theory to account for all aspects of the EU is impossible. Thus, along with the growth and increasing complexity of the European integration project, scholars in recent years have tended to focus their attention on certain elements or specific policy areas of the EU and rarely attempt to construct a one-size-fits-all theory to encapsulate the whole project (Rosamond 2010, 105). For example, Moravcsik’s LI is taken as “an account of one dimension of the EU, namely, state-to-state bargaining” rather than “a theory of European integration” (Sandholtz 1996, 45), while Sandholtz and Stone Sweet’s (1998) supranational governance does not explain the origins of the EU (Rosamond 2010, 107). Recognizing that “different kinds of theories are appropriate for different pieces of the EU puzzle” (Sandholtz 1996, 427), scholars forged a new academic trend in EU studies as they developed “middle-range theories” to focus and explain certain fabrics

of the EU rather than the whole project (Rosamond 2010, 108). Meanwhile, scholars started to take the “Euro-polity” as an independent variable instead of a dependent variable (Rosamond 2010, 108). As a result, the EU is treated as a political system and analyses began exploring the actual functioning of the EU rather than its origins. Quite often, new research starts from the controversies between neo-functionalism and intergovernmentalism, raising different questions while answering them from more diverse perspectives (Lelieveldt and Princen 2011, 41). For instance, rejecting both supranational and intergovernmental paradigms represented by neo-functionalism and LI, Risse-Kappen (1996) argues for the analysis of transnational/transgovernmental relations, that is, “cross-boundary relations of sub-units of national governments in the absence of centralized decisions by state executives” (58), which emphasize the role of transboundary non-governmental actors and challenge the traditional conception that the state is the only significant unitary actor in IR (57-58). Risse-Kappen (1996, 58-59) makes four propositions of transnational/transgovernmental relations on the EU: (1) the EU’s peculiar institutional structure has been formed by the interaction among interstate relations, supranational institutions and transnational relations; (2) the network of transnational coalitions and organizations affects not only EU policies, but also national preference formation processes via the domestic structure of nation states, and in turn, domestic structures also influence the very nature of transnational actors, such as their independence; (3) EU institutions provide an environment for the flourishing of transnational/transgovernmental relations; and (4) ideas, communicative processes and collective identities also have their impact on the formation of the EU project, so transnational coalitions, and consequently the construction of the EU, are not only the result of the convergence of self-interests, but also shaped by “collectively shared values and consensual knowledge” (59). Risse-Kappen (1996, 59-60) believes that four types of research resemble the notions of transnational relations: Wolfgang Wessels’ “fusion thesis”, Marks et al.’s multi-level structure of governance, the inter-organizational network analysis and HI, and all of these research, from Risse-Kappen’s point of view, can be classified under the rubric of *Politikverflechtung* (interlocking politics) (1996, 60-61), exhibiting a growing convergence among scholars to conceptualize the EU as “a multi-level structure of governance where private, governmental, transnational and supranational actors deal with each other in highly complex networks of varying density, as well as horizontal and vertical depth” (Risse-Kappen 1996, 62). Risse-Kappen contends that the domestic structures of the

member states together with the EU institutional structure determine the degree of EU governance (1996, 67), and beyond rational choice models, communicative actions should also be integrated in EU studies so as to understand the diffusion of ideas and internalization of norms (1996, 72). Risse-Kappen's transnational/transgovernmental argument actually suggests other new approaches to analyze the EU: governance approaches, policy networks, new institutionalism and constructivism (cf. Table 1.1), which demonstrates that when traditional integration theories are not inadequate to capture European integration, scholars begin to look into the new thinking in IR theory and comparative policy analysis and creatively apply them to EU studies. Nevertheless, the two competing as well as complementary models — supranationalism and nationalism advocated by neo-functionalism and intergovernmentalism — have never fallen out of favor with scholars, and they are still useful to account for certain EU policies (e.g. Lieberman and Gray 2006).

To sum up, the neo-functionalist-intergovernmentalist controversies in the 1990s, on the one hand, promoted new theories and approaches to the EU, which, by addressing the contextual factors neglected by the classical dichotomous debate (Lelieveldt and Princen 2011, 41), formulated another distinctive phase as well as a new branch of EU studies: analyzing EU governance besides explaining EU integration (cf. Table 1.1); on the other hand, those controversies point out the inadequacy and shortcomings of the two classical integration theories, encouraging them to absorb new thoughts from other theories and disciplines and adapt themselves to the EU's new situation; thus, the classical debate also promises the necessities and possibilities for the traditional theories to develop and update. Moreover, the classical debate's convergence on HI exhibits the significance to understand and analyze the EU from an institutionalist perspective, and hence new institutionalism, specializing in offering institutionalist explanations and spotlighting EU institutional operation and decision-making procedures, assumes a peculiar status in EU studies.

4.1.2 Old and New Institutionalism

Institutionalism as a theory has a long history. It is argued that “[t]he roots of political science are in the study of institutions” (Peters 1999, 1; 2005, 1; 2012, 1), and great thinkers from Aristotle, Althusius (John of Salisbury), Thomas Hobbes to John Locke and Montesquieu all have recommended a systematic analysis of institutions and their impact on individuals and society (Peters 1999, 3; 2005, 3-4; 2012, 3-4). So

institutionalist research, stressing that individuals are constrained by formal or informal institutions (Peters 1999, 1; 2005, 1; 2012, 1), actually can date back into ancient times. After the Second World War, two theoretical approaches gained in popularity: behaviouralism and rational choice, both of which assume “individuals act autonomously as individuals, based on either socio-psychological characteristics or on rational calculation of their personal utility”, and consequently, “preferences are exogenous to the political process” (Peters 1999, 1; 2005, 1; 2012, 1).⁹⁹ Accompanying the new theories is the transforming of the methodological and theoretical construction in the discipline of political science, which, as a result, demands more systematical thinking about the collection of evidence and more rigorous empirical research methods, such as carrying out hypothesis tests derived from theories by the application of statistics and mathematics (Peters 1999, 11-13; 2005, 12-13; 2012, 12-13). Traditional institutionalist studies primarily focusing on institutions, however, appear incompatible with this methodological revolution while the new rising theories lack institutional concerns; later, at the beginning of the 1980s, as a counter-reformation, a revival return to institutionalism led to what March and Olsen (1984) called “new institutionalism” (Peters 1999, 15; 2005, 16; 2012, 16). So for one thing, the new trend of institutionalist approaches from the 1980s onwards is a result of reintroduction of institutions into existing theories (e.g. Marxism, pluralism, neo-realism, and behaviorism) where “institutions had been either absent or epiphenomenal, i.e. reflections of deeper factors or processes such as capitalism or the distribution of political power in a given domestic society or international system” and the revival of institutionalism during the 1980s and early 1990s actually fulfills the

⁹⁹ Both of these two approaches have four attributes in common: (1) an explicit concern with research methodology and theory construction in political science; (2) anti-normative bias; (3) methodological individualism; and (4) “inputism”, that is, emphasizing the inputs from society into political structures (Peters 1999, 11-15; 2005, 12-15; 2012, 12-16). According to Peters, the prominent differences between traditional institutionalism and the two revolutionary approaches are as follows: behaviorism focuses on individual performances and views causation in one direction — economy and society influence politics and political structures; by contrast, old institutionalism goes to the other extreme to emphasize government behavior, but it views causation in a mutual direction as institutions also shape social and economic orders; as for rational choice, it explains both individual behavior and collective decision-making, but sees institutions as “little more than means to aggregate the preferences of the individuals who comprise them” and thus tends to deny the shaping power of institutions on participants’ preferences (1999, 14-15; 2005, 14-15; 2012, 15-16). In a broad sense, the theoretical styles of political science from the 1950s to the beginning of the 1980s are characterized by contextualism, reductionism, utilitarianism, functionalism and instrumentalism (March and Olsen 1984, 735-738).

theoretical vacuum left by these institution-free accounts of politics throughout the 1950s and 1970s (Pollack 2009, 125; 2010, 21); for another, though various new institutionalist approaches may paint the political world in different pictures, they are reactions to the popular theory of behaviouralism during the 1960s and 1970s, sharing the commonality in “elucidate(ing) the role that institutions play in the determination of social and political outcomes” (Hall and Taylor 1996, 936).

According to Peters (1999, 2005, 2012), the old institutionalism, represented by such authors as Carl Friedrich, James Bryce, Herman Finer and Samuel Finer, has provided intelligent and insightful descriptions of the political world in non-abstract terms (1999, 2-3; 2005, 3; 2012, 3) and “constituted the basis of political science for much of the late nineteenth and first half of the twentieth centuries” (1999, 6; 2005, 6; 2012, 6), while “new institutionalism”, utilizing many old institutionalist assumptions, pays more attention to research tools and theoretical construction (1999, 1; 2005, 1; 2012, 1). Peters lists five defining assumptions for old institutionalism: (1) legalism: “[l]aw constitutes both the framework of the public sector itself and a major way in which government can affect the behavior of its citizens” (1999, 6; 2005, 7; 2012, 7); (2) structuralism: structure matters and determines behavior, leaving little or no space for individual’s impact, and old institutionalism tends to concentrate on the formal aspect of political systems (1999, 7-8; 2005, 8-9; 2012, 8-9); (3) holism: old institutionalists tend to make comparative studies on the whole political systems rather than compare components of institutions within systems (1999, 8-9; 2005, 9-10; 2012, 9-10); (4) *historicism* (revised into “*historical*” in 2005 and 2012 edition): old institutionalism sees a long term pattern of mutual influence between society and politics, and it is “concerned with how [...] contemporary political systems were embedded in their historical development as well as in their socio-economic and cultural present” (1999, 9-10; 2005, 10-11; 2012, 10-11); (5) normative analysis: old institutionalism has a strong normative element, stressing norms and values that consist of a “good government” (1999, 10-11; 2005, 11; 2012, 11).

Old institutionalism has always been criticized for its formal-legal approaches and normative descriptions which make it lack the base for a scientific theory construction, whereas new institutionalism, growing out of the old theory, takes these critiques into account and reasserts the virtues of the old institutionalist propositions

(Peters 1999, 6-11; 2005, 6-11; 2012, 6-11).¹⁰⁰ According to March and Olsen (1984, 738), new institutionalist ideas, compared with “contemporary theoretical thinking in political science”, stress (1) “an interdependence between relatively autonomous social and political institutions” rather than “the dependence of the polity on society”, (2) “relatively complex processes and *historical* inefficiency” rather than “the simple primacy of micro processes and efficient histories”, and (3) “logics of action and the centrality of meaning and symbolic action” rather than “metaphors of choice and allocative outcomes”. Some of those new ideas, however, may turn out to be mutually inconsistent. For instance, the assumption that large institutional structures are rationally coherent autonomous actors contradicts the proposition that political actions and choices may not be adequately rational — as (1) and (3) may suggest (March and Olsen 1984, 738). Furthermore, institutionalism emphasizes institutional structures and thus imposes certain orders on the world, and new institutionalism proposes six conceptions of order: *historical*, temporal, endogenous, normative, demographic, and symbolic order (March and Olsen 1984, 743-744).

As there are various approaches to institutional phenomena, to specify the common core of new institutionalism is necessary, and Peters (1999, 18-19; 2005, 18-19; 2012, 19-20) defines four common features of new institutionalist views as the criteria that can disqualify any approach claiming to be new institutionalism under false pretenses: (1) an institution is a structure, being formal (i.e. “a legislature, an agency in the public bureaucracy, or a legal framework”) or informal (“a network of interacting organizations or a set of shared norms”), where given specified relationships among the actors, “some sort of individual patterned interactions [...] are predictable”; (2) an institution is of some stability over time; (3) an institution must affect individual behavior with its formal or informal constraints; and (4) it is of “shared values and meaning among the members of the institution”. With these criteria, Peters contends that new institutionalism includes six variants (1999, 19-20; 2005, 19-21; 2012, 20-21): (1) normative institutionalism: how the norms of institutions affect and shape the behavior of members of institutions; (2) rational choice institutionalism: the purpose of institutions is to meet social and economic necessities, and individual “behaviors are a function of rules and incentives” to maximize their own

¹⁰⁰ For a more elaborate comparison between old and new institutionalisms see, for example, DiMaggio and Powell (1991, 13), “Table 1.1 The Old and the New Institutionalisms”.

utilities (1999, 19); (3) *HI*: initial policy choices and the institutionalized commitments after them determine subsequent decisions, exhibiting “path dependence”; (4) empirical institutionalism: the structure of government decides the way of policy-making and governmental choices, as different decision procedures in presidential and parliamentary government suggest;¹⁰¹ (5) international institutionalism: the existence of structure delineates and explains the behavior and interactions of states and individuals, as international regime theory illustrates; (6) societal institutionalism: this category refers to “the structuring of relationships between state and society” (1999, 20). As a matter of fact, Peters’ classification of six types of new institutionalisms in a broad sense echoes March and Olsen’s (1984) six conceptions of institutionalist order.

The birth of new institutionalism was marked by March and Olsen’s article in 1984, and roughly in the same time period, EU studies started to examine institutions, such as Scharpf’s joint-decision trap (e.g. Pollack 2009, 129). As a matter of fact, there was a mutual reinforcement between EU studies and the development of new institutionalism in political science: on the one hand, EU studies are heavily indebted to the theoretical developments in other disciplines, while on the other hand, new institutionalism takes EU institutions as cases for research and brings theoretical innovations and new insights to the theory itself as well as enriches EU studies (Aspinwall and Schneider 2001, 6-7). As a result, new institutionalism became a distinctive and important integration theory. Obviously, new institutionalism emphasizes a mutual interaction between institutional structures and individual behavior and the rubric “new institutionalism” actually includes various institutionalist approaches; besides, the trajectory of institutionalism suggests that *HI*, rooted in the old institutionalist assumption — historicism — has always been a distinctive and important variant of institutionalism.

4.1.3 Three Schools of New Institutionalism in the Context of the EU

Although originally formulated in IR research, new institutionalist approaches have been applied to EU studies. Adopting Hall and Taylor’s (1996) categorization of the three institutionalisms — rational choice, historical, and sociological institutionalism¹⁰²

¹⁰¹ In 2012 edition, Peters changes the fourth category “empirical institutionalists” (1999,19; 2005, 20) into “old institutionalists” (2012, 21), and this shows the empirical feature of old institutionalism.

¹⁰² Cf. Campbell (2004) argues for three paradigms of institutional analysis in IR studies: rational choice, organizational, and historical institutionalism. For the classification and comparison of these

— Aspinwall and Schneider (2001) map out a spectrum of three institutionalist variants where the economic-rationalist approach and the sociological approach sit at polarized ends while HI lies in the middle, and they apply the spectrum to understand and classify institutionalist approaches to the EU (Aspinwall and Schneider 2001, 2; see also Rosamond 2010, 110). Rational choice institutionalism sees institutions as the most external factors while sociological institutionalism views them as the most internalized ones; by comparison, HI eclectically synthesizes the two extremes with a research objective on the long-term effects of institutions (Aspinwall and Schneider 2001, 5; Rosamond 2010, 110).¹⁰³ As a matter of fact, Hall and Taylor, after comparing the strengths and weaknesses of the three schools of new institutionalism, conclude that “HI stands in an especially pivotal position”, as HI contains both rational choice and sociological institutionalist elements: in one respect, HI analyses can be translated into rational choice terms in the instrumental selection of new institutions, and in another respect, they are open to the sociological approach in interpreting historically available alternative choices (1996, 957; see also Lelieveldt and Princen 2011, 42).

Drawing inspirations from signaling games, voting power studies, and the spatial theory of voting¹⁰⁴, rational choice institutionalism assumes that actors involved in EU decision-making behave rationally and make use of strategies to realize their preferred

three new institutionalisms, see “Table 1.1. Similarities and Differences in the New Rational Choice, Organizational, and Historical Institutionalism” in Campbell (2004, 11). The term “organizational institutionalism” is often treated as a synonym for sociological institutionalism (e.g. Sitek 2010, 570). Scholars may adopt different categorizations of new institutionalism, but no matter what types of classification are made, as Campbell (2004, 10) argues, “there are always exceptions to these generalizations and considerable variation within each paradigm.”

¹⁰³ Sil and Katzenstein (2010, 411) define analytic eclecticism as an appreciable “intellectual stance that supports efforts to complement, engage, and selectively utilize theoretical constructs embedded in contending research traditions to build complex arguments that bear on substantive problems of interest to both scholars and practitioners” and it has three valuable merits in the research of social sciences.

¹⁰⁴ The spatial theory of voting involves two classes of actors: voters and candidates. Based on the premises that both actors are self-interested, the spatial theory of voting concerns “how the interaction between voters and candidates affects the choices that candidates offer the voters” (Enelow and Hinich 1984, 6). Accordingly, this theory can be divided into two kinds: the spatial theory of committees and the spatial theory of elections. The former treats the voters as the key actors who are “voting over different policy alternatives, each of which is usually represented as a point in a Euclidean space”, and the latter takes the candidates as the key actors while the voters are playing a fixed role (Enelow and Hinich 1990, 1). As voting always takes place in an institutional setting, institutions matter — they can serve as agenda setters. This suggests the links between the spatial theory of voting and new institutionalism: when an institution affects actors’ calculations, “the institution must be included in the spatial voting model” (Enelow and Hinich 1984, 161-162).

outcomes; consequently, the EU is generally analyzed under principal-agent models, illustrating how principals (i.e. member states) delegate their power to agents (i.e. the supranational institutions or the member states who implement supranational decisions) and how such delegation affects interactions at both the national and supranational levels (Aspinwall and Schneider 2001, 7). In light of rational choice institutionalism, EU institutional agents, typically represented by the Commission which possesses most information, are always depicted as opportunity-takers to exploit the delegated power so as to expand their authorities and realize their own agenda, and rational choice analysts began to examine “how agents exploit the uncertainty which results from the imperfect division of power between competing European actors” (Aspinwall and Schneider 2001, 7). This shows the affinity between rational choice institutionalist and neo-functionalist (and even the revised LI’s) proposition on the Commission’s autonomy, as Pollack (1997) clearly states his principal-agent analyses of the relationship between member government principals and EU supranational agents (e.g. the Commission, the ECJ, and the EP) are “based largely on the new institutionalism in rational choice theory” (100). According to Aspinwall and Schneider (2001, 6-14) and Pollack (2009, 129-136), three distinctive thematic sub-groups stand out in the rational choice institutionalist research on the EU: rationalist approaches to legislative procedures (i.e. EU decision-making involving the Commission, the Council and the EP) (e.g. Steunenberg 1994; Tsebelis 1994, 1997; Garrett 1995a; Moser 1996, 1997, 1999; Moser et al. 2000; Crombez 1996, 1997; Kreppel 1999, 2002; Crombez et al. 2000; Tsebelis and Garrett 2000, 2001; Hix 2001; Garrett et al. 2001; Albert 2003; Mattila 2004; Hayes-Renshaw and Wallace 2006; Thomson et al. 2006; Hix et al. 2007; McElroy 2007; Häge 2008; Naurin and Wallace 2008; Thomson 2011; H éritier and Reh 2012; Jensen and Nedergaard 2012); rationalist approaches to the implementation of rules, measures and policies (i.e. power delegation to the Commission and the exercise of those powers — the so-called comitology procedures) (e.g. Steunenberg et al. 1996, 2000; Pollack 1997, 2003a; Schmitter 1997; Moravcsik, 1998; Tallberg, 1999, 2007; Franchino 2000, 2002, 2004, 2007; Majone 2001; Hix 2007; Moury and H éritier 2012); and rationalist approaches to the ECJ (i.e. the role of ECJ *vis-à-vis* national governments and courts) (e.g. Garrett 1992, 1995b; Garrett and Weingast 1993; Burley and Mattli 1993; Weiler 1994; Mattli and Slaughter 1995, 1998; Alter 1998, 2001; Garrett et al. 1998; Stone Sweet and Caporaso 1998; Stone Sweet and Brunell 1998; Kilroy 1999; Conant 2002, 2007). So rational choice institutionalism actually has

studied “all three of the major functions of government at the Union level”: legislative politics, executive politics and judicial politics (Pollack 2009, 129). Certainly, besides these three areas, rational choice institutionalism covers broad topics. For example, Schneider and Cederman (1994) adopt a rational choice approach to the effects of information asymmetry so as to explore how uncertainty may influence the bargaining strategies of member states and outcomes, particularly in the negotiations in the summits of the European Council; Hug (2000) utilizes spatial models to discuss the possible effects of referendums on the European integration progress; Schneider (1997) uses a portfolio allocation model to explore constraints imposed by informal rules (e.g. the seniority in the selection of the Commissioners) of Commission politics on the discretion of the Commission; Dijkstra (2010, 2012) applies the rational choice institutionalist principal-agent approach to explain the Council Secretariat’s political influence in the CFSP (2010) and EU officials’ influence in the CFSP (2012); Fägersten (2010) investigates the bureaucratic resistance to international intelligence cooperation of Europol from a rational choice institutionalist perspective; drawing on rational choice institutionalism, Stacey (2010) explores the informal modes of rule-making outside the EU’s regular legislative procedures and the intergovernmental treaty-making meetings, while Tallberg (2010) probes the chairmanship of EU formal leaders’ influence in international cooperation.

In comparison, sociological institutionalist research on the EU comes along with the IR theoretical trend of identifying normative and cultural mechanisms constructing or constraining national behavior and identity and of how identity itself influences state interests and behavior as well as international normative structures; so EU studies of this tradition partly concern how state behavior is shaped or constrained and partly how identity is constructed and exerting its influence (Aspinwall and Schneider 2001, 12). Various topics are discussed from the sociological institutionalist perspective, such as domestic-European relations (e.g. Holm 1997; Larsen 1997; Laursen, 1997; Berglund et al. 2006; Adler-Nissen 2009; Crespy 2010; Zahariadis 2010), regionalism and European integration (e.g. Christiansen 1997; Bicchi 2006; Carter and Pasquier 2010; Gourgues 2010), member states’ policy-making (Hope and Raudla 2012), European citizenship (e.g. Wiener 1998; Fligstein 2008), EU security and military operation (Hardt 2009; Petersohn 2010), EU institutions and policy-making (e.g. Joerges and Neyer 1997a, b; From 2002, Argomaniz 2009a; Lewis 2010; Lauber and Elisa 2011), European integration and IR (e.g. De Ville 2012; Schmidt 2012; Delreux and Van den

Brande 2013), EU enlargement (e.g. Fierke and Wiener, 1999; Sedelmeier 2005; Piedrafita 2007, 2012; Schukking 2012) and candidate countries (e.g. Atikcan 2010). Jenson and M érand (2010) highlight the necessity and significance of applying sociological institutionalism — via merging the two traditional isolated theories institutionalism and sociology — to EU studies so as to explore “the informal practices, symbolic representations and power relations of social actors involved in European society as well as the broad polity” (Jenson and M érand 2010, 74).

According to Aspinwall and Schneider (2001, 12-14), two prominent features emerge from sociological institutionalist research on the EU. First, sociological institutionalists would problematize the concepts that rationalists have taken for granted and they particularly focus on norm and identity construction and norm communication through discursive practices (Aspinwall and Schneider 2001, 13), such as Diez (1999), Wiener (1998), Fierke and Wiener (1999), Lynggaard (2007), Crespy (2010), Lauber and Elisa (2011), Schmidt (2012), De Ville (2012) and Hope and Raudla (2012) — actually, the rising popularity to explore the dynamics of institutional changes from “the substantive content of ideas and the interactive process of discourse” (Schmidt 2010, 1) leads Schmidt (2010) to support a fourth “new institutionalism” besides the traditionally recognized three new institutionalisms: discursive institutionalism (DI) (see also Hope and Raudla 2012, 400-402). Second, sociological institutionalists tend to expound cultural traditions that make a distinction among the European states, along professional or organizational lines, or at the subnational level so as to examine “the impact of values, beliefs and identities on actors’ responses to integrative challenges”, that is, the shaping powers of culture (Aspinwall and Schneider 2001, 14); this kind of research is represented, for example, by Crouch (1993), Zetterholm (1994), Finnemore (1996), Crouch and Streek (1997) and Kitschelt et al. (1999), Bicchi (2006), Mounier (2009), Tatar (2011), and Faleg (2012).

As there is a polarization of rationalist-constructivist arguments, *HI cuts into the antithesis of economic and sociological ontologies and links the two, highlighting how prior institutional arrangements and commitments condition further actions, set limits on possible options, and lead actors to redefine their interests* (Aspinwall and Schneider 2001, 10; see also Bulmer 1994, Pierson, 1996; 1998), and assuming that “institutions reflect the complex and unique structures that influence both the interests of actors and action arenas” (Sitek 2010, 570). *The changes of institutions and policies are “path dependent” — current decisions are endogenously constrained by what are*

made in the past, that is, “[h]istory creates context, which shapes choice” (Aspinwall and Schneider 2001, 10). (HI argument 1)¹⁰⁵ Taking the two extremes of “power” and “culture” into consideration, HI studies on the EU can be close to the rational choice school when they view institutions as being power-neutral and take culture into discount, and can also be close to the sociological school when they stress cultural factors and institutional power implications to social groups; in addition, similar to the EU-level research, HI approaches have also been applied to the member-state level, highlighting the influence of national unique economic and political traditions on states’ responses to internal and external challenges (Aspinwall and Schneider 2001, 11-12)¹⁰⁶.

Exploring and extending the basic premise — institutions affect political decisions — in different directions, the three types of institutionalist approaches advocate different logics of explanations, yet all of them are valid (Aspinwall and Schneider 2001, 1) as March and Olsen once commented: “[i]t is not obvious that any one approach is superior to the others in capturing the complexities of change. There are several stories to be told and a necessary humility associated with the telling of any one of them” (1998, 958; also quoted in Aspinwall and Schneider 2001, 16). Lelieveldt and Princen (2011, 42-43) illustrate the differences and validity of the three institutionalist interpretations of the EU’s fisheries quotas, that is, how to explain the phenomenon that the finalized-decided level of fisheries quotas is always much higher than that proposed by the scientists and the Commission. From a rational choice institutionalist perspective, this can be explained by the institutional rules of decision making on the fisheries quotas where the Council of Ministers has the ultimate say. Because each member state is the maximizer of its own interests and a decision in the Council could be blocked by the states who have large fisheries sectors, the Council’s decisions on quotas tend to elevate the level proposed by the Commission. In such a rational choice institutionalist framework, rational strategic bargaining of member states is the analytical focus. In light of sociological institutionalist analyses, the

¹⁰⁵ In order to facilitate hypotheses derivation at the end of this chapter, this dissertation, when narrating HI’s arguments, italicizes the core ideas of HI and numbers them in the way of “HI arguments 1, 2, 3, ...”, which thus serve as the basis of and sources for the HI hypotheses formation.

¹⁰⁶ Aspinwall and Schneider (2001, 12) argue that here rises one of the shortcomings of HI: it lacks the integration of the effects of institutions over time at both the national and EU levels, so more efforts should be endeavored to examine institutional interactions between the two levels, and the challenge is that how to break the cycle of feedback mechanism — where institutions influence decision making but are also subject to change — to determine and test causality.

fisheries case could be interpreted as follows: people who are responsible for fisheries policy-making have been socialized into a paradigm which combines three fundamental objectives of EU fisheries policies — “protecting fish stocks, protecting the economic viability of the fisheries sector, and protecting vulnerable communities dependent on fisheries” (Lelieveldt and Princen 2011, 42); under the instruction of those fundamental objectives, people for fisheries policy-making always try to balance these three without giving precedence to any one of them; the level proposed by scientists tends to be low due to their exclusively ecological concern, so the inflated quotas can be explained as policy-makers’ intentions and efforts to balance the three fundamental objectives. By comparison, HI takes a “path dependence” view on how earlier fisheries decisions have effectively “locked in” EU policies and integration. The practice of the fixed formula for the division of fisheries quotas among member states originates from the 1980s, and it is guided by the principle of “relative stability”, which makes the pre-set formula nearly impossible to change. Lelieveldt and Princen’s illustration of applying the three different institutionalist approaches to the same case echoes Checkel’s arguments that “each school explains important elements of the integration process; working together, or at least side-by-side, they will more fully capture the range of institutional dynamics at work in contemporary Europe” (Checkel 2001, 20). It is also important to keep in mind that there might be several different theoretical explanations for the same puzzle, and one approach is not necessarily superior to the others (Aspinwall and Schneider 2001, 16). Nevertheless, scholars may compare the three different institutionalist approaches — or any two of them, such as Karlas 2012 and Pollack 2003b — and argue for the better one among (between) the three (two) for specific cases, as De Ville (2012) contends that HI and DI are better than rational choice institutionalism in explaining how the WTO rules influence EU regulatory politics. Or they may combine the three institutionalist approaches together (e.g. Jablecka and Lepori 2009; Ziemann 2009; Borońska-Hryniewiecka 2011; Gross and Juncos 2011) — or any two of them, such as Font (2006) and Duina and Buxbaum (2008)¹⁰⁷ — to explain a certain phenomenon, as Delreux and Van den Brande (2013) argue that the three new institutionalisms make up a complementary framework to explain the EU’s informal division of labour with regard to the EU’s external

¹⁰⁷ Literature below referring to scholars’ efforts to synthesize and bridge the rational-sociological divide also belongs to this category.

environmental policy-making during the United Nations Commission on Sustainable Development (CSD) and international climate negotiations where member states and the Commission, instead of the rotating Presidency (who should formally and officially represent the EU externally), “take the lead”, and four factors account for such an informality: burden sharing, expertise pooling, involving member states, and guaranteeing continuity, which demonstrates that “not only rational choice but also historical and sociological institutionalism need to be taken into account if one wants to fully understand (the continuation of) informal practices in the EU” (Delreux and Van den Brande 2013, 127); in such a way, “these three institutionalist approaches are complementary rather than competing” (Ziemann 2009, 314). Focusing on the same case, researchers may compare the strengths and weaknesses of each institutionalist approach (e.g. Sitek 2010). The polarization of the rationalist and sociological approaches does not prevent scholars’ efforts to synthesize and build bridges between the complementary dichotomous rationalist-sociological/constructive divide¹⁰⁸ (e.g. Bursens and Deforche 2008; Lynggaard and Nedergaard 2009; Niemann and Mak 2010; Brosig 2010; Dunlop and Russel, 2012). Moreover, as new institutionalist theories came after the two orthodox integration theories — neo-functionalism and LI — scholars may compare them with the traditional approaches and thus cast new insightful light on theoretical explanations for the integration project as well as supplement our understanding of the EU. For instance, Verhoeff and Niemann (2011) argue that LI provides an adequate framework to explain the formation and development of Germany’s energy policy concerning EU–Russian relations before its EU Presidency term — as LI predicts, German policy preferences for this issue reflect German domestic producers’ interests, but LI fails to account for German governmental action during the Presidency as domestic preferences were largely downplayed after it took on the Presidency role. Instead, it is rational choice institutionalism and sociological institutionalism that offer satisfactory explanations: the former “highlights

¹⁰⁸ Checkel (2007, 58) defines constructivism as the study of the concepts such as “deliberation, discourses, norms, persuasion, identity, socialization, (and) arguing”, and he distinguishes three variants of constructivism: conventional, interpretative and critical/radical constructivism, and hence constructivism is also referred to as “social constructivism” (Cini and Borragán 2010a, 440). Moreover, as Pollack (2007, 44) points out that the controversy between rational choice and constructivism has forged “a new ‘great debate’”, which, displacing the earlier neo-functionalist-intergovernmentalist divide, characterizes IR and EU studies from the late 1990s into the early 2000s. So in new institutionalist studies, constructivism is sometimes taken as a synonym to refer to sociological institutionalism.

Germany's restraint from defending its original domestic preferences due to rational calculation embedded in normative Presidency constraints", while the latter "accounts for the reprioritization of objectives through the 'taken-for-grantedness' of thoroughly internalized Presidency norms" (Verhoeff and Niemann 2011, 1271). Clearly, the three new institutionalist approaches can be taken freely to combine or contest with other theories and approaches to do EU research, such as Mackay et al. (2009) advocating the dialogue between sociological institutionalism and feminist political science so as to develop tools and paradigms beyond conventional political science for feminist analyses, Klüver (2010) combining resource mobilization theory with rational choice institutionalism to investigate national interest groups' lobbying strategies at the EU level, and Loveca and Erjavec (2013) proposing a critical realist approach which is considered better than rational institutional and constructivist approaches to the CAP reform.

All of those show the advantages and merits of new institutionalism, as "it does not prescribe a unique recipe for institutionalization; instead it recognizes the diversity of paths that can lead towards the internationalization of cooperation", that is, the three variants of new institutionalism provide different institutionalist perspectives and each of them is "grounded in a different theoretical tradition and hence emphasizes the importance of different explanatory variables" (Wolff et al. 2009, 17). The proliferation of institutionalist studies on the EU suggests that new institutionalism as a whole indeed "offers an attractive venue" to understand and conceptualize the institutionalized EU (Wolff et al. 2009, 17).

Among these three, HI is believed to possess an eclectic trait of both rational choice and sociological extremes (e.g. Hall and Taylor 1996, Aspinwall and Schneider 2001, Sitek 2010), and this theoretical advantage as well as modesty probably is a reason for neo-functionalism and intergovernmentalism to converge on HI rather than on other institutionalist theories. Naturally, as an IR theory and integration theory, HI is also subject to criticism, as Koelble (1995, 239) points out that "it is unclear whether the intentions of individuals or the constraints imposed by institutions shape outcomes", and besides, it is difficult to ascertain and measure the "cultural roots" of institutions and there is no alternative control group in reality to study specific institutional outcomes in its absence (Aspinwall and Schneider 2001, 6). From the methodological point of view, historical (or sociological) institutionalist research on the EU has exhibited its strengths and merits in case studies with rich and precise descriptions and

explanations of unique events, but it may “obscure the relative importance of causal variables” and moreover, lack valid theoretical generalization and adequate quantitative data analyses (Aspinwall and Schneider 2001, 15). Despite all those weaknesses, HI has become an extensively applied EU integration theory and it offers a singular perspective to understand, explain and predict EU developments.

4.2 HI in the Context of the EU

Recent literature reveals abundant HI research on the EU. Adopting the historical institutionalist approach, for example, Argomaniz (2009b) conducts an empirical analysis of the post-9/11 institutionalization of EU counter-terrorism, Howell (2009) assesses the devolution and institutional culture in the Welsh Assembly, Kourtikakis (2010) accounts for the structural similarities between institutions in the member states and certain EU institutions — a process of institutional transfer from the national to the EU level, Icoz (2011) explicates the changes in Turkey’s National Security Council and in Turkey-EU relations, Lășan (2012) explains the 1992 and 2003 CAP reforms, and Mendez (2012) even develops a ‘path-interdependent’ approach to account for the radical changes of EU cohesion policy. Meanwhile, combined with other institutionalist approaches — rational choice and/or sociological institutionalisms (and sometimes with the so-called fourth new institutionalism DI (e.g. Schmidt 2009) — HI has been applied to account for the reform of the public research funding system in Poland from 1989 to 2007 (Jablecka and Lepori 2009), the dynamics of changes that take place in health care systems of post-communist Central Europe (Sitek 2010), the similarities of the regional reform outcomes in Romania and Turkey during their EU candidacy (Ertugal and Dobre 2011), the endogenous institutional change by focusing on the attitudes of (Dutch) legislators to institutional reform in the Netherlands in 1990 and 2006 (Ziemann 2009), and the creation of European regulatory agencies and its limits (Thatcher 2011). Though the literature review here only represents a portion of HI research on the EU — it is far from being exhaustive and the list can go on and on along with the EU’s development, those recent studies have displayed two prominent features of the HI approach to the EU: (1) the cases explored by HI all are related to institutional or policy evolution, changes or reforms, and (2) those research emphasizes the core ideas of HI: path dependence. Those two characteristics of HI approaches to the EU cast light on the case studies of this dissertation: first, the three selected cases are potentially suitable for HI research as they represent the EU’s recent developments

and changes, and therefore, they are the most-likely cases for HI analyses; second, as Pierson's path dependent theory is generally regarded as a typical HI application to EU studies (e.g. Aspinwall and Schneider 2001; Pollack 2009), this dissertation will probe into the concept of this theory and derive hypotheses related to the EU's new developments during the eurozone sovereign debt crisis. The following section will first review Hall and Taylor's propositions of HI as an IR theory, then elaborate on Pierson's path dependence theory, present HI's three-stage analytical framework, and finally, summarize HI's propositions by formulating HI hypotheses about the eurozone sovereign debt crisis.

4.2.1 Hall and Taylor's Account of HI as a Variant of New Institutionalism in IR Studies

Developing from the prominent group theories of politics and structural-functionalism during the 1960s and 1970s, HI defines institutions as "the formal or informal procedures, routines, norms, and conventions embedded in the organizational structure of the polity or political economy" (Hall and Taylor 1996, 938). Compared with two other schools of institutionalism — rational choice institutionalism and sociological institutionalism, *there are four distinctive features of HI. First, it tends to have a broad conception of the relationship between institutions and individual actions. Second, it lays stress on power relations and the asymmetrical power distributions during the operation and development of institutions. A given institution provides different interest groups with "disproportionate access to the decision-making process"; consequently, some groups win and others lose (Hall and Taylor 1996, 941). Third, it views institutional development through the lens of "path dependence" and "unintended consequences". Finally, it takes institutions as one factor in a causal chain leading to political outcomes.* (HI argument 2) *Compared with rational choice institutionalism, HI is concerned with other factors, such as socioeconomic development and the propagation of ideas and beliefs, paying particular attention to the relationship between institutions and ideas (Hall and Taylor 1996, 942).* (HI argument 3) Hall and Taylor (1996) offer a detailed elaboration of the first and third features of HI.

4.2.1.1 HI's View on the Relationship between Institutions and Actors

North (1990, 5) once argued that institutional creation and changes, on the one hand, depend upon individual decisions, while on the other hand, institutions impose

constraints on individual choices, and therefore institutionalist research should combine both individual choices and institutional constraints. So the central issue to any institutional analysis is to explore the mutual effects between institutions and individual behavior, which, according to Hall and Taylor (1996, 939), can be answered by three sub-questions: “how do actors behave, what do institutions do, and why do institutions persist over time?”; and there are two contrasting approaches to these questions — the “calculus approach” and the “cultural approach” (Hall and Taylor 1996, 939).

Hall and Taylor (1996, 939) explain that the calculus approach views individuals as rational and purposive utility-maximizers who always calculate strategically to select the options that could bring maximum benefit from all possible choices; individuals’ preferences or goals, therefore, are exogenous to institutional analysis. What institutions mean to individuals is, for example, to provide actors the information of the certainty of other actors’ behavior as the reached agreements introduce enforcement and penalty mechanisms for the actors involved; from such a perspective, institutions can alter the expectations of an actor on others and strategic calculations assume key roles in institutional analysis (Hall and Taylor 1996, 939). In contrast, the cultural approach, while not denying the rationality of actors and the strategic interactions among them, views individuals, bounded by the individual world view, as “satisficers” rather than “utility-maximizers”, emphasizing “the extent to which individuals turn to established routines or familiar patterns of behavior to attain their purposes”; as a result, individual choices depend upon “the interpretation of a situation rather than on purely instrumental calculation” (Hall and Taylor 1996, 939). From this point of view, institutions, composed of symbols, scripts and routines, serve as the filters for individuals to interpret the situations and themselves, and thus construct their courses of actions; institutions do not only offer strategic interaction information, but also affect an individual’s preferences, identities, and self-images, providing “moral or cognitive templates for interpretation and action” (Hall and Taylor 1996, 939). As for the question of the persistence of institutions over time, the calculus approach contends that it is because the deviation from current institutional arrangements will cause more losses than gains to individuals, and the more gains an institution brings to involved actors and the more it contributes to solving collective problems, the less possibility for it to de cease; the cultural approach, on the other hand, claims that it is because individual choices tend to treat institutions as conventions and thus neglect a direct

scrutiny on them, and the taken-for-granted collective constructions, which cannot be changed easily by any single individual's actions, structure all possible options for individuals to make reform (Hall and Taylor 1996, 940). *Being eclectic of both calculus and cultural approaches, HI explains the mutual relationship between institutions and individual behavior as follows: under a given institutional arrangement, an individual's calculated strategies over time could be transformed into world views, which, having being advocated by institutional organizations, may ultimately shape an individual's preferences and self-images (Hall and Taylor 1996, 940).* (HI argument 4)

4.2.1.2 Historical Development and Social Causation: Path Dependence

History matters, and "[w]e cannot understand today's choices [...] without tracing the incremental evolution of institutions" (North 1990, 100). *The sequences of decisions matter and past choices exert an influence over today's decisions by making certain alternatives appear more attractive — this is called "path dependence", which suggests that once a course of action is taken, it will be difficult to break away from it radically because the status quo is regarded as the right way to do things, and a drastic change requires large investment (Lelieveldt and Princen 2011, 42).* (HI argument 5)

Institutions are one of the central factors driving historical development along a set of "paths" inherited from the past, and actually history can be interpreted as landscapes of different path dependence (Hall and Taylor 1996, 941). Seeking to explain how institutions produce different paths in various ways, *historical institutionalists look at "state capacities" and "policy legacies" on subsequent policy formation, or focus on "policy conditions" which encourage societal groups to line up with existing policies or to develop interests in certain policies (Hall and Taylor 1996, 941).* (HI argument 6)

As a result, there might be unintended consequences and inefficiencies generated by existing institutional settings; nevertheless, path dependence of continuity might be punctuated by "critical junctures", that is, a "branching point" where historical movement takes a new path due to a substantial institutional change; so at issue is to explain what causes such junctures, but besides the factors of economic crisis and military conflict, historical institutionalists seem to lack a complete elaboration of this (Hall and Taylor 1996, 942). (HI argument 7)

4.2.2 A Path Dependence Framework

Pierson's path dependent theory (1996, 1998) highlights the importance of past decisions on current intergovernmental negotiations and raises our awareness of the evolution of cooperation among European nation states over time (Aspinwall and Schneider 2001, 10; see also chapter three of this dissertation), and later Pierson (2004) — “[t]he best and most comprehensive statement of historical institutionalism” (Pollack 2009, 143) — highly recommends to place politics in time so as to examine political processes and causal chains unfolding over time. According to Aspinwall and Schneider (2001, 11), HI may stress the normative aspect of institutions as certain values and ideas are embedded into them, which might influence the choice of actors: non-market preferences, for instance, have been marginalized by the Community's market orientation policy and the configuration of producer and consumer directorates; nevertheless, on the issue of the power and the role of culture in institutional influence, HI researchers may have different opinions: Pierson's (1996, 1998) analyses do not address EU supranational institutions' structural bias which could privilege certain actors and types of policies over others, an important feature of HI defined by Hall and Taylor (1996, 940-941); in comparison, Armstrong and Bulmer (1998) emphasize the influence of different cultural factors within European institutions, such as the Commission. However, Pierson (2004, 11) does claim that his path dependent arguments of *self-reinforcing processes* “*reinvigorate the analysis of power in social relations by showing how inequalities of power, perhaps modest initially, can be reinforced over time and often come to be deeply embedded in organizations and dominant modes of political action and understanding, as well as in institutional arrangements.*” (HI argument 8) Such a theoretical supplement or revision exhibits the trajectory of Pierson's path dependence theory. In order to explain his path dependent theory, Pierson's (1996, 1998) initially utilizes “sunk costs” (see chapter three of this dissertation), then “increasing returns processes” (Pierson 2000), and “self-reinforcing or positive feedback processes” (Pierson 2004) to underline his core arguments. Accordingly, the concept of path dependence is defined as “a social process grounded in a dynamic of ‘increasing returns’” (2000, 251) or “the dynamics of self-reinforcing or positive feedback processes in a political system” (2004, 10). In essence, Pierson adopts Margaret Levi's (1997, 28) definition of path dependence:

Path dependence has to mean, if it is to mean anything, that once a country or region has started down a track, the costs of reversal are very high. There will be other choice points, but the entrenchments of certain institutional arrangements obstruct an easy reversal of the initial choice. Perhaps the better metaphor is a tree, rather than a path. From the same trunk, there are many different branches and smaller branches. Although it is possible to turn around or to clamber from one to the other — and essential if the chosen branch dies — the branch on which a climber begins is the one she tends to follow. (Levi 1997: 28, quoted in Pierson 2000, 252; see also Pollack 2009, 127)

The idea of increasing returns suggests “self-reinforcing or positive feedback processes” (Pierson 2000, 251), which, Pierson believes, captures the essence of path dependence: as *“the relative benefits of the current activity compared with other possible options increase over time”* while *“the costs of exit — of switching to some previously plausible alternative — rise”*, *“the probability of further steps along the same path increases with each move down that path”*; therefore, *“preceding steps in a particular direction induce further movement in the same direction”* (Pierson 2000, 252), and those previous steps *“make reversals very difficult”* (Pierson 2004, 10). *“Increasing returns”* are self-reinforcing as *“[l]ong movement down a particular path will increase the costs of switching to some previously forgone alternative”* (Pierson 2000, 261); they are of *“positive feedbacks”* as *“institutions and policies generate incentives for actors to stick with and not abandon existing institutions, adapting them only incrementally to changing political environments”* (Pollack 2009, 127). (HI argument 9) When an institution is established and a policy is adopted, three factors may contribute to the self-reinforcing dynamics: patterns of political mobilization, the institutional rules, and “citizens’ basic ways of thinking about the political world” (Pierson 2004, 10), and the result is that “[p]olitical alternatives that were once quite plausible may become irretrievably lost” (Pierson 2004, 11) or “forsaken alternatives becomes increasingly unreachable with the passage of time” (Pierson 2004, 13). In EU institutional decision-making procedures such as the co-decision procedures, path dependence means *“steps in a sequence are irreversible because losing alternatives are dropped from the range of possible options”* (Pierson 2004, 13), that is, the sequence entailed in EU decision-making procedures involving different institutions which may possess discrepant opinions matters as the alternatives are dropped out along with the process of policy-making procedures. (HI argument 10)

Previously, “path dependence” has been used to illustrate human being’s technology history, as North once explained: “incremental changes in technology, once begun on a particular track, may lead one technological solution to win out over another, even when, ultimately, this technological path may be less efficient than the abandoned alternative would have been” (North 1990, 93). Similarly, the incremental evolution of an institution gets its own path dependence once a solution prevails (North 1990, 94). Agreeing with North, Pierson (2000) holds that *due to increasing returns, actors are strongly motivated to stick to a single alternative to continue and thus a specific path is taken after the first choices in that direction are made. In other words, “[o]nce an initial advantage is gained, positive feedback effects may lock in this technology, and competitors are excluded”* (Pierson 2000, 254). (HI argument 11) Increasing returns in technology are conditioned, and so is it for the world of politics.

Borrowing from Arthur’s (1994) arguments on the conditions that give rise to increasing returns, Pierson lists *four factors that contribute to the self-fulfilling movement of a particular path: large set-up or fixed costs, learning effects, coordination effects, and adaptive expectations* (Pierson 2000, 254; see also 1998, 46). (HI argument 12)

“1. Large set-up or fixed costs. These create a high pay-off for further investments in a given technology. With large production runs, fixed costs can be spread over more output, which will lead to lower unit costs. When set-up or fixed costs are high, individuals and organizations have a strong incentive to identify and stick with a single option.

2. Learning effects. Knowledge gained in the operation of complex systems also leads to higher returns from continuing use. With repetition, individuals learn how to use products more effectively, and their experiences are likely to spur further innovations in the product or in related activities.

3. Coordination effects. These occur when the benefits an individual receives from a particular activity increase as others adopt the same option. If technologies embody positive network externalities, then a given technology will become more attractive as more people use it. Coordination effects are especially significant when a technology has to be compatible with a linked infrastructure (e.g., software with hardware; automobiles with an infrastructure of roads, repair facilities, and fueling stations). Increased use of a technology encourages investments in the linked infrastructure, which in turn attracts still more users to the technology.

4. Adaptive expectations. If options that fail to win broad acceptance will have drawbacks later on, then individuals may feel a need to ‘pick the right horse’. Although the dynamic here is related to coordination effects, it derives from the self-fulfilling character of expectations. Projections about future aggregate use patterns lead individuals to adapt their actions in ways that help make those expectations come true.” (Pierson 2000, 254)

As these four features are applied to institutions¹⁰⁹, they refer to (1) the creation of institutions entails considerable start-up costs; (2) individuals and institutions learn by doing; (3) the benefits of individual activities or those of an institution are enhanced if they are coordinated or “fit” with the activities of other actors or institutions; and (4) in order to bet on the “right horse”, actors adapt actions in light of their expectations about the actions of others (Pierson 2000, 254). (HI argument 13)

As a matter of fact, factor (3) is similar to the idea of “spillover” in the sense that gaining benefits in one option will promote and encourage cooperation in the linked areas, while factor (4) implies the acceptance of different methods, ideas, values, or world views could become a part of an individual’s strategic calculation, which then over time might be translated into an taken-for-granted preference. Moreover, according to Pierson (2000, 255), *increasing returns processes, at the micro-level, tend to reinforce the stability and further development of the newly established individual institutions, while at the macro-level, promote complementary configurations of institutions.* (HI argument 14)

Under those conditions conducive to path dependence, Pierson makes four presumptions of the path dependent mechanisms (multiple equilibria, contingency, a critical role for timing and sequencing and inertia): (HI argument 15)

- “1. *Multiple equilibria.* Under a set of initial conditions conducive to increasing returns, a number of outcomes — perhaps a wide range — are generally possible.
2. *Contingency.* Relatively small events, if they occur at the right moment, can have large and enduring consequences.
3. *A critical role for timing and sequencing.* In increasing returns processes, when an event occurs may be crucial. Because earlier parts of a sequence matter much more than later parts, an event that happens “too late” may have no effect, although it might have been of great consequence if the timing had been different.
4. *Inertia.* Once an increasing returns process is established, positive feedback may lead to a single equilibrium. This equilibrium will in turn be resistant to change.” (Pierson 2000, 263, his emphasis)

¹⁰⁹ The applicability of “increasing returns” from economics to politics, Pierson explains, is due to four prominent characteristics of the political arena: “(1) the central role of collective action; (2) the high density of institutions; (3) the possibilities for using political authority to enhance asymmetries of power; and (4) its intrinsic complexity and opacity” (Pierson 2000, 257). In addition, another two factors, the short time horizons of political actors and the strong status quo bias associated with the decision rules of political institutions, contribute to the intensity of path dependent effects in politics (Pierson 2000, 261-62).

Those four propositions are four “likely” features of political life if “path dependent processes are at work”, and a path dependent fashion will get changed at “critical junctures” — Pierson emphasizes that *it is important to keep the two, i.e. “path dependence” and “critical junctures”, distinct, and it is the former that lays the foundations to the latter, not vice versa, and besides, the former can explain why the latter has “lasting consequences”* (Pierson 2000, 263) (HI argument 16); accordingly, the hypotheses in this dissertation are drawn within two categories: (H₁) is about critical junctures; (H₂) concerns path dependence. *Path dependence, as North points out, “is not a story of inevitability in which the past neatly predicts the future” (1990, 98-99), but rather “a way to narrow conceptually the choice set and link decision making through time” (1990, 98), which means “previously viable options may be foreclosed in the aftermath of a sustained period of positive feedback, and cumulative commitments on the existing path will often make change difficult and will condition the form in which new branchings will occur”* (Pierson 2000, 265). (HI argument 17)

The above arguments are reinforced in Pierson (2004), where *four major themes stand out: positive feedback and path dependence, time and sequence, slow-moving dimension of social life (e.g. the stickiness and incremental changes of political institutions), and institutional origins and changes (e.g. critical junctures)* (Pierson 2004, 9); *it is the first theme of path dependence that lays the foundation for the other three thematic propositions and the whole argument of Pierson’s “politics in time” (2004, 11). As institutional arrangements are deeply embedded over stretches of time, scholars should explore “institutional development rather than institutional choice” (Pierson 2004, 15, his emphasis).* (HI argument 18) This displays HI’s distinctive characteristic compared to Moravcsik’s LI model which takes “institutional choice” as a key research theme.

4.2.3 HI’s Three-Phase Analytical Model

Pierson’s HI analysis of the EU derives from the HI school in political science (e.g. Hix 1999, 2005; Pollack 2009). *Pierson himself claims that his theory of path dependence actually supports HI’s key propositions as follows: “specific patterns of timing and sequence matter; a wide range of social outcomes may be possible; large consequences may result from relatively small or contingent events; particular courses of action, once introduced, can be almost impossible to reverse; and consequently, the political development is punctuated by critical moments or junctures that shape the basic*

contours of social life” (2000, 251; see also 2004, 8-9) (HI argument 19), which in fact is a re-statement of the four likely characteristics to judge a path dependent process at work and the idea of critical junctures. In order to explain the historical perspective better, Hix (1999, 2005) summarizes HI as a three-step model:

“At time T0, a set of institutional rules is chosen or a policy decision is made (by the member state governments), on the basis of the structure of existing preferences. At time T1, a new structure of preferences emerges under the conditions of the new strategic environment: the changed preferences of the member states, the new powers and preference of the supranational institutions, and the new decision-making rules and policy competences at the European level. And, at time T2, a new policy decision is adopted or a set of institutional rules is chosen.” (Hix 1999, 16)

In this model, though national governments have had their control at the first stage T0, decisions made at time T0 “lock” the integration process into a particular “path”, that is, “the decision taken by the member states at T2 is very different from that which they would have taken if they had faced the same decision at T0” (Hix 2005, 17). As actors do not have perfect information to predict preferences at T1 or policy outcomes at T2, unintended consequences can take place (Hix 1999, 16) with governmental policy competences and powers further delegated to EU institutions (Hix 2005, 17). (HI argument 20) Such path dependence does not mean an inevitable process of integration, but rather, the only way to escape from further integration is to break with past practice at “critical junctures”(Cini 2010, 95), where “path dependent institutional stability and reproduction [...] are punctuated occasionally by brief phases of institutional flux [...] during which more dramatic change is possible” (Cini and Borragán 2010a, 441), that is, moments of “branching points” brought by substantial institutional changes where the historical movement takes a new path (Hall and Taylor 1996, 942; Pierson 2000, 263). (HI argument 21) Promoting HI to the study of international political economy (IPE), Drezner (2010) argues that though HI’s path dependence may not be a perfect causal mechanism, it does explain why institutions, rules and policies evolves into current looking (Drezner 2010, 795). When discussing international market regulation, Drezner (2010) explains,

“At time t, a set of rules R is codified. These rules help to shape and reinforce the preferences of the salient actors. At time t+1, the cost of switching away from R is somewhat higher. With each iteration, the

reinforcement between actor preferences and the rules that bind them make it increasingly unlikely that R will be changed endogenously.” (Drezner 2010, 794) (HI argument 22)

Drezner’s description highlights theoretically unlimited “iteration” and “reinforcement” of rules R via time stages of $t+1$, $t+2$, $t+3$, ... $t+n$, and the analysis of rules R can be divided into a sequence of *T0-T1-T2* analysis. The difference here is that Hix’s *T0-T1-T2* model stresses the evolving relationship between nation states and supranational institutions on institutional rules and policy-making throughout certain periods of time, that is, it focuses on decision-makers and the potentially changing context of decision-making over time, while Drezner’s proposition pays attention to the rules themselves and the underlying factors that drive the reinforcement and stickiness of the established rules and policies throughout certain periods of time. So Hix’s *T0-T1-T2* model and Drezner’s $t+1$, $t+2$, $t+3$, ... $t+n$ proposal actually can be viewed as different approaches to path dependent mechanisms from different angles: if the former emphasizes the historical and institutionalist context to explain how a path dependent mechanism works and evolves, then the latter values the dynamics of path dependence — increasing returns. Moreover, Drezner’s argument that “it (is) increasingly unlikely that R will be changed endogenously” implies that to break up the current chain of reinforcement and thus to embrace a new path may require exogenous pushes, that is, rules will be changed due to exogenous factors, such as the global economic crisis (cf. Niemann’s (2006) “exogenous spillover” propositions in chapter two of this dissertation). Corresponding to HI’s three-stage *T0-T1-T2* analytical framework, Pierson (1996, 149; 1998, 49) maps out “the path to European integration” in the pattern of three time stages, visually offering the factors that account for EU institutional and policy evolution between intergovernmental “grand bargains” from a path dependent perspective (see chapter three of this dissertation). Pierson argues that *decisions made by “the short-term preoccupations of institutional designers”, as the evolution of European social policy suggests, could “undermine [...] the long-term control of member state governments” and lead to widespread unanticipated consequences (1998, 56), because the institutional arrangements and increasing sunk costs (i.e. “the cost of exit”) make a reversal difficult and unattractive (Pierson 1998, 45-46; see section 3.6.3). The logic here is not only about the institutional constraints from the macro-level (e.g. high institutional thresholds to later reforms, reward and penalty mechanisms prescribed by new rules), but also about societal actors at the*

micro-level incrementally building up their vested interest in the maintenance of EU policies over time (see chapter three of this dissertation). (HI argument 23) Pierson's *T0-T1-T2* path to European integration actually exhibits a synthesis of Hix's new structures of preferences and Drezner's switching costs in the context of EU "grand bargains" for Treaty revisions and the term "sunk costs" defined by Pierson (1996, 1998) was later developed into "increasing returns" (Pierson 2000) and "positive feedback" (Pierson 2004). The analyses here lay a foundation for the derivation of H16 in light of HI's *T0-T1-T2* path dependent model on the basis of the arguments of Pierson, Hix and Drezner.

Situating analyses at different periods of time, the *T0-T1-T2* path dependence analytical framework can be used to explain institutional and policy outcomes (if starting from *T2* and thus looking backwards into *T0-T1*) or predict future policy-making (if starting from *T0* and looking forward to *T1-T2*) at the supranational level. Combing through the literature above, two key propositions underpin HI analyses: path dependence and critical junctures — the former delves into history to explain institutional and policy formation and evolution, while the latter can be treated as a starting point to predict institutional and policy in the future following the path dependent logic.

4.2.4 Summary and Hypotheses Derivation

As argued previously, all three new institutionalist approaches to the EU are valid, providing us with various theoretical lenses to examine and understand the EU, but "post hoc explanations are too easy to invent and usually [...] totally useless" (Scharpf 1997, 29), so the significance of hypotheses formulation is to put forward "strong *prior* expectations" on the basis of theories to check the explanatory and predictive power of the relevant theories, where "the disconfirmation of such expectations" serves "as a welcome pointer to the development of more valid explanations" (Scharpf 1997, 29, his emphasis). According to the literature review above, "path dependence" and "critical junctures" lie at the core of HI, and in hypothesis form, HI arguments against the background of the crisis after 2008 can be stated as follows, which could be viewed as an HI framework to explain as well as to predict the EU's developments during the euro area sovereign debt crisis and in the future. To begin with, HI's propositions on "critical junctures" imply that

H10: The 2008 global financial crisis serves as a "critical juncture" where EU

policies of economic governance in the post-2008 crisis era take new paths as national-national and/or national-supranational competence and powers get changed and redefined.

This hypothesis will be tested by the three selected cases: the ESM, the ESRB, and the European Semester to see whether they mark EU “critical junctures”, signaling the moments of the “branching points” where EU financial and/or fiscal supervision and policy-making take new paths. However, “new paths” are subject to definition; they are not absolute yes-or-no questions, but rather questions of degree and relativity compared with the “old paths”, because to ascertain the effects and property of the “critical junctures” evolves over a certain period of time and depends on the thematic subjects, that is, “new paths” may mean different things to different scholars for different research purposes. In a broad sense, judging from Cini and Borragán’s (2010a, 441) definitions of “critical junctures” (HI argument 21), all new institutional creations during the post-2008 crisis era could be viewed as sort of “branching points” on the trunk of the EU as the EU’s path dependent institutional stability and reproduction are punctuated by phases of institutional flux; thus from such a broad perspective, the crisis in 2008 does serve as a “critical juncture”. This dissertation, however, selects national-national and national-supranational power relations as the litmus to test the new paths, which is based on the following consideration. First, in recent years, the sovereign debt crisis is a “contagious headache” for euro member states as well as for the whole EU, and the EU’s new measures are collective attempts of national governments to find solutions at the supranational level. Without a doubt, national states are the elementary bricks for the grand building of the EU and the tensions between nationalism and supranationalism lie at the heart of the EU, both in practice and in theory (cf. chapter two and chapter three). For example, the essence of EU decision-making procedures, the core of the EU machine, is about the function, power and competence division between national states and EU supranational institutions, and the changes in national-supranational relations normally will influence the EU’s future policy-making and developments which may contribute to “a substantial institutional change” (HI argument 7). Second, as HI arguments 2, 8 and 20 suggest, to analyze power relations and asymmetrical power distributions, as well as to examine how those asymmetries and inequalities get reinforced and evolve over time, is a distinctive tool and feature of HI and an intrinsic element that underscores the self-reinforced path dependent processes. Therefore, this dissertation will take national-national and

national-supranational power relations as the gauge to judge the “critical junctures” and “new paths”. Accordingly, this dissertation will look at national governments’ and the EU supranational institutions’ functions, powers and status defined in the new measures, and if there is any change of national-national and/or national-supranational power relations caused by the new measures compared with previous financial and fiscal policies and practices, H10 will be shown to be valid; if the power distributions, however, do not assume any changes in case studies, H10 will be rejected. If H10 is valid, then firstly, HI’s argument 7 on the causes of critical junctures (i.e. an economic crisis) are justified, and to be more accurate, the factors contributing to the branching points of the EU and EMU development this time are the world-wide financial crisis originating from the US, the consequent global economic recession and the unsound fiscal conditions of nation states (i.e. the high budget deficit and debt rates). This dissertation will delineate the timing and sequence of those factors, and the adoption and implementation of the new measures so as to see whether there is any visible patterns underling those factors and any contingencies of relatively small events which exert large and enduring consequences as occurring at the “right” moment (HI arguments 15, 19). Secondly, if national government powers are further constrained, unintended consequences posited both by HI and neo-functionalism are also confirmed. Besides, this dissertation will examine whether previous institutions and these new measures have forged an asymmetrical access to the decision-making process for different interest groups, and if so, this dissertation will check who are the winners and the losers and how the disproportionate access and asymmetrical powers evolve over time, getting reinforced or changed (HI arguments 2, 8). However, even if H10 is vindicated, the new measures’ actual magnitude of impacts on the EU and EMU (whose developments also depend on various other factors) in the future requires further clarification and specification. Because “critical junctures” and “new paths” connote time-involvement (i.e. the appearance and effects of them require certain period of time to expose, to be visible and then to be evaluated), the evaluation of the new measures at different time points (e.g. at present, 10 years later or even 100 years later), together with other factors such as scholars’ research questions and objectives, may lead to different judgments and conclusions on the same “critical junctures” and “new paths”, and thus H10 is still, and should be, open to empirical tests in the future along with EU developments. The case studies in this dissertation just make a small contribution to the ever-developing HI research project on the EU, and these new

institutional and policy creations, being efforts of the EU and the member states to solve the crisis, may be or may not be vindicate as far-reaching “branching points” for the EU and EMU in the future.

As Pierson (2000, 263) argues, critical junctures rest on the arguments of path dependence, or else how can a juncture be judged as being “critical” (HI arguments 16, 18)? The EU’s new measures to cope with the crisis since 2008, on the one hand, may exhibit differences and deviations from the EU’s previous policies and practices as challenges this time are unexpected and really serious, while on the other hand, being developed under the existing EU institutional structures, the new measures may also display policy coherence and consistence, inheriting certain policy features from the previous decisions and choices. Like a coin which has two sides, institutional and policy creations, in one respect, are novelly designed to deal with the new rising challenges, and in another respect, their formation is conditioned by a specific historical context. If “critical junctures” suggest institutional and policy inventions, deviations and “new paths”, then path dependence, stressing looking back into the historical and institutionalist context where those new policies are produced, has offered an explanation for why and how these inventions, deviations and “new paths” happen and thus explores policy roots, continuity and evolution. All in all, path dependence theory offers an explanation for institutional and policy outcomes — whether they are shown as branching points and new paths or not; meanwhile, the logic of path dependence also makes predictions on future institutional and policy developments. In the context of countering the negative impact of the crisis, the path dependent arguments in hypothesis form can be stated as follows:

H11: The EU's new measures adopted during the post-2008 crisis era, on the one hand, are conditioned by prior institutional arrangements and commitments which set limits on the possible available options, make certain alternatives appear more attractive, and lead actors to redefine their interests, while on the other hand, the new measures reflect a complex context that shapes actors' strategies, world views and action arenas, which, having been advocated by EU institutions with each iteration of the new measures, will shape actors' preferences and/or self-images as the status quo of the new measures is regarded as the right way to solve the crisis. (HI arguments 1, 3, 4, 5, 6, 22, 23).

H11 emphasizes the structural effects exerted by path dependence. Apart from this, path dependence as well as HI also stresses the influence of past choices on

current decisions and the importance of the timing and sequences of events, which, according to HI arguments 5, 6, 10, 15, 17, 23, suggest the following:

H12: The choices of the specific new measures to cope with the post-2008 crisis era are made on the basis of the past choices where certain elements in today's choices have appeared more attractive and the sequences of institutional decisions entailed in EU decision-making procedures to adopt the new measures matter as certain alternatives are irreversibly dropped from the range of possible options along with the proceeding of the decision-making procedure; thus, path dependence indicates a way to link decision-making through time and to narrow conceptually the choice set, and consequently, the new measures have become the only available options for actors to resort to, along which societal groups make adaptations to the new measures and incrementally build up their vested interest in maintaining and even developing the new measures.

In case studies, this dissertation will examine whether the mechanisms of H12 are present in the selected cases. Following HI argument 22, this dissertation will focus on the “salient” actors’ preferences and the rules that bind them; as far as the euro area sovereign debt crisis is concerned, this dissertation will take national governments and EU supranational institutions as the “salient” actors. At issue is how nation states can solve the sovereign debt crisis, so this dissertation will particularly focus on nation states’ preferences; if member states become to take the new measures for granted and resort to the new measures as their first responses to solve the sovereign debt crisis, then we can say that the new measures have shaped member states’ preferences and they have been internalized as part of nation states’ strategies and world views. Moreover, because the sovereign debt crisis exerts a great negative impact on national economies and as suggested by HI arguments 6 and 23, this dissertation will also examine the positions of societal interest groups to see whether the new measures have encouraged societal groups to line up with the new policies and to incrementally build up their vested interest in maintaining and even developing the new measures. The mechanisms argued in H12 tend to be the “possibly materializing” phenomena or observable facts; the underlying reasons leading to these possible phenomena or facts are, however, due to “increasing returns”:

H13: Once the new measures are established to deal with the crisis, actors tend to stick to them due to the increasing returns, that is, the relative benefits brought by current measures compared with other possible options increase over time, and the costs of exit (i.e. sunk costs) or the costs of switching to the previously plausible

alternatives rise (i.e. self-reinforcing processes), which generate incentives for actors to stick with and not abandon the new measures, only adapting the new measures incrementally to the changing environment (i.e. positive feedbacks). As a result, with each iteration of the new measures, (a) actors' preferences and the rules that bind them are increasingly reinforced and the status quo of the new measures is regarded as the right way to solve the crisis, (b) the once competitive options are excluded, (c) the equilibriums formulated by the new measures to solve the crisis are resistant to change, (d) specific paths are taken as the new measures induce further institutional and policy movement in the same direction, (e) the iteration of rules codified in the new measures and the repetition of the cumulative commitments on the existing paths make changes difficult and condition the form where new branching points will occur in the future, and (f) it is increasingly unlikely that the new measures will be changed endogenously. (HI arguments 4, 5, 9, 11, 15, 17, 22, 23)

While H12 hypothesizes the relationship among possible phenomena and facts, H13 explains the dynamics and deep reasons that cause H12. The first half of H13 hypothesizes the causal mechanisms entailed in increasing returns, whereas the second half of H13 argues for the possible results of increasing returns, and the absence or presence of H13(a)-(f) should be judged after a certain period of time after the adoption and implementation of the new measures. As the research period is delimited to the phase of 2010-2012, the effectiveness of H13(a)-(f) will be checked by the three selected cases during this time period. However, some of the causing mechanisms, such as (e) and (f), may suggest a much longer period of time to be involved, so judging from a different angle, H13(a)-(f) can also be taken as predictions made by HI on the EU's and EMU's future development after the adoption and implementations of the new measures, which are open to future empirical tests. The causing chains have been stated clearly in H13(a)-(f), but still H13(d) needs further clarification if HI argument 14 is taken into account. H13(d) argues that the new measures induce specific paths that will lead to further institutional and policy movement in the same direction, while HI argument 14 expects that both the reinforcement as well as the development of the new measures complementary to the new measures are the results of increasing returns processes. Therefore, "movement in the same direction", spurred by increasing returns, not only suggests the reinforcement of the stability and the further development of the new measures, but also should include the development of complementary measures; accordingly, the "same" direction also means to take new

initiatives that are facilitating the implementation of the new measures or are generally considered helpful to solve the crisis. The development of complementary institutions and policies to the new measures in the future, from an HI perspective, can be regarded as a result of increasing returns, while from a neo-functionalist point of view, they indicate the dynamics of spillover. So EU integration theories actually offer different angles and interpretations to the same snapshot of the EU empirical development. In addition, H13(e) will probe into both macro-constraints and micro-adaptations as suggested by HI argument 23.

Certain factors are conducive to the effectiveness of path dependent mechanisms, and in accordance with the four factors posited by Pierson (1998, 2000), this dissertation hypothesizes that there is a beneficiary environment for path dependence to take place, that is,

H14: There are conditions conducive to foster the self-fulfilling movement of the particular paths introduced by the EU's new measures to deal with the crisis, as large set-up costs, learning effects, coordination effects, and adaptive expectations are effectively present. (HI arguments 12, 13, 14)

This hypothesis actually is composed of four sub-hypotheses according to the four analytical factors:

H14a: The EU's new measures to address the crisis entail considerable institutional start-up costs, which serve as a strong incentive for actors to stick to them.

H14b: National actors actively engage in learning and adapting to the new measures as the new measures are considered helpful to keep economic and financial stability; as actors gain more experience and expertise with these new measures, they are likely to introduce further innovations and changes into these measures and/or into other related policy areas.

H14c: The new measures are compatible with the activities of other actors and institutions, and moreover, the new measures promote new developments in the linked areas and policies, which in turn increase the viability of the new measures.

H14d: Actors whose options have failed will adapt their actions and expectations in accordance with the new measures.

The case studies in this dissertation will see whether those four beneficiary factors are present and thus to judge whether there is a fertilizing field for the new measures to introduce specific paths for the EU's future economic governance. Besides the assumptions on the conditions conducive to path dependence, Pierson (2000) (HI

argument 15) argues for four likely features that mark the political life when path dependent processes are at work, which indicate the following:

H15: The political process accompanying the effectiveness of path dependence of the new measures are likely marked by (a) multiple equilibria, (b) contingency, (c) a critical role for timing and sequencing, and (d) inertia.

The purpose of this hypothesis is to check whether the political life before and after the adoption of the new measures to tackle the post-2008 crisis situation is marked by the four features (also see HI argument 19) where the timing and sequences of (small or contingent) events have great impact on the formation of the new measures. H15 actually is partly entailed in H13(b), (c), (e) and (f), and H15 could also be viewed as a sort of re-statement of the propositions in H12 from a different angle; additionally, the planned analyses for the “critical juncture” of H12 also cast light on H15. In short, H15 posits a completed and full political process of path dependence, and the four possible features are the symptoms to “diagnose” the effectiveness of path dependence.

In accordance with HI’s three-step analytical model $T0-T1-T2$, this dissertation puts forward the path of the new measures to deal with the post-2008 crisis situation via $T0_{the\ TEU}-T1a_{the\ Amsterdam\ Treaty}-T1b_{the\ Nice\ Treaty}-T2_{the\ Lisbon\ Treaty}$ to test the assumptions entailed in HI arguments 20, 22 and 23 and Pierson’s $T0-T1-T2$: “the path to European integration” (see Figure 3.1).¹¹⁰ The path dependent mechanisms of the $T0-T1(T1a-T1b)-T2$ posited by this dissertation assume the following:

H16: Member state initial decisions on EMU, the single currency, and EU economic governance enshrined in the TEU (T0) lock the relevant development of institutions and policies into a particular “path”, which, via the time stages of $T0_{the\ TEU}-T1a_{the\ Amsterdam\ Treaty}-T1b_{the\ Nice\ Treaty}-T2_{the\ Lisbon\ Treaty}$, is characterized by three

¹¹⁰ The road to the Lisbon Treaty illustrates the history of the EU: the Treaty establishing the ECSC (1951) — Treaties of Rome establishing the EEC and the Euratom (1957) — the SEA (1986) — the Treaty of Maastricht (the TEU) (1992) — the Treaty of Amsterdam (1997) — the Treaty of Nice (2001) — the Constitutional Treaty (2004) — the Lisbon Treaty (2007). The Constitutional Treaty was signed in October 2004, but France and the Netherlands rejected it during May to June 2005 by referendum, so it never became effective. As a revision to the Constitutional Treaty, the Lisbon Treaty was signed on 13 December 2007 by 27 member states and approved by 26 out of 27 member state parliaments from 2007 to May 2009. On 12 June 2008, the referendum in Ireland failed to ratify the Treaty; after negotiations and revisions to the Treaty, on 2 October 2009, the second referendum of Ireland adopted the Treaty, and on 1 December 2009, the Lisbon Treaty entered into force (see, for example, *Your Guide to the Lisbon Treaty* (2010, 11)). This dissertation selects the period from the TEU to the Lisbon Treaty, and as the Constitutional Treaty has never been ratified, the road to Lisbon, in accordance with the HI $T0-T1-T2$ path dependence model, is illustrated as $T0_{the\ TEU}-T1a_{the\ Amsterdam\ Treaty}-T1b_{the\ Nice\ Treaty}-T2_{the\ Lisbon\ Treaty}$.

prominent features: (a) the TEU shapes and reinforces the preferences of the salient actors, which get further reinforced with the iteration of Treaty rules, and from T0 to T2, the initial rules set down at T0 get changed due to exogenous challenges rather than endogenous needs; (b) the institutional arrangements and increasing sunk costs make actors stick to the existing course; (c) the EU's new measures to cope with the euro area sovereign debt crisis after the enforcement of the Lisbon Treaty (T2) are unintended consequences of the initial decisions of the TEU (T0) as (i) more national government competences and powers are delegated to EU institutions and national governments' control over the EU policies (i.e. the new measures) is further reduced, and (ii) member states would have taken very different measures if they had faced the sovereign debt crisis after the enforcement of the TEU.

The purpose of this hypothesis test is to see whether there is an HI *T0-T1-T2* path dependent mode for the policies relevant to the single currency and EU economic governance from the TEU to the current EU's new measures to address the post-2008 crisis challenges, particularly the eurozone sovereign debt crisis, and the hypothesized path is shown as follows: *T0_{the TEU}-T1_{a_{the Amsterdam Treaty}}-T1_{b_{the Nice Treaty}}-T2_{the Lisbon Treaty}-The EU's New Measures to solve the crisis*. This path model derives from the time-stage mechanisms argued by Pierson (HI argument 23 and Pierson's "the path to European integration"), Hix (HI argument 20) and Drezner (HI argument 22), and the designation for *T0*, *T1* and *T2* is based on the following consideration.

First, as Pierson's "path to the European integration" via *T0-T1-T2* is formulated through the study of institutional and policy evolution between EU intergovernmental "grand bargains" for Treaty revisions (which require member state unanimous approval), accordingly, the selection of the TEU (IGC 1990-1991), the Amsterdam Treaty (IGC 1996), the Nice Treaty (IGC 2000) and the Lisbon Treaty (IGC 2007) meets the requirement of Pierson's case selection of intergovernmental grand bargains to test his HI model. Besides, the EU has been developing through a series of Treaties which lay down the legal basis for this regional organization, and moreover, each Treaty conclusion constitutes the milestones of the EU, so carrying out research on the progress of EU Treaties is meaningful.

Second, the selected new measures addressing the post-2008 crisis era are the institutional and policy outcomes after the grand bargains for the Lisbon Treaty, so naturally the Lisbon Treaty is assigned as *T2*, whereas assigning the TEU as *T0* is because the TEU satisfies the requirement of the *T0-T1-T2* model, which assumes that at the initial time *T0*, national governments had control over institutional structures and

supranational policy-making. The first IGC negotiation for EMU was “opened in Rome in October 1990 and closed in Maastricht in 1991” (Verdun 2010, 329), and the negotiated results are reflected in the TEU, which, on the basis of the 1989 Delors Report, not only stipulated three stages to realize EMU, but also set down the convergence criteria for member states to join EMU at the final stage implemented on 1 January 1999, thus “constitut(ing) the legal basis for EMU and its new single currency” (Hosli 2005, 37). Therefore, choosing the TEU as time *T0* meets the conditions set out by the HI model *T0-T1-T2*, as it is in the TEU that national governments made their first IGC negotiations and decisions related to EMU and the common currency and thus, national governments at that time are assumed to have had their control over EMU and the single currency policies. Additionally, it should also not be forgotten that the name of the “European Union” was officially introduced by the TEU, signaling a new era for European regional cooperation.¹¹¹ Moreover, the solution to the post-2008 crisis era is related to EU financial, fiscal and economic policies (see Table 1.2 and 1.3), which are interwoven with each other and collectively belong to EU economic governance in a broad sense, so the research of this dissertation also reflects EU economic governance tendency against which the decisions and policies related to the single currency are made. The HI *T0-T1-T2* model emphasizes that decisions made at time *T0* will cause unintended consequences at time *T2* over time; accordingly, this dissertation is going to examine whether the new measures are unexpected consequences for the decisions made in the TEU.

Finally, the HI *T0-T1-T2* model represents a conceptual framework which stresses the evolution of institutions and policies over time, offering a historical rather than a snapshot perspective to understand EU policies today. In Pierson’s *T0-T1-T2* model, *T1* indicates the time period between two grand bargains, from which considerable gaps in national government control, contributing to the altered context for *T2*, emerge, and to be more exact, *T1* suggests (1) shifts in domestic conditions, (2) micro-level adaptations (“sunk costs”), (3) accumulated policy constraints, and (4) heavily discounted or unintended effects, whereas *T2* indicates a changed context for the IGC negotiations forged by (5) member state preferences (influenced by (1), (2)

¹¹¹ The TEU (i.e. The Maastricht Treaty) is regarded as “a new stage” for the European integration project, as it introduced a three-pillar-structured “European Union”: the European Communities, CFSP and JHA. Meanwhile, the concept of European citizenship, a reinforced EP and the launch of EMU are also introduced. Besides, the EC superseded the EEC. See “Treaty of Maastricht on European Union” (European Union).

and (4) at time $T1$, (6) member state bargaining powers (decided by (3) and (4) at time $T1$), and (7) the power of other actors (as the consequences of (4) at time $T1$), which as a whole causes the institutional and policy outcomes after the grand bargains. By comparison, in Hix's $T0$ - $T1$ - $T2$ model, $T1$ means a new structure of national preferences in a new environment conditioned by (8) the changed preferences of the member states, (9) the new powers and preferences of the supranational institutions and (10) the new decision-making rules and policy competences at the European level, while $T2$ is the decision making after the new structure of national preferences. In contrast, in Drezner's t , $t+1$, $t+2$, ..., $t+n$ model, $t+1$ suggests (11) higher switching costs from the rules codified at t , (12) the reinforcement between actors' preferences and the rules that bind them, and (13) an increasing unlikelihood to change the rules codified at t endogenously. In the model $T0_{the\ TEU}$ - $T1a_{the\ Amsterdam\ Treaty}$ - $T1b_{the\ Nice\ Treaty}$ - $T2_{the\ Lisbon\ Treaty}$ put forward by this dissertation, $T0_{the\ TEU}$ represents the beginning of decisions and policies about the single common currency and the related economic governance trend at that time, while the new measures dealing with the crisis are the decisions and policies related to the euro and EU economic governance after the grand bargains of $T2_{the\ Lisbon\ Treaty}$; between $T0_{the\ TEU}$ and $T2_{the\ Lisbon\ Treaty}$, $T1$ is a large time gap which actually consists of two chronological intergovernmental grand bargains of $T1a_{the\ Amsterdam\ Treaty}$ - $T1b_{the\ Nice\ Treaty}$, which for one thing, being the time gaps between $T0_{the\ TEU}$ and $T2_{the\ Lisbon\ Treaty}$ and following Pierson's $T0$ - $T1$ - $T2$ model, should suggest (1)(2)(3)(4), and for another, representing new structures of national preferences and altered contexts, and in light of Pierson's and Hix's arguments, should exhibit the features of (5)(6)(7)(8)(9)(10); besides, following the logic of Drezner's model, $T1$ after $T0$ should also exhibit (11)(12)(13). So synthesizing all of them together,¹¹² this dissertation formulates H16, and from another perspective, the selection of $T1$ as $T1a_{the\ Amsterdam\ Treaty}$ - $T1b_{the\ Nice\ Treaty}$ satisfies various interpretations to $T1$ in an HI three-phase model. In addition, treating $T1a_{the\ Amsterdam\ Treaty}$ - $T1b_{the\ Nice\ Treaty}$ as a whole as $T1$ is also justified by the nature of the Lisbon Treaty, which, "amend(ing) the Treaty on European Union, the Treaty establishing the European Community and the Treaty

¹¹² It is also possible to illustrate such a synthesis visually based on Figure 3.1 (i.e. Pierson's diagram "the path to European integration"). Pan and Hosli (2014) represent H16 in a Figure form by integrating Hix's (1999, 2005) and Drezner's (2010) analytical factors into Pierson's path to European integration. As a result, all the thirteen factors mentioned in this part are visually displayed in a single Figure.

establishing the European Atomic Energy Community”, was designed “to complete the process started by the Treaty of Amsterdam and by the Treaty of Nice with a view to enhancing the efficiency and democratic legitimacy of the Union and to improving the coherence of its action” (Preamble of the Treaty of Lisbon C 306/3). Altogether, (1)-(13) discussed here are the analytical elements for the proposed path dependent model, which shall be examined in the case(s) where the path model is supposed to be effective.

The merits of the proposed path dependent model — $T0_{the\ TEU}$ - $T1a_{the\ Amsterdam\ Treaty}$ - $T1b_{the\ Nice\ Treaty}$ - $T2_{the\ Lisbon\ Treaty}$ -*The EU’s New Measures to address the post-2008 crisis situation* — are that from $T0$ to $T2$, each time point represents IGC bargains and EU Treaty revisions, which on the one hand, meet the conditions for Pierson’s model, while on the other hand, also represent changed structures of preferences and new contexts for policy-making, as argued by both Pierson and Hix. Besides, each concluded EU Treaty is based on previously adopted Treaties, and in the end, based on the Treaties of Rome that gave birth to the Community on 1 January 1958 (among which the TEU for the first time laid down specifications and regulations for EMU and the single currency). Each EU Treaty *revision and expansion* connotes the potential of the iteration and reinforcement of initial rules as suggested by Drezner. The nature and property of the selected time points for analyses make the proposed path dependent model possible and reasonable. As a matter of fact, each two consecutive grand bargains and the institutional and policy outcomes after the second grand bargain (*i.e.* T_{TEU} - $T_{the\ Amsterdam\ Treaty}$; $T_{the\ Amsterdam\ Treaty}$ - $T_{the\ Nice\ Treaty}$; $T_{the\ Nice\ Treaty}$ - $T_{the\ Lisbon\ Treaty}$) can be analyzed from the different perspectives offered by Pierson, Hix and Drezner, respectively, and the contribution of this dissertation is to make an original synthesis of the various causal mechanisms of path dependence posited from diverse points of view.

According to the assumptions of H16, this dissertation will delineate the contour of the rules about the single currency and EU economic governance related to the three new measures from the TEU, via the Amsterdam Treaty and the Treaty of Nice, to the Lisbon Treaty, after which the mechanisms posited in H16(a), (b) and (c) will be tested as follows:

First, as for H16(a), empirical analyses will investigate whether the preferences of the salient actors who are bounded by the TEU rules (e.g. national governments, EU supranational institutions and the societal interest groups) get strengthened and reinforced over time (12), and whether the changes of relevant rules are caused by EU

internal needs (endogenous causes) and/or external challenges (exogenous causes) (13), both of which imply the possibility of newly emerging interests and preferences (8)(9)(10); moreover, the changed preferences of national governments (5)(8) subsume three analytical factors: (1), (2) and (3).

Second, the assumption of H16 (b) that “the institutional arrangements and increasing sunk costs make actors stick to the existing course” will be tested by the presence or absence of mechanisms suggested by (2)(4)(7) (9)(10)(11), among which (7) and (9) are the embodiment of (4), (11) is another expression of (2), both suggesting a micro-level analysis on societal actors’ incrementally building-up of their vested interests in the maintenance of EU policies, and (10), which always associates with (9), concerns the rules and institutional arrangements themselves such as the punish mechanisms, decision-making procedures, voting rights and thresholds for institutional reforms.

Finally, the assumption of H16(c) will be accepted or rejected by examining (i) and (ii). While (ii) is a frank evaluation of the possible unintended consequences by situating the current sovereign debt crisis in the context of the effectiveness of the TEU rather than the Lisbon Treaty and the new measures are not predicted by national governments when they make decisions at the time of the TEU, (i) suggests the causal chains presumed by (3)(4)(6)(7)(9)(10), among which (3) and (4) are the contributing factors to (6); as (4) (i.e. heavily discounted or unintended effects) connotes (7) (i.e. the increasing “power of other actors” besides national governments), (7) is also a factor that will influence (6) (i.e. member state bargaining powers), which implies a possible power and competence trade-off between nation states and EU supranational institutions, and accordingly this dissertation will check: (a) whether from $T0_{the\ TEU}$ to $T2_{the\ Lisbon\ Treaty}$ and then to the new measures, step by step, the power and competence of national governments get reduced and delegated to EU institutions while those of EU institutions increase; and (b) the evolution of the power and competence of various actors bounded by the Treaties.

Obviously, this proposed model places the new measures into the evolving historical and institutionalist context of EU Treaties, an perspective that is valued and stressed not only by HI, but also shared by neo-functionalism and intergovernmentalism. As Pierson’s path dependence theory (1996, 1998) is utilized by both neo-functionalists and intergovernmentalists to support their own arguments, the hypothesis tests results of HI will serve as confirmative or disconfirmative proof to

some of the neo-functionalist and intergovernmentalist propositions (see Tables 3.2 and 3.3). In addition, viewing all HI hypotheses formulated in this chapter, this dissertation observes that there are overlapping elements among some HI hypotheses, so consequently, there is mutual support or disconfirmation among these hypotheses.

Last but not least, as HI argument 2 has pointed out that institutions are just one of the factors in the causal chains that lead to political outcomes, but after a close examination of the HI arguments, this dissertation finds that external factors tend to be excluded from explaining policy formation. For example, Pierson's map on "the path to European integration" stresses domestic changes, but offers no places for international vicissitudes. Based on HI arguments 1 and 22, the hypothesized mechanisms H13(g) and the second half of H16(a) introduce the factor of the exogenous challenges (the external environment) into HI perspectives. Although Europe's sovereign debt crisis happened in the wake of the global financial crisis of 2008, the broad international economic and financial situation should be included in accounting for the adoption and implementation of the new measures. So in case studies, this dissertation will also look into the global context in which the EU treaties were concluded and the new measures were formulated, so as to explore the interactions between the EU policy outcomes and the external environment.

5 Chapter Five: Overviews of the Hypotheses and the Three Selected Cases

5.1 An Overview of the Hypotheses

Table 5.1 gives an overview of all the hypotheses to be tested by this dissertation, as elaborated and developed in chapters two, three and four of this dissertation.

Table 5.1 An Overview of the Hypotheses

Neo-functionalism (chapter two)
<i>H1: European economic integration, via spillover effects, leads to European political integration; with more intense economic cooperation and social interaction among member states, the degree of political integration increases.</i>
<i>H1a: Solving the debt crisis (i.e. a fiscal issue) requires support and cooperation in other related areas and thus pushes further integration in both the original and these related areas via positive integration rather than negative integration.</i>
<i>H1b: Confronted with the collective sovereign debt problem, national interest actors, both governmental and non-governmental, support further integration and promote European-level solutions over national-level means because to do so brings more benefits.</i>
<i>H1c: By making proposals for the solutions to the sovereign debt crisis, the Commission, under the framework laid down by the European Council, takes pro-integrative approaches to address the crisis; as a consequence, the Commission, while building coalitions with the key member states and/or interest groups, expands its power and autonomy, and meanwhile, the EP also takes pro-integration positions and tends to support the Commission's proposals.</i>
<i>H1d: As the inherently expansive task (i.e. to solve the eurozone sovereign debt crisis) is assigned to EU supranational institutions, the autonomy and power of EU institutions — typically represented by the Commission — expand; meanwhile, European citizens' support for the EU project also tends to increase.</i>
<i>H2: The presence of four factors (i.e. increasing economic interdependence between member states, crises of sufficient magnitude as unintended consequences, regional bureaucrats' competence and autonomy to intervene, interest associations' capability to deal with problems independently from national constraints) contributes to the occurrence of spillover; however, the integration process tends to slow down due to the increase of "engrenage" and "politicization".</i>
<i>H3: Rising cross-border transactions increase transactors' demand for more regulation at the EU level (i.e. European standards, rules, and dispute resolution mechanisms), and this leads to the process of EU institutionalization where the degree of EU supranational governance increases while member-states' capacity to control policy outcomes decreases, as the presence and the degree of clarity and formalization of EU rules, the Commission's autonomy, and the presence and influence of transnational actors on policy-making increase and get mutually reinforced.</i>
<i>H3a: Increasing cross-border transactions among euro states demand more regulation at the EU level</i>

(i.e. European standards, rules, and dispute resolution mechanisms), leading to a process of EU institutionalization where rules are introduced or reinforced on the basis of the mutual enforcement among EU institutions, EU rules, and transnational society.

H3b: Along with the process of institutionalization during the eurozone sovereign debt crisis, EU supranational governance increases while national capacity to control economic and monetary policy outcomes is reduced.

H3c: During the eurozone sovereign debt crisis, the EU's new developments, which result from increasing cross-border transactions and transactors' demand for more regulation at the EU level, lead to a higher degree of EU supranational governance, which is hard to reverse as current supranational rules both define transactors' means to pursue their interests and dispute resolution mechanisms that shape the context for subsequent interactions and delineate the normative and institutional contours of future policy.

H4: When institutional and legal rules and procedures are applied in the policy areas where political integration has reached the most advanced stage of development (i.e. decisions by QMV in the Council), there is a spillover effect of these rules and procedures which tend to affect other related areas where political integration is least developed (i.e. unanimity in the Council) as the Commission tends to choose the use of QMV as its proposals' legal bases for member states to reach agreement and thus arouses member states' attention to the limits of current decision-making of unanimity.

H5: Because problems are beyond individual states' potential ability (which is also decreased by national interdependencies) to address and a regional integrated block can serve as a buffer against the harsh external environment, exogenous threats and crises push the EU integration process forward rather than impede it, as member states cooperate closely at the EU level to seek common solutions with the result that participating member states, who might rely on the new central institutions, forge a collective common position against non-participant third parties so as to increase the EU's collective bargaining power and/or its ability to meet the outside world demand, and/or with the result that EU decision-makers' preferences are shaped by a wider internationally prevailing policy paradigms and discourses.

H5a: The exogenous threats and crises imposed by the global financial crisis of 2008 as well as the world-wide economic recession afterwards push the EU integration process forward rather than impede it, as member states seek closer cooperation at the EU level to forge common solutions to the eurozone sovereign debt crisis triggered by the global financial crisis.

H5b: The reasons for EU countries to seek common solutions at the supranational level are due to two facts: (1) the nature and magnitude of the global financial crisis, economic recession and the eurozone sovereign debt crisis go beyond each state's individual capacity to cope with and the EU acts as an effective buffer to the external financial turmoil and economic crisis; (2) against the trend of globalization, increasing economic interdependence among EU member states decreases the power of individual national governments to solve the sovereign debt crisis, as national economies and the financial market become more sensitive and susceptible to each other's economic and financial disturbance.

H5c: Along with the adoption and implementation of the common measures, participating states forge collective external positions, which may contradict their original intentions, against non-participant third parties so as to increase the EU's collective bargaining power and/or its ability to meet the outside world demand, and as the expression and realization of the common external positions increasingly rely on EU supranational institutions, national government reliance on EU (new) institutions also increases.

H5d: The external environment exerts structural pressures on EU decision-makers' choices for the solutions to the eurozone sovereign debt crisis, that is, EU decision-makers' preferences are shaped by wider internationally prevailing policy paradigms and discourses.

Intergovernmentalism (chapter three)

H6: Confronted with the severe sovereign debt crisis, the Council of Ministers tends to apply the formal rules of QMV rather than take decisions on the basis of informal consensus, so as to improve the collective decision-making efficiency to meet challenges of globalization.

H7: The EU's new developments during the eurozone sovereign debt crisis are a series of rational choices made by national leaders, which are forged by three factors consecutively: national preference formation based on the economic interests of powerful domestic constituents, intergovernmental bargaining where asymmetrical interdependence decides the relative power of states, and institutional arrangements to guarantee the credibility of intergovernmental commitments.

H7a: The EU's new measures and policies to solve the sovereign debt crisis reflect the economic interests of powerful domestic constituents.

H7b: National asymmetrical interdependence (i.e. the uneven distribution of the benefits of a specific agreement) determines the relative bargaining power of the nation states, so member states who economically benefit the most from the EU's new measures and policies tend to compromise the most on the margin to realize gains, whereas those who benefit the least tend to impose conditions and make hard bargains.

H7c: The EU's new measures and policies to solve the euro area sovereign debt crisis reflect big countries' will rather than supranational entrepreneurship, because EU entrepreneurs rarely possess information or expertise unavailable to the member states.

H7d: In order to solve the debt crisis, nation states make institutional choices to delegate and pool sovereignty to EU supranational institutions so as to guarantee the credibility of intergovernmental commitments.

H7e: Member states' credible commitments can be guaranteed and realized via strengthening the national executive, the national judicial branch and/or the very domestic groups that support the policy in the first place vis-à-vis other domestic forces favoring non-compliance.

H7f: National non-compliance will happen when an agreement leads to high costs for powerful domestic actors.

H7g: The stronger and better-organized (the weaker and more diffuse) representation of domestic societal interests is, the more (the less) predictable and more certain (uncertain) national preferences are, and the better (worse) LI works.

H7h: During the eurozone sovereign debt crisis, the Commission and European Council President Van Rompuy exert influence only because the transaction costs involved are high, domestic interests are poorly coordinated and represented, and/or national governments lack critical information, expertise, bargaining skills, or legitimacy that the Commission and Van Rompuy can provide.

H8: Due to the global financial crisis, a major and unforeseen exogenous shock with the internal consequence of the euro area sovereign debt crisis, the EU is likely to embrace substantive reforms, developing and improving policies outside the current EU institutional framework, which might change the scenario where member states rule the EU by quasi-consensus and/or fiscal, administrative, and coercive powers are decentralized to the level of the states.

H9: The salience of the sovereign debt crisis to EU citizens will increase the turnout of EP elections.

Historical Institutionalism (HI) (chapter four)

H10: The 2008 global financial crisis serves as a “critical juncture” where EU policies of economic governance in the post-2008 crisis era take new paths as national-national and/or national-supranational competence and powers get changed and redefined.

H11: The EU's new measures adopted during the post-2008 crisis era, on the one hand, are conditioned by prior institutional arrangements and commitments which set limits on the possible available options, make certain alternatives appear more attractive, and lead actors to redefine their interests, while on the other hand, the new measures reflect a complex context that shapes actors' strategies, world views and action arenas, which, having been advocated by EU institutions with each iteration of the new measures, will shape actors' preferences and/or self-images as the status quo of the new measures is regarded as the right way to solve the crisis.

H12: The choices of the specific new measures to cope with the post-2008 crisis era are made on the basis of the past choices where certain elements in today's choices have appeared more attractive and the sequences of institutional decisions entailed in EU decision-making procedures to adopt the new measures matter as certain alternatives are irreversibly dropped from the range of possible options along with the proceeding of the decision-making procedure; thus, path dependence indicates a way to link decision-making through time and to narrow conceptually the choice set, and consequently, the new measures have become the only available options for actors to resort to, along which societal groups make adaptations to the new measures and incrementally build up their vested interest in maintaining and even developing the new measures.

H13: Once the new measures are established to deal with the crisis, actors tend to stick to them due to the increasing returns, that is, the relative benefits brought by current measures compared with other possible options increase over time, and the costs of exit (i.e. sunk costs) or the costs of switching to the previously plausible alternatives rise (i.e. self-reinforcing processes), which generate incentives for actors to stick with and not abandon the new measures, only adapting the new measures incrementally to the changing environment (i.e. positive feedbacks). As a result, with each iteration of the new measures, (a) actors' preferences and the rules that bind them are increasingly reinforced and the status quo of the new measures is regarded as the right way to solve the crisis, (b) the once competitive options are excluded, (c) the equilibriums formulated by the new measures to solve the crisis are resistant to change, (d) specific paths are taken as the new measures induce further institutional and policy movement in the same direction, (e) the iteration of rules codified in the new measures and the repetition of the cumulative commitments on the existing paths make changes difficult and condition the form where new branching points will occur in the future, and (f) it is increasingly unlikely that the new measures will be changed endogenously.

H14: There are conditions conducive to foster the self-fulfilling movement of the particular paths introduced by the EU's new measures to deal with the crisis, as large set-up costs, learning effects, coordination effects, and adaptive expectations are effectively present.

H14a: The EU's new measures to address the crisis entail considerable institutional start-up costs, which serve as a strong incentive for actors to stick to them.

H14b: National actors actively engage in learning and adapting to the new measures as the new measures are considered helpful to keep economic and financial stability; as actors gain more experience and expertise with these new measures, they are likely to introduce further innovations and changes into these measures and/or into other related policy areas.

H14c: The new measures are compatible with the activities of other actors and institutions, and moreover, the new measures promote new developments in the linked areas and policies, which in turn increase the viability of the new measures.

H14d: Actors whose options have failed will adapt their actions and expectations in accordance with the new measures.

H15: The political process accompanying the effectiveness of path dependence of the new measures are likely marked by (a) multiple equilibria, (b) contingency, (c) a critical role for timing and sequencing, and (d) inertia.

H16: Member state initial decisions on EMU, the single currency, and EU economic governance enshrined in the TEU (T0) lock the relevant development of institutions and policies into a particular “path”, which, via the time stages of T0_{the TEU}-T1a_{the Amsterdam Treaty}-T1b_{the Nice Treaty}-T2_{the Lisbon Treaty}, is characterized by three prominent features: (a) the TEU shapes and reinforces the preferences of the salient actors, which get further reinforced with the iteration of Treaty rules, and from T0 to T2, the initial rules set down at T0 get changed due to exogenous challenges rather than endogenous needs; (b) the institutional arrangements and increasing sunk costs make actors stick to the existing course; (c) the EU’s new measures to cope with the euro area sovereign debt crisis after the enforcement of the Lisbon Treaty (T2) are unintended consequences of the initial decisions of the TEU (T0) as (i) more national government competences and powers are delegated to EU institutions and national governments’ control over the EU policies (i.e. the new measures) is further reduced, and (ii) member states would have taken very different measures if they had faced the sovereign debt crisis after the enforcement of the TEU.

While Table 5.1 puts all the hypotheses together to give a general overview, Table 5.2 offers a simplified outline of the hypotheses, illustrating relations and logics among them.

Table 5.2 Simplified Summary of the Hypotheses

Theories and Hypotheses	Core Arguments and Propositions of the Hypotheses
Neo-functionalism (chapter two): H1, H1a, H1b, H1c, H1d; H2; H3=H3a+H3b+ H3c; H4; H5=H5a+H5b+H5c+H5d;	H1: Economic integration leads to political integration via spillover;  Three sub-hypotheses further specifying three types of spillover (H1a, H1b, and H1c) H1a: Functional spillover; H1b: Political spillover; H1c: Cultivated spillover;
The vindication of H3 and H5 is composed of each proving evidence for their sub-hypotheses, and any failure in these sub-hypothesized mechanisms will lead to the partial failure of H3’s and H5’s explanatory and predictive power, while indicating possible hypothesis revisions and theoretical developments.	H1d: to test whether functional spillover will trigger a proportionate increase in both (i) the powers of supranational institutions (i.e. the result of cultivated spillover) and (ii) elites’ and interest groups’ (i.e. political spillover) and national citizens’ support for the EU project; H2: Conditions for spillover and the hypothesized slowed-down pace of EU integration; H3: The internal dynamic of institutionalization and supranational governance, an extension of H1;  H3 is dissected into three sub-hypotheses (H3a, H3b and H3c), explaining three causal mechanisms entailed in H3:

	H3a: The internal dynamic of institutionalization; H3b: The trade-off between increasing supranational governance and member state decreasing control over EU policy-making; H3c: The irreversible trend of EU supranational governance, a path-dependence property of supranational governance, which can be tested under the rubric of HI; H4: Institutional/legalistic spillover, supplementing traditional neo-functionalist three types of spillover; H5: Exogenous spillover, another development of neo-functionalist concepts of spillover;  H5 is dissected into four sub-hypotheses (H5a, H5b, H5c and H5d), elaborating four causal mechanisms entailed in H5: H5a: The general nature and the expression of the effectiveness of exogenous spillover; H5b: Factors contributing to exogenous spillover; H5c: Possible results of the exogenous spillover effect: common external positions against third parties and growing national governmental reliance on supranational institutions; H5d: Structural impact of the external environment on EU decision-makers' preferences and choices;
Intergovernmentalism (chapter three); H6 (a refutation to LI's prediction); H7 (an LI model of three stages)= stage 1 (H7a) + stage 2 (H7b +H7c)+ stage 3 (H7d+H7e+H7f)+ two limitations of LI (H7g+H7h); H8; H9; The vindication of H7 is dissected into three categories of sub-hypotheses tests, and as being an LI model, H7 is supplemented by two hypotheses on LI's	H6: Whether globalization, decision-making efficiency and severe crises change the traditional scenario of informal consensus in the Council into the use of formal QMV — a criticism of LI's predictions about the impervious practice of the informal consensus in the Council; H7: A revised LI framework (a later development and evolution of intergovernmentalism) — the EU's developments are the results of national leaders' rational choices forged by three consecutive stages: national preference formation (stage 1), intergovernmental bargaining (stage 2), and institutional arrangements (stage 3);  Accordingly, the vindication of H7 as an LI model consists of the test of the sub-hypotheses in the three stages (H7a-H7f) and the check of the LI model's limitations (H7g and H7h):

limitations.	● Stage 1 national preference formation: H7a ● Stage 2 interstate bargains: H7b and H7c H7b: National asymmetrical interdependence determines the relative bargaining power of the nation states; H7c: Negotiated results and policy adoption reflect big countries' will rather than supranational entrepreneurship; ● Stage 3 institutional choice: H7d, H7e and H7f H7d: Institutional arrangements are to guarantee the credibility of intergovernmental commitments; H7e: the way to guarantee member states' credible commitments; H7f: LI's predictions on national defections from agreed commitments; Two limitations to the application of LI: H7g and H7h H7g: the better representation of domestic interest groups is organized, the better LI works; H7h: LI's predictions on the role of supranational entrepreneurs (the Commission and European Council President Van Rompuy) in exceptional cases; H8: LI's predictions on the impact of exogenous shocks to change the scenario of EU incremental development; H9: LI's predictions on the salience of an EU issue to stimulate the common citizens to participate in EU affairs, such as the turn-out for the EP election;
HI (Chapter Four): H10; H11; H12; H13; H14=H14a+H14b+H14c+H14d; H15; H16;	H10: "A critical juncture"; H11, H12, and H13: path dependence from different angles H11: Structural effects exerted by path dependence; H12: Influence of past choices on current decisions and the importance of the timing and sequences of events in narrowing down the choice set; H13: "Increasing returns", the engine of path dependence; H14: Conditions conducive to foster path dependence; ↕ H14 is divided into four sub-hypotheses: H14a: large set-up costs; H14b: learning effects; H14c: coordination effects; H14d: adaptive expectations; H15: Four likely features symptomizing the political process of path dependence; H16: Hypothesized path dependence model $T0_{the\ TEU}-T1a_{the\ Amsterdam\ Treaty}-T1b_{the\ Nice\ Treaty}-T2_{the\ Lisbon\ Treaty}-The\ EU's\ New\ Measures\ to\ solve\ the\ eurozone\ sovereign\ debt\ crisis}$ to account for the evolution of EMU from the TEU to the current EU.

Table 5.2 offers a short summary of all the hypotheses formulated in the previous three chapters of this dissertation, presenting the relations and logics for each hypothesis. Five main hypotheses are derived from neo-functionalism, four from intergovernmentalism, and seven from HI; meanwhile, there are several sub-hypotheses for three main hypotheses: first, H1a, H1b and H1c are the further examination of specification of concrete spillover effects posited by H1, while H1d speculates a concurrence relationship among the three traditionally defined spillover mechanisms suggested by H1a, H1b and H1; second, arguing for three consecutive stages, H7 is accordingly divided into three categories of sub-hypotheses, each including H7a, H7b+H7, H7d+H7e+H7f, respectively, and additionally, two sub-hypotheses about the limitations of LI, H7g and H7h, supplement H7 as an LI model to explain and predict; finally, H14 is dissected into four sub-hypotheses, H14a, H14b, H14c and H14d, and the vindication of the main hypothesis H14 requires the confirmation of each of the four sub-hypotheses. Moreover, as illustrated by Table 5.2, the two grand EU integration theories — neo-functionalism and LI — have their common concerns over EU institutional aspects (see H3, H4 and stage 3 of the LI model about institutional choice), which exhibit their convergence at HI, reflecting some features of path dependence (see particularly H3c, H7f, H11 and H13).

Following the explanations and analyses (and even some preliminary tests) after each hypothesis formulation, all the hypothesized causal mechanisms in this dissertation as listed in Table 5.1 are going to be tested consistently with the three selected cases: (1) the European Semester, (2) the ESRB, and (3) the ESM via the congruence method and process-tracing. Any deviation from the posited causal chains could serve as the potential developing points of theories concerned. Before moving into case studies, the following section first presents general overviews on the three cases.

5.2 An Overview of the Three Selected Cases

5.2.1 The European Semester¹¹³

As the EU has been evolving into an entity of highly integrated economies, the discrepancies and out-of-pace steps of national economic policies would hamper

¹¹³ The information for the European Semester in section 5.2.1, otherwise indicated, is based on “The European Semester” (European Commission) and “Special Reports, the European Semester” (Council of the European Union).

further economic prosperity and even endanger the whole economic stability of the EU, so to synchronize and coordinate national budgetary, growth and employment policies in line with the objectives of the whole EU is essentially substantive to foster EU economic stability and prosperity. The global economic recession and the eurozone sovereign debt crisis in the wake of the global financial crisis have exposed disadvantages of economic and fiscal planning and coordination of the EU, demanding more strengthened and pragmatic EU economic governance. With the targets to achieve sound public finances, realize economic growth and prevent excessive macroeconomic imbalances, the European Semester was designed and adopted as a yearly-cycle mechanism to strengthen economic policy coordination within the EU from three approaches: fiscal policies (entailed in Stability and Convergence Programmes (SCPs) in line with the SGP), structural reforms (presented in National Reform Programmes (NRPs) in line with the Europe 2020 strategy), and the prevention of excessive macroeconomic imbalances (starting from the Alert Mechanism Report (AMR) as an early warning system which consists of the preventive action of the Macroeconomic Imbalance Procedure (MIP)), all of which display the inclusive and integrative nature of this new mechanism to bring various existing coordination and surveillance procedures jointly together under the same unified framework. The annual Semester can be divided into the “European semester” for the first half of the year and the “national semester” for the second half, setting up a common timetable for policy guidance and monitoring at the EU level and policy concretization and implementation at the national level. Five kinds of documents lead through this new mechanism, exhibiting a materialized operational way and the concrete steps to realize policy coordination and surveillance at the EU level (see Figures 5.1 and 5.2): (1) the Annual Growth Survey (AGS); (2) the AMR and possible In-Depth Reviews (IDRs); (3) SCPs (i.e. Convergence programmes by non-euro member states and Stability programmes by the euro countries), outlining member state medium-term budgetary strategies; (4) NRPs, outlining member state structural reform plans, focused on promoting growth and employment; and (5) Country-Specific Recommendations (CSRs) for the next 12-18 months.

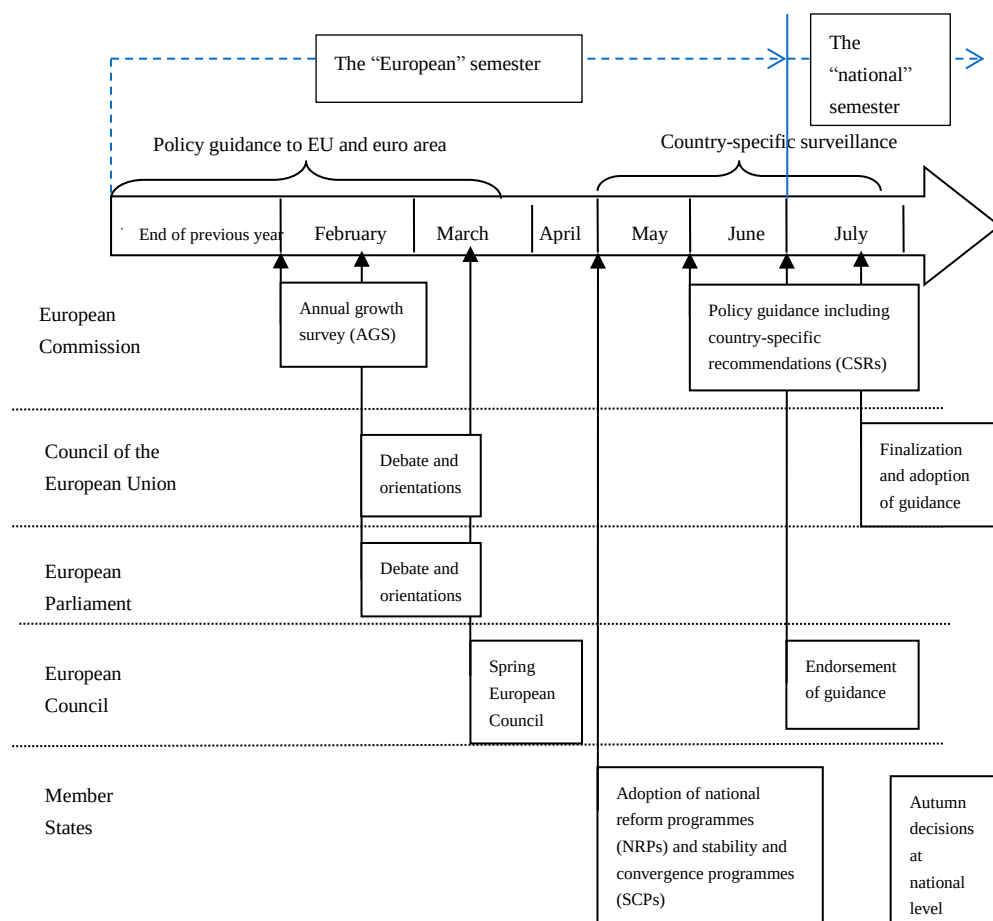


Figure 5.1 The Timeline of the European Semester

Sources: Adapted from *The European Union Explained: Economic and Monetary Union and the Euro* (2012, 10).

Though the yearly Semester is kicked off at the beginning of each year, the preparatory work starts from the end of the previous year. Chronologically, a full Semester includes (see Figure 5.2): (1) the preparatory phase: in November and December, the Commission, based on the analysis of the situation and the follow-up to the previous year, publishes the AGS and the AMR, with the former stating EU policy priorities for member states to take into account when they draw up their own economic policies for the coming year while the latter reviewing individual member state macroeconomic developments; based on the AMR, the Commission may decide

to conduct IDRs to identify potential high macroeconomic imbalances and accordingly make relevant policy recommendations to the member states concerned; (2) the first phase of policy guidance at the EU level: in January and February, the Council of Ministers debates the AGS, formulates orientations and adopts conclusions, and the EP discusses the AGS and may publish its own initiative report and issue its opinions on employment guidelines; in March, on the basis of the AGS and the Council's analysis and conclusions, the European Council gives policy orientations which member states must take into account when preparing their SCPs of budgetary policies and NRPs of policies promoting growth, employment and competitiveness, and meanwhile the Commission may issue IDRs of macroeconomic imbalances and draft country-specific recommendations (i.e. CSRs) to those imbalances; (3) the second phase of country-specific objectives, policies and plans: in April, member states submit their policy plans of the SCPs and NRPs; in May, the Commission makes evaluations on the submitted plans and issue draft CSRs; in June, the Council discusses the draft and reaches agreement (with possible amendments) on the final CSRs, which require the endorsement of the European Council in June; in July, the Council adopts the CSRs, and the member states shall implement them; (4) the third phase of implementation: in July, member states take the CSRs into account in their national decision-making processes for the following year's national budget and planned policies. As a result, "governments, when submitting the draft budget to the national parliament, are expected to include policy recommendations by the Council and/or the Commission accompanied by an explanation of how these have been incorporated" (The Task Force Report 21 October 2010, 10).

The policy coordination cycle starts again at end of the year, when the Commission, taking the progress made by individual countries in implementing the CSRs into account, publishes its AGS overviewing the economic situation for the coming year. When a member state receives financial assistance, it is not required to submit stability programmes, neither is it subject to possible IDRs on macroeconomic imbalances, because the conditions for financial assistance programmes have already covered those policy areas (and at the end of 2013, Cyprus, Ireland, Greece and Portugal are in such a case). For the euro member states, during the national semester (i.e. the second half of the year), there is an additional European discussion of the Commission's opinions on euro countries' draft budgetary plans and their fiscal situation against the whole euro area.

Two prominent changes were introduced by the European Semester: (1) it times and streamlines EU policy coordination procedures via (a) synchronizing the time of economic and fiscal policy reports and evaluation as well as the assessment of macroeconomic imbalances at the EU level so as to align individual member state reform and budgetary plans and to pursue EU common goals more effectively, and (b) changing the coordination of national economic policies (particularly each member state's budgetary and reform plan) from *ex-post* to *ex-ante* — in the past, member states coordinated their economic policies after the adoption of national budgets, but from the year 2011 onwards, member states should take EU recommendations into account before they adopt their next year's budgets and economic plans; (2) it adds a new dimension into EU policy coordination: carrying out surveillance on macroeconomic imbalances via the MIP, which is introduced by the so-called “six-pack” (six EU legislative acts) of strengthening economic governance in the EU and came into force on 13 December 2011; the MIP includes a preventive arm and a corrective arm — the former is brought under the umbrella of the European Semester while the latter becomes effective through the so-called Excessive Imbalance Procedure (EIP). As a whole, the European Semester is an integrated and inclusive policy coordination and surveillance mechanism, bringing Europe 2020, the Euro Plus Pact, the preventive arms of the SGP and the MIP, and the country-specific minimum benchmark figure demanded by the “balanced budget rule” of the TSCG, all together under the same evaluation and supervision framework. The Commission states the differences of EU economic policy coordination before and after the implementation of the European Semester as follows: “[t]he different strands of economic policy coordination, including surveillance of structural reforms, are to be integrated in a new surveillance cycle, the European Semester, which will bring together existing processes under the SGP and the Broad Economic Policy Guidelines (BEPGs), including simultaneous submission of stability and convergence programmes (SCPs) and national reform programmes (NRPs)” (COM(2010) 526 Final, 29 September 2010, 2). According to Regulation (EU) No 1175/2011, the European Semester includes: the BEPGs, Employment Guidelines (EGs), SCPs, NRPs, and the surveillance to prevent and correct macroeconomic imbalances.¹¹⁴

¹¹⁴ The SGP was underpinned by Council Regulation 1466/97, Council Regulation 1467/97 and a European Council resolution, among which Council Regulation 1466/97 prescribes that SCPs (i.e. stability programmes for euro members and convergence programmes for non-euro members) shall be submitted to the Commission annually, see European Parliament-2012/0002(NTT).

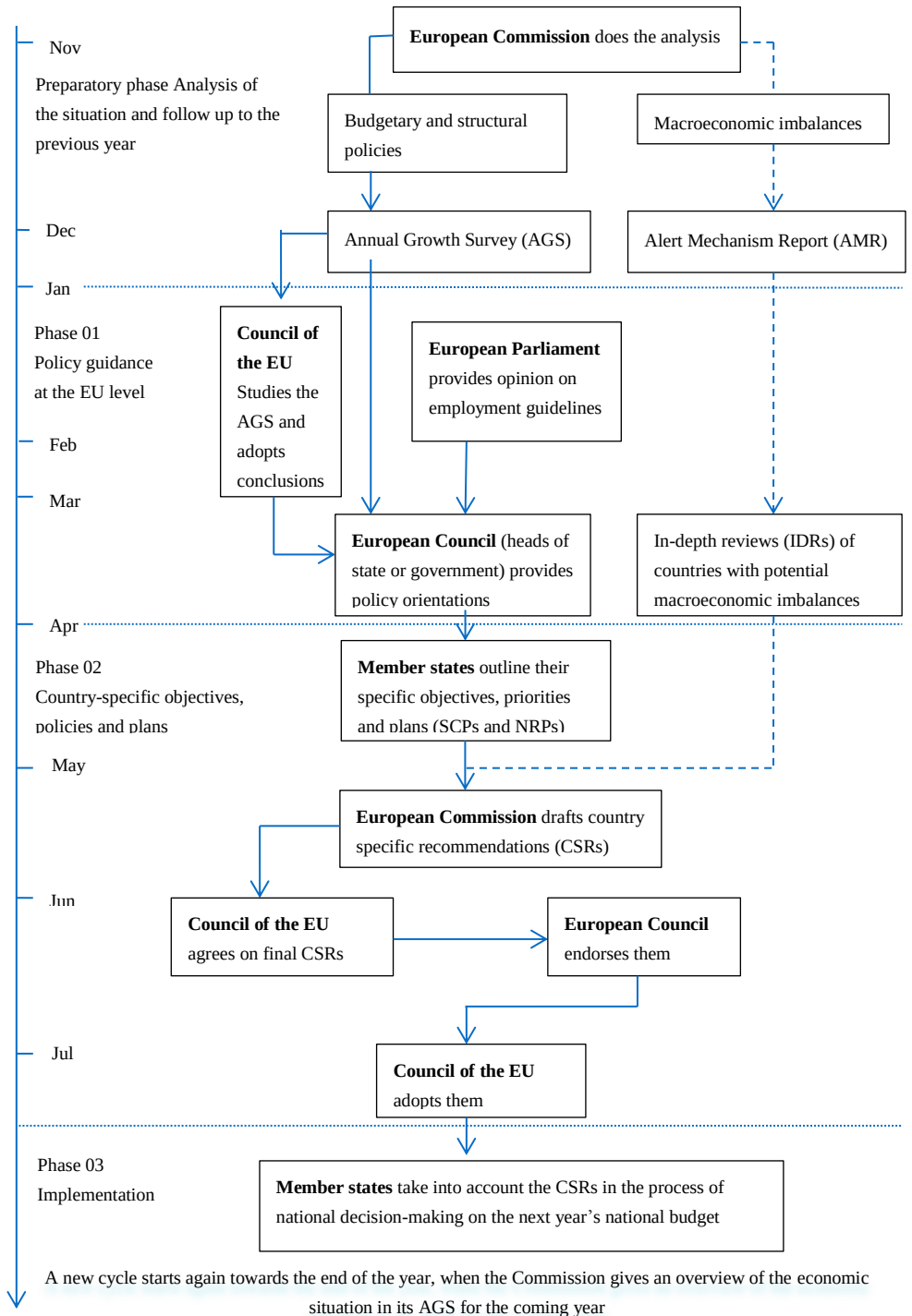


Figure 5.2 Who Does What in the European Semester?

Sources: Adapted from “Special Reports, the European Semester” (Council of the European Union, 2013).

All the above provides a general description of the European Semester, and another four questions addressed by the Commission in Table 5.3 could lead to a better understanding of this new measure.

Table 5.3 Four Questions Addressing the Nature of the European Semester

Q1: Why should the member states follow the recommendations (i.e. CSRs)?
Three key reasons: (1) Peer pressure: The recommendations, approved by member states at the highest political level, are expected to be embedded in national decision-making processes (such as the formulation and adoption of national annual budgets). With input from the Commission, member states (via ministerial meetings on specific policy issues) will track each other’s progress through a process of peer monitoring and review throughout the year. (2) Market pressure: Due to the high budget deficit and debt rates, the yield rates of national government bonds are driven up, which may reach an unsustainable point and thus lead to the bankruptcy of the nation state — hence the risk of the sovereign debt crisis, which on the whole has dramatically increased financial markets’ scrutiny to EU member states. The CSRs address the typical issue and prominent problems of the sovereign debt crisis, and national governments shall have strong incentives to implement the recommendations which push them to decrease debts and deficits while promoting economic growth and job creation. (3) Possible sanctions under other separate mechanisms: As the new rules for economic governance (the “Six Pack”) entered into force on 13 December 2011, there is another incentive for euro member states to adopt the CSRs — the prospect of sanctions under the Excessive Deficit Procedure (EDP), the Excessive Imbalance Procedure (EIP), or the interest-bearing deposit sanction for the preventive part of the SGP.
Q2: How will the Commission monitor national implementation of the recommendations?
The Commission services will closely monitor the implementation of the recommendations, who will also keep the Council informed. For instance, in May and June 2013, when the Commission presents the next year’s country-specific recommendations, an assessment of each member state’s performance is also given, but there are no such formal review missions.
Q3: Can it be fined or taken to the Court if a member state fails to implement the recommendations?
The answer is “NO”. The incentives for member states to implement CSRs, as the answer to Q1 suggest, are primarily by peer pressure, market pressure and possible sanctions under other separate proceedings, but still policy warnings can be issued when countries concerned have failed to implement recommendations within the given time-frame.
Q4: What are the roles of the EP and national parliaments under the European Semester?
The legal bases for the CSRs are based on Articles 121 and 148 of the Lisbon Treaty (for economic policy and employment), on Council Regulation 1466/97 (referring to the SGP) and on Council Regulation 1176/2011 (referring to the MIP), and there is no specific prescription for the role of the EP, but the EP in reality fully involves in the policy discussion related to EU economic governance, such as the design of the new mechanism and EU priorities; besides, as Figures 5.1 and 5.2 show, the

EP may give its opinions on the AGS and CSRs.

As for the role of national parliaments, they enjoy prerogatives in debating and voting on member states' budgets and other economic policy legislation which shall enable the CSRs on paper to be taken up and implemented in practice. Collectively, national parliaments are also expected to help define EU policy priorities in member state next year programmes (i.e. the SCPs and NRPs).



Summary: What is the nature of the European Semester?

It is a policy coordination and surveillance mechanism at the EU level without legally binding power and sanctions of its own, but it shall lead to sanctions under other proceedings, and it actually brings the preventive arms of the SGP and the MIP and part of “the balanced budget rule” of the TSCG together under one unified framework. Thus, the European Semester can be defined as integrated policy coordination and surveillance device for EU economic governance, offering country-specific recommendations and functioning as a preventive rather than corrective instrument – serving as a “valve” that shall open to separate proceedings of corrective and punishment actions.

In order to translate EU-level recommendations into concrete and specific national actions and to ensure a wide ownership of implemented policies, the European Semester shall maintain close cooperation with other actors, such as the EP and other EU advisory bodies (e.g. the Committee of the Regions (CoR) and the European Economic and Social Committee (EESC)), and keep a full involvement of national parliaments, social partners, regions and other stakeholders as much as possible.

Sources: Own compilation and summary on the basis of European Commission-MEMO/12/386 (30 May 2012) and “Making It Happen: The European Semester” (European Commission).

5.2.2 The European Systemic Risk Board (the ESRB)

Apart from the background introduction of the ESRB in section 1.3.4, Table 5.4 gives an overview of the functions, structures and working mechanisms of the ESRB.

Table 5.4 An Overview of the ESRB

➤	The nature of the ESRB: an independent EU body seated in Frankfurt am Main; its Secretariat ensured by the ECB, and meetings convened at the ECB's premises; having no legal personality.
➤	Functions: “Financial stability is a precondition for the real economy to provide jobs, credit and growth”; being part of the ESFS dedicated to supervising the whole EU financial system, the ESRB is responsible for the macro-prudential oversight of the Union's financial system; taking macroeconomic developments into account, it aims at preventing or mitigating financial systemic risks “so as to avoiding periods of widespread financial distress”, thus contributing to the smooth functioning of the internal market and thereby ensure a sustainable contribution of the financial sector to economic growth”; its main tasks include collecting, analyzing and exchanging information, identifying and prioritizing systemic risks, issuing warnings and recommendations and, where appropriate, making them public, monitoring the follow-up to warnings and recommendations, and cooperating closely with the other parties to the ESFS (e.g. elaborating a color-coded system to classify and indicate different risk levels; in particular, in collaboration with the ESAs, developing a common set of quantitative and qualitative indicators (a risk dashboard) to identify and measure systemic risks) and with international financial organizations on issues of macro-prudential oversight. (see ESRB Regulation, Article 3

Mission, Objectives and Tasks)	
➤ Structure: ● a General Board, taking decisions necessary to ensure the performance of the tasks entrusted to the ESRB and establishing the rules of procedures for the ESRB; ● a Steering Committee, assisting the ESRB decision-making process by preparing the meetings of the General Board, reviewing the documents to be discussed, and monitoring the progress of the ESRB's ongoing work; (for the composition of the Steering Committee, see ESRB Regulation Article 11) ● a Secretariat, responsible for the day-to-day business of the ESRB, providing analytical, statistical, administrative and logistical support to the ESRB, and collecting information on behalf of the ESRB; ensured by the ECB which provides sufficient human and financial resources as well as analytical, statistical, logistical and administrative support to the ESRB, the staff of the Secretariat are subject to the Conditions of Employment for Staff of the ECB; the head of the Secretariat is appointed by the ECB after consulting with the General Board of the ESRB; (see ESRB Regulation Article 4(4), Council Regulation (EU) No 1096/2010, and ESRB Decision 2011/C 58/04 Chapter VI (Articles 14, 15)) ● an Advisory Scientific Committee (see ESRB Regulation Article 12) and an Advisory Technical Committee (see ESRB Regulation Article 13), both providing advice and assistance on issues relevant to the work of the ESRB; ● A Chair and two Vice-Chairs of the ESRB who represent the ESRB externally (e.g. presenting to the EP or public hearings): the ESRB chaired by the President of the ECB for a term of 5 years who presides at the meetings of the General Board and the Steering Committee; the first Vice-Chair shall be elected by and from the members of the General Council of the ECB for a term of 5 years; the second Vice-Chair shall be the Chair of the ESAs Joint Committee; the Vice-Chairs preside at the General Board and/or the Steering Committee when the Chair is unable to participate in a meeting.	
➤ Meetings of the General Board and the voting modality: a simple majority or two thirds of the votes cast (see ESRB Regulation Articles 9 and 10)	
(1) Members with voting rights: one vote for each member	
Members	Votes counting
(a) the President and the Vice-President of the ECB;	2
(b) the Governors of the national central banks; ¹¹⁵	28
(c) a Member of the Commission;	1
(d) the Chairperson of the EBA;	1
(e) the Chairperson of the EIOPA;	1
(f) the Chairperson of the ESMA;	1
(g) the Chair and the two Vice-Chairs of the Advisory Scientific Committee;	3
(h) the Chair of the Advisory Technical Committee;	1
Total	38

¹¹⁵ Croatia's joining the EU on 1 July 2013 brought EU membership to 28, and accordingly, from 1 July 2013, Croatia's national central bank, Hrvatska narodna banka, became a member of the European System of Central Banks (ESCB) and its Governor a member of the General Council of the European Central Bank, see, for example, ECB Press Release (1 July 2013); for the concrete information on the personnel composition of the General Board, see "Permanent Members of the ESRB General Board (Voting Members and Non-Voting Members)" (ESRB).

(2) Voting modalities of the General Board: each member of the General Board shall be present in person and shall not be represented (a) the normal mode: by a simple majority of members present with voting rights; in the case of a tie, the Chair of the ESRB shall have the casting vote; (b) by derogation from the normal mode, when adopting a recommendation or to make a warning or recommendation public: a majority of two-thirds of the votes cast; (c) the quorum for any valid vote in the General Board: two thirds of the members with voting rights; if this quorum is not met, the Chair of the ESRB may convene an extraordinary meeting at which decisions may be taken with a quorum of one third; the extraordinary meetings can be initiated by the Chair of the ESRB or at the request of at least one third of the members of the General Board have voting rights.
(3) Members without voting rights (a) one high-level representative for each member state of the competent national supervisory authorities (and there is a rotation of the respective high-level national representatives depending on the topics discussed, unless the national supervisory authorities of a particular member state have agreed on a common representative); (b) the President of the Economic and Financial Committee (EFC).
(4) Observers The proceedings of the meetings shall be confidential, but observers from the third countries and international financial organizations are still possible.

Sources: Own compilation on the basis of ESRB Regulation (i.e. Regulation (EU) No 1092/2010), Council Regulation (EU) No 1096/2010, ESRB Decision 2011/C 58/04, and the ESRB official website <<http://www.esrb.europa.eu/about/background/html/index.en.html>>.

5.2.3 The European Stability Mechanism (the ESM)

In addition to the information of the evolving timeline of the ESM already presented in section 1.3.4, Table 5.5 offers a general description of the ESM, including a simple comparison with its predecessor: the EFSF.

Table 5.5 An Overview of the ESM

➤	Key Features and Facts of the ESM:
●	The ESM is the EU's permanent crisis resolution mechanism for the euro states with a total subscribed capital of €700 billion (i.e. €80 billion paid-in capital + €620 billion committed callable capital); via issuing debt instruments, it finances loans and other forms of financial assistance to euro countries which are undergoing or are threatened by severe financing problems with the maximum lending capacity of €500 billion. The aim and purpose of the ESM is to ensure the financial stability of the whole euro area and of its member states and it cooperates closely with the IMF in providing stability support, which is subject to strict conditionality; the ESM has full legal personality;
●	The lending instruments that the ESM can make use of include the following which are subject to appropriate conditionality: (a) providing loans in the framework of a macroeconomic adjustment programme; (b) purchasing debt in the primary and secondary debt markets; (c) providing precautionary financial assistance in the form of credit lines; (d) financing recapitalizations of financial institutions through loans to the ESM governments. In addition, it

will be enabled to directly recapitalize banks in the euro area as soon as the SSM for eurozone banks is established;

- The ESM is an intergovernmental organization, and to be exact, an international financial institution based in Luxembourg under public international law; the contracting parties and shareholders are the 17 eurozone member states; under the charge of Klaus Regling, the Managing Director, the ESM has approximately 90 staff members.

➤ **Structure: a Board of Governors, a Board of Directors, a Managing Director, and the staff**

- The Board of Governors:

- (1) A Governor and an alternate Governor appointed by each ESM member: the alternate Governor shall have full power to act on behalf of the Governor when the latter is not present; revocable at any time;
- (2) To Decide the Board of Governors to be chaired by the President of the Eurogroup, or to elect a Chairperson to convene and preside over the meetings of the Board of Governors and a Vice-Chairperson from among its members (two-year term, re-eligible) (when the Chairperson is unable to participate, the Vice-Chairperson shall preside over the meetings);
- (3) Observers who may participate in the meetings of the Board of Governors:
 - (a) the Commissioner in charge of economic and monetary affairs, the President of the ECB, and the President of the Eurogroup (if he or she is not the Chairperson or a Governor);
 - (b) on an ad hoc basis, representatives of non-euro member states participating alongside the ESM stability support shall also be invited;
 - (c) on an ad hoc basis, other persons, including representatives of institutions or organizations, such as the IMF, may be invited;
- (4) The Board of Governors shall adopt the by-laws of the ESM and the rules of procedure of the Board of Governors and Directors, and also lay down what activities are incompatible with the duties of a Director or an alternate Director.

- The Board of Directors:

- (1) Each Governor appoints one Director and one alternate Director (revocable at any time, and vacancy shall be immediately filled); the alternate Directors act on behalf of the Director with full power when the latter is not present;
- (2) Observers who may participate in the meetings of the Board of Directors:
 - (a) the European Commissioner in charge of economic and monetary affairs and the President of the ECB appoint one observer each;
 - (b) on an ad hoc basis, representatives of non-euro member states participating alongside the ESM in a financial assistance operation shall also be invited when this financial assistance and its monitoring will be discussed;
 - (c) on an ad hoc basis, other persons, such as representatives of institutions or organizations, may also be invited by the Board of Governors to attend meetings;
- (3) The Board of Directors shall ensure that the ESM runs in accordance with the ESM Treaty and the by-laws adopted by the Board of Governors, taking decisions accordingly as provided for in the ESM Treaty or which are delegated to it by the Board of Governors.

- Tasks of the Managing Director:

- (1) Having nationality of an ESM member and appointed by the Board of Governors; may not be a Governor or Director or an alternate of either; a five-year term and renewable once; cease to hold office when the Board of Governors decides so;
- (2) Chair the meetings of the Board of Directors and participate in the meetings of the Board of

Governors; (3) Being the chief of the staff of the ESM, responsible for organizing, appointing and dismissing staff in accordance with staff rules to be adopted by the Board of Directors; (4) Being the legal representative of the ESM and conducting the current business of the ESM under the direction of the Board of Directors.
● Other necessary staff: about 90 staff members
● ESM Governance Structure Board of Governors (Eurozone finance ministers) Board of Directors (decisions delegated by Board of Governors; each Governor appoints one Director) Managing Director: Klaus Regling (5-year term)
➤ Voting Rules: the decisions of the Board of Governors and the Board of Directors by mutual agreement of unanimity (a derogation: an emergency voting procedure), qualified majority or simple majority as specified in the ESM Treaty
(1) Mutual agreement: (a) unanimity of the members participating in the vote, and abstentions do not prevent the adoption of a decision under mutual agreement; (b) a derogation from unanimous voting of mutual agreement when both the Commission and the ECB conclude that a failure to urgently adopt a decision to grant or implement financial assistance would threaten the economic and financial sustainability of the euro area — an emergency voting procedure: the adoption of a decision by mutual agreement by the Board of Governors referred to in points (f) and (g) of Article 5(6) and the Board of Directors under that emergency procedure requires a qualified majority of 85% of the votes cast; (2) Qualified majority: 80 % of the votes cast; (3) Simple majority: a majority of the votes cast; (e.g. Article 9 (2) and Article 23 (1) of simple majority in the Board of Directors) ● All decisions require a quorum of 2/3 of the members with voting rights representing at least 2/3 of the voting rights; ● Each ESM member's voting rights equal the number of shares allocated to it in the authorized capital stock of the ESM as set out in Annex II of the ESM Treaty; ● If an ESM Member fails to pay any part of the amount due in respect of its obligations in relation to paid-in shares or calls of capital or in relation to the reimbursement of the financial assistance, the voting rights of the member concerned shall be suspended so long as such failure continues and the voting thresholds shall be recalculated accordingly.
Operational issues: (1) Procedures to grant stability support (Article 13): (a) a euro state requests to the Chairperson of the Board of Governors who will entrust the Commission, in liaison with the ECB to assess the financial situation of the state concerned, based on which the Board of Governors will decide to grant stability support in the form of a financial assistance facility; (b) the Board of Governors shall entrust the Commission in liaison with the ECB (and, wherever possible, together with the IMF) to negotiate a memorandum of understanding (an MoU) laying down a detailed conditionality attached to the financial assistance facility with the euro state concerned; meanwhile, the Managing Director prepares a proposal for a FFA (e.g. the financial terms and conditions, and the choice of instruments); (c) the Commission, on behalf of the ESM, signs the

MoU approved by the Board of Governors, and the Board of Directors shall approve the detailed FFA and, where applicable, the disbursement of the first tranche of the assistance; (d) an appropriate warning system shall be established to ensure the ESM receives the due repayments timely from the supported euro state; (f) the Commission in liaison with the ECB (and, wherever possible, together with the IMF) will monitor the beneficiary state's compliance with the conditionality attached to the financial assistance facility;

- (2) Other forms of assistance instruments: procedures for precautionary financial assistance (see Article 14); financial assistance for the re-capitalisation of financial institutions (Article 15); ESM loans (Article 16); primary market support facility (Article 17); secondary market support facility (Article 18);
- (3) Dispute resolution: submitted to the Board of Directors, the Board of Governors or even to the jurisdiction of the CJEU (based on Article 273 TFEU);
- (4) Post-programme surveillance: by the Commission and the Council (based on Articles 121 and 136 TFEU).

➤ **The Predecessor of the ESM — the European Financial Stability Facility (EFSF)**

● **About the EFSF:**

Aiming at safeguarding the eurozone financial stability, the EFSF was created as a temporary financial assistance and rescue mechanism along with the European Financial Stabilisation Mechanism (EFSM) to raise funds in capital markets to finance loans for euro member states by the euro area countries following the Ecofin Council decisions taken on 9 May 2010 during the height of the eurozone crisis starting from Greece. In December 2010, a permanent rescue mechanism, the ESM, was decided to be created to replace the temporary assistance mechanism, the EFSF. As ESM inaugurates on 8 October 2012, the EFSF works in parallel with the ESM, but from 1 July 2013 onwards, the ESM becomes the sole financial mechanism that shall respond to the new requests of the euro countries. Accordingly, the financial assistance for Cyprus up to €10 billion is approved and carried out by the ESM on 8 May 2013 (i.e. €9 billion by the ESM+€1 billion by the IMF). The EFSF will only remain active for the ongoing programmes for Greece, Portugal and Ireland, and it will be dissolved and liquidated when all financial assistance provided to euro countries and all funding instruments issued by the EFSF have been repaid in full; if the three countries covered by the EFSF need further support, new programmes will be possibly granted by political decisions, but in principle shall not be undertaken by the EFSF. As for the financial assistance to Spain, it was decided by the Eurogroup meeting on 21 June 2012 and reaffirmed by the euro area summit of 29 June 2012 that the financial assistance (in the form of a Bank Recapitalisation Facility for Spain) shall be provided by the EFSF till the ESM becomes available, and accordingly, the programme for Spain under the EFSF has been transferred to the ESM after the ESM became operative.

● **A Comparison of the ESM and the EFSF¹¹⁶**

(both serve the same purposes with the current 17 euro member states as their shareholders, but they are different in some key aspects)

	The EFSF	The ESM
Legal basis	An intergovernmental agreement of euro area member states	Amending the TFEU Treaty, adding a third clause to Article 136 ¹¹⁷

¹¹⁶ Altogether, there are four types of financial assistance facilities developed for euro area countries since the Greek sovereign debt crisis: Euro area intergovernmental loans to Greece, the EFSM, the EFSF and the ESM; for a comparison of these four, see *ECB Monthly Bulletin* (July 2011, 75).

Legal structure	A private company under Luxembourg law	An intergovernmental institution under international law
Dispute resolution mechanism	Disputes only between the euro area member states shall be submitted to the exclusive jurisdiction of the CJEU; disputes between one or more euro states and the EFSF shall be submitted to the exclusive jurisdiction of the Courts of the Grand Duchy of Luxembourg.	Submitted to the Board of Directors or the Board of Governors of the ESM or to the jurisdiction of the CJEU
Duration	Temporary (7 June 2010 –30 June 2013*) * stop engaging in new financial assistance programmes	A permanent institution
Capital structure	Backed by guarantees of euro countries for up to €780 billion (increased from the initial guarantee commitments of €440 billion)	Authorised capital stock of €700 billion, composed of: (a) €80 billion in paid-in capital and (b) €620 billion in committed callable capital
Capital contribution vs. guarantee scheme	Member states may “step out” of the guarantee scheme when they request financial assistance (e.g. on 29 April 2013, the Eurogroup Working Group (EWG) approved the Cyprus’s step-out, but the liability of Cyprus as a guarantor for notes issued prior to this time is not affected).	Obligation to contribute to paid-in capital stock will not be affected if a member state requests or receives financial assistance.
Max. lending capacity	€440 billion	€500 billion
Claims to loans	Pari passu (not a preferred creditor, which suggests that if there were many other preferred creditors, private investors would be reluctant to provide loans to the country concerned.)	Preferred creditor status (only junior to the IMF)
The main features of the ESM are built on the EFSF; the ESM and the EFSF are parallel in the market and will not be merged. The EFSF is based on national guarantees, while the ESM is guaranteed by paid-in capital, which is believed to make the ESM more effectively against market contagion. Following the establishment of the ESM, the EFSF staff also carries out tasks for the ESM (i.e. the		

¹¹⁷ The European Council of 25 March 2011 decided that: “The following paragraph shall be added to Article 136 of the Treaty on the Functioning of the European Union (TFEU) : ‘3. The Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality.’” (European Council Decision-2011/199/EU; see also ESM Treaty)

staff of the ESM are also responsible for the running of the EFSF); consequently, headquartered at the same place in Luxembourg, both are managed and coordinated by the same team but perform their work according to two separate balance sheets (e.g. Klaus Regling is the CEO of the EFSF since its creation in July 2010, and he was also appointed as the first Managing Director of the ESM). This will allow the ESM to benefit from the experience gained by the EFSF which has been dealing with the sovereign debt market for some time. The EFSF support commitments such as undisbursed and unfunded parts of loan facilities can be transferred to the ESM, but till now there is no possibility for the ESM to take over EFSF bonds.

● **The structure and decision rules of the EFSF: meetings of the Board of Directors and the general meeting of shareholders**

(I) Meetings of the Board of Directors

- (1) The EFSF company is managed by a Board of Directors: each EFSF shareholder proposes for nomination to the Board of Directors and its representative in the EWG (or such person's alternate as representative on such group); each director for each shareholder, appointed by the general meeting of shareholders (not exceeding 6 years, re-eligible, removed at any time); each share is entitled to one vote, and the number of votes of each Director corresponds to the number of shares held by the member state shareholder;
 - (2) A Chairman: elected by the Board of Directors; the Chairman does not have a casting vote;
 - (3) Meetings of the Board of Directors: convened by the Chairman or by any two Directors; a Director can appoint another Director as his proxy;
 - (4) Valid meeting and decisions of the Board of Directors: at least half of the Directors are present or represented by proxies and the present Directors are those who have been proposed for nomination by shareholders holding in aggregate at least 80% of the shares of the Company;
 - (5) Decision rules of the Board of Directors:
 - (a) all decisions of the Board of Directors, except for those under unanimity, are taken by qualified majority ("EFSF Articles of Incorporation", 11.5): (i) at least 2/3 of the directors present or represented which represent at least 80% (on a weighted basis) of the vote; abstentions shall not be considered to establish such majority; each Director has a number of votes corresponding to the number of shares in the Company held by the member state shareholder ("EFSF Articles of Incorporation", 11.5.1); (ii) if a decision is reached via meeting the 2/3 requirement but not obtaining the majority of 80% on a weighted basis, the matter shall be referred to the shareholders' meeting, decided by a majority of 80% of the shares of the Company; abstentions shall not be considered to establish such majority, and then the Board of Directors shall take relevant measures to implement decisions of the shareholder meeting ("EFSF Articles of Incorporation", 11.5.2);
 - (b) unanimous consent ("EFSF Articles of Incorporation", 11.6) — three kinds of decisions require the unanimous consent of the Directors present or presented (i.e. abstentions are not taken into account): decisions (i) related to the grant of a loan facility and the corresponding funding strategy to a member state; (ii) on the disbursement of loans; and (iii) call of any existing capital commitments and issuance of the authorized share capital;
 - (6) Possible observers without voting power: appointed by the Commission, the ECB and any other European bodies;
 - (7) Auditors: one or more statutory auditors appointed by the shareholders' meeting, maximum of 6-year duration, re-eligible;
 - (8) The Board of Directors has general powers and all powers not expressly prescribed to the
-

general meeting of shareholders by the 1915 Law fall within the competence of the Board of Directors, and it may confer all powers and special mandates to any persons who need not to be Directors, such as entrusting the person to conduct the Company's daily management;

(9) The Board of Directors may establish various committees of particular technical skills.

(II) The general meeting of shareholders

(1) Normally convened by means of convening notice by registered letters as provided by Luxembourg law; being entitled to vote by correspondence;

(2) Except other mandatory requirements by Luxembourg law, the annual or ordinary general meeting of the shareholders makes decisions by a majority of at least 80% of the shares of the Company present or represented (and abstentions shall not be considered to establish such majority); an extraordinary general meeting convened to amend the provisions of the Articles requires the presentation or representation of all shareholders, and if the first such meeting does not satisfy this condition, the second meeting of such will go ahead regardless of the mentioned condition, and the resolutions of the extraordinary general meetings must be adopted by the unanimous consent of the shareholders present or represented (i.e. abstentions are not taken into account when determining unanimous consent).

- Operational issues (see Sections C and D of the Frequently Asked Questions (FAQs) on the EFSF):

(1) An EFSF lending within a macroeconomic adjustment programme (which would only occur when a euro state is unable to borrow from markets at acceptable rates) entails the following steps: (a) a euro member state requests; (b) the euro country concerned negotiates with the Commission and the IMF for the conditions of an assistance programme which shall be approved by the euro area finance ministers and then an MoU is signed between the troubled country and the Commission — it takes three to four weeks to formulate a support programme; (c) as soon as the support programme is approved by the euro area finance ministers, the EFSF will raise funds and disburse the loan within several working days; (d) the EFSF financial assistance is linked to strict policy conditions detailed in the MoU, and the maximum amount of a loan, its margin and maturity, and the number of installments to be disbursed are decided unanimously by the euro states' finance ministers;

(2) When the beneficiary country fails to meet the conditions of the MoU, the loan disbursements shall be interrupted until a new MoU is renegotiated and reached;

(3) New instruments for the EFSF (as the Euro Area Summit on 21 July 2011 agreed to increase EFSF's scope of activity): bank recapitalizations, precautionary programmes, primary market intervention, and secondary market intervention.

Sources: Own compilation on the basis of the ESM Treaty, European Commission-MEMO/10/173 (10 May 2010), *EFSF Framework Agreement*, EFSF Articles of Incorporation, *ESM Factsheet*, ESM FAQs (1 July 2013; 22 October 2013) and EFSF FAQs (21 January 2013).

To summarize, this chapter offered an overview of all the hypotheses which are going to be tested in the following sections and presented the logics and relations among these hypotheses. Meanwhile, this chapter also provided general descriptions of the three cases: the European Semester, the ESRB and the ESM — three new measures adopted and developed during the eurozone sovereign debt crisis. From chapter six to

chapter eight, this dissertation will test all the hypotheses listed in Table 5.1 on the basis of the three selected cases, checking the validity of each hypothesis and probing possible contributions to the relevant theories.

6 Chapter Six: Hypotheses Tests of Neo-Functionalism and New Insights Based on Case Studies

6.1 Evidence for H1: Economic Integration Leads to Political Integration

Section 2.1.1.1 in chapter two of this dissertation has explained that collective decision-making is the indicator of political integration proposed by neo-functionalism, and in accordance with Table 2.1, the studies on the three selected cases show the following.

Table 6.1 New EU Measures Indicating the Degree of Political Integration

New measures	Political integration indicator: collective decision-making	Locus of activity	Degree of political integration	Score
The European Semester	Falling into the category of Mode 1, but also exhibiting some features of Mode 2: Evidence: (1) Mode 1: under the framework of the European Semester, a few important problem areas (i.e. fiscal planning, structural reform and the prevention of macroeconomic imbalance) are involved at the EU level, but decisions are only made into goals and CSRs; it is a policy coordination among member states in line with EU objectives and goals; no sanction mechanisms for member states' failure to implement EU recommendations; (2) Mode 2: A few important areas are regarded as common and approached as such (i.e. fiscal planning, structural reform and the prevention of macroeconomic imbalance), but decisive issues are still subject to national processes (i.e. national parliaments as usual have the final say of	Policy decisions on both the national and EU levels, but national activity predominates: Evidence: The Commission evaluates national policies and proposes recommendations, the EP gives opinions, the Council of Ministers, representing member states, debates and makes possible revisions to and finally adopts the CSRs,	Level 1- Level 2	1-2

	member states' budgets and economic policies; moreover, the implementation of CSRs also depends on national governments); besides, under the European Semester, problems dealt with at the EU collective level are as many as those at the national level, but only in the formation of goals and recommendations at the supranational level.	the European Council approves, nation states implement, and the Commission and the Council follow up the implementation.		
The ESRB	An independent EU body responsible for the macro-prudential oversight of the financial systems within the EU by issuing warnings and recommendations, indicating Mode 4; Evidence (mainly presented by ESRB Regulation Articles 3, 15, 16, 17 and 18): the ESRB represents a collective macro-prudential oversight mechanism for EU financial systems, whose administration is at the EU level decided by a General Board; the relevant data for macro-prudential supervision are gathered and analyzed by the collective system; giving warnings and recommendations for remedial action (including for legislative initiatives) are decided collectively by the ESRB General Board. All in all, decisions are taken jointly under the ESRB for EU financial macro-prudential oversight, but responses to ESRB warnings and recommendations still are at the hand of the addressees (who may be the Union as a whole, or one or more member states, or to one or more of the ESAs, or to one or more of the national supervisory authorities), and national actors play substantial roles; moreover, to fulfill its missions and tasks, the ESRB needs a timely flow of harmonized micro-level data and information provided by national micro-prudential supervisory and statistics authorities as well as the ESAs, the ESCB, and the Commission.	Both, the Community dominates, but still with substantial national activities; Evidence: the ESRB gives warnings and recommendations as well as follows up the implementation of recommendations, but the concrete actions, responses and implementation depend upon the addressees, among which the member states and their national supervisory authorities play a substantial role.	Level 4	4
The ESM	Falling into the category of Mode 5: Evidence (mainly presented in the ESM	Both, community dominates, with	Level 5	5

Treaty and the ESM's financial assistance to Cyprus):

From 1 July 2013 onwards, the ESM is the sole and permanent mechanism responding to the new requests of financial assistance by the euro member states; established by the Treaty Establishing the European Stability Mechanism (i.e. ESM Treaty) concluded by 17 euro countries, it is an international financial institution with full legal personality and capacity headed by a Board of Governors and a Board of Directors to decide the form, amount, tranches, disbursement and conditionality to grant financial assistance to the euro states; the great bulk of recognition and problem solution (i.e. addressing national funding needs and providing timely financial support) takes place at the European level, where the rescue funds and programmes to the euro state plagued by the sovereign debt crisis are decided collectively and authoritatively by the ESM Board of Governors and Board of Directors; nation states put forward requests, and then the assistance granting is decided at the collective level rather than at the national level; the implementation of conditionality (entailed in MoUs about meeting the fiscal targets and carrying out national economic reform) attached to the FFA is subject to governmental discretion, but the financial assistance to be provided depends upon the beneficiary state's compliance with the objectives and measures set out in the MoU (which may get amended or supplemented from time to time), implying narrowed-down national autonomy on the issues laid down in the MoU.

small national roles;

Evidence:

The decisions to grant rescue funds and other forms of financial assistance are made collectively at the ESM level, and the dispute resolution mechanisms are also at the European level; as the MoU specifies the conditions to be met for the first and subsequent disbursements of ESM financial assistance, the beneficiary states must accordingly take concrete actions to meet those requirements, and meanwhile, the Commission, in liaison with the ECB and IMF, will monitor and verify the fulfillment of the MoU programme at regular intervals.

Sources: Own compilation; scores are attributed on the basis of Table 2.1 of this dissertation.

The research results in Table 6.1 vindicate the first half of H1: *European economic integration leads to European political integration*, as all the three cases have illustrated EU political integration of different degrees. Among the three measures,

the European Semester, in the form of policy coordination, indicates the lowest level of political integration (level 1), but meanwhile, such policy coordination exhibits certain features of political integration at level 2, so the European Semester scores 1-2; by comparison, the ESM represents the highest degree of political integration among the three, registering at level 5 and scoring 5, while the ESRB embodies a middle degree of political integration, locating at level 4 and scoring 4. Two implications can be drawn from these findings: first, when economic cooperation develops into a certain stage, political integration of different degrees will happen, and political integration can be viewed as the extension of economic interests and it is the necessary step to foster further economic benefits; second, policy areas related to financial assistance (represented by the ESM) and macro-prudential supervision (represented by the ESRB) turn out to be more technically manageable via a unified approach at the EU level than those concerning national fiscal plans and economic reforms (represented by the European Semester). The high and low degrees of political integration of these three cases, however, can be explainable by the competence division between the EU and the member states prescribed in the Lisbon Treaty (see the TFEU Title I Categories and Areas of Union Competence), which are subject to three fundamental principles (TEU Article 5).

Table 6.2 Competence Division within the EU

Three main types of competences	EU's special competences in certain fields
1. Exclusive competences (Article 3 TFEU): the EU alone is able to legislate and adopt binding acts in these fields. The Member States' role is therefore limited to applying these acts, unless the Union authorizes them to adopt certain acts themselves, including: (a) customs union; (b) the establishing of the competition rules necessary for the functioning of the internal market; (c) monetary policy for the Member States whose currency is the euro; (d) the conservation of marine biological resources under the common fisheries policy; (e) common commercial policy.	4. The coordination of economic and employment policies (Article 5 TFEU): the EU is responsible for ensuring the coordination of these policies. It is required to define the broad direction and guidelines to be followed by Member States, and it is also responsible for taking initiatives to ensure coordination of social policies.
2. Shared competences (Article 4 TFEU): the EU and Member States are authorized to adopt binding acts in these fields. However, Member States may exercise their competence only in so far as the EU has not exercised, or has decided not to exercise, its own competence, including (a) internal market; (b) social policy, for the aspects defined in the TFEU; (c)	5. The CFSP (Article 24 TEU): the EU has competence in all fields connected with the CFSP. It defines and implements this policy via, among others, the President of the European Council and the High Representative of the Union for Foreign Affairs and Security Policy, whose roles

economic, social and territorial cohesion; (d) agriculture and fisheries, excluding the conservation of marine biological resources; (e) environment; (f) consumer protection; (g) transport; (h) trans-European networks;(i) energy; (j) area of freedom, security and justice; (k) common safety concerns in public health matters, for the aspects defined in the TFEU.	and status have been recognized by the Treaty of Lisbon. However, the EU may not adopt legislative acts in this field. In addition, the Court of Justice of the EU does not have competence to give judgment in this area.
3. Supporting competences (Article 6 TFEU): the EU can only intervene to support, coordinate or complement the action of Member States. Consequently, it has no legislative power in these fields and may not interfere in the exercise of these competences reserved for Member States, including (a) protection and improvement of human health; (b) industry; (c) culture; (d) tourism; (e) education, vocational training, youth and sport; (f) civil protection; (g) administrative cooperation.	6. The “flexibility clause” (Article 352 TFEU): this clause enables the EU to act beyond the power of action conferred upon it by the Treaties if the objective pursued so requires. However, this clause is framed by a strict procedure and by certain restrictions in terms of its application (e.g. not applicable for attaining objectives pertaining to the CFSP).
	
Three fundamental principles and changes to current competence division	
● The principle of conferral: the Union has only the competences conferred upon it by the Treaties or else remaining with the member states; ● The principle of proportionality: the exercise of EU competences may not exceed what is necessary to achieve the objectives of the Treaties; ● The principle of subsidiarity: for shared competences, the EU may intervene only if it is capable of acting more effectively than the member states.	● Transfer of competences: the reduction or extension of EU competences requires the consent of all Member States and necessitates Treaty revisions.

Sources: Adapted from the TFEU and “Division of Competences within the European Union” (European Union).

In light of Table 6.2, the European Semester exhibits the EU’s supporting competences and its special competence in coordinating economic and employment policies within the EU, as under the European Semester, the EU gives guidance and recommendations to be followed by the member states and there is no legislative binding power on member states (also see Table 5.3); in comparison, the establishment of the ESRB, based on Article 114 of the TFEU in particular, is to facilitate the proper functioning of the internal market and it falls into the category of shared competences; finally, the creation of the permanent ESM became possible only after making Treaty revisions, because previously the Lisbon Treaty did not provide any legal bases for the

EU to establish a permanent stability mechanism — this actually reveals the vacuum of the EU project to deal with the collective eurozone sovereign debt crisis, and this is also the main reason to explain that the EFSF was created as a temporary assistance mechanism; by adding a third paragraph to Article 136 of the TFEU and after national ratification of such a Treaty revision, the EU was conferred by the Treaties the competence and legality to build up a permanent financial assistance mechanism for the euro states, and as the ESM is specialized only for the euro member states and it is related to the common currency issue, the ESM falls into the exclusive competences of the EU.

To sum up, the three selected cases show a positively proportionate connection between the political integration degree entailed in the EU measures and the competence division and the legal basis prescribed in the Lisbon Treaty: the three types of EU competences — competences of coordinating economic and employment policies, shared competences, and exclusive competences indicate a low-to-high scale of political integration — policies related to EU exclusive competences are of a higher degree of political integration (as illustrated by the case of the ESM), whereas issues belonging to economic coordination competences express a lower degree of political integration (as supported by the case of the European Semester); as for those falling into shared competences, they symptomize a middle level of political integration (as vindicated by the case of the ESRB). Therefore, EU political integration is essentially defined and limited by EU Treaties, which theoretically have decided the utmost mode and degree of current EU political integration. As for the highest political degree (level 6) suggested by Table 2.1, the EU seems impossible to achieve this in all of its policy areas, because that “distinction between internal policy and collective policy disappears” means the tearing-down of all national barriers and even the disappearance of national policy-making, that is, all activities shall be located at the collective EU level; still, in certain policy areas, the EU has achieved the highest degree of political integration. For instance, all euro countries use the same currency issued by the central bank ECB, which is responsible for the monetary policy of the whole euro area, and consequently, euro member states cannot rely on devaluing their national currencies to stimulate economies as they did before; the fact is that all the activities of monetary policy are conferred upon the collective agency — the ECB, and national governments of the eurozone do not have authorities on their monetary policy. From such an angle, the

eurozone sovereign debt crisis also exposes an inborn disadvantage of the euro system: EMU has a common monetary policy, but lacks a unified fiscal approach.

As brand new inventions, these three measures, compared with the EU's previous practices, indicate rising-level political integration in the sense that they fill out certain vacuums of the European integration project. First, the European Semester has integrated previous independent and scattered policy coordination together, which can also be glimpsed through Treaty provisions, such as Article 9 TFEU (about social inclusiveness and social progress), Article 121 (about the coordination of economic policies), Article 126 TFEU (about avoiding excessive government deficits and the Protocol on the EDP) and Article 148 TFEU (about employment) — those actually serve as the ultimate legal basis for the operation of the European Semester¹¹⁸. More importantly, it coordinates national budgetary and economic plans before, instead of after, their finalization, acting as a surveillance valve which can lead to punishments and sanctions under other separate mechanisms. Judging by the scale of political integration (Table 2.1), previous EU economic governance on national policy coordination registers at level 1 and scores 1, carrying all the features of the Mode 1 of collective decision-making and representing a typical coordination practice; in comparison, the European Semester, though still subject to policy coordination, has already exhibited the features of Mode 2, indicating a strengthened economic governance framework which locates at level 1-level 2. Second, before the creation of the ESRB, “responsibility for macro-prudential analysis remains fragmented, and is conducted by various authorities at different levels with no mechanism to ensure that macro-prudential risks are adequately identified and that warnings and recommendations are issued clearly, followed up and translated into action” (ESRB Regulation, (11)), so the establishment of the ESRB fills out the vacuum of an integrated EU-wide macro-prudential supervision, clearly demonstrating a rising level of political integration which reaches level 4. Finally, as for the ESM, its creation takes Treaty revisions as a prerequisite, also illustrating a development that fulfills the vacuum of the EU project. From the absence of an available financial mechanism to the

¹¹⁸ The scattered Article bases also imply possible ambiguities in the legal architecture of the European Semester, which may cause institutional conflicts. According to Hallerberg et al. (2011, 10-11), the Treaty base for the European Semester can be traced back to “the Integrated Guidelines for Growth and Jobs (IGs) adopted in March 2005, which combined the Broad Economic Policy Guidelines (BEPGs) and the Employment Guidelines (EGs) into a single document for the first time, each one in fact regulated by Articles 121 and 148 TFEU respectively”.

establishment of a permanent one, a rising-level of political integration is indicated; nevertheless, the EFSF is the predecessor of the ESM and the latter is molded from the former, so the justification for the rising political integration degree indicated by the ESM should also be born from its comparison with the political integration degree embodied in the EFSF. As Table 5.5 shows, the EFSF and the ESM are different in their basic nature: there is no legal basis provided by the Lisbon Treaty for the functioning of the EFSF, so the eurozone countries, via concluding intergovernmental agreement, launched the EFSF as a company located at Luxembourg and thus it is subject to Luxembourg Law, and meanwhile, the EFSF was created as a temporary facility and will cease to exist in the future (see ESM FAQs 22 October 2013); by contrast, the ESM, via Treaty revisions, acquired its legal basis in the Lisbon Treaty, and it was created as a permanent intergovernmental institution subject to international law. The practical operation of the ESM is built upon the EFSF and both of them have the same purposes and serve the same functions; judging by the scale of political integration, the EFSF also indicates level 5 of political integration, but the different legal bases and the legal structures of the ESM and the EFSF signal different dispute resolution mechanisms for each — and thus suggest different degrees of political integration: regarding “locus of activity”, dispute resolution of the EFSF shall happen at the national level (by the Courts of the Grand Duchy of Luxembourg) or the European level (by the CJEU), while for the ESM, all disputes shall be resolved collectively (by the Board of Directors or the Board of Governors of the ESM or the CJEU), so in terms of “locus of activity”, the ESM carries more collectively supranational activities than the EFSF does, and thus the ESM represents a higher degree of political integration than the EFSF. All in all, the three selected cases display a rising level of the degree of political integration compared with the EU’s previous practices.

Neo-functionalism also argues that a rising level of political integration is accompanied with a rising level of economic and social interactions as a result of economic cooperation. The amount of euro area trade with other countries and regions as well as with other EU member states (as shown in Table 6.3 and Figures 6.1 and 6.2) did increase in last decade spanning from 2002 to 2012: the total amount of exports increased from €1,083.9 billion to €1,870.7 billion, while that of imports nearly doubled, rising from €984.8 billion in 2002 to €1,791.0 billion in 2012. Though there were sharp drops in exports and imports all-round in 2009 due to the impact of the

global financial crisis, the figures of both exports and imports trade in 2009 were higher than those before 2005 (including 2005). Moreover, the euro countries' trade in 2010 began to recover and as a whole it continuously climbed up in 2011 and 2012, though in 2012 the pace of growth turned out to be slower and the volume of imports from China, Japan and other Asian countries decreased slightly compared to those of 2011 — a signal of trade surplus. So generally the increase in EU trade kept its momentum and a rising level of political integration did come along with a rising level of economic integration.

Table 6.3 Euro Area Trade in Goods with Main Partners¹⁾, 2002-2012

Table 6.5 Euro Area Trade in Goods with Main Partners , 2002-2012									
	Total	Other EU Member States			United States	China ²⁾	Japan	Other Asian Countries	Other Countries
		United Kingdom	Others	Sub-Total					
Exports (f.o.b.)									
2002	1,083.9	205.8	174.6	380.4	184.1	29.9	33.1	140.5	316.0
2003	1,058.7	194.8	181.2	376	166.4	35.3	31.3	135.4	314.2
2004	1,142.8	205.4	206.2	411.6	172.5	40.3	33.3	150.3	334.8
2005	1,237.0	203.2	232.1	435.3	185.0	43.3	34.0	165.9	373.6
2006	1,379.5	214.7	274.6	489.3	199.7	53.5	34.5	183.1	419.3
2007	1,505.2	231.3	307.2	538.5	196.7	60.6	34.4	201.7	473.3
2008	1,561.6	220.4	322.7	543.1	186.9	65.7	33.7	210.0	522.1
2009	1,275.6	174.6	245.6	420.2	152.1	68.0	28.7	185.6	421.0
2010	1,533.1	194.7	291.1	485.8	180.6	94.8	34.6	227.1	399.7
2011	1,745.1	213.4	334.8	548.2	200.6	115.5	39.4	251.5	453.6
2012	1,870.7	230.7	338.2	568.9	223.6	120.7	44.7	273.9	489.2
Imports (c.i.f.)									
2002	984.8	149.7	152.1	301.8	125.6	61.8	52.7	142.7	300.0
2003	987.9	138.9	162.7	301.6	110.3	74.3	52.2	141.5	308.0
2004	1,073.3	145.0	181.7	326.7	113.1	92.1	54.4	161.0	326.0
2005	1,223.2	152.5	197.7	350.2	119.9	117.9	53.1	189.8	392.2
2006	1,390.7	165.6	228.5	394.1	128.2	143.6	56.0	212.5	456.3
2007	1,492.0	169.5	250.6	420.1	130.5	172.7	59.3	223.4	486.1
2008	1,611.6	164.7	267.6	432.3	135.8	185.0	57.4	238.2	562.8
2009	1,258.3	125.6	226.2	351.8	116.0	159.0	42.9	174.8	413.8
2010	1,550.7	147.8	270.2	418	129.8	208.6	51.4	234.7	365.4
2011	1,759.1	166.9	309.9	476.8	140.8	218.6	52.6	280.9	416.4
2012	1,791.0	168.3	311.5	479.8	150.3	213.7	48.5	276.4	445.4

Notes: ¹⁾ EUR billions; seasonally adjusted.

²⁾ Data for mainland China exclude Hong Kong.

Sources: *Statistics Pocket Book* published by the ECB at different times: data on 2002-2003 (*Statistics Pocket Book* June 2005, 13), on 2004-2006 (June 2007, 13), on 2007-2009 (June 2010, 13), on 2010-2011 (February 2013, 12), and on 2012 (July 2013, 12); own calculation of the total of euro area trade with other EU member states.

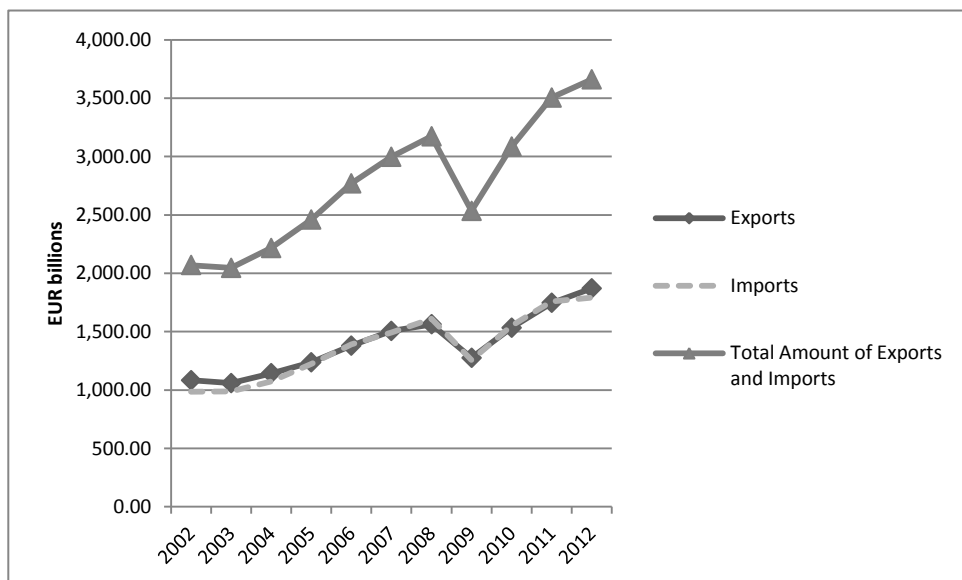


Figure 6.1 Total Amount of Euro Area Trade in Goods with Main Partners, 2002-2012
Sources: Own charting on the basis of data in Table 6.3 of this dissertation.

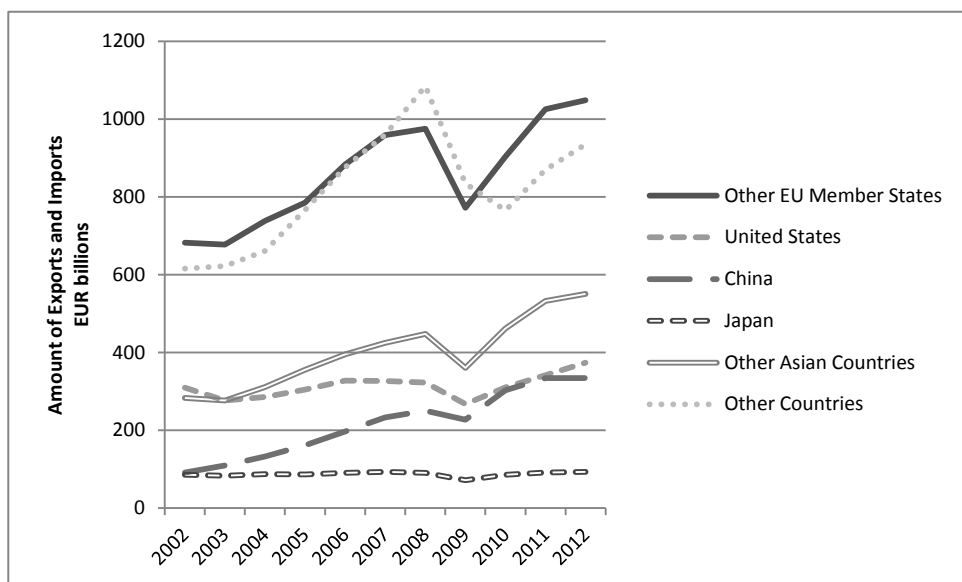


Figure 6.2 Euro Area Trade in Goods with Main Partners, 2002-2012
Sources: Own charting on the basis of data in Table 6.3 of this dissertation.

As for the social interactions judged by personnel mobility, two types of statistics can be used as indicators to measure personnel movement across the EU: (1) the number of EU citizenship acquisitions; (2) tourist traveling within the EU.

As suggested by Table 6.4 and Figure 6.3, there was an increasing number of people acquiring the citizenship of an EU-27 member state in the past decade, growing from around 663,300 in 2001 to around 782,200 in 2011 and reaching a record of 810,500 in 2010. Though the latest figures of 2011 are a little bit lower than those for 2010 (around 3.5% less),¹¹⁹ the general trend of citizenship acquisitions in the past ten years kept rising, which, for one thing, mirrors the increasing numbers of migration in general and for another, connotes a greater potential of the free movement of workers who can find jobs and reside in another EU country (i.e. an increased cross-border labor mobility), thus indicating a rising level of personnel mobility as well as social interactions within the EU. Three things deserve extra attention. First, national immigration policies have exerted a direct influence on citizenship acquisitions, particularly the “naturalization rate”, that is, “the ratio between the total number of citizenships granted and the stock of foreign residents in a country at the beginning of the year” (*European Social Statistics* 2013, 48), which deserve further analysis on their impact on the personnel mobility across the EU. Second, non-EU country persons make up the main part of citizenship acquisitions: according to Eurostat, in 2011, among those who acquired citizenship of an EU-27 member state, about 678 000 were non-EU-27 nationals, accounting for 86.7 % of the total, meanwhile the figures for the nationals of the EU-27 who obtained the citizenship in another EU country amounted to 82, 000, taking up 10.5 % of the total (“Migration and Migrant Population Statistics”, Eurostat, March 2013a). Obviously, non-EU nationals make a strong contribution to the rise of citizenship acquisitions and thus can be viewed as a major “motor” for social interactions. Finally, the global financial crisis appears not to have affected the growing trend of citizenship acquisitions during the course of 2008-2010, while it could be that the decrease of citizenship acquisitions during 2010-2011 may be linked to the then on-going eurozone sovereign debt crisis.

¹¹⁹ See also *European Social Statistics* (2013, 48).

Table 6.4 Number of Persons Having Acquired the Citizenship of the Reporting Country, EU-27,
2001-2012 (Thousands)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
EU-27*	663.3	662.5	651.9	719.1	723.6	735.9	697.3	698.7	776.1	810.5	782.2	807.6
BE	62.2	46.4	33.7	34.8	31.5	31.9	36.1	37.7	32.8	34.6	29.8	38.6
BG	-	3.5	4.4	5.8	5.9	6.7	6.0	7.1	1.0	0.9	0.6	1.8
CZ	6.3	3.3	2.2	5.0	2.6	2.3	2.4	1.2	1.1	1.1	1.6	1.8
DK	11.9	17.3	6.6	15.0	10.2	8.0	3.6	6.0	6.9	4.0	4.2	3.6
DE	180.3	154.5	140.7	127.2	117.2	124.6	113.0	94.5	96.1	104.6	109.6	114.6
EE	3.1	4.1	3.7	6.5	7.1	4.8	4.2	2.1	1.7	1.2	1.5	1.3
IE	2.8	-	4.0	3.8	4.1	5.8	4.6	3.2	4.5	6.4	10.7	25.0
GR	-	-	1.9	1.4	1.7	2.0	3.9	16.9	17.0	9.4	17.5	16.2
ES	16.7	21.8	26.5	38.2	42.9	63.4	71.9	84.2	79.6	123.7	114.6	94.1
FR	127.5	128.1	144.6	168.8	154.8	147.9	132.0	137.5	135.8	143.3	114.6	96.1
IT	10.4	10.7	13.4	19.1	28.7	35.3	45.5	53.7	59.4	65.9	56.2	65.4
CY	-	0.1	0.2	4.5	4.0	2.9	2.8	3.2	4.1	1.9	2.2	2.3
LV	9.9	9.4	10.0	17.2	20.1	19.0	8.3	4.2	3.2	3.7	2.5	3.8
LT	0.5	0.5	0.5	0.6	0.4	0.5	0.4	0.3	0.2	0.2	0.3	0.2
LU	0.5	0.8	0.8	0.8	1.0	1.1	1.2	1.2	4.0	4.3	3.4	4.7
HU	8.6	3.4	5.3	5.4	9.9	6.1	8.4	8.1	5.8	6.1	20.6	18.4
MT	1.2	0.8	0.6	0.6	0.6	0.5	0.6	0.6	0.8	0.9	1.1	1.1
NL	46.7	45.3	28.8	26.2	28.5	29.1	30.7	28.2	29.8	26.3	28.6	31.0
AT	31.7	36.0	44.7	41.6	34.9	25.7	14.0	10.3	8.0	6.1	6.7	7.0
PL	1.1	1.2	1.7	1.9	2.9	1.1	1.5	1.8	2.5	2.9	3.4	3.8
PT	2.2	2.7	2.4	2.9	3.0	4.4	-	22.4	24.2	21.8	23.2	21.8
RO	0.4	0.2	0.1	0.3	0.8	0.0	0.0	5.6	9.4	-	-	-
SI	1.3	2.8	3.3	3.3	2.7	3.2	1.6	1.7	1.8	1.8	1.8	1.5
SK	2.9	3.5	3.5	4.0	1.4	1.1	1.5	0.5	0.3	0.2	0.3	0.3
FI	2.7	3.0	4.5	6.9	5.7	4.4	4.8	6.7	3.4	4.3	4.6	9.1
SE	36.4	37.8	33.2	28.9	39.6	51.2	33.6	30.5	29.5	32.5	36.6	50.2
UK	89.8	120.1	130.5	148.3	161.8	154.0	164.5	129.3	203.6	194.8	177.6	193.9

Notes:* estimated;

- not available.

Sources: Data for 2001-2011 come from “Migration and Migrant Population Statistics” (Eurostat, March 2013b); data for 2012 come from Eurostat (migr_acq, 28 March 2014).

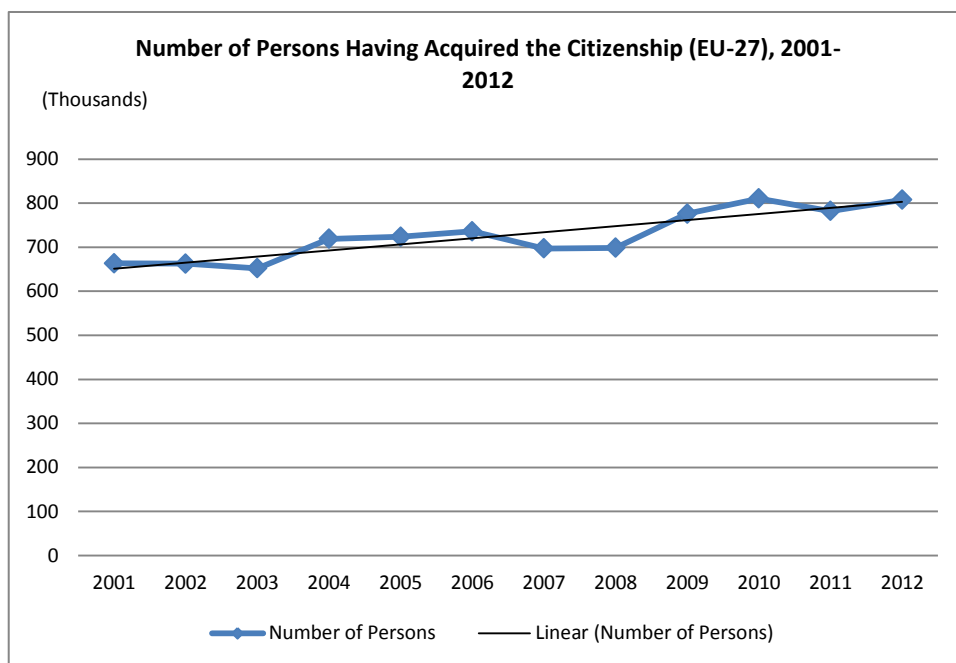


Figure 6.3 Total Acquisitions of Citizenship (EU-27), 2001-2012

Sources: Own charting on the basis of Table 6.4.

Temporary travelling conducted by EU residents (rather than citizens) also points to the level of personnel mobility within the EU. One important indicator to measure tourist travelling is the number of overnight stays, which “reflects both the length of stay and the number of visitors” (“Tourism Statistics at Regional Level”, Eurostat). According to Figure 6.4, the general trend of tourist nights spent kept an ascending momentum in the past decade from 2001 to 2011, during which the financial crisis had a noticeable impact on tourist traveling — the number of overnight stays struck the lowest level in 2009 during 2006 to 2011; nevertheless, in 2011, the number of travelling nights spent kept recovering and actually exceeded the pre-crisis peak in 2007 (for both EU residents and non-residents). It is also interesting to observe that the eurozone sovereign debt crisis has not reduced the level and intensity of internal travel within the EU. Rather, from 2009 to 2011, people’s mobility within the EU was taking an escalating momentum, surpassing all the previous records in 2011, among which non-residents’ travelling contributed a larger share than that made by EU residents. Figure 6.4 reveals that the intensity of

personnel movement within the EU is more subject to the global financial crisis and world-wide economic recession (external factors) than the European sovereign debt crisis (internal factors). All in all, from the perspective of peoples’ temporary movement within the EU, personnel mobility has also been enhanced during the past decade, and therefore, the neo-functionalist proposition — a higher level of political integration is accompanied by a higher level of economic integration and social interactions — is vindicated.

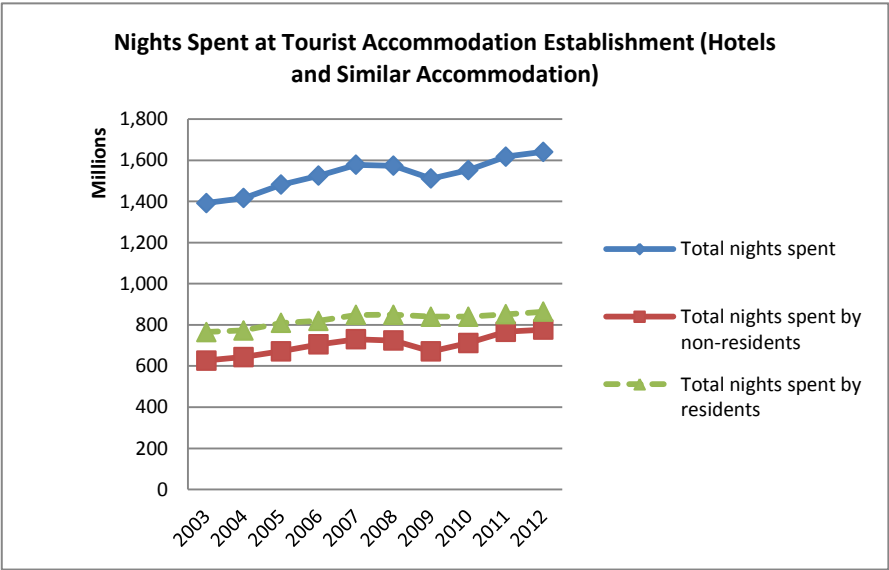


Figure 6.4 Trends in Number of Nights Spent in Hotels or Similar Establishments (EU-27), 2003-2012

Sources: Eurostat (tour_occ_ninat, 18 March 2014).

In sum, H1 is fully vindicated by the three cases. In addition, new findings can be drawn from the case studies, which can be formulated into the following propositions as a further elaboration and extension of H1.¹²⁰

¹²⁰ Along with the vindication and/or refutation of hypotheses, this dissertation will formulate some research results and findings into hypothesis form as a further elaboration, supplement, or revision to the relevant EU integration theories, so at the end of each hypothesis test, propositions 1, 2, 3, ..., n, being distinctive to the hypotheses derived from the integration theories, are put forward after the conclusions to the relevant hypothesis tests. Those propositions, on the one hand, present the main findings of this dissertation during the case studies under the epistemic frameworks provided by the three distinctive EU integration theories, while on the other hand, those propositions, in hypothesis

Proposition 1: *Political integration (of different degrees) will follow economic integration, because political integration is the extension of economic interests and it is a necessary step to foster further economic benefits.*

Proposition 2: *The mode and degree of EU political integration are defined and limited by EU Treaties; the political integration degree entailed in an EU measure links to the competence division and the legal basis prescribed in the Lisbon Treaty, which suggests a low-to-high scale of political integration via the division of supporting competences/competences of coordinating economic and employment policies — shared competences — exclusive competences.*

Proposition 3: *Non-EU nationals' citizenship acquisitions and foreign tourist travelling, indicating personnel mobility across the EU, contribute to increasing social interactions which enhance EU political integration; the former tends to be subject to internal factors but impervious to external challenges, while the latter tends to be susceptible to external environments but impervious to internal crises.*

The establishment of the European Semester, the ESRB and the ESM indicates the effectiveness of spillover in a general sense; nevertheless, the exact causal mechanisms of spillover, which are proposed in H1a-d, need to be further examined on the basis of the three cases. The following section, from 6.1.1 to 6.1.4, will deal with the hypothesis tests of H1a-d.

6.1.1 Evidence for H1a: Functional Spillover

As the preliminary analyses after the formation of H1a have vindicated the effectiveness of functional spillover, the task here is to specify the exact functionalist causal chains and magnitude of functional spillover embodied in the three selected measures.

First, there is the original goal A to solve the eurozone sovereign debt crisis. Second, solutions to the crisis are entailed in a multi-approached framework (see Table 1.2 and 1.3) which requires coordination between fiscal, financial and economic policies — to solve the crisis requires the reduction of national budget deficit and debt rates and growing economies (the function of the European Semester), a sound financial supervision (the ESRB) and an available and efficient financial assistance

form ever open to further empirical tests, can serve as the starting points for further research. In such a way, this dissertation makes its contribution to on-going EU studies with the three theoretical tools.

mechanism to provide immediate financial help to the troubled euro states (the ESM); so there is a functional interdependence between the original issue A and the multiple issues B_M (rather than a single issue B) which include $B_1, B_2, B_3, \dots, B_x$, and as far as the research topic of this dissertation is concerned, there is a functional interdependence between issue A to solve the sovereign debt crisis and issues of B_1 (the European Semester), B_2 (the ESRB) and B_3 (the ESM), and these three measures are necessary to achieve the original goal A and make constructive contributions to solve the eurozone sovereign debt crisis. Third, actions taken in the areas of B_M may require and thus promote further integrative actions: the successful operation of all the three new measures depends upon the cooperation of national authorities who must accordingly take concrete and effective national actions, such as carrying out economic reforms and cutting budget deficits and debts; more prominently, among the three, the ESM became viable only after Treaty amendments by national ratification, that is, there was a prerequisite to the implementation of the ESM — in other words, being a requirement to the solution of the original problem A, the establishment of the ESM itself preconditioned another requirement. Finally, the salience of the euro area sovereign debt crisis (issue A) — typically expressed in the decrease of the external value of the euro, the increasingly high and unsustainable yield rates in some euro member states, and the contagious risks of the debt crisis and potential bankruptcy for the eurozone and the whole EU — defines a strong and urgent functional requirement on the issues of B_M : as for B_1 , the European Semester, to coordinate and monitor national fiscal and economic policies as well as to strengthen EU economic governance, is an integrated policy coordination and surveillance framework, bringing other existing separate surveillance and preventive measures (e.g. the preventive arms of the SGP and MIP) and economic goals, priorities and strategies (e.g. Europe 2020) together under one umbrella; so in the aspect of coordinating and monitoring national budgets and economic reforms, besides the European Semester, other means are potentially available to reach the original objective A by exercising similar functions of the European Semester; in such a sense, the functional connection between A and B_1 tends to be weak. By comparison, the ESRB is a brand new mechanism and its creation fills the vacuum of EU financial supervision — EU-wide macro-prudential supervision, and more importantly, there is no other means functioning the same as the ESRB to contribute to the solution of the sovereign debt crisis; therefore, the functional connection between the objective A and B_2 is quite strong. As regards the ESM, it

became the sole permanent mechanism of the EU to provide financial assistance to the euro member states from 1 July 2013 onwards, and thus it also embodied a strong functional connection between A and B₃; nevertheless, other means, that is, IMF funds and financial assistance from other non-euro member states are also possibly available under the ESM assistance programmes, and consequently, the strong functional connection between the original objective A and B₃ is mitigated by those complementary options — being “complementary” is because they come along with the ESM programmes and, in common situations, make up a comparatively smaller share of assistance responsibility; the ESM serves as the mainstay of the financial support for the euro states. All in all, put into a hierarchy, the ESRB displays the strongest functional connection between the original goal A (i.e. to solve the eurozone sovereign debt crisis) and its related issue area B_M, the European Semester the weakest, and the ESM lies between the two. Last but not least, the result of functional spillover is further integration in both A and B_M, as A is approached from multiple policy areas B_M, and further integration of B_M also contributes to further integration of A: along with the implementation of the new measures of B₁, B₂ and B₃, ..., B_x (which may require further integrative actions of C₁, C₂, C₃, ..., C_x), in one respect, the policy areas of B₁, B₂ and B₃, ..., B_x are further developed, and in another respect, the original issue A of the eurozone sovereign debt crisis is approached and consolidated from multiple areas. As a matter of fact, current practices have formulated a formula to address the sovereign debt issue, combining various approaches from different policy areas of fiscal, economic and financial, and even including the establishment of a permanent financial injection; consequently, policy areas related to both A and B_M became further integrated.

Besides the magnitude of functional connection, another hierarchy is noticeable among the three selected cases: how fast can the new measures (B₁, B₂, B₃, ..., B_x) become effective to support the solution of the original issue A? As the European Semester is a yearly circle of policy coordination, its effectiveness is based on an annual judgment, while the ESRB shall issue warnings and recommendations whenever systemic financial risks are deemed to be significant, so the effectiveness of the ESRB is always in development. In comparison, the time period to be involved for the ESM to grant financial support is country-specifically varied, which is mainly determined by the time-length of negotiations between the ESM and the beneficiary country to reach an MoU: in light of the EFSE, the ESM’s predecessor, normally, it

takes three to four weeks to draw up an assistance programme following a euro state's request, and then only several working days are needed to raise and disburse the first tranche of loans — just like the financial assistance to Cyprus showed, the ESM approved an FFA to Cyprus on 8 May 2013, and accordingly, the first and second disbursement of €2 billion and €1 billion each were transferred on 13 May 2013 and on 26 June 2013, respectively; nevertheless, there were extensive negotiations for the MoU of Cyprus — the Cypriot government submitted its request as early as 25 June 2012 to the President of the Eurogroup, but it was not until 25 March 2013 that a macroeconomic adjustment programme was agreed, which then paved the way to the final assistance package of up to €10 billion for Cyprus.¹²¹ So as far as the length of time involved to trigger the effectiveness of the new measures is concerned, the ESRB is the shortest (i.e. fastest triggered), the European Semester the longest (i.e. slowest triggered), and the ESM is in the middle among the three. However, the shortest time to trigger the effectiveness of the new measures and policy-making in the related areas B_M may not always indicate a positive progress towards the solution of the original issue A: if there are frequent ESM assistance programmes, the sovereign debt situation of the eurozone is expected to become more dire and dangerous. This is because of the nature of the ESM: it is a “painkiller” for the serious sovereign debt crisis, or else the euro state concerned will go bankrupt, while for the European Semester and the ESRB, they are more like “preventive pills” to avoid the sovereign debt crisis, particularly as the European Semester addresses national fiscal plan to direct the high national budget deficits and government debts to meet the SGP criteria.

Based on the literature review and analyses above, a functionalist spillover model could be constructed as follows:

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- Functional magnitude: the salience of issue A determines the strength of the functional requirement of $B_1, B_2, B_3, \dots, B_x$; if no other means can be adopted to function as $B_1, B_2, B_3, \dots, B_x$, the functional connection between A and B_1 , A and B_2 , A and $B_3, \dots, B_x$ tends to be strong;
 - Functional effectiveness frequency: how fast can measures of $B_1, B_2, B_3, \dots, B_x$ be triggered to be effective to support the solution of the original issue A? The longer the time needed for the effectiveness of $B_1, B_2, B_3, \dots, B_x$ the lower effectiveness frequency of the measures concerned
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¹²¹ See “ESM Financial Assistance for Cyprus” (ESM); see also Table 5.5 in this dissertation.

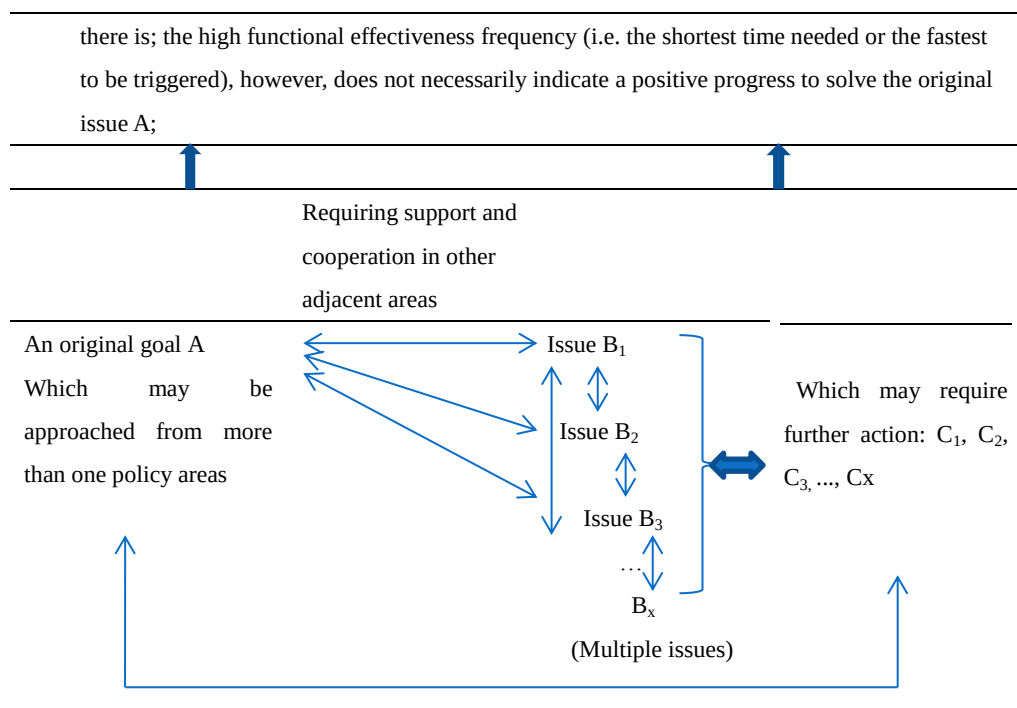


Figure 6.5 A Functional Spillover Model

This model vividly illustrates the rationales of functional spillover: how the original goal and the related issues mutually affect each other, and the result of functional spillover is further integration in both the original and the related policy areas. Still, to fully vindicate H1a, we need to examine the way leading to functional spillover: via negative or positive integration, that is, by deregulating national barriers at the national level or reregulating common rules at the EU level. As for the case of the European Semester, on the one hand, it issues the common goals and objectives to achieve at the EU level, such as the economic priorities set out in the AGS and the fiscal criteria laid down by the SGP, while on the other hand, the finalization of national budgets and economic plans as well as the implementation of CSRs are ultimately decided by national parliaments, so the European Semester has features of both negative and positive integration; actually, being a policy coordination and surveillance mechanism, the nature of the European Semester decides its dual characteristics: “coordination” of national policies suggests negative integration while “surveillance” under the common criteria implies positive integration. As regards the

ESRB, being a newly established independent EU body which fills the vacuum of EU-wide macro-prudential oversight, it represents a way of positive integration by setting up a common supervision mechanism at the EU level rather than a way of negative integration by harmonizing existing macro-prudential supervision measures at the national level. As for the ESM, it is a brand new intergovernmental institution concluded by the euro states, also representing a way of positive integration rather than negative integration. Therefore, the selected three cases do not all prove positive integration over negative integration, which, from one perspective, demonstrates the difficulties in setting up common standards for national economic policies, particularly connected to fiscal and employment issues, and from another perspective, suggests that negative integration of coordinating and harmonizing national economic policies is still the normal practice within the EU, but meanwhile, coordination and monitoring at the EU level gets enhanced and strengthened.

To conclude, H1a is not fully vindicated because not all of the three cases display positive integration over negative integration. As a result, H1a, neo-functionalist functional spillover, only is confirmed to the degree that “solving the debt crisis (i.e. a fiscal issue) requires support and cooperation in other related areas and thus pushes further integration in both the original and these related areas”.

6.1.2 Evidence for H1b: Political Spillover

The adoption and implementation of the three new measures show national governments’ pro-integrative stances on the issues concerned, and governmental national interest actors, typically represented by the heads of state or government in the European Council and the ministers in the Council of the European Union (i.e. the Ecofin Council), expressed their support for the new measures. As mentioned in chapter one, the European Semester and the ESM were approved by both the leaders of government in the European Council and the ministers in the Ecofin Council, and moreover the launch of the ESM actually involved Treaty amendments which required national ratifications; the establishment and operation of the ESRB, in comparison, was realized through the adoption of Regulation (EU) No 1092/2010 and Council Regulation (EU) No 1096/2010. The fact is that without the endorsement by the Council of the Ministers, which stands for individual national interests, the establishment and the proper functioning of all the three new mechanisms were out of the question. So the successful introduction and operation of the three new devices

shows that faced with the serious sovereign debt crisis, governmental national interest actors did support further integration and promote European-level approaches over national-level solutions.

As for the non-governmental actors' positions, BusinessEurope's and the ETUC's opinions and attitudes towards the EU's new measures, representing the broadest employers' and employees' interests across the EU, are shown in Table 6.5, which displays general support for the introduction and implementation of the European Semester, the ESRB, and the ESM.

Table 6.5 BusinessEurope's and the ETUC's Positions on the European Semester, the ESRB and the ESM

➤ BusinessEurope's stances:	
1.	On the European Semester: "We support the European Semester proposal". (①, p.6) "We welcome efforts to strengthen this process, with the Commission providing ambitious Country Specific Recommendations and the Ecofin Council continuing to play a leading role in finalising them and ensuring their implementation." ②
2.	On the ESRB: "The ESRB must have an important role to play", and it "should provide complementary information on the emergence of excessive credit expansion and asset price misalignments. Early warning signals should lead to corrective actions, including through the alteration of the budget stance in the countries concerned.(①, p.7)
3.	On the ESM: "We believe the ESM should be further developed into a politically independent European Monetary Fund (EMF) open to all EU members."②
Summary of BusinessEurope's positions: being supportive of the three new EU measures and being pro-integrative	
➤ ETUC's stances:	
4.	On the European Semester:
A.	"Employment must be at the heart of the European Semester", and the European Council "must critically assess the European Semester to determine why the process is not meeting key objectives of the Europe 2020 strategy, namely the creation of quality and sustainable jobs. Inadequate policies pursued by the member states and the European Union need to be corrected". "We reject all policies that have the objective of shifting the burden onto workers through increased labor market flexibility, deregulation and competition on wages and working conditions". "The gender dimension of the crisis continues to be neglected" and "[a]ll aspects of the semester process should therefore be gender mainstreamed to ensure a coherent and comprehensive approach. When developing and implementing the NRPs member states should apply a gender equality perspective as recommended by the <i>European Pact for Gender Equality 2011-2020</i> ." ③
B.	The NRPs and the CSRs "were adopted without the proper involvement of the social partners. An overwhelming majority of affiliates was not involved in the process or the topic was dealt with as collateral or incidental to the general discussion of the implementation of Europe 2020. The ETUC shares the EP's critical analysis" that "in many Member States, national parliaments,

social partners and civil society were not involved in the European Semester process”, so the ETUC as well as the EP “urges the Commission to ensure that more democratic legitimacy be given to the process through the involvement of national parliaments, social partners and civil society”.^④

C. “We call for the Parliament’s full involvement in the European Semester.”^⑤

D. As for the implementing of the EU/IMF rescue packages, the ETUC “denounces the diktat pressures from Commission officials to cut minimum wages and pensions, to reduce wage ‘rigidities’ and to make labor markets more flexible in Greece and Ireland” and John Monks, ETUC General Secretary “warns that ETUC will find it impossible to support action by the EU along these lines.” The Commission officials are criticized for “ignoring social dialogue and collective bargaining processes and directly intervening in the labor markets of these countries. Diktats are being issued which are designed to lower living standards.” So from the onset of the implementation of the European Semester, the ETUC “is worried about the proposals on economic governance, and any new treaty which contains them, and which could reduce member states to quasi colonial status”. ^⑥

E. “The ETUC has always been supportive of the European project for many reasons, but primarily because its regional integration model aimed not only at economic integration but was also meant to foster social progress and full employment.” And “the number one priority is to fight unemployment by way of a moratorium on austerity policies and an investment programme for sustainable growth and jobs”. “We welcomed the European Council’s decision of December 2012 to put the question of social Europe on the table for we see that as an echo – albeit faint – of our claims.” ^⑦

5. On the ESRB:

“The ETUC demands a seat in the European Systemic Risk Board.” “While the ESRB will not have any legally binding powers, the Commission expects it to exert influence through the quality of its analysis and by the virtue of its high-powered membership. The ETUC would prefer clear enforcement power to the ESRB over the failed model of self-regulation of finance”. “As the new European financial supervisory framework is currently conceived, both ESRB and, more importantly, ESFS may at best function as early warning systems. Until the establishment of a single EU supervisor, the European Supervisory authorities must be given binding decision-making powers over national supervisors if they fail to meet their obligations deriving from European law.” ^⑧

6. On the ESM:

The ETUC supports the ESM and its possibility to rescue troubled banks directly, so it urges EU institutions to establish the SSM which is considered as “a prerequisite to enable a direct recapitalization of banks by the ESM”. “The ETUC firmly rejects the view of certain governments who have insisted that the ESM may only deal with troubled banks in the future and should abstain from ‘legacy debt’ of banks that have existed prior to the enactment of the ESM. Creating a level playing field requires that all banks that are still fundamentally solvent should have access to the ESM. Insolvent ‘zombie’ banks however should no longer be let alive artificially. Their recapitalization through European funds should be excluded.” The ETUC supports ESM programmes of purchasing government bonds in the primary markets of those assisted governments, but it “demands that any recapitalization of private banks through public money must in turn lead to a transfer of proportional entitlements to ownership” ^⑨.

Summary of the ETUC’s positions: being supportive of the three new EU measures and being

pro-integrative, while displaying its critical opinions to unemployment, austerity measures, gender inequality, inadequate involvement and participation of national parliaments, social partners and civil society, and the Commission officials' diktat intervention in national labour markets, all of which have been integrated under the European Semester framework

Sources: ①BusinessEurope (14 June 2010); ②BusinessEurope (25 April 2013); ③ETUC (14 June 2013); ④ ETUC (15 March 2013); ⑤ETUC (15 March 2012); ⑥ETUC (11 January 2011); ⑦ETUC (29 May 2013); ⑧ETUC (27 October 2009); ⑨ETUC(18 December 2012).

Table 6.5 vindicates that the non-governmental national actors representing the interests of employers and employees across the EU supported the three new measures, taking pro-integrative positions and promoting European-level solutions over national-level approaches; moreover, both BusinessEurope and the ETUC propose further integrative developments of current measures. For instance, BusinessEurope argued that the ESM should be developed into an independent EMF that could cover all EU member states (see Table 6.5, 3), and the ETUC advocated the establishment of a single EU supervisor with legally binding powers and asked for a seat in the ESRB (see 5). Nevertheless, the ETUC's attitudes and positions on the European Semester turn out to be critical. The ETUC sends a clear message: the core interests of the ETUC are employment (i.e. the creation of quality and sustainable jobs) and workers' welfare, and it disapproves any policies and measures that would harm the benefits of workers and lower their living standards. So while conveying its support for the three new measures, the ETUC clearly states their limits as well as reasons to support the European integration project so far as their core interests shall not be violated (see 4E). Besides, the ETUC also pays attention to gender equality and social progress and inclusiveness (see 4A, B). As the ETUC's core interests and concerns are also the EU's goals and policy intentions, theoretically, the ETUC should be a trustful ally of the Commission. However, when Commission officials issued diktats to cut minimum wages and pensions in Ireland and Greece, the ETUC was angry about the Commission's behavior (see 4D). Obviously, the actions of Commission officials are seen as harming the core interests of employees. If austerity measures and welfare cuts are the "musts" to solve national sovereign debt crises, while national governments, mainly due to election pressures and labour union protests, hesitate over welfare system reforms, the diktat intervention into national labour markets by the EU is a useful "scapegoat" for national leaders to carry out painful economic reforms. Several other points deserve mentioning here: first, the ETUC shares similar opinions with the

EP as far as the case of the European Semester is concerned, and the ETUC called for a full participation of the EP in the European Semester process, and thus the ETUC became a supportive ally of the EP (see 4B,C); second, when Commission official diktats intrudes into the ETUC's core interests, the ETUC, though supposedly being a natural ally with the Commission, expressed its worries about proposals or any further new treaties "which could reduce member states to quasi colonial status" (see 4D), so in such a sense, the ETUC was a defender of national economic interests and sovereignty, and it can also be viewed as an ally of national governments; finally, comparing the two rival interest groups, BusinessEurope gives more concise and shorter statements on their positions towards the EU's new measures, while the ETUC tends to publish more detailed and longer elaborations imbued with more demanding and stronger emotions.

The benefits of the three new measures can be evaluated on the basis of their purposes and functions (see section 1.3.4 and section 5.2), among which the following advantages are prominent: (1) under the European Semester, national fiscal policies are coordinated and monitored in line with structural reforms and macroeconomic balances, and EU guidance and recommendations are embedded into national policies before governmental budgetary plans are formulated — the European Semester is not only an EU level coordination and surveillance mechanism for national fiscal plans and economic policies, but also acts as a "meta policy coordinator" for EU economic governance, organizing, coordinating and synthesizing various separate EU economic governance measures (e.g. Europe 2020, the Euro Plus Pact, the preventive arms of the SGP and the MIP, and the country-specific minimum benchmark figure demanded by the "balanced budget rule" of the TSCG) into one composite, while still being open to any other new inventions of strengthening EU economic governance; the European Semester, though without legally binding powers on member states, functions as a "preventive valve" that shall lead to further corrective and punishment actions under other procedures; all the arrangements under the European Semester aim to rein the ballooning national fiscal situations back to meet the SGP criteria while fostering economic stability and prosperity and enhancing employment; (2) the ESRB and the ESM fill the vacuums of the EU project — the former carries out EU-wide macro-prudential supervision and gives timely precautionary warnings and recommendations, while the latter was created as a permanent institution to provide necessary and urgent financial support to the euro countries, contributive to EU

financial stability. The adoption and implementation of the three new measures suggests that EU's further integration is on the way.

Nevertheless, the issues addressed by the three new measures are those that cannot be approached and solved by a single national government: to strengthen EU economic governance and coordinate national budgetary plans and economic policies, to carry out macro-prudential supervision of financial systems within the EU, and to establish a permanent financial assistance institution for the euro states; all those collective issues require EU level actions, and the new measures are logic developments of the EU to solve the sovereign debt crisis. Therefore, national interest actors promote European-level solutions over national approaches not only because to do so brings more benefits, but also because issues concerned reflect collective problems and challenges. If "more benefits" stress actors' calculations on the potential gains brought by more integrative steps, then "be(com)ing a collective issue or common concern among EU member states" points out the internal logical demand of the issue concerned and the EU project: when reaching the point where individual member states cannot solve the problem by themselves, collective issues must be tackled at the EU level, and besides this, there are no other choices. Furthermore, though national interest actors support further integration and promote European-level means over national-level solutions, the ultimate causes of the sovereign debt crisis are the unsound fiscal conditions of member states of high governmental deficits and debts, so national-level actions to meet the SGP requirement are fundamentally emphasized under the European Semester and by the ESM rescue conditions, which echo the EU's approaches to strengthen economic governance within the EU via "address(ing) the high degree of economic inter-dependence, particularly in the euro area, while preserving national responsibilities on fiscal and economic policies" (The Task Force Report 21 October 2010, 1).

In addition, in line with Niemann's (2006, 66) suggestions to examine interest actors' positions on integrative measures, this dissertation observes the following. First, there is a sort of proportionate connection between the degree of political integration indicated by a new measure and actors' supportive positions towards that measure: for the policies of a higher degree of political integration (i.e. the ESRB registering at level 4 and the ESM at level 5, see Table 6.1), interest groups take a stronger supportive position for further integration, while for the policies of a lower political integration degree (i.e. the European Semester exhibiting a political integration degree at level 1-2),

interest groups, while expressing general support, also voice critical opinions when their core interests are violated; second, as far as the three selected cases are concerned, member states' positions agree with the organized non-governmental interests — both BusinessEurope and the ETUC support the new measures, but when the core interests of the national/transnational groups are invaded by national or EU policies, these groups shall be in line with the actors who support their core interests; so although the European Semester has obtained general support from the workers within the EU, specific policies relevant to employment and social equality and progress, which are now placed under the European Semester, may trigger critical voices and contradictory positions among interest groups, national governments and the EU; therefore, the coalition among the EU, the government and interest groups is not fixed, but rather it is Figure 6.5 to the adopted policies' impact on the core interests of national/transnational interest groups; finally, as the ETUC's positions suggest, the core interests of national/transnational organizations determine their positions towards EU or national government policies, and as a result, the effectiveness of the learning and socialization process argued by neo-functionalists, that is, the shifts and trajectory of consensus formation among national interest actors of different political levels towards the EU measures, is not obvious, which actually requires further detailed research.

As for the explanatory and predictive power of H1b, it is confirmed so far as the attitudes and positions of the heads of state or government in the European Council and the ministers in the Ecofin Council (representing national interest actors at the governmental level) and of BusinessEurope and the ETUC (standing for the non-governmental national interest actors) are concerned. Based on the analyses above, neo-functionalist political spillover mechanism H1b could be extended and revised as follows:

H1b_{extended}: *Confronted with collective problems and challenges (e.g. the sovereign debt crisis), national interest actors, both governmental and non-governmental, support further integration and promote European-level solutions over national-level means because (a) to do so brings more benefits and (b) it is an internal logical demand by the nature of collective issues which, on the one hand, cannot be addressed by individual member states, while on the other hand, the solution to the collective issues ultimately relies on the substantial cooperation and efforts of the member states.*

In addition, another three propositions can be drawn from the case studies, which can be regarded as a complement and development of neo-functionalist arguments of political spillover:

Proposition 4: *Confronted with crises, actors of different levels within the EU (i.e. interest groups, national governments, and EU institutions) tend to forge common positions and support EU integrative actions, so crises also mean opportunities and tend to push further integration; during the crises, the EU is a useful scapegoat for national governments to carry out economic and social reforms when national interest groups oppose to do so.*

Proposition 5: *The core interests of interest groups decide their positions towards the EU project as well as their alliance with the Commission and/or the national government; interest groups tend to ever support EU integration so long as their core interests are not intruded upon by EU policies.*

Proposition 6: *The strength of interest groups' support for an EU policy proportionately links to the degree of political integration indicated by that policy: the higher the degree of political integration entailed in an EU policy, the stronger support by interest groups for that policy will be.*

6.1.3 Evidence for H1c: Cultivated Spillover

Evidence provided by the three cases for the first half of H1c is presented in Table 6.6:

Table 6.6 The Commission's Proposals for the Three New Measures

	The Commission's proposals	Features of the proposals and the strategies of the Commission	Are the proposals put forward under the framework laid down by the European Council?
The European Semester	● The Commission proposed in May (IP/10/561) and June 2010 (IP/10/859) to create a European Semester (i.e. by two <i>Communications</i>③, ④),① which was approved by the Member States at the Ecofin Council on 7 September 2010; ② ● "The Commission	Displaying strategy 2 in Table 2.2: exploring non-binding soft law via a sort of an OMC approach, as no legally binding decisions shall be made under the European Semester process (cf. Table 5.3 of this dissertation), and at the same time also exploring binding process law (via the OLP) to finally	Yes; ● The European Semester is one of the earliest initiatives put forward by the Task Force chaired by Van Rompuy established by the European Council meeting on 25-26 March 2010 (cf. section 1.3.4); ● The Commission's <i>Communications</i> of 12 May

will make the necessary formal proposals contained in this Communication by end-September [...]. In the meantime, the Commission invites the Ecofin Council of 13 July to confirm the launch of the surveillance cycle under the European Semester as of January 2011 and to endorse the revised Code of Conduct for the Stability and Growth Pact SCPs as annexed to the Communication” (④, p.13); ● The Ecofin Council on 7 September 2010 “approve(s) the amendments to the Code of Conduct on implementing of the Stability and Growth Pact and establish(es) the launching of the ‘European Semester’ as of January 2011”; ((22), p.2) ● Based on the two <i>Communications</i>, the Commission tables the proposal: COM(2010) 526 Final 2010/0280 (COD) (⑱); In September 2010, “the Commission presented the EU economic governance	enshrine the European Semester in Regulation (EU) No 1175/2011; Features of the proposals: ● Taking the severe global and European financial and economic crisis as well as the eurozone sovereign debt crisis as an opportunity to improve the governance and coordination of economic policies within the EU; ● Being one organic element of the Commission’s proposals to reinforce EU economic governance;①,③,④¹²² ● Integrating as well as making full use of the already existing and available tools, “cover(ing) all elements of economic surveillance, including policies to ensure fiscal discipline, macroeconomic stability, and to foster growth, in line with the Europe 2020 strategy”; (④, p.11) ● “The Commission proposes to implement the European Semester as of 2011”, which requires the revision of the Code of Conduct for SCPs (④,⑤), but “[i]mmediate legislative changes do not appear to be	2010 and of 30 June 2010 “respond to the invitation of the European Council to the Task Force and the Commission to develop its orientations further and to make them operational” (④, p.3); ● “A constructive relationship developed between the Commission and the Task Force. The Commission contributed to the work of the Task Force through the <i>Communications</i> referred to above and through ad hoc contributions”. ((⑱, p.3)

¹²² For instance, according to COM(2010) 367/2 (30 June 2010) (see source ④ of Table 6.6), the Commission’s proposal addresses five aspects, and the European Semester is only one of them: (1) broader macroeconomic surveillance (including surveillance of macroeconomic imbalances and thematic surveillance of structural reforms), (2) national fiscal frameworks, (3) increased focus on public debt and fiscal sustainability in the SGP, (4) effective enforcement of economic surveillance through appropriate sanctions and incentives, (5) the co-ordination cycle under the European Semester.

	‘six-pack’ consisting of five Regulations and one Directive”, which were adopted via “a compromise reached between Parliament and the Council” in September 2011 ⁽¹⁹⁾, and via the modification of Regulation 1466/97, the necessary national procedures required by the European Semester are in place and become legally binding to the member states ⁽²⁾.	necessary”; (④, p.12) ● “The tools of the European semester are firmly rooted in the jointly agreed Europe 2020 Strategy and in the Stability and Growth Pact”, and the effectiveness of the European Semester comes along with the evolving history of the SGP; ⁽¹⁹⁾ ● Among the co-decided “six pack”, the European Semester mechanism was finally laid down in Regulation (EU) No 1175/2011 of 16 November 2011. ^{(20)¹²³}	
The ESRB	COM(2009) 499 Final, 2009/0140 (COD); ⁽⁶⁾	Displaying strategy 2 in Table 2.2: exploring binding process law (via the OLP) to set up an entirely new European body with no precedent; nevertheless, the ESRB has no legal personality and does “not have any binding powers to impose measures on	No; Against the shocks and impacts of the global financial crisis, the ESRB was initiated by the Commission itself, and to be exact, by Commission President Barroso, who requested a group of high level experts (the de

¹²³ The “six-pack”, reinforcing both the preventive and the corrective arm of the SGP, was introduced as EU secondary law and came into force on 13 December 2011, which bound all 27 member states with some specific rules for euro members, especially regarding financial sanctions. The “six-pack” refers to (1) Council Regulation (EU) No 1177/2011, (2) Regulation (EU) No 1176/2011, (3) Regulation (EU) No 1175/2011, (4) Regulation (EU) No 1174/2011, (5) Regulation (EU) No 1173/2011, and (6) Council Directive 2011/85/EU; the “six-pack” got further complemented and developed by another two regulations of 21 May 2013 addressing the euro states (i.e. (7) Regulation (EU) No 473/2013 and (8) Regulation (EU) No 472/2013); see “EU Economic Governance” (European Commission). The rationales behind the “six-pack” and the relations between the European Semester and other measures of EU economic governance were stated clearly in each of the five Regulations: “The improved economic governance framework should rely on several interlinked and coherent policies for sustainable growth and jobs, in particular a Union strategy for growth and jobs, with particular focus on developing and strengthening the internal market, fostering international trade and competitiveness, a European Semester for strengthened coordination of economic and budgetary policies, an effective framework for preventing and correcting excessive government deficits (the SGP), a robust framework for preventing and correcting macroeconomic imbalances, minimum requirements for national budgetary frameworks, and enhanced financial market regulation and supervision, including macroprudential supervision by the European Systemic Risk Board.” All the Regulations mentioned here were implemented in the context of the European Semester.

	Member States or national authorities” (⑥, p.5); it is “a body drawing its legitimacy from its reputation for independent judgments, high quality analysis and sharpness in its conclusions” (⑥, p.4); though “ESRB recommendations will not be legally binding”, they “cannot be simply ignored”(⑥, p.5); “ESRB recommendations are soft tools” and the addressees follow the principle of “act or explain” (21).	Larosi ère group) to make recommendations on the EU’s supervisory framework; the ESRB is one of the de Larosi ère group’s two key recommendations; the European Council endorsed the relevant suggestions on the ESRB and requested the Commission to prepare relevant proposals swiftly so as to put the ESRB in place in the course of 2010. (⑥, p.2; also cf. section 1.3.4)
The ESM	This permanent rescue mechanism was initiated by the decisions of the European Council, and the Treaty revisions laying down the legal basis for such a mechanism also took place within the European Council under the simplified revision procedure prescribed by Article 48(6) TEU (which “shall not increase the competences conferred on the Union in the Treaties”). The Commission accordingly prepared relevant proposals about the general features of this new mechanism, displaying strategy 2 in Table 2.2 — exploring binding process law (via Treaty revisions) to create a new intergovernmental organization among the euro states at the EU level. Evidence: A. “On 9 May, based on a proposal of the Commission, the Ecofin decided on the establishment of a temporary European stabilisation mechanism [...]. This mechanism largely respects the basic principles for a permanent robust crisis resolution mechanism. [...] Based on this experience, the Commission intends in the medium-to-long term to make a proposal for a permanent crisis resolution mechanism.” (③, p.10) B. “As it may imply a need for Treaty changes, depending on its specific features, it is an issue for the European Council”. (⑦, p.12) C. “The European Council welcomes the intention of the Commission to undertake, in close consultation with the President of the European Council, preparatory work on the general features of a future new mechanism, i.a. the	Yes; ● First, <i>The Final Report</i> of the Task Force Chaired by Van Rompuy on 21 October 2010, among other things, recommends “a robust framework for crisis management”, suggesting after the temporary assistance mechanism (i.e. the EFSF and the EFSM), the EU “need(s) to establish a credible crisis resolution framework for the euro area capable of addressing financial distress and avoiding contagion”, which “will require further work”; (⑦, p.2) ● Second, the European Council of 28-29 October 2010 endorses the report of the Task Force and “agree(s) on the need [...] to establish a permanent crisis mechanism [...] and invite(s) the President of the European Council to undertake consultations with

role of the private sector, the role of the IMF and the very strong conditionality under which such programmes should operate.” (⑧, p.2)

D. “On 28-29 October [2010] the European Council agreed on the need to set up a permanent crisis mechanism [...]. Eurogroup Ministers agreed that this European Stability Mechanism (ESM) will be based on the European Financial Stability Facility capable of providing financial assistance packages to Euro area Member States under strict conditionality functioning according to the rules of the current EFSF”. (⑪, p. 13)

E. “On Sunday (28 November 2010), the Eurogroup agreed on the principles and features of the European Stability Mechanism (ESM), based on a proposal made by the Commission in close cooperation with President Herman Van Rompuy”(⑭), which specify the participation of private sector creditors and the inclusion of standardized and identical Collective Action Clauses (“CACs”)¹²⁴(⑭,⑮, ⑰).

F. “On 16 December 2010, the Belgian Government submitted, in accordance with Article 48(6), first subparagraph, of the TEU, a proposal for revising Article 136 of the TFEU by adding a paragraph under which the Member States whose currency is the euro may establish a stability mechanism [...]”. (⑨, p.5)

G. “In its statement of 28 November 2010, the Eurogroup stated that standardised and identical Collective Action Clauses will be included, in such a way as to preserve market liquidity, in terms and conditions of all new euro area government bonds. As requested by the European Council on 25 March 2011, the detailed legal arrangements for including CACs in euro area government securities were finalized by the Economic and Financial Committee (EFC)” (ESM Treaty, (11)); consequently, “[t]he model CAC was approved by the Economic and Finance Committee (EFC) on 18 November 2011”, which should be read together with the EFC’s Explanatory Note of 26 July 2011 and Supplemental Explanatory Note of 26 March 2012. (⑯)

H. *Term Sheet on the ESM* of 21 March 2011 states “the Commission intends to propose a Regulation clarifying the

the members of the European Council on a limited treaty change required to that effect, not modifying Article 125 TFEU (“no bail-out” clause)”); (⑧, p.2)

● Third, the European Council of 16-17 December 2010 agreed to amend the Lisbon Treaty to establish the permanent ESM to replace the EFSF and the EFSM; it reached agreement on the draft text of treaty revision about adding a third paragraph to Article 136 of the TFEU;⑨

● Fourth, after consulting the Commission, the EP and the ECB, the European Council of 24/25 March 2011 adopted the Treaty revisions of the TFEU to establish the permanent ESM, calling for rapid national approval procedures to make the Treaty amendments effective on 1 January 2013; meanwhile, it “welcomes the decisions taken by the euro area Heads of State or government on 11 March and endorses the features of the ESM” and outlines next steps of preparing the ESM Treaty and the amendments to the EFSF agreement and of signing both before the end of June 2011; (⑩, p.6)

¹²⁴ CACs “would enable the creditors to pass a qualified majority decision agreeing a legally binding change to the terms of payment (standstill, extension of the maturity, interest-rate cut and/or haircut) in the event that the debtor is unable to pay”, see *Statement by the Eurogroup* (28 November 2010).

necessary procedural steps under Article 136 of the Treaty in order to enshrine the policy conditionality in Council decisions and ensure consistency with the EU multilateral surveillance framework. The Council and the Commission will inform the European Parliament on a regular basis about the establishment and the operations of the ESM.” (see also ⑩, p.28)

I. “On 20 June 2011, the representatives of the Governments of the Member States of the European Union authorized the Contracting Parties of this Treaty to request the European Commission and the European Central Bank (“ECB”) to perform the tasks provided for in this Treaty” (ESM Treaty, (10)) — under the ESM Treaty, the Commission, in liaison with the ECB and/or the IMF, is entrusted with new tasks, such as carrying out post-programme surveillance and negotiating the MoUs of financial assistance with the beneficiary countries; as a result, “[t]he role of the Commission in the running of operations of the ESM is central, and the link of the ESM with EU institutions clearly established”^⑬.

● Fifth, the European Council of 23/24 June 2011 states that “[a]greement has been reached on the European Stability Mechanism Treaty and on the amendment to the EFSF. Member States should take all steps required to ensure the ratification of the ESM Treaty by the end of 2012 and for the rapid entry into force of the amended EFSF”, and “Euro area Heads of State or Government reiterate their commitment to do whatever is necessary to ensure the financial stability of the euro area as a whole”. (⑫, p.5)

Sources: ① European Commission-IP/10/561 (12 May 2010); European Commission-IP/10/859 (30 June 2010); ② Council of the European Union-13190/10 PRESSE 230 (7 September 2010); ③ COM(2010) 250 Final (12 May 2010); ④ COM(2010) 367/2 (30 June 2010); ⑤ *Specifications on the Implementation of the Stability and Growth Pact and Guidelines on the Format and Content of Stability and Convergence Programmes* (3 September 2012); ⑥ COM(2009) 499 Final (23 September 2009); ⑦ The Task Force Report (21 October 2010); ⑧ *European Council 28-29 October 2010 Conclusions*; ⑨ *European Council 16-17 December 2010 Conclusions*; ⑩ *European Council, 24/25 March 2011, Conclusions*; ⑪ *Conclusions of the Heads of State or Government of the Euro Area of 11 March 2011*; ⑫ *European Council 23/24 June 2011 Conclusions*; ⑬ Juncker and Rehn (22 March 2011); ⑭ Rehn (30 November 2010); ⑮ European Commission-MEMO/10/636 (1 December 2010); ⑯ CAC Supplemental Explanatory Note (26 March 2010); ⑰ “Annex II General Features of the Future Mechanism, Eurogroup Statement of 28 November 2010,” in *European Council 16-17 December 2010 Conclusions*; ⑱ COM(2010) 526 Final (29 September 2010); ⑲ European Parliament-2012/0002(NTT); ⑳ Regulation (EU) No 1175/2011; (21) Draghi (23 September 2013); (22) European Parliament-PE460.752v01-00 (8 March 2011).

As illustrated by Table 6.6, the Commission was actively involved in preparing proposals for the three new measures and it indeed took a pro-integrative position in promoting solutions to the crisis. Nevertheless, the strategies and concrete processes for the Commission to put forward proposals display variations. Regarding the Commission’s strategies, all three cases confirm strategy 2 listed in Table 2.2: all the

three new measures show the Commission's resort to binding process law, and meanwhile, the European Semester also exhibits the Commission's strategy of exploring non-binding soft law in the form of an OMC. The Commission's employment of strategy 2, instead of other means such as strategy 1 (i.e. formulating "package deals" of heterogeneous issues via splitting the difference of national positions so as to make the swaps and concessions of different national interests possible and thus upgrade the common interests), demonstrates the compelling situation of the sovereign debt crisis and a general consensus among member states about EU approaches to address the crisis and the necessity of strengthening EU economic governance. Nevertheless, according to Table 6.7, the process leading to the creation of the ESM does show a package deal concluded by Franco-Germany compromises, where the two euro key member states make concessions and swap their different interests in reforming the SGP and in making Treaty revisions to establish a permanent rescue mechanism, but such a package deal was not hammered out by the Commission. Rather, it was reached under the auspices of national government leaders. As regards the relations between the Commission's proposals and the European Council's decisions, among the three cases, the establishment of the European Semester and the ESM was under the guidance and initiations of the European Council, and as a result, in these two cases, the Commission was like "dancing with chains" in tabling the relevant proposals, that is, it was the European Council rather than the Commission that firstly initiated and set up the agenda for the new mechanisms, while the Commission, in accordance with the directions and decisions of the European Council, responded with concrete proposals. The establishment of the ESM represents the most cogent case of the Commission's "dancing with chains": as Table 6.7 shows, the Commission's proposals follow, that is, are coming after rather than being put forward before, the package deal reached by the two key euro countries, Germany and France. In comparison, the creation of the ESRB started from the original initiative of the Commission and its President Barroso, exemplifying the Commission's independent autonomy and power in EU agenda-setting and policy-making. As indicated in Table 6.6, the European Council's "framing-up" influence on the Commission's proposals is prominent in the case of the ESM, and three kinds of proposals (not necessarily tabled by the Commission) leading to the final operation of the ESM are discernible: the first type is about the features and the basic principles of the financial rescue mechanism, both the temporary and permanent ESM — these

proposals were prepared by the Commission (see evidence A, C and E in Table 6.6); nevertheless, the detailed legal arrangements for the inclusion of CACs in government bonds issued by the euro states, a feature of the permanent ESM proposed by the Commission, were under the charge of the EFC, not under the Commission (evidence G in Table 6.6); the second category of proposals is relevant to Treaty amendments to lay down the legal basis for the permanent ESM — this time the Treaty revision draft was proposed by the Belgium government rather than by the Commission (evidence F in Table 6.6), and meanwhile, Treaty changes are historical-making decisions and thus subject to the decisions of the member states' heads of government (evidence B and evidence from “Second” to “Fifth” in Table 6.6); finally, in order to realize the smooth functioning of the ESM as well as coordinating it with other EU institutions and surveillance frameworks, the Commission proposed relevant regulations, further clarifying necessary procedural steps under Article 136 of the Treaty (evidence H in Table 6.6), and moreover, the Commission was entrusted with the negotiation and formation of MoUs with the ESM beneficiary state — a sort of proposals based on which the ESM shall make its decisions on granting financial rescue packages (evidence I in Table 6.6). All the proposals related to the functioning of the ESM appear as “jobs” allocated by the European Council to different “agents”: first, the Commission was responsible to work out the principles and features of the ESM, including the inclusion of CACs; however, the task of specifying the actual operational details of the CAC model was assigned to the EFC — a committee set up by the EU to promote policy coordination among the member states as well as to provide opinions on economic and financial issues (Cf. Article 134 of the TFEU); second, the draft proposal for Treaty changes to lay down the legal foundation to create the permanent rescue mechanism for the euro states was presented by the government of a member state — Belgium, who held the Presidency of the Council of the European Union from July to December 2010; finally, the Commission actively tabled proposals that facilitated the operations of the ESM within the whole EU institutional framework. All in all, the cases of the European Semester and the ESM highlight the European Council's functions in providing necessary impetus and defining the general political directions for the EU (cf. Article 15(1) the TEU), as well as its president Van Rompuy's pro-integration activities in promoting the solutions to the EU's ever greatest challenge.

To sum up, the first half of H1c is vindicated to the degree that “by making proposals for the solutions to the sovereign debt crisis, the Commission, *not necessarily* under the framework laid down by the European Council, takes pro-integrative approaches to address the crisis”, which, from another perspective, confirms the Commission’s initiatives and autonomy in setting up its own agenda in promoting the general interest of the EU.

As for the test of the second half of H1c, previous section 6.1.2 has shown that though the ETUC tends to be critical on some issues related to, for example, unemployment and austerity measures that could harm the benefits of workers, both interest groups of employers (BusinessEurope) and employees (the ETUC) not only supported the three new measures but also demanded further integrative steps, so the Commission actually formed a coalition with the two prominent interest groups and gained their strong support so far as the three new measures are concerned. As for the key member states’ positions, generally speaking, they also approved and supported the three new measures, or else those new measures would not have come true. Looking into the traditionally defined “big three” — Germany, France, and the UK — this dissertation finds the following, presented in Table 6.7.

Table 6.7 German, French and UK Governments’ Positions towards the Three New Measures

	Germany	France	The UK
The European Semester	A: “A ‘European Semester’ should be organized to enhance EU coordination, yet without encroaching on the budgetary prerogatives of national parliaments, which will continue to play the leading role in designing and controlling national budgets. The timetable should be flexible enough to take account of national budgetary procedures”. ①		B: “We believe that Member States will benefit greatly from the introduction of a European Semester which will lead to more coherence in the way the Commission offers advice on how Member States could coordinate economic policies across the EU. Rather than downgrading the role of national parliaments we believe that a European perspective can only strengthen national parliaments’ scrutiny of their national executives by providing more information”. (②, para. 274-75)
The ESRB	C: “Angela Merkel, the German chancellor, said the agreement was ‘a new	D: “Early on in the crisis, France made the reform of financial supervision its priority. This explains why France negotiated the seat of commissioner	E: “The European Systemic Risk Board (ESRB) is a key new body in the European financial supervisory framework, and will serve as the interface between macro-economic surveillance and macro-prudential supervision. We recommend that more consideration should be given to the

	constitution for the financial market system” and “described the agreement on financial supervision as ‘a major step forward’”. (③) in charge of the internal market and financial services, which is now held by Michel Barnier. The French government has pushed for the creation of a supranational framework using European authorities, as proposed by Commissioner Barnier. As a result, the European Systemic Risk Board and three other European agencies have been created”. (④, pp.19-20)	way the ESRB interacts with the Commission and Ecofin in the excessive imbalance procedure and the SGP. We encourage the Government to ensure that the analyses of the ESRB are considered, and acted upon, when the Commission and Council consider the results of the proposed macroeconomic surveillance framework. The European Central Bank has played a central role in managing the crisis and will continue to be a cornerstone of EU economic governance. The ESRB is the route through which the central banks, and the ECB in particular, should be able to contribute actively to discussions of the fiscal and macroeconomic positions of Member States.” (②, para. 276-77)
	F: “The EU’s leaders agreed today on reforms to financial supervision, following a deal between the UK, France and Germany on two of the main elements”, one of which is “the creation of a European Systemic Risk Board (ESRB)”; the Commission’s proposal that “the president of the European Central Bank (ECB) should chair the ESRC [...] received a less than enthusiastic response prior to the summit from some countries outside the eurozone, including the UK”, and finally, “agreement struck between the UK, France and Germany is that the chair will be elected by the EU’s 27 national bank governors”.③	
The ESM	G: “Germany has yielded to France’s desire for more leniency on this issue (plans for reforming the Stability Pact) in exchange for Paris backing its plans for a permanent crisis resolution mechanism”; (⑤) H: “The French government and most French economists have supported the creation of a crisis resolution mechanism. [...] the French government was opposed from the beginning to the creation of a European Monetary Fund [...]. Nevertheless, France has supported the creation of a European Stability Mechanism (ESM), which renders the EFSF permanent”; (④, p. 19) I: On 19 October 2010, the Deauville agreement was reached by the French President, Nicolas Sarkozy, and the	L: “We welcome the Council’s proposals for a European Stability Mechanism. The existence of a formal way of restructuring sovereign debt will encourage the market to price better the risks posed by individual Member States within the euro area, and encourage more responsible fiscal behaviour by Member States which will no longer be insulated from market forces by their membership of the euro. Conditionality is a vital element and we support its application. The ECB should be consulted on the terms and conditions of loans under the ESM. We welcome the principle, enshrined in the ESM agreement, that the private sector should share the burden of any restructuring of sovereign debt under the new ESM mechanism. It is only right that as they share in the rewards, they should share the risks. The ESM will be

German Chancellor, Angela Merkel, in which relaxing the penalties of the Stability Pact and making Treaty amendments “so as to compel countries which are in economic crisis to declare themselves bankrupt and lose the right to vote in EU Councils” are agreed; ⑥
 J: “France and Germany called on European Union member states [...] to draw up proposals by next March (of 2011) for a permanent system to handle crises in the euro zone by suspending voting rights, admitting that it would mean changing the EU treaty”; ⑦
 K: Eurozone chief Jean-Claude Juncker criticized the Franco-German deal that: “The withdrawal of voting rights for budget-sinning countries isn’t a possible way forward and I reject any changes to the EU treaty in this case”; ⑧
 L: “Although Juncker rejects some of the proposals from Berlin and Paris, he agrees with Merkel’s suggestion that the Lisbon Treaty needs to be altered to include a permanent crisis mechanism”.

⑤

compulsory only for members of the euro area. However, we recognize that it might be in the UK’s interests to contribute to rescue packages for Member States in difficulties, as happened with Ireland. In this light, we welcome the recent European Council proposals which will allow Member States outside the euro area to contribute on a bilateral basis when they consider it is in their national interests. We recognize the expertise of the IMF in this area. The IMF has been involved in the rescue packages provided to Greece and Ireland; we recommend that it should be involved in any future rescue package provided by the European Stability Mechanism”. (②, para.286-89)

Sources: ①Schaeuble and Lagarde (22 July 2010); ②“Chapter 6: Final Conclusions and Summary of Conclusions and Recommendations,” in *The Future of Economic Governance in the EU Volume I: Report*, House of Lords, UK Parliament; ③Brunsden (19 June 2009, *European Voice*) ④Jamet et al. (2011); ⑤“Brussels Showdown: Merkel and Sarkozy Risk Embarrassing Defeat” (*Spiegel Online*, 28 October 2010); ⑥“Franco-German Coup: the Deauville Agreement” (Parliamentary Questions, 20 December 2010); ⑦“Merkel, Sarkozy Agree on EU Treaty Change to Handle Crises” (*EurActiv*, 19 October 2010); ⑧Phillips (28 October 2010).

Table 6.7 presents the generally favorable opinions of three key EU member states (i.e. the “big three”) towards the three new measures. First, as for the implementation of the European Semester, there was a common supportive position reached by Germany and France, which is represented by the common letter issued by the Finance Minister in each country (evidence A in Table 6.7), and the UK also supported the operation of the European Semester (evidence B in Table 6.7); apart from expressing their consensus of approving this new policy coordination and surveillance mechanism, the three countries also gave their suggestions on the

European Semester, and they all stressed the prerogative role of national parliaments (evidence A and B in Table 6.7). Second, with regard to the ESRB, all the three member states supported and pushed the final formulation of the ESRB (evidence C, D, E and F in Table 6.7); moreover, evidence F in Table 6.7 once again demonstrates the “core status” of the three big countries in EU affairs; nevertheless, the Commission’s proposal that the president of the ECB should chair the ESRB received less enthusiasm in the non-euro states, typically represented by the UK (evidence F in Table 6.7), but still, the UK agreed that the ECB should play a central role in the management of the ESRB (evidence E in Table 6.7). Third, concerning the establishment of the ESM, Germany and France obviously acted as the promoters and engines in forging the permanent rescue mechanism, as backed by evidence G, H, I, J and K in Table 6.7 that the finalization of the ESM was the result of negotiations and concessions between the two countries. Though the French government opposed the establishment of an EMF, it did support the ESM (evidence H in Table 6.7); Germany turned out to be a staunch advocate of the ESM, and in order to establish the permanent ESM, it made concessions with France in terms of a more lenient SGP reformed plan (evidence G and I in Table 6.7) — a package deal, in which Germany and France swapped concessions for their different interests. Despite that other EU leaders may not fully agree with Franco-German proposals on reforming the SGP, the need to amend EU Treaties so as to create a permanent crisis mechanism seems to have gained a consensus among EU politicians (evidence J in Table 6.7). As far as the UK is concerned, though as a non-euro member, it supported the creation of the ESM among the euro state members; furthermore, the UK government defended the conditionality accompanying the ESM rescue fund and the involvement of the private sector in the ESM. The UK government also expressed its willingness to participate in the ESM in light of its own national interests; it stressed the role of the ECB and recommended the ever involvement of the IMF in financing troubled countries (evidence L in Table 6.7).

Table 6.7 reveals several things. First, Germany and France, being the two key euro members, played a central role in directing and driving EMU as well as the EU through the eurozone sovereign debt crisis. Second, the newly adopted measures, to a large extent, embody common positions as well as controversies among member states, particularly the German-Franco cooperation and compromise, which is regarded as a “productive tension” that structured European debate as well as the range of possible

positions¹²⁵. Finally, it is possible to draw a rough line between euro and non-euro states within the EU as for the enthusiasm and activeness to push forward solutions to the euro area sovereign debt crisis — another example giving a further confirmation to this is that the UK and the Czech Republic decided not to be contracting parties of the TSCG¹²⁶. The UK, as an outsider of the euro area, actively joined bilateral loans along with the ESM rescue packages for the beneficiary member states in accordance with its national interests, and on the affairs involving the general interest of the EU, such as the establishment of the ESRB, the UK (together with Germany and France) still remains as one of the influential countries. As there is general support for the three new measures by these three key nation states, the Commission did ally with those big three. Besides, the Commission's proposals on the ESM followed the instructions of the European Council, and the ESM framework was largely defined by Franco-German positions. The three cases do not show the Commission's *purposive* coalition-making with the key member states and interest groups. Rather, in front of the severe financial and economic challenges, there was an urgent need to solve the crisis as well as to strengthen EMU and EU economic governance. As a result, the Commission, national governments, and transnational interest groups shared common positions in addressing the crisis.

Why do the three countries — Germany, France and the UK — appear to have the visible influence on the affairs related to the whole EU, while Germany and France assume leading roles in affairs specific to the eurozone states? The reason can be found in each country's contributions to the EU and EMU.

During the past decade, as can be seen from Table 6.8, Germany was the number one net contributor to the EU budget, and France followed Germany as the number two; after Germany and France were the UK and Italy. During the global financial crisis and the eurozone crisis, Germany's net contributions in 2010 reached the ever highest figure of -9.223,6 EUR millions, while France also struck its record of -6.405,8 EUR millions in 2011. With regard to the ESM and its predecessor EFSF, as Table 6.9 shows, Germany and France were the two biggest contributors in both the temporary and permanent rescue mechanisms — Germany itself assumed more than a quarter of

¹²⁵ See Uterwedde (4 June 2013). The Franco-German proposals and deals could lead to another topic: Sarkozy's view of "the creation of a small, inter-governmental 'core' of Eurozone States without the UK, Scandinavia and Eastern European States", see Miller (16 April 2012, 4).

¹²⁶ This opt-out could lead to another relevant discussion about a "two-speed" Europe and UK isolation in the EU, see Miller (27 March 2012).

the whole responsibilities, while the two countries together made up nearly half of the whole contributions, so no wonder that Franco-German positions dominated the discussions and the formation of the ESM.

Table 6.8 Member States' Net Contributions to the EU's Annual Budget, EU-27 (in EUR Millions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
BE	-323,2	-745,2	-517,7	-779,7	-536,1	-607,5	-709,9	-868,2	-720,6	-1.663,9	-1.466,4	-1.369,6
DK	239,6	-223,1	-169,1	-220,0	-224,6	-265,3	-505,2	-604,4	-543,2	-969,5	-615,3	-836,6
DE	-8.232,4	-6.971,5	-4.954,0	-7.605,4	-7.140,4	-6.064,3	-6.325,2	-7.4215,2	-8.774,3	-6.357,5	-9.223,6	-9.002,5
GR	4.380,6	4.503,6	3.375,7	3.358,3	4.163,3	3.900,5	5.102,3	5.437,2	6.279,7	3.121,0	3.597,4	4.622,6
ES	5.263,6	7.661,2	8.859,4	8.704,9	8.502,3	6.017,8	3.811,7	3.615,8	2.813,2	1.1817,7	4.100,9	2.995,0
FR	-676,6	-2.043,4	-2.218,4	-1.976,1	-3.050,7	-2.883,5	-3.012,5	-2.997,3	-3.842,7	-5.872,7	-5.534,8	-6.405,8
IE	1.719,5	1.198,3	1.574,1	1.559,0	1.593,8	1.136,6	1.080,5	662,1	566,1	-47,5	803,9	383,8
IT	1.231,2	-2.030,9	-2.917,1	-849,8	-2.946,9	-2.199,0	-1.731,8	-2.013,5	-4.101,4	-5.058,5	-4.534,0	-5.933,0
LU	-54,6	-140,0	-48,1	-57,2	-93,6	-86,8	-60,2	-139,8	-22,1	-100,2	-41,9	-75,0
NL	-1.543,9	-2.259,9	-2.171,3	-1.942,2	-2.034,9	-2.636,6	-2.587,6	-2.864,3	-2.678,2	117,7	-1.833,1	-2.214,0
AT	-435,5	-542,4	-212,6	-330,9	-365,1	-277,9	-301,5	-563,2	-356,4	-402,1	-677,0	-805,1
PT	2.128,2	1.773,8	2.682,7	3.476,3	3.124,0	2.378,0	2.291,7	2.474,4	2.695,1	2.150,7	2.622,6	2.983,7
FI	275,9	-153,0	-4,9	-26,7	-69,6	-84,8	-241,0	-171,6	-318,5	-544,2	-300,2	-652,1
SE	-1.058,7	-982,9	-750,4	-945,6	-1.059,8	-866,9	-856,6	-994,8	-1.463,1	-85,6	-1.211,4	-1.325,4
UK	-2.913,7	955,4	-2.528,4	-2.364,9	-2.864,9	-1.529,0	-2.140,2	-4.155,3	-844,3	-1.903,3	-5.625,9	-5.565,6
CZ	-	-	-	-	272,2	178,0	386,2	656,7	1.178,0	1.702,5	2.079,3	1.455,2
EE	-	-	-	-	145,0	154,3	176,4	226,2	227,4	573,0	672,7	350,4
CY	-	-	-	-	63,5	90,3	102,4	-10,5	-17,7	-2,3	10,6	6,9
LV	-	-	-	-	197,7	263,9	255,5	488,8	407,0	501,5	674,2	731,3
LT	-	-	-	-	369,3	476,4	585,3	793,2	842,6	1.493,3	1.358,4	1.368,0
HU	-	-	-	-	193,4	590,1	1.115,0	1.605,9	1.111,7	2.719,4	2.748,4	4.418,3
MT	-	-	-	-	45,0	90,0	101,0	28,1	30,0	8,6	52,9	67,0
PL	-	-	-	-	1.438,3	1.853,2	2.997,6	5.136,4	4.441,7	6.337,1	8.427,5	10.975,1
SI	-	-	-	-	109,7	101,5	142,8	88,6	113,8	241,9	424,1	490,1
SK	-	-	-	-	169,2	270,9	323,2	617,8	725,6	542,1	1.349,6	1.160,6
BG	-	-	-	-	-	-	-	335,1	669,6	624,2	895,5	725,4
RO	-	-	-	-	-	-	-	595,8	1.581,0	1.692,5	1.245,2	1.451,5

Notes: Negative amounts indicate that the member state concerned has paid more to the EU's budget than it should if there were to be a balance between payments and receipts between the EU and the Member State.

Sources: "Which Countries Are Net Contributors to the EU Budget?" (Danish Parliament, 2013).

Table 6.9 EFSF Guarantee Commitments, ESM Capital Subscription, and EFSF and ESM Contribution Key

Country	EFSF Guarantee Commitments (EUR millions)	EFSF Contribution Key (%)	ESM Contribution Key (%)	ESM Capital Subscription (EUR)
Belgium	27,031.99	3.4666	3,4771	24 339 700 000
Germany	211,045.90	27.0647	27,1464	190 024 800 000
Ireland	12,378.15 *	1.5874	1,5922	11 145 400 000
Spain	92,543.56	11.8679	11,9037	83 325 900 000
France	158,487.53	20.3246	20,3859	142 701 300 000
Italy	139,267.81	17.8598	17,9137	125 395 900 000
Cyprus	1,525.68	0.1957	0,1962	1 373 400 000
Luxembourg	1,946.94	0.2497	0,2504	1 752 800 000
Malta	704.33	0.0903	0,0731	511 700 000
The Netherlands	44,446.32	5.6998	5,7170	40 019 000 000
Austria	21,639.19	2.7750	2,7834	19 483 800 000
Portugal	19,507.26 *	2.5016	2,5092	17 564 400 000
Slovenia	3,664.30	0.4699	0,4276	2 993 200 000
Slovakia	7,727.57	0.9910	0,8240	5 768 000 000
Finland	13,974.03	1.7920	1,7974	12 581 800 000
Greece	21,897.74 *	2.8082	2,8167	19 716 900 000
Estonia	1,994.86	0.2558	0,1860	1 302 000 000
Total	779,783.14	100.0000	100.0000	700 000 000 000

Notes: * Greece, Ireland and Portugal have become stepping-out guarantors as they receive EFSF assistance, which means the active Guarantee Commitment under the EFSF is EUR 726,000.00 million.

Sources: Figures for the EFSF come from “Annex 1” and “Annex 2” of *EFSF Framework Agreement*; figures for ESM come from the “Annex I” and “Annex II” of the ESM Treaty.

The EU budget is financed by various resources. It is chiefly (99%) funded by its own resources, which mainly come from customs duties on imports from outside the EU, value added tax (VAT) and gross national income (GNI), and is supplemented by other sources of revenue, such as taxes on EU staff salaries and fines paid by companies for their breaching of competition laws.¹²⁷ All in all, it appears that a member state’s net contributions to the EU budget is proportionate to the size of its economy, as data in Table 6.10 exhibit, in 2010 and 2011 Germany, France, the UK in terms of GDP were the biggest three among EU-27 member states. As for Germany and France’s almost 50% shares in the ESM, obviously, it is due the two euro states’ economic power compared with other euro member states. Therefore, as far as the case studies of this dissertation are concerned, the leading role of Germany, France and the

¹²⁷ See “Where Does the Money Come From?” (European Commission).

UK is related to their financial contributions to the EU or the relevant projects, and their contributions are proportionate to their economic size as indicated by GDP. In other words, a member state's political influence within the regional integration system tends to be decided by its contributions to the integration project, which is proportionate to the member state's economic power.¹²⁸ Naturally, the three new measures represent big member states' interests rather than those of small member states.

Table 6.10 GDP at Current Market Prices (2001, 2010 and 2011)

	GDP					
	(Euro Billion)			(PPS Billion)		
	2001	2010	2011	2001	2010	2011
BE	260	356	370	252	317	327
DE	2102	2496	2593	1888	2371	2480
EE	7	14	16	13	21	23
IE	118	156	156	102	139	143
GR	146	227	215	187	248	234
ES	680	1051	1073	789	1128	1150
FR	1496	1937	1997	1398	1708	1757
IT	1256	1553	1580	1334	1486	1535
CY	11	17	18	13	19	20
LU	23	40	43	20	34	36
MT	4	6	6	6	8	9
NL	448	589	602	424	539	549
AT	214	286	301	200	259	272
PT	134	173	171	164	208	207
SI	23	35	36	32	42	43
SK	24	66	69	56	97	100
FI	139	179	189	118	150	156
Euro area	7085	9181	9435	6996	8774	9041
BG	16	36	38	47	81	84
CZ	72	149	155	148	204	211
DK	179	236	239	135	172	175
LV	9	18	20	18	28	30
LT	14	28	31	29	46	50
HU	59	97	101	117	158	165
PL	212	355	370	360	584	625
RO	45	124	136	123	244	263
SE	254	349	387	216	284	300
UK	1640	1710	1747	1397	1708	1716
EU-27	9585	12283	12659	9586	12283	12660

Notes: PPS (purchasing power standard).

Sources: "National Accounts and GDP" (Eurostat, September and October 2012); own calculation for the euro area and EU-27.

¹²⁸ This assumption targets the regional integration projects, which may not always be true for other international organizations, such as the relationship between the United Nations (UN) Security Council and national contributions to the UN.

Table 6.11 The Power and Autonomy of the Commission

Does the Commission expand its power and autonomy?		
The European Semester	The ESRB	The ESM
Yes; The Commission publishes the AGS, AMR and IDRs, evaluates the SCPs and NRPs, gives CSRs, and monitors national implementation of the CSRs; it also gives opinions on euro countries' draft budgetary plans and their fiscal situation during the national semester; furthermore, compared with the previous practice, a new dimension is added to EU policy coordination and economic governance under the charge of the Commission: carrying out surveillance on macroeconomic imbalances.	No; The ESRB is an independent EU body, and it carries out its macro-economic prudential oversight mission in accordance with its own procedures; the Commission has one vote (1/38) in the ESRB General Board Meetings.	Yes; The Commission is entrusted with new tasks provided by the ESM Treaty, such as carrying out post-programme surveillance, being responsible (in liaison with the ECB) to negotiate the terms of conditionality attached to each financial assistance (i.e. an "MoU"); besides, an emergency voting procedure in the ESM Board of Governors is possible, depending upon the assessment and conclusions made by both the Commission and the ECB.

Sources: See section 5.2 of this dissertation.

Following the implementation of the new measures, as illustrated by Table 6.11, the Commission expanded its power and autonomy under the European Semester and the ESM due to the fact that new work was added to the Commission's domains and more responsibilities were assigned to the Commission, while the establishment of the ESRB did not see a growing power of the Commission. Therefore, H1c's assumption that the Commission shall expand its power and autonomy along with the implementation of new EU measures is not fully justified by the cases.

Then what is the position of the EP? Examining the EP's positions on the three new measures, Table 6.12 confirms that the EP, like the Commission, also taking pro-integrative stances in addressing the eurozone sovereign debt crisis, supported the Commission's proposals of the three new measures.

Table 6.12 The EP's Positions on the Three New Measures

➤ On the European Semester
1. The implementation of the European Semester in the beginning did not require the approval of the EP, but the EP involved in this new device mainly in two ways: A: The EP and the Council, via the OLP, adopt packages of regulations detailing rules of strengthening the surveillance of national economic and fiscal policies and of enhancing EU (and particularly the eurozone) economic governance — mainly concerning the reinforcement of the preventive and corrective arms of both the SGP and the MIP, which entered into force from 13 December 2011 onwards (the “six-pack”) ①; among those co-decided rules, the European Semester framework was finally codified in Regulation (EU) No 1175/2011 of 16 November 2011③, and in line with those rules, the preventive procedures of the SGP and the MIP were carried out under the integrated framework of the European Semester, embodied in the Commission’s AMR, IDRs and CSRs, so the EP took a pro-integrative stance and actually played a substantive role in strengthening the fiscal discipline and economic policy coordination within the eurozone and the whole EU; in addition, according to Article 153 TFEU, the EP may co-decide with the Council via the OLP or may be consulted to make policies relevant to the issues which now are integrated under the European Semester framework. Later, the EP also involves in the co-legislation of the “two-pack”, which entered in to force on 30 May 2013 in all euro states. Two-pack proposed by the European Commission in November 2011. B: In accordance with Article 121 TFEU, the EP should be kept informed with the broad guidelines and recommendations to the economic policies as well as the results of multilateral surveillance; indeed, the EP adopted its resolutions on the performance of the annual European Semester. For example, the EP’s resolutions on the first year of the Semester (②) addressed the following aspects: it (a) outlined the challenges of the EU, (b) made suggestions for the role of the Commission, the EP, the Council and other actors, and (c) recommended sectoral contributions to the new mechanism, among which the EP was “concerned about the democratic legitimacy of the introduction of the European Semester” (②, item 42), “against the establishment of any practice that lacks parliamentary approval at the European or national level” (②, item 48) and the EP “should be recognized as the appropriate European democratic forum to provide an overall evaluation at the end of the European Semester” (②, item 55). Though the implementation of the European Semester was not subject to the EP’s approval and the EP expressed its critical opinions and suggestions, the EP initially regards the European Semester as a “valid framework” (②, item 3) and then as a “proper framework” (④, item 2). No wonder it is assessed that during the course of the first Semester in 2011, the EP played an important role in shaping EU economic governance via two ways: “i) own initiative report (INI) procedure and initiatives on Interparliamentary Cooperation, ii) co-legislation, which allowed the European Parliament to contribute substantially to the reform of EU economic governance and to the incorporation of the Economic Dialogue”. (⑨, p.23) 2. As regards the issues concerned by the ETUC (see Table 6.5), the EP was in line with the position of the workers: A. The EP “[u]nderlines that the guidelines for the employment policies of Member States and the broad economic policy guidelines both form integral parts of the European Semester” (②, item 8); “[c]alls on the Commission to ensure that the national policies and targets announced in

the National Reform Programmes together add up to a level that is sufficiently ambitious to reach the EU 2020 headline targets; expresses its concern about the fact that under the first European Semester this was not the case” (②, item 15); “[n]otes that the Member States have failed to adhere to commonly agreed rules, in particular the Stability and Growth Pact [...]; calls on the Member States to comply with the Stability and Growth Pact and other commonly agreed rules” (②, item 65); “[n]otes that measures taken within the framework of National Reform Plans, ‘economic governance’ and the European Semester should not contribute to the worsening social crisis in a number of countries with more fragile economies, making life more and more difficult for families and in particular for women and children, who are the main victims of growing poverty, unemployment and precarious and poorly paid work” (②, item 80); “[c]alls on the Member States to integrate a gender equality perspective into the European Semester process by taking into account women’s needs and situation when implementing the policy guidance given in the Annual Growth Survey” (②, item 106); in its resolution of 26 October 2012, the EP in consecutive sub-sections expressed its opinions on the issues of “Employment and Social Policies”, “Budgetary Policies”, “Internal market”, “Constitutional affairs” and “Women’s Rights and Gender Equality” ④;

B. The EP strongly recommends the inclusion and participation of the social partners during the European Semester process. For instance, it “[e]mphasizes the need to reinforce and institutionalize the Macroeconomic Social Dialogue and considers that social partners must be involved in the development of actions the Commission wishes to undertake in the context of the European Semester and the implementation of the new economic governance and that social partners should address an opinion or, if appropriate, a recommendation to the Commission about these actions” (②, item 81); it “stresses that the autonomy of social partners is a crucial element of any well-functioning labour market and should be taken into account” (④, item 14); (more evidence see ②, items 44, 46, 67, 70, 75 and 112)

C. The EP suggests its participation (as well as the national parliaments’ involvement) in the European Semester process adds a legitimate and democratic dimension to the mechanism — evidence for such includes: it “warns [...] against the current form of the Annual Growth Survey as a technical document which does not take into account the contribution of the European Parliament” (②, item, 18) and “against the establishment of any practice that lacks parliamentary approval at the European or national level” (②, item, 48) (other evidence see ②, items 39, 42 and 43); it “[n]otes with concern that the European Parliament has been constantly marginalized in the main economic decisions resulting from the crisis, and considers that it must be involved in order to increase the legitimacy of decisions which affect all citizens” (④, item 27).

3. The EP supports the Commission’s work:

The EP takes a supportive stance for the Commission’s work under the European Semester mechanism, and it “acknowledges”, “recalls”, “welcomes”, “calls on”, “urges”, and “strongly supports” the Commission’s (further) efforts, among which it “[r]eiterates that the Commission is in a unique position to develop a truly detailed European macroeconomic plan that can boost growth and jobs” (④, item 15).

4. The EP’s critical voices mainly concern the democratic credibility of the European Semester (also see 1 and 2C above in this Table):

It “[r]egrets that parliamentary scrutiny plays only a minor role in the process, and stresses that the European Semester must in no way jeopardize the prerogatives of the European Parliament and the national parliaments” (④, item 29); it “[r]eiterates the need to involve Parliament — the

only supranational European institution with electoral legitimacy — in economic policy coordination” (④, item 34).

➤ **On the ESRB**

5. The EP and the Council via the OLP (the Position of the European Parliament of 22 September 2010 (first reading)⑥ and the Decision of the Council of 17 November 2010⑦) have adopted the ESRB regulation, which led to the establishment of the ESRB of 24 November 2010, and the ESRB became operational from 1 January 2011. ⑤
 6. The EP supports the Commission’s proposal on the establishment of the ESRB, and it “called repeatedly for the reinforcement of a true level playing field for all actors at the level of the Union while pointing out significant failures in the Union’s supervision of ever more integrated financial markets”; furthermore, it also believed that “there is a need for a strong commitment on the part of the Union at the global level” so far as macro-prudential oversight is concerned. ⑤
 7. The ESRB is held accountable to the EP and the Council, and “[b]y 17 December 2013, the European Parliament and the Council shall examine this Regulation on the basis of a report from the Commission and, after having received an opinion from the ECB and the ESAs, shall determine whether the mission and organization of the ESRB need to be reviewed” (⑤, Article 20).
-

➤ **On the ESM**

8. The EP supports the establishment of the ESM and takes a pro-integrative stance on building up EU economic governance, as the EP:
 - A: “Endorses the draft European Council decision [...]; agrees with the view expressed in the opinion by the ECB supporting recourse to the Union method allowing for the European stability mechanism to become a Union mechanism at an appropriate point in time”; (⑧, item 14)
 - B: “Considers that it is essential to go beyond the temporary measures aimed at stabilizing the euro area [...]; takes the view that the reinforcement of the SGP, the European semester, the EU 2020 strategy and the amendment of Article 136 TFEU concerning the European stability mechanism are only a first step in that direction;” (⑧, item 5)
 - C: “Notes that the Council has not used all the possibilities provided for by the Treaties to fully enforce the SGP and to improve economic coordination at European Union level”; (⑧, item 4)
 - D: “Regrets that the European Council has not explored all the possibilities contained in the Treaties for establishing a permanent stability mechanism”; (⑧, item 9)
 - E: “[E]ncourag(s) the participation in the European stability mechanism of those Member States whose currency is not yet the euro”; (⑧, item 11)
 9. The EP supports the Commission:
 - A: The EP “considers that the Commission must be a member of the board of this mechanism, and not simply an observer; considers, moreover, that in this context the Commission should be entitled to take the appropriate initiatives in order to achieve, with the consent of the Member States concerned, the objectives of the European stability mechanism”; (⑧, item 7)
 - B: The EP suggests that “the Commission should play a strong central role in the monitoring of the implementation of the commitments, in particular so as to ensure that measures are compatible with, and supportive of, the EU rules and the involvement of Parliament”. (⑧, item 12)
 10. The EP’s main critical voices on the ESM include:
 - A: “Warns that the intention to establish the permanent stability mechanism outside the EU
-

institutional framework poses a risk to the integrity of the Treaty-based system” and “[s]tresses that the establishment and functioning of the permanent stability mechanism must fully respect the core principles of democratic decision-making such as transparency, parliamentary scrutiny and democratic accountability; emphasizes that the European stability mechanism should closely involve the Union institutions and bodies responsible for monetary issues — the European Commission, the European Central Bank (ECB) and the European Investment Bank (EIB)”; (⑧, item 7-8)

B: “Insists that compliance by Member States [...] with the conditions imposed by the European stability mechanism needs to be scrutinized by Parliament, and stresses that each national parliament shall be fully involved, in accordance with their budgetary and control rights, at all stages, especially in the context of the European semester, in order to increase the transparency, ownership and accountability of any decision taken”. (⑧, item 17)

Sources: ①Till the end of 2013, the package of the new set of rules includes six Regulations of the EP and the Council, one Council Regulation, and one Council Directive, among which four Regulations of the EP and the Council, the Council Regulation and Directive make up what it is called “six-pack” — EU secondary law covering both fiscal and macroeconomic surveillance and applying to all member states with some specific rules for the euro states, and the other two Regulations as a continuum to the six-pack reform specifically targeted at the eurozone countries and becoming effective as of 30 May 2013 are called “two-pack”; see footnote 123 of this dissertation; ②European Parliament-P7_TA(2011)0542 (1 December 2011); ③Regulation (EU) No 1175/2011; ④European Parliament-P7_TA(2012)0408 (26 October 2012); ⑤ESRB Regulation (i.e. Regulation (EU) No 1092/2010)); ⑥Council of the European Union-16452/10 PRESSE 303 (17 November 2010); ⑧ European Parliament-P7_TA(2011)0103 (23 March 2011); ⑨Hallerberg et al. (September 2012).

Examining the EP’s positions on the three new measures, Table 6.12 confirms that the EP, like the Commission, also took pro-integrative stances in addressing the eurozone sovereign debt crisis (particularly 1, 5, 6 and 8 in Table 6.12) and it indeed supported the Commission’s proposals (3, 5, 6 and 9 in Table 6.12) so far as the three selected cases are concerned. As regards the European Semester, the EP stressed the Commission’s “unique position” in developing macroeconomic plans which would promote economic growth and job creation across the EU (3 in Table 6.12). On the issue of establishing the ESRB, the EP in its first reading already approved the Commission’s proposal (5 in Table 6.12), and moreover, it encouraged the Commission to play a major (and even a leading) role in macro-prudential oversight affairs at the global level (6 in Table 6.12). As for the creation and operation of the ESM, the EP not only recommended the Commission to be a member of the ESM Board of Governors rather than being in the status quo of an observer, but also emphasized the Commission’s functions and powers in initiating new proposals and monitoring national commitments under the ESM (9 in Table 6.12).

Two features are exhibited in the EP's positions towards the three new measures. First, the EP expressed its concerns and criticism on the new measures' legitimacy and democratic credibility. Among the three new measures, the ESRB was prescribed to be held accountable to the EP and the Council (7 in Table 6.12), but for the other two, the EP voiced its critical opinions on the lack or inadequate involvement and participation of the EP (as well as national parliaments) (1B, 4 and 10 in Table 6.12). Nevertheless, the EP's critical stances on the new measures' legitimacy and the inclusion of the EP into the new measures mean to strengthen the prerogative status of the EP and of possibly increasing the power of the EP. In this regard, as for the ESRB, the EP, together with the Council, got empowered to make decisions before 17 December 2013 on whether the current structure and operation of the ESRB needed to be reviewed and accordingly changed (7 in Table 6.12); regarding the European Semester and the ESM, the implementation of the European Semester will strengthen the prerogative status of the EP and the national parliaments (1B, 2C, 4 and 10B in Table 6.12) if EP resolutions are followed, while the operation of the ESM shall further increase the powers of the EP as the EP suggests that member states' commitments to the ESM rescue conditionality should also be put under the scrutiny of the EP (10 B in Table 6.12). Therefore, from another perspective, the EP, while displaying cultivated spillover effects, also seeks to strengthen its prerogative status and to extend its power by making the new measures held accountable to the EP, which indicates mutual support among EU supranational institutions. Second, the EP's pro-integrative stances are in line with those of the transnational interest groups represented by BusinessEurope and the ETUC — in particular, the EP's views on the European Semester echo and support the concerns of the workers represented by the ETUC on the issues such as unemployment, gender inequality, the welfare of common citizens, the participation of social partners, and the involvement of national parliaments and the EP (4 in Table 6.5 and 2 in Table 6.12), and the ETUC actually called for a full involvement of the EP in the European Semester (4C in Table 6.5). Therefore, this dissertation draws the conclusion that in front of the severe sovereign debt crisis, major actors within the EU tended to reach common agreements and willingly took further integrative steps.

To summarize, H1c is confirmed in the way that “through proposal making on the solutions to the sovereign debt crisis, the Commission, *not necessarily* under the framework laid down by the European Council, takes pro-integrative approaches to address the crisis; as a consequence, the Commission, while *due to the severe crisis not*

purposely building coalitions with the key member states and interest groups, gets its power and autonomy expanded in two cases among the three (i.e. the European Semester and the ESM), and meanwhile, the EP, also taking pro-integration positions and supporting the Commission's proposals, seeks the extension of its authorities and powers," among which the findings of "not necessarily" suggest that:

Proposition 7: In formulating solutions to the crisis, the Commission's proposed initiatives tend to be framed up by the European Council and/or the Council of the Minister rather than by the Commission itself, which indicates that the fate of the EU still largely rests in the hands of the nation states.

The conclusions to H1c illuminate another two features of cultivated spillover:

Proposition 8: Confronted with crises, two main EU institutions, the Commission and the EP, not only tend to forge common supportive positions towards the EU project, but also tend to take further pro-integrative measures to push the EU forward.

Proposition 9: EU supranational institutions tend to take crises as opportunities to expand their powers and autonomy. Meanwhile, EU institutions tend to mutually support each other's positions.

This dissertation would call proposition 9 "a synergy of the cultivated spillover effects of EU institutions" as in case studies the Commission and the EP have shown mutual support for each other's policy stances. Furthermore, taking national governments' and interest groups' pro-integrative positions (i.e. the effect of political spillover) into account (see section 6.1.2), there is another type of synergy between political spillover and cultivated spillover:

Proposition 10: Confronted with crises, actors within the EU, both institutional and non-institutional, not only tend to forge common pro-integrative positions toward the crises, but also willingly take new integrative steps, thus pushing EU political integration further. Meanwhile, these actors tend to support each other's positions.

It is interesting to observe that faced with severe crisis, "package deals" as a traditional means adopted by the Commission to upgrade common interests are concluded by EU member states before the Commission proposes, and member states' political clout on EU/EMU affairs appears to be largely decided by their financial contributions to the EU budget and the relevant projects:

Proposition 11: A member state's contributions to the EU integration project, which are largely proportionate to its economic power, decide its political status and political clout within the EU system, that is, the stronger an economy is, the bigger

share it shall contribute, and then the greater influence it shall exert over EU policy making; consequently, the EU's developments tend to reflect the biggest member states' interests.

Proposition 11 actually offers an explanation as to why the Commission tends to build a coalition with the key member states, and it appears that the economic power is the base of political status and influence. As section 2.5.1 of Jensen's institutional/legalistic spillover explains, the voting weights and thresholds entailed in QMV embody the rationale of striking a balance between the larger and smaller member states, so from another angle, economic strengths and democratic equality are the two poles that define the contour of the EU. Besides, Proposition 7 suggests that at the crucial moment of the EU, nation states' leading role is prominent, and this actually confirms certain intergovernmentalist propositions.

6.1.4 Evidence for H1d: Relations between the Three Types of Spillover

To solve the euro area sovereign debt crisis requires coordination of various policies (see Tables 1.2 and 1.3), and thus the inherently expansive nature of this issue is prominent; nevertheless, as Table 6.11 suggests, the autonomy and power of the Commission did not necessarily increase along with the adoption of the EU's new measures — one case of the three (i.e. the establishment of the ESRB) does not show a power expansion of the Commission. As far as European citizens' attitudes towards the EU are concerned, they should be topic-specific — people may have different opinions on different issues. European public support for EMU with the single currency is presented in Figure 6.6 and Figure 6.7.

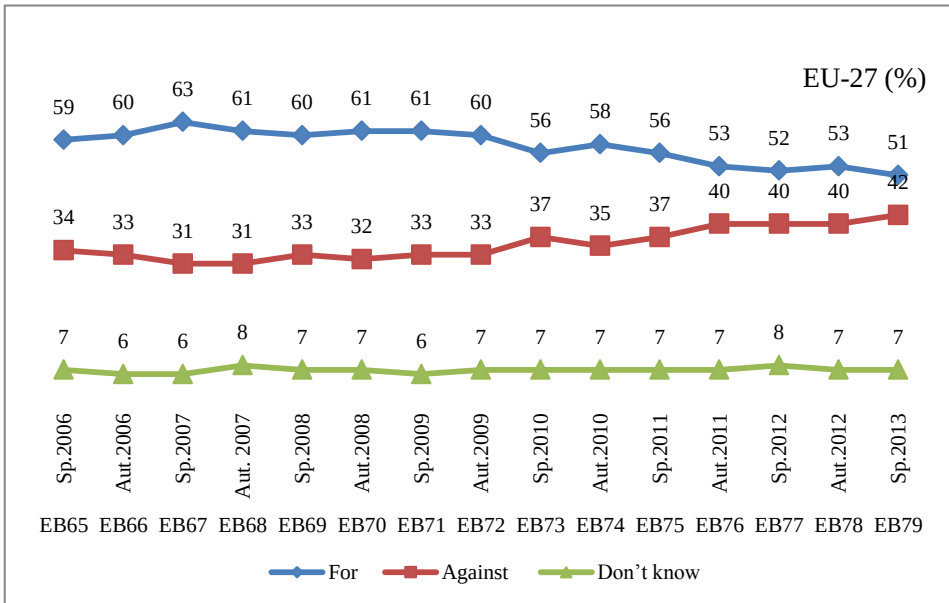


Figure 6.6 European Public Opinion about EMU with the Single Currency, EU-27*

Notes: Results are based on the question: “What is your opinion on a European economic and monetary union with one single currency, the euro? Please tell me whether you are for it or against it.”

* The figures of EU-27 do not include Croatia, which became the 28th member of the EU as of 1 July 2013.

Sources: Adapted from *Standard Eurobarometer 79* (Spring 2013, 23).

According to Figure 6.6, the assumption that “*European citizens’ support for the EU project also tends to increase*” is refuted, and the results show the opposite: since the beginning of the eurozone sovereign debt crisis from the autumn of 2008, citizen support rates of the EU-27 for EMU have exhibited a decreasing trend. Viewed in an even longer time span from the spring of 2006 to the spring of 2013, EU public support for the single currency keeps a positive rising trend till the spring of the 2007, and afterwards, it displays a declining trend in general, dropping from the highest record of 63% in the spring of 2007 to the lowest point of 51% in the spring of 2013, with a two-percentage-point rebound from the spring (56%) to the autumn (58%) during 2010. Meanwhile, more and more Europeans take an opposing position towards EMU and the euro: the “against” rates have increased from 34% in spring 2006 to 37% in spring 2010 and then to 42% in spring 2013 — the ever highest rate since the global financial crisis as well as in the past seven years. Naturally, there is a trade-off between the “for”

and the “against”. In comparison, the “do not know” rates stay stable, floating between 6% and 8% during the past seven years. Figure 6.7 further specifies the supporting rates for the monetary project in each member state in 2013.

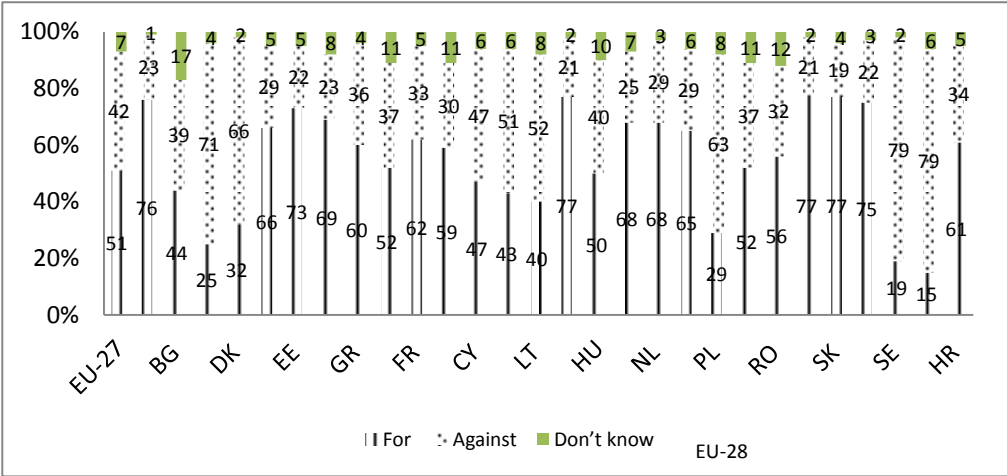


Figure 6.7 National Results of Support for EMU with a Single Currency, 2013
 Notes: Results are based on the question: “What is your opinion on a European economic and monetary union with one single currency, the euro? Please tell me whether you are for it or against it.”
 Sources: Adapted from *Standard Eurobarometer 79* (Spring 2013, 24).

According to Figure 6.7, in 2013, the most supportive countries include Slovakia (77%), Slovenia (77%), Luxembourg (77%), Belgium (76%), Finland (75%), and Estonia (73%) — the support rates in those six member states exceed 70%. At the same time, the UK and Sweden only have 15% and 19% support rates while the opposing rates in both countries register the same records among all: 79% — the UK and Sweden turn out to be the least supportive members. The Czech Republic, Denmark and Poland follow the UK and Sweden closely, with 71%, 66%, and 63% disapproval rates respectively. Among the most supportive and the most opposing member states, a distinctive pattern of the euro v.s. non-euro member states emerges. All the six most supportive countries in 2013 are euro members, while another six members with the highest opposing rates (all above 50%) are all non-euro states; among those most supportive, the new members of the EU after the 2004 enlargement who adopted the single currency (i.e. Slovakia, Slovenia and Estonia) have high support rates for the single monetary project. As for Germany and France, the two core euro member states,

in 2013, national support for EMU with the single currency reached 66% and 62%, respectively, being above the EU-27 average of 51% and thus displaying sound records. However, the opposing rates in the two states at the same time struck at 29% and 33% each, which are not commensurate with their leading roles in pushing and formulating the solutions addressing the eurozone sovereign debt crisis, thus suggesting a gap/disconnect between the governmental elites and the mass in the two countries.

Though the average support rates for the monetary union reached the lowest point (51%) in spring 2013 since the spring of 2006, Figure 6.8 shows that the EU is constantly seen as the most effective actor to tackle the crisis since the spring of 2009. According to Figure 6.8, European citizens, though placing the EU as the best actor to deal with the ongoing crisis, also believe national governments assume similar importance as the EU. In spring 2013, the average support rate for the national government was 21%, only 1% less than for the EU (22%); actually in spring 2012, citizens feel that the best actor choice goes to both the national government and the EU equally with the same rates of 21%. During the time period from spring 2009 to spring 2013, public support for the EU as being the most effective actor to tackle the crisis reached the highest rate of 26% in spring 2010, while 21% was the highest rate for the support for the national government. In general, the EU is always regarded as the most effective actor to deal with the crisis. Figure 6.8 reveals that citizens' choice of the national government as the best actor to address the crisis has suddenly increased from 12% to 19% during the course of the spring 2009 to the autumn of 2009, then keeping around 20% to the spring of 2013. Obviously, as the global financial crisis began to exert negative repercussions on the EU economy and triggered the eurozone sovereign debt crisis in the fall of 2009, European citizens' opinions on the most effective way to cope with the economic and financial crisis across the EU got changed. Figure 6.8 suggests that after the financial crisis, not only do more choices go to the national government, but also the support for the Group of Twenty (G-20) and the US has fallen greatly, as the figures for the former dropped from 20% in spring 2009 to 14% in spring 2011, and then to 13% in spring of 2013 while the statistics for the latter decreased from 16% in spring 2009, to 7% in spring 2011, then to 5% in autumn 2011, but rose to 8% in autumn 2012 and spring 2013. The view to take the IMF as the best actor remains relatively stable with $\pm 1\%$ around 14% after the autumn of 2009. Besides, the "do-not-know" answers have increased slightly since the spring of 2009 and in spring 2013, 14% respondents chose this category, suggesting the uncertainty

among European citizens on how and who can solve the ongoing eurozone sovereign debt crisis. Finally, Figure 6.8 just presents the average of the EU-27 on the question concerned, and there are variations among member states. According to *Standard Eurobarometer* 75 (Spring 2011, 10), though “the belief that the EU is best able to take effective action against the effects of the financial and economic crisis is held by a majority of respondents in 16 Member States”, “the EU has lost its first place since autumn 2010 in three countries: France (EU, 18%, -4; national government, 21%, +4), Germany (EU, 20%, -2; IMF, 21%, +3) and Malta (EU, 25%, -6; national government, 39%, +13)”, which reflect the gap between the elites and the common citizens in Germany and France, the two core euro members. *Standard Eurobarometer* 75 (Spring 2011, 9) also reported that “respondents in the euro area first choose the EU (23%), whereas non-euro countries rank their national government first (24%), ahead of the EU (20%)”, exhibiting a clear distinctive line between the euro and non-euro members.

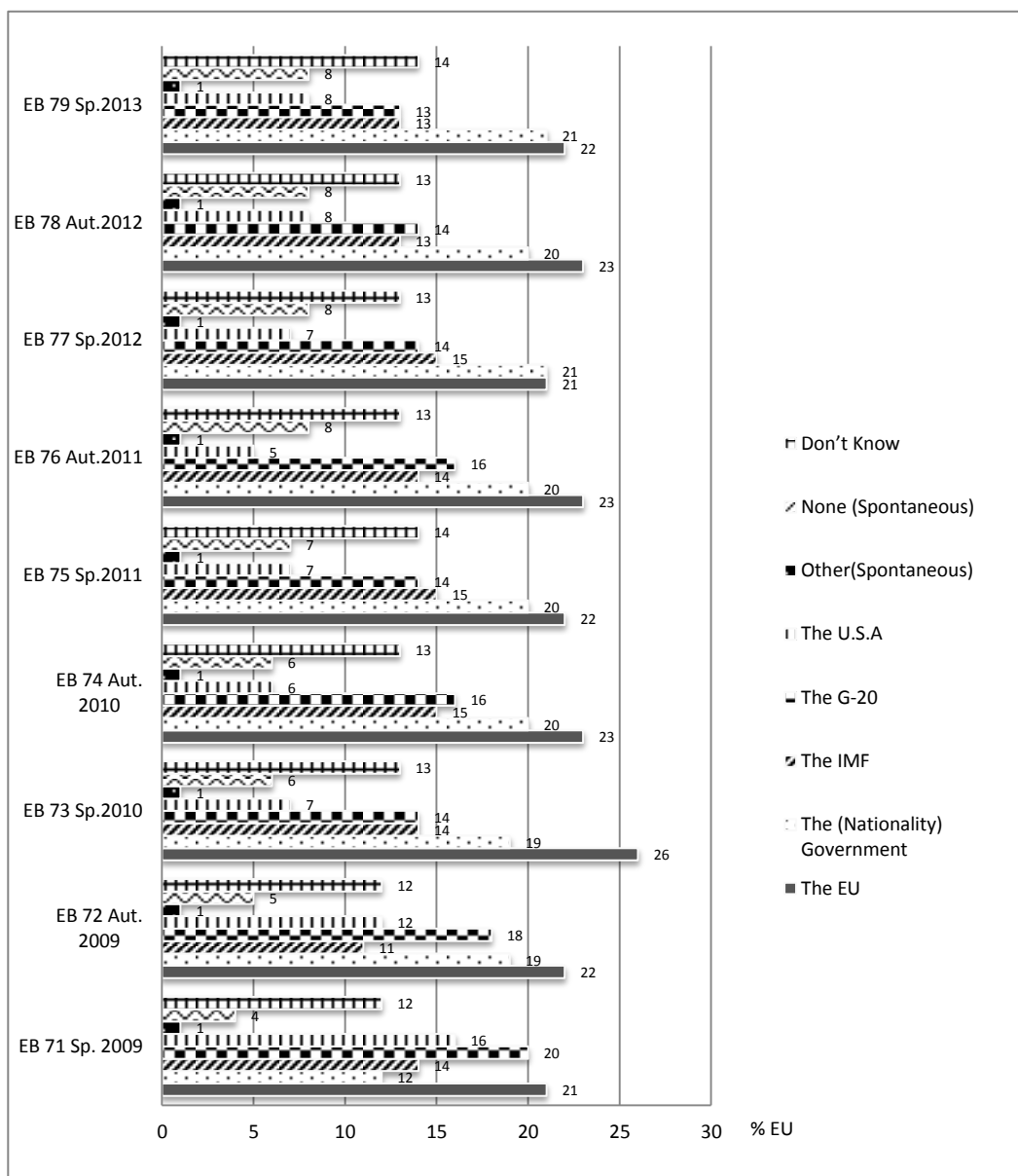


Figure 6.8 Public Opinion on the Most Effective Level to Tackle the Crisis, EU-27
Notes: Results are based on the question: “In your opinion, which of the following is best able to take effective actions against the effects of the financial and economic crisis?”
Sources: Data for EB 78 Aut.2012 and EB79 Sp.2013 come from *Standard Eurobarometer* 79 (Spring 2013, 27); for EB 76 Aut. 2011and EB 77 Sp.2012 from *Standard Eurobarometer* 77 (Spring 2012, 20); for EB 71. Sp. 2009-EB 75 Sp.2011 from *Standard Eurobarometer* 75 (Spring 2011, 9).

To conclude, H1d is confirmed to the degree that “as the inherently expansive task (i.e. to solve the eurozone sovereign debt crisis) is assigned to EU supranational institutions, the autonomy and power of EU institutions — typically represented by the Commission — *do not necessarily* expand (see section 6.1.3). Meanwhile, European citizens’ support for the EU project is *topic- and country-specific: European citizens’ support for EMU with the single currency has notably decreased, while the average figures constantly place the EU as the most capable actor to address the crisis.* Therefore, functional spillover effects do not always trigger the power expansion of EU institutions and the increase of public support for the EU project. Obviously, “actors” mentioned in political spillover (H1b) do not cover all EU citizens, but rather they refer to elites and interest group leaders, governmental or non-governmental. During the crisis, European public support for EMU and its single currency decreased, while the political spillover mechanisms (H1b) were effective, so there was a cleavage between the elites and the mass. Findings on the issue of national support for the EU and EMU along with the test of H1d (as well as national government positions towards the EU’s new measures in H1c) suggest the following:

Proposition 12: *There is a distinctive line between the euro and non-euro states within the EU: the euro countries tend to be more supportive of the EMU project and more enthusiastic about EMU affairs than the non-euro countries.*

Proposition 13: *During the crisis, the support rates for EMU tend to decrease, and thus the gap between public and elite support for the EMU project tends to get enlarged rather than narrowed.*

Proposition 14: *During the crisis, though the EU is still regarded as the most effective level at which to tackle the crisis, the public view seeing national governments as the most effective actors to cope with the crisis tends to increase.*

6.2 Evidence for H2: Conditions for Spillover and the Claim of a Slowed-Down EU Integration Pace

In accordance with the preliminary analyses in section 2.1.1.5, this dissertation will now examine the extent of the four factors’ presence judged by the proposed measurements (indicators).

First, the internal trade statistics in Table 6.3 illustrated an increasing economic interdependence among EU states (see Figure 6.9). According to Table 6.3 and Figure

6.9, euro area trade in goods with other EU members displayed an increasing trend in both exports and imports during the whole decade spanning from 2002 to 2012. Despite sharp drops for EU internal trade during the course of 2008 to 2009, in 2010 the levels of internal exports and imports between the euro area and other EU members started to recover and in 2011, both EU-intra exports and imports exceed the ante-global-financial-crisis levels. Table 6.3 and Figure 6.9 suggest that the global financial crisis originating from the US, together with the very beginning of the eurozone sovereign debt crisis, has caused serious damage to EU internal trade, but from 2010 onwards, the on-going eurozone sovereign debt crisis seems to have no negative impact on intra-EU trade, as the trade of the euro countries with other EU member states kept a rising momentum from 2010 to 2012.

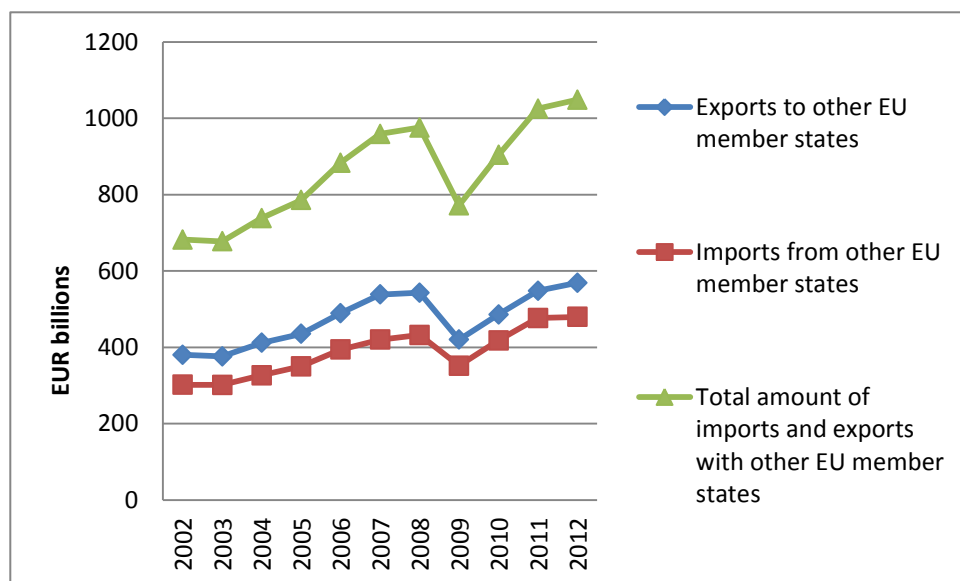


Figure 6.9 Euro Area Trade in Goods with Other EU Member States
Sources: Own charting on the basis of data in Table 6.3 of this dissertation.

Second, judging from the five indicators proposed in Table 2.3, the eurozone sovereign debt crisis in the wake of the global financial crisis does suggest a serious crisis of sufficient magnitude to both EMU and the EU. In terms of GDP annual growth, as Table 6.13 illustrates, the euro area as well as the whole EU suffered a great economic recession in 2008 and 2009, as the positive growth rates of GDP in 2007

dropped sharply in 2008 and reached the lowest levels of -4.1% and -4.2% for the eurozone and the EU in 2009, respectively. The economic growth of 2010 showed a recovering momentum, but after 2010, 2011 and 2012 continuously witnessed economic recessions, and the GDP growth rates in 2012 turned out to be negative again with -0.6% for the euro area and -0.4% for the EU. Taking the EU-27 as a whole, the shock of the global financial crisis to the EU economy is considerable (Figure 6.10), and since 2009, the EU has been struggling through the mire of the eurozone sovereign debt crisis, and till 2012, GDP annual growth has not recovered to the level before the crisis.

Table 6.13 GDP Growth Rates (%) of the EU Member States, 2007-2012 ¹⁾

	2007	2008	2009	2010	2011	2012
BE	2.8	0.8	-3.0	2.4	1.8	-0.3
DE	2.5	1.3	-5.0	4.0	3.3	0.7
EE	...	...	...	3.3	8.3	3.2
IE	6.0	-0.3	-7.1	-1.1	2.2	0.2
GR ²⁾	4.5	2.0	-2.0	-4.9	-7.1	-6.4
ES	3.6	0.9	-3.6	-0.2	0.1	-1.6
FR	2.3	0.4	-2.3	1.7	2.0	0.0
IT	1.4	-1.3	-5.1	1.7	0.4	-2.4
CY	5.1	3.6	-1.7	1.3	0.5	-2.4
LU	6.5	0.0	-3.4	2.9	1.7	0.3
MT	3.8	2.1	-1.9	3.2	1.8	1.0
NL	3.6	2.0	-4.0	1.5	0.9	-1.2
AT	3.5	2.0	-3.6	1.8	2.8	0.9
PT	1.9	0.0	-2.7	1.9	-1.6	-3.2
SI	6.8	3.5	-7.8	1.3	0.7	-2.5
SK	10.6	6.2	-4.7	4.4	3.2	2.0
FI	4.9	1.2	-7.8	3.4	2.7	-0.8
Euro area	2.8	0.6	-4.1	2.0	1.5	-0.6
BG	6.2	6.0	-5.0	0.4	1.8	0.8
CZ	6.1	2.5	-4.2	2.5	1.8	-1.2
DK	1.7	-0.9	-4.9	1.6	1.1	-0.4
EE	7.2	-3.6	-14.1	...	...	...
HR	...	...	...	-2.3	0.0	-2.0
LV	10.0	-4.6	-18.0	-0.9	5.5	5.6
LT	9.8	2.8	-14.8	1.5	5.9	3.7
HU	1.0	0.6	-6.3	1.3	1.6	-1.7
PL	6.8	5.0	1.8	3.9	4.5	1.9
RO	6.3	7.3	-7.1	-0.9	2.3	0.4
SE	2.5	-0.2	-4.9	6.6	3.7	0.7
UK	2.6	0.5	-4.9	1.7	1.1	0.2
EU	2.9	0.7	-4.2	2.0	1.6	-0.4

Notes: 1) Annual percentage changes in volume and quarterly data seasonally adjusted,

unless otherwise indicated.

2) Statistics for 2010, 2011, 2012, quarterly data unadjusted.

Sources: Statistics for 2007-2009 come from *ECB Statistics Pocket Book* (June 2010, 39) and for 2010-2012 from *ECB Statistics Pocket Book* (September 2013, 39).



Figure 6.10 Annual GDP Growth Rates in the EU

Sources: Own Charting on the basis of the following: statistics for 2000-2002 come from *ECB Statistics Pocket Book* (December 2003, 36); for 2003-2004 from *ECB Statistics Pocket Book* (June 2005, 37); for 2005-2006 from *ECB Statistics Pocket Book* (June 2007, 37); for 2007-2012 from Table 6.13 of this dissertation.

Table 6.14 General Government Deficit (-)/Surplus (+) as a Percentage of GDP (%), 2006-2012

	2006	2007	2008	2009	2010	2011	2012
BE	0.3	-0.2	-1.2	-5.6	-3.8	-3.7	-3.9
DE	-1.6	0.2	0.0	-3.1	-4.1	-0.8	0.2
EE	...	...	...	-2.0	0.2	1.2	-0.3
IE	3.0	0.1	-7.3	-13.9	-30.8	-13.4	-7.6
GR	-3.6	-5.1	-7.7	-15.6	-10.7	-9.5	-10.0
ES	2.0	1.9	-4.1	-11.2	-9.7	-9.4	-10.6
FR	-2.3	-2.7	-3.3	-7.5	-7.1	-5.3	-4.8
IT	-3.3	-1.5	-2.7	-5.5	-4.5	-3.8	-3.0
CY	-1.2	3.4	0.9	-6.1	-5.3	-6.3	-6.3
LU	1.4	3.6	2.9	-0.8	-0.9	-0.2	-0.8
MT	-2.6	-2.2	-4.5	-3.7	-3.6	-2.8	-3.3
NL	0.5	0.2	0.7	-5.6	-5.1	-4.5	-4.1
AT	-1.5	-0.4	-0.4	-4.1	-4.5	-2.5	-2.5
PT	-3.9	-2.6	-2.8	-10.2	-9.8	-4.4	-6.4
SI	-1.3	0.0	-1.7	-6.2	-5.9	-6.4	-4.0
SK	-3.5	-1.9	-2.3	-8.0	-7.7	-5.1	-4.3
FI	4.0	5.2	4.2	-2.5	-2.5	-0.8	-1.9
Euro area	-1.3	-0.6	-2.0	-6.4	-6.2	-4.1	-3.7
BG	3.0	0.1	1.8	-4.3	-3.1	-2.0	-0.8
CZ	-2.6	-0.7	-2.7	-5.8	-4.8	-3.3	-4.4
DK	5.2	4.8	3.4	-2.7	-2.5	-1.8	-4.0
HR	.	.	.	.	.	.	.
EE	2.5	2.6	-2.7	...	...	...	...
LV	-0.5	-0.3	-4.1	-9.8	-8.1	-3.6	-1.2
LT	-0.4	-1.0	-3.3	-9.4	-7.2	-5.5	-3.2
HU	-9.3	-5.0	-3.8	-4.6	-4.3	4.3	-1.9
PL	-3.6	-1.9	-3.7	-7.4	-7.9	-5.0	-3.9
RO	-2.2	-2.5	-5.4	-9.0	-6.8	-5.6	-2.9
SE	2.5	3.8	2.5	-0.7	0.3	0.2	-0.5
UK	-2.7	-2.8	-4.9	-11.5	-10.2	-7.8	-6.3
EU	-1.4	-0.8	-2.3	-6.9	-6.6	-4.5	-4.0

Sources: Statistics for 2006-2008 come from ECB *Statistics Pocket Book* (June 2010, 45), and statistics for 2009-2012 from ECB *Statistics Pocket Book* (September 2013, 45).

Regarding national budget deficits, Table 6.14 shows that in 2009 the average government budget deficits in the euro area and the whole EU reached the highest levels of -6.4% and -6.9% of GDP, and from 2010 to 2012, the average budget deficits suggest a decreasing trend, at -3.7% and -4.0% for the euro area and the EU respectively, still above the SGP criterion of 3% of GDP. Meanwhile, the governmental debt rates exhibit an increasing trend from 2007 to 2012, during which they suddenly surge up with more than 10 percent points for both the eurozone and the EU from 2008 to 2009. The average figures of the government debts from 2009 to

2012 keep steadily rising, which also already exceed the SGP criterion of 60% of GDP.

Table 6.15 General Government Debt as a Percentage of GDP, 2006-2012

	2006	2007	2008	2009	2010	2011	2012
BE	88.1	84.2	89.8	95.7	95.5	97.8	99.6
DE	67.6	65.0	66.0	74.5	82.4	80.4	81.9
EE	...	...	...	7.2	6.7	6.2	10.1
IE	24.9	25.0	43.9	64.8	92.1	106.4	117.6
GR	97.8	95.7	99.2	129.7	148.3	170.3	156.9
ES	39.6	36.2	39.7	53.9	61.5	69.3	84.2
FR	63.7	63.8	67.5	79.2	82.4	85.8	90.2
IT	106.5	103.5	106.1	116.4	119.3	120.8	127.0
CY	64.6	58.3	48.4	58.5	61.3	71.1	85.8
LU	6.5	6.7	13.7	15.3	19.2	18.3	20.8
MT	63.7	61.9	63.7	66.4	67.4	70.3	72.1
NL	47.4	45.5	58.2	60.8	63.1	65.5	71.2
AT	62.2	59.5	62.6	69.2	72.0	72.5	73.4
PT	64.7	63.6	66.3	83.7	94.0	108.3	123.6
SI	26.7	23.4	22.6	35.0	38.6	46.9	54.1
SK	30.5	29.3	27.7	35.6	41.0	43.3	52.1
FI	39.7	35.2	34.2	43.5	48.6	49.0	53.0
Euro area	68.3	65.9	69.4	80.0	85.4	87.3	90.7
BG	22.7	18.2	14.1	14.6	16.2	16.3	18.5
CZ	29.4	29.0	30.0	34.2	37.8	40.8	45.8
DK	32.1	27.4	34.2	40.7	42.7	46.4	45.8
EE	4.5	3.8	4.6	...	...	...	...
HR	.	.	.	.	.	.	.
LV	10.7	9.0	19.5	36.9	44.4	41.9	40.7
LT	18.0	16.9	15.6	29.3	37.9	38.5	40.7
HU	65.6	65.9	72.9	79.8	81.8	81.4	79.2
PL	47.7	45.0	47.2	50.9	54.8	56.2	55.6
RO	12.4	12.6	13.3	23.6	30.5	34.7	37.8
SE	45.7	40.8	38.3	42.6	39.4	38.4	38.2
UK	43.5	44.7	52.0	67.8	79.4	85.5	90.0
EU	61.4	58.8	61.6	74.0	79.9	82.3	85.4

Sources: Statistics for 2006-2008 come from ECB *Statistics Pocket Book* (June 2010, 46), and statistics for 2009-2012 from ECB *Statistics Pocket Book*, September (2013, 46).

As regards inflation rates, the quantitative target of the ECB pursuing price stability for the euro area aims at below, but close to, 2% of the annual increase of the Harmonised Index of Consumer Prices (HICP) over the medium term, avoiding both

inflation above 2% and price level declining or deflation.¹²⁹ According to Table 6.16 and Figure 6.11, the average HICP figure of 2.0% for the euro area in the first decade of the 21st century shows that the ECB performs its main function well: keeping price stability for the eurozone and maintaining the euro's purchasing power; nevertheless, the impact of both the global financial crisis and the eurozone sovereign debt crisis on the inflation rates is obvious. For the euro area, the inflation rates increased from 2.1% in 2007 to 3.3% in 2008, and then slumped to 0.3% in 2009; in 2010 rates recovered to 1.6% and kept at a comparatively high level of 2.7% and 2.5% in 2011 and 2012, respectively. The inflation rates for the whole EU also display such a pattern of suddenly surging, then plummeting and then again rising to a higher level above 2%. The global financial crisis and the eurozone sovereign debt crisis caused a big swing of the inflation rates, illustrating the repercussions and negative influence of the crises on the economies of the euro countries and the whole EU (see Figure 6.11), but still inflation rates are largely kept under control.

¹²⁹ See "ECB Monetary Policy: Introduction" (ECB).

Table 6.16 Inflation Rates of the EU Member States, 2007-2012¹⁾

	Average 1996-00	Average 2001-05	Average 2001-10	2006	2007	2008	2009	2010	2011	2012
BE	1.6	2.0	2.1	2.3	1.8	4.5	0.0	2.3	3.4	2.6
DE	1.1	1.6	1.6	1.8	2.3	2.8	0.2	1.2	2.5	2.1
EE	...	...	4.2	...	...	...	...	2.7	5.1	4.2
IE	2.6	3.4	2.2	2.7	2.9	3.1	-1.7	-1.6	1.2	1.9
GR	4.6	3.5	3.4	3.3	3.0	4.2	1.3	4.7	3.1	1.0
ES	2.6	3.2	2.8	3.6	2.8	4.1	-0.3	2.0	3.1	2.4
FR	1.3	2.0	1.9	1.9	1.6	3.2	0.1	1.7	2.3	2.2
IT	2.4	2.4	2.2	2.2	2.0	3.5	0.8	1.6	2.9	3.3
CY	2.9*	2.5	2.4	2.2	2.2	4.4	0.2	2.6	3.5	3.1
LU	1.7	2.8	2.6	3.0	2.7	4.1	0.0	2.8	3.7	2.9
MT	3.2*	2.5	2.4	2.6	0.7	4.7	1.8	2.0	2.5	3.2
NL	1.9	2.8	2.1	1.7	1.6	2.2	1.0	0.9	2.5	2.8
AT	1.2	1.9	1.9	1.7	2.2	3.2	0.4	1.7	3.6	2.6
PT	2.4	3.2	2.4	3.0	2.4	2.7	-0.9	1.4	3.6	2.8
SI	8.2	5.5	4.2	2.5	3.8	5.5	0.9	2.1	2.1	2.8
SK	8.2	5.8	4.1	4.3	1.9	3.9	0.9	0.7	4.1	3.7
FI	1.6	1.4	1.7	1.3	1.6	3.9	1.6	1.7	3.3	3.2
Euro area ²⁾	1.6	2.2	2.0	2.2	2.1	3.3	0.3	1.6	2.7	2.5
BG	10.3**	5.5	6.0	7.4	7.6	12.0	2.5	3.0	3.4	2.4
CZ	5.8*	2.0	2.3	2.1	3.0	6.3	0.6	1.2	2.1	3.5
DK	2.0	1.9	2.0	1.9	1.7	3.6	1.1	2.2	2.7	2.4
HR	.	.	2.9	.	.	.	.	1.1	2.2	3.4
EE	8.8	3.5	...	4.4	6.7	10.6	0.2	...	...	...
LV	4.3*	4.1	5.4	6.6	10.1	15.3	3.3	-1.2	4.2	2.3
LT	8.2	0.9	3.0	3.8	5.8	11.1	4.2	1.2	4.1	3.2
HU	15.1	5.8	5.6	4.0	7.9	6.0	4.0	4.7	3.9	5.7
PL	11.0*	2.7	2.8	1.3	2.6	4.2	4.0	2.7	3.9	3.7
RO	64.2	18.3	12.1	6.6	4.9	7.9	5.6	6.1	5.8	3.4
SE	1.1	1.8	1.9	1.5	1.7	3.3	1.9	1.9	1.4	0.9
UK	1.4*	1.4	2.1	2.3	2.3	3.6	2.2	3.3	4.5	2.8
EU ³⁾	1.7	2.1	2.2	2.2	2.3	3.7	1.0	2.1	3.1	2.6

Notes: *Data for 1997-2000. **Data for 1998-2000.

¹⁾ Annual percentage changes of the HICP.

²⁾ Data refer to the changing composition of the euro area. Averages take actual euro area membership into account for the years of assessment.

³⁾ The HICP data for the EU take the actual composition of EU membership into account.

Sources: Statistics for 2006-2009, average 1996-2000, and average 2001-2005 from ECB *Statistics Pocket Book* (June 2010, 38); statistics for 2006 from ECB *Statistics Pocket Book* (December 2009, 38), and statistics for 2010-2012 and average 2001-2010 from ECB *Statistics Pocket Book* (September 2013, 38).

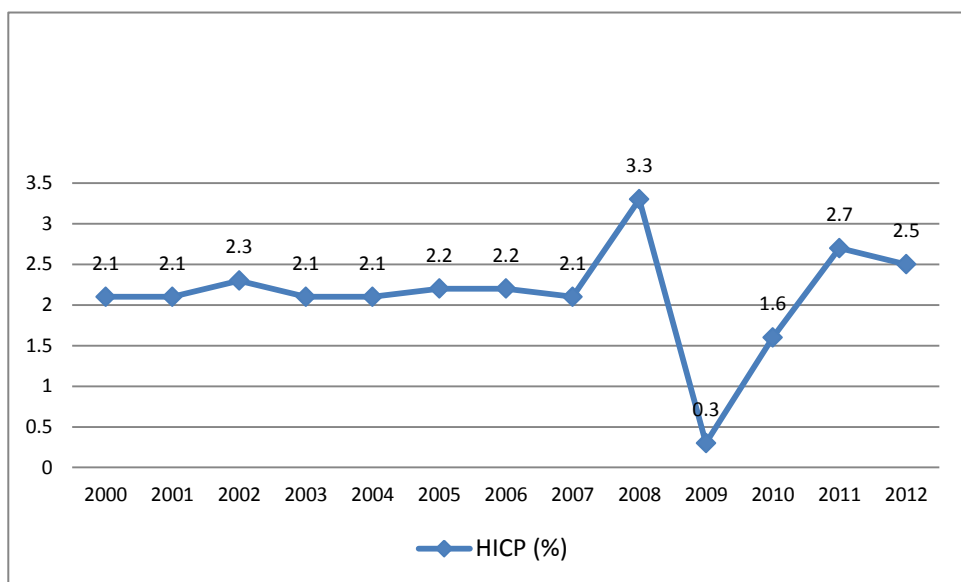


Figure 6.11 Inflation (HICP) in the Euro Area, 2000-2012

Sources: Own charting on the basis of the following: statistics 2000-2002 come from ECB *Statistics Pocket Book* (December 2003, 17); for 2003-2005 from ECB *Statistics Pocket Book* (June 2007, 18); for 2006-2012 from Table 6.16 of this dissertation.

The effect and magnitude of an economic crisis can also be examined from the employment situation. Table 6.17 and Figure 6.12 show a general rising trend of unemployment for the euro area from 2007 to 2012, during which two “steep steps” are marked by the time period of 2008-2010 and 2011-2012. According to the data in Table 6.17, during the course of 2008 to 2009, the average unemployment rate for the whole EU increased almost two percentage points, jumping from 7.0% to 8.9%, meanwhile the figure for the eurozone rose from 7.6% to 9.4%. In the following three years from 2010 to 2012, the unemployment rates for both the euro area and the EU continuously climbed up, reaching the highest levels of 11.4% and 10.5% respectively in 2012 since 2007 — the situation in the euro area turned out to be much direr than that of the whole EU. The financial and sovereign debt crises, therefore, led to unprecedentedly high unemployment rates for the euro countries and the EU. From 2010 to 2012, the figures for the euro area are noticeably above the average of 8.2% for the first ten years of this century as well as above the average rates of 10.0% from 1996 to 2000. As a result, the current unemployment situation of the eurozone turns out to be the most serious one since the creation of EMU and the adoption of the single currency.

Table 6.17 Unemployment Rate as a Percentage of the Labor Force (%), 2007-2012

	Average 1996-00	Average 2001-10	2007	2008	2009	2010	2011	2012
BE	8.7	7.8	7.5	7.0	7.9	8.2	7.2	7.6
DE	8.9	8.9	8.4	7.3	7.5	7.1	6.0	5.5
EE	.	9.8	...	...	...	16.9	12.5	10.1
IE	7.8	6.3	4.6	6.3	11.9	13.9	14.7	14.7
GR	-	9.8	8.3	7.7	9.5	12.5	17.7	24.3
ES	15.5	12.0	8.3	11.4	18.0	20.1	21.7	25.1
FR	10.4	8.9	8.3	7.8	9.5	9.7	9.6	10.3
IT	11.0	7.8	6.2	6.8	7.7	8.4	8.4	10.7
CY	.	4.5	4.0	3.6	5.3	6.3	7.9	11.9
LU	2.6	4.1	4.2	4.9	5.4	4.6	4.8	5.1
MT	.	7.1	6.4	6.0	6.9	7.0	6.5	6.4
NL	4.5	3.9	3.2	2.8	3.4	4.5	4.4	5.3
AT	4.2	4.4	4.4	3.8	4.8	4.4	4.1	4.4
PT	5.8	8.2	8.1	7.7	9.6	12.0	12.9	15.9
SI	7.1	6.0	4.9	4.4	5.9	7.3	8.2	8.9
SK	.	15.2	11.2	9.5	12.0	14.5	13.7	14.0
FI	11.8		6.9	6.4	8.2	8.4	7.8	7.7
Euro area	10.0	8.2	7.5	7.6	9.4	10.1	10.2	11.4
BG	.	11.2	6.9	5.6	6.8	10.3	11.3	12.3
CZ	.	7.0	5.3	4.4	6.7	7.3	6.7	7.0
DK	5.2	5.0	3.8	3.3	6.0	7.5	7.6	7.5
EE	...	...	4.6	5.5	13.8	...	...	...
HR	.	12.2	.	.	.	11.9	13.5	15.9
LV	.	11.8	6.0	7.5	17.2	19.8	16.4	14.9
LT	.	10.9	4.3	5.8	13.7	18.0	15.3	13.3
HU	8.1	7.4	7.4	7.8	10.0	11.2	11.0	10.9
PL	.	14.4	9.6	7.2	8.2	9.6	9.6	10.1
RO	.	7.0	6.4	5.8	6.9	7.3	7.4	7.0
SE	8.0	7.0	6.1	6.2	8.3	8.6	7.8	8.0
UK	6.4	5.6	5.3	5.6	7.6	7.8	8.0	7.9
EU	.	8.6	7.1	7.0	8.9	9.7	9.7	10.5

Sources: Statistics for 2006-2009 from ECB *Statistics Pocket Book* (June 2010, 44), and statistics for 2010-2012, Average 1996-2000, and average 2001-2010 from ECB *Statistics Pocket Book* (September 2013, 44).

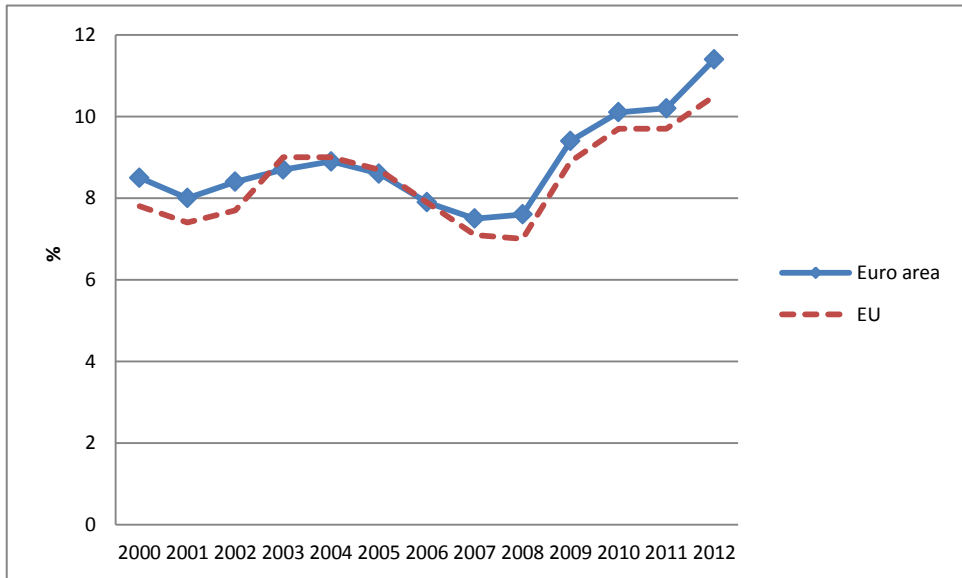


Figure 6.12 Unemployment Rates in the Euro Area and the EU

Sources: Own charting on the basis of the following: statistics 2000-2002 come from ECB *Statistics Pocket Book* (December 2003, 40); for 2003-2004 from ECB *Statistics Pocket Book* (June 2005, 41); for 2005-2006 from ECB *Statistics Pocket Book* (June 2007, 42); for 2007-2012 from Table 6.17 of this dissertation.

Apart from the figures of worsening unemployment, the yield rates for government bonds are another indicator to measure the magnitude and effect of the financial and the eurozone sovereign debt crises. According to the Commission, since the introduction of the single currency until the outbreak of the global financial crisis, “the cost of borrowing for euro area governments was relatively low and fairly similar”; however, from 2009 onwards, imbalances among euro states began to enlarge and “these borrowing costs diverged rapidly as financial markets became doubtful about the fiscal sustainability and competitiveness of some EU countries” (*The European Union Explained: Economic and Monetary Union and the Euro* 2012, 13). As illustrated in Figure 13, the global financial crisis is the point where the euro countries start the divergence of their yield rates, which were further amplified during the euro area sovereign debt crisis. According to the Commission (*The European Union Explained: Economic and Monetary Union and the Euro* 2012, 13), at the beginning of 2012, the yield rates for the Greek 10-year sovereign bonds once reached as high as 40%, while the German government only needed to pay around 2.5% for the same

sovereign bonds. As for two-year government bonds, according to *ECB Annual Report 2012* (15-16), during the eurozone sovereign debt crisis from 2010 to 2012, Germany, France and the Netherlands paid the least — almost all time below 2% — while for Spain and Italy, the yields soared to around 7% and above 8%, respectively; for the ten-year government bonds, Spain and Italy also need to offer higher rates, registering above 7%, more than three times higher than those paid by the German government. General speaking, based on the information provided above, Germany, France, and the Netherlands perform as the most stable financial markets so far as the yield rates for government bonds are concerned; in addition, during the sovereign debt crisis, the yield rates for the three governments, compared with the increasingly unsustainable situation in other euro countries, have exhibited a convergence of decreasing yields. Among other things, the high borrowing costs for national governments to finance are related to national high budget deficits and debts. As Figure 6.14 suggests, the increasing borrowing costs for the euro member states as a whole go hand in hand with the ascending government deficit and debt rates, and two peaks of borrowing costs can be observed: the first one is at the beginning of 2009, and the second one is in the middle of 2010. In 2012, eurozone states' borrowing costs on average still remained at a high level, and a less dramatic peak is distinguishable during the second half year of 2012.

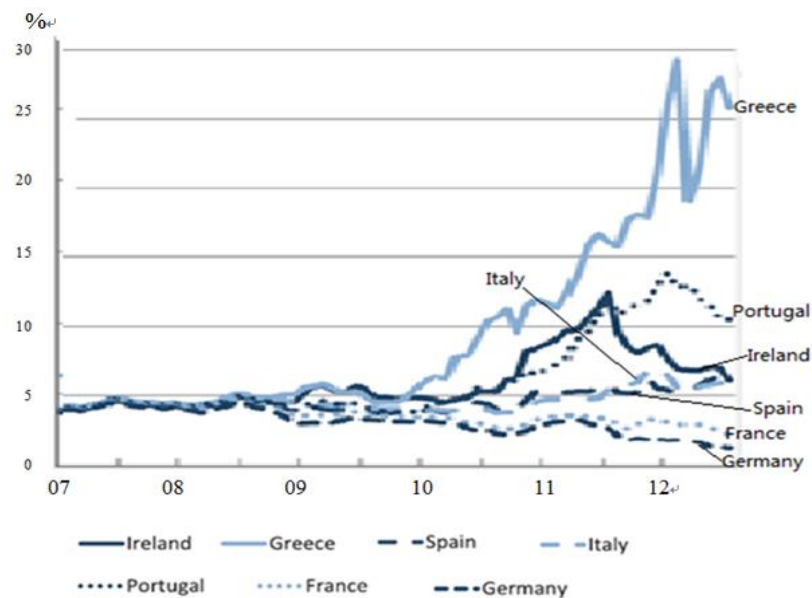


Figure 6.13 European Government Bonds with Maturities of Close to 10 Years, January 2007–July 2012

Notes: Percentages per annum, monthly averages.

Sources: Adapted from Panico and Purificato (2013, 586).

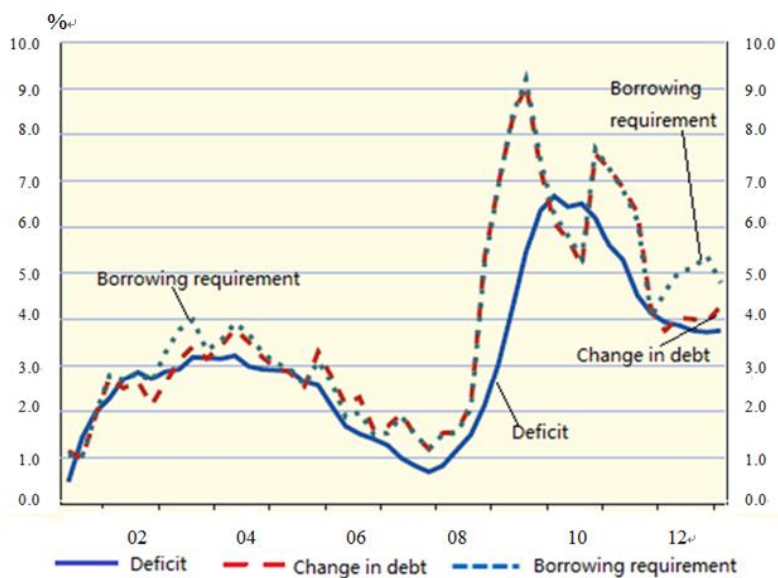


Figure 6.14 Deficits, Borrowing Requirement and Change in Debt (%), the Euro Area

Notes: Four-quarter moving sum as a percentage of GDP.

Sources: ECB calculations based on Eurostat and national data, adapted from *ECB Monthly Bulletin* (September 2013, S 60).

In short, the severe economic recession in terms of GDP, alarming high national budget deficit and debt rates, the ever highest rates of unemployment, and the unsustainable price for some euro governments to finance suggest a crisis of sufficient magnitude which is expected to foster spillover effects. While the five indicators presented above measure the crisis impact from non-institutional aspects, the eurozone sovereign debt crisis was also criticized on the basis of the institutional disadvantage of EMU, which carries out a unified monetary policy entrusted to the ECB, while lacking a common fiscal policy. Meanwhile, the economic pillar of EMU is also limped (see Table 1.2). Therefore, the eurozone sovereign debt crisis was also an institutional crisis for EMU as well as for the whole EU economic governance; nevertheless, such unintended institutional crisis is triggered and exposed by the unexpected severe economic and financial (i.e. non-institutional) shocks. From this perspective, crises indeed mean opportunities for institutional reforms.

As for the third factor — regional bureaucrats' competence and autonomy to intervene, the three new measures have vividly illustrated new EU developments as the results of the efforts of the elites at both the EU level and national level to address the crisis. Table 6.6 "The Commission's Proposals for the Three New Measures" provides evidence of EU bureaucrats' and experts' competence and autonomy to formulate, adopt and implement the new mechanisms to solve the crisis, among which the initiation and efforts of European Council President Van Rompuy (in the cases of the European Semester and the ESM, see Table 6.6) and Commission President Barroso (in the case of the ESRB, see Table 6.6) particularly stand out. Meanwhile, Table 6.7 "German, French and UK Governments' Positions Towards the Three New Measures" sheds light on the positions and interventions of the three core member states' governmental leaders to the crisis.

Finally, regarding interest associations' capability to deal with problems independently from national constraints, Table 6.5 "BusinessEurope's and the ETUC's Positions on the European Semester, the ESRB and the ESM" has demonstrated two main European interest groups' independent positions and views towards the crisis. In terms of interest groups' independent capability from national constraints, this dissertation explored the nature, missions and working structure of BusinessEurope and the ETUC. As for BusinessEurope, it is a horizontal business organization at the EU level with a long history that can be traced back to the 1950s; it connects 41 member

federations and represents more than 20 million companies from 35 countries, and “[i]ts main task is to ensure that companies’ interests are represented and defended *vis-à-vis* the European institutions with the principal aim of preserving and strengthening corporate competitiveness” (“BusinessEurope”, European Commission) — to realize such, 60 Working Groups, composed of experts nominated by the member federations, are organized by seven policy committees to “debate proposed EU legislation and come to a consensus view of the impact on enterprises of these proposals”, which “are issued as official BUSINESSEUROPE position papers (about 100 every year)” (“Policy Committees and Working Groups”, BusinessEurope). In comparison, the ETUC, founded in 1973 and being “on behalf of the common interests of workers, at European level”, “represents 85 trade union organizations in 36 European countries, plus 10 industry-based federations” with the aim of promoting a European Social Model which “embodies a society combining sustainable economic growth with ever-improving living and working standards” (“Our Aims”, ETUC); expressing the common interests of European workers, “it is involved in economic and social policy-making at the highest level, working with all the EU institutions: Presidency, Council, Commission and Parliament” (“Our Aims”, ETUC). Normally, the ETUC can take actions via applying political pressure, conducting social dialogue or organizing large-scale demonstrations to influence EU legislation and policy making, and prominently, it took part in negotiations with employers at European level to reach autonomous agreements on topics affecting European workers, such as teleworking (2002), work-related stress (2004), harassment and violence at work (2007) and inclusive labour markets (2010); as a matter of fact, under the EC Treaty, it must be consulted by the Commission on all European employment and social policy proposals (“Actions”, ETUC). All those show that both BusinessEurope and the ETUC carry out their activities independently from national constraints.

To summarize, evidence of the indicators proposed by Table 2.3 appears to confirm both the presence and magnitude of all the four factors listed by H2 — a generally favorable condition for the effectiveness of spillover. The presence of the four factors, as being the favorable conditions fostering a spillover effect, imply the following: (a) factor 1 indicates that more spillover shall occur along with the ever-increasing globalization, because economic interdependence among (EU) nation states gets strengthened and deepened due to globalization, and as “globalization processes are continuously evolving, driven by the economic aspirations of millions

around the globe — the more people involved, the faster the globalization is” (Rametsteiner et al. December 2007, iii), then the economic interests and activities of more involved people can be regarded as the bases for spillover; (b) factor 2 demonstrates that crises (institutional or non-institutional, internal or external) also offer opportunities for reforms and new developments — if factor 1 explains the bases for spillover, then factor 2 acts as a catalyst for spillover, presenting the urgency and necessity to push for further integration; (c) factors 3 and 4 exhibit the necessity of an active intervention by regional supranational institutions and officials and interest groups, which can be routinized and augmented through institutionalization — if factors 1 and 2 argue for an objective environment, then factors 3 and 4 emphasize people’s subjective initiatives to promote spillover. All those implications can be diagrammed as follows:

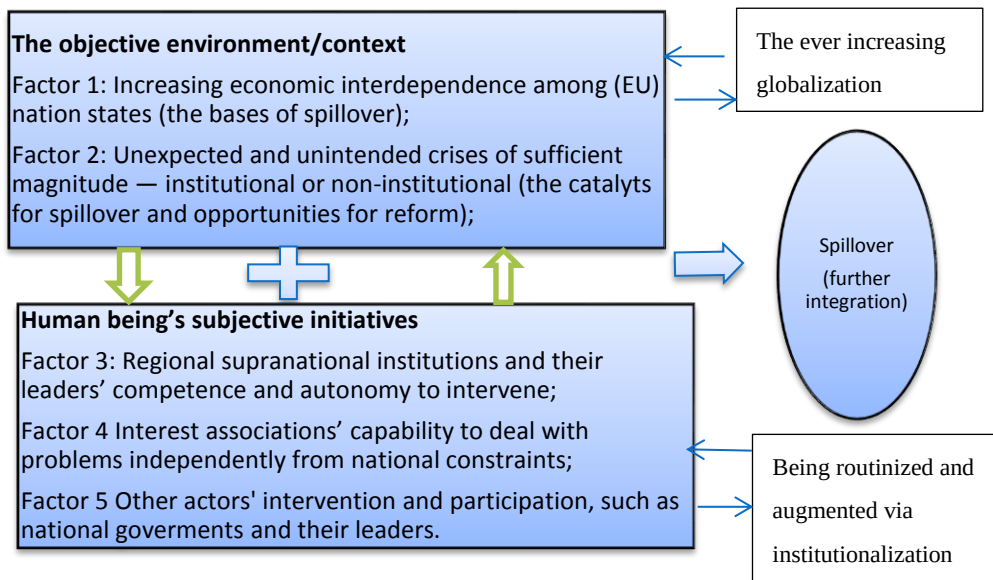


Figure 6.17: Favorable Conditions Fostering Spillover

Sources: Own compilation on the basis of this section.

Obviously, in light of the propositions of neo-functionalism, national governments and their leaders’ roles are not emphasized in Table 2.3; nevertheless, as the case studies already show national governmental actors’ indispensable role in addressing the eurozone sovereign debt crisis (e.g. Tables 6.6 and 6.7), Figure 6.17

adds “Factor 5” into neo-functionalist arguments for the favorable conditions promoting spillover. Based on Figure 6.17, there are two ways to promote spillover effects: (1) from the institutional and non-institutional context, and (2) from actors’ initiatives. Since both the institutional and non-institutional environment tends to be objective, the possibility to add fuel to enhance spillover lies at human being’s initiatives, which can be routinized and augmented through institutionalization; thus institutionalization is an important means to boost spillover for further integration. Moreover, Factor 3 suggests the importance of developing regional integration organizations’ as well as its officials’ competence and autonomy to intervene, so the development and maturity of the supranational entity is also conducive to the occurrence of spillover. Finally, Factor 4 conveys that interest groups’ independent positions and decisions may turn out to be different from and even contrary to those of national governments, but still there are also times when the positions between national governments and interest associations resonate and reinforce with each other, which will enhance the happening of spillover — obviously, addressing the eurozone sovereign debt crisis is such an occasion where both national governments and transnational interest groups share a common pro-integrative stance in seeking solutions at the supranational level so as to overcome the crisis and maintain the financial stability and economic prosperity of the region (see section 6.1.2) .

The analyses above deal with the conditions for spillover in general, and the next part will check against Table 2.3 to see whether and to what extent the favorable conditions fostering the happening of each of the three specific spillover mechanisms are present.

Table 6.18 Checking the Presence of the Favorable Conditions to the Effectiveness of Functional, Political, and Cultivated Spillover on the Basis of Table 2.3 with the Three New Measures

➤	Favorable conditions for the functional spillover effect: all three factors suggested by Table 2.3 are present
Evidence for 5(1), (2) and(3) in Table 2.3:	
5(1): To achieve the original goal of solving the eurozone sovereign debt crisis, there are compelling and persuasive technical pressures and necessities to strengthen EU (and particularly eurozone) fiscal policy coordination and economic governance (via the European Semester) to realize sustainable fiscal conditions and economic growth, of carrying out integrated macro-prudential oversight of financial systems across the EU (via the ESRB) so as to keep regional financial stability, and of establishing a permanent rescue mechanism (via the ESM) which can provide urgent “financial blood” to the troubled members thus to avoid sovereign state bankruptcy;	

5(2): Due to the urgent and compelling situation of the eurozone sovereign debt crisis, decision-makers have a consensus on the ways to address the issue, anticipating that (b) the benefits of further integration as being embodied in the three new measures are salient and they outweigh the concerns about later spillover effects into other areas; meanwhile, decision-makers also anticipate that (a) the three new measures shall not cause problems in other areas which in turn shall trigger unintended integration in the future: the European Semester is a sort of OMC without any legally binding powers on member states and the authorities on fiscal and economic policies are still in the hands of national states as national parliaments are the ultimate decision-makers on national budgets and the Commission's CSRs (see Table 5.3). At the same time, the ESRB and ESM just fill out the vacuums of the EU project as the former is the first EU integrated macro-prudential oversight system and the latter is the first permanent rescue mechanism to provide necessary financial assistance of the troubled euro states — the ESRB was created for the purpose of carrying out indispensable macro-prudential oversight and the ESM is an intergovernmental institution among the euro states. Both these new measures are the constructive parts of the EU in the logic of defending the financial and economic crisis and thus are considered as being natural and not to cause new demands of further integration in other areas;

5(3): The issue for the EU and national governments to deal with — the sovereign debt crisis — is of high presence of the connections and interdependencies between various policy areas: fiscal, economic and financial (see Tables 1.2, 1.3 and section 6.1.1).

➤ Favorable conditions for the political spillover effect: all the positive factors suggested by Table 2.3 are present

As for the political spillover of governmental elites and EU leaders, the successful adoption and the implementation of the three new measures confirm their preferences of addressing the crisis at the supranational level; as for the four factors (6 (1),(2),(3),(4)), the latter three (6(2),(3),(4)) indicate the hindrances to the effectiveness of political spillover and they appear to be diluted due to the seriousness of the eurozone sovereign debt crisis: from the proposed ideas to the final adoption of the new measures, a certain period of time (6(1)) is needed as discussions and negotiations are involved among member states before the agreements on the new measures are reached, and meanwhile, the constraining factors 6(2),(3),(4) are not prominent in the three selected cases: key members — Germany, France and the UK — share common positions on the three new measures, and despite some disputes among them, they all agree to address the problem from concerted supranational approaches instead of acting individually; such convergent positions and the severe challenges in front of them prompt the elites to solve their disagreement on the proposed designs of the three new measures quickly (see Table 6.6 and Table 6.7);

Section 6.1.2 has confirmed non-governmental actors' supporting stances of the three new measures, and with a hindsight perspective, the conditions 6 (5), (6), (7) in Table 2.3 showing interest groups' political spillover are largely met:

6 (5): Further integration with the implementation of the new measures can bring more benefits, and interest groups can ascertain those potential gains; taking BusinessEurope's and the ETUC's supportive stances on the three new measures as examples, this dissertation specifies BusinessEurope's and the ETUC's calculations of their potential benefits:

The main considerations of BusinessEurope to support the three new measures:

A. On the European Semester: "The Stability and Growth Pact (SGP) remains the appropriate European instrument to coordinate budgetary policies, but needs to be reinforced, complemented and enforced with rigour. A more closely integrated budgetary process at national and European level

would provide an important added value. [...] In this regard, we support the Commission proposal for a ‘European Semester’” (①, p.6); “[m]ost governments have so far failed to develop comprehensive reform strategies. That is why the European Semester will be so important” (②,p.4);

B. On the ESRB: BusinessEurope supports the ESRB without elaborating its reasons (see point 2 of Table 6.5), and its pro-integrative positions in this respect can be explained by the missions and functions of the ESRB: to keep financial stability of the EU and the eurozone, while it is common sense to support the measures that are helpful to keep financial stability;

C. On the ESM: “The European business community believes that safeguarding and strengthening the euro is fundamental to the future economic prosperity and social cohesion of our continent”, and “[w]e need to use all means to support the Euro”, including the ESM where “[a]ll support must be strictly conditional on Member States simultaneously undertaking further structural reforms and fiscal consolidation”.③

The main considerations of the ETUC to support the three new measures are:

D. On the European Semester: Apart from ensuring sound public finances and preventing excessive macroeconomic imbalances in the EU, the European Semester underpins equal importance to economic growth and job creation as enshrined in Europe 2020; meanwhile, social policies are also included in CSRs, which are in line with the core interests of the ETUC: employment and social progress (see Table 6.5 4E);

E. On the ESRB: “The ETUC firmly believes that Europe cannot limit itself to coordinate national financial markets’ regulatory authorities. The regulatory framework as well as scope and quality of regulation must be strengthened at European level”; ④

F. On the ESM: it is common sense that the ESM is helpful to stabilize the financial markets of the beneficiary countries as well as the EU, so the ETUC says little on the reasons to support the ESM; instead, the ETUC moves further to express its strong support for maximizing the functions and effectiveness of the ESM, such as urging the creation of the SSM to make the direct recapitalization of the ESM to the troubled banks possible, and the ETUC considers that “the introduction of SSM would directly address the core of the current crisis in two ways. By enabling the ESM to rescue troubled banks, governments of their home countries would no longer be coerced to take on ever more private banks’ debt and thus be in a position to avoid the most brutal forms of budget austerity. As an indirect effect, this could ease the borrowing of governments on financial markets by pushing interest rates down and this would be more effective than the ECB’s current interventions in the secondary markets. Secondly, the SSM could withdraw banking licenses and start to resolve financial institutions that are in fact zombie banks because technically insolvent, but still alive”.⑤

6 (6): The issues relevant to the three measures have already been under EU governance for a while:

- For the European Semester, coordinating member state fiscal and economic policy can be traced back to 1997 when the European Council agreed on the SGP, which “was underpinned by Council Regulation 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies (preventive arm), Council Regulation 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure (dissuasive arm), as well as a European Council resolution. Council Regulation 1466/97 provided both for stability programmes (for euro-zone members) and convergence programmes (for Member States outside the euro area) that the Member States were to submit annually to the Commission” ⑥; before the practice of the European Semester, existing procedures of

fiscal and economic policy coordination are under the SGP and the BEPGs, which also include the submission of SCPs and NRPs^⑦;

- The establishment of the ESRB falls into the category of the OLP; ^⑧
- Before the permanent rescue mechanism ESM, there was already a temporary rescue mechanism EFSF in functioning, and the ESM was modeled on the EFSF (see Table 5.5); though the EFSF and the ESM are not EU institutions, the EU has gained experience from the establishment and operation of the EFSF.

Therefore, all three suggest that interest groups have the time to become familiar with the existing policy-making processes and relevant rules, and as a matter of fact, relevant interest groups were consulted during the formation of the three new measures:

- On the European Semester: By issuing the two Communications of 12 May 2010 and 30 June 2010, the Commission consulted with interested parties about the European Semester: “the Commission wished to demonstrate its commitment to fostering dialogue with Member States, the European Parliament and all stakeholders, while at the same time delivering concrete proposals for action”; ^⑦
- On the ESRB: Two consultations were carried out by the Commission before it put forward the proposals on the ESRB on 23 September 2009 (COM(2009) 499 Final 2009/0140 (COD)): the first one “was conducted following publication of the report of the de Larosière Group and extended from 10 March to 10 April 2009 as input to the Commission communication on Financial Supervision in Europe published on 27 May 2009”, including 26 public authorities, 16 registered organizations and 74 individuals; the second one “was conducted over the period from 27 May to 15 July 2009, whereby all financial services sector operators and their representative bodies, regulators, supervisors, other interested parties were invited to comment on the more detailed reforms presented in the May 2009 Communication”, including 13 public authorities, 37 registered organizations and 48 individuals; in both consultations, “none of the responses opposes the proposed ESRB but while some replies strongly support the proposal, others support it conditionally upon further details being provided” ^{⑨⑩⑪}; moreover, while adopted by the co-decision procedures, the formation of ESEB regulation draws on the opinions from the EESC^⑧, which, representing the broadest socio-occupational interests in Europe (composed of three groups: employers, workers, and various interests) is a consultative body of a key role in the EU’s decision-making process^⑫;
- On the ESM: The contracting parties for the ESM are euro member states, and the establishment of the ESM was pushed and realized by the European Council and the Eurogroup (see Table 6.6) rather than by interest groups, but parts of details of the functioning of the ESM involved the advice from relevant interest groups. For example, the European Council of 24/25 March 2011 “welcomes the decisions taken by the euro area Heads of State or government on 11 March and endorses the features of the ESM” ^⑬, according to which “[t]he detailed legal arrangements for including CACs in euro-area government securities will be decided on the basis of work to be undertaken by the EFC Sub-Committee on EU Sovereign Debt Markets, following appropriate consultation with market participants and other stakeholders, and be finalized by the end of 2011” ^⑭.

Therefore, all three show influence of interest groups at the EU level.

6 (7): The functional spillover pressures are clearly presented (see Tables 1.2 and 1.3, and

section 6.1.1), and moreover, the rationale of cooperation and partnership actually is a worldwide trend in recent years, as there is blooming regional and cross-continent cooperation in other geographic areas across the globe, such as Asia-Pacific Economic Cooperation (APEC), BRICS (Brazil, Russia, India, China and South Africa), the ASEAN–China Free Trade Area (ACFTA), and the G-20 (19 countries plus the EU).

➤ Favorable conditions for the cultivated spillover effect of the Commission: the Commission largely meets the conditions suggested by table 2.3

7(1): The Commission has demonstrated an internal cohesion as far as the proposals related to the three new measures are concerned: all the proposals leading to the finalization of the three new measures were quickly tabled with unambiguous purposes to meet the urgent demand of solving the crisis (see Table 6.6);

7(2): Section 6.1.3 confirms the Commission's pro-integrative stances and proposals, and the case of the ESRB spotlights the Commission's capacity of setting up its own agenda, while the cases of the European Semester and the ESM show the Commission's proposals were directed by the decisions of the European Council;

7 (3): The Commission's proposals do have gained the powerful member states' and interest groups' support (see Table 6.7 and Table 6.5), and this time, the Commission appears not purposely to form coalitions with certain actors so as to secure the adoption of the proposals. Rather, confronted with the most serious challenge ever to EMU and the EU, actors at different levels reached a consensus on the imperativeness to address the sovereign debt crisis. As a result, the EU, national governments, and interest groups all took pro-integrative stances and support the implementation of the three new mechanisms;

7 (4): The fact in 7 (3), from one perspective, means the Commission was not troubled by the strategies (such as via package deals) to broker compromises among national governments of different interests since all the important actors involved agreed with the new measures — indeed the typical cultivated spillover feature of package deals by the Commission is absent in all three cases (see Table 6.6);

7 (5): The fact in 7(3), from another perspective, suggests that the Commission took the opportunity of the crisis to promote future integration — the Commission stated unequivocally the objectives, necessities and functions of those measures in its proposals, and one thing was in common: to meet the challenges and counter the crisis;

7 (6): The Commission was aware of its limited entrepreneurial leadership; among the three new measures, only the ESRB was fully under the charge of its initiatives, while the other two displayed its active responses to the decisions of the European Council, demonstrating that the Commission avoids to overplay its hand vis-à-vis the member states, while during the crisis, member states showed their initiatives and activeness to address the problems.

In sum, among the six favorable conditions for cultivated spillover listed in Table 2.3, all were present in the three cases except the third and fourth ones (i.e. 7(3), (4)), which suggests that the crisis pushes further EU integration, as the relevant actors, due to the imminent and serious challenges imposed by the crisis, tended to adopt further integrative steps to solve the crisis.

Sources: ① BusinessEurope (14 June 2010); ② BusinessEurope (21 June 2011); ③ BusinessEurope (2 December 2011); ④ ETUC (27 October 2009); ⑤ ETUC (18 December 2012); ⑥ European Parliament-2012/0002(NTT); ⑦ COM(2010) 526 Final (29 September 2010); ⑧ Regulation (EU) No 1092/2010; ⑨ COM(2009) 499 Final (23 September 2009); ⑩ *Summary of Public Submissions Received on the Proposals of the de Larosi ère Report*

Regarding Financial Supervision in Europe (European Commission); ⑪*Summary of Replies Received to the Public Consultation on the Commission Communication of 27 May 2009 on European Financial Supervision* (European Commission); ⑫See “About the Committee” (EESC); ⑬*European Council 24/25 March 2011 Conclusions*; ⑭ See “Annex II Term Sheet on the ESM” in *European Council 24/25 March 2011 Conclusions*.

Table 6.18 presents the research results of the favorable conditions for the existence of the three spillover effects. All factors proposed in Table 2.3 are present in the cases, except the negative constraining factors (i.e. 6(2), (3), (4)) for the political spillover effects and another two factors (i.e. 7(3), (4)) for the materializing of the cultivated spillover effects. The absence of the three constraining factors for political spillover suggests that confronted with the crisis, actors became more active and cooperative to work out solutions, that is, human being’s initiatives were spurred and boosted by the threats imposed by the crisis. In comparison, the absence of 7(3), (4) shows that the Commission did not purposively build a coalition with the key member states and broker package deals among different national interests, thus suggesting that actors at the different levels within the EU, due to the pressures from the crisis, tended to forge common grounds.

The analyses above confirm the first half of H2; there were favorable conditions stimulating the materializing of spillover. Among the four factors that contributed to the occurrence of spillover, factors 1, 3, and 4 are expected to get strengthened or maintain the status quo along with the developing EU, so only factor 2 — crises of sufficient magnitude as unintended consequences — tends to have variations and be time-specific. Therefore, this dissertation on the basis of the analyses above expects that:

Proposition 15: Crises, in institutional and/or non-institutional aspects, contribute to the occurrence of spillover and thus promote EU integration; five non-institutional factors (i.e. GDP growth; government budget deficits and debts, inflation, unemployment and sovereign bond yields) can be used to measure the magnitude of the crises, and the more severe the five indicators are, the more likely spillover will happen.

The studies on the environment for the effectiveness of spillover and of the three specific spillover mechanisms reveal the underlying factor that promotes spillover:

Proposition 16: During a crisis, spillover effects tend to occur, because the threat imposed by the crisis tends to activate and promote actors’ motivations to work out solutions to the crisis.

As for the second half of H2, the initial analyses after the formation of H2 in chapter two refuted a slowed-down pace of EU integration. H2 posits two reasons that could cause a slowed-down development of the EU — *engrenage* and politicization — but the effects of the former are reduced as more new challenges appear along with globalization, which increases the topics and the policy areas for the EU and its member states to deal with and reach agreement, while the effects of the latter are largely constrained when facing serious collective problems, as actors of various interests, confronted with severe crisis, tend to be cooperative and take pro-integrative stances towards the EU project. Besides, the participation and involvement of national actors in EU decision making is regulated by EU rules and procedures, and the current institutional mode not only provides channels and platforms for national actors to pursue their political rights, but also regulates their behaviors and defines the limits for their power seeking within the EU policy-making systems. As evidence 6 (6) in Table 6.18 shows, consultations with the relevant interest parties were carried out before the formulation or finalization of the three new measures, so these new mechanisms, to a lesser or greater extent, also represent the relevant interest groups' positions and assertions. Meanwhile, the institutional structure defines the possibility and forms of interest actors' political rights within EU decision-making systems. For instance, Article 148 (2) TFEU prescribes that on the issue of employment, the Council shall consult the EP, the EESC, the CoR and the Employment Committee (EMCO) to draw up policy guidelines for the member states. The EESC and the CoR are the two advisory bodies of the EU. According to Article 300 TFEU, the EESC “consist(s) of representatives of organizations of employers, of the employed, and of other parties representative of civil society, notably in socio-economic, civic, professional and cultural areas”, whereas the CoR is composed of “representatives of regional and local bodies who either hold a regional or local authority electoral mandate or are politically accountable to an elected assembly”, and members of both Committees “shall not be bound by any mandatory instructions [...] (and) shall be completely independent in the performance of their duties, in the Union’s general interest”. In comparison, EMCO was established by the Council “with advisory status to promote coordination between Member States on employment and labour market policies” (Article 150 TFEU), and each member state and the Commission nominate two members to EMCO; this advisory body in recent years mainly focuses on giving advice for Ministers on the main products under the European Semester mechanism, and its meetings sometimes

include representatives from trade unions and employers at the EU level.¹³⁰ So interest groups' political rights pursuing is limited by the current institutional framework laid down by EU rules and regulations. All those explanations can be expressed as follows:

Proposition 17: The EU integration process will not slow down, because (a) as new unanticipated challenges emerge along with globalization, policy areas for member states to reach agreement are not going to be exhausted, and (b) though more national actors will pursue their political rights at the EU level, confronted with crises, different interests tend to forge common positions, and meanwhile, EU institutional arrangements frame up the channels and the possible representation for different interests.

Proposition 17 implies that the pursuing of political rights by different interest groups is possible if current institutional arrangements get redesigned; since the crisis provides the opportunity for institutional reforms, it also offers chances for interest groups and actors to pursue their political rights within the EU arena. Moreover, both Figure 6.17 and Proposition 17 emphasize the external environment to the development of the EU. On the one hand, globalization causes unexpected challenges, while on the other hand, the global context is where the EU can draw energy for further integration, that is, crises also connote opportunities of changes as crises spur and promote human being's initiatives to address the challenges.

6.3 Evidence for H3: Internal Dynamics of Institutionalization and Supranational Governance

After the formulation of H3 in chapter two, this dissertation has analyzed the eleven steps entailed in H3; checking those hypothesized causal chains against the three cases, this dissertation finds the following results:

¹³⁰ See "Employment Committee" (European Commission).

Table 6.19 Analyses of EU Supranational Governance with Transaction-Based Theory

	The three new measures/cases		
	The European Semester	The ESRB	The ESM
	Transactions and transactors related to the new mechanisms		
Proposed eleven causal steps	Transactions: EU economic interdependence; Transactors: EU member states	Transactions and transactors in EU financial markets	Transactions: economic and financial interdependence among euro states; Transactors: the euro states
(1) Cross-border transactions expand in one area while the absence of regulations in that area at the EU level is costly for transactors.	Yes; EU internal cross-border trade as a whole expands which shows increasing economic interdependence among member states; the absence of a framework to coordinate the out-of-pace steps of national economic policies and to bridle ballooning government deficits and debts is costly for member states to achieve economic prosperity, that is, the ever integrated EU economy requires macro-level policy coordination and fiscal surveillance.	Yes; ● “EU financial markets are increasingly integrated, especially in the wholesale markets. The banking and insurance markets are dominated by pan-European groups [...]. There has been an increase in cross-border M&A (mergers and acquisitions) transactions in terms of value since 2003. This trend was particularly strong in 2005, when several large-value transactions were conducted, amounting to over 50% of the total M&A value in the euro area banking system. EU banks have become more international than ever, expanding into foreign markets both in Europe and beyond. Currently (in 2009) around 70% of EU banking assets is in the hands of 43 banking groups with substantial cross-border activities”;	Yes; ● See evidence for the European Semester and the ESRB; ● “The recent events have demonstrated that financial distress in one Member State can rapidly threaten macro-financial stability of the EU as a whole through various contagion channels. This is particularly true for the euro area where the economies, and the financial sectors in particular, are closely intertwined”; (12) ● “Heads of State or Government agree on the need for Member States to establish a permanent crisis mechanism to safeguard the financial stability of the euro area as a whole and invite the President of the European Council to undertake consultations with the members of the European Council on a limited treaty change

		③ ● “Integration (of the EU financial markets) increases contagion risks, and thereby jeopardies financial stability” (③), while the EU lacks “adequate macro-prudential supervision” (see ④, item 153).	required to that effect, not modifying Article 125 TFEU (‘no bail-out’ clause)”. ⑬
(2) Transactors demand more regulation at the supranational level.	Yes; National governments and the Heads of State or Government press for strengthening policy coordination and surveillance at the EU level.	Yes; The de Larosière Group held eleven full day meetings in the end of 2008, which included representatives of European and international financial services associations and institutions, such as the CEA, AMICE, EBF, ESBG, EACB, FESE, ICMA, EFAMA, ISDA, FOA, AMAFI, LIBA, and representatives of large insurance companies (e.g. AXA, Munich Reinsurance Company, Aegon and AVIVA plc.) ⑤.	Yes; There is no tool offered by EU Treaties for eurozone states to counter the collective sovereign debt crisis, and the euro countries agree they must have a permanent rather than temporary financial assistance mechanism.
(3) The tasks or autonomy of EU institutions expand (such as the Commission exercising greater autonomy and/or the Court clarifying the rules).	Yes, see Table 6.11.	No, see Table 6.11.	Yes, see Table 6.11.
(4) Transactors exploit the opportunity to influence the policy-making	Not fully confirmed: ● For the first half: No; national governments have converged interests in	Yes; Various interest groups from financial sectors give their opinions and advice on EU financial	Yes; Germany and France appear as the two core euro members dominating and directing

processes and the outcomes reflect transactors' preferences.	establishing the European Semester, so national and EU leaders all push and approve its creation rather than exploit it as an opportunity to influence the EU policy-making process; it is implemented before being codified into EU regulations via the OLP; ● For the second half: Yes; the operation of the European Semester reflects both national and EU leaders' will of strengthening EU economic governance.	regulation and supervision for the de Larosi ère group meetings; as a result, though "they do not necessarily agree on all the detailed points made in the report", "[t]he Members of the Group support all the recommendations" (④, p.5), which lead to the establishment of the ESRB.	the formation of the ESM, and the finalized ESM reflects euro states' choice under a Franco-German framework. (see Table 6.7)
(5) EU rules are introduced, reinforced, revised or further clarified.	Yes; It is a new mechanism of policy coordination and surveillance, the contents of which are extended and continuously enriched.	Yes; The ESRB is a brand new independent body responsible for EU macro-prudential oversight introduced by Regulation (EU) No 1092/2010 of 24 November 2010.	Yes; The Lisbon Treaty is amended so as to provide the legal basis for the introduction of the permanent ESM.
(6) The application of new rules facilitates cross-border transactions, and the level and value of transactions increase after the implementation of new rules.	Yes; "This framework has started to deliver results", such as building up fiscal consolidation and a closer partnership between the member states and EU institutions (①, p.4); along with the implementation of the European Semester, EU economies show "signs of a slow recovery": "After five years of very limited or negative growth, the EU has experienced positive	Not fully confirmed; ● For the first half: Yes; amid challenging economic and financial turmoil and repercussions, the ESRB was launched quickly to address a range of systemic risks entailed in the EU financial system, among other things, monitoring and assessing systemic risks, giving recommendations and making a series of policy responses, which are helpful to pinpoint	Not fully confirmed; ● For the first half: Yes; the ESM's financial assistance to the euro member states keeps financial stability and contains contagious risk in EMU and the EU; "Ireland, Portugal, Greece and Spain have [...] achieved considerable progress. As a result their competitiveness has improved, which in turn contributed to rising exports and a decrease

	growth in the second quarter of 2013. The recovery is expected to continue and to become more robust in 2014. Inflation is expected to remain subdued. At the same time, [...] first signs of rebalancing of the EU economy are visible and a number of important macroeconomic imbalances are being corrected” (①, p.2).	(potential) threats and keep financial stability; ⑥,⑦ ● For the second half: sector specific; due to the multiple aspects and components of macro-prudential supervision and complicated interconnectedness among financial sectors, there are adverse feedback loops and the financial system is still fragile (⑥,⑦), but in the second quarter of 2013, “[t]he macroeconomic indicators show some first signs of recovery” ⑧; besides, during the course of 2011, the total value of cross-border M&As of the EU exhibits a recovery and increasing momentum, but from 2011 to 2012, interest in M&A activity of mainland Europe reduces, and such a subdued outlook is expected to be sustained for next three years (see ⑩, p.5).	of their current account deficits. These economic indicators have been pointing to an improvement for more than a year now” (⑭, p. 6); ● For the second half: sector- and country-specific; “in most beneficiary countries exports are starting to grow again”, but unemployment rates are “unacceptably high in all programme countries”, though the unemployment levels “have stabilized” and “in some countries they are slowly starting to decline”; besides, “intra-euro area macroeconomic imbalances are decreasing”, and so are the deficit levels in the beneficiary countries; (⑭, pp. 6-7) ● “The difficulty is that [...] wages and pensions are being cut and unemployment rises”; nevertheless, “[e]conomists know that after difficult reforms, growth and jobs always come back with a time lag”. (⑭, pp.7-8)
(7) Transactors adjust their behavior to adhere to the new rules and the new rules are normalized as being “givens”.	Not fully confirmed; Under the European Semester, no legally binding decisions shall be made; consequently, “member states have	Not fully confirmed; The ESRB does not have binding powers on its addressees (see Table 6.6), and the addressees follow the principle of	Yes; ● The ESM programmes are subjected to strict conditionality (see Table 5.5) and there is hard

	adapted differently to the European Semester” and “(o)wnership of and adherence to the new economic policy coordination cycle appears strongest in the new Member States (Estonia and Hungary); not relevant in countries under programmes (Ireland); strong but more freely interpreted in the larger old Member States (France and Germany) and weaker in small newish Member States that entertain intensive economic relations with countries outside the euro area or the EU (Finland)”. (②, p.17)	“act-or- explain”, so there are variations among member states’ implementation of ESRB Recommendations (⑨, p.2). For instance, the assessment issued by the ESRB on 4 November 2013 on member states’ implementation of the ESRB Recommendation on Lending in Foreign Currencies (ESRB/2011/1) shows that overall there is a high level of compliance by 27 EU member states, among which twelve are graded as fully compliant, fourteen as largely compliant and one as only partially compliant, while no country receives a non-compliant grade (⑨, p.4).	economic data to confirm that “the strategy is right and that conditionality is working” (⑭, p.6); ● The ESM operative rules are normalized as being “givens” in the sense that it is a financial depot that the troubled euro states will resort to, and the states who ask the help from the ESM know they need to negotiate for the conditionality which they must adhere to, as the disbursement of the tranches of the financial assistance depends on national compliance with the conditionality (e.g. the ESM Treaty Articles 14-17).
(8) When the urgent or most obvious hindrances to cross-national exchange are alleviated or removed, other related or new rising obstacles to transnational transactions become salient and pressing, and as a consequence, transactors demand more regulation at the EU level to facilitate transactions further.	Yes; The European Semester has yielded results, but “[m]ore needs to be done to improve the functioning and flexibility of product and services markets, e.g. by modernizing network industries and further opening services sectors to support growth and jobs” (①, p. 4); “in terms of deepening the European Semester as a process, there are a number of areas where further improvements are needed”, including	Yes; ● Responding to the exceptional challenges, the ESRB in 2011 after its inception carried out activities addressing the obvious vacuums and urgent issues, including (a) identifying and assessing systemic risks, based on which warnings and recommendations are issued, (b) contributing to the establishment of macro-prudential frameworks at the EU and national level, and (c) performing	Yes; After the functioning of the ESM, another challenge becomes more salient and urgent: “creating a Banking Union for Europe. At the moment the financial markets are fragmented along national lines. Bank rates vary greatly across the euro area. In weaker states with doubts about the budgetary situation of the government, bank rates are high and credit is scarce. Obviously this puts a drag on growth”,

“[g]reater ownership at national level”, “[s]tronger co-ordination among the members of the Euro area”, and “[b]etter implementation of the country-specific recommendations”, which are already on the Commission’s agenda and hopefully get formed into principles agreed by the European Council in 2014 (①, pp. 5-6).

fundamental analysis for macro-prudential oversight and developing analytical tools; ⑥

● In 2012, the overarching threat was the adverse feedback loops which result from the linkages between reinforced negative macroeconomic factors and fragilities in the financial system, and the ESRB accordingly took relevant policy responses;⑦

● During 2011, the ESRB in particular provided its views on “the draft directive and regulation on capital requirements for credit institutions (the CRD/CRR)* and the proposal for a regulation of the European Parliament and of the Council on OTC* derivatives, central counterparties and trade repositories (EMIR)*” (⑥, p.5), while during 2012, “it closely followed discussions on three key pieces of draft EU sectoral legislation”: “(i) the CRD IV/CRR; (ii) the proposal for the Omnibus II Directive; and (iii) EMIR, which was adopted in July and entered into force in August 2012” (⑦, pp. 36-37); all those show that more regulation at the EU level is

and “Europe has started to address this. The most important reform is the building up of an SSM at the ECB that will supervise the 130 most important banks in Europe. Once the European supervisor is up and running, the ESM could be allowed to recapitalize banks directly. This would contribute to breaking the vicious circle between the sovereign and the banks [...]. Other important steps are currently being worked on, such as the establishment of a Single Resolution Mechanism for Europe”. (⑭, p.8)

		demanded.	
(9) As transactors' interests accumulatively get entrenched in EU supranational rules, the EU moves along the scale towards a high degree of supranational governance.	No, because the supranational level does not possess jurisdiction over policy domains under the European Semester, that is, the EU does not have the competence to make binding rules in the given policy domains covered by the European Semester. (See Table 5.3)	No, because it does not obtain legal personality and its recommendations are not legally binding to its addressees. (See Table 6.6)	Yes, but the ESM is not an EU body — it an intergovernmental institution under international law (see Table 5.5); In the context of the EU, the ESM now is the sole crisis resolution mechanism for the euro states, and with more funding instruments utilized by the ESM, investors' interests get entrenched in the ESM rules (15), and disputes related to the ESM affairs are subject to the ESM Board of Directors, the Board of Governors or the jurisdiction of the CJEU, indicating a higher degree of supranational governance.
(10) EU supranational governance is realized through the process of institutionalization, exhibiting a path dependent fashion which is difficult to reverse as current supranational rules not only provide means for transactors to pursue their interests and the mechanisms to resolve their disputes, but also shape the context for their	Not fully confirmed; ● Though the European Semester does not suggest a higher degree of supranational governance, it does embody EU economic governance at the supranational level; however, such supranational governance at the very beginning was not realized through the process of institutionalization, as it became operational on 1 January 2011 before it was finally codified by	Not fully confirmed; ● Though not signaling a high degree of supranational governance, the ESRB is institutionalized as an independent EU body through ESRB regulation via the OLP (see Table 6.6); ● It displays path dependence in the sense that (a) it fills the vacuum of macro-prudential supervision over the EU financial system and it is the only agency responsible for such a	Yes; ● The establishment of the ESM is realized through the process of institutionalization (see Table 6.6); ● It exhibits a path dependent fashion as it is modeled from its predecessor — the EFSE; it is difficult to reverse as it is the sole crisis resolution mechanism for the euro states since 1 July 2013; it does not only provide the channels and instruments for the euro states to avoid sovereign

subsequent interactions and delineate the normative and institutional contours of EU future policy.	Regulation (EU) No 1175/2011 of 16 November 2011 (see Table 6.6); ● It exhibits path dependence, as (a) it becomes “the cornerstone of the EU’s strengthened framework for integrated coordination and surveillance of Member States’ economic and budgetary policies” (①, p.4) and it is on the way of getting further deepened (①, pp. 4-6), so it is difficult to reverse; (b) it benefits national economies, but it has no binding powers on member states and thus offers no legally binding mechanisms to resolve the disputes; (c) it shapes the context for national economies’ interactions with EU institutions as well as among themselves and delineates EU future policies under the European Semester as being sort of the OMC. (see section 5.2.1)	task; (b) “bring(ing) together all the central banks and financial supervisors of the EU, the European Commission and the Economic and Financial Committee, as well as the three European Supervisory Authorities (ESAs) involved in financial regulation and supervision”, it provides a “broader, systemic perspective and [...] a unique forum for discussing financial stability issues in a European context” (⑩, p.1); (c) among other things, due to its missions, the ESRB “asked the EU’s legislative bodies to take account of its concerns in the course of the legislative process” (⑩, p.8) and it responded to the consultations by other EU institutions (e.g. the Commission, the EBA, the ESMA) (⑦, pp. 36-40); (d) in general, “the establishment of the European System of Financial Supervision (ESFS) has enhanced the quality and consistency of financial supervision in the internal market” (⑪, p.6), and it is recommended that the ESRB, together with the ESAs, should be mandatorily involved in	bankruptcy and maintain financial stability, but also offers dispute resolution mechanisms related to ESM affairs; meanwhile, it shapes the context for the euro states to deal with the sovereign debt crisis, and the current practice of the attached conditionality (the MoU) which entails reforms and the measures to meet the budgetary goals defines EU policies in handling with the sovereign debt crisis.

		legislative processes concerning its fields of expertise and “propose additional measures for macroeconomic stability” (11), p. 10). So it is hard to reverse the developing trend of the ESRB as a supranational macro-prudential supervision body, which provides means for transactors to pursue their interests in achieving financial stability and avoiding systemic risk, shapes the context for their subsequent interactions and delineates the contours of EU future policy where the ESRB is consulted concerning its fields of expertise; nevertheless, the ESRB does not provide any dispute resolution mechanisms.	
(11) There is a trade-off between supranational governance and intergovernmental politics, that is, increasing supranational governance implies decreasing control of member states on policy outcomes, a process by which nation state functions are gradually replaced by supranational	No; National governments have the ultimate say on their SCPs, NRPs, and the implementation of the CSRs.	No; National supervisory authorities play a substantial role in providing accurate information and implementing the ESRB recommendations (see also Table 6.1); there is mutual support and close cooperation between macro- and micro-prudential oversight (e.g. ESRB Regulation, items (13) (24) (30)); the ESRB only issues warnings and	Yes; a slight show of decreasing intergovernmental politics; Though the ESM’s shareholders are the euro area member states and national functions are not replaced by the ESM — but rather, the ESM becomes a supporting instrument and complement for nation states — there is evidence that the beneficiary national governments have

institutions, national governments become reactive rather than proactive to changes in the supranational environment, and national executives gradually lose an ultimate say on policy formation.	recommendations with no legal powers addressing to nation states; besides, the General Board is largely composed of the governors of the central banks of each member state (see Table 5.4).	reduced their control over their economic and financial policies as they should carry out austerity measures and policies demanded by the ESM assistance programmes to meet the specific conditions; as conditionality means budgetary deficit cuts and structural reforms, there is a wide public protest against governmental austerity measures, and consequently, those governments became reactive rather than proactive to the ESM conditionality and national executives have constraints on their policy formation under the ESM programme.

Notes: *CRD: Capital Requirements Directive; CRR: Capital Requirements Regulation; CRD/CRR: Directive and Regulation on Capital Requirements for Credit Institutions (cf. CRR/CRD: Capital Requirements Regulation and Directive); EMIR: European Market Infrastructure Regulation; OTC derivatives: over-the-counter derivatives.

Sources: ①COM(2013) 800 Final (13 November 2013); ②Hallerberg et al., (August 2011); ③“Annex III: An Increasingly Integrated Single European Financial Market”, in the de Larosi ère Report (25 February 2009); ④The de Larosi ère Report (25 February 2009); ⑤“Annex II: Meetings of the Group and Hearings in 2008 – 2009”, in the de Larosi ère Report (25 February 2009); ⑥ESRB Annual Report 2011 (31 May 2012); ⑦ESRB Annual Report 2012 (8 July 2013); ⑧*The ESRB Risk Dashboard: An Overview* (Issue 5, 19 September 2013); ⑨*ESRB Recommendation on Lending in Foreign Currencies (ESRB/2011/1) Follow-up Report – Overall Assessment* (November 2013); ⑩Dierick et al. (February 2012); ⑪European Parliament-PE521.510v01-00 (11 October 2013); ⑫“Annex II General Features of the Future Mechanism, Eurogroup Statement of 28 November 2010,” in *European Council 16-17 December 2010 Conclusions*; ⑬*European Council 28-29 October 2010 Conclusions*; ⑭Regling (8 October 2013); ⑮“Investor Relations” (ESM); ⑯*The Rise of the Cross-Border Transaction* (Grant Thornton International Business Report 2013).

Based on the research results provided by Table 6.19, the confirmation of the causal mechanisms entailed in H3 is as follows:

Table 6.20 The Confirmation of Transaction-Based Theory and EU Supranational Governance by the Cases of the European Semester, the ESRB and the ESM

Three cases	Checking the presence of the eleven causal steps											Summary ¹⁾
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
1. The European Semester	Yes	Yes	Yes	Not fully confirmed	Yes	Yes	Not fully confirmed	Yes	No	Not fully confirmed	No	6/11
2. The ESRB	Yes	Yes	No	Yes	Yes	Not fully confirmed	Not fully confirmed	Yes	No	Not fully confirmed	No	5/11
3. The ESM	Yes	Yes	Yes	Yes	Yes	Not fully confirmed	Yes	Yes	Yes	Yes	Yes	10/11
Test results for H3 ²⁾	3/3	3/3	2/3	2/3	3/3	1/3	1/3	3/3	1/3	1/3	1/3	

Notes: 1) The ratio of the fully confirmed causal steps among the posited eleven;

2) “3/3” means fully confirmed in all three cases, “2/3” fully confirmed in two cases among the three, and “1/3” fully confirmed in one case among the three.

Sources: Based on Table 6.19.

As the case study results displayed in Table 6.20 show, H3 is not fully vindicated by the three cases; among the three measures, the ESM appears to almost fully confirm the causal chains entailed in H3, while the European Semester and the ESRB fully support about half of the mechanisms posited by H3. As for H3’s three sub-hypotheses, none of them gets fully confirmed by the three cases. Examining those failed elements, this dissertation proposes explanations to account for the collapsed mechanisms:

Table 6.21 Explaining the Failed Causal Mechanisms of H3

Failed causal chains in the three cases			Explanations and Implications
1.	(4) Not confirmed	fully	The severe crisis pushes national governments to address the challenges as soon as possible, and national governments appear to have converged positions on the issue of establishing the European Semester to monitor member states’ fiscal conditions and coordinate their economic policies, so national governments did not take the opportunity to influence the policy-making processes, and the European Semester as a policy outcome reflects their converged preferences. The operation of the European Semester before it finally got codified into EU regulation is decided by the nature of the issue: the multilateral surveillance of economic policies and performance, which is prescribed by Article 12 TFEU.

(7)	Not confirmed	fully	Because decisions made under the European Semester are not legally binding, member states' compliance to the CSRs roots at their own will and peer pressure; consequently, there are variations among member states' commitments to the CSRs, and the normalization of the new rules as being given also varied across the EU countries.	
(9)	No		Since supranational governance means the competence of the EU to make binding rules, the European Semester without legally binding powers to the member states then does not show the EU is moving towards a higher degree of supranational governance in this policy domain.	
(10)	Not confirmed	fully	The European Semester does not suggest a higher degree of EU supranational governance through the process of institutionalization due to its policy nature, but it does exhibit path dependence, which is hard to reverse.	
(11)	No		Because of the nature of the European Semester and the policies under this framework, there are no legally binding decisions under this mechanism; moreover, "EU's special competences" in Table 6.2 also shed light on no trade-off between EU supranational governance and governmental control over policy outcomes under the European Semester.	
2.	(3)	No	The Commission's power and autonomy does not always get expanded along with the adoption of new EU measures and policies.	
(6)	Not confirmed	fully	The value of transactions does not necessarily increase after the implementation of new rules — it is sectoral specific; the ESRB concerns a more generally macro financial environment which consists of multiple aspects and the complicated interconnectedness among those aspects.	
(7)	Not confirmed	fully	The reason is the same as for 1 (7): the ESRB has no legally binding powers.	
(9)	No		The reason is the same as for 1 (9).	
(10)	Not confirmed	fully	Similar to 1 (10), the ESRB does not suggest a higher degree of supranational governance, but it displays a path dependent property.	
(11)	No		Similar to 1(11), the ESRB recommendations have no binding powers to its addressees; besides, the tasks of the ESRB are a necessary and beneficial complement to, rather than a substitute for, nation state functions.	
3.	(6)	Not confirmed	fully	Similar to 2 (6), the ESM covers a range of transactors, and whether the value of transactors increases or not is sectoral- and country-specific; the effectiveness of the ESM is also related to many other factors.

Accordingly, several conclusions can be drawn from Tables 6.19, 6.20 and 6.21. First, the crisis pushed rather than impeded EU integration as national governments tended to adopt converged positions towards more strengthened EU economic governance (1(4)) — an echo to the previous Proposition 4. Second, the core argument of Stone Sweet and Sandholtz's supranational governance is that along with the rising

levels of transactions (as well as the development of interest networks and associations), the competence of the Union to make binding rules in a given policy domain will increase, but the European Semester and the ESRB do not have legal powers, so the causal steps of 1(7), 1(9), 1(10), 1(11), 2(7), 2(9), 2(10) and 2(11) collapse. In comparison, when there is supranational governance in the case of the ESM (3(9)), the ESM does show reduced national control over economic policies 3(11). Third, as the neo-functionalist belief in the power expansion of the EU supranational institutions, typically the Commission, is disproved by 2 (3), we need to look into the concrete cases and shall not take it for granted when coming to such an assertion — a caveat to the previous Proposition 9. Fourth, when Stone Sweet and Sandholtz argue for EU supranational governance with transaction-based theory, the term “transactions”, while referring to any form of cross-border exchange, emphasizes the mutual dependence of EU national economies in a specific area — more micro-level economic activities; the three cases in this dissertation, however, cope with more macro-level issues, which contain more than one aspect and thus the definition of “transactions” and “transactors” in these cases becomes sectoral- and country- specific. This causes the collapse of 2(6) and 3(6), as there are more than one type of transactors and transactions; in contrast, the confirmation of 1(6) is due to a more narrow definition of transactors and transactions under the European Semester: the economic developing trend in general. The almost full confirmation of all the eleven causal mechanisms in H3 by the case of the ESM shows the potential capacity of Stone Sweet and Sandholtz’ theory in accounting for the macro developments of the EU, and the case study results suggest that the three sub-hypotheses of H3 can be modified to account for the developments in a more macro-level sense:

H3a_{modified}: Increasing cross-border transactions among EU member states demand more regulation at the EU level (i.e. European standards, rules, and/or dispute resolution mechanisms) and/or macro-frameworks to improve the environment of transactions, leading to a process of EU institutionalization where rules are introduced, revised or reinforced on the basis of the mutual enforcement among EU institutions, EU rules, and transnational society, which appears more salient in front of crises.

H3b_{modified}: Along with the process of institutionalization, when EU supranational governance of making binding rules in a given policy area increases, national capacity to control policy outcomes in that policy area tends to decrease.

H3c_{modified}: During crises, the EU's new developments, which result from increasing cross-border transactions and transactors' demand for more regulation at the EU level and which may lead to a higher degree of EU supranational governance, exhibit a path dependence fashion, which is hard to reverse as current supranational rules define transactors' means to pursue their interests and/or dispute resolution mechanisms that shape the context for subsequent interactions and delineate the normative and institutional contours of future policy.

H3c_{modified}: During crises, the EU's new developments, which result from increasing cross-border transactions and transactors' demand for more regulation and/or macro coordination at the EU level, may lead to a higher degree of EU supranational governance; EU developments are difficult to reverse as current supranational rules, defining transactors' means to pursue their interests and/or dispute resolution mechanisms, shaping the context for subsequent interactions and delineating the normative and institutional contours of future policy.

A merit of transaction-based theory is that it privileges micro-level economic activities as its theoretical foundations, and this is the main reason why Stone Sweet and Sandholtz's supranational governance can also be adapted to account for more macro developments. Nevertheless, comparing the hypothesis test results of H1 and H3, this dissertation finds that *political integration does not necessarily entail increasing supranational governance*, because the two terms are defined differently: the former highlights EU collective decision-making, while the latter stresses the EU's competence in making binding rules. The case of the ESRB is an example in point: it displays a middle degree (i.e. level 4) of political integration, but does not embody a movement towards a higher degree of supranational governance, because it has no legally binding powers on its addressees. Therefore, *the degree of EU supranational governance does not increase in tandem with increasing EU political integration*.

6.4 Evidence for H4: Institutional/Legalistic Spillover

As it was already mentioned in section 2.5.1, generally speaking, the enlargement of the application of QMV introduced by the Lisbon Treaty supports the first half of H4, which offers an account for the historical developments between EU Treaty revisions. Nevertheless, the second half of H4 requires proof, and moreover, H4 should be tested by the three concrete cases. Examining the three cases, this dissertation looks into the

legal bases of the three new measures to see whether they would have different legal bases before the Lisbon Treaty.

Table 6.22 Legal Bases for the Adoption of the Three New Measures

	Legal bases for the three new measures prescribed in the Lisbon Treaty	Would the legal bases be different under the Nice Treaty? (Are any changes due to the Lisbon Treaty?)	A spillover of QMV from unanimity in the Council between the Nice Treaty and the Lisbon Treaty?
The European Semester	REGULATION (EU) No 1175/2011, adopted via the OLP on the basis of the TFEU, particularly Article 121(6).	Yes; Article 121 TFEU (ex Article 99 TEC (the Treaty establishing the European Community))*: the ex Article 99 TEC gets amended, and the legal basis for current 121(6) TFEU switches from the co-operation procedure (Article 99 (5) TEC, referring to the procedures in Article 252 TEC) to the OLP (i.e. co-decision) defined in Article 294 TFEU. ^①	No; Under both the co-operation procedure and the OLP, QMV rather than unanimity is applied in the Council, though there is a new method of calculation of QMV agreed on by the 2003-2004 IGC and the voting weights and QMV thresholds get changed responding to EU enlargement. ^④
The ESRB	REGULATION (EU) No 1092/2010 (legislative acts), adopted via the OLP on the basis of Article 114 TFEU.	No; Article 114 (ex Article 95 TEC): though there are changes introduced by the Lisbon Treaty to ex Article 95 TEC, basically the legal basis for the adoption of the ESRB has no difference: as for the establishment of the ESRB, under ex Article 95 TEC, “The Council shall, acting in accordance with the procedure referred to in Article 251 and after consulting the EESC, adopt the measures [...]”, while according to Article 114 TFEU, “The European Parliament and the Council shall, acting in accordance with the OLP and after consulting the EESC, adopt the measures [...]” As a matter of fact, ex Article 251 TEC defines the co-decision procedure and becomes Article 294 TFEU, which prescribes	No; The decision mode of QMV rather than unanimous voting in the Council is already applicable to the adoption of the ESRB under the Nice Treaty.

		the steps of the OLP (see Article 289 TFEU). So in essence, there is no change for the ESRB legal basis before and after the Lisbon Treaty. (2)	
The ESM	An intergovernmental institution of the euro member states, established via the Treaty revision of the TFEU, Article 136, adding the third clause to Article 136: “3. The Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality”. (5)	Yes; Under “provisions specific to member states whose currency is the euro”, Article 136 TFEU is newly inserted, which concerns the adoption of measures “to strengthen the coordination and surveillance of their budgetary discipline” and “to set out economic policy guidelines for them” via the procedures in Articles 121 and 126 (except 126 (14)) TFEU by QMV of “euro-ins”;(3) Moreover, Article 136 TFEU is amended in accordance with the simplified revision procedure (Article 48 (6) TEU) rather than the normal procedure of EU treaty revisions — the ordinary revision procedure (Article 48 TEU); before the implementation of the Lisbon Treaty, the EU had only one way to make treaty revisions, that is, by the ordinary revision procedure which requires an IGC to be convened on a compulsory basis, and the Lisbon Treaty introduced another two simple ways for treaty revision: <i>passerelles</i> and a simplified revision procedure, where the latter is applicable to Part III of the TFEU (i.e. to the amendment of policies and internal actions of the EU) and does not require the convening of the IGC, but the competences of the EU shall not be extended via a simplified revision procedure.(5),(6),(7)	No; The ESM was created as an international financial institution via the Treaty conclusion among the euro member states, which is “subject to ratification, approval or acceptance by the signatories” (ESM Treaty Article 47) and “shall enter into force on the date when instruments of ratification, approval or acceptance have been deposited by signatories whose initial subscriptions represent no less than 90% of the total subscriptions set forth in Annex II” (ESM Treaty Article 48). As each contracting party of the ESM “shall receive shares in the ESM in exchange for its capital contribution, calculated in accordance with the contribution key provided for in Article 11” (ESM Treaty Article 2(3), there is a unanimous approval for the establishment of the ESM.

Notes: *Before the Lisbon Treaty, the abbreviation TEC was often used after a TEU Article

of the first pillar of the EU, distinguishing itself from the TEU-articles of the second pillar (the CFSP) and the third pillar (police and judicial cooperation in criminal matters) prescribed by the same treaty of the TEU. The Lisbon Treaty, among other things, abolishes the three-pillar structure of the EU, and the Treaty establishing the European Community (i.e. the TEC) becomes the Treaty on the Functioning of the European Union (i.e. the TFEU) while the Treaty on European Union (i.e. the TEU) sticking to the same name. See “TEC, TEU and TFEU” (EUABC) and “Pillars of the European Union” (European Commission).

******This is a French word for “footbridge” and it has become the jargon referring to the “bridging clauses” established by the Lisbon Treaty (see Piris 2010, 104): Article 48 (7) TEU offers the possibility to adopt an act by QMV in the Council or via the OLP rather than by unanimity in the Council or via a special legislative procedure which has been laid down by the Lisbon Treaty. That is to say, *passerelle* can “upgrade” the means to adopt decisions from unanimity to QMV or from a special legislative procedure to the OLP without a formal amendment to the existing EU Treaties. For detailed information of the conditions, restrictions, and explanations of the application of *passerelle*, the simplified revision procedure and the ordinary revision procedure, see Article 48 TEU, or notes^⑥ and^⑦.

Sources: ①See Piris (2010, 365-368); ②See the TFEU and the TEC; ③See the TFEU, the TEC and Piris (2010, 373-376). ④For further explanations, see Table 6.23; ⑤European Council Decision-2011/199/EU (25 March 2011); ⑥Piris (2010, 104-109); ⑦ “Revisions to the Treaties” (European Union).

Before explaining the research results displayed in 6.22, this dissertation presents a short review of the development of the legislative procedures in the EU. Three institutions — the Commission, the Council and the EP — are involved in the EU legislative processes, and research of the Community’s legislative procedures concerns the power distributions among the three institutions and the EP’s independent legislative competence as an institutional player (Aspinwall and Schneider 2001, 8; Moser 1999, 16). The creation of the Single Market is an historical achievement and turning point of the European Community. Apart from replacing unanimity with majority voting in policy areas pertaining to the internal market in the Council, the SEA introduced two new procedures: the co-operation procedure (see Article 252 of the TEC)¹³¹ and the assent procedure. Later, the Maastricht Treaty established another new procedure: the co-decision procedure, which was further extended and adapted by the Amsterdam Treaty. When the Maastricht Treaty introduced the co-decision procedure, the co-operation procedure established by the SEA was replaced by the

¹³¹ See, for example, “Figure 1 Outline of the Cooperation Procedure” in Tsebelis (1994, 130); “The Cooperation Procedure Reconsidered” in Moser (1996, 836); “2. The Cooperation Procedure” in Moser (1997, 335-337); “Fig. 2. The Co-operation Procedure” in Crombez (1996, 206).

co-decision procedure in some areas while being extended in some other areas.¹³² The co-operation procedure was amended by the Amsterdam Treaty when there lacked agreement on its replacement by the co-decision procedure. Later the Nice Treaty limited the co-operation procedure only to EMU affairs, and finally it was repealed by the Lisbon Treaty in 2007. The co-operation procedure was one of the principal legislative procedures of the EU before the Amsterdam Treaty came into force and it was gradually replaced by the co-decision procedure. Along with the Lisbon Treaty's effectiveness from 1 December 2009 onwards, the co-decision procedure (defined in Article 294 TFEU, ex Article 251 TEC) became the OLP ("ordinary legislative procedure"), a normal decision making procedure for most of the EU's policy areas.¹³³ The principle behind this co-decision practice is "parity", that is, neither the Council nor the EP may adopt legislation without the other's assent.¹³⁴

Accompanying the evolution of those legislative procedures — the EU's formal decision rules — the EP gradually gained more power. Before the SEA took effect in 1987, the EC's most important decisions were made under the consultation procedure where the Commission proposes and the Council makes a decision after receiving a non-binding opinion from the EP. Under the consultation procedure, the Council used the qualified majority rule — at least 62 out of 87 votes (71.26%) as member states' votes were weighted in reference to each country's population — to approve the

¹³² Moser (1997, 335) has summarized these areas: "this (co-operation) procedure was used until November 1993 for decision regarding the free movement of workers (Article 49), the freedom of establishment (Article 54.2), the treatment of foreign nationals (Article 56.2), the mutual recognition of diplomas (Article 57.1), the coordination of national provisions on the activities of self-employed persons (Article 57.2), and most important, for decisions about the harmonization or mutual recognition of national measures to achieve the internal market (Articles 100a and 100b)". The co-decision procedure introduced by the Maastricht Treaty replaced those areas, "but the cooperation procedure remained in place for decisions regarding rules against discrimination (Article 6), the improvement in the health and safety of workers (Article 118.2), economic and social cohesion (Article 130e) and aspects of R&D-programs (Article 130o.2)". Under the Maastricht Treaty, the co-operation procedure has been extended to the decision-making in transportation (Articles 75, 84, 129d), aspects of fiscal and monetary policy (Articles 103.5, 104a, 104b, 105a), vocational training (Article 127), the European Social Fund (Article 125), measures to further the cooperation with developing countries, and of particular significance, to aspects of environmental policy (Article 130s)".

¹³³ Under the Treaty of Lisbon, the co-decision procedure covers eighty-five areas, and its scope almost doubled compared to forty-four areas of community action under the Treaty of Nice. For more details about the co-decision procedure, see *Codecision and Conciliation: A Guide to How the Parliament Co-legislates under the Treaty of Lisbon* (European Parliament, January 2012).

¹³⁴ See "The Co-Decision or Ordinary Legislative Procedure" (European Commission); Crombez (1997, 99) gave a summary of the co-decision procedure.

Commission's proposals, while to amend proposals, the Council had to vote unanimously (e.g. Crombez 1997, 98). The co-operation and the assent procedures brought about by the SEA added additional stages to the former consultation procedure and granted more power to the EP. Under the co-operation procedure, the Council could, after consulting the EP (first reading), adopt a legislative proposal by a qualified majority, which was sent back to the EP for a second reading. The EP could accept, amend, or reject the Council's decision, which was referred to as the common position. An amendment had to be examined by the Commission, and a rejection from the EP could be overruled only by the Council's unanimous voting. In comparison, under the assent procedure a rejection from the EP could not be overturned. The Treaty of Maastricht introduced the fourth legislative procedure: the co-decision procedure, where the Council and the EP, if they approve different texts, need to work out a compromise on a joint text in a Conciliation Committee composed of an equal number of members or representatives from both the Council and the EP, and thereby the EP obtains more power as "a genuine co-legislator" and its role becomes as important as the Council's (Crombez 1996, 200; 1997, 98).¹³⁵ Consequently, the EP has acquired a veto right under both the co-operation and the co-decision procedures — conditional of not being overridden in the former while unconditional in the latter — and both procedures enable the EP to make amendments, which can only be rejected by a unanimous Council if the Commission has approved these amendments. Nevertheless, the Conciliation Committee makes the major difference between these two procedures (e.g. Moser 1999, 6).

Alongside the development of the legislative procedures is the evolution of the voting system in the Council, where the coverage of QMV kept expanding from Treaty to Treaty, while the QMV thresholds and weights for member states got changed as the negotiated results responding to EU enlargement. Since 1957, QMV has ever been "based on weighted votes attributed to each member state", which shall be replaced by a "double majority" with two thresholds introduced by the Lisbon Treaty: at least 55% of the number of member states while representing at least 65% of the EU's population; however, this new QMV rule "will not produce its full effects before 1 April 2017" due

¹³⁵ See also "Glossary, Codecision Procedure" (European Union), as it is explained that "the European Parliament (...) becomes co-legislator, on an equal footing with the Council, except in the cases provided for in the Treaties where the procedures regarding consultation and approval apply. The ordinary legislative procedure also includes qualified majority voting (QMV) in the Council."

to the transitional period from 1 November 2014 (the date when the “double majority” rule enters into force) to 31 March 2017 (Piris 2010, 213-14, see also section 2.5.1). So the adoption of the three new measures, if applicable, is subject to QMV defined by the Nice Treaty, which got amended along with the enlargement of the EU.

Table 6.23 Evolution of the Voting Weights for Each Member State in the Council

Member states	QMV in the Council with the voting weight for each member state (votes +% of votes)							
	EU-15*		EU-25		EU-27**		EU-28	
Belgium	5	5.7%	12	3.7%	12	3.5%	12	3.41%
Denmark	3	3.4%	7	2.2%	7	2.0%	7	1.99%
Germany	10	11.5%	29	9%	29	8.4%	29	8.24%
Greece	5	5.7%	12	3.7%	12	3.5%	12	3.41%
Spain	8	9.2%	27	8.4%	27	7.8%	27	7.67%
France	10	11.5%	29	9%	29	8.4%	29	8.24%
Ireland	3	3.4%	7	2.2%	7	2.0%	7	1.99%
Italy	10	11.5%	29	9%	29	8.4%	29	8.24%
Luxembourg	2	2.3%	4	1.2%	4	1.2%	4	1.14%
Netherlands	5	5.7%	13	4%	13	3.8%	13	3.69%
Austria	4	4.6%	10	3.1%	10	2.9%	10	2.84%
Portugal	5	5.7%	12	3.7%	12	3.5%	12	3.41%
Finland	3	3.4%	7	2.2%	7	2.0%	7	1.99%
Sweden	4	4.6%	10	3.1%	10	2.9%	10	2.84%
United Kingdom	10	11.5%	29	9%	29	8.4%	29	8.24%
Poland			27	8.4%	27	7.8%	27	7.67%
Czech			12	3.7%	12	3.5%	12	3.41%
Hungary			12	3.7%	12	3.5%	12	3.41%
Slovakia			7	2.2%	7	2.0%	7	1.99%
Lithuania			7	2.2%	7	2.0%	7	1.99%
Latvia			4	1.2%	4	1.2%	4	1.14%
Slovenia			4	1.2%	4	1.2%	4	1.14%
Estonia			4	1.2%	4	1.2%	4	1.14%
Cyprus			4	1.2%	4	1.2%	4	1.14%
Malta			3	0.9%	3	0.9%	3	0.85%
Romania					14	4.1%	14	3.98%
Bulgaria					10	2.9%	10	2.84%
Croatia							7	1.99%
Total	87		321		345		352	
QMV thresholds***	62	71.3%	232	72.3%	255	73.9%	260	73.86%

Notes:* The weights for EU-15 are prescribed by the Nice Treaty (2001) Article 205, which “will be amended, on 1 January 2005, in accordance with the Protocol on the enlargement of

the European Union” — “Article 3 Provisions concerning the weighting of votes in the Council”.

**The weights for EU-27 are laid down in the Lisbon Treaty, Protocol (No 36) on Transitional Provisions, Title II Provisions Concerning the Qualified Majority, Article 3 (3).

*** QMV was “a triple majority” before the application of the “double majority”, see section 2.5.1; besides the threshold (260 out of 352 votes after Croatia’s accession to the EU), another two thresholds refer to (1) a simple majority of member states (sometimes even two thirds) of the 28 EU countries, and (2) representing minimally 62% of the total population, checked upon a member state’s request.

Sources: Data for EU-12, EU-25, and EU-27 are adapted from Piris (2010, 218-219); data for EU-28 from “Council of the European Union” (European Union) and own calculation of the percentages for EU-28.

Subsequently, this dissertation turns to the case study results presented in Table 6.22. Though H4 appears effective to account for the expansion of QMV between Treaty revisions from Nice to Lisbon, it fails to explain the concrete developments of the EU during the eurozone sovereign debt crisis. As shown in Table 6.22, the case studies do not see changes from unanimous voting to QMV in the Council (i.e. the spillover of QMV into the policy areas originally covered by unanimity). Rather, the establishment of the European Semester and the ESRB was already covered by the QMV rule (though with different voting weights for each member state, see Table 6.23) instead of unanimity under the Nice Treaty — already indicating the most advanced stage of political integration where QMV is applied in the Council, while the creation of the ESM was concluded by euro area countries in Treaty form, and the rule to adopt the ESM was unanimity rather than QMV. Meanwhile, the legal bases for the adoption of the European Semester and the ESM got changed in the Lisbon Treaty, while those for the founding of the ESRB essentially remained the same. Those results imply two things: first, the changes of legal bases, which indicate EU legislative procedures, do not guarantee institutional/legalistic spillover from unanimous voting to QMV in the Council, as some policies were already under QMV and some measures were adopted via Treaty conclusions which require unanimity of contracting parties; second, more policy areas began to be covered by QMV, while some policy domains related to core national interests still remained under the rule of unanimity, Jensen’s institutional/legalistic spillover, theoretically, will gradually lose its predictive and explanatory power in accounting for EU developments, and accordingly, two types of situation may re-vigor institutional/legalistic spillover: the expansion to new EU policy areas and the transfer of policy areas previously subjected to unanimity to QMV — the

former might be promoted by globalization and the latter suggests more national authority and competence shall be pooled at the EU level, that is, a higher degree of EU political integration. In addition, as far as the three measures are concerned, the causal chain “as the Commission tends to choose the use of QMV as its proposals’ legal bases for member states to reach agreement and thus arouses member states’ attention to the limits of current decision-making of unanimity” is not applicable to the case of the ESM, because the introduction of this new mechanism is not covered by the normal EU legislative procedure, but subject to a Treaty conclusion which requires the unanimous approval of the participating states. Meanwhile, both the cases of the European Semester and the ESRB reject this causal chain, because before the Lisbon Treaty, the codifying of these two new measures should also be covered by QMV rather than unanimity under the Nice Treaty, and there is no necessity for the Commission to propose such — this dissertation terms it “a saturated state”, where the assumed conditions have already been met, being so “saturated” that the theory under concern becomes inapplicable to new EU developments and thus loses its explanatory power. Furthermore, the main considerations bringing about the Lisbon Treaty include: (1) more efficiency in EU decision-making, (2) more democracy via giving a greater role to the EP and national parliaments, and (3) a more coherent external representation (“Treaty of Lisbon, Questions and Answers”, European Union), whereas “the increase in the number of legal bases where the Council acts by QMV instead of unanimity” is “designed to improve effectiveness in the functioning of the Council”, which “being coupled with a new QMV system designed to make it more legitimate and, in principle, simpler, should facilitate decision-taking” (Piris 2010, 212). Therefore, the causal mechanisms posited by H4 are not found in the case studies.

H4 argues that decision-making by QMV in the Council is the most advanced stage of EU political integration, which gets enshrined in the OLP; connecting to the research results in the previous section 6.1 (particularly Table 6.1), this dissertation finds that QMV of legalistic procedures does not guarantee a higher level of EU political integration, neither does it define the limits of decision-making modes which shall be adopted by the new measures (see Table 6.24).

Table 6.24 Political Integration Indicated by the Three New Measures

	Institutional rules and legal procedures codifying the new measures	Political integration in the relevant policy areas prescribed by the Lisbon Treaty	Degree of political integration indicated by the new measures	Falling into the category of EU competence division	Decision-making rules codified in the new measures
The European Semester	The OLP	QMV in the Council: the most advanced stage of EU political integration	Level 1- Level 2	Competences of coordinating economic and employment policies	A sort of the OMC; peer pressures
The ESRB	The OLP	QMV in the Council: the most advanced stage of EU political integration	Level 4	Shared competences	In the General Board: a simple majority or two thirds of the votes cast with the quorum of two thirds of the members with voting rights (see Table 5.4)
The ESM	Treaty amendments to Article 136 TFEU and a treaty conclusion among euro member states	Unanimity by the Heads of State or Government of the euro members: the least developed form of EU political integration	Level 5	Exclusive competences	In the Board of Governors and the Board of Directors: by unanimity (a derogation: a qualified majority with a 85% threshold), qualified majority with a 80 % threshold or simple majority

Sources: Own Compilation on the basis of Table 6.1 and the research results of this section.

Table 6.24 combines the research results of H1 and Table 6.22 and adds the final column of the decision-making modes adopted by the three new measures. As shown in Table 6.24, though at present, QMV stands for the most advanced stage of EU political integration in the context of EU legislative procedures, it does not necessarily

lead to a high political integration result (i.e. the political integration degree of the European Semester is level 1-2), while the ESM Treaty agreement, which is subject to unanimous voting of the euro countries, though taking the least developed form of EU integration, may cause an outcome of a high degree political integration. So there is no proportionate connection between EU legislative procedures and the degree of political integration of policy outcomes under those procedures. Rather, as concluded in section 6.1 (see Proposition 2), the political integration degree of the EU's new measures is related to the competence division laid down by the EU Treaties which is relevant to the nature of the issues concerned. More interestingly, the voting modality of QMV in the Council does not prescribe the possible voting modes which may be used under the new policies and measures. As Table 6.23 shows, the ESM not only adopts unanimity and QMV, but also simple majority, while the General Board of the ESRB also applies simple majority under certain circumstances.

To conclude, though the first half of H4 can explain the general development of QMV's expansion into more policy areas between the two grand Treaty revisions (i.e. the Nice Treaty and the Lisbon Treaty), it fails to account for the three specific cases of EU development. Meanwhile, the second half of H4 about the Commission's specific contributions to the expansion of QMV does not gain supportive evidence from the three cases, and this shows that there is a limit for the Commission to choose QMV purposively as its proposals' legal bases so as to arouse member states' attention to the limits of current unanimity. Moreover, up to now, QMV in the Council represents the most advanced stage of EU political integration to adopt legislative acts, but it does not necessarily lead to policy results of a higher degree of political integration. When Proposition 2 argues that "the mode and degree of EU political integration are defined and limited by EU Treaties", it stresses that EU political integration connects to the competence division already prescribed in the Lisbon Treaty; in comparison, QMV adopted in EU legislative procedures turns out to barely have indicative power to explain EU political integration entailed in concrete EU policies and development. All those can be traced back to the definition and indicator of political integration: the collective decision-making modes (see Table 2.1), which emphasize the locus of activities rather than the voting modalities in collective decision-making, suggesting an outcome-oriented measurement rather than a process-oriented criterion; nevertheless, QMV, which may assume different weights and thresholds (see Table 6.23), has provided the legal bases of EU political integration as well as prescribed the most

advanced form of institutional/legalistic spillover for the EU to adopt legislative acts. Finally, the reasons causing the failure of H4 in the case studies show that there might be “a saturated state” for some integration approaches and theories: they may account for EU developments in the past well, but turn out to be inapplicable to the up-to-date developments only because the new developments have already surpassed the stage posited by the approaches and theories (i.e. original theoretical conditions), and thus the theory concerned exhibits “a saturated state” — a situation where the original theoretical conditions have already been met and hence the assumed conditions are too saturated to make the relevant theory still possess the explanatory power; nevertheless, such a saturated state is not unchangeable, and the new challenges may present fresh situations to “dilute” the saturated conditions, and thus the approach or theory in concern shall regain its vigor again. The saturated state of institutional/legalistic spillover presenting in the case studies of this dissertation suggests that *institutional/legalistic spillover does not necessarily accompany EU political integration*.

6.5 Evidence for H5: Exogenous Spillover

As H5 can be dissected into four sub-hypotheses, this dissertation will check each of them one by one against the three cases. To begin with, H5a has already been got confirmed in the previous hypothesis tests: one of the conclusions in section 6.3 supports the first half of H5a, while evidence for the second half of H5a is present in several sections, particularly by Tables 1.2 and 6.7.

Regarding H5b, the first half of factor (1) is justified by the evidence presented in section 6.2, while the second half of factor (1) — “*the EU acts as an effective buffer to the external financial turmoil and economic crisis*” — gets supporting evidence at least in two respects. The first aspect is the establishment of the temporary rescue facility — the EFSF and then the permanent one the ESM — to provide necessary and urgent financial aid to the euro countries plagued by the sovereign debt crisis, so as to avoid member state bankruptcy. The loans to Greece before the founding of the EFSF have vividly illustrated the buffer function of the EU and eurozone to its member states in front of severe financial shocks and economic recessions (e.g. Hosli et al. 2011a; 2011b). The purpose of financial assistance which goes with strict conditionality of economic and financial reforms is not to directly bail out the troubled states (in accordance with the “no-bailout” clause laid down by Article 125 TFEU and Article

123 TFEU prohibiting monetary financing), but means to add financial liquidity to the economies and buy time for the beneficiary countries to carry out necessary fiscal and structural reforms so as to restore economic competitiveness and financial stability in the long run (*ECB Monthly Bulletin* July 2011, 71). The second aspect is the big intra-EU market for national economies when encountering a global economic crisis. As shown in Figure 6.9, there was a sharp drop of the internal trade amount between the euro countries and other EU member states during the course of 2008 and 2009, but from 2010 to 2012, intra-trade of the EU gained a recovering momentum and at the end of 2011, the total trade in both exports and imports terms has exceeded the level before the global financial crisis. Therefore, there is no doubt that the EU has provided its member states with a potential huge “domestic” market of economic growth, which serves as an effective buffer for member states to safeguard against the repercussions of the world-wide economic recession. Meanwhile, the presence of factor (2) posited by H5b is ascertained by EU politicians’ evaluations on the harsh challenges lying ahead of the EU. As for the context where the EU stands, the Commission clearly stated that:

“The recent financial crisis and pressure on the financial stability in Europe have underlined more clearly than ever the interdependence of the EU’s economies, in particular inside the euro area. Member States were supported by being part of the EU, with its 500-million-people strong internal market and common currency for sixteen Member States. Existing instruments and methods of co-ordination enabled the EU to pull together its recovery efforts and to weather a storm that no Member State could have done on its own. However, these recent experiences also showed gaps and weaknesses in the current system, underlining the need for stronger and earlier policy co-ordination, additional prevention and correction mechanisms and a crisis resolution facility for euro-area Member States.” (COM(2010) 250 Final 12 May 2010, 2)

Obviously, “stronger and earlier policy co-ordination” was realized through the European Semester and “a crisis resolution facility for euro-area member states” refers to the temporary EFSF, based on which a permanent crisis resolution mechanism — the ESM — was developed. In comparison, the ESRB, being responsible for EU-wide macro-prudential supervision, composes an essential part of “additional prevention and correction mechanisms”, as preventive and corrective actions “should also cover macro-prudential aspects to prevent or curb excessive credit growth or exuberant asset

price developments, in line with the [...] European Systemic Risk Board analysis” (COM(2010) 250 Final 12 May 2010, 7); besides, whenever the Commission makes risk assessments and thus decides on appropriate policies, it “would take into account relevant input from the European Systemic Risk Board” (COM(2010) 250 Final 12 May 2010, 8). As for the sensitivity and susceptibility of national economies and financial markets due to increasing economic and financial interdependence, Figures 6.13, 6.14, and 6.15 show the turmoil of government bond yields in the selected euro states during the euro zone sovereign debt crisis. Chaired by Van Rompuy, *The Task Force Report* on 21 October 2010 has set up the general framework for the EU to address the financial crisis and the sovereign debt turmoil in the eurozone, which, inter alia, expresses a full consideration on the situation suggested by H5b (2):

“The recommendations in the Task Force Report address the high degree of economic inter-dependence, particularly in the euro area, while preserving national responsibilities on fiscal and economic policies.”

[...]

“The Greek crisis showed that a more robust framework for crisis management is needed. Indeed, the recent events have demonstrated that financial distress in one Member State can rapidly threaten macro-financial stability of the EU as a whole through various contagion channels. This is particularly true for the euro area where the economies, and the financial sectors in particular, are closely intertwined and where crisis management facilities were missing.” (*The Task Force Report*, 21 October 2010)

Therefore, the establishment of the EFSF and the ESM is the main means taken by the EU to avoid contagion and keep financial stability. All in all, H5b is confirmed and the two proposed factors are fully present.

Subsequently, this dissertation moves to the test of H5c. Originally, H5c proposes a relationship between the EU and third parties outside the EU, but the European Semester functions as a fiscal surveillance and policy coordination mechanism of EU member states at a macro level, not targeting third parties of non-EU member states, nor covering any particular policy areas that third parties outside the EU shall negotiate — basically, the European Semester is an internal instrument dealing with intra-EU issues. Therefore, H5c is not applicable to the first case of this dissertation. With regard to the ESRB, the relationship of the EU with third parties hypothesized in H5c is also not applicable due to the nature of the ESRB — responsible for the macro-prudential oversight of the financial system across the EU

via issuing non-legally-binding warnings or recommendations. Nevertheless, due to “the integration of international financial markets and the contagion risk of financial crises, there is a need for a strong commitment on the part of the Union (of the ESRB) at the global level”, the ESRB seeks closer cooperation with as well as draw expertise from other international macro-prudential supervision mechanisms, particularly the IMF and the FSB, and meanwhile, the ESRB shall “take on all the global responsibilities required in order to ensure that the voice of the Union is heard on issues relating to financial stability” (ESRB Regulation, (7)). Due to the nature and missions of the ESRB, this new EU body has no legal personality (ESRB Regulation, (15)), which rules out the possibilities for the ESRB to represent the EU to bargain and sign the contract with third parties; consequently, the relationship between the ESRB and third parties outside the EU is defined in ESRB Regulation Article 3, clause 2 (i) as “*coordinating* its actions with those of international financial organizations, particularly the IMF and the FSB as well as the relevant bodies in third countries on matters related to macro-prudential oversight” (emphasis added).

Concerning the case of the ESM, H5c is still not applicable, because at present the ESM is the permanent crisis resolution mechanism only for the eurozone countries, and it is an intergovernmental institution concluded by the euro states and not an EU body yet. The purpose of establishing the ESM is unequivocally stated in Article 3 of the ESM Treaty:

“The purpose of the ESM shall be to mobilize funding and provide stability support under strict conditionality, appropriate to the financial assistance instrument chosen, to the benefit of ESM Members which are experiencing, or are threatened by, severe financing problems, if indispensable to safeguard the financial stability of the euro area as a whole and of its Member States. For this purpose, the ESM shall be entitled to raise funds by issuing financial instruments or by entering into financial or other agreements or arrangements with ESM Members, financial institutions or other third parties.” (ESM Treaty, Article 3)

Therefore, the ESM may interfere in the relationship with “other third parties”, and accompanying the ESM’s purpose is its full legal personality, which suggests that the ESM can contract with third parties (ESM Treaty, Article 32 (2)). In a certain sense, the ESM member states (i.e. the euro area countries) forge collective external positions against non-participant third parties, but the purpose of this is not to increase their

collective bargaining power against third parties — rather, the ESM means to provide essential financial assistance to the euro states so as to keep the financial stability of the beneficiary states, the eurozone, and the whole EU. From this perspective, the ESM increases the euro states' collective ability to meet the outside demand. The financial assistance provided by the ESM, as pointed out previously, does not mean a fiscal responsibility transfer nor a financial bail-out, but a way to buy time for the troubled states so as to take reforms to regain economic vitality and prosperity; since the ESM is a crisis backstop of last resort, national governments are not supposed to rely on it.

In short, the issue raised in H5c (i.e. EU common external positions v.s. third parties outside the EU) basically is not applicable to the three cases of this dissertation, as all three represent solutions to EU endogenous problems of a specific nature: policy coordination and surveillance among EU member states, EU-wide macro-prudential oversight as a complement and support to EU micro-level supervision, and a permanent financial assistance mechanism specially for the eurozone countries — all address intra-EU problems and their successful implementation and benefits-maximization will not necessarily depend upon third parties' participation and thus not induce the EU or part of EU member states to negotiate with those outside the EU. However, the ESM's legal personality enables it to negotiate and contract with third parties and the ESRB shall cooperate with international macro-prudential supervision agencies to access other supervisory bodies' expertise and information. Needless to say, the EU's practice of addressing the financial and sovereign debt crises could provide lessons and experience for other countries and regions to address similar problems of their own; nevertheless, even if the ESM may conclude agreements with third parties, the issues addressed by the three new measures are characterized by cooperation and coordination at the macro and intergovernmental levels rather than competition and negotiation between the EU and non-EU parties: the European Semester and the ESRB are not concerned with any single policy area, but cover multiple policy domains and stress the linkages and the mutual influence among them, while the ESM plays the role as a crisis backstop — the last resort that the euro countries shall turn to. They do not target any individual policy; rather, they stand for holistic approaches serving the general interest of the EU and cultivating financial stability and economic prosperity across the EU. Though the relationship posited by H5c is not applicable to the case studies in this dissertation, it is true that along with the adoption and implementation of the three

measures, the EU's ability to meet challenges stemming from the outside world does increase.

Lastly, as regards H5d, this dissertation finds that the ESRB and the ESM follow a general international trend and practice, and the external environment has a structural effect on the framing-up of the EU's solutions to the crisis. Meanwhile, the European Semester, based on what the EU has already taken as measures, displays the EU's original creativities in strengthening regional economic governance via coordinating and monitoring fiscal and economic plans of EU member states (see Table 6.25).

Table 6.25 International Discourses and EU Decision-Makers' Choices

EU choices	Any preceding models or similar practices?	EU decision-makers' consideration and preferences
The European Semester	No, but trying to make a better use of the existing EU instruments	● European Commission President Barroso stated the following about the European Semester: "We need to strengthen economic governance in Europe. Although the EU has several instruments for the coordination of economic policy, the crisis has put in evidence that these have not been fully used and that there are certain gaps in the current system of governance."^① ● Commissioner Rehn stated: "Coordination of fiscal policy has to be conducted in advance, in order to ensure that national budgets are consistent with the European dimension, that they don't put at risk the stability of the other member states. This can be done in the framework of a European economic semester. For (the) euro-area it means deeper and broader surveillance, in particular with regard to macroeconomic imbalances."^② ● European Council President Van Rompuy stated: "[...] the so-called 'European semester' has been agreed whereby member states will confer at an earlier stage on the assumptions (in terms of growth projections, inflation rates, etc) on which their national budgets (are) based. This will allow you to bring the European consequences of national policy decisions into your national parliamentary debate. This is one of the means by which (we) emphasize how the decisions of each Member State affect all."^③ (Cf. section 5.2.1)
The ESRB	Yes;	● "Comparable macro-prudential bodies were also established in some Member States at national level, as well as outside the EU, at more or less the same time, a prominent example of the latter being the Financial Stability Oversight Council (FSOC), which was set up in the United States under the Dodd-Frank Wall Street Reform and Consumer Protection Act."^④ (④, p.3)

		● The ESRB is assumed to be “cooperating closely with the International Monetary Fund (IMF) and the Financial Stability Board (FSB), which are expected to provide early warnings of macro-prudential risks at the global level, and the partners of the Group of Twenty (G-20)” and “should contribute, inter alia, towards implementing the recommendations of the IMF, the FSB and the Bank for International Settlements (BIS) to the G-20.” (ESRB Regulation, (7), (8))
The ESM	Yes;	● The creation of the ESM is based on the model and experience of the EFSF (see Table 5.5), while the latter’s “activation is subject to strong conditionality, in the context of a joint EU/IMF support, and will be on terms and conditions similar to the IMF” (⑤, p.6) and it offers three types of credit lines which are in line with those of the IMF” (⑥, D8). ● Klaus Regling, the Managing Director of the ESM, explained: “The strategy we are following in Europe at the ESM has been used successfully over decades by the International Monetary Fund. Just like the IMF we temporarily grant loans at favourable interest rates to countries that have lost market access”. ⑦ ● The CACs included in the ESM are not a new idea; they have already been concluded by the Ecofin in 2003 that “the Member States should include collective action clauses in their government bonds issued under foreign law or jurisdiction” and the EU has included the CACs in all its bond issuances. ⑧

Sources: ① European Commission-IP/10/859 (30 June 2010); ② European Commission-IP/10/561 (12 May 2010); ③ Van Rompuy (26 October 2010); ④ Dierick et al. (February 2012); ⑤ Council of the European Union-9596/10 (Presse 108) (9/10 May 2010); ⑥ EFSF FAQs (16 July 2013); ⑦ Regling (8 October 2013); ⑧ European Commission-MEMO/10/636 (1 December 2010).

As Table 6.25 shows, H5d got confirmed by the cases of the ESRB and the ESM as “internationally prevailing policy paradigms and discourses” of macro-prudential supervision and of financial assistance to the countries who have lost market access due to unsustainably high yields for governmental securities have exerted impact on EU decision-makers: the establishment of the ESRB is in the trend of the international macro-prudential supervision development, and the ESM takes over the IMF’s long-standing practices as a successful model. In the two cases, the external context shaped EU decision-makers’ preferences; in comparison, what is suggested by H5d does not gain convincing evidence in the case of the European Semester. This failure, however, illustrates the EU’s originality and creativity to counter the eurozone sovereign debt crisis as well as strengthen EU economic governance. To sum up, the

causal chains posited by H5 partially collapse in the case studies, as not all sub-hypotheses are confirmed by the cases: H5a and H5b get a full confirmation, H5c turns out to be not applicable to the three selected cases, and the causal mechanisms assumed by H5d gain strong supportive evidence in the second and the third cases while becoming ineffective in the first one.

7 Chapter Seven: Hypotheses Tests of Intergovernmentalism and New Insights Based on Case Studies

7.1 Evidence for H6: A Criticism Levelled at LI's Predictions of the Impervious Informal Consensus Practice in the Council

Taking Table 6.21 into account, the application of QMV and the voting results in the Council regarding the three new mechanisms are presented in Table 7.1.

Table 7.1 Application of QMV in the Council Regarding the Three New Measures

The outcome of voting in the Council of Ministers	
The European Semester	QMV in the Ecofin Council, 3122 th meeting: all 27 member states vote for “Yes”— no “No” and “Abstain”, and the total votes cast are 345.①
The ESRB	QMV in the Ecofin Council, 3045 th meeting: all 27 member states vote for “Yes”— no “No” and “Abstain”, and the total votes cast are 345.②
The ESM	QMV in EU legislative procedures is not applicable to the case of the ESM due to its intergovernmental nature. (see Table 6.6 and Table 6.21)

Sources: ①Council of the European Union-16662/11 (10 November 2011); ②Council of the European Union-16644/10 (19 November 2010).

Obviously, the application of QMV in the Council implies the legislative procedures of the EU, notably the OLP, and the creation of the ESM does not fall into such categories. The case study results presented in Table 7.1, however, do not adequately support that “the Council of Ministers tends to apply the formal rules of QMV rather than take decisions on the basis of informal consensus”, because despite that the rule of QMV was applied in the Council to codify the European Semester and to establish the ESRB, there was unanimous approval by all EU member states to adopt the two new measures, and thus the distinction between the unanimous positions of national governments in QMV and “the basis of informal consensus” was not clear. Therefore, H6, formulated as a criticism to intergovernmentalism, does not gain adequate supporting evidence in the case studies of this dissertation and the traditional

scenario of informal consensus in the Council still appears to prevail; the intergovernmentalist assumption that *the informal consensus practices in the Council tend to be impervious to external factors (e.g. the institutional design, the composition of the Parliament, and/or the views of the Commission)* (Proposition 18), however, is still subject to empirical tests. Nevertheless, the unanimity displayed in Table 7.1 does indicate EU member states' common positions on tackling the crisis, another evidence for H5a and Proposition 4.

7.2 Evidence for H7: A Revised LI Three-Stage Framework

Displayed in Figure 3.3, H7 capsulates the LI model which is constructed in accordance with LI arguments presented in Figure 3.2. This dissertation will test H7 in line with the analytical factors listed in Figures 3.2 and 3.3. As H7 can be dissected into a series of sub-hypotheses, this dissertation will check them one by one. As the analyses in section 3.7.4.3 suggest, the first move is to examine the nature of the selected cases and to ascertain whether they fall into LI scope conditions. To begin with, as the LI model was born from the studies of the EC/EU grand bargains where intergovernmental negotiations dominate, the cases of the European Semester and the ESRB do not suggest typical formal interstate bargains among EU member states, but rather they illustrate daily decision-making and developments of the EU during the crisis. Therefore, the European Semester and the ESRB have failed to meet the requirement of the case selection of LI, which is supposed to be generalizable to international negotiations, while the ESM, created by Treaty agreement among the euro states, stands for a major negotiation among the contracting parties, Germany and France in particular (see Table 6.7), and thus the case of the ESM is suitable to be examined against LI. Still, this dissertation also tries to apply stage 1 and stage 3 of LI to the two “unsuitable” cases — the European Semester and the ESRB — to see what light LI can cast on our understanding of the two measures and whether some LI assertions are also applicable to EU daily normal decision-making.

7.2.1 Evidence for H7a: National Preference Formation (LI Stage 1)

Table 7.2 presents the case study results against H7a, the first stage of the LI model, in line with Figures 3.2 and 3.3.

Table 7.2 Checking the First Stage of the LI Model: National Preference Formation

	(I) The European Semester	(II) The ESRB	(III) The ESM
H7a	Not confirmed; (1) The nature and functions of the European Semester — policy coordination of each member state — address national economic interests in general (which shall guarantee a stable and healthy economic and financial environment for individual domestic constituents and national economies) rather than any specific and individual sectoral interests, so interests of specific powerful domestic constituents appear diffuse; (2) Born from the Task Force’s ideas and approved by the Ecofin Council on 7 September 2010, the European Semester started from 1 January 2011 before it was finally codified in an EU regulation of 16 November 2011, and its foundation is	Yes; (1) Various representatives from financial sectors delivered their demands and opinions of the creation of the ESRB (see Table 6.19); nevertheless, the members of financial representatives tend to be transnational rather than national: among the listed representatives, only AMAFI, LIBA, insurance companies of Munich Reinsurance Company, and Aegon and AVIVA plc. appear to be tinted with sort of national “domestic” color; besides due to the tasks assumed by the ESRB, the existing supranational ESAs also participate;¹³⁶ (2) The ESRB not only stands for the interests of powerful domestic constituents in financial sectors, but also represents	Yes; (1) The two core euro members, Germany and France, formulated their preferences for the establishment of the ESM on the basis of the national economic interests rather than geopolitical or ideological concerns, as there were contagious risks among the euro countries due to the highly integrated economies among them; the financial turmoil and the sovereign bankruptcy of a euro state shall endanger the interests of the whole euro area countries — a stable financial market is crucial to the eurozone countries’ economies; (2) Germany’s and France’s national preferences for the ESM were expressively enshrined in the bilateral “Deauville Deal” reached by German Chancellor Angela Merkel and French President Nicolas Sarkozy in October 2010, where France “backed Paris in its desire to water down sanctions to be imposed on excessive-spending EU countries” while “[i]n return, Paris endorsed Berlin’s push for a change to the EU treaty in order to set-up an EU bailout fund and default mechanism”; ① (3) German government preferences were based on the following considerations: first, Germany was “the main bankroller” of the loan of €110 billion to Greece, and it adamantly rejected the idea of endorsing such an emergent bail-out again and “its Constitutional Court would slap down any extension of the Greek-type bail-out on the basis that the current EU treaty specifically rules out member state rescues”; second, the EFSF and EFSM were temporary backstops, and the German government wanted to have “something more substantial” to replace the temporary measures before they would expire; third, the default mechanism upheld by Ms Merkel meant that

¹³⁶ See “Annex II: Meetings of the Group and Hearings in 2008 – 2009”, in the de Larosière Report (25 February 2009). (Cf. Table 6.19 (2)).

	mainly pushed by EU supranational institutions (i.e. the European Council, the Commission, and Econfin Council) rather than specific interest groups (see Table 6.6).	national government general interests in maintaining financial stability among closely interconnected financial markets so as to provide a stable financial environment to foster economic growth.	investors, rather than taxpayers alone, would also bear at least part of the losses of a state bankruptcy so as to avoid “a cascading panic in the markets” caused by sovereign defaults like Greece in the spring of 2010; ① (4) The Merkel government urged a strict monitoring and sanctioning mechanism of the SGP to avoid similar cases of Greece whose budget transgressions had tottered the entire currency system, and consequently, it “favor(ed) highest possible degree of automatism,” and supported the Commission’s relevant proposals ②; however, in the Franco-German Deauville Deal, “Germany retreated from its position automatic sanctions” so as to “win French support for a permanent mechanism for crisis resolution”; accordingly, decisions made on sanctions would remain the status quo: QMV in the Council, which opposed the Task Force Report’s recommendation and the Commission’s proposal of the automatic sanctions of “the reverse voting mechanism” (i.e. RQMV); ③ (5) In comparison, the French government had “an entirely different vision” and it “has always tended to side with the southern Europeans who tend to see Germany’s demands for strict stability criteria as a nuisance”②; for the deal, Germany “gave away [...] firm fiscal discipline [...] of automatic fines for deficit violators” and “also agreed to a French proposal that deficit violators should lose voting rights in the EU’s Council of Ministers”, and the latter, however, “would require wholesale changes to the Lisbon Treaty” ④; (6) The controversies caused by the German-French deal are that “a permanent fund and the default procedure require a change to the EU treaty”, and furthermore, “spendthrift states to be stripped of their voting rights within the Council of Ministers — a move that everyone agrees would require a treaty change” ; among the member states, “Italy, the Netherlands, Portugal, Spain and the UK are believed to be adamantly opposed to” such a voting rights suspension sanctions, while “Merkel publicly
Other analyses in line with Figures 3.2 and 3.3	(3) Out of economic interests rather than geopolitical and ideological concerns, reflecting the national (as well as the EU) economic interests in general rather than any particular sectoral interests; (4) The contrasting positions between producers and taxpayers are also diffuse, but the new mechanism displays a clear equilibrium between national fiscal and economic behavior and EU level coordination and surveillance; (5) National governments’ convergence comes from the common sense of the necessity to coordinate fiscal and economic plans so	(3) Out of economic interest considerations without bothering to geopolitical and ideological calculations, reflecting general national interests in keeping financial stability within the EU; (4) The ESRB exhibits an interest formation pattern between the dispersed financial activities and supervision at the micro-level and the pooled macro-prudential oversight at the EU level; (5) All the three factors (3a), (3b) and (3c) in Figure 3.2 appear to have contributed to national governments’ supportive stances on the creation of	

	as to reap greater economic benefits, indicating (3a) and (3b), and also encompassing (3c).	the ESRB; moreover, the ESRB fills the vacuum of the EU integration project, and it supplements and supports micro-level economic and financial developments. In other words, it serves the economic interests of individual actors and the whole region.	remained resolute in her demand for a major change to the treaty” to establish a permanent rescue mechanism; ① (7) The default mechanism agreed by both the France and Germany expressed the economic interests of domestic constituents (i.e. taxpayers), exhibiting the interest formation pattern of investors on the one hand and taxpayers and regulators on the other hand, as Germany and France, being the number one and number two contributors to the EFSF, also beared a large share of the loan to Greece; (8) In addition, Germany and France’s endeavors to setting up the permanent mechanism to safeguard the eurozone and the single currency as well as leading to the agreement on the loans to Greece also had political implications: “the euro’s collapse would be a fatal step backwards for the European project – in which Germany was so key” and “[t]here is a very strong determination among the member states to save what we have done over 50 years all together”.⑤
Falling into the categories of Stage 1 in Figure 3.2?			
Summary	(1) X; (1c)* Mode 3 (see the notes below)	(1) √ (1a);	(1) √ (1a); (1d)* Mode 4 (see the notes below)
	(2) X; (2d)* a holistic approach to the general interests of national economies	(2) √ (2a); (2a)* specific domestic sectoral interests (which may also represent the general demands of the naiotnal economy as a whole); (2d)*	(2) √ (2a) and (2b); (2c)* other factors (such as the political will to secure EMU and/or the EU)
	(3) √; (3d)* (see the notes below)	(3) √; (3d)* (see the notes below)	(3) √ (3a) and (3b); (3b)*ruling governmental coalitions’ macro-economic preferences and/or stances on the fate of the EU and/or EMU

Notes: “√” indicates the fact that the case falls into the range of the categories/predictions of the LI model presented in Figure 3.2; “X” means the concerned is/are out of the categories/predictions of the LI model; “*” suggests that there are modifications and/or new developments adding to the LI model on the basis of the case studies.

(1c)* Mode 3 (an exception to Mode 1): *When addressing the general economic and financial environment and/or the interconnectedness across different sectors, the line between producers and taxpayers/regulators tends to become diffuse as national preferences are based on the general economic considerations rather than any specific individual sectoral interests, exhibiting an equilibrium of the responsibility and actions between the national/micro level and the EU/macro level.* (Proposition 19)

(1d)* Mode 4 (a mixture of Modes 1 and 2): *In terms of issues directly related to the fate of the euro and/or the EU, national preference formation is not only based on economic interest calculations, but also carries political considerations on securing the political project which enshrines more than half a century's efforts.* (Proposition 20)

(3d)* The common sense and the necessity of sound interactions, coordination and cooperation among EU member states and between the national/micro and the supranational/macro levels to serve national economic interests in general.

Sources: ①Phillips (28 October 2010, *EUobserver*); ②Müller et al. (25 October 2010, *Spiegel Online*); ③Kovacheva (22 October 2010, *Euinside*); ④“Brussels Summit: EU Agrees to Merkel’s Controversial Euro Reforms” (*Spiegel Online*, 29 October 2010); ⑤Alexander (25 June 2011, *The Telegraph*).

Before conducting the empirical test of LI (H7) with the case of the ESM, this dissertation has tried to apply LI to the two unsuitable cases — the European Semester and the ESRB — to see whether LI is applicable to EU daily normal decision-making. As the evidence presented in Table 6.19 and the overviews of the selected cases in chapter five show, the European Semester and the ESRB have exhibited the EU’s and its member states’ holistic macro-level approaches on the basis of individual micro-level developments to address the crisis (also demonstrating a converged point of economic interests of the member states); consequently, the interests of specific powerful domestic constituents are not prominent. Moreover, the implementation of the European Semester started from 1 January 2011 (which was born from the Task Force’s ideas and approved by the Ecofin Council on 7 September 2010) before it was finally codified into EU regulation of 16 November 2011 (cf. Table 6.6), and the foundation of the European Semester was pushed by national governments and/or the Heads of State or Government before the relevant interest groups were consulted, because the issues concerned by the European Semester (as well as the ESRB) are related to the national economic interests in general (which shall guarantee a stable and healthy economic and financial environment for individual domestic constituents and national economies) rather than any specific and individual sectoral interests. Even in the case of the ESRB where various representatives from the financial sectors have delivered their demands and opinions of the creation of the ESRB, the members of

financial representatives tend to be transnational rather than national: among the listed representatives, only AMAFI (French Association of Financial Markets), LIBA (London Investment Banking Association), and insurance companies of Munich Reinsurance Company, and Aegon and AVIVA plc. look to be tinted with sort of national “domestic” color.¹³⁷ Therefore, the interests of specific “powerful domestic constituents” are diffuse in the two cases; instead, the two new measures reflect the necessity of macro-level coordination and supervision, which are considered to be indispensable and beneficial to supplement and support micro-level developments. Those, however, have confirmed part of H7g, a scope condition of the LI, namely that the more diffuse representation of domestic societal interests is, the less predictable and more uncertain national preferences are, and the worse LI works.

Though the cases of the European Semester and the ESRB are not suitable to the LI analysis, the LI does shed light on the explanation of the two cases, and (I)(1) and (2) in Table 7.2 appear to confirm H7g and H7h, the scope conditions of LI: (I)(1) shows that the more diffuse representation of domestic societal interests is, the worse LI works, while (I)(2) (as well as the case of the ESRB) displays EU supranational institutions’ and their leaders’ entrepreneurship when national governments lack critical information, expertise and even legitimacy that the Commission and the EU leaders (e.g. Van Rompuy) can provide so far as the issues of policy coordination (and macro-prudential oversight) across the EU are concerned. Nevertheless, the diffuse sectoral interest representation in the European Semester case does not indicate “the less predictable and more uncertain national preferences”. Rather, national governments support and push for the introduction of this new mechanism — they have a very clear and certain preference, which agrees with the common sense to realize maximal benefits via strengthening macro-level policy coordination and surveillance. This suggests another potential scope condition for the LI application, which can be added as (14) to Figure 3.2: for the policies and measures not addressing a single and discrete issue but dealing with the interconnections and interdependence among various economic sectors, national preference formation is based on a holistic and systemic consideration rather than any particular groups’ interests; under such occasions, interest groups’ positions should be largely in line with national government

¹³⁷ See “Annex II: Meetings of the Group and Hearings in 2008 – 2009”, in de Larosière Report (25 February 2009). (Cf. Table 6.19 (2)).

preferences, as the macro-level measures are supposed to facilitate micro-level activities, so even the representation of domestic societal interests may appear weak and diffuse, national preferences for those issues that serve EU economic growth and prosperity tend to embrace further integration; at the same time, EU supranational institutions and EU leaders shall exert their influence on policy formation, as they possess macro-level information, resources, expertise and/or legitimacy that individual governments lack. The implementation of the European Semester and the ESRB actually has spotlighted policy vacuums in the EU: macro-level coordination and supervision and the necessities to address interconnections and interdependence among different policy domains. Those issues have also been underplayed or even neglected by EU integration theories — for example, (12) in Figure 3.2 only stresses sectoral economic interests vis-à-vis geopolitical and ideological concerns. It is clear that along with the micro-level development and integration of discrete policy areas, new challenges to EU economic governance emerge against the trend of globalization: macro-level coordination and supervision across various policy areas from holistic and systemic approaches. Accordingly, the existing LI's two scope conditions can be supplemented by a third one:

Proposition 21: On the issues cutting through multiple policy domains and addressing the interconnections and interdependence among various economic and financial sectors, the representation of domestic societal interests tends to be weak and diffuse; nevertheless, national governments tend to assume predictable pro-integrative positions, and meanwhile, EU institutions and their leaders tend to exert influence on policy formation as they possess macro-level information, resources, expertise and/or legitimacy that each individual national government lacks.

The European Semester and the ESRB do not meet the case selection requirement for LI studies (as they do not contain formal intergovernmental bargains among EU member states), so Proposition 21 should not be added to the LI model; nevertheless, the two cases have exposed the potential topics that LI may encounter in the future, and Proposition 21 then can serve as the third scope condition to justify the first stage of national preference formation of the LI model, which naturally needs to be tested by EU empirical facts in the coming days.

This dissertation now moves to the case studies results of the ESM presented in Table 7.2. H7a is confirmed by the case of the ESM, and stage 1 of LI works well to account for Germany and France's initial preferences for the ESM. Germany's strong

demand of establishing a permanent rescue mechanism for the euro countries derives from its general economic considerations. For one thing, the bankruptcy of a euro member state will cause disastrous financial and economic turmoil in the eurozone as well as encroach the credibility of the common currency — the euro, which in turn will definitely harm Germany's economic interests. For another, the temporary EFSF shall expire soon and the German Court seems not to approve any Greek-style-like bailout again in the future (which, however, looks likely for some euro countries), so a permanent crisis resolution framework is essentially and urgently needed. Besides, the German government has a policy tradition of keeping price stability while avoiding high inflation rates (which also has become the primary objective of the ECB) and it prefers a stable and credible currency; in comparison, the French government has a policy tradition of devaluing national currency to stimulate economic growth while having high inflation rates (Hosli 2005). Contrasting with Germany's strict sanction demands, the French government prefers a looser sanction mechanism for the countries who broke the SGP rules, and it is explainable: in terms of governmental deficits and debts, France has a poorer behavior than Germany, and France itself has higher possibility to be sanctioned. Tables 6.14 and 15 suggest that, from 2006 to 2012, France's budget deficit rates were always higher than that of the Germany (and in 2012, the record was 4.8% of its GDP, much above the 3% criterion, while Germany obtained 0.2% surplus in 2012); though both countries' debt rates were above the SGP requirement of 60% of GDP, the figure of 90.2% for France in 2012 signaled a worsening situation, nearly ten percentage points higher than that of Germany (81.9%). In addition, the France's economy appears more impotent to walk out of the mire of the crisis, as Table 6.13 shows, there was barely a sign of GDP growth (0.0%) for France during 2012. Accordingly, France has a greater possibility to violate the SGP rules; therefore, it prefers a not-so-strict sanction mechanism. Apart from the realistic and imminent economic interest considerations, the funding of the permanent ESM is also out of political interests: to safeguard the eurozone, to save the euro, and thus to secure the fruit of the EU and EMU. As Table 7.2 indicates, the two core euro member states, Germany and France, have flagged out their choices of establishing a permanent rescue mechanism to replace the temporary EFSF; nevertheless, not every euro member is happy with the Franco-German deal. Table 7.3 further illustrates national divergences on the issue of creating the permanent ESM.

Table 7.3 From the Deauville Deal to the Finalization of the ESM: Negotiations, Compromises, and National Preferences Redefined

I	
Suggestions of the Deauville Deal reached by Germany and France, which require Treaty amendments	Preferences and responses of other EU member states, EU institutions and EU leaders to the Deauville Deal
1. To establish a permanent crisis resolution mechanism to help the euro countries struck by the sovereign debt crisis so as to safeguard the financial stability of the euro area as a whole.	● The idea to amend the current Lisbon Treaty, which has undergone eight years of tortuous negotiations, arouses wide substantial concerns and “hardly any member state wants to embark on a years-long negotiation and ratification process complete with risky referendums”⁽²⁾; particularly, it is “a real horror” to Ireland, as the Lisbon Treaty was approved after two difficult referendums in that country, and the President of the Commission, Barroso, is “firmly against Treaty changes”⁽⁴⁾; nevertheless, as Merkel feared, the permanent rescue mechanism “would contravene rules against EU bailouts already written into the Lisbon Treaty”, so a consensus was reached among the member states that “smaller changes were necessary”⁽¹¹⁾; ● The Franco-German initiative has gained support, for instance, from Finnish Prime Minister Mari Kiviniemi, because “[t]he euro area needs a credible permanent crisis mechanism to ensure the financial stability of the euro area as a whole,” and Sweden’s Prime Minister Fredrik Reinfeldt agrees with a small treaty change, “because everyone understands if this is to be strong and workable we need Germany inside”⁽⁶⁾; ● Slovakia, the only country that in the euro area who once declined to rescue Greece, is happy to see Germany have tabled a legally justified permanent mechanism, and it holds that “the French, Spanish and Italians were only ready for cosmetic changes” and “[n]ow we have the Czechs, Germans and Scandinavians on our side”; ⁽⁵⁾ ● The EP has a more radical idea: it supports Treaty changes to establish an EMF and wants to create a new post responsible for economic and monetary policy under the charge of a Vice President of the Commission who should at the same time chair the Ecofin. ⁽⁴⁾
2. The permanent rescue mechanism should include provisions for “an adequate participation of private creditors” ⁽¹⁾ , which means “future rescue packages might involve	● The intention to have a default mechanism to impose possible losses on creditors in place is that without an insolvency procedure, a rescue fund “would encourage reckless government borrowing and thoughtless investment decisions” ⁽⁷⁾, p.1). However, Merkel was under fire for such an insolvency procedure, because to let the private bond holders share the costs of a bail-out would push up borrowing costs and make a bail-out more likely ⁽⁷⁾, p.2), and indeed, the later facts show that investors responded to the

a write-down of existing debt” (⑦, p.1).	German-French deal “by pushing Ireland and Portugal to follow Greece into bailouts” and then Cyprus⑧. Strong criticisms come from, for example, ECB President Trichet and Greek premier Papandreou, as the former holds the critical opinion that “this private-sector involvement (PSI, in Euro-jargon) badly spooked the markets about the value of the European debt they were holding” (⑨), while the latter worries that the insolvency mechanism shall drive some euro countries into bankruptcy; anyhow, the position of Merkel is clear: “to reinforce her own standing with German taxpayers”; still, some Germans, together with EU politicians and economists, disapprove her “savings and punishment” policy, and they argue this could make the crisis worse (⑦, p.2); ● It is widely acknowledged that “[a]t a time of acute nervousness in the market, the provisions for PSI were unlikely to help restore calm”. ⑨
3. “[T]he Council should be empowered to decide, acting by QMV to impose progressively sanctions”, ① watering down a proposal of tough sanctions against the states who consistently fail to reduce debt levels.	● It causes “anger in several eurozone countries, particularly the smaller, northern members that had pushed for even tougher rules” and “reopen(s) resentments between small and large countries, and between fiscally restrained northern members and indebted southerners”; originally, smaller countries believed that Merkel shall back up “near-automatic fines against persistent debtors” beyond the political influence, because Germany tends to do so and actually for several month before the Deauville Deal, “the Netherlands, Finland and other northern countries had stood beside Germany”, pressing for the sanctions placed under the Commission’s technocrat charge rather than under the Council’s of national political influence; ③ ● Germany believes that to gain France’s support is crucial to reach the agreement on budgets rules and a permanent ESM, because “countries such as Italy and Belgium, with their high sovereign debts levels, had gained support in blocking the tougher rules”. ③
4. To suspend the voting rights of the member states concerned “[i]n case of a serious violation of basic principles of Economic and Monetary Union”. ①	● Juncker says the Franco-German deal is “unacceptable” as “it does not guarantee a strict course of stability and a stability pact with teeth”, while “Merkel’s plan to temporarily deprive deficit sinners of their voting rights within the EU isn’t just distasteful to Juncker, but also to other leaders, especially those of the smaller EU countries”; meanwhile, Juncker is “also furious about Merkel’s and Sarkozy’s attempt to shape policy without consulting other leaders first”;② ● Barroso disagrees with the idea of withdrawing member states’ voting rights, and he believes that it “would never be accepted by all 27 EU governments” ⑥; “[i]f treaty change is to reduce the rights of member states on voting”, “I (Barroso) find(s) it unacceptable and frankly speaking it is not realistic” ⑪). ● Obviously, this proposal is unacceptable to those bailed-out states, and other countries, such as Italy, the Netherlands, Portugal, Spain and the UK also oppose to do so. Politicians believe that it goes too

far away from the reality as well as from the “political games” of the EU, as it is once commented by an EU diplomat: “Do you really believe the Irish prime minister can head back to Ireland and tell his people they have to vote in favour of removing their voting rights?” (25)

II Processes of bargaining, compromising and redefining preferences after the Deauville Deal

- As for the Treaty amendments, “the German finance ministry initially aimed at changing article 125 itself (the “no-bailout” clause)”, but taking the arduous processes of Treaty revisions into account, it shifted the focus to other articles where minor treaty changes are possible via a simplified procedure without convening a European Convention and an IGC (but still requiring ratification all 27 EU member states), and two possible Articles (122, 136) are under lawyers considerations; (⑦, p.2)
- For the watered-down sanction proposal, “France insisted on maintaining greater discretion for governments”, but later it gave some ground to the EP; ⑨
- Regarding stripping of the voting rights provision, it “was soon abandoned”, while the proposal of “adequate participation of private creditors” survived; originally, “haircuts were supposed to apply only to new debt issued from 2013, when the ESM was due to come into force. But this year (2011) the euro zone twice demanded that private creditors take losses on existing Greek debt”; ⑨
- Germany and France are still at loggerheads over the degree of PSI: Merkel “wants the private sector to take much of the strain” so as to counter the “fire from voters for the size of Germany’s contribution to the Greek bail-out”, while France “doesn’t want its over-exposed banks to foot the bill” — the reason is that “French banks hold €53 billion of Greek debt — more than those of any other country”; hence, Sarkozy was determined to “keep Greece on track” and reluctant to “make the banks foot more of the bill”, and he suggested a voluntary agreement instead; at the same time, when the German voters angrily opposed to “pull in their belts to pay for Greece’s crisis”, it was stated that “Merkel also faces pressure from Germany’s financiers”, such as the industrial giants ThyssenKrupp, Siemens and Daimler, to “promote the single currency” and “not to let Greece slide” (⑩). However, as time elapsed, Germany and France made concessions to each and adjusted their positions: “France has agreed with German demands for even greater ‘automaticity’ in the process leading to sanctions; and Germany, in return, has agreed to weaken the articles on restructuring the debt held by private creditors”⑨.
- “Germany more or less gave up its long-standing demand that countries in breach of fiscal rules should be taken to the ECJ” and in return, French President Sarkozy “has abandoned his fight for joint Eurobonds”⑨.

III Negotiating step by step leading to the formation of the ESM

- As a response to the Deauville Deal concluded on 18 October 2010, the EU summit on 28-29 October 2010 reached the following conclusions (⑩, p.2):
 - A. “a limited treaty change” to establish a permanent crisis mechanism while “not modifying article 125 TFEU (‘no bail-out’ clause)”;
 - B. the general features of the new mechanism including “the role of the private sector, the role of the IMF and the very strong conditionality” for the rescue programmes;
- In addition, “the new mechanism would also give the [...] Commission new powers to scrutinize national budgets of member nations — and impose fines on so-called deficit violators”, but “the fines will not be automatic”; meanwhile, voting rights in the Council of Ministers won’t be

stripped ⁽¹¹⁾; moreover, on 28 November 2010, the Eurogroup agreed that CACs shall be included in the euro area government securities starting from June 2013 (cf. Table 6.6 E, G), and there will be PSI on a case-by-case basis fully consistent with IMF policies “in order to protect taxpayers’ money, and to send a clear signal to private creditors that their claims are subordinated to those of the official sector” ⁽¹²⁾; as a result, the provisions of PSI and CACs are written into the ESM Treaty.

- As the “six-pack” enters into force on 13th December 2011, financial sanctions of RQMV to reinforce the SGP rules “can be activated at any moment [...], if and when the conditions are met”; RQMV is a “semi-automatic decision-making procedure”, where “a financial sanction can be imposed by the Council on the basis of a Commission recommendation, unless a qualified majority of Member States vote against it”, while for the cases of a notice under Article 126(9) TFEU, “the financial sanction will be adopted by qualified majority voting as foreseen by the Treaty”. ⁽¹³⁾
- Addressing “some of the remaining shortcomings” after the “six-pack” which reinforces EU fiscal governance, a fiscal compact, as a part of the new TSCG (i.e. Articles 3 to 8 of the TSCG), was signed by 25 (without the UK and the Czech Republic) out of 27 EU Heads of State or Government on 2 March 2012. This “fiscal compact envisages the mandatory introduction of a balanced budget rule and an automatically triggered correction mechanism at the national level as well as a strengthening of the automaticity of the excessive deficit procedure within the Stability and Growth Pact in case a euro area country breaches the deficit criterion” (⁽¹⁴⁾, p.79). The TSCG, including a new fiscal compact and strengthened economic policy coordination, is taken as a complement to the ESM Treaty, and the granting of ESM financial assistance is conditional on the ratification of the TSCG by the ESM member states concerned (ESM Treaty (5)).
- Though agreed by the eurozone countries’ Heads of State or Government on 9 December 2011, the TSCG was also adopted by another eight non-euro member states, and entered into force on 1 January 2013. The provisions of the TSCG are compatible with EU law and shall be incorporated into the EU Treaties within five years after it enters into force. The TSCG contracting parties have agreed to “transpose the ‘balanced budget rule’ into their national legal systems, through binding, permanent and preferably constitutional provisions”, which “should be subject to the jurisdiction of the Court of Justice of the European Union” by the end of 2013 (TSCG; ⁽¹⁵⁾). This means the failure of national transposition can lead to financial sanctions imposed by the Court against the member state concerned (26).
- Built upon the budgetary rules outlined in the SGP, the TSCG reinforces EU fiscal and economic governance in four aspects: first, under the balanced budget rule, annual structural government deficit must not exceed 0.5% of GDP — a figure set up by the preventive arm of the SGP — which also must be in line with the country-specific medium-term objective (MTO); second, an automatic correction mechanism of designed measures to reduce the budget deficit over a defined period of time must be in place at the national level of each contracting party by the end of 2013, which shall be triggered automatically in the event of deviations from the MTO or the adjustment path towards it; third, coordination among the TSCG contracting parties gets reinforced, as they agree to inform each other (as well as the EU) their plans of issuing new debt in advance and discuss their economic policy reform plans; finally, euro area governance is further strengthened, as the Heads of State or Government of euro states shall meet informally at least twice a year in the Euro Summit meetings to address the issues related to the single

currency. (TSCG; ⑮)

IV The creation of the ESM by Treaty conclusions

The final agreement of establishing a permanent rescue mechanism, the ESM, is crystalized in the ESM Treaty which is complemented by the TSCG: the former responds to the first (i.e. Treaty amendments to make the ESM viable) and second (i.e. private creditors' participation) ideas in the Deauville Deal by carrying out a limited Treaty amendment to Article 136 TFEU via the simplified revision procedure and including PSI and CACs into the operation of the ESM, while the latter deals with disciplining national fiscal behavior via a "balanced budget rule" and an automatically-triggered correction mechanism at each national level of the TSCG signatories; at the same time, the third idea (i.e. remaining the status quo of QMV in the Council to impose sanctions against SGP violators) put forward by the Deal is finalized as semi-automatic RQMV for financial sanctions, and the fourth suggestion entailed in the Deal about suspending concerned member states' voting rights in the Council has been fully abandoned.

V After signing the ESM Treaty (on February 2012): negotiations and compromises still go on

- On 27 June 2012, in the run-up to the EU summit, Merkel "managed to get new French President François Hollande to sign off on her fiscal pact, which is deeply unpopular in Paris, in return for her support on the €130 billion (\$165 billion) European Union 'growth pact'". (27)
 - At the late Friday evening of 29 June 2012, less than 24 hours before the German Parliament, the Bundestag, approved the establishment of the permanent €700 billion bailout fund (i.e. the ESM) and the fiscal compact included in the TSCG, "Merkel had made some tough and unexpected concessions after a marathon 15 hours of talks at an EU summit in Brussels lasting well into Friday morning", and the euro area member states agreed the following: (1) the conditions for getting ESM aids are eased — a euro state now can receive ESM help if it fulfills the budget rules laid down by the Commission while "without agreeing to additional tough austerity measures"; (2) "[s]trict oversight by the troika" (i.e. the Commission, the ECB and the IMF) "will no longer apply"; (3) the ESM can directly bailout European Banks after the creation of an SSM, thus avoiding to push the member state concerned into a deeper debt mire via loaning to the government in exchange for austerity commitments^⑰. Before the summit, Merkel opposed those measures and her preferences stuck to the rules that had already been agreed in the ESM Treaty with strict oversight particularly with the involvement of the IMF; Merkel was sharply criticized for caving in to the demands of the southern euro member states, particularly Italy and Spain, whose Prime Ministers secured the concessions by threatening to veto the €120 billion growth pact originally proposed by French President François Hollande as a promise to French voters during the his presidential election with the aim of stimulating the EU economy and complementing Merkel's fiscal compact of austerity measures. For Merkel, even if the growth pact may do not have a real impact on EU economies, she "had promised the successful passage of the pact to the opposition back home, as well as support for a financial transaction tax, in exchange for their support in ratifying the ESM and the fiscal pact in Friday's votes" ^⑰.
 - Though on 29 June 2012, the German Parliament, the Bundestag, approved both the ESM and the Fiscal Pact, the two intergovernmental treaties — the ESM Treaty and the TSCG — were still subject to Germany's highest court's (i.e. the Federal Constitutional Court) review before they can finally get ratified. Though facing amount of petitions for temporary injunctions which would block the ratification of the ESM, on Wednesday 12 September 2012, the highest court gave a green light to the ESM, but set two conditions/reservations for Germany to ratify the
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ESM: the limited German liability of €190 billion and the rights of the Bundestag to obtain confidential information of the ESM; meanwhile, the German court also rules that “the ESM cannot ‘become a vehicle of unconstitutional state financing by the European Central Bank’”, which means that the ECB’s bonds borrowing actions (known as the OMTs) are not permitted — such a ruling shall deprive the ESM of the means to increase its financial capacity, and as a consequence, the ESM fund can offer sufficient support for Cyprus or Ireland, but no longer for the bigger euro countries, like Spain or Italy (18). Obviously, the two reservations made by the German highest court embody German taxpayers’ interests, as any ESM bailouts suggest German taxpayers’ payment for the bill, while to strengthen the German Parliament’s saying on ESM operation affairs means to check against any potential unlimited and increasing bailout responsibilities allocated to Germany in the future. Germans’ warnings against the adoption of the ESM include: the permanent rescue fund could limit and even damage German parliament authority in budgetary decision-making, as the liabilities through international agreements could be “tying the hands of the budget legislature”; more realistically, if a ESM member failed to fulfil its shares of funding in the future, there would be a high possibility for other ESM members to take more payment obligations (22). As regards opposition to the ECB’s new initiatives of OMTs via the ESM, the main concern, among the worries such as lacking any parliamentary oversight of the ECB’s operations and possibly a high inflation rate caused by OMTs, is also about the increasing financial risk for German taxpayers as they would be in the end liable to all the ECB bond purchasing (23), (24).

- In order to facilitate Germany to ratify the ESM Treaty, other eurozone member states took a quick response to the German court’s ruling within a week, and the contracting parties of the ESM worked out an legally binding “interpretive declaration” to clarify the ESM treaty so as to meet the two reservations of the German court: first, the upper ceiling of each member state’s liability specified in Annex II of the ESM Treaty shall not be exceeded “without prior agreement of each Member’s representative and due regard to national procedures” (addressing Article 8(5), ESM Treaty) — for Germany, it means that its liability of €190 billion can only be exceeded after obtaining the Bundestag’s permission; second, national parliaments can acquire comprehensive information from the ESM (addressing Article 32(5), Article 34 and Article 35(1), ESM Treaty) (19), (20).
- As for the ECB’s bond purchasing, Germany’s highest court has expressed its skepticisms and criticisms. The hearings on such ECB programmes were conducted on 12-13 June 2013 and the court’s ruling was expected to be made several months later. In January 2014, the court was still reviewing the issue, and the possibility of “striking down the most successful tool in combating the crisis” has not been ruled out yet. (21)

Sources: (1)Deauville Declaration (18 October 2010); (2)“Merkel at the EU Summit: The Iron Chancellor in the Euro Trap” (*Spiegel Online*, 28 October 2010); (3)Chaffin and Spiegel (24 October 2010, *Financial Times*); (4)Kovacheva (22 October 2010, *Euinside*); (5)A Comment of the Newspaper Hospodárske Noviny quoted in Kovacheva (22 October 2010, *Euinside*); (6)“EU Leaders Strive for Deal on Budget Discipline” (*BBC News*, 28 October 2010); (7)Barysch (November 2010); (8)Neuger (19 March 2013, *Bloomberg*); (9)Charlemagne (5 December 2011, *The Economist*); (10)*European Council 28-29 October 2010 Conclusions*; (11)“Brussels Summit: EU Agrees to Merkel’s Controversial Euro Reforms” (*Spiegel Online*, 29 October 2010); (12)*Statement by the Eurogroup* (28 November 2010); (13)European Commission-MEMO/11/898 (12 December 2011); (14)“A Fiscal Compact for a

Stronger Economic and Monetary Union” in *ECB Monthly Bulletin* (May 2012); ^⑮“The Treaty on Stability, Coordination and Governance (TSCG)” (Eurozone Portal); ^⑯Alexander (25 June 2011, *The Telegraph*); ^⑰“Parliament Approves ESM and Fiscal Pact: Merkel Secures Vote for Euro Treaties” (*Spiegel Online*, 29 June 2012); ^⑱Hipp (13 September 2012, *Spiegel Online*); ^⑲“Declaration on the European Stability Mechanism” (Council of the European Union, 27 September 2012); ^⑳Kaiser and Rickens (20 September 2012, *Spiegel Online*); ⁽²¹⁾Kaiser (12 June 2013, *Spiegel Online*); ⁽²²⁾Wittrock (10 September 2012, *Spiegel Online*); ⁽²³⁾“Petition Rejected: German Court Says It Will Not Delay ESM Ruling” (*Spiegel Online*, 11 September 2012); ⁽²⁴⁾“‘This Perverse Angst’: Draghi Defends Euro Rescue Policies” (*Spiegel Online*, 2 January 2014); ⁽²⁵⁾Phillips (28 October 2010, *Euobserver*); ⁽²⁶⁾“Treaty on Stability, Coordination and Governance Signed” (European Council, 2 March 2012); ⁽²⁷⁾Rickens (*Spiegel Online*, 29 June 2012).

As Tables 7.2 and 7.3 show, Germany and its Chancellor Ms Merkel initiated and adamantly pushed through the establishment of a permanent crisis resolution mechanism — the ESM — to replace the temporary one with the aim to safeguard the financial stability of the euro countries. To have a permanent rescue mechanism as well as tougher fiscal rules in place is the core interests of the German government, and as a matter of fact, the two concluded treaties — the ESM Treaty and the TSCG — are designed to complement each other with the former to provide urgent financial assistance while the latter, whose ratification becomes a pre-requirement of receiving ESM aid, to strengthen eurozone fiscal governance and to correct national unsound fiscal behavior. The process leading to the final creation of the ESM, however, is not a straight and an once-time-bargaining and compromise. Rather, there are several bouts of national negotiations and concessions due to the disagreements among the member states and EU institutions towards Germany and France’s proposals, during which member state preferences also get modified and redefined. Nevertheless, Germany’s positions to establish a permanent rescue mechanism while strengthening the SGP rules get unswerving during the course of negotiations, and at the same time, the negotiated results at different stages represent the economic interests of powerful domestic constituents in the two leading euro states well: for both Germany and France, they aimed to meet the taxpayer’s interests on the bailout fund as they have made the largest contributions to the Greek rescue package and to the EFSF, the German government in particular. Meanwhile, the German government also took its multinational industrial giants’ demands into consideration, whereas the French government unequivocally tried to protect the interests of French banks and financial sectors the most. Therefore, even with the changes of national preferences during the negotiation course towards the

finalization of the ESM, H7a is confirmed as the ESM reflects the economic interests of powerful domestic constituents at least in Germany and France.

Nevertheless, besides the economic factors, political considerations also have played a role in the formation of the ESM. Above all, if Greece or other euro member states was forced to leave EMU, it would not only endanger the single currency and EMU, but also mean a political failure of the EU integration project. Meanwhile, EU politicians generally believe that if the euro were to fail, so too would the EU¹³⁸ — this is the conceptual background for ECB President Mario Draghi to pledge that “the ECB is ready to do whatever it takes to preserve the euro” (Draghi 26 July 2012), paving the way for the ECB’s decisions of the OMTs (see Appendix 2). The political significance of the euro besides the economic benefits it has brought is well crystalized in Merkel’s televised address to the nation in the New Year 2011:

“We have to strengthen the euro, and it is not only a question of money. The euro is more than just a currency. It is our good fortune that we Europeans are united. A united Europe is the guarantor for our peace and our freedom. The euro is the basis of our economic well-being. Germany needs Europe and our common currency, for our own good, and for coping with global challenges.” (Smith 5 January 2011, *The Wall Street Journal*)

Second, Merkel’s party, the Christian Democratic Union (CDU), faced regional elections while Sarkozy was running up for his presidential re-elections, so both of them had to take voters’ attitudes on the ESM into account, and the clauses of PSI and CACs built into the ESM Treaty to protect the interests of taxpayers thus become explainable. It is, however, interesting to observe different public reactions towards the Greek bailout in the two core euro member states. In contrast to the German citizen’s 60 percent opposition to the new aid for Greece, the French people “appear to have accepted the bail-out with Gallic resignation” as “[t]hey cannot contemplate letting the country go bankrupt” and consequently, “President Sarkozy has not had to deal with street protests against the bail-out, and the newspapers have refrained from shouting furiously about the terms” (Alexander 25 June 2011, *The Telegraph*). Such a sympathy, Philippe Moreau-Defarge, a researcher at the French Institute of International Relations in Paris, argues that it is because “France is a Latin country that feels closer to the Greeks; they also feel it could happen to them” (quoted in Alexander 25 June 2011,

¹³⁸ See, for example, “Eurozone Must ‘Resist Alarmism’, Olli Rehn Says” (*BBC News*, 16 November 2010).

The Telegraph) — the former may appear symbolic and meta-physical, while the latter touches the spine of France: its economy is not as strong and robust as Germany's; with an uncertain economic recovery ahead, it also has the risk of debt defaults. German citizens' (including some prominent politicians') strong opposition to the measures of bail outting other euro countries plagued by the sovereign debt crisis were fully demonstrated when the permanent rescue mechanism ESM was waiting for the German highest court's ruling: 37,000 German people lodged their complaints about the ESM bailout, making the case of the ESM "the biggest constitutional complaint in German history" (Wittrock 10 September 2012, *Spiegel Online*). So apart from economic reasons, Germany's original propositions have been tinted with strong political sentiments: siding with German taxpayers — a synonym of voters — is a political necessity and strategy. As Tables 7.2 and 7.3 suggest, Merkel's option for an insolvency procedure to accompany the bailout for the beneficiary states was compelled by domestic pressures, as there were tensions and opposition when Merkel and her coalition government tried to get the Greek bail-out package and the EFSF passed through the German national parliament, the Bundestag, in May 2010. At that time, to secure both measures to be adopted, "Merkel called for an international financial transaction tax and announced a unilateral ban on naked short-selling of certain stocks and bonds" and meanwhile "Merkel is convinced that she cannot return to the parliament with another bail-out package unless it foresees the possibility that private investors, not only taxpayers, are involved" (Barysch November 2010, 3). Naturally, in the Deauville Deal, Germany pressed for the default mechanism of an insolvency procedure involving haircuts of shareholders. This also makes a footnote to Merkel's determination to establish a legally binding permanent rescue mechanism. Moreover, to secure the ally of France so as to materialize Germany's basic propositions, Merkel openly campaigned for Sarkozy's re-election; when the Fiscal Pact had received the necessary support, Merkel was so pleased that she overtly said: "Nicolas Sarkozy supported me during my campaign. In the same way, I will now pay back that which he gave me" ("The Electoral Pact: Crisis Desperation Drives Merkel to Campaign for Sarkozy", *Spiegel Online*, 6 February 2012). Another linked reason is that Merkel "fear(s) that a Socialist president in Paris may overturn its strategy to rescue the euro" as Sarkozy's challenger, François Hollande, is a Socialist, who, leading the election survey, favors euro bonds while opposing "the anchoring of a balanced budget amendment — the so-called 'debt brake' — in the French constitution"

— an essential ingredient of the Fiscal Compact (“The Electoral Pact: Crisis Desperation Drives Merkel to Campaign for Sarkozy”, *Spiegel Online*, 6 February 2012). In May 2012, Sarkozy was defeated by Hollande in the French presidential elections with about 48% against 51.7% of the votes, and it has been hold that two factors lead to French voters’ sanctions against him: France’s economic depression with low growth and high unemployment rates (about 10%) and “his flamboyant personal style” (Deen and Viscusi 7 May 2012, *Bloomberg*), and some analysts believe that the latter has contributed more to Sarkozy’s failure, but coming to Sarkozy’s management of the crisis, “in fact many consider good” (Poirier 8 May 2012, *CNN*). As Hollande also opposed the “inevitable” austerity measures to counter the crisis, his victory gave “a sense of relief in many European countries” (“Socialist Hollande In, Sarkozy Out, As France Elects a New President”, *CNN*, 7 May 2012), which implies that those “grieving” southerners under the programmes of budgetary cuts with austerity measures, such as Greece and Ireland, now have a powerful ally. Hollande’s promises to French voters to revive the French economy and to complement Germany’s demands of implementing austerity measures by the Fiscal Pact, as Table 7.3 suggests, were enshrined in his growth pact proposals, and to make it viable alongside the already-negotiated Fiscal Pact had been prioritized as being an urgent issue on Hollande’s agenda (Poirier 8 May 2012, *CNN*). Hollande’s proposal was finalized in the EU summit of June 2012, where a Compact for Growth and Jobs of EUR 120 billion (equivalent to around 1% of the EU’s GNI) was reached to promote fast-acting growth measures (*European Council 28/29 June 2012 Conclusions*). The adoption of the growth pact appears as the new French President’s political success — at least, he fulfills his promises to the French voters, and additionally, he also wants to send a message to his domestic voters that “he was rebalancing ties after the ‘Merkozy’ era” (“Insight: Merkel and Hollande — Building a ‘Grand Bargain’”, *Reuters*, 10 July 2012). Nevertheless, participants of the EU summit to adopt this growth pact “know themselves that the resolution is little more than a bit of window dressing for voters and financial markets”, and it “contains nothing new” while its effects on the economy are supposed to be “virtually nil” — it just helps the new President “save face” (Volkery 27 June 2012, *Spiegel Online*). However, the Italian Prime Minister Mario Monti, together with his counterpart of Spain, Mariano Rajoy, took this as a new opportunity to bargain with Merkel — they would not approve the growth pact proposed by France until “concrete measures to fight the high interest rates on Italian

government bonds [...] had been clarified”, successfully forcing Merkel to make concessions in the rules of governing the ESM bailout fund (see Table 7.3) (Volkery 29 June 2012, *Spiegel Online*). The reason for Monti and Rajoy to press for those demands at this moment is also explainable by the domestic political pressure in their own countries: both Monti and Rajoy had to push through unpopular and painful reforms in Italy and Spain respectively, but there was strong domestic resistance to the reforms; government changes in the two countries were not unusual since the crisis, and Italy would have elections in the Spring of 2013 — a vital factor allowing Merkel’s concessions (Rickens 29 June 2012, *Spiegelonline*). Even after the operation of the ESM, Merkel herself also met huge domestic pressures when coming to the terms on the bailout of Cyprus under the ESM in March 2013, as she was campaigning for re-election in September (Neuger 19 March 2013, *Bloomberg*). Generally speaking, addressing the sovereign debt crisis is an economic issue, but at the same time it is closely related to domestic political situations and demands, as national citizens can sanction their leaders by their votes regarding how the politicians respond to the economic downturn, high unemployment rates and climbing up public debts during the crisis. No matter how largely Sarkozy’s personality accounts for his presidential re-election failure, he is just another head of government who falls out of the political altar, joining the long, but definitely unfolding, list of “the victims of the crisis” of the national leaders in Ireland, Portugal, Greece, Italy, Spain, Slovenia, Slovakia and the Netherlands (Deen and Viscusi 7 May 2012, *Bloomberg*). The scenario of domestic political fallout across Europe during the crisis has demonstrated that to address the crisis is not a pure economic issue. Therefore, apart from the specific economic interests, domestic party struggling and national-wide elections also account for national preference formation towards measures to solve the crisis, including the ESM.

Moreover, Germany’s assertion on the creation of the permanent ESM and the strengthened SGP rules also reflects Merkel’s center-right governmental coalitions’ (composed of the conservative CDU, its Bavarian sister party the Christian Social Union (CSU) and the business-friendly Free Democratic Party (FDP))¹³⁹ macro-economic preferences. Before the Deauville Deal, Merkel’s government has expressed its preferences clearly: making Treaty amendments to establish a new “legally unassailable” rescue mechanism for the euro countries while combining it with

¹³⁹ See Wittrock (10 September 2012, *Spiegel Online*).

the SGP reform as a single package — it seems that Germany adopts an “all-or-nothing” strategy (see Table 7.2). In order to win France’s support, however, Merkel made concessions in the Deauville Deal to Sarkozy, loosening the sanction mechanism against the persistent SGP violators. This bilateral deal nevertheless caused rifts within the German federal Parliament, the Bundestag, and the strong criticisms came from, for example, the leader of the center-left Social Democratic Party (SPD), Frank-Walter Steinmeier, and the Green Party politician Renate Künast (“Merkel at the EU Summit: The Iron Chancellor in the Euro Trap”, *Spiegel Online*, 28 October 2010). On 29 June 2012, members of the Bundestag, including politicians from the opposition parties, approved the package championed by Merkel: a permanent euro rescue fund and a fiscal pact. For the former, the votes were 493-106 with five abstentions in favor of the ESM, while for the latter, the ballots were 491-111 with six abstentions; Merkel’s package requires two-thirds-majority support (i.e. 414 votes) in the Bundestag, because it concerns Germany’s internationally binding fiscal commitments to provide rescue funds in the ESM and correct budget deficits in the Fiscal Compact, which composes a vital part of the TSCG (“Parliament Approves ESM and Fiscal Pact: Merkel Secures Vote for Euro Treaties”, *Spiegel Online*, 29 June 2012). Later on the same day of 29 June 2012, the Bundesrat, Germany’s legislative chamber representing German states’ interests, also approved Merkel’s package of the two measures, with fifteen out of sixteen states in favor, and the only opposition came from Brandenburg, an eastern state under the governance of the coalition of the center-left Social Democrats and the left-wing Left Party (“Parliament Approves ESM and Fiscal Pact: Merkel Secures Vote for Euro Treaties”, *Spiegel Online*, 29 June 2012). The stories of the establishment of the permanent ESM continued. Though the Bundestag approved the ESM and the Fiscal Pact on 29 June 2012, the two intergovernmental treaties — the ESM Treaty and the TSCG — were still subject to Germany’s highest court’s review before they could be ratified. The opponents of the two treaties lodged their complaints to the court as soon as the Bundestag approved them that evening, mainly worrying about German taxpayers’ “unlimited and irreversible liability risks” in the permanent rescue fund (“Green Light for ESM: German High Court OKs Permanent Bailout Fund with Reservations”, *Spiegel Online*, 12 September 2012), including Peter Gauweiler, a Bundestag member of the conservative CSU — apparently a discord within Merkel’s coalition (“Parliament Approves ESM and Fiscal Pact: Merkel Secures Vote for Euro Treaties”, *Spiegel Online*, 29 June 2012). Accordingly, the court announced that it

would hear the complaints on 10 July 2012,¹⁴⁰ and its ruling then was expected to be delivered in the coming September, but just a week before the court's ruling, Peter Gauweiler filed another new "emergency" petition over the ECB's announcement on 6 September 2012 to purchase unlimited sovereign bonds from the euro member states plagued by the sovereign debt crisis. Accusing the ECB of becoming an "unlimited ultra- and hyper- bailout fund" which gets out of national parliaments' control, Gauweiler demanded that "the court reject the ratification of the ESM treaty until the ECB revises its decision" and thus the scheduled ruling on the ESM, together with the Fiscal Compact, should be delayed (Wittrock 10 September 2012, *Spiegel Online*). On 11 September 2012, rejecting Gauweiler's new petition for a temporary injunction, the court announced that it would not delay its ruling on the ESM.¹⁴¹ Reviewing all the petitions against the ESM, the German highest court, on 12 September 2011, still gave its OK to the ESM, but added two conditions to ensure Germany's limited liability and the German parliament's rights to be informed with the operation of the ESM; consequently, an "interpretive declaration" was agreed upon by all ESM members to meet the two conditions imposed by the German highest court (see Table 7.3), and after this clarifying declaration, the ESM finally got ratified by Germany. At first glance, the plaintiffs seemed to be the losers, but since establishing a permanent rescue mechanism is unavoidable and a "must" to address the crisis, those opponents of the ESM actually had obtained what they wanted: the two conditions attached to the ratification of the ESM Treaty; Gauweiler himself even called the court's ruling as a "huge success" (Hipp 13 September 2012, *Spiegel Online*).

The case of the ESM confirms the validity of H7a, exhibiting the classic pattern of national preference formation based on the equilibrium of producers and investors on the one hand and taxpayers and actors who are interested in regulation on the other hand, while also illustrating how a concrete measure has been hammered out by euro states to meet the challenge of globalization. Besides, German government positions on the issue of the ESM mirror Merkel's ruling coalitions' macro-economic preferences, which fall into the prediction of the LI model (see 3b in Figure 3.2). Meanwhile, the ESM case also protrudes LI's national preference formation arguments: national preference formation is not static; rather, responding to new rising situations, they get

¹⁴⁰ See, for instance, Connolly (10 July 2012, *The Guardian*).

¹⁴¹ See "Petition Rejected: German Court Says It Will Not Delay ESM Ruling" (*Spiegel Online*, 11 September 2012).

modified and re-oriented during the negotiation process; nevertheless, the core assertions of nation states tend to remain unchanged. In addition, the unsuitable cases of the European Semester and the ESRB have revealed an unavoidable aspect that EU policy making must work on in the future: macro-level approaches addressing the interconnectedness and interdependence across various policy domains and sectors. To galvanize its robust analytical and predictive power, LI must take those new challenges into account, and Propositions 19, 20, 21 are attempts made by this dissertation to adapt LI to the future challenges.

7.2.2 Evidence for H7b and H7c: Interstate Bargains (LI Stage 2)

As the European Semester and the ESRB are established in accordance with EU daily decision-making procedures, they embody EU collective decision-making via EU supranational institutions (see Table 7.1), so the second stage of the LI model — interstate bargains — is only applicable to the case of the ESM. From the Deauville Deal in October 2010 to the signing of the ESM Treaty in February 2012, and then to the operation of the ESM in October 2012 after national ratification, the formation of the permanent crisis resolution mechanism, as Figure 7.1 suggests, has undergone several rounds of intergovernmental negotiations before it is finally concluded.

The initiator of the ESM: Germany;

Germany's preferences: (1) to establish a permanent rescue fund via Treaty changes, with an insolvency procedure involving the losses and risks sharing of private investors (i.e. PSI); (2) to strengthen the SGP rules with tougher budget rules and an automatic sanction mechanism charged by the Commission rather than by the status quo of QMV in the Council (which is in line with the Commission's and the EP's positions)

↓ How to materialize those national interests?

↓ *Germany's strategy:* forming a coalition with France, the number two in EMU and the EU

France's preferences: (1) a comparatively lenient fiscal sanction mechanism (a strong ally for the southern European states while opposition is coming from the Northern states who have better fiscal records); (2) depriving the voting rights of the persistent deficit violators in the Council (a proposal attracting universal opposition and criticisms); (3) the status quo of sanction decision-making by the Council (opposition from EU institutions and Northern euro states)

↓ *The first round of interstate bargains:* the bilateral Deauville Deal struck by Germany and France on 18 October 2010

Negotiated results: there were interest swaps and compromises between Germany and France and the Deauville Deal represented a merger of both countries' propositions, where Germany yielded to France's demands and accepted all the preferences of France, and in return, France agreed to make Treaty revisions to establish a permanent rescue fund with a default mechanism

Germany's strategy: Germany made concessions to secure the support for Treaty amendments to

establish a permanent ESM with a default mechanism (a thing Germany really wanted) while pressing for budgetary discipline of strengthened SGP rules — the two measures (i.e. establishing a permanent bailout fund and implementing strict fiscal rules) were proposed hand by hand as a package offered by Merkel; France was a potential ally of southern member states who would block tougher SGP sanction rules, so conceding to France's demands broke the possible block forged by the southern countries while also making Merkel's package of the two measures viable. From another angle, if not compromising with France's demands, Germany would lose both measures: France would not support Treaty changes for the permanent ESM, while southerners would possibly ally France to water down the budget rules and the sanction mechanism.

 *The second round of interstate bargains:* various responses to the Deauville Deal, forming a rough line between small fiscally-restrained northern members (together with the Commission and the EP) and large indebted southerners on the issue of a tougher and more-automatic sanction mechanism

Negotiated results: (1) the EU summit of 28-29 October 2010 reached agreement on: (a) a limited treaty change to make a permanent ESM possible; (b) the participation of private sectors; (c) a sanction mechanism not to be automatic; (d) voting rights not to be suspended; (2) on 28 November 2010, the Eurogroup agreed that the ESM shall include PSI and CACs provisions — a specification of the default mechanism persistently demanded by Germany; the semi-automatic RQMV was introduced by the “six-pack”, which became effective as of 13 December 2011 onward

Germany's strategy: Germany caved in to France's demands of weakening articles on the haircuts of the private creditor side, and in return, France agreed with a more automatic sanction process.

 *The third round of interstate bargains:* addressing the shortcomings of as well as further strengthening EU (particularly eurozone) fiscal governance after the “six-pack”

Negotiated results: the TSCG (known as the Fiscal Compact) was agreed by the Heads of State or Government of the euro countries on 9 December 2011, and then the non-euro members (except the UK and the Czech Republic) also participated; the TSCG was signed by 25 member states on 2 March 2012, and entered into force on 1 January 2013; the TSCG includes a fiscal compact based on the SGP rules, which introduces a balanced budget rule and an automatically triggered correction mechanism at the national level.

Germany's strategy: Confronted with the UK's opposition, the TSCG was concluded as an intergovernmental Treaty rather than an EU Treaty, excluding the “recalcitrant” governments; Germany bound the ESM and the TSCG together, and the TSCG was included in the ESM Treaty as a prerequisite for ESM member states to receive ESM assistance.

 *The fourth round of interstate bargains:* the formation of the ESM Treaty

On 11 July 2011, the 17 euro countries signed the ESM Treaty; later, on 21 July and 9 December 2011, decisions were made by the eurozone Heads of State and Government to increase the effectiveness of the ESM, including (a) “new financing tools”, (b) “more flexible pricing”, (c) “link with fiscal compact”, (d) “new emergency decision-making procedure”, (e) “alignment with IMF practice as regards private sector involvement”, and (f) “timing of capital contribution”; incorporating those decisions, the ESM Treaty was signed again on 2 February 2012.¹⁴² The ESM Treaty was subjected to national ratification of the euro countries, and the permanent ESM did not become operative until 8 October 2012.



¹⁴² See ESM Treaty Factsheet (Council of the European Union, 2 February 2012).

After signing the ESM Treaty, interstate bargains and compromises still continued.	
↓	<i>The fifth round of interstate bargains:</i> Newly elected French president Hollande wanted to get his growth pact to be adopted, a promise he made to the French voters during his presidential campaign to stimulate the French economy and claimed to complement Merkel's Fiscal Pact which stressed austerity measures; before the EU summit on 29 June 2012, Merkel agreed to support Hollande's growth pact, and in return, Hollande agreed to sign off the unpopular fiscal pact championed by Merkel. <i>Negotiated results:</i> Hollande's proposal was adopted as a <i>Compact for Growth and Jobs</i> on the euro area summit of 29 June 2012; to secure the Growth Compact which is in exchange for the Fiscal Compact, Merkel made concessions to Italian and Spanish Prime Ministers' demands of easing the conditions for granting an ESM aid, dropping the previously planned troika oversighting, and approving direct bailouts to European banks as soon as an SSM is created. <i>Italy and Spain's strategy:</i> forcing Merkel's concessions on some terms of the ESM (which would help reduce the yield rates of their government bonds) by threatening to torpedo Hollande's growth pact. <i>Germany's strategy:</i> Germany opposed the demands made by Italy and Spain, but it needed the ally and support of France to the Fiscal Compact; meanwhile, a growth pact was also needed by Merkel to placate her domestic opposition in exchange for their support for the ESM and the TSCG.
↓	<i>The sixth round of interstate bargains:</i> responding to the German highest court's ruling of imposing two conditions for the ESM Germany was the last ESM member to ratify the ESM Treaty, and other euro states were anxiously waiting for the approval of the ESM by the German highest court after it passed through the German Parliament on 29 June 2012; the petitions against the ESM were backed by 37,000 German citizens; still, the German court finally favored the ESM on 12 September 2012 but imposed two conditions; to meet German highest court's requirements for ratification, the euro states quickly adopted an "interpretive declaration" issued on 27 September 2012 to clarify the court's concerns. Thus, the last obstacle for the operation of the ESM was removed. Another issue petitioned was the ECB's purchasing of government bonds via the ESM, which, up to January 2014, was still under the review of the German highest court. Uncertainty still hovers over the fate of this powerful tool which can largely amplify the capacity of the ESM, and <i>another round of interstate bargains related to the ESM is still possible in the future.</i>
↓	<i>Due to the uncertainties and new emerging situations/factors, the possibilities of interstate bargains and compromises on the operation of the ESM cannot be ruled out.</i>

Figure 7.1 Interstate Bargains and Compromises Leading to the ESM

Sources: Own compilation based on the previous section 7.2.1 of this dissertation.

As Figure 7.1 shows, the intergovernmental bargains for the formation of the ESM were not finalized at once; instead, negotiations among euro states to create the permanent mechanism have spread over into several rounds, even after the ESM Treaty got signed. Since the UK is not a contracting party of the ESM, it does not participate in the ESM negotiation process, and it seems that there is nowhere to talk about any kind of superiority the UK can exploit during the formation of the ESM. Therefore, this dissertation mainly focuses on the two core euro states: Germany and France.

Still, with regard to the complementary treaty to the ESM — the TSCG — which was concluded by the euro countries while opening up to the non-euro member states, the UK, together with the Czech Republic, decided not to participate. At the very beginning, the Fiscal Compact was expected to be adopted as an EU treaty, but in the EU summit of December 2011, the UK vetoed it, so consequently, it was agreed to be adopted as an international treaty instead. That the UK went to veto the Fiscal Compact as an EU Treaty, and did not even “opt out”, was explained by the UK Prime Minister Cameron as to safeguard the single market and the UK’s national interests, in particular its financial services industry, as well as to prevent the “misuse” of EU institutions by the euro bloc to implement their policies (Miller 27 March 2012). The UK government, however, did not divulge its negotiating positions before the summit — a tactic purposely taken by the UK leaders (Miller 27 March 2012, 4-5). Even after the summit, the “safeguards” proposals upheld by Cameron were not well publicized, and it was not until on 23 February 2012 when David Lidington, the UK Minister for Europe, appeared before the Commons European Scrutiny Committee that the UK’s rationales behind its veto were clearly revealed:

“Our reasons for so doing were that there is a clear relationship between aspects of financial services regulation, in particular banking regulation, and fiscal policy. The purpose of the proposed Treaty amendments in December was to give greater priority within the European treaties to the objective of securing the fiscal integration of the eurozone. We were also concerned, when we approached the European Council in December, about the fact that there were a number of specific financial services measures that we felt were threatening the integrity of the single market in order to safeguard particular interests of members of the eurozone.” (Quoted in Miller 27 March 2012, 6)

As a non-euro member state, Cameron wanted the Eurozone to put its house in order and address its problems properly, but he opposed to “misuse” EU institutions. He said that some uses of the EU institutions in the intergovernmental Fiscal Compact might be “highly questionable”, reiterating that: “we want those institutions to sort out the problems of the European Union, and we want them to stick to fiscal union and not go into single market issues. If they were to go into single market issues and threaten Britain’s national interests, of course we would act” (quoted in Miller 27 March 2012, 15). Originally, the UK put forward its own proposal to seek safeguards, but the French government refused to accept, as Sarkozy said: “in order to accept treaty revision

among the 27 EU states, David Cameron asked us — something we all judged unacceptable — for a protocol to be inserted into the treaty granting the United Kingdom a certain number of exonerations on financial services regulations ... We could not accept this, since we consider, quite on the contrary, that a part of the world's woes stem from the deregulation of the financial sector" (quoted in Miller 27 March 2012, 5).¹⁴³ This led Cameron not to participate and the TSCG took an intergovernmental route. To veto rather than choosing an "opt-out" of an EU Treaty means that there shall be neither obligations nor the binding force of EU law or additional EU law on the UK (Miller 27 March 2012, 15-16). Though Cameron's rejection of the Fiscal Compact (also the TSCG) attracted both praise and criticisms domestically, the positions of his government were unambiguous: to protect UK's national interests of the single market as the tighter fiscal integration in the eurozone may imply non-euro members be at the expense, where the UK's financial sector may bear huge losses (Miller 27 March 2012, 16-17). Some politicians and scholars, however, were doubted that whether Cameron's veto defended "British national interests in the long-term", because UK's veto did not stop other euro states under the Franco-German leadership to go ahead with what they had proposed — on the contrary, France and Germany said "NO" to Cameron's demands of safeguards for financial services, so some would argue that "that's not wielding a veto, that's called losing" (Miller 27 March 2012, 41). According to those, the negotiations for the TSCG confirm part of H7b as the member states (i.e. the UK) who shall economically benefit the least from the agreement tend to impose conditions and make hard bargains. LI's prediction is correct in the way that the UK, as being a non-euro member state, benefits less from the ESM Treaty, and thus it tends to assume a superior bargaining position and actually it exploits this opportunity to maximize its national interests by imposing conditions — a protocol to protect the UK financial industry. The UK's strategy, by vetoing an EU Treaty proposal, falls well into the categories of the LI model, indicating 6a in Figure 3.2. Another tactic wielded by the UK government — concealing its negotiating positions from other negotiators — also falls into the prediction of the LI model (see 4b in Figure 3.2); Cameron's recourse to it meant to increase the UK's bargaining power, but this time Germany and France, who would economically benefit the most from the TSCG (and the ESM), did not compromise on

¹⁴³ See also, for example, Waterfield (9 December 2011, *The Telegraph*).

the UK's demands. The reason is quite obvious: the ESM is for the euro states, and the TSCG containing the Fiscal Compact was meant to complement the ESM, so without the UK, the TSCG can also function as what it means to the euro countries. This illustrates another potential condition to the application of the LI model: the status of negotiating member states should be within the same block, or else the prediction made in H7b that "*member states who economically benefit the most from the EU's new measures and policies tend to compromise the most on the margin to realize gains*" is untenable as the euro block can just go ahead on EMU affairs without taking non-euro member states' opinions. Accordingly, another scope condition for the LI model can be added:

Proposition 22: *The LI model's second stage (i.e. interstate bargains) works better when the negotiating parties belong to the same block in terms of the relevance of the agreement to them.*

This proposition can be tested in the following section when we turn to Germany, France and other contracting parties of the ESM, who belong to the same block of the Eurogroup, and to whom the ESM is highly relevant.

As mentioned in section 7.2.1, to establish a permanent ESM contains both economic and political significance. Germany was the initiator of the ESM, and the economic benefits for Germany include keeping financial stability of the euro area and a stable and credible single currency; the adoption of the ESM conveys good wishes as well as pragmatic needs of Germany as well as other euro member states: to achieve a stable and prosperous EMU and the EU. Then here comes the question: why does Germany try its best to secure a permanent rescue mechanism and not kick the "profligate members", like Greece, out of the eurozone? Apart from the intentions to save the political achievements of European regional integration, which carries endeavors of European politicians, economists and scholars for more than a half century, the realistic and imminent considerations are the economic interests of Germany as well as other eurozone countries. A single common currency in one respect means an enlarged "domestic" market for the euro states, and in another respect, it implies increasing interdependence among those member states, particularly in the financial sectors. For the former point, export-driven Germany, as argued by CNN, needs not only the euro, but also the weakest members to stay in the euro, because intra-eurozone trade has accounted two-thirds of German exports while "a weak currency has been a ticket to prosperity" (Sanati 14 November 2011, *CNNMoney*). The

birth of the euro shows that the EMU project with a single common currency has the advantages of streamlining business, reduce transaction fees and guard against foreign exchange risks, while the former Deutsche Mark was once being one of the most stable and strongest national currencies at that time (Hosli 2005); adopting the euro with other 11 EU member states in 1999 (and now with other 17 euro countries in 2014) means the devaluation of Mark, which makes German products more competitive in the world wide (Sanati 14 November 2011, *CNNMoney*). A CNN's report reveals Germany's economic interests for the euro, the eurozone, and other euro countries:

"[...] Germany [...] is the world's second-largest exporting country. The euro has played a significant part in this. German exports have more than doubled since they went on the euro in 1999, going from around 469 billion euros to well over a trillion euros in 2010. The rate of growth was also twice as fast as other nations in the zone. While there is no doubt that the Germans make quality stuff, the reason they are able to export so much at competitive price points is because they are operating with a relatively cheap currency. [...] Even though the eurozone is in crisis and the region looks to be headed for another recession, German exports in September (2011) rose nearly 1% from the previous month to 91.3 billion euros, which is the highest level since records began. In August (2011), when the crisis hit overdrive, exports were up 0.2% from the previous month. Meanwhile, imports into Germany fell 0.8% for September, increasing the nations burgeoning current account surplus. Normally that would cause Germany's currency to strengthen, but since there was trouble down south, the euro weakened, making German exports even more competitive." (Sanati 14 November 2011, *CNNMoney*)¹⁴⁴

At the same time for the eurozone countries,

"An artificially low euro in Germany means an artificially high euro in weaker countries like Spain and Greece. That means those countries can afford to buy German goods. It's therefore no wonder why German cars, white goods, electronics and machinery dominate the eurozone. [...] German companies like Siemens (SI), Daimler, Deutsche Bahn, and Ferrostaal have been accused of funneling millions of euros to Greek politicians to secure military and civilian government contracts. In one incident, Siemens allegedly paid 100 million euros to Greek officials to secure a contract to upgrade Athens's telecommunications infrastructure for the 2004 Olympic Games." (Sanati 14 November 2011, *CNNMoney*)

¹⁴⁴ In general, Germany has also suffered economic recession due to the worldwide economic depression since 2009, but in 2012, its "exports have rebounded sharply from the crisis to surpass their peak of 2008" with a rising wage, a faster growth rate and less unemployment compared with other industrialized countries, see Porter (26 June 2012, *The New York Times*).

The costs of the exit of the troubled euro states would be huge and unimaginable for Germany. Take Greece for example; if Greece broke away from the eurozone,

“[...] it would cost around 20% to 25% of the country’s GDP or 6,000 to 8,000 euros per German citizen upfront to walk away. It would then cost around 3,500 to 4,000 euros per German citizen every year going forward. In contrast, [...] if the eurozone swallowed 50% of the debt of Greece, Ireland and Portugal it would cost a little over 1,000 euros per German in a single hit. That’s a much better outcome than going it alone. The study did not include extending a bailout to Italy, which has total debt outstanding that is around three times that of all those nations combined. But for the sake of argument, say one takes a 50% haircut on Italian debt – some 900 billion euros, that bailout would theoretically still cost less to the Germans than it would if they decided to leave the euro.” (Sanati 14 November 2011, *CNNMoney*)¹⁴⁵

Analysts in general believe that the bailout costs for German people are lower than those caused by any euro dismemberment. After all, the purpose of the bailout was to buy time for the beneficiary euro states to pay debts and thus avoid debt defaults, national bankruptcy and financial turmoil, and Germany (as well as other ESM member states) could even make profits by loaning to the beneficiary states, so when a rescue succeeds, Germany would get more back. On this matter, it is calculated that “covering the entire financing needs of Greece, Ireland, Portugal, Spain and Italy through 2015 would cost about \$1.6 trillion”; normally, the IMF may contribute 1/3, and the left should be taken by Germany and other euro countries, but even if Germany puts up \$500 billion, the money would not be forfeited, and “Germany could even turn a profit” (Porter 26 June 2012, *The New York Times*).

Besides those visible “dominant” economic calculations, another not-so-visible “recessive” factor that leads Germany’s and France’s agreement to bailout Greece and create a permanent rescue fund is the interconnectedness across the financial sectors: the states plagued by the sovereign debt crisis are also financed by banks “headquartered in the core countries” and any sovereign debt defaults in the euro countries, such as Greece, would definitely impose losses to the German and French

¹⁴⁵ A countering argument is that stronger and rising demands of the emerging markets such as China and India can effectively outweigh Greece and other periphery countries’ exits from EMU — all these trade flows appear visible and statistically calculable; nevertheless, “the financial interconnectedness between Germany and the rest of Europe makes clear that any notion of being able to act independently of Europe is illusory” (Smith 5 January 2011, *The Wall Street Journal*).

citizens. This is the reason “why there isn’t a larger ‘Occupy Wall Street’-like movement made up of angry and unemployed young Germans camping out in Frankfurt parks”, despite the fact that German citizens have expressed strong opposition to the bailout to Greece and the ESM. It is unfair to ask German taxpayers to bailout other lavishing euro countries, but to let Greece or any other euro countries to break away, that is, to let them declare national bankruptcy, would be more fatal to the whole German economy and cause more losses to the taxpayers (Sanati 14 November 2011, *CNNMoney*).¹⁴⁶

It is generally held that Germany has gained economic advantages via adopting the single currency. When a newly emerging political party in Germany advocates a return to the old currency German Mark, some analysts have incisively pointed out that “without the euro, Germany’s GDP would be lower by about 0.5% per year between 2013 and 2025. This equates to a loss of around €1.2 trillion, or €14,000 per citizen” (“Germany Needs the Euro – Report”, *New Europe*, 30 April 2013). In comparison, even in the hypothetical scenario where Germany would write off 60% of its loan repayments to Greece, Italy, Portugal and Spain, it is argued, “Germany would only see a slow-down in the economy by about 0.5%. This figure is explained by the added benefits Germany would gain from higher exports to the debtor nations, which would see better economic conditions following the write-off” (“Germany Needs the Euro –

¹⁴⁶ It is reported that “German banks had \$548 billion — or €446 billion at prevailing exchange rates — at risk in the five problem countries of the euro zone as of June (2001) (...) (while) had €392 billion of capital and reserves (...) Thus, it does not matter whether Germany tries to withdraw from monetary union, or have fiscal sinners expelled from it: the credit losses and writedowns caused by the ensuing currency moves would effectively bankrupt the German banking system, even before manufacturers start shifting jobs to cheaper locations as capital that had been stored in the euro gets reallocated to the new D-Mark”, see Smith (5 January 2011, *The Wall Street Journal*). Another example is that when Goldman Sachs once lent money to the Greek government and helped Greece to cheat so as to meet the requirement to join the eurozone in 2000, Goldman Sachs at the same time purchased another financial derivative: Credit Default Swaps (CDS) from some of Germany’s public-sector banks, known as Landesbanken, to disperse the risk of money lending to Greece. In essence, Goldman Sachs paid German banks for what essentially constituted insurance for 20 years: if the Greek government would default, these German banks would have to take the responsibility to pay for the debt. Through the financial instrument CDS, Germany, the largest economic entity in the euro area, had been linked to the chain of Greek debts. CDS purchased by Goldman Sachs were inexpensive when Greece could manage to pay its debt, but when the Greek government’s capacity to pay was put into question, costs for Greece to borrow money were rising — and so did the CDS prices. In such circumstances, Goldman Sachs was able to sell CDS at a higher price, and thus, was one of the actors who had gained benefits via these exchanges. See Hosli et al. (2011a).

Report”, *New Europe*, 30 April 2013).¹⁴⁷ The negative impact of reverting to the Mark would be directly observed in the German labor market and manufacturing sectors:

“Since the advent of the single currency, Germany’s labor costs have fallen more than 15 percent against the average labor costs of all the countries using the euro, and about 25 percent against those of the troubled nations on the periphery. If it dumped the euro for a new deutsche mark, its exchange rate would surge to make up for the difference, potentially crippling its exports, which have fed most of its economic growth over the last decade”. (Porter 26 June 2012, *The New York Times*)

In essence, if Germany reverted to its old national currency or the euro were dissolved, Germany’s currency exchange rate would increase and thus eliminate its current advantage in exports. In short, the economic benefits brought by the single currency calculated above have crucially decided Germany’s positions, as *The New York Times* summarizes, “the German government knows it must ultimately cave and open its wallet to save the single currency” (Porter 26 June 2012, *The New York Times*). In comparison, France’s benefits from the euro and then the ESM are dwarfed by those gained by Germany, and in a certain sense, Germany has made profits from all other euro countries. France’s Industry Minister Arnaud Montebourg once openly complained the comparatively low wages in Germany: “Germany has a giant export surplus over its trading partners and that is a fact,” and “German industry has created for itself a competitive advantage by keeping a lid on pay raises. This situation, this imbalance, is not sustainable economically. It is indeed dangerous” (“French Minister Says German Wages Need to Rise to Help Euro Zone”, *Reuters*, 16 April 2013). Some economists agree that “the generally low wage growth in Germany over the past decade has contributed to the imbalances that have exacerbated the euro zone’s sovereign debt crisis,” and it is reported that from 2007 to 2011, the average wage growth rate in Germany was 1% while the figure for the whole euro area was 2.7% (“French Minister Says German Wages Need to Rise to Help Euro Zone”, *Reuters*, 16 April 2013). Obviously, there is an asymmetrical benefit distribution of the single currency and then the ESM agreement, and thus LI (H7b) correctly predicts that national asymmetrical interdependence to the ESM determines the relative bargaining power of the nation states: Germany, who economically benefits the most from the

¹⁴⁷ See also Petersen et al. (2013).

ESM, has compromised the most on the margin (e.g. France's demands in the Deauville Deal, France's growth pact proposal, and southerners demanding for easing the accessions to the ESM fund) so as to realize its core interests (a permanent bailout fund for the euro countries complemented by a Fiscal Compact of strict budgetary rules and an automatic correction mechanism at the national level of the euro states). Meanwhile, those who benefit the least from the strict accession to the ESM, for instance, Italy and Spain who have to pay much higher and almost unsustainable interest rates for government securities, have imposed conditions and made hard bargains (see the fifth round of interstate bargains in Figure 7.1). Such a hard bargain is also well predicted by LI, as the strategy used by the Italian and Spanish Prime Ministers falls into the category of 6a: vetoing a proposal in Figure 3.2. Additionally, that the TSCG goes without the UK and the Czech Republic illustrates the strategy of 6c in Figure 3.2, as Germany and France finally opted for an intergovernmental Treaty excluding the "recalcitrant" governments. All those prove the explanatory and predictive power of the LI model, and the validity of H7b in the case of the ESM also confirms Proposition 22, which, of course, shall remain ever open to further research and empirical tests.

As for H7c, the formation of the ESM reflects the will and interests of the big member states (Germany and France in particular) rather than the supranational entrepreneurship, not only because EU entrepreneurs rarely possess information or expertise unavailable to the euro states to form the ESM — the predecessor EFSF, concluded by the eurozone countries as a private company, was already in operation, offering experience for the ESM contracting parties — but also because Germany and France are the number one and number two contributors to the loans to Greece. It is interesting to observe that among the six rounds of interstate bargains as illustrated in Figure 7.1, the fifth round is probably the hardest interstate bargain for Germany as Merkel made several concessions, where Italy and Spain, the number three and number four contributors to the EFSF and the ESM, successfully forced Germany to accept their demands. This not only shows a linkage between capital contributions (which is based on the economic power) and the voice rights and political influence, which has already been asserted by Proposition 11 in Chapter six, but also suggests the importance of forming coalitions to increase individual party's negotiating power. To sum up, H7c is confirmed while other causal mechanisms can be added to H7c:

H7c_{extended}: The EU's new measures and policies to solve the euro area sovereign debt crisis tend to reflect big countries' will rather than supranational entrepreneurship, because EU entrepreneurs rarely possess information or expertise unavailable to the member states; the amount of financial contributions to the new measures and policies, which is proportionate to member states' economic powers, decides each member state's political influence and bargaining power over the formation of the new measures and policies — the measures and policies concerning only EMU countries tend to reflect Germany's and France's national interests, which, however, can be challenged by a coalition of other EMU member states, particularly by the coalition forged by Italy and Spain.

H7c_{extended} as well as Proposition 11 implies that the scenario of Franco-German dominance on EMU affairs will not get changed easily but is not impossible — forming a coalition is an effective means, and the decisive factor contributes to the current Franco-German leadership is the economic power of the two member states. In general EU affairs, the UK, together with Germany and France, has a great say (e.g. the establishment of the ESRB, see Table 6.7); since the ESM concerns the euro countries only, Germany and France can go with their decisions without the participation of the UK. Taking the situation of the sovereign debt crisis into consideration, the economic power of any other (euro) member states seems most unlikely to challenge Germany's number one status in the foreseeable future. Obviously, according to Figure 7.1, Germany has played a leading role in the formation of the ESM, and only the coalition of the southerners and France could successfully challenge Germany's dominating power, as the fifth round of interstate bargains in Figure 7.1 illustrates. So from another perspective, to make an alliance with France was crucial to secure Germany's national interests, and the Franco-German or German-French compromises shall be the prominent pattern for EMU affairs in the foreseeable future. Nevertheless, Germany tends to exert more leverage than France in their bilateral relationship, as it is described that in the Deauville Deal, “Sarkozy knuckled under to Merkel's demands that investors be made to pay for buying the wrong countries' bonds”, which “marked the end of German-French parity in handling the crisis”; after the Deauville Deal “the balance shifted continually toward Berlin” (Neuger 19 March 2013, *Bloomberg*). A nation state's political leverage is closely related to its economic power, and France's relatively declining political weight was due to its economic slide. This suggests that crises also offer the possibility to reshuffle economic power distributions and

consequently political clout within the EU system; however, the eurozone sovereign debt crisis this time appears to further have strengthened Germany's leading role while weakening France' and other euro countries' political influence on EMU affairs. Anyhow, according to Tables 7.2 and 7.3 and Figure 7.1, from the Deauville Deal to the final formation of the ESM, Germany has successfully materialized its core interests, while France's proposals outlined in the Deauville Deal were almost totally abandoned (e.g. the QMV progressive sanction mechanism and voting rights suspension), and even the growth pact offered by new French President Hollande as a counteract to Merkel's fiscal pact of budget discipline was generally regarded as only "a symbolic victory for Hollande" ("Insight: Merkel and Hollande — Building a 'Grand Bargain', *Reuters*, 10 July 2012). Though Germany repeatedly made concessions, the interstate bargain results represent Germany's will and interests (i.e. setting up a permanent rescue mechanism with PSI and CACs together with a fiscal compact with stricter budgetary rules and automatic-triggered national deficit correct mechanisms for euro countries) more than France's and that of other euro countries. We will see whether Germany's dominating role in EMU affairs gets further strengthened or not in the future.

As shown in Figure 7.1, throughout the spanning of several rounds of intergovernmental negotiations, the core interests of Germany have not been changed and moreover, finally got materialized, though Germany has made several concessions to the demands of other ESM contracting parties. Figure 7.1 exhibits Germany's tactics and strategies to secure its core interests: (1) formulating package deals (i.e. binding strengthening the SGP rules and establishing a permanent rescue mechanism together, binding the ESM with the insolvency procedure involving PSI and CACs), (2) building a coalition with France, (3) making concessions on the margins to other euro states in exchange for the establishment of the ESM and stricter fiscal rules, and (4) also meeting the demands of the domestic opposition (e.g. insisting on a default mechanism coming along with the bailout mechanism, promoting a financial transaction tax, and promising the adoption of the Growth Pact to stimulate economic recovery) to gain their support to the ESM and the TSCG. From the Deauville Deal in October 2010 to the EU summit of 29 June 2012, Merkel's repeated concessions did not go without strong criticisms from both the German citizens and politicians; nevertheless, the final formation of the ESM demonstrates a diplomatic victory for Merkel, because accompanying the placement of the ESM, "she has received a pair of important

trade-offs”: the fiscal pact and the growth pact — a second thought will see Merkel’s compromises are “pretty clever”: “a clever retreat to secure greater gains” (Rickens 29 June 2012, *Spiegel Online*). As a matter of fact, the tactic to meet the demands of the domestic opposition is tricky. According to Reuters reports, before the EU summit of 29 June 2012, Merkel and Hollande had already reached an agreement in Paris on a possible direct bank bailout by the ESM with a single and centralized supervision mechanism of the European banks (i.e. the Bank Union with a Single Supervisory Mechanism (SSM)), but “they kept the pact secret”, because Merkel’s side feared that the leaking of this deal might add extra difficulties for Merkel to secure the two-thirds parliamentary majority votes on the ESM and the Fiscal Compact two days later; anyhow, Merkel “had to show German lawmakers and the public she was being tough” (“Insight: Merkel and Hollande — Building a ‘Grand Bargain’, *Reuters*, 10 July 2012). Though the German economy is the number one in the euro area and it seems that Germany always plays a leading role in EMU affairs, it still needs to take other eurozone countries’ demands into account; more realistically, the German government alone cannot secure enough support for its proposals, and consequently, it pragmatically tends to ally with France, the number two in the euro area. Forming a coalition with France has twofold effects: in one respect, Germany gains France’s support and then German interests gets guaranteed, and in another respect, the southern member states which tend to have different positions shall lose France’s support, and thus it becomes much harder for southerners to challenge the German-Franco decisions. Figure 7.1 also reveals the essence of German interstate bargains: swapping marginal interests to secure the core national interests. Based on those analyses and taking (6a), (6b) and (6c) into consideration, another proposition can be added to the second stage of the LI model:

Proposition 23: *Interstate bargains consist of (several rounds of) national interest swaps and compromises; negotiating parties can make use of various strategies to secure their national interests the most, such as (a) offering package deals, (b) forming an alliance with other powerful parties, (c) making concessions in the marginal interests in exchange for support for core interests, (d) meeting certain demands of domestic opposition, (e) threatening to veto, (f) withdrawing from financial commitments, and/or (g) excluding recalcitrant negotiators.*

Table 7.3 and Figure 7.1 suggest that forming a coalition with France was crucial for Germany to achieve its goals. Meanwhile, the road to the formation of the ESM has

been made up of several rounds of interstate bargains, which challenge the unitary nature of “interstate bargains” proposed by the LI model. In addition, Germany’s core interests and its basic baseline in negotiations have reflected the German government’s long time policy-orientations: a stable and credible currency, strict budgetary rules and low inflation rates. Meanwhile, France’s propositions on the creation of the ESM have also indicated a policy continuity of the French government: increasing governmental spending to stimulate economic growth and thus accepting higher government deficits with higher inflation rates. Consequently, regarding their attitudes towards the southern debt-ridden countries, Germany made strongly demands on budgetary cuts with austerity measures, while France possessed a lenient position tinted with sympathy to the southerners, and as a counter to Germany’s Fiscal Compact, France tabled a growth pact. Due to each government’s particular policy traditions, German-French cooperation or compromises would repeat history, and similar German-French packages would on the one hand express a German stickiness to stricter budgetary discipline while on the other hand would convey France’s growth obsessions. As pointed out by *Spiegel*, Merkel’s fiscal pact and Hollande’s growth pact is similar to the case of the negotiations for the Amsterdam Treaty in 1997, and at that time, German “Chancellor Helmut Kohl insisted on a stability pact for the soon-to-be-introduced euro”, while in exchange for France’s support, “the freshly elected French Prime Minister Lionel Jospin, a Socialist like Hollande, received a pact aimed at creating jobs and growth”; the comments go on: “That is nothing new. EU summits have promised similar packages ... dozens of times over the years’. And this year once again” (Volkery 27 June 2012, *Spiegel Online*). Two points can be drawn from this: first, the core interests of a nation state tend to be stable and not easily changed, and current national policies are rooted in government policy traditions; second, since the formation of the single currency, the German-French style of interest swaps to gain mutual support defines the general framework of EMU. The first point can be restated as follows:

Proposition 24: *National core interests are the bottom line of interstate bargains, which tend to be unwavering during negotiations while exhibiting national policy tradition over time.*

The second point, together with the previous analyses for H7b and H7C_{extended}, implies the following:

Proposition 25: *The eurozone sovereign debt crisis further strengthens Germany's leading role while weakening France's political leverage in EMU affairs; nevertheless, Germany must form a coalition with France so as to materialize its national interests. Consequently, on the one hand, the new EMU policies and measures tend to start from and/or end at the merger and/or compromise of the propositions of the two core euro states, which normally are characterized by a German-French style of stricter v.s. lessened fiscal rules and of budgetary cuts v.s. spending growth emphases; on the other hand, Germany tends to make concessions to France's demands, but the negotiation results tend to represent Germany's national interests more than France's due to asymmetrical national economic powers.*

Proposition 24 stresses the resistant nature of core interests to get changed during intergovernmental negotiations as well as over time — an assertion and confirmation of H1, while Proposition 25 can be regarded as a specification and further elaboration of H7b and H7c_{extended}.

7.2.3 Evidence for H7d, H7e and H7f: Institutional Choice (LI Stage 3)

Though the first two cases are not suitable for LI analyses, this dissertation will also check to what extent the third stage of the LI model is applicable to EU daily decision-making. Table 7.4 presents the case study results in line with the LI model in Figure 3.2.

Table 7.4 Checking the Third Stage of the LI Model: Institutional Choice

In accordance with the third stage of LI illustrated in Figure 3.2					
	Purposes	Factors contributing to institutional designs	Forms of sovereignty delegation	Means to guarantee domestic commitments	Non-compliance caused by high costs for powerful domestic actors
The European Semester	√ (7b) to provide information for governments to estimate other actors' future preferences and behavior; (7c): by setting up rules to	√ (8a): the severity of enforcement problems of the SGP rules; (8d)*: the necessity of addressing	√ (9a): to only set up norms and procedures with the purpose of “pure coordination” and reducing the transaction costs for determining a	X (10d)*: peer pressure, market pressure, and/or possible sanctions under other separate procedures, serving the general	NATN+FR The CSRs on a specific sector (e.g. the retail sector and national pension systems) definitely affect national economies and people's lives, but the adoption of the

reduce coordination costs and monitor governmental non-compliance;	issues of coordination and surveillance from the EU/macro level with a holistic approach;	common solution;	economic interests of the member states and the whole EU (cf. Table 5.3); national parliaments have the final say on national budgets and the implementation of CSRs;	CSRs by the Council follows “comply-or-explain” principle, as no legally binding decisions shall be adopted under the European semester; so “non-compliance” requires further examination. There are a low implementation rates of the CSRs, “as for 2012 only 15% of the recommendations had been carried out” ①. Nevertheless, “the majority of the key challenges addressed are unlikely to be overcome in a single year”, which require “the continuity of reform efforts over time”, and a final assessment will be delivered in 2014 CSRs ②. Moreover, it is assessed that compliance in the eurozone is higher than that in the non-euro area, “[y]et, it is impossible to ascribe this to the European Semester as very significant market pressure

					during 2012 was present” (⑥, p.46) .
The ESRB	√ (7c): by setting up rules to reduce coordination costs and monitor governmental non-compliance;	√ (8c): the future states of the world; (cf. Table 6.25) (8d)*;	X (9c)*: to establish a new EU body to serve the interests of both member states and the whole EU, delegating national sovereignty via a simple majority and/or two thirds of the votes cast or other forms of voting module; (cf. Table 5.4)	X (10e)*: soft tools at the macro level without legally binding powers and being subject to national implementation, which nevertheless are indispensable and beneficiary to micro level prosperity; (cf. Table 6.6 and Table 6.19)	NATN+FR Till January 2014, only one follow-up report is available: <i>ESRB assessment of the implementation of Recommendation ESRB/2011/1 on lending in foreign currencies</i> , and the overall level of national implementation is high: no member state falls into the category of “non-compliant”, only Bulgaria is classified as “partially implementing”, while other 26 member states are evaluated as being “fully or largely compliant”. ③ (cf. Table 6.19)
The ESM	√ (7a): to help governments to reduce the transactions costs of future interstate negotiations on the same issue; 7(d)*: via establishing new mechanisms to give member states substantial support so as to	√ (8c)*: the future states of the world and the international discourses. (cf. Table 6.25)	X 9(d)*: to found an intergovernmental institution among (parts of) EU member states, using the existing EU institutions, being subject to the ECJ judicial power, and choosing sovereignty delegation form of unanimity, qualified majority	√ (10c): strengthening the domestic groups that support the operation of the ESM (vis-à-vis other domestic forces favoring non-compliance) so as to help nation states to cope with globalization; (10f)*: national	NATN+FR On 31 December 2013, Spain, the first ESM beneficiary state, successfully exited the ESM financial assistance programme (€41.3 billion in total) for recapitalizing the country’s banking sector, which means Spain has meet all policy conditionality attached to the

meet global challenges.	and/or simple majority.	parliaments as both guarantors of domestic commitments and a power checker for national executives.	assistance; ^④ The second country covered by the ESM is Cyprus: on 8 May 2013, the ESM agreed an FFA to Cyprus, and by the end of 2013, four times of disbursement had been released in accordance with the Cypriot government's fulfillment of the conditions set out in the MoU. ^⑤

Notes: “√” indicates that the concerned aspects fall into the categories/predictions of the LI model presented in Figure 3.2; “X” means the concerned are out of the categories/predictions of the LI model; “*” suggests there are new modifications to and developments of the LI model based on the case studies; “NATN” stands for “not applicable till now (at the end of 2013)”, and the concerned are still subject to the tests of the EU empirical developments in the coming days; “FR” represents “further research”, which deserves a separate detailed study.

Sources: ① European Parliament-20121019BKG54051 (20 January 2014); ② European Commission-SWD(2013) 800 Final (13 November 2013); ③ *ESRB Recommendation on Lending in Foreign Currencies (ESRB/2011/1) Follow-up Report – Overall Assessment* (November 2013); ④ See “Spain’s Exit” (ESM); ⑤ See “ESM Financial Assistance for Cyprus” (ESM); ⑥ Hallerberg et al. (September 2012).

Table 7.4 shows that the first two cases fall into the LI prediction to a certain degree, and it also points out the potential weakness of the LI model in accounting for the recent development of the EU projects to meet the demands of increasing economic interdependence and integration: policy coordination and surveillance from the supranational level with holistic approaches to serve national economies and the interests of the whole EU — a tendency has been stated in Propositions 19 and 21. The new factors derived from the case studies — (8d), (9c), (10d) and (10e) — can be taken as supplements to the possible situations that LI may encounter in the future. The LI model’s validity and power, however, get better confirmed and clarified by the case of the ESM. Table 7.4 displays that among the five items checked, LI has largely accounted for the ESM in three aspects, with one out of LI expectations (i.e. forms of

sovereignty delegation) and one requiring further tracing and research (i.e. non-compliance caused by high costs for powerful domestic actors). Accordingly, new theoretical developments are derived from the case study of the ESM: first, 7(d) underscores the necessity for the EU to have substantial, concrete and effective measures in place rather than general and unspecified EU Treaty prescriptions, fulfilling some vacuums of the EU integration project which have been exposed and exacerbated during the crisis; second, the extension of (8c) emphasizes the impact of the external environment and world-wide general practice over EU development — a point has already been elaborated by neo-functionalism (see H5d); third, 9(d) adds another possible form of sovereignty delegation to the LI repository, implying different speeds of the integration pace among EU member states; fourth, (10f) supplements the means to guarantee domestic commitments via strengthening national parliament involvement in the new measures, which shall enhance national democratic accountability in both guaranteeing credible domestic commitments and checking national executives; finally, the checking of the relationship among national non-compliance, high costs and powerful domestic actors' interests evolves over time, suggesting LI's resilience and its historical point of view, the changeable environment and the uncertainties in the EU project. In short, H7d and H7e can be modified as follows:

H7d_{modified}: In order to solve the debt crisis, nation states make institutional choices to delegate and pool sovereignty to EU supranational institutions and/or intergovernmental institutions among (part of) EU member states so as to guarantee the credibility of intergovernmental commitments, and the latter may cause differentiated integration speeds among EU member states.

H7e_{extended}: Member states' credible commitments can be guaranteed and realized via strengthening the national executive, the national judicial branch, the national parliament and/or the very domestic groups that support the policy in the first place vis-à-vis other domestic forces favoring non-compliance.

The case of the ESM confirms the validity of H7d in the way that first, it is an intergovernmental institution concluded by the ESM member states; second, ESM member states delegate their sovereignty to this new intergovernmental institution (instead of EU supranational institutions); the ESM Board of Governors and Board of Directors via the voting modes of unanimity, qualified majority or simple majority — a different situation out of the prediction of (9a) and (9b) of the LI model; third, any ESM grants are accompanied by strict conditionality, and till the end of 2013 the two

assistance ESM programmes to Spain and Cyprus have not witnessed national defections from the agreed national commitments in carrying out reforms. As regards H7e, a new element is added: securing credible national commitments via strengthening national parliaments (though it has twofold effects), which has been vividly illustrated by the German Parliament's approvals of the ESM and TSCG (see Table 7.3). The fact is that the Bundestag "already has the right to vote on whether a country should receive ESM aid" (Wittrock 10 September 2012, *Spiegel Online*).

Finally, it is noticeable that among the five sub-propositions of "institutional choice" illustrated in Figure 3.2 and Table 7.4, the aspects of institutional designs (cf. H5d) and non-compliance caused by high costs (cf. H3) have illustrated the convergence of the two traditionally competing European theories — neo-functionalism and intergovernmentalism — at HI. Nevertheless, the different orientations of the two grand theories are also obvious: neo-functionalism emphasizes institutional restraints on national commitments based on transaction-theory (e.g. H3), while LI stresses specific domestic actors' determination on national commitments (e.g. national executives, courts, parliaments, and/or certain domestic interest groups). Nevertheless, the bases where the integration theories build up their theoretical frameworks are the same: economic activities and interactions among the European nation states.

7.2.4 Evidence for H7g and H7h: Two Limitations to the LI Model

H7g and H7h set up two limitations for the application of LI. To check the validity of the two sub-hypotheses, this dissertation first presents a summary on the explanatory and predictive power of the LI model regarding the three selected case.

Table 7.5 Summary of the Explanatory and Predictive Power of the Three Stages of LI

Checking the three stages (1-11) and the LI hypotheses presented in Figure 3.2				
	Stage 1: National preference formation (1)-(3); H7a	Stage 2 Interstate bargains (4)-(6); H7b and H7c	Stage 3 Institutional choice (7)-(11); H7d, H7e, and H7f	Hypothesis Test Results
The European Semester	NSC (1) X; (2) X; (3) √; MND: (1c)*; (2d)*; (3d)*	NA	NSC (7) √ (7b) and (7c); (8) √ (8a); (9) √ (9a); (10) X ; (11) NATN+FR; MND: (8d)*; (10d)*	H7a: rejected; H7b: NA; H7c: NA; H7d: rejected; H7e: rejected; H7f: NATN+FR
The ESRB	NSC (1) √ (1a); (2) √ (2a); (3) √; MND: (2a)*; (2d)*; (3d)*	NA	NSC (7) √ (7c); (8) √ (8a); (9) X; (10) X ; (11) NATN+FR; MND: (8d)*; (9c)*; (10e)*	H7a: confirmed; H7b: NA; H7c: NA; H7d: rejected; H7e: rejected; H7f: NATN+FR
The ESM	(1)√ (1a); (2) √ (2a) and (2b); (3)√ (3a) and (3b); MND: (1d)*;(2c)*;(3b)*	(4) √ (4a) and(4b) ; (5) √ (5a); (6) √ (6a) and (6c)	(7) √ (7a); (8) √ (8c); (9) X; (10) √ (10c); (11) NATN+FR; MND: 7(d)*; (8c)*; 9(d)*; (10f)*	H7a: confirmed; H7b: confirmed; H7c: confirmed and extended, see H7c _{extended} ; H7d: partially confirmed, see H7d _{modified} ; H7e: confirmed, see H7e _{extended} ; H7f: NATN+FR
Conclusions and derivations from case studies	Propositions 19, 20 and 21	Propositions 22, 23, 24 and 25; H7c _{extended} ;	H7d _{modified} H7e _{extended}	

Notes: “√”: falling into the categories and the predictions of the LI model; “X”: out of the expectation and categories of LI; “*”: modifications or new developments based on the case studies; “NSC”: not a suitable case for an LI study, but an tentative attempt to apply the LI model to account for EU daily decision-making ; “NA”: not applicable; “MND”: modifications and/or new developments; NATN: “not applicable till now (at the end of 2013)”, which remains to be checked by the EU empirical developments in the future; “FR”: “further research”.

The summary above indicates the following:

First, the LI model appears not to explain EU daily decision-making well. Though part of the elements in LI Stage 1 and Stage 3 can account for the cases of the European Semester and the ESRB, the two cases nearly reject all the three sub-hypotheses (H7a, H7d, and H7e) while indicating several out-of-LI-prediction situations (see “MND” (modifications and/or new developments) in Table 7.5). The rejection of H7a, H7d, and H7e by the European Semester, however, is accounted for by the LI scope condition H7g, while the confirmation of H7a and rejection of H7d and H7e by the ESRB suggest the validity of the other scope condition of H7h: Commission President Barroso exerts influence on the establishment of the ESRB, because national governments lack critical information, expertise and the legitimacy that the Commission nevertheless can provide. From such a perspective, LI, though failing to account for EU daily decision-making, is a rigorous theory as the two scope conditions safeguard the most suitable cases for LI examination. Nevertheless, the two limitations (i.e. H7g and H7h) appear not fully to account for the failures of the hypothesis tests by the two cases. Proposition 21, derived from the case studies of the European Semester and the ESRB, can be added to the LI model as another new scope condition, as the issues addressed by the two cases indicate potential new topics and situations LI may deal with in the future; accordingly, the “MNDs” based on the case studies of the two measures can be integrated into the LI model illustrated in Figure 3.2.

Second, as for the ESM which was finalized by several rounds of intergovernmental bargains, the LI model works well to explain the creation of the ESM: H7a, H7b, H7c and H7e are confirmed, while H7d is partially confirmed, leaving H7f for further research as the situation indicated by H7f has not happened yet. The extension of H7c and H7e and the modification of H7d suggest the new rising situations falling out of LI’s predictions as well as possible supplements to the LI model illustrated in Figure 3.4. As Table 7.5 shows, except (9) (which leads to *H7d_{modified}*) and (11) (which remains open for further tests), the case of the ESM falls into all other LI explanatory and predictive categories, with several new propositions developed from the case studies, which supplement and should be integrated into the LI model. All those newly added elements and propositions, as part of the LI model, also are subject to empirical tests of the ongoing EU developments. As for the two limitations of the application of LI, the ESM confirms both H7g and H7h: for the

former, the ESM exhibits a mode of national preference formation based on producers/investors vis-à-vis taxpayers and regulators; for the latter, the ESM is an intergovernmental institution concluded by hard interstate bargains, and EU leaders (e.g. Barroso and Van Rompuy) and the Commission, the ECB and other EU bodies have exerted influence because some parts of the formation of the ESM need their expertise and the legitimacy that the individual member states do not have, such as making Treaty revisions to lay down the legal basis for the creation of the ESM and the finalization of CACs. Barroso, Van Rompuy and the Commission played the role of facilitating intergovernmental negotiations and helping materialize the agreements reached by the national governments (see Table 6.6), and Table 7.3 and Figure 7.1 show that national governments are the core actors and deciders of the formation of the ESM. Moreover, another scope condition is derived from the case study of the ESM — Proposition 22, which points out the possible situation where not all member states participate in an interstate bargain (i.e. block-ins v.s. block outs), connoting different relevance and weights of importance of the agreement concerned to each member state as well as differentiated integration speeds among EU member states (see *H7d_{modified}*).

To sum up, the two scope conditions of the LI model demonstrate its theoretical rigor. Though the European Semester and the ESRB are not suitable cases for an LI analysis (and consequently, they almost disconfirm all the LI hypotheses), some elements of the LI model do appear effective to explain the two cases. Meanwhile, representing the new developments after the 2008 crisis, the two cases shed light on the potential topics and situations that may impose challenges to LI in the future, and the new elements and propositions, including two new scope conditions Propositions 21 and 22, derived from the two cases' studies (e.g. Table 7.5) can be viewed as valuable supplements to the LI model illustrated in Figure 3.4. In comparison, the ESM forged by intergovernmental bargains is a suitable case for an LI examination. The research results show that the LI model works well to account for the EU's recent developments: among the six LI sub-hypotheses, only one (H7d) is partially confirmed and another will be evaluated through the evolving time (which suggests an HI perspective). In addition, two hypotheses (H7c and H7e) get extended, one modified (H7d) and four extra Propositions (22-25) are formulated via the case study of the ESM, among which Propositions 21 and 22 are newly derived scope conditions for the application of LI. All in all, the ESM demonstrates intergovernmental bargains as well as national leaders' rational choices, that is, their rational calculations on both the economic benefits and

political implications of the euro countries' financial stability as well as the EMU project (see sections "7.2.1" and "7.2.2"), and H7 as a whole is almost fully confirmed by the ESM. Moreover, the ESM enlarges the spatial dimension of the LI model. Originally, H7 presents a simple process of decision making by intergovernmental negotiations:

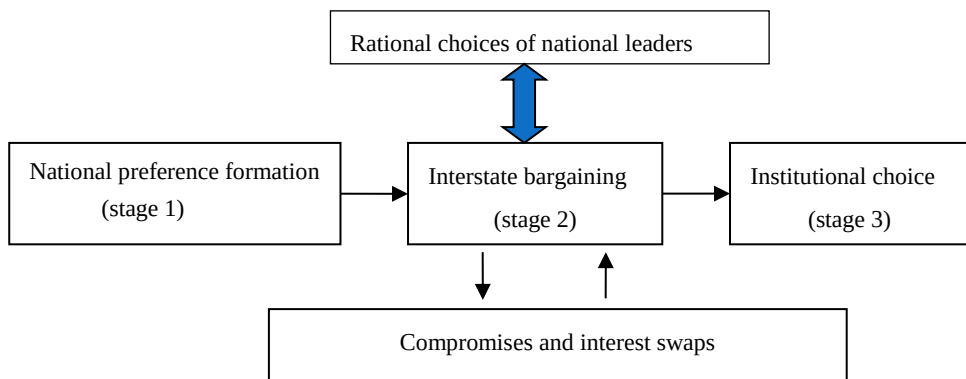
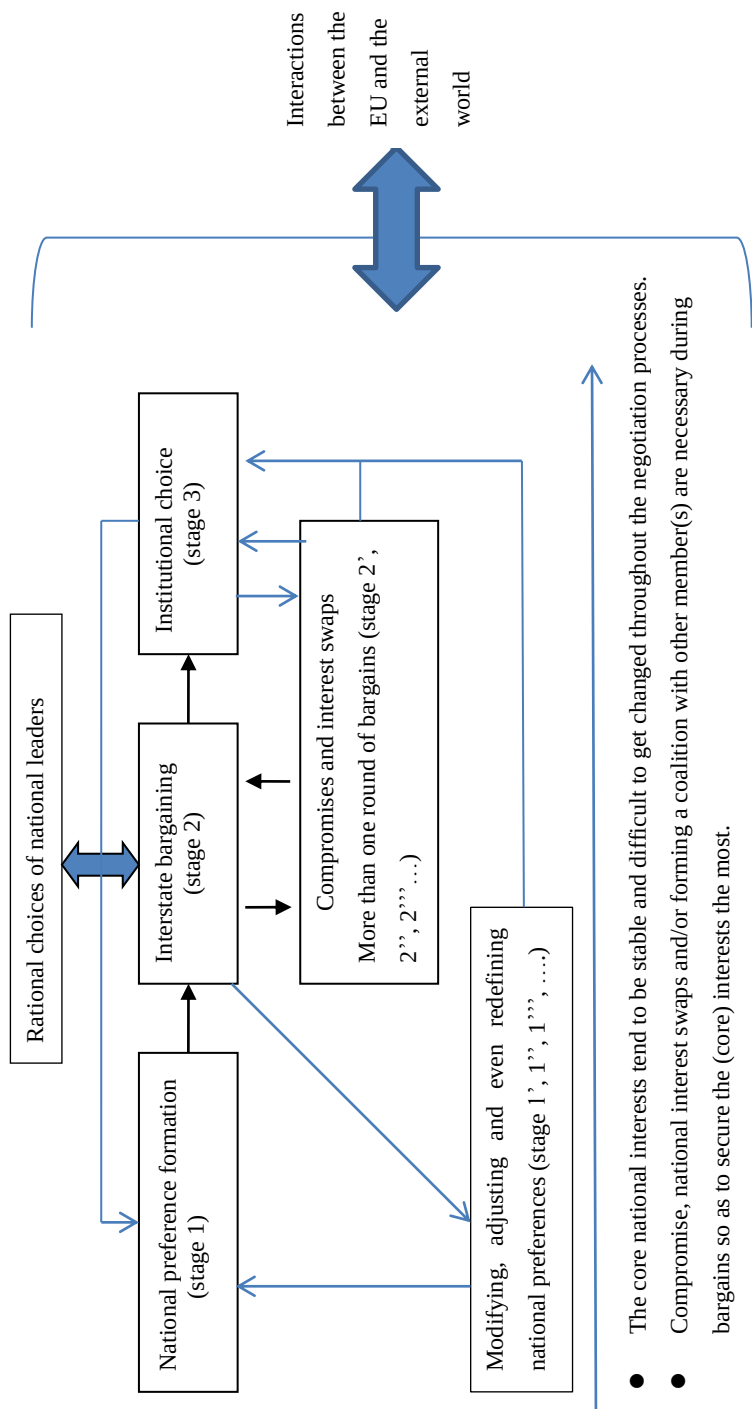


Figure 7.2 A Simple Steady Process of the LI Model

The ESM, however, exhibits an extended and more elaborated flow from Stage 1 to Stage 3:



- The core national interests tend to be stable and difficult to get changed throughout the negotiation processes.
- Compromise, national interest swaps and/or forming a coalition with other member(s) are necessary during bargains so as to secure the (core) interests the most.

Figure 7.3 An Elaborated Process of the LI Model

According to Figure 7.3, interstate bargains concerning the same issue may occur again due to new rising situations, and both institutional choice finalizations and national commitments evolve over time, displaying dynamics as well as uncertainties in the EU integration process (see Figure 7.1). The global context (such as the financial crisis of 2008) would influence the development of the EU, and the eurozone sovereign debt crisis triggered by the financial crisis, as a matter of fact, pushed the recent institutional establishments and reforms of the EU (see Table 1.2). The post-2008 crisis era spurred national leaders and supranational institutions to make rational choices to safely drive the EU from the crisis; consequently, the crisis imposed challenges, which at the same time also offered an opportunity for the EU to develop and reform — a point of view which has already been stated in chapter six on neo-functionalist studies (see Propositions 4 and 9). Moreover, Figure 7.3 and Figure 6.17 show the convergence of the neo-functionalist and LI case study results: the efforts and choices made by the elites (i.e. subjective initiatives), and the EU's interaction with the external world (i.e. the objective environment). The proposition of “*rational choices made by national leaders*” in H7 highlights the fact that the EU is also propelled by the elites, particularly when confronting a sudden and severe crisis which requires decisive and swift response. Though uncertainties persist in the future, one thing is sure: the trend of European integration is irreversible, and various efforts are expected to save the achievements of the EU and EMU.

7.3 Evidence for H8: Impact of Exogenous Shocks from an LI Perspective

In accordance with the analysis after the formation of H8 in chapter three, this section shall check whether the post-2008 crisis era (the eurozone sovereign debt crisis in particular) caused EU substantive reforms or incremental policy-making changes suggesting a “European constitutional settlement”. Following the elaboration of section 3.7.6, the test of H8 suggests the following indicators:

Table 7.6 Substantive Reforms or Incremental Changes?

Substantive reforms? (Three indicators)				Incremental changes? (Two indicators)	
	Indicator 1: Developing and improving policies outside the current EU institutional framework? (Cf. Tables 6.6 and 6.22)	Indicator 2: Changing the scenario that member states rule the EU by quasi-consensus? (Cf. Table 7.1)	Indicator 3: Changing the scenario that the fiscal, administrative, and coercive powers have been decentralized to the nation state level? (Cf. Tables 6.1 and 6.19)	Indicator 4: Strengthening the Council and/or the EP?	Indicator 5: Deepening and/or enlarging certain EU policies?
The European Semester	No; First proposed by the Commission in May 2010, then approved by the Council on 7 September 2010 and then finalized in Regulation (EU) No 1175/2011 via the OLP on the basis of the TFEU.	No; CSRs drafted by the Commission are discussed by the Council of Ministers in June, endorsed by the European Council on 28/29 June, and formally adopted by the Council in July by qualified majority (②, p.21); nevertheless, before the endorsement by the European Council, the CSRs are debated in the Council by ministers of employment and finance, during which “Member States at the Council level are free to amend the recommendations” ① and moreover, no binding decisions shall be made under the European	No; National parliaments have the final decisions on member states’ budgets, economic policy legislation, and the implementation of CSRs. (Cf. Table 5.3)	Yes; The EP’s involvement in the European Semester is gradually strengthened over time (②, pp.23-24). Initially, the first Communication (COM(2010) 250 Final) only suggested that the EP should be “appropriately engaged” in the final stage of the formulation of the CSRs. The second Communication (COM(2020) 367/2) proposed the EP’s involvement at the beginning of the process, where the AGS shall be presented to the EP for internal debate and orientations ahead of the Spring EU summit. So during the first Semester cycle in 2011, the EP had very little institutionalized involvement, but throughout 2011, the EP played an important role in strengthening EU economic governance and influenced the new mechanism mainly in two ways (see Table 6.12), among which the European Semester and the Economic Dialogue were codified in the “six-pack”. As	Yes; The European Semester deepens the EU’s surveillance of national budgetary policies, which started from the SGP in 1997 to the “six-pack” in 2011, and then to the “two-pack” in 2013 (see Appendix 1); as an inclusive mechanism bringing various surveillance elements under the same umbrella, the European Semester enlarges EU policy coordination and surveillance,

		Semester, indicating a risk of softening the CSRs as well as quasi-consensus by the member states.		of the second cycle in 2012, the EP can exploit the instrument of the Economic Dialogue at different points in time during the Semester process — “a more formal involvement” (②, p.29) and “an important step forward” (②, p.22). Later, due to the “two-pack”, the EP can access the discussion of the Commission’s assessment of the euro countries’ national draft budgets, and also can have its own assessment taken into consideration in the yearly AGS formulation (②, p.24; ③).	such as the surveillance of macroeconomic imbalances (see section 5.2.1).
The ESRB	No; Via the OLP, the ESRB was established by REGULATION (EU) No 1092/2010.	Yes; (see Tables 5.4 and 7.1) The decision-making modality by the ESRB General Board is a simple majority or two thirds of the votes cast.	No; This new EU body’s mission, objectives and tasks, according to ESRB Regulation Article 3, have nothing to do with the fiscal, administrative, and coercive power distributions between the EU and the member states. Rather, it provides necessary and supportive macro-level surveillance, warnings, and recommendations to the micro-level economic activities and	Yes; The ESRB is held accountable to both the EP and the Council. (See ESRB Regulation; Table 6.12).	Yes; It brings the scattered macro-prudential supervision at the national level together and fills the vacuum of an integrated EU-wide macro-prudential oversight mechanism (see Table 6.19). The de Larosière Report makes a clear suggestion of “towards stronger coordinated supervision – macro-prudential and micro-prudential . Building on existing structures” (p.4),

			financial authorities. The ESRB has no legal personality, and its recommendations are non-binding to its addressees. (See Tables 5.4, 6.1 and 6.19)		the establishment of the ESRB means to “upgrade macro-prudential supervision in the EU for all financial activities” (p.44).
The ESM	Yes; The permanent ESM is an intergovernmental institution concluded by the euro countries rather than an EU body set up by EU Treaties, and it becomes viable only after Treaty amendments.	No; First, the ESM is not an EU body, but it makes use of the existing EU institutions such as the Commission, the ECB and the CJEU; Second, the ESM Board of Governors and Board of Directors rule the ESM via the modes of unanimity, qualified majority and simple majority as specified in the ESM Treaty, so in some cases, it changes the quasi-consensus scenario. Nevertheless, in reality, ESM financial assistance to a euro state might be a part of an assistance package of intergovernmental and international negotiations (e.g. the case of the ESM assistance to Cyprus), and an	Yes; The beneficiary states must implement reforms laid down the MoUs as conditions to receive the ESM assistance.	Yes; The EP is not involved in the ESM, but the Council, together with the Commission, is responsible for the ESM post-programme surveillance (ESM Treaty. (17))	Yes; It provides as well as fills the vacuum of a permanent rescue mechanism for the euro countries, which is modelled on the basis of its precursor — the temporary EFSF.

ESM assistance is subject to national parliament approval, such as by the German Bundestag.	

Sources: ①European Commission-MEMO/12/386 (30 May 2012); ②Hallerberg et al. (September 2012); ③ Regulation (EU) No 473/2013.

In light of Table 7.6, the European Semester shows incremental changes rather than substantive reforms, and so does the ESRB with the exception that the voting rules adopted by the ESRB change the consensus scenario. The peculiarity of the ESM is that it is not an EU body but an intergovernmental institution established by only part of the EU member states. On the one hand, the ESM represents a substantive reform as the ESM was established via Treaty amendments, and it also enables the decentralized fiscal, administrative and coercive powers of the beneficiary states to be subject to the ESM conditionality at a more centralized level (to the degree of carrying out economic reforms and implementing reducing-budget-deficit measures agreed in the MoUs), but it does not change the quasi-consensus practices as the assistance package to the beneficiary states is still hammered out via (hard) intergovernmental and international negotiations; on the other hand, the ESM indicates an evolution from the temporary financial backstop — the EFSF — to the permanent crisis resolution mechanism. As a consequence, H8 is not fully confirmed by the three cases, but the ESRB and the ESM do exhibit certain features of substantive reforms and the latter confirms H8 in the aspects of indicators 1 and 3. At the same time, all the three cases present evidence for incremental changes in terms of indicator 4 and 5, which in another way around, supports LI’s assumption of a “European constitutional settlement”, that is, when reaching at a certain plateau, the EU shall move along with incremental changes rather than substantial reforms like those once brought by the creation of the single market and the single currency. As a result, the ESM represents both a substantive reform as well as an incremental change, and the latter aspect also indicates policy learning and continuity from the previous practice of the EFSF — a historical point of view.

Evidence for incremental changes indicated by the three cases and the OLP to adopt the first two measures suggests that the EU has developed a stable and comparatively “mature” institutional framework to solve the crisis — a constitutional settlement claimed by LI. Treaty revisions, even being a prerequisite to the creation of the ESM, have been carried out in accordance with EU institutional procedures

prescribed in the Lisbon Treaty. The adoption of the three new measures follows the already laid-down EU rules and procedures, exhibiting the resilience and stability of the EU institutional framework when confronting the severe crisis. Still, several explanations are needed to clarify the indicators of substantive reforms. First, “the current EU institutional framework” in indicator 1 can mean two things: one refers to the rules and working procedures of the EU, while the other can indicate the concrete operative EU institutions and bodies, such as the Commission and the ECB, and this dissertation defines the “institutional framework” in the first sense.¹⁴⁸ Second, as for indicator 2, the evolution of QMV in the Council via EU Treaty revisions (see section 2.5.1 and Table 6.23) actually has changed the legal basis for the EU and its member states to make decisions and adopt policies; nevertheless, the quasi-consensus scenario in practice appears unchanged in the decision-making patterns under the European Semester — even though the causal mechanism remains to be further clarified (see section 7.1) — and the ESM. Two kinds of discrepancies are observable: the first one is the discrepancy between the rules that lead to the adoption of the new measures (e.g. the legal basis provided by the EU Treaties) and the rules that shall operate under the new measures;¹⁴⁹ the second discrepancy is related to the rules governing the new mechanisms on paper and those in practice. Judging from EU legalistic rules to adopt the European Semester and the ESRB, the OLP means changes to the unanimous voting mode in the Council, but anyhow consensus scenarios are still present (see Table 7.1); while judging from the rules adopted by the concrete measures, the decision-making patterns prescribed in the three new mechanisms imply deviations from consensus decision-making, but in practice, the European Semester and the ESM still resort to the quasi-consensus ruling.¹⁵⁰ This dissertation, as Table 7.6 suggests,

¹⁴⁸ If the EU’s institutional framework is explained in the second sense, then both the European Semester and the ESRB would say “Yes” to the first indicator of the substantive reforms; even with those confirmations, both cases still lack evidence for the second and third indicators. This dissertation regards the two senses of “institutions” as two layers of the EU institutional framework, with the former being more substantial and invisible, while the latter is more superficial and observable. So this dissertation sticks to the first sense.

¹⁴⁹ Such a discrepancy has been encountered and addressed by the neo-functionalist analysis in chapter 6, see tests for H1 and H4.

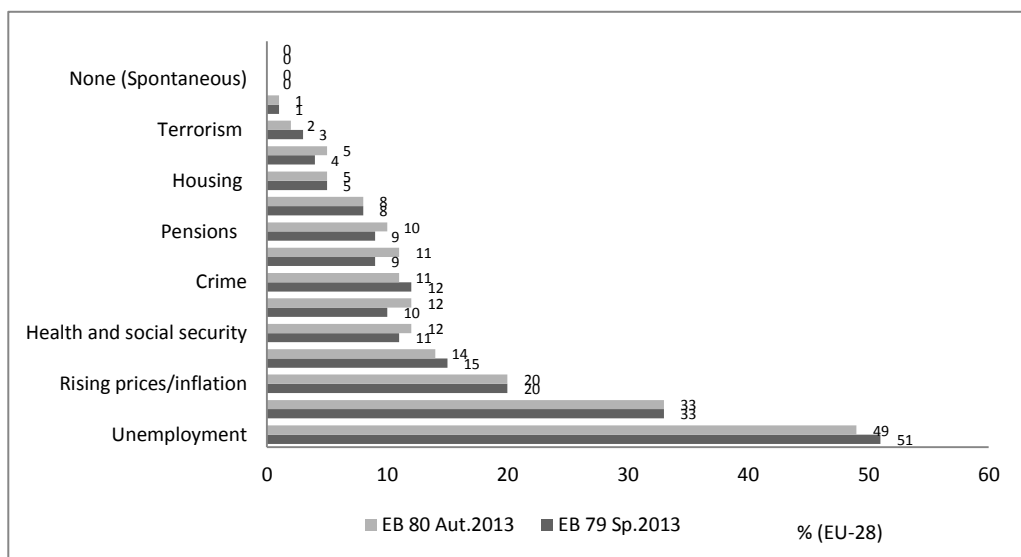
¹⁵⁰ As regards the European Semester, the EU’s surveillance of budgetary policies started from the SGP laid down by the Council Regulation (EC) No 1466/97 of 7 July 1997 by QMV in the Council, according to which the Council shall deliver an opinion on the Commission’s recommendations on the broad guidelines in accordance with Article 103 (TEU, 92/C 191/01) by QMV; with the effectiveness of Regulation (EU) No 1175/2011, the Council, in accordance with Article 121 TFEU,

defines “the current EU institutional framework” (indicator 1) as the EU’s institutional rules of decision-making rather than any concrete institutional body, while it also prescribes the subjects of indicator 2 and indicator 3 as the rules operating under the new measures in empirical practice rather than on paper, or rather than the EU decision-making rules leading to the adoption of the new measures. Accordingly, among the three new measures, only the ESM meets indicator 1 as a creation outside the current EU institutional framework, while in practical operation, both the European Semester and the ESM display discernible quasi-consensus decision-making — a national control scenario. All in all, H8 is confirmed by the ESM in two aspects (out of three) of substantial reforms, while it gets full and partial rejections from the European Semester and the ESRB, respectively. Those confirmations and rejections, in one respect, justify LI’s proposition of EU constitutional settlement and possible substantial reforms due to unforeseen exogenous shocks, while in another respect, they prove that crises can also be opportunities, for incremental changes or for substantive reforms. In addition, the case studies show that the EU’s recent developments do not challenge much of LI’s assumption of the national control scenario over the core national issues, but a crack on the national control over their fiscal activities (which are expected to remain national) has been signaled by the operation of the ESM.

7.4 Evidence for H9: LI Assumptions on a Salient EU Issue Increasing the Turn-Out Rate of the EP Election (a Preliminary Analysis)

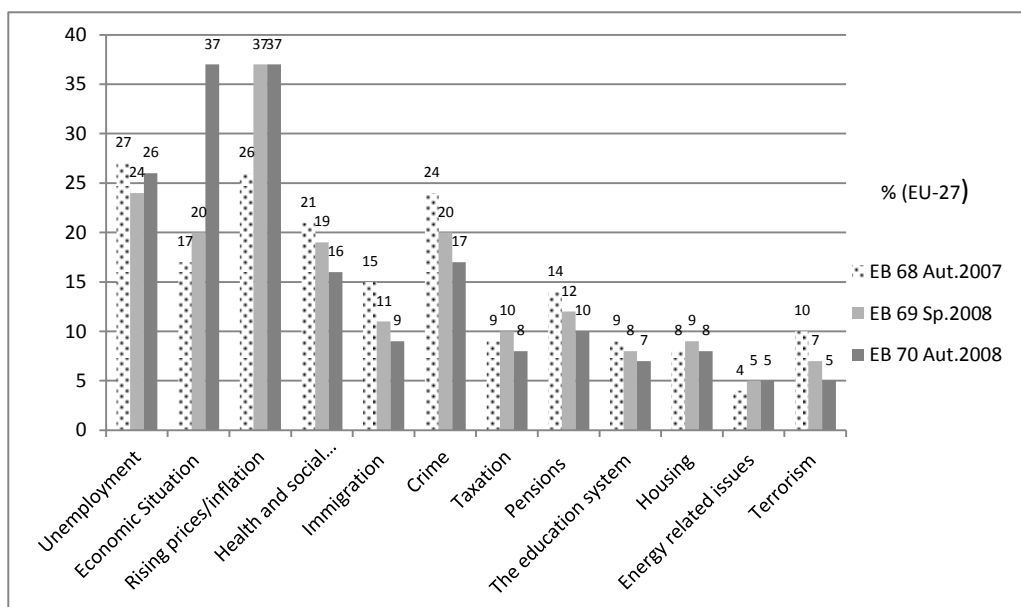
As the analyses after the formation of H9 in chapter three have pointed out, H9 shall be tested after the EP election in May 2014. What can be done in this dissertation is to check whether the on-going sovereign debt crisis has become a salient EU issue in the minds of the European citizens.

also shall act with QMV defined by Article 238(3)(a). As for the operation of the ESRB, the actual vote casts are not available.



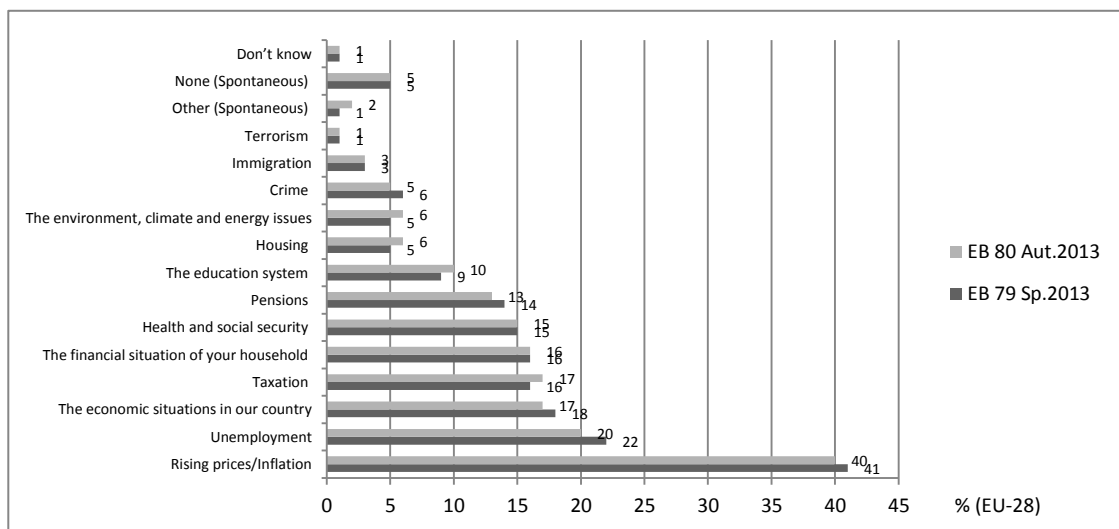
①Q: What do you think are the two most important issues facing (OUR COUNTRY) at the moment?
(Max. 2 Answers)

Figure 7.4 a) Top Concerns of European Citizens-% EU①



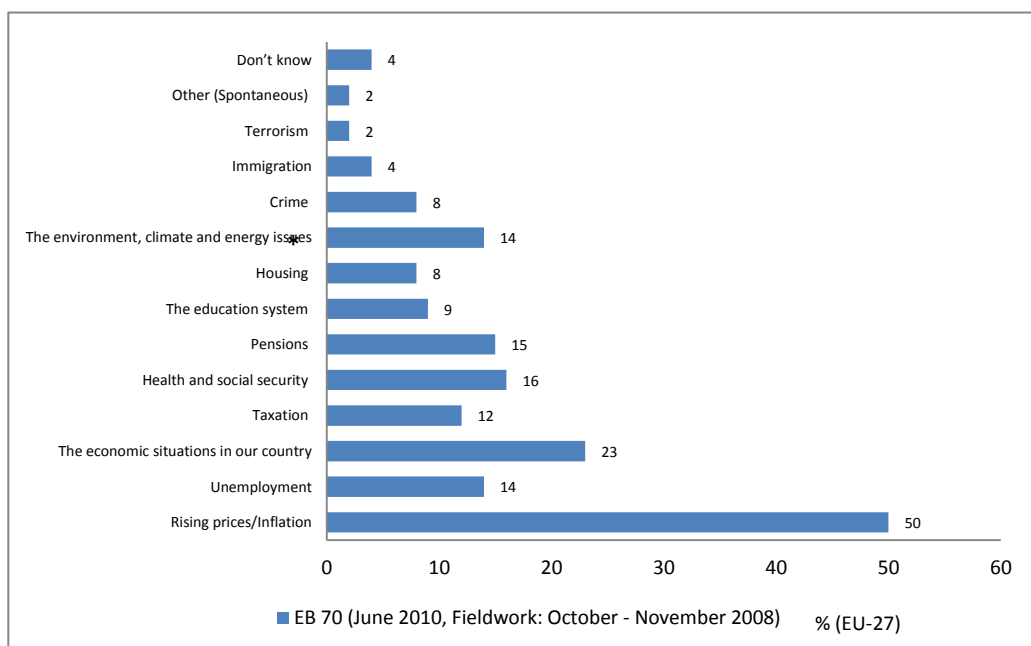
②Q: What do you think are the two most important issues facing (OUR COUNTRY) at the moment?
(Max. 2 Answers)

Figure 7.4 b) Top Concerns of European Citizens-% EU②



③Q: And personally, what are the two most important issues you are facing at the moment? (Max. 2 Answers)

Figure 7.4 c) Top Concerns of European Citizens-% EU③



④Q: And personally, what are the two most important issues you are facing at the moment? (Max. 2 Answers)

Figure 7.4 d) Top Concerns of European Citizens-% EU④

Notes: * Aggregated data of energy related issues (9%) and protecting the environment (5%).

Sources: ①Adapted from *Standard Eurobarometer* 80 (Autumn 2013, 11); ②Adapted from *Standard Eurobarometer* 70 (June 2010, 34); ③Adapted from *Standard Eurobarometer* 80 (Autumn 2013, 13); ④Adapted from *Standard Eurobarometer* 70 (June 2010, 39).

According to Figure 7.4 a), in the course of 2013, the most important two things in the mind of the European citizens at the national level were unemployment and the economic situation — two direct impacts of the sovereign debt crisis — with the former registering at 49% in the autumn of 2013 with two percentage points lower than the figure in spring 2013 (51%). As for the concern rate of 49% of unemployment, it is “the first time this item has lost ground since the *Standard Eurobarometer* of spring 2011, EB76” (*Standard Eurobarometer* 80, 11). Compared with these figures in the course of 2008 before the EP election in 2009, concerns of unemployment in autumn 2008 took the third place, counting 26%, while inflation and the economic situation were listed as top one and two issues, both marking 37% (see Figure 7.4 b)). At the personal level, according to Figure 7.4 c), the top concerns of the European citizens are inflation and unemployment, reaching 40% and 20% in the autumn of 2013. In comparison, when the same survey was carried out in October-November 2008 for the first time by the Eurobarometer, the top two personal concerns were rising prices (50%) and the economic situation (23%) due to the influence of the global financial crisis, and at that time, the concerns for unemployment made up of 14%, ranking the fifth place after the concerns for the health system and pension. Therefore, in 2008, the European citizens regarded rising prices/inflation and the economic situation as the most important issues at both the personal and national level, while the EP election turnout rates, amid the global economic recession, continuously declined in 2009 (45% for the 27 member states) since 1979 (of 66% for the 9 member states) (e.g. Lelieveldt and Princen 2011, 120-121), so this dissertation rules out the causal relationship between citizens’ concerns for inflation and the economic situation and a higher EP turnout rate in the logic of H9. Observing the changing ranks in Figure 7.4, this dissertation proposes a causal chain between people’s concerns for unemployment and the turnout rate of the EP election. The rationale is as follows: in recent years, due to the on-going eurozone sovereign debt crisis, the unemployment records registered worse during 2009 to 2012 across the EU (see Table 6.17 and Figure 6.12), while the issue of unemployment tops the list of people’s concerns for their country, far ahead of the economic situation, and at the same time, it ranks the second for the most two important things at the personal level; so unemployment can be regarded as a salient

issue in the minds of the Europeans, and this dissertation assumes that people also understand the unemployment situation is directly caused by the on-going sovereign debt crisis, and in such a way, the sovereign debt crisis can be regarded to have become a salient EU issue to the EU citizens.

However, the empirical test for H9 in the future may also need to take other factors into account, among which a new institutional rule was introduced by the Lisbon Treaty: the EP is entitled to elect the president of the Commission from the “top candidates” of the EU-level political parties entering the 2014 campaign (cf. Article 17(7) TEU) — a factor might “reverse the familiar pattern of low turnouts” (Stratulat and Emmanouilidis September 2013, 1). Moreover, the salience of the sovereign debt crisis may also unleash negative campaigns and more protests against European integration, which “could consolidate the bloc of populist Eurosceptic lawmakers in the next European Parliament” (Stratulat and Emmanouilidis September 2013, 1). Besides, according to an *EP Eurobarometer Summary* (EB77.2) (21 May 2012), public opinion towards the ways of tackling the crisis has exhibited a clear difference between the euro countries and the non-euro member states. So the general EP election turnout can be divided into two sub-categories: the turnout in the euro countries and in the non-euro countries. Finally, other conceptual factors and trends may play a role in accounting for the test results of H9. For example, as for the survey question in 2013: “My voice counts in the EU?”, less than a third of the Europeans have considered that their voices do count in the EU, while the disagree rates keep rising, going up from 52% in 2004 to 66% 2013 (*Standard Eurobarometer* 80, 7). The research about the turnout of the 2014 EP election is interesting and multifaceted, and so far, this dissertation can only offer a preliminary analysis for the test of H9.

8 Chapter Eight: Hypotheses Tests of HI and New Insights Based on Case Studies

Because HI is a point of convergence of the traditionally competing neo-functionalism and intergovernmentalism, some of the hypothesis tests in this section shall resort to the evidence and case study results in the previous two chapters.

8.1 Evidence for H10: A Critical Juncture?

H10 intends to check whether the 2008 global financial crisis means a critical juncture, thus introducing new paths for EU policies of economic governance. The indicators for a critical juncture and new paths are the changed and redefined national-national and/or national-supranational competence and powers entailed in the new measures.

Table 8.1 The 2008 Global Financial Crisis: A Critical Juncture for EU Economic Governance?

	Compared with the previous practices (Cf. 6 (6) in Table 6.18)	Any changed and redefined national-national and/or national-supranational competence and powers? (cf. Table 6.11)
The European Semester	Before 2011, budgetary surveillance via SCPs (which was introduced by Regulation 1466/97 as part of the SGP's preventive arm in 1997) and coordination of structural reforms via NRPs (introduced by the revamped Lisbon Strategy in 2005) followed two separate procedures with two different calendars: the first SCPs "shall be submitted before 1 March 1999" and "updated programmes shall be submitted annually" (Council Regulation (EC) No 1466/97), "normally by 1 December of each year" ^① , while the NRPs, on the basis of the IGs (another initiative of the re-launched Lisbon Strategy in 2005 ^② , pp. 20-21), which is the merger of the BEPGs and the EGs ^③ , pp. 10-11) submitted in October ^④ ; moreover, before 2011, "there has been ex-post coordination of member states' structural reforms and budgetary priorities" as	No; Though the Commission's power and autonomy are extended under the European Semester (see Table 6.11), both the national-national and national-supranational relationships remain unchanged: the EU guides, coordinates and gives CSRs, while national governments have their final decisions on whether and to what degree to implement the CSRs; meanwhile, only peer pressure has been imposed by the European Semester among the EU member states. The key to define national-national and national-supranational competence and power under the European Semester is that no binding decisions could be made, though the violation of budgetary rules can lead to sanctions under other separate procedures.

	the NRPs and SCPs were submitted after national parliaments' budgetary decisions ⑤. As from 2011, the time of submitting the NRPs and SCPs at the national level and of assessing and coordinating of these policies at the EU level was synchronised in a single mechanism; meanwhile, all those synchronised policy coordination become ex-ante, as EU priorities and objectives enshrined in the AGS are issued "before the drawing up of the NRPs and SCPs and before the adoption of national budgets" ⑤. Moreover, before 2011, due to the separate and different policy coordination procedures, "[t]here was no comprehensive view of the efforts made at national level, and no opportunity for Member States to discuss a collective strategy for the EU economy"⑥; since 2011, the European Semester has provided a platform for the EU member states to do so. Up to now, all possible EU economic policy coordination has been integrated under the same umbrella of the European Semester, the contents of which have been expanding over time since the first cycle of 2011: (a) Euro Plus Pact commitments were decided to be included in the SCPs and NRPs in March 2011; (b) the six-pack in December 2011 codified the European Semester and introduced a new policy surveillance under the Semester: preventing macroeconomic imbalances; (c) in January 2013, the Fiscal Compact contained in the TSCG further strengthened the enforcement of the MTO defined by the SGP, which has been covered by the European Semester; (d) in May 2013, after the six-pack, the "two-pack" targeting only the euro countries continued the SGP reforms, introducing and integrating a common budgetary surveillance timeline particularly for the eurozone countries into the European Semester — an autumn counterpart to the spring semester. (See section 5.2.1 and Appendix 1)	(see e.g. Table 5.3) Moreover, the new legislations of the six-pack introduce special provisions for the euro countries, and after the six-pack, the two-pack further strengthened euro area economic governance, "perpetuating" unbalanced governance between the euro and non-euro blocks. (⑦, p.46)
The ESRB	Before the ESRB, there was no such an EU-wide macro-prudential supervision	Yes; (cf. (10) in Table 6.19) The ESRB for the first time defines the

	mechanism; the establishment of the ESRB fulfills a vacuum of the EU project. (See e.g. 5(2) in Table 6.18; Table 7.6) “Supervisory reform has so far relied on an evolutionary approach, [...]. While certain progress in convergence has been achieved, this progress has not allowed the EU to identify and/or deal with the causes of the current financial crisis”. (Annex I, de Larosi�re Report, 25 February 2009)	power distribution of the supranational macro-prudential supervision at the EU level and its addressees at the national level. The national-supranational asymmetrical power distribution under the new EU body is framed up by the nature of the ESRB: it has no legal personality and does not have legally binding powers to its addressees; the principle under the ESRB is act/comply-or-explain, and the implementation of the ESRB recommendations is subject to national discretion. (See e.g. Table 6.6).
The ESM	Before the ESM, there were no such permanent tools for the euro countries to resort to, and only a contemporary financial backstop — the EFSF — was available.	Yes; The temporary EFSF was established by the euro countries as a private company located at Luxembourg, which would expire soon and does not obtain a legal basis in the EU Treaties, but the ESM, via Treaty amendments, acquires the legal basis in the EU Treaties and is concluded by the euro states as a permanent intergovernmental institution. Judging from its practical operation, the ESM shows path dependence from the EFSF, but from the legal basis angle, the ESM ushers new and meant-to-be-permanent-and-not-transient national-supranational and national-national geometries under the EU legal framework due to the changes to EU Treaties: the former refers to the fact that beneficiary states must meet the conditionality of reducing budget deficits and carrying out structural reforms set out in the agreed MoU to receive tranches of ESM aids (see e.g. Table 5.5, (11) in Table 6.19), while the latter is expressed in the different shares of the ESM contracting parties’ contribution to the ESM funds (see Table 6.9).

Sources: ①“Stability and Convergence Programmes” (European Commission); ②European Commission-SEC(2010) 114 Final; ③Hallerberg et al. (August 2011); ④See “Database – NRPs Prior to 2011” (European Commission); ⑤Delors et al. (February 2011); ⑥European Commission-MEMO/13/979 (12 November 2013); ⑦Hallerberg et al. (September 2012).

The research results presented in Table 8.1 show that among the three selected cases, the European Semester, compared with the previous EU practices, does not indicate a critical juncture in terms of redefining national-national and national-supranational power distributions, thus refutes H10, while the other two cases confirm the critical juncture assumption of H10. Nevertheless, it is worth emphasizing again that critical junctures rest on the arguments of path dependence, and the judgement of a critical juncture is based on the precedents in the past. As a result, the European Semester exhibits strong path dependence from the EU's previous economic policy coordination and surveillance mechanisms under which no binding decisions shall be taken, and thus the previous national-national and national-supranational relations remain unchanged. In contrast, filling a vacuum of the EU project, the ESRB indicates a critical juncture as a totally new national-supranational geometry on the issue of macro-prudential oversight across the EU is introduced and established by the ESRB; assuming the features of the EFSF, the ESM indicates a critical juncture on the "path" built by the EFSF; compared with the EFSF, the ESM has obtained a legal basis in the EU Treaties. It is worth pointing out that, however, the research results in Table 8.1 display a sort of "incongruence" with the case study results in chapter six and chapter seven, such as Table 6.11 and Table 6.19, and the main reason is because of the different gauges and measurements entailed in different theoretical approaches and lenses.

In accordance with the analyses after the derivation of H10 in chapter four, the following section will check HI's other arguments relevant to the assumption of critical junctures, which are valid in the cases of the ESRB and the ESM. The vindication of H10 by the ESRB and the ESM leads to the following further analyses.

First, HI argument 7 on the possible factors that could cause a critical juncture has been justified: this time, it is the *economic crisis* that forges the branching points of the EU project. The specific patterns of timing and sequence of events (HI arguments 15, 19) are choreographed as follows:

Table 8.2 A Timeline for the Establishment of the ESRB

➤ Before the establishment of the ESRB:
The EU lacks a supranational body being responsible for macro-prudential supervision of the financial systems across the EU, and no agencies have ever conducted such an EU-wide function to provide necessary information, warnings and recommendations to national economies and micro-level economic and financial activities. Traditionally, micro-prudential supervision of individual firms has been at the center of the focus of the supervisors around the world. Some member states have established their macro-prudential bodies at the national level, which, however, appear scattered, fragmented and inadequate.
Since financial stability is a precondition for the prosperity of the real economy, EP resolutions have repeatedly pointed out the loopholes in the EU's financial supervisions as regards the EU's ever increasingly integrated financial markets:
(1) 13 April 2000: The EP's resolution on the Commission's communication on implementing the framework for financial markets: Action Plan, where the EP argued for the "reduction of systemic risk and/or improvement of the forecasting system for those risks while also facilitating the conclusion of transactions"; ①
(2) 21 November 2002: The EP's resolution on prudential supervision rules in the European Union, where the EP "[r]ecommends that macro-prudential policies be given more prominence and calls for micro- and macro-prudential policies to be more closely linked", and "notes also that the European Central Bank has a significant role to play in macro-prudential analysis";②
(A) July 2007: Triggered by US subprime mortgages and financial derived products, the financial crisis broke out in the US and soon spread over the world, causing "the most serious and disruptive financial crisis since 1929"; the major factors underlying the crisis were ample liquidity and low interest rates which had created a widespread housing bubble; in the US, this situation was "fuelled by unregulated, or insufficiently regulated, mortgage lending and complex securitization financing techniques", and at the same time, across the globe, financial innovations have "amplified and accelerated the consequences of excess liquidity and rapid credit expansion". The problems exposed by the crisis are about failures in the assessment of risks by firms and financial institutions (e.g CRAs), the proper use and regulation of financial derivations and products such as collateralized debt obligations (CDOs), and the lack of national (regional, and even worldwide) macro-prudential supervision which deals with systemic risks, inter-connected vulnerabilities, and contagious effects across financial sectors;③
(3) 11 July 2007: The EP's resolution on financial services policy (2005 to 2010) – White Paper, where the EP "points out that those market changes also affect the nature, source and transfer of systemic risk, and thus the effectiveness of existing ex-ante risk mitigation tools; calls, therefore, for evidence-based identification and evaluation of the sources of systemic risks and the underlying dynamics of financial crises in this context";④
(4) 23 September 2008: With the aim to "minimize the risk of future financial crises", the EP gave its recommendations on hedge funds and private equity to the Commission, where the EP "[c]onfirms [...] the principle of subsidiarity and the fundamental rights of citizens";⑤
(5) 9 October 2008: The EP gave its recommendations on Lamfalussy follow-up to the Commission, where the EP was aware that "the interlocking of many national authorities has increased complexity and blurred the lines of responsibility, especially for macro-prudential supervision and crisis management"; the EP suggested that legislative acts should be adopted, among other things, to "establish [...] policies on macro prudential supervision and financial stability" at the EU level,

including “setting up an EU early-warning system and early-intervention mechanism”;^⑥

➤ From the de Larosière report to the Commission’s proposal to establish the ESRB:

(6) November 2008: A High-Level Group chaired by Jacques de Larosière was entrusted by the Commission to make recommendations on how to strengthen EU financial supervision;

(B) February 2009: It is evaluated that “18 months after the beginning of the crisis, the full scale of the losses is unknown” and meanwhile, “the crisis is now global, deep, even worsening”;^③

(7) 25 February 2009: The de Larosière Report was finalized, and it recommended, inter alia, the establishment of an EU level body ESRC to carry out macro-prudential supervision of the EU financial system as a whole;

(8) 4 March 2009: The Commission’s Communication “Driving European Recovery”, giving a broad support to the de Larosière Report and its recommendations;

(9) 19 and 20 March 2009: The European Council agreed with the recommendations put forward by the de Larosière Report;

(10) 22 April 2009: The EP’s positions on Insurance and Reinsurance (Solvency II) and the EP’s position at first reading corresponds to the final legislative act: Directive 2009/138/EC^⑦, which aims at “eliminat(ing) the most serious differences between the laws of the Member States as regards the rules to which insurance and reinsurance undertakings are subject” as well as “protect(ing) (...) policy holders and beneficiaries of the undertakings of the same group particularly in crisis situations”;^⑧

(11) 23 April 2009: The EP’s positions on CRAs, and the EP’s position at first reading corresponds to the final legislative act: Regulation (EC) No1060/2009 ^⑨; “[t]he principal aim of this Regulation is to protect the stability of financial markets and investors”, and “[t]he crisis in international financial markets has clearly demonstrated that it is appropriate to examine further the need for wide-ranging reforms of the regulatory and supervisory model of the Community financial sector”^⑩;

(12) 27 May 2009: The Commission’s Communication “European Financial Supervision”, tabling EU level financial supervision reforms, including the creation of the ESRB for macro-prudential oversight ;

(13) 9 June 2009: The Council supported the Commission’s suggestions and also concluded the ECB’s role for the ESRB;

(14) 18 and 19 June 2009: The European Council also supported the Commission’s suggestions and welcomed that the relevant legislative proposals shall be in place during 2010;

(15) 23 September 2009: The Commission proposed the ESRB Regulation — COM(2009) 499 Final;

➤ The co-legislative procedure leading to the operation of the ESRB:

(i) 7 October 2009: The Committee referral was announced in the EP (first reading/single reading);

(ii) 20 October 2009: Debate in the Council reached a broad agreement on the regulation establishing the ESRB and the Council decision entrusting the ECB with specific tasks; consequently, “the Council invited the presidency to start negotiations with the European Parliament on the regulation on the basis of this approach with a view to reaching agreement at first reading” and “to take the necessary steps to initiate the process with the European Parliament on the Council decision, while taking note of the need for further political negotiations before reaching a final agreement in December 2009 on the complete package setting up a new supervisory structure for the EU”;^⑬

(16) 26 October 2009: The ECB gave its opinion to the Commission’s proposal of establishing the ESRB, fully supporting the Commission’s proposal and giving extra emphases on the independence of the ECB and the necessary consultation from the advisory technical committees;^⑪

(17) 28 October 2009: The report of the IMF, the BIS and the FSB presented to the G-20 Finance Ministers and Central Bank Governors stated the variation of the assessment of systemic risk due to

the different economic environments;

(18) 22 January 2010: The EESC gave its opinion on the Commission's proposal, including clarifying the definition of systemic risks and emphasizing the independence of the ESRB;⁽¹²⁾

(iii) 10 May 2010: The Committee on Economic and Monetary Affairs in the Parliament adopted the report by Sylvie Goulard (ALDE, FR)* on the Commission's proposal, which recommended amendments to the Commission's proposal as the EP's position at first reading under the OLP; ⁽¹⁷⁾

(iv) 25 May 2010: The Committee report was tabled as the EP's draft legislative resolution for the EP plenary for first reading, having regard to the opinion of the ECB of 26 October 2009, to the opinion of the EESC of 22 January 2010, and "to the report of the Committee on Economic and Monetary Affairs and the opinions of the Committee on Budgets, the Committee on Legal Affairs and the Committee on Constitutional Affairs (A7-0168/2010)" ; (22)

(v) 6 July 2010: Debate in the EP;

(vi) 7 July 2010: The EP adopted amendments to the Commission's proposal, by 612 votes for and 40 against with 37 abstentions, at first reading under the OLP, but "[t]he vote on the legislative resolution was postponed to a future plenary session";⁽¹⁸⁾

(vii) 13 July 2010: The Council debated and adopted "a political guideline with a view to continuing negotiations with the European Parliament"; originally, it is planned that both the Council and the EP should reach an overall agreement in time so as to enable the EP to adopt the ESRB regulation at its first reading on 8 July, but the divergence between the Council and the EP postponed the EP's voting, and as a result, "the Council has agreed on the compromise proposals submitted by the Presidency with a view to facilitating continuing negotiations";⁽¹⁹⁾

(C) 21 July 2010: In the US, the FSOC was established under Public Law 111-203 (Dodd-Frank Wall Street Reform and Consumer Protection Act), and for the first time, the US has a statutorily mandated collaborative body to conduct comprehensive monitoring of the US financial system (i.e. macro-prudential supervision);⁽¹³⁾

(viii) 7 September 2010: The Council endorsed an agreement reached with the EP on 2 September on the key elements of reforming the EU financial supervision framework (which consists of the creation of an ESRB responsible for macro-prudential oversight of the EU financial system, and three supervisory authorities (the EBA, EIOPA, and ESMA)) and these supervisory bodies were expected to become operational as of 1 January 2011; the EP "is expected to adopt the texts in first reading during its plenary session starting on 20 September" and the Council "will formally adopt them at a subsequent meeting without further discussion". (21, p.9)

(19) 22 September 2010: The EP adopted its position at first reading to adopt the ESRB regulation, and the EP's position corresponds to the final legislative act: Regulation (EU) No 1092/2010 ⁽¹⁴⁾; the adopted resolution amending the Commission's proposal and "[t]he amendments are the result of a compromise agreement between Parliament and Council" ⁽²⁰⁾;

(20) 17 November 2010: The Council adopted legal texts of the ESRB after the EP's first reading, which "follows an agreement reached with the European Parliament on the key elements of the reform, as endorsed by the Council at its meeting on 7 September"; ⁽¹⁵⁾

(21) 24 November 2010: the ESRB was signed and codified in Regulation (EU) No 1092/2010, and the end of the procedure in the EP;

(IX) 15 December 2010: Final act was published in Official Journal;

(X): 16 December 2010: ESRB Regulation entered into force;

(22) 1 January 2011: the ESRB became operational.

➤ Since the operation of the ESRB as of 1 January 2011

(23) 27 June 2013: The ESRB was given new tasks as the CRD IV (Directive 2013/36/EU) and CRR (Regulation (EU) No 575/2013) (together known as the CRD IV-Package) were published in the EU Official Journal, including giving: (a) recommendations to EU member states on countercyclical buffer rates, (b) opinions to the Commission on the systemic risk brought by member states' buffer rates, and (c) opinions on the use of national macro-prudential instruments;

(24) The advent of the SSM and the Bank Union shall complicate the relationship between the ESRB, the ECB and the SSM, as the last one shall deal with macro-prudential policies and supervision in the bank area, which has already been covered by the ESRB functions. Potential changes to the operation of the ESRB are there.

Notes: The event selection in Table 8.2 is based on ESRB Regulation (see (1)-(22)), the de Larosière Report (see (A) and (B)), the study of international discourses in Table 6.25 (see (C)), the OLP leading to the establishment of the ESRB (referring to (15), (i), (ii), (iii), (iv), (v), (vi), (vii), (19), (20), (21), (viii), (IX) and (X)); (23) and (24) come from McPhilemy et al. (2013, 78-83).

* ALDE, FR: Group of the Alliance of Liberals and Democrats for Europe, France.

Sources: ① European Parliament-A5-0059/2000 (13 April 2000); ② European Parliament-P5_TA(2002)0568 (21 November 2002); ③ The de Larosière Report (25 February 2009); ④ European Parliament-P6_TA(2007)0338 (11 July 2007); ⑤ European Parliament-P6_TA(2008)0425 (23 September 2008); ⑥ European Parliament-P6_TA(2008)0476 (9 October 2008); ⑦ European Parliament-P6_TA(2009)0251 (22 April 2009); ⑧ Directive 2009/138/EC; ⑨ European Parliament-P6_TA(2009)0279 (23 April 2009); ⑩ Regulation (EC) No 1060/2009; ⑪ ECB-CON/2009/88; ⑫ EESC-ECO/268 Macro and Micro Prudential Supervision (22 January 2010); ⑬ See "Financial Stability Oversight Council, About FSOC" (US Department of the Treasury) and "Financial Stability Oversight Council, Home" (US Department of the Treasury); ⑭ European Parliament-P7_TA(2010)0335 (22 September 2010); ⑮ Council of the European Union-16452/10 PRESSE 303 (17 November 2010); ⑯ Procedure File-2009/0140(COD)-20/10/2009; ⑰ Procedure File-2009/0140(COD)-10/05/2010; ⑱ Procedure File-2009/0140(COD)-07/07/2010; ⑲ Procedure File-2009/0140(COD)-13/07/2010; ⑳ Procedure File-2009/0140(COD)-22/09/2010; (21) Council of the European Union-13161/10 PRESSE 229 (7 September 2010); (22) European Parliament-A7-0168/2010 (25 May 2010).

Table 8.2 justifies a branch point punctuating EU policy continuity in the aspect of macro-prudential oversight, and the spillover of the US subprime mortgage crisis into a global financial crisis causes the EU to create a new EU body — the ESRB — and thus the EU's macro-prudential supervision sets on a new path. Before the establishment of the ESRB, EU-wide macro-prudential supervision was absent; even though the EP as early as 2000 and 2002 had already pointed out the potentiality of systemic risks and thus the necessity of carrying out macro-prudential overseeing and risk forecasts, no substantial reforms occurred to the EU macro-prudential supervisory framework. It was not until the global financial crisis triggered by the US subprime

mortgage crisis that the issue of macro-prudential oversight became imminent, urgent and indispensable to safeguard the financial stability as well as the economic growth of the EU. As indicated by Table 8.2, after the time point of “(A) July 2007”, the EP’s resolutions, events (3), (4) and (5), all were related to the financial crisis, and these topics dealt with EU regulation deficiencies spotlighted by the financial crisis, such as on hedge funds and private equity (4); as a matter of fact, the EP’s suggestions in its 9 October 2008 resolution had already heralded the essential missions and functions of an EU macro-prudential oversight body in the future (5), which later materialized in the form of the ESRB. From the de Larosière Report in February 2009 to the Commission’s final proposal of establishing the ESRB in September 2009, a directive on insurance and reinsurance and a regulation on CRAs were adopted, both of which emphasized crisis management against the background of the financial crisis, obviously addressing the shortcomings revealed by the crisis. After the Commission submitted its proposal to the EP and the Council, a co-legislative procedure (i.e. the OLP) was on the way, and the ESRB was finalized as a compromise between the EP and the Council, where the ESRB regulation corresponds to the EP’s position for first reading under the OLP. Based on the ESRB regulation, the events selected in Table 8.2 not only reveal the critical juncture, the timing and sequences of those events, but also display how a new EU body was created under existing EU decision-making procedures, where different actors and EU institutions are accordingly involved in. Once again illustrating the Commission’s initiatives in putting forward proposals, Table 8.2 in the meantime also shows the active interactions among three institutions involved in EU legislation: the Commission, the EP and the Council. From this perspective, the existing EU institutional structure shapes the way to produce new EU policies and measures. Nevertheless, according to the ESRB regulation, the de Larosière Report and even the resolutions by the EP, both the eurozone sovereign debt crisis and the issue of governmental debts are not included as a key event on the way towards the establishment of the ESRB. This fact demonstrates that the creation of the ESRB is more exogenously pushed rather than endogenously compelled.

Second, a further constraint of national government powers does not happen under the ESRB (see e.g. (11) in Table 6.19), and thus the operation of this new mechanism does not fall into the neo-functionalist and HI’s expectation of an unintended consequence. With regard to any possible asymmetrical access to EU decision-making processes, at the very beginning, the de Larosière Report carried out a

broad consultation from various representatives from European financial services associations and international institutions (see (2) and (4) in Table 6.19; Table 7.2), and the relevant interest groups were also consulted for two times before the Commission tabled its final proposal (see also 6 (6) in Table 6.18): the first consultation was about the de Larosière Report, and received opinions were put into the Commission Communication on 27 May 2009, based on which came the second consultation, “whereby *all financial services sector* operators and their representative bodies, regulators, supervisors, other interested parties to were invited to comment on the more detailed reforms presented in the May 2009 Communication” (COM(2009) 499 Final, emphasis added); then during the co-legislative process, the opinions from the ECB and the EESC were taken into account before the EP adopted its first reading position (iii and iv in Table 8.2). The EESC (already mentioned in Table 6.18) is the only consultative body at the EU level and “the only way for Europe’s interest groups — trade unionists, employers, farmers, etc. — to have a formal and institutionalized say on draft EU legislation”; established by the Rome Treaty, the membership of the EESC “is made up of representatives of Europe’s employers’ organizations, trade unions, farmers, consumer groups, professional associations, and so on”, thus representing the broadest interests of various societal groups across the EU; in practice, dealing with the relevant legislative proposals put forward by the Commission, the EESC normally will work out compromises among various relevant interest groups and give its collective opinion to the legislative proposals, which shall be published in the EU Official Journal and “likely to be a common-sense response” that the Council will work on (EESC FAQs). Thus, the opinions from the EESC stand for a broad agreement among different interest groups. So from the consultation contributing the de Larosière Report, to the opinions issued by the EESC, and then to the establishment of the ESRB, it appears that the EU has tried to hear and include as many inclusive opinions as possible (e.g. “all financial services sector...”); according to those consultations, EU institutional arrangements do not forge an asymmetrical access for different interests groups to the decision-making process. Nevertheless, the institutional design of the ESRB may, for better or for worse, indicate an asymmetrical access and introduce disproportionate power distributions: as shown in Table 5.4, the ESRB General Board who has the voting rights on ESRB affairs does not include any representatives of European financial interest groups, and actually the ETUC has voiced their demands to have a seat in the ESRB (see Table 6.5). From this angle, those who have the voting rights in

the ESRB are the “winners”, while interest groups who want to involve in ESRB decision-making are the “losers”.

After analyzing the timeline leading to the establishment of the ESRB, the following section turns to the timeline for the creation of the ESM.

Table 8.3 A Timeline for the Establishment of the ESM

➤ From the global financial crisis to the eurozone sovereign debt crisis which firstly broke out in Greece:
(A) July 2007: The US subprime mortgage crisis broke out and financial repercussions started to spill over the world, causing the global financial crisis and world-wide economic recession; (see (A) in Table 8.2)
(B) February 2009: The global financial crisis continued and worsened; (see (B) in Table 8.2)
(C) 20 October 2009: Greece conceded that its government deficit continued to surge in 2009, exceeding 12% of its GDP, which was alarmingly above the SGP criterion of no more than 3% of GDP, and thus the eurozone sovereign debt crisis firstly broke out in Greece; the Greek sovereign debt crisis was linked to the global financial and economic crisis in the way that in times of a global financial crisis, it is difficult for member states to gather capital on international markets, which will increase the yield rates for issuing government bonds and the risk of national debt defaults, and those situations will be worsened by already high government budget deficits and debts; the global financial crisis put Greek unsustainable fiscal and financial situations into publicity;
(D) December 2009: The world’s three major rating agencies subsequently downgraded the Greek sovereign credit rating, and it was very difficult and unsustainable for Greece to finance from the markets;
(E) 23 February 2010: The four biggest banks in Greece were downgraded by the rating agency Fitch to the lowest investment status, another “deadly” blow to the Greek economy, and Greece then was on the brink of bankruptcy;
(F) 25 March 2010: EU leaders agreed on a plan to rescue Greece, which would be jointly financed by the eurozone countries and the IMF;
(G) 27 April 2010: The rating agency Standard and Poor’s slashed the Greek debt to BB+, giving the highest “junk-level rating”, and the Greek economic situation became precarious;
(H) 2 May 2010: EU leaders agreed to activate an aid package amounting to 110 billion euros (i.e. 80 billion euros from the eurozone member states and 30 billion euros from the IMF) to help Greece; Greece in turn promised to save 30 billion euros by spending cuts and increasing taxes in three years and slash its budget deficit rates from 13.6% in 2009 to 3% in 2014;
➤ After the bilateral loans to Greece: a temporary mechanism — the EFSF — providing financial assistance to the euro member states;
(1) 9 May 2010: The Ecofin Council made the decision to establish a temporary financial assistance and rescue mechanism by the euro member states — the EFSF — along with the EFSM, so as to provide financial assistance to the euro area countries if needed; the Council explained the reason: “In the wake of the crisis in Greece, the situation in financial markets is fragile and there was a risk of contagion” ^① , implying that without essential measures to stop the spreading of the sovereign debt crisis, the existence of the whole eurozone and even the EU would be endangered;
(2) 24 June 2010: “[T]he Head of Government and State agreed to increase EFSF’s scope of

activity and increase its guarantee commitments from €440 billion to €780 billion which corresponds to a lending capacity of €440 billion”; (EFSF FAQs 9 December 2013, 1)

(3) 21 July 2010: “[T]he Heads of Government and State agreed to further increase EFSF’s scope of activity”; (EFSF FAQs 9 December 2013, 1)

(4) 18 October 2011: The amendments to the EFSF scope of activity and lending capacity, which followed all necessary national procedures of approval, entered into force;

(5) 28 November 2010: The first EFSF financial assistance programme to Ireland was carried out, which got concluded on 8 December 2013;

➤ Establishing a permanent crisis resolution mechanism: the ESM;

(I) 17 December 2010: The European Council agreed to establish a permanent ESM to assume the tasks fulfilled by the temporary rescue mechanism EFSF and the EFSM so as to provide financial assistance to euro area states;

(II) 25 March 2011: The European Council adopted Decision 2011/199/EU to make amendments to Article 136 TFEU so as to enable the euro area member states to establish a permanent mechanism to safeguard the stability of the eurozone;

(6) 17 May 2011: The EFSF financial assistance for Portugal was agreed upon by the Eurogroup and Ecofin Ministers;

(III) 20 June 2011: The Commission and the ECB were requested by the ESM contracting parties to perform the tasks provided for in the ESM Treaty;

(IV) 11 July 2011: The finance ministers of the 17 eurozone countries signed the Treaty Establishing the ESM;

(V) 21 July 2011: In order to increase the financial assistance effectiveness and to prevent financial contagious risks, the euro area Heads of State or Government agreed to increase the flexibility of the ESM linked to appropriate conditionality;

(7) 26 October 2011: The euro area Heads of State or Government agreed to offer a second financial assistance programme for Greece under the EFSF after the first bilateral loans to Greece in May 2010;

(VI) 28 November 2010: The Eurogroup agreed to include standardized and identical CACs in all newly issued euro area government bonds, and the relevant detailed legal arrangements of which, at the request of the European Council on 25 March 2011, were finalized by the EFC (see G in Table 6.6);

(VII) 9 December 2011: The eurozone Heads of State or Government concluded a new international agreement — the TSCG (including a new fiscal compact), which was adopted as a complement to the ESM Treaty via agreeing that the ratification of the TSCG is a condition to receive ESM assistance as of 1 March 2013 and the granting of ESM assistance is subject to national compliance of placing an automatically triggered correction mechanism in national law after the transposition period of one year after the entry into force of the TSCG (Article 3(2) TSCG);

(VIII) 2 February 2012: The modified ESM Treaty, which incorporates amendments aiming at increasing the ESM effectiveness and flexibility, was signed again;

(8) 21 February 2012: The EFSF financial assistance to Greece was agreed upon by the Eurogroup;

(IX) 20 July 2012: The Eurogroup endorsed the agreement to provide financial assistance to Spain under the framework of the EFSE, but it was agreed that the assistance programme would be taken over by the ESM once the permanent institution became fully operational;②

(X) 27 September 2012: The ESM Treaty entered into force;

(XI) 8 October 2012: After the ratification by all 17 euro member states, the ESM was inaugurated to

be ready to provide financial assistance;

(XII) 11 December 2012: The first tranche of funds to Spain was disbursed in the form of debt securities issued by the ESM after the Spanish government formally requested for the disbursement on 3 December 2012; assistance for Spain was the first ESM programme operation;

(XIII) 8 May 2013: The ESM Board of Directors approved the financial assistance to Cyprus;

(XIV) 1 July 2013: The ESM superseded the EFSF and became the sole mechanism to provide financial assistance programmes to the euro states, but still, the EFSF continued to exist, remaining operative to the finance programmes that started before the signing of the ESM Treaty (i.e. only for Portugal and Greece, as Ireland successfully exited the EFSF financial assistance programme on 8 December 2013);

(XV) 31 December 2013: Spain exited the ESM financial assistance programme.

Notes: Table 8.3 is complemented by Table 7.3 and Figure 7.1, and the latter two provide detailed information on interstate negotiations that lead to the formation of the ESM.

Sources: The events selected before the creation of the EFSF (i.e. (A)-(H)) are based on Hosli et al. (2011a), which are regarded as the main reasons to establish the EFSF; the selected events regarding the EFSF, indicated by (1)-(8), are based on EFSF FAQs (9 December 2013); the events regarding the ESM, indicated by (I)-(XV), are based on the ESM Treaty and ESM FAQs (30 January 2014). Other consulted sources: ① Council of the European Union-9596/10 (Presse 108) (9/10 May 2010); ② See “Financial Assistance for the Recapitalisation of Financial Institutions in Spain” (European Commission).

In light of Table 8.3, the time and sequence of the events leading to the establishment of the ESM reveals a causal chain from the US subprime mortgage crisis, to the global financial crisis, to the Greek and eurozone sovereign debt crisis, then to the temporary financial assistance makeshift EFSF, and finally to the permanent rescue mechanism — the ESM. The chronological time points in Table 8.3 explain the causal relations among these events, and being different from the case of the ESRB where the debt issues and the eurozone sovereign debt crisis do not necessarily account for the formation of the ESRB in the causal chain presented in Table 8.2, these two factors are the prominent reasons and steps leading to the creation of the ESM. The rationale behind the establishment of the EFSF and the ESM is to safeguard the financial as well as economic stability of the eurozone and the EU as a whole — also a justification for selecting the events of the Greek sovereign debt crisis before the adoption of the EFSF in Table 8.3, which, however, is threatened by the eurozone sovereign debt crisis caused by the high government budget deficits and debts of the member states, which get revealed and exacerbated due to the global financial crisis originating from the US. The eurozone sovereign debt crisis occurred under the synergy of both the external/international crisis and internal worsening national fiscal behavior: without the former, the exposure of member state unsound and unsustainably high budget deficits

and debts would have been postponed; without the latter, so-called the sovereign debt crisis might not have happened or at least not have been so serious. The euro countries' sovereign debt crises, all in all, root in their poor fiscal discipline, and the solutions to this collective crisis naturally target member state budgetary situations alongside realizing economic growth, both of which get entailed in the conditionality for the euro states to ask for an EFSF and ESM financial help. In short, intending to keep internal stability in the context of globalization, the EFSF/ESM deals with internal problems exposed and fueled by external factors; from such a perspective, the ESM is exogenously triggered while endogenously needed.

The causal steps leading to the establishment of the ESM support the role of the global financial crisis as a critical juncture for the development of the EU's crisis management and resolution mechanism, a characteristic of which is the co-existence of the temporary EFSF and the permanent ESM for some time. Under the EFSF and ESM assistance programmes, beneficiary states' government powers get constrained in making their budgetary and economic plans, which, in another way around, confirms both neo-functionalism and HI's assumptions of "unintended consequences". Since the ESM was created via interstate bargains and compromises, the issue of potential asymmetrical accesses for different interest groups to the EU decision-making process becomes diffuse, because participants of intergovernmental negotiations are national governments and their leaders, who are expected to represent the general interests of voters, rather than any particular interest groups. Nevertheless, the formation of the ESM, according to Table 7.3, was hammered out between the opposite interests of taxpayers and financiers: on the one hand, taxpayers are reluctant to bail out and bear the loss of the debt-ridden countries, while on the other hand, financiers, such as European banks, do not want to pay too much for a state bankruptcy. The negotiated results reflected both sides' concerns, as France and Germany made concessions with each other: France agreed with Germany's demands for PSI and a greater automatic sanction procedure for the fiscal discipline violators while Germany agreed to weaken the articles on restructuring the debt held by the private creditors (see Table 7.3). Despite the weakened debt restructuring articles of PSI, the default mechanisms of CACs and PSI were successfully included into the ESM provisions. National preferences and negotiation results for the ESM tell the "winners" of the taxpayers and the "losers" of the private investors under the ESM, if there is any.

Though the case of the European Semester does not indicate a critical juncture for EU policy coordination in terms of national-national and national-supranational relations, the timeline of events leading to the operation of the European Semester does display clear path dependence of policy continuity and heritage for the EU's fiscal and economic coordination and surveillance from the SGP to the European Semester.

Table 8.4 A Timeline for the Adoption of the European Semester

➤ EU policy coordination before the implementation of the European Semester: 1998-2010
(1) 1997: The SGP was agreed upon by the European Council to ensure budgetary discipline after the adoption of the single currency by the euro member states and the implementation of a new exchange rate mechanism for the non-euro member states. The SGP was underpinned by (a) Council Regulation (EC) No 1466/97 of 7 July 1997 on the Strengthening of the Surveillance of Budgetary Positions and the Surveillance and Coordination of Economic Policies (the preventive arm), which entered into force on 1 July 1998, (b) Council Regulation (EC) No 1467/97 of 7 July 1997 on Speeding up and Clarifying the Implementation of the Excessive Deficit Procedure (the dissuasive arm), which entered into force on 1 January 1999, and (c) a European Council Resolution on the SGP Amsterdam 17 June 1997. Two criteria were laid down in the SGP, which should be respected by the EU member states: (a) an annual budget deficit no higher than 3% of GDP, and (b) a government debt lower than 60% of GDP or approaching that value. The Council Regulation 1466/97 prescribed that member states should submit their stability and convergence programmes (i.e. SCPs: stability programmes by the euro zone members and convergence programmes by the non-euro member states) annually to the Commission; (2) 2005: The SGP got reformed by (a) Council Regulation (EC) No 1055/2005 of 27 June 2005 Amending Regulation (EC) No 1466/97 on the Strengthening of the Surveillance of Budgetary Positions and the Surveillance and Coordination of Economic Policies, and (b) Council Regulation (EC) No 1056/2005 of 27 June 2005 Amending Regulation (EC) No 1467/97 on Speeding up and Clarifying the Implementation of the Excessive Deficit Procedure, which entered into force on 27 July 2005. The two criteria remained the same but other goals, such as the long-term sustainability of public finances, were added to the assessment of the SCPs. Besides, the Council Report of “Improving the Implementation of the Stability and Growth Pact” was adopted on 20 April 2005; (A) July 2007: The breakout of the US financial crisis and its repercussions on the global financial market and the world economy; (see Table 8.2) (B) February 2009: The global financial crisis continued and worsened with the severest global economic recession; (see Table 8.2) (3) 3 March 2010: The Commission proposed the EU's growth strategy for the coming decade — <i>Europe 2020: A Strategy for Smart, Sustainable and Inclusive Growth</i>, setting out ambitious objectives in five policy areas to be reached by 2020: employment, innovation, education, social inclusion and climate/energy. Each member state shall set up its own national targets in these five areas and both the EU and member states shall take concrete actions to implement the strategy, which now get coordinated and checked by the European Semester via the AGS and NPRs; (4) 25-26 March 2010: The European Council meeting decided to set up a Task Force chaired by its president Van Rompuy to work out proposals to strengthen budgetary discipline and to improve

the EU's crisis resolution framework;

- (5) March 2010: As one of the Task Force's earliest initiatives, the European Semester was agreed to be framed up as a new code of conduct on the implementation of the SGP, which only needed approval from the Ecofin Council; the main reasons to adopt the European Semester are explained as follows:

- (a) "The *economic crisis* has revealed a clear need for stronger economic governance and coordination at EU level. Until now, discussions between the EU and Member States on economic priorities and structural reforms were taking place through different processes. Reports were issued separately and decisions spread across the year with no clear synergies or linkages"; (European Commission-MEMO/11/14, emphasis added)
- (b) In the context of the urgent sovereign debt crisis, the EU first agreed an aid package to Greece, and then a temporary rescue mechanism to safeguard eurozone stability. "Alongside this short-term action there was debate on reform of European economic governance, fed by the European Commission and proposals of the task force chaired by Herman Van Rompuy. From this debate was born the idea of a 'European Semester'"; (Delors et al., February 2011)
- (c) When the eurozone member states decided to use the single currency, they also "meant to treat their economic policies as a common concern", so "the financial and economic crisis really brought home to them the need to restart economic integration" and thus a new instrument for closer economic policy coordination and surveillance was put in place; (European Parliament-20121019BKG54051, 20 January 2014)

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- (6) 12 May 2010: The first Communication by the Commission;
 - (7) 30 June 2010: The second Communication by the Commission;
 - (8) 7 September 2010: The Ecofin Council approved the amendments to the Code of Conduct on implementing the SGP and decided to launch the European Semester as of the first day of January 2011;
 - (9) 29 September 2010: The Commission tabled its proposal COM(2010) 526 Final based on the two Communications; this proposal was a part of the Commission's "six-pack" proposals to strengthen EU economic governance and make significant reforms to the SGP;
 - (10) 21 October 2010: The Task Force Report was finalized, explaining that the cycle of reinforced ex-ante coordination of the European Semester "will cover all elements of economic surveillance, including policies to ensure fiscal discipline, macroeconomic stability, and to foster growth, in line with the Europe 2020 Strategy" (The Task Force Report, item 43); the European Semester is one of the five recommendations put forward by the Task Force Report to address the challenges of the Union's economic governance brought by the financial crisis and the eurozone sovereign debt crisis: (a) towards greater fiscal discipline by strengthening the SGP rules; (b) a new surveillance mechanism addressing the risk of macroeconomic imbalances and vulnerabilities; (c) deeper and broader coordination: the European Semester; (d) a robust framework for crisis management: the EFSF, the EFSM and more; (e) "stronger institutions and more effective and rules-based decision making";

➤ The starting and the first cycle of the European Semester in 2011

- (11) 1 January 2011: The European Semester became operational, bringing innovations to EU policy coordination in the following aspects:
- (a) shifting the time of submitting the SCPs (which were introduced by Regulation 1466/97 in 1997 as part of the SGP's preventive arm) before national government parliaments pass the next year(s)' budgetary plans;

(b) aligning the time of submitting the NRPs (which were introduced by the revamped Lisbon Strategy in March 2005) together with the submission of the SCPs (i.e. budgetary projections); (c) publishing EU priorities and objectives in the AGS early to conduct an ex-ante guidance on both national fiscal plan and growth strategy formation;
➤ During the first cycle of the European Semester in 2011: more elements were integrated into the same mechanism
(12) March 2011: Euro Plus Pact commitments to improve cross-country coordination of growth policies shall be presented in the SCPs and NRPs and thus be checked under the European Semester; (13) 13 December 2011: Bringing significant reforms to the SGP, the “six-pack” became effective, among which the European Semester got codified in Article 2-a of Regulation (EU) No 1175/2011. Meanwhile, a new content of EU policy coordination and surveillance was introduced into the European Semester: preventing macroeconomic imbalances through the MIP (Regulation (EU) No 1176/2011). In addition, due to the “six-pack”, the EP’s role from the second cycle of the Semester also got strengthened (Regulation (EU) No 1175/2011; see also Table 7.6);
➤ From the second cycle in 2012, the coordinated elements under the same umbrella of the European Semester include:
(a) the BEPGs (based on Article 121(2) TFEU); (b) the EGs (based on Article 148(2) TFEU); (c) the NRPs submitted by the member states need to fully account for the BEPGs, EGs and for the AGS (released by the Commission each year at the beginning of the Semester on the basis of three-block evaluation: the EU 2020 Strategy, the Macroeconomic Report, and the Joint Employment Report), which “also include reference to concrete measures undertaken in the framework of the Euro Plus Pact, and of any other policy initiative launched at the European Council level” (Hallerberg et al., September 2012, 16) (d) the SCPs must be submitted in conjunction with the NRPs by the member states equally in April (instead of December) before national budgetary processes start; (e) macroeconomic imbalance surveillance under Regulation (EU) No 1176/2011 includes the new Alert Mechanism Report (AMR);
➤ 2013: The European Semester continued to expand
(14) January 2013*: The TSCG containing the Fiscal Compact entered into force, further strengthening the enforcement of the MTO defined by the SGP (which has already been subject to the European Semester) with a balanced budget rule and an automatically triggered state-specific correction mechanism; (15) May 2013: The “two-pack” further pushes and complements the SGP reforms by the six-pack, introducing a common budgetary surveillance timeline to the euro countries, which gets integrated into the European Semester as being an autumn counterpart to the spring semester exercise. (more coordinated contents may be added to the European Semester in the future)
➤ Summary: All types of the possible EU policy coordination related to EU economic governance have been integrated under one unified framework — the European Semester, which evolves and expands over time.
(a) The European Semester cuts across all the three pillars of EU economic policy coordination: (a)

the European 2020 Integrated Guidelines (IGs: a merge of the BEPGs and EGs) regarding non-binding policy guidance now aligned in the Commission's AGS; (b) the SGP revised and reinforced by the six-pack (then by the two-pack and the TSCG); (c) the new MIP based on in-depth (qualitative) analyses of a number of nominal and real indicators introduced by the six-pack, now entailed in the Commission's IDRs;

- (b) Two essential tools are anchored in the European Semester: the Europe 2020 Strategy and the SGP, while both the two instruments, coordinated under the European Semester, are open to be updated and developed along with the EU project.
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Notes: * The TSCG is legally binding policy coordination developed outside the Community method by part of the EU member states (without the participation of the UK and the Czech Republic). As the substance of the TSCG has been agreed to be incorporated into the EU legal framework within five years, "[f]urther changes in the legislative and institutional package are likely to affect the working of the European Semester" and "[t]he impact of the TSCG on de-facto economic policy coordination in Europe is difficult to predict and the relation to the European Semester is also uncertain" (Hallerberg et al. 2012, 45). As a matter of fact, the "two-pack" which entered into force on 30 May 2013 for all eurozone countries, has integrated some elements of the Fiscal Compact contained in the TSCG into EU law (see Appendix 2).

Sources: Own compilation on the basis of European Parliament-2012/0002(NTT); Hallerberg et al. (August 2011, September 2012); The Task Force Report; "Europe 2020" (European Commission); European Commission-MEMO/11/14 (12 January 2011); Regulation (EU) No 1175/2011; Delors et al. (February 2011); European Parliament-20121019BKG54051 (20 January 2014); Table 6.6 and Table 6.18 of this dissertation.

Table 8.4 shows how policy coordination regarding EU economic governance evolved over time from the SGP in 1998 to the European Semester in 2011, and then to the new developments of the European Semester after 2011. The reason and time to adopt the European Semester reflect a more economic concern than a financial one: it is two years after the global financial crisis in 2008 that the decision was made to improve and synchronize member state budgetary and economic plans. The time gap indicates the causal link between the global financial crisis and the establishment of the European Semester is not so much immediate and direct. Nevertheless, as the European Semester is rooted in the SGP rules, which address national budgetary discipline, the European Semester is one of the necessary measures to battle with the eurozone sovereign debt crisis. The causal relations between the sovereign debt crisis and the adoption of the European Semester appear more direct:

"In 2010 the euro faced a public debt crisis which was largely the result of the global financial crisis. Public debts and deficits both increased as a consequence of recession-related factors: the transfer of private debt to the state (mainly due to the public commitment to save the banking system), a

fall in tax revenues because of higher unemployment and increased public spending due to automatic stabilisers. But the euro crisis was also a result of certain weaknesses in the Economic and Monetary Union (EMU), and of structural problems in eurozone countries (in particular, gaps in competitiveness between them). The crisis thus proved right those who, for over a decade, have called for a genuine economic pillar within EMU. It highlighted the gaps in the coordination and surveillance of eurozone economic policies, and demonstrated the interdependence of the countries which share the single currency.” (Delors et al., February 2011)

Therefore, the causal chains are clearly revealed: the US subprime crisis — the global financial crisis — the global economic recession and the eurozone sovereign debt crisis — a necessary reform of EU economic governance — one of the earliest initiatives by the Task Force: the European Semester. As illustrated by (10) in Table 8.4, broadening and improving policy coordination via the European Semester is just one component of EU economic governance addressing the ever increasing economic inter-dependence among EU member states, particularly in the euro area, and the European Semester is highly related to other components of EU economic governance, cutting across other economic policy coordination (see summary in Table 8.4). When the European Semester was first agreed in March 2010 and then adopted by the Council on September 2010, it was at the height of the eurozone sovereign debt crisis (see Table 8.3); the coordination of budgetary plans towards the SGP criteria via national MTO included in the SCPs under the European Semester conveys one of the rationales and approaches to address the eurozone sovereign debt crisis: reigning the blooming national deficits and debts and directing them onto a sustainable track.

In terms of national-national and national-supranational relations, the European Semester does not change the power distribution scenario in EU economic policy coordination dating back to the SGP’s preventive arm in 1997: the Commission gives guidance and recommendations, while the Council adopts recommendations, and no binding decisions shall be made under such policy coordination. The global financial crisis, then the world-wide economic recession, and even the eurozone sovereign debt crisis do not cause a critical juncture for EU policy coordination. Rather, they function as catalysts, expediting EU policy coordination reform and broadening EU policy coordination on the existing path initiated by the SGP in 1997 after the agreement of adopting the single currency (see 5(c) in Table 8.4). Without making any substantial changes to the national-national/national-supranational relations, the European

Semester indicates path dependence of EU policy coordination rather than a critical juncture for a new path essentially departing from the previous EU practices.

The European Semester does not make further constraints on national government powers; therefore, the development of this new mechanism does not support the neo-functionalist and HI's assumption of unintended consequences. Being different to both the ESRB and the ESM, the European Semester was codified into EU regulation after it had already been put into implementation for a while. Though the relevant EU institutions and "all stakeholders" had been consulted for the two Communications before the Commission tabled its final proposal to establish the European Semester (see 6 (6) in Table 6.18), this new measure started being operational after the approval by the Ecofin Council, where interest groups' influence on the adoption of this new mechanism became diffuse. Moreover, as far as the substance of the European Semester is concerned, it addresses EU economic governance from a holistic approach, dealing with policy coordination among EU member states as well as between the EU guidance and national policies; consequently, the addressees under the European Semester are national governments rather than any specific interest groups, and the European Semester, instead of addressing any peculiar interest groups, means to serve the general interests of all societal groups by guaranteeing a sound economic environment for national economic growth (see Table 7.2). Therefore, to discuss an asymmetrical access for interest groups to decision-making and to assess any specific "winners" and "losers" under the European Semester appears trivial and irrelevant.

Finally, it is worthwhile to point out that if we merge the three separate timelines together, we shall observe a multi-faceted, elaborate and interconnected jigsaw of EU new developments, which, nevertheless, just represents a part of the EU's and its member states' efforts to address the post-2008 crisis situation in Europe. To solve the euro area sovereign debt crisis while strengthening EU economic governance is not an easy task; besides the newly adopted measures and policies which address specific dimensions of EU economic governance (see Tables 1.2 and 1.3), the EU and the member states must take care of the inter-relations and possible synergies among those measures and policies, and how to realize smooth and effective coordination and cooperation among various different mechanisms is another topic for the EU and its member states.

8.2 Evidence for H11: Structural Effects of Path Dependence

H11 consists of two sub-assumptions indicated by “on the one hand” and “on the other hand”, and the hypothesis test for H11 shall check the presence of the two sub-hypotheses in the three cases. Table 8.5 presents the case study results regarding the two sub-causal mechanisms.

Table 8.5 Checking the Two Causal Mechanisms Posited in H11

With references to Tables 8.4, 8.2. and 8.3 respectively	Mechanism 1: <i>The EU's new measures adopted during the post-2008 crisis era are conditioned by prior institutional arrangements and commitments which set limits on the possible available options, make certain alternatives appear more attractive, and lead actors to redefine their interests;</i> (cf. Table 6.22)	Mechanism 2: <i>The new measures reflect a complex context that shapes actors' strategies, world views and action arenas, which, having been advocated by EU institutions with each iteration of the new measures, will shape actors' preferences and/or self-images as the status quo of the new measures is regarded as the right way to solve the crisis.</i>
The European Semester	Yes; ● The legal basis and procedures for EU economic policy coordination are prescribed in Article 121 TFEU and the adoption and codification of the European Semester follow the words in the Treaty; ● Compared with the previous practices, the first cycle of the European Semester synchronizes the submission of the SCPs and NRPs and changes ex-post to ex-ante EU guidance before national parliaments adopt their annual budgetary plans; the coordinated substance remains the same, and what has been changed are the timing and sequences of EU guidance and recommendations, national submission of their SCPs and NRPs, and national formation of budgetary and economic plans. The starting of the European Semester, therefore, is totally based on the contents of policy coordination provided by the prior institutional arrangements and national commitments. The same coordinated contents under the new and old procedures suggest that the previous arrangements have set limits on the choices	Yes; ● The time to adopt the European Semester shows a complex context for the EU to address the economic crisis and the eurozone sovereign debt crisis in the wake of the global financial crisis. EU decision-makers' strategies and their world view are well expressed in the reasons to adopt this new policy coordination mechanism; (see sections 1.3.4 and 5.2.1; Tables 6.25 and 8.4) ● By the end of 2013, the European Semester has been implemented for three years of three cycles while the fourth cycle for 2014 was just kicked off by the Commission's adoption of the AGS on 13 November 2013^①; since it started in 2011, there were continuous new contents added to the European Semester procedure, and meanwhile democratic accountability and transparency of this new mechanism got improved, as the EP gained more saying during the coordination procedure. The task expansion and growing maturity of this new measure reflect that it has been regarded as the right way to address the crisis and to

	for the new mechanism. National annual submission of the SCPs and NRPs in line with EU guidance and the SGP rules under the previous scattered and different policy coordination procedures has been implemented for some years, national governments, though not being legally bound, willingly or reluctantly, are expected to redefine their interests according to the Commission's recommendations, which shall affect common people's lives.	strengthen EU economic governance; ● The European Semester has been advocated by EU institutions, and with each Semester cycle's reiteration of the codified procedure, the European Semester has developed into the only policy coordination mechanism for EU economic governance, which evolves into an inclusive policy coordination procedure, integrating all possible coordinated dimensions and policy areas under a single sheet of procedure. EU institutions' advocacy for the European Semester is illustrated by the EP's resolutions. For instance, during the economic dialogue on 20 January 2014, MEPs* and 140 of their national counterparts, while stressing the fact that "no EU country is any longer able to conduct its economic policy in complete isolation from other EU countries", emphasized the importance of the European Semester as being "an integral part of the process for economic integration and, in the longer term, a step towards real economic union"; though the implementation of the European Semester was criticized that "as for 2012 only 15% of the recommendations had been carried out", the EP's opinions are very supportive, advocating, for example, more legislation to achieve economic convergence and "a fund to cushion the short-term negative effects of economic reforms".②
The ESRB	Yes; ● The ESRB was established on the basis of Article 114 TFEU via the OLP; ● Though there is no predecessor for the ESRB, the creation of the ESRB follows principles of competence division laid down in the EU Treaties: "Since the objective of this Regulation [...] cannot be sufficiently achieved by the Member States because of the integration of the Union financial markets, and can therefore be better achieved at the Union level, the Union may adopt measures in accordance	Yes; ● As a direct response to the world-wide financial repercussions in the context of EU macro- and micro- prudential oversight, the creation of the ESRB was shaped by the EU leaders' strategies and world views; (see sections 1.3.4 and 5.2.2; Tables 6.25 and 8.3); ● The ESRB is the first and the only EU body responsible for macro-prudential oversight of the whole EU financial system; ● Since its operation from January 2011, the ESRB has carried out its missions and

	with the principle of subsidiarity, as set out in Article 5 of the Treaty on European Union. In accordance with the principle of proportionality, as set out in that Article, this Regulation does not go beyond what is necessary to achieve that objective” (ESRB Regulation, item (33)); the ESRB also follows the EU normal practices in regulating financial markets, such as regulations on hedge funds and private equity (see (4) in Table 8.2), where the principle of subsidiarity has ever been implemented and complied with; ● Because ESRB recommendations are not legally binding, there might be different degrees of compliance, but due to the nature and purposes of the recommendations, the addressees cannot simply ignore them, or else they shall be punished by the potential financial risks that have been warned by the ESRB. This is the main reason why there are no non-compliant member states regarding the ESRB Recommendation on Lending in Foreign Currencies (ESRB/2011/1). Implementing ESRB recommendations means to adjust the EU’s previous practices and the already-defined financial interests. Meanwhile, the EU’s legislative bodies shall take ESRB warnings and recommendations into consideration when they adopt relevant legislations, and this also will lead relevant actors to make adjustments to their interests. (See Table 6.19)	tasks in accordance with the prescriptions in the ESRB regulation, and an evaluation report by the EP summarizes the ESRB’s work, achievements and contributions in three aspects: (a) identify and mitigating systemic risk; (b) forming an institutional framework for macro-prudential policy by coordinating national macro-prudential policy frameworks, cooperating with the ESAs, engaging in international and third country macro-prudential authorities, and keeping interactions with other EU institutions; (c) making contributions to the EU legislative and regulatory process; published in the ESRB website, concrete actions and recommendations by the ESRB (the proof for the iteration of this new measure) demonstrate that the status quo is a preferred choice as well as a normalized practice to carry out EU macro-prudential supervision; ③ ● The detailed explanations for items (b) (see ③, pp.45-50) and (c) (see ③, pp.51-54; Annexes I and II in ③) mentioned above show EU institutions’ advocacy to this new macro-prudential overseeing instrument, supporting the argument that the ESRB has been regarded as the right way to address the crisis; another example is that in its report on 29 January 2014, the EP “[c]alls on the Commission, in cooperation with the European Systemic Risk Board, to assess systemic risks to capital markets and society at large owing to the overhang of unburnable carbon assets” (④, item 16), which illustrates the ESRB has shaped the EP’s preferences and been accepted as a right way to deal with the challenges to the EU.
The ESM	Yes; ● The permanent rescue mechanism becomes possible only after Treaty revisions in accordance with the procedures prescribed in the Lisbon Treaty, which suggests that the birth of the ESM is conditioned by EU prior institutional	Yes; ● The ESM was established during the euro area sovereign debt crisis, reflecting a complex context where EU leaders tried to stop crisis spreading and stabilize financial markets; the formation of the ESM also expresses its contracting parties’ world views

arrangements;

- The ESM is an intergovernmental institution established by the eurozone countries; ESM operation and national commitments to it basically follow the model of the temporary EFSF, a private company funded by the eurozone countries, and thus the EFSF, as becoming the predecessor to the ESM, appears more attractive than other suggestions, such as the idea of establishing an EMF (see e.g. Table 6.7), thus setting limits on the possible available options; what the eurozone countries did was to make Treaty amendments and conclude a permanent crisis resolution mechanism on the basis of their previous arrangement of the temporary financial rescue mechanism;
- The ESM redefines national interests in the sense that conditionality detailed in the MoUs forces the beneficiary euro states to carry out deficit and debt cuts and structural reforms.

and preferences; (see sections 1.3.4 and 5.2.3; Tables 6.25, 7.3, and 8.3; Figure 7.1);

- Starting from 1 July 2013, the ESM becomes the only rescue fund that the euro member states can apply for within the Union; under the ESM, financial assistance programmes have been carried out for Spain and Cyprus, and Spain successfully exited from the ESM programme on the last day of the year of 2013; all those show that the ESM has been regarded as the right way to address the crisis and to support the member states — if any of the euro countries need urgent financial assistance, going to the ESM becomes their natural and only available option within the currency union (e.g. the case of Cyprus); consequently the operation of the ESM shapes the euro governments' preferences.

Notes: * MEPs: Members of the European Parliament.

Sources: ① European Commission-IP/13/1064 (13 November 2013); ② European Parliament-20121019BKG54051 (20 January 2014); ③ McPhilemy et al. (October 2013); ④ European Parliament-A7-0065/2014 (29 January 2014); other sources come from research results in the previous chapters in this dissertation, which are indicated accordingly in the Table above.

Research results in Table 8.5 confirm the validity of H11 in all three selected cases. Some supporting evidence for H11, as indicated in Table 8.5, comes from the hypothesis tests in the previous chapters, suggesting the overlaps among the three typical EU integration theories. The ESM has two peculiar features: (1) it was created via Treaty revisions, and (2) it is not an EU body, but an intergovernmental institution which, nevertheless, makes use of the existing EU institutions and is subject to the jurisdiction of the CJEU. Therefore, on the one hand, the establishment of the ESM is conditioned by prior EU institutional arrangements, but on the other hand, it displays flexibility and a maneuver space for national governments and their leaders under the EU legal framework to conclude an intergovernmental body outside EU institutional structures.

8.3 Evidence for H12: Past Choices, Timing and Sequences of Events

Similar to H11, H12 also consists of two mechanisms, and each of them contains two sub-causal chains. So as a matter of fact, H12 can be divided into four sub-hypotheses, and the vindication of H12 is based on the existence of these four causal mechanisms.

Table 8.6 Checking the Four Causal Mechanisms Posited in H12

	Mechanism 1: <i>The choices of the specific new measures to cope with the post-2008 crisis era are made on the basis of the past choices where certain elements in today's choices have appeared more attractive;</i>	Mechanism 2: <i>the sequences of institutional decisions entailed in EU decision-making procedures to adopt the new measures matter as certain alternatives are irreversibly dropped from the range of possible options along with the proceeding of the decision-making procedure;</i>	Mechanism 3: <i>path dependence indicates a way to link decision-making through time and to narrow conceptually the choice set;</i>	Mechanism 4: <i>the new measures have become the only available options for actors to resort to, along which societal groups make adaptations to the new measures and incrementally build up their vested interest in maintaining and even developing the new measures.</i>
The European Semester	Yes; (see Tables 8.4 and 8.5) The first cycle of the European Semester synchronized and streamlined EU policy coordination on the basis of existing procedures and mechanisms. At the very beginning, the new mechanism preserved and integrated what the EU already	No; The European Semester was put forward by the Task Force as one component to address the crisis; it gained general support and quickly got approved and implemented. No other alternative options aiming at strengthening EU economic coordination appeared during the decision-making process leading to	Yes; (see Table 8.4) The implementation of the European Semester had started before it was codified into EU law. From the day when the Task Force put forward the idea to establish the European Semester, to the Council's approval, to the Task Force's final report, then to the first cycle of the Semester, and finally to the OLP to lay down this new procedure into EU	Yes; The European Semester is the only while an inclusive policy coordination mechanism for the EU; The implementation of the CSRs would finally exert an impact on the citizens' lives when national governments adopted budgetary cut measures and carried out economic reforms in accordance with the CSRs, and thus societal groups would make adaptations. But besides general support, interest

	had into a single sheet.	the implementation and codification of the European Semester.	regulation, the European Semester has ever been the only choice suggested to improve EU policy coordination. So the conceptual choice set of how to enhance policy coordination had been narrowed down only to the choice of the European Semester.	groups also voiced their critical opinions, and their adaptation, maintenance and development of this new procedure were set in a tone of criticisms: according to Table 6.5, the ETUC was vehemently against any policies undertaken under the European Semester that would damage the core interests of the workers: employment and welfare; based on the feedback from the societal groups, the European Semester also makes adaptations by taking the ETUC's suggestions into consideration, such as increasing the democratic accountability of this new measure and improving gender equality under the European Semester procedure.
The ESRB	Yes; (see Table 8.5) The principles of subsidiarity and proportionality are the legal elements threading through EU past choices in regulating EU financial markets, which	No; The idea and formation of the ESRB were born from the de Larosière Report where the ESRB was initially named the ESRC; the ESRC proposed by the report outlined the contour for the ESRB later proposed	Not fully confirmed; For the first half: Yes; ESRB path dependence indicates a way to link decision-making through time via the OLP; it also displays path dependence of the legal principles for the ESRB to be built up, where subsidiarity and	Yes; The ESRB is the only EU body responsible for EU wide macro-prudential supervision; According to Table 6.5, societal groups, represented by BusinessEurope and the ETUC, fully support the ESRB, expressing their interests in maintaining

also become the rationales for the establishment of the ESRB;	by the Commission (see section 1.3.4); From the de Larosi ère Report to the Commission’s proposal and then to the adoption of the EU regulation to establish the ESRB, the sequences of institutional decisions, according to Table 8.2, do not see any other alternatives competing to the ESRB dropped off, and the ESRC proposed in the report is the only tabled suggestion for EU legislative institutions to work on; along with the proceeding of the co-legislative decision-making procedure, the contents and institutional arrangements of the ESRB get expanded and revised by the negotiations between the EP and the Council after taking the ECB’s and the EESC’s opinions into account.	proportionality have conducted EU in regulating its financial market for a long time; For the second half: No; the ESRB indicates an original creation to fill one of the vacuums of the EU project, and the initiation of the ESRC and then the ESRB suggest a free space of design, with no restrictions imposed by any predecessors; besides, the OLP procedure to establish the ESRB does not display a way to conceptually narrow down the choice set, but instead, a way to expand and revise the proposed ESRB.	and developing the ESRB. For example, the ETUC advises to give legally binding powers to the ESRB and demands a seat in the ESRB for itself; Due to the functions and missions of the ESRB, the addressees of ESRB warnings and recommendations are “the Union as a whole or to one or more Member States, or to one or more of the ESAs, or to one or more of the national supervisory authorities” (ESRB Regulation, (17), see also Table 6.1), not including any specific societal groups, and thus the relations between the ESRB and the societal interest groups tend to be diffuse; nevertheless, when the addressees implement ESRB recommendations, concrete measures and policies will definitely affect societal interest groups, in financial sectors and/or non-financial sectors, and the relevant interest groups are expected to make adaptations accordingly to avoid potential risks. One example is the implementation of ESRB/2011/1 recommendations,

				where households and non-financial corporations are affected due to the policy changes in lending foreign currencies ①.
The ESM	Yes; (see Table 8.5) The ESM models the EFSF.	No; The ESM is not established by EU decision making procedures via such as the OLP; rather it is an intergovernmental institution set up by the eurozone countries, so the ESM is the result of interstate negotiations; Certain alternatives did appear during the formation of the ESM, such as to create an EMF and to make treaty amendments to which Article(s), and some of them did irreversibly get discarded from the range of possible options, while some elements were re-introduced in to the ESM along with the intergovernmental bargains. (See Tables 6.7 and 7.3; Figure 7.1)	No; Path dependence in the ESM does not indicate a way to link EU decision-making process through time, but display intergovernmental negotiations and agreements; instead of getting narrowed-down, the choice set of the elements forming the ESM remains open to the external environment and newly rising situations, which contribute to a dynamic rather than a static ESM (see Table 7.3 and Figure 7.1).	Yes; From 1 July 2013 onwards, the ESM is the sole crisis rescue mechanism for the euro member states within the Union; Table 6.5 presents the interest groups' opinions towards the ESM, exhibiting their strong support to the ESM and their vested interest in maintaining and developing this new mechanism into "a politically independent EMF open to all EU members" or into a tool that can recapitalize banks directly; The formation of the ESM shows the tensions and different interests between taxpayers and financial investors; the clauses about CACs and PSI finalized in the ESM Treaty have a direct impact on the two rival interest groups, and under the ESM clauses, societal groups must make adaptations accordingly (see e.g. section 7.2.1).

Sources: ① *ESRB Recommendation on Lending in Foreign Currencies (ESRB/2011/1) Follow-up Report – Overall Assessment* (November 2013).

Case study results in Table 8.6 show that none of the three cases fully confirms the causal chains argued by H12. The causal relationships assumed by sub-mechanism 1 and sub-mechanism 4 are confirmed by the three cases, while the other two causal chains in H12, more or less, collapse in the case studies. The following part examines those failed mechanisms and offers explanations.

First, the second sub-mechanism of H12 fails in all three cases. The reasons, however, are different. For the first two cases, the reason is that both the European Semester and the ESRB became the only options to improve policy coordination and to conduct macro-prudential supervision across the EU, respectively; no other alternative ideas were ever put forward. To a certain degree, they reflect that EU decision-makers tend to reach a consensus facing severe challenges and that the relevant issues are urgent. Moreover, the legislative process leading to the establishment of the ESRB shows that the Commission's proposal has been revised and more elements were added to the draft legislation by the EP in accordance with the ECB's and the EESC's suggestions. As for the third case, the ESM was created by a Treaty conclusion among the euro countries' outside the Community method, thus the sequences of EU decision-making procedures are not applicable to the establishment of the ESM, but competing suggestions did appear at the beginning of the formation of the ESM. Because the ESM was established via a Treaty conclusion among the euro states, the operation of the ESM is still subject to intergovernmental negotiations, which in turn are under the influence of the external context, emerging challenges, and even the changed bargain powers of the contracting parties.

Second, the third sub-mechanism entailed in H12 is confirmed by the case of the European Semester, while it gets partially confirmed by the ESRB and rejected by the ESM. Its collapse in the case of the ESM is due to the same reason explaining the failure of sub-mechanism 2 above: from the very beginning to put forward the idea to establish an institution purposely to take the responsibility of EU wide macro-prudential supervision, the ESRB was the only option on the table, and all debates were around the design of a brand new body at the EU level, so conceptually narrowing down the choices did not happen. Rather, more contents were put into the draft legislation after relevant consultations. As there was a blank for EU macro-prudential oversight before 2011, path dependence linking to the past choices and institutional arrangements on such an issue appeared weak, only in the aspect of

the legal principles upon which the ESRB would be built; nevertheless, the OLP leading to the creation of the ESRB displayed strong path dependence, which links various stages of the decision-making procedure through time contributing to the finalization of the ESRB. Regarding the failure of sub-mechanism 3 in the case of the ESM, the reason is also the same as the reason leading to the failure of sub-mechanism 2 above: the ESM is not an EU institution and its creation is on the basis of the collective EU decision-making procedures; thus path dependence in terms of EU decision-making procedures becomes inapplicable to the case of the ESM. The ESM is a result of intergovernmental bargains, and in reality the conceptual choice for the concrete operation of the ESM remains dynamic, subject to further modifications or reforms (see e.g. Figure 7.1). Two distinctive “types” of path dependence emerge during those analyses: path dependence linking past choices through time, and path dependence of the EU decision-making procedure mainly represented by the OLP. According to the theoretical background where H12 is derived and taking the proposition of H12 as a whole, path dependence in the third sub-mechanism in H12 talks about the latter, and the purpose is to see whether the OLP to adopt the European Semester and the ESRB has an effect in eliminating multiple options to achieve the same goal. Case studies do not confirm these, which nevertheless in another way around, reiterates Proposition 4 presented in chapter six.

As for the first sub-mechanism, it has already been tested in H11; for the fourth sub-mechanism, its confirmation by the three cases reveals more. In the case of the European Semester, it is interesting to observe that adaptations are visibly effective in two ways: on the one hand, national policy making under the guidance of the CSRs definitely changed the pre-existing patterns of benefit distribution and had an impact on common people’s lives, and societal groups, who are unwilling to accept their benefit loss, have to adapt themselves to this new policy coordination mechanism; on the other hand, societal groups voiced their critical (but not utterly opposing) opinions (e.g. the ETUC) regarding policies governed by the European Semester — another form to maintain and develop the new measure, and for those opinions which demand social equality and progress and more democratic accountability, decision makers cannot simply ignore them, and they must be properly tackled under the mechanism. As a result, this new policy coordination mechanism also gets improved and developed.

Viewing the research results for sub-mechanism 4, this dissertation finds that two prominent features are shared by the three cases. The first one is that the three new measures represent holistic approaches to address the issues concerned, emphasizing EU policy interconnectedness and interdependence. The second one is that, the three new mechanisms, no matter adopted via the OLP or intergovernmental negotiations, have indicated top-down reforms and meanwhile their direct addressees are national and/or supranational level entities rather than sub-national societal groups and common citizens (nevertheless, implementing policies produced by the three new mechanisms shall inevitably influence interest groups and finally the common people's daily lives); consequently, societal groups' and common citizens' adaptations to the new measures tend to be responsive rather than proactive. Policy transmission pattern of (supranational —) national — sub-national and individual in the context of European integration may deserve further research.

8.4 Evidence for H13: The Engine of Path Dependence — “Increasing Returns”

As a matter of fact, H13 contains two sub-mechanisms, and the second one can be further divided into six causal chains (H13a-f). Table 8.7 gives case study results, checking the presence of those causal mechanisms claimed by H13.

Table 8.7 Checking the Causal Mechanisms Posited in H13

	The European Semester	The ESRB	The ESM
Mechanism 1: <i>Once the new measures are established to deal with the crisis, actors tend to stick to them due to the increasing returns, that is, the relative benefits brought by current measures compared with other possible options increase over time, and the costs of exit (i.e. sunk costs) or</i>	Not fully confirmed: not “compared with other possible options”; ● An EP report sheds light on the benefits brought by this new measure: though “there is still room for improvement” (①, p. 9/43), “the European Semester is the proper framework within which to ensure the	Not fully confirmed: not “compared with other possible options”; ● The benefits of the ESRB are well expressed by the mission, objectives and tasks prescribed by Article 3 ESRB Regulation, and Table 8.5 has already outlined the achievements and contributions of the ESRB to the EU project; ● The ESRB plays an indispensable role in	Yes; ● The benefits of the ESM are obvious and essential to help the beneficiary states to avoid bankruptcy and stop the contagious crisis spreading beyond, thus safeguarding the financial and economic stability of the eurozone and the EU as a whole; ● The effects of increasing returns, sunk costs, and self-reinforcing

<i>the costs of switching to the previously plausible alternatives rise (i.e. self-reinforcing processes), which generate incentives for actors to stick with and not abandon the new measures, only adapting the new measures incrementally to the changing environment (i.e. positive feedbacks);</i>	effective economic governance of the euro area Member States that are linked by common responsibility, bringing together the multilateral surveillance of budgetary and macroeconomic policies and the implementation of the European Strategy for Growth and Jobs as embodied in the EU 2020 Strategy”(①, p.8/43- 9/43); consequently, “the European Semester reinforces economic coordination among Member States under the Community method, thus guaranteeing a better economic governance which represents added value for Europe” (①, p.35/43); the effects of increasing returns and sunk costs are obvious, as “the current economic situation has demonstrated that stronger coordination between Member States’ macroeconomic and budgetary policies is needed in order to achieve a more integrated and balanced economic union” (①, p.7/43), but they do not have comparisons with other	safeguarding financial stability; its birth fulfills the vacuum of EU macro-prudential supervision, and it is the only option originating from the de Larosi è Report; ● The increasing returns and sunk costs account for actors’ incentives to stick with, not abandon the ESRB (see Tables 8.5 and 8.6); the ESRB has been entrusted with new tasks by the legislated CRD IV-Package (i.e. the CRR and CRD IV)); as a consequence, the ESRB has obtained a new role in “giving guidance and recommendations on countercyclical buffers rates, providing opinions on systemic risk buffers and other macro-prudential instruments” (②, p.81); nevertheless, the ESRB’s status as being the EU’s single macro-prudential supervision mechanism shall be challenged by the forthcoming creation of the SSM (②, pp.78-83).	processes all are present in the case of the ESM; as compared with other options, such as to establish an EMF similar to the IMF to provide loans to the EU member states, the benefits brought by the ESM increase over time (as it is agreed as the permanent rescue mechanism for the euro states and starts to operate) while to abandon or to revert to other choices means a huge loss and risk; ● The ESM already became the sole rescue mechanism for the euro member states, and it will not be abandoned; it has been modified and adapted to the changing environment and newly rising situations, such as the relaxation in granting ESM aids and in carrying out oversight as a consequence of interstate bargains (see Table 7.3 and Figure 7.1). Therefore, the effects of positive feedbacks are also noticeable in the case of the ESM.

	possible alternatives — from the outset, the European Semester is the only tabled suggestion to improve EU policy coordination; ● EU actors do stick with the European Semester, which undergoes incremental expansions and revisions during its implementation (see Table 8.4), and the so-called positive feedbacks are strong. (Cf. Table 8.5)		
	<i>as a result, with each iteration of the new measures,</i>		
<i>(a) actors' preferences and the rules that bind them are increasingly reinforced and the status quo of the new measures is regarded as the right way to solve the crisis;</i>	Yes; (see Table 8.5) Though no legally binding decisions shall be made under the European Semester, the procedure of this new policy coordination mechanism itself has been codified into EU regulation, thus obtaining binding powers to the EU member states who should accordingly follow the prescribed European Semester procedure with the relevant documents.	Not fully confirmed; Actors' preferences are increasingly reinforced and the status quo of the new measure is regarded as the right way to solve the crisis (see Table 8.5); nevertheless, the ESRB has not been equipped with binding policy instruments, and the implementation of ESRB recommendations follows "act/comply-or-explain" principle (see e.g. Table 6.6), so "the rules that bind them (actors/addressees) are in doubt.	Yes; (see Tables 8.5 and 8.6) ● There is general support for the permanent rescue funds; ● The rules binding the beneficiary states are the conditionality of reducing deficit and debt rates and carrying out economic reforms, which suggests "painful" experiences but necessary changes for the member states concerned and their citizens in the long run; ● The ESM has a distinguish feature among the adopted measures to counter the crisis: it remains as the last resort for the euro states to take; the more frequently the ESM grants assistance, the more unstable and dangerous situation the

			EU and EMU face (cf. section 6.1.1). The placement of a permanent rescue mechanism is also helpful to calm down the ever climbing-up government bonds' yield rates.
<i>(b) the once competitive options are excluded;</i>	No; (see Tables 8.5 and 8.6) The European Semester is the only tabled proposal to address the issue concerned.	No; (see Tables 8.5 and 8.6) Except the ESRB, no other alternatives have been proposed to address the issue concerned.	Yes; (see Tables 8.5 and 8.6) The alternative options include the establishment of an EMF supported by the EP (see Table 7.3) while opposed by the French government (see Table 6.7).
<i>(c) the equilibriums formulated by the new measures to solve the crisis are resistant to change;</i>	Yes; The equilibrium entailed in the European Semester is mainly about the power distribution between supranational rulings and national autonomy, where the Commission gives guidance and formulates the CSRs, the Council adopts the CSRs, and then national governments materialize the CSRs; non-binding decisions under the Semester procedure underpin the equilibrium between national and supranational authorities, where national parliaments maintain final decisions on their national budgetary plans and the ways to	Yes; The equilibrium under the ESRB has been entailed in the principle of "act/comply-or-explain", which means ESRB recommendations have no legally binding power to its addressees. From the first day of the operation of the ESRB to the expanded tasks under the CRD IV-Package which became effective on 1 January 2014, the implementation of ESRB recommendations was subject to the addressees' discretion, and such an equilibrium appear to be resistant to change; nevertheless, the creation of the SSM in the near future may challenge the equilibrium (②, pp. 82-83), which remains to be checked in the future.	Yes; The equilibriums formulated by the ESM are visible: (a) conditionality for the euro states to receive ESM assistance indicates "must" reforms for the beneficiary states; (b) the inclusion of PSI and CACs into the ESM Treaty suggests a new equilibrium between private investors and taxpayers, where the former rather than the later shall pay the bill of bankruptcy; those two equilibriums are unlikely to be changed in the foreseeable future.

	implement the CSRs; this equilibrium tends to remain intact and resistant to change alongside the development of the European Semester.		
<i>(d) specific paths are taken as the new measures induce further institutional and policy movement in the same direction;</i>	Yes; All policy coordination regarding EU economic governance has been integrated into the same procedure of the European Semester.	Yes; (see evidence for mechanism 1 and (e) above) The path of “act/comply-or-explain” for EU macro-prudential supervision has extended into more policy areas as new tasks are assigned to the ESRB.	Yes; (see evidence for mechanism 1 above) The ESM operates in accordance with the ESM Treaty; since it is the product of intergovernmental negotiations, some rules of the ESM may get modified and changed as the results of interstate bargains responding to newly rising situations.
<i>(e) the iteration of rules codified in the new measures and the repetition of the cumulative commitments on the existing paths make changes difficult and condition the form where new branching points will occur in the future;</i>	Not fully confirmed; ● For the first half: No; due to the nature and functions of the European Semester, the cumulative commitments from both macro-constraints and micro-adaptations are not the crucial factors to make changes difficult, but rather the indispensability of an EU policy coordination mechanism makes the existing path framed up by the European Semester essential to EU economic governance and thus not easy to change; in addition, under the European Semester, macro-constraints are	Not fully confirmed; ● For the first half: No; the reason is similar to that for the European Semester: ESRB recommendations (i.e. a sort of macro-constraints) are not legally binding to its addressees and there are no sanction rules against non-compliance, so the implementation of them is subject to addressees’ discretion, and meanwhile, the commitments of societal groups at the micro level, if there is any, do not guarantee the stickiness of the path under the ESRB. Rather, it is the indispensable function and role of the ESRB that make it difficult and unnecessary to change the ESRB;	Not fully confirmed; ● For the first half: Yes; since July 2013, the ESM has become the only available permanent rescue mechanism for the euro countries within the Union, which indicates that it is difficult to shift to any other choices of the same functions; the main rule under the ESM is that granting the tranches of assistance depends upon the beneficiary states’ reforms and compliance with the conditionality agreed by the ESM and the beneficiary states; the binding conditionality (i.e. the macro-constraint) contributes to the commitments of the beneficiary states, and it

not legally binding and have no sanction rules whereas micro-adaptations mean painful adjustments in the context of the on-going sovereign debt crisis, which may lead to non-compliance with the CSRs; nevertheless, procedures and obligations for national governments to submit the relevant documents have been codified into EU regulations, and the iteration of those rules contributes to the stickiness of the new measure;

● For the second half: Yes; the equilibrium initiated in the first cycle of the European Semester conditions the form of the newly added coordinated contents into the European Semester in the later days.

● For the second half: Yes; the ESRB conditions the form to carry out macro-prudential oversight across EU policy areas, such as for countercyclical buffers rates (see evidence for mechanism 1 above).

is generally reckoned as beneficial and necessary to promote national economic growth in the long term, though it may cause painful micro-adaptations of the societal groups; in reality, the ESM functions well as a firewall against the spreading of the sovereign debt crisis: Spanish banks, successfully exiting from the ESM programme, have avoided bankruptcy, thus not stirring turmoil and causing instability in the financial markets; therefore, contributing to the efficiency and effectiveness of the ESM, the iteration of the ESM rules and the commitments from both ESM contracting parties and the beneficiary states make it difficult to change the ESM path along with the fact that the ESM is the sole crisis resolution mechanism for the euro member states within the EU;

● For the second half: No; the repetitive operation and enforcement of the ESM rules do not sufficiently condition the form of the new contents added to the ESM, because the ESM is an intergovernmental institution, and the contracting parties can make changes to the ESM

			via interstate bargains against a dynamic environment, such as the issue of purchasing government securities via the ESM by the ECB (see Table 7.3 and Figure 7.1)
<i>(f) and it is increasingly unlikely that the new measures will be changed endogenously.</i>	Yes; At the end of 2013, the European Semester has been expanded and strengthened, and it seems unlikely the EU will change its policy coordination into another path, but the European Semester remains to be modified along with the EU's development.	Yes; At the end of 2013, the ESRB remains as the only EU body responsible for EU macro-prudential oversight. It seems unlikely the EU will shift such a task to other new bodies, but the forthcoming SSM, which shall conduct macro-prudential supervision across the European banks, may lead some revisions to the exiting ESRB whose supervisory responsibility covers the bank area.	Yes; The ESM has already become the sole permanent rescue mechanism for the eurozone countries within the EU, but the contents of the ESM Treaty may get revised and expanded along with the EU's development.

Sources: ①European Parliament-A7-0312/2012 (12 October 2012); ②Mcphilemy et al. (October 2013).

According to Table 8.7, sub-mechanism 1 of H13 gets a full confirmation only in the case of the ESM, while it partially collapses in the other two cases. The reason causing the failure is that “other possible options” and “switching to the previously plausible alternatives” are not applicable to the two cases of the European Semester and the ESRB, as both measures are initiated as the only one option to address the issues concerned and there are no other tabled choices. This fact, on the one hand, displays the consensus among EU and national leaders on the ways to address the crisis, while on the other hand, it reveals a particular feature of (EU) political decision-making: when a new measure is tabled, adopted, and implemented, the once competitive ideas are wiped out from the very beginning, because there is no chance for the alternative measures to be adopted and implemented, and subsequently to be tested by reality and then be compared with the adopted new measure in discussion. Originally, the idea of path dependence is utilized to summarize and characterize

human being's technology history (see section 4.2.2), but obviously, technological inventions and political measures are different: when a technological solution wins out, the unchosen technologies are still there on the markets, providing available facts and statistics for the newly adopted measure to compare, but as for political decisions, when a new measure is adopted and implemented, the once competitive alternatives also lose the chance to ever materialize, and thus cannot offer empirical comparisons to the selected measure. As the cases of the European Semester and the ESRB illustrate, without alternatives to compare does not reject or diminish the effects of increasing returns, sunk costs and positive feedbacks, and thus "*compared with other possible options*" and that "*the costs of switching to the previously plausible alternatives rise (i.e. self-reinforcing processes)*" are not the necessary components for path dependence. Moreover, if the new measures are not as good as expected, they can be revised and the elements of the previously discarded alternatives or of any other similar practices can be added to the new one; from such a perspective, newly adopted measures in politics enjoy a larger space to be modified and become more viable than those in technology under the fierce market competition pressure. In comparison, being different to the first two cases, there were other competitive choices to the adoption of the ESM, and subsequently, sub-mechanism 1 is confirmed by the ESM, but still, self-reinforcing processes (that "*the costs of switching to the previously plausible alternatives rise*") are justified by the effective implementation and indispensable functions of the ESM rather than by the previous option of the creation of the EMF which has not ever materialized — interestingly, the ESM is advocated by the interest group of BusinessEurope to develop into an EMF (see Table 6.5). In short, previously available alternatives are not the necessary components to judge the path dependent effects of increasing returns, sunk costs, self-reinforcing processes and positive feedbacks. Rather, the indispensability and unique functions of the new measure to the issue concerned can adequately boost the path dependence effects well.

The tests for H13(a)-(f), another six HI assumptions, reveal the following:

First, H13 (a) is confirmed by the first and the third cases, while partially rejected by the ESRB. The reason is that ESRB recommendations are implemented following the principle of "act/comply-or-explain", and non-binding rules under the ESRB dismiss the assumption of "*the rules that bind them are increasingly reinforced*". A difference between the European Semester and the ESRB stands out: though the CSRs under the European Semester are also not legally binding, the European

Semester procedure of policy coordination has been laid down in EU regulation and thus national governments are obligated to comply with the Semester procedure to submit relevant documents. Alongside the annual implementation of the European Semester year after year, the rules binding national governments have been reinforced. In comparison, the rules that bind actors under the ESM are the strict conditionality coming along with ESM assistance. Second, the mechanism of H13(b) that “*the once competitive options are excluded*” is not present in the first two cases while applicable to the case of the ESM. The reasons have already been elaborated in explaining, for example, sub-mechanism 1 of H13. Third, all three cases support H13(c) and two equilibriums are distinguished in the operation of the ESM. Fourth, H13(d) is effective in all three cases, but is expressed in slightly different ways. The first two cases see how coordinated contents and macro-prudential oversight tasks get expanded under the European Semester and the ESRB respectively, while changes to the ESM witness modifications to the already concluded ESM Treaty. Fifth, as regards the causal relations suggested by H13(e), they have not been fully present in any of the three cases, but the factors that cause the collapses are different. For the first two cases, they confirm the first half of H13(e) while reject the second half of H13(e); in contrast, the ESM confirms the second half but reject the first half. The rejection of H13(e) by the European Semester and the ESRB is also rooted in the non-binding powers of the two measures, which have put “*the repetition of the cumulative commitments*” in doubt; moreover, the unique functions and indispensable roles of the two measures contribute to the stickiness of the existing path. In the case of the ESM, “*the cumulative commitments on the existing paths*” is guaranteed by the conditionality attached to the ESM financial assistance; besides, the political decision to let the ESM become the sole rescue mechanism is another factor to make any retreat from the ESM path unlikely. While the European Semester and the ESRB support the second half of H13(e), exhibiting a structuring effect of the two new measures on the future new developments in each policy area, the case of the ESM, however, tells that the development of the ESM is subject to intergovernmental negotiations and compromises among the ESM contracting parties. As Figure 7.1 suggests, more rounds of negotiations may come after the inauguration of the ESM due to the changeable environment. The ESM also has a structuring effect on the future development of the ESM, but as an intergovernmental institution, contracting parties’ will and interests appear more decisive for the new branching points of the ESM in the future. The three

cases suggest possible diverged consequences caused by two different ways to address the crisis: via the Community method or via an intergovernmental approach. Finally, H13(f) is confirmed by all three cases so far as the time period till the end of 2013 is concerned. Obviously, the words “*be changed*” in H13(f) are defined as shifting to other choices rather than the self-expansion and revisions of the three new measures. All the three new measures play an indispensable role in improving and strengthening EU economic governance. Both the European Semester and the ESM have become the sole mechanisms in its kind, while the status of the ESRB as the only EU body responsible for macro-prudential oversight may get challenged by the creation of the SSM.

To sum up, not all the causal mechanisms entailed in H13 are confirmed by the three cases. The collapsed causal chains suggest:

Proposition 26: *The once competitive options are not the necessary components of path dependence, but the unique functions and indispensable role of a new measure tend to adequately guarantee path dependence initiated by the new measure.*

Proposition 27: *Institutional structuring effects claimed by HI appear more observable in the legally binding measures adopted by the collective Community method, while they tend to be diffuse and weak in the measures concluded by intergovernmental approaches, because the latter are more subject to intergovernmental bargains and political will.*

HI stresses cumulative commitments under binding rules and sanction mechanisms contributing to the stickiness of existing paths, but not all EU policies are legally binding with sanction mechanisms, and thus certain HI assumptions actually are not applicable to some new EU developments.

8.5 Evidence for H14: Conditions Conducive to Foster Path Dependence

H14 intends to check whether there are favorable conditions to foster path dependence of the new measures; four factors, H14(a)-(d), are considered by HI as the components of a conducive environment to path dependence. Table 8.8 checks the presence of the four in the selected three cases one by one.

Table 8.8 Checking the Presence of Favorable Conditions to Foster Path Dependence

H14 consists of four sub-hypotheses: H14(a)-(d)	The European Semester	The ESRB	The ESM
H14a: The EU's new measures to address the crisis entail considerable institutional start-up costs, which serve as a strong incentive for actors to stick to them.	Yes; The start-up costs of the European Semester involve the revision to the Code of Conduct on implementing the SGP and the coordination of EU supranational institutions (particularly the Commission and the Council) and each individual member state; the issue addressed by the European Semester is beyond any single national government's ability and capacity, so without the support and participation of EU supranational institutions, policy coordination across EU member states is impossible; moreover, strong incentives for national governments to stick to the European Semester procedure also come from the benefits and compelling of national policy coordination to economic growth.	Yes; Before the implementation of the ESRB, there was no such a macro-prudential supervision mechanism covering the EU financial system; the creation of the ESRB as a totally new EU body, in accordance with the tasks and functions assigned to it, involves information exchange among various supervision authorities (national and international) and data collection from micro-prudential oversight institutions; fulfilling the vacuum in the EU project, the ESRB's tasks are beyond the scope and capacity of any national supervisory authorities, which require institutional cooperation and coordination at different levels, EU wide data collection and analyses, and information communications among various supervisory actors. (See e.g. ESRB Regulation, Article 15)	Yes; The creation of the ESM — a permanent crisis resolution mechanism — involves Treaty amendments, which require unanimous national approval; the EU and EMU need a permanent fund which can provide urgent financial assistance to the eurozone countries so as to safeguard the stability of the euro area as well as the whole EU, and the ESM is purposely established to fill the vacuum of the EMU project; the start-up costs of the ESM involve €700 billion subscribed capital provided by the euro area member states with a lending capacity of €500 billion, among which €80 billion take the form of paid-in capital while the remaining €620 billion as being callable capital (see Table 5.5); the strong incentives to stick to the ESM not only come from the considerable institutional set-up costs, but also from the

			uniqueness and indispensability of the ESM to the EU and EMU.
H14b: National actors actively engage in learning and adapting to the new measures as the new measures are considered helpful to keep economic and financial stability; as actors gain more experience and expertise with these new measures, they are likely to introduce further innovations and changes into these measures and/or into other related policy areas.	Yes; The European Semester de facto has become the only but an inclusively grand policy coordination mechanism for national governments to coordinate economic and budgetary plans while obtaining their fellows' information; the annually repetitive implementation of the European Semester has been gradually improved and expanded with lessons drawing from the previous years' practices; though "national ownership of the process (and in particular of the CSRs) needs to be developed further" (①, p. 14), "national procedures and timetables have been adjusted (...) in a predictable framework" and "[s]ubstantial progress has been made on fiscal consolidation" (①, p.4), while "[c]ountries most exposed to financial vulnerabilities have been most engaged in initiating ambitious structural reforms" (①, p. 14); the routinization of the yearly cycle and the progress made under the European Semester	Yes; One example is national implementation of the ESRB Recommendation on Lending in Foreign Currencies (ESRB/2011/1); though the degree of compliance varied across EU member states, there was a high overall level of compliance, displaying national actors' active learning of and adaption to the ESRB mechanism (see e.g. Table 7.4); ESRB recommendations are given to prevent systemic risks and safeguard financial stability; till the end of 2013, the ESRB is the only EU body to carried macro-prudential oversight of the EU financial system, and new tasks have been added to the domain of the ESRB, such as giving opinions and recommendations on countercyclical buffers rates (see Table 8.7).	Yes; The nature of the ESM is like a "hemostatic agent" to help the staggering euro member states — the last firewall against the financial and economic turmoil; resorting to the ESM indicates financial deterioration and potential instability, and national actors' learning of and adaptations to the ESM are expressed in the beneficiary states' adjustments and reforms in accordance with the conditionality coming along with the ESM assistance programmes; the ESM Treaty originally was signed in July 2011, and later it was resigned again on February 2012, incorporating the new elements agreed after July 2011, such as increasing ESM effectiveness and flexibility and including CACs into the ESM; the conclusion of the TSCG as a complement to the operation of the ESM can be regarded as one example of innovations introduced

	indicate national actors' active learning of and adaptation to the new procedure; Table 8.4 illustrates more coordinated contents have been introduced into the European Semester, and consequently, the European Semester gets expanded and modified.		into other policy areas related to the ESM; nevertheless, those changes to the original ESM Treaty happened before the inauguration of the ESM, and they were made mainly on the basis of the experience and expertise gained from the EFSF as well as from the reality rather than from the operation of the ESM itself; the ESM has become the sole rescue mechanism for the eurozone countries, and all new developments and changes to the measures meant to financially aid the euro states shall undoubtedly fall into the ESM domain.
H14c: The new measures are compatible with the activities of other actors and institutions, and moreover, the new measures promote new developments in the linked areas and policies, which in turn increase the viability of the new measures.	Yes; The purpose of the European Semester is to synchronize and improve EU policy coordination and thus to strengthen EU economic governance; it makes renovations on the basis of the previous EU practices, noticeably changing ex-post to ex-ante policy coordination, while the coordinated contents, already there for some years, remaining unchanged. Thus, the new policy coordination procedure is compatible	Yes; The ESRB must be compatible with the activities of other actors and institutions, or else it shall be difficult for the ESRB to carry out its tasks and for its addressees to implement the ESRB recommendations. The ESRB addressees include the Union as a whole represented by the Commission, one or more member states, one or more of the ESAs, one or more of the national supervisory authorities (ESRB Regulation,	Yes; The ESM was designed to be compatible with the activities of other actors and institutions via the ways that, for example, the Commission and the ECB were requested by the ESM contracting parties to perform the tasks provided for in the ESM Treaty under the authorization of the representatives of the governments of the EU member states (see ESRB Regulation, (10)), and the disputes under the ESM are

	with the activities of other actors and institutions. Moreover, the new measure gets further expansion, evolving into the only but an inclusive policy coordination mechanism, where all possible policy coordination has been integrated into the unified procedure, which, without doubt, has increased the viability of this new measure.	Article 16), while institutional support to the ESRB involves the ESAs, the ESCB, the Commission, the national supervisory authorities and national statistics authorities (ESRB Regulation, Article 15). Macro-prudential oversight and evaluation become necessary components to develop new EU legislations (see Table 8.5) and the expansion of the ESRB into new policy areas increases the viability of this new measure.	subject to the jurisdiction of the CJEU. The ESM promotes new developments in policy areas related to the operation of the ESM. For instance, the ESM raises the possibility to directly recapitalize the European banks, encouraging the creation of the SSM (see Tables 6.5, 6.18 and 7.3; Figure 7.1). The ESM viability not only increases due to the developments of the ESM itself and in the ESM related policy areas, but also because the political decision to make the ESM the sole mechanism of its kind.
H14d: Actors whose options have failed will adapt their actions and expectations in accordance with the new measures.	Not applicable; There were no other alternatives proposed to address the issue concerned.	Not applicable; No alternative options were presented during the formation of the ESRB.	Yes; Initially, there were voices to establish an EMF, EFM or EDA as alternatives to the ESM (see Table 1.2). All those suggestions have failed and never materialized. EU member states agreed with treaty revisions to establish a permanent rescue mechanism, while the eurozone countries approved the ESM, adapting their behavior and expectations towards the new mechanism.

Sources: ①COM(2013) 800 Final (13 November 2013).

Table 8.8 displays case study results, which suggest that there are favorable conditions to foster path dependence forged by the new measures. Except that the situation mentioned in H14(d) is not applicable to the first two cases, all other factors are present in the three cases. A prominent feature has been shared by the three new measures: they are necessary and indispensable components in EU economic governance, and till the end of 2013, they are the only and unique mechanisms to address the issues concerned, among which the ESM has already been mandated as the sole financial assistance mechanism for the euro states, the European Semester has evolved into an inclusive procedure integrating all possible EU policy coordination under the same umbrella, and the ESRB is the only EU body responsible for EU overall macro-prudential supervision (which, however, might be changed due to the establishment of the SSM). Therefore, one more favorable condition can be derived from the three cases:

H14e_{added}: The uniqueness and indispensability of the new measures to the EU project also contribute to nurturing path dependence after they have been taken.

The “considerable institutional start-up costs” in the cases of the three new measures include the fact that the issues addressed by the new measures are beyond the ability and capacity of individual member states, while the new measures represent holistic approaches, dealing with the ever integrated economies of the EU member states. So H14a can be expanded as follows:

H14a_{extended}: The EU’s new measures to address the crisis entail considerable institutional start-up costs and/or holistic collective approaches beyond individual member states’ capacity which intend to serve the interests of the EU as a whole while maximizing each individual member state’s gains from the increasingly integrated process; thus strong incentives are there for actors to stick to the new measures.

Regarding the causal mechanisms suggested by H14b, they are present in all three cases, but the case of the ESM introduces a different way of actors’ learning of and adaptation to this new measure: not all national governments are supposed to be actively engaging with the ESM, because the ESM is the last resort and the last firewall for the euro member states and reverting to the ESM means an endangered financial and economic situation. The adaptation to the ESM indicates a “painful” experience to defend the overall national interests as much as possible, and this dissertation would call this type of adaptation “defensive adaptation” — the more frequent of the application of the measure, the more precarious of the national economic/financial

situation is indicated, and thus adaption to the new measure means a compelling process to “defend” and “save” the country concerned. Besides, the changes made to the original ESM Treaty show that actors could draw experience and expertise from the precedents to enrich the new measure even before this new measure starts to operate, which suggests that innovations and changes to the new measure may happen at any time points and could be inspired by any other sources. Accordingly, H14b can be restated as follows:

H14b_{modified}: National actors actively engage in learning and adapting to the new measures as the new measures are considered helpful to keep economic and financial stability; as actors gain more experience and expertise with these new measures and/or due to the inspiration from other practices, they are likely to introduce further innovations and changes into these measures and/or into other related policy areas.

The added element of “*due to the inspiration from other practices*” echoes the analyses in section 8.4 for the test of H13: a newly adopted measure can be improved and revised by integrating reasonable elements from alternative options and similar practices via political decisions.

As for H14c, case study results suggest that the viability of the new measures is not only related to their implementation and self-developments, but also to the political decisions to make them as the sole mechanisms available to address the issues concerned. Therefore,

H14c_{extended}: The new measures are compatible with the activities of other actors and institutions, and moreover, the new measures promote new developments in the linked areas and policies, which in turn increase the viability of the new measures; in addition, political decisions to make a new measure the sole available mechanism of its kind reinforce the viability of the new measure.

Regarding H14d, it is effective in the case of the ESM, but not applicable to the first two cases, because the situations of competitive alternatives as a sort of obstacles supposed by H14d are not present. Two different types of conditions can be distinguished: (1) the presence of positively reinforcing factors, such as H14a-c, and (2) the non- or less-presence of hindrance factors, like H14d. Such a distinction shall also be applicable to the conditions conducive to the neo-functionalist spillover effects (see Tables 2.3 and 6.18). All in all, there is a fertilizing environment for the three new measures to forge specific paths after them, and EU economic governance is very likely to stick to them.

8.6 Evidence for H15: Four Features Likely Demarcating Path Dependence Processes

H15 proposes four consecutive political steps that are expected to mark path dependence processes. The four assumed features, however, might not be necessarily presented in the three cases.

Table 8.9 Checking the Four Consecutive Political Processes Featuring Path Dependence

H15 referring to HI argument 15	The European Semester (on the basis of Table 8.4)	The ESRB (on the basis of Table 8.2)	The ESM (on the basis of Table 8.3)
(a) multiple equilibria;	Yes; The post-2008 crisis era exposes the necessity and urgency to improve and strengthen EU economic governance; the way to do so connotes many possibilities.	Yes; The spillover of the US subprime mortgage crisis into a global financial crisis has a direct impact and serious repercussions on the EU financial system; it exposes the vacuum of EU macro-prudential supervision which shall help EU countries to prevent financial systemic risks and other loopholes in EU financial regulation. The ways to fulfill the vacuum and loopholes have a wide range of possible outcomes.	Yes; The eurozone sovereign debt crisis exposes a vacuum of the EU project: the EU lacks a permanent rescue mechanism to safeguard EMU and the EU; along with the on-going sovereign debt crisis, the vacuum must be fulfilled, but how to fulfill opens to more than one option, such as the calling for establishing an EMF (see e.g. Table 7.3). That is, at the very beginning, a number of outcomes were possible.
(b) contingency;	Yes; To set up the Task Force chaired by Van Rompuy to work out solutions to the crisis as well as to strengthen EU economic governance is a contingency, but the idea of the European Semester put forward by the Task Force has an enduring influence	Yes; To assign a High-Level Group under the charge of Jacques de Larosière to draw up recommendations to strengthen EU financial supervision is a contingency, but it exerts lasting impacts on the new architect of EU financial supervision by initiating the establishment of the ESFS, which encompasses the ESRB for	Yes; The French government's opposition to the creation of an EMF while its support to a permanent ESM makes to establish the ESM becoming the only viable option to fulfill the vacuum of the EMU project (see Table 6.7). Another contingency is that after the signing of the ESM Treaty, new

	on EU policy coordination.	macro-prudential oversight and three ESAs for micro-prudential oversight (see section 1.3.4).	French President Hollande tabled a growth pact as a counterpart to Merkel's fiscal compact; originally, to adopt the growth pact was supposed to be the interest exchange only between Paris and Berlin: Merkel supported Hollande's growth pact, while as a return, Hollande agreed to sign off the unpopular fiscal pact championed by Merkel; nevertheless, Italy and Spain took the approval of the growth pact as an opportunity to force Merkel to make more concessions on the ESM terms (see Table 7.3 and Figure 7.1).
(c) a critical role for timing and sequencing;	Yes; The worsening and uncertain economic crisis during the course of 2009 catalyzed the formation and implementation of the European Semester. The Ecofin's approval of the implementation of the new measure as of 1 January 2011 came before the new procedure got codified into EU regulation. Obviously, the decision by the Ecofin to make changes to the Code of Conduct on implementing the SGP decisively laid down the basic framework for the European	Yes; The global financial crisis triggered by the US subprime mortgage crisis marks a critical juncture for the EU's macro-prudential supervision development (see Table 8.1), and clearly more attention has been diverted to macro-prudential oversight and financial market regulations, such as on hedge funds and private equity and on CRAs. The co-legislative procedure leading to the establishment of the ESRB displays the importance of the sequences of EU institutions' involvement in the OLP. This time, the Council made compromises to the EP which took the opinions of the ECB, the	Yes; The establishment of the temporary rescue mechanism — the EFSF — is crucial for the creation of the permanent ESM, as the latter is built upon the features of the former. The EFSF matters much more than later sequences of events, because the EFSF shapes the basic structure of the ESM, and the ESM's later modifications all are developed on the basis of the basic structure. The outbreak of the Greek sovereign debt crisis and the imminent danger of sovereign bankruptcy made a permanent crisis resolution framework

	Semester, which suggests that “earlier parts of a sequence matter much more than later parts” of the co-legislative procedure. The OLP happened “too late” to have effects on changing the proceedings of the European Semester, “although it might have been of great consequence if the timing had been different”. This mirrors the converged interests in reforming EU policy coordination by the proposed idea of the European Semester.	EESC, and the related EP Committees into consideration, and the EP’s first reading position corresponds to the final ESRB Regulation. Besides, around the same time, the US also for the first time established the FSOC to conduct macro-prudential oversight for the American financial system (see Table 6.25); if the FSOC had come earlier, it might have been taken as a model for the EU to follow. Thus, the timing and sequences do play a crucial role in the formation of the ESRB.	urgently needed. The global financial crisis and the eurozone sovereign debt crisis have expedited the process to fulfil the vacuum of the EU project.
and (d) inertia.	Yes; Since the implementation of the European Semester, it has de facto become a grand policy coordination and surveillance mechanism, integrating all possible coordination and surveillance elements into the same unified and synchronized procedure. As time goes by, the European Semester has introduced an equilibrium of various policy coordination and surveillance between EU institutions and	Yes; Before the creation of the SSM, the ESRB is the sole body responsible for all EU macro-prudential oversight. The “act/comply-or-explain” principle underpins the equilibrium between the ESRB recommendations and its addressees, which is expected to be resistance to change and shall continue to underpin EU macro-prudential oversight in the newly explored policy areas.	Yes; The equilibrium under the ESM is entailed in the MoUs, where ESM financial assistance is accompanied by strict conditionality that the beneficiary states must comply with. While receiving the ESM help, Spain and Cyprus have implemented structural reforms and austerity measures to reduce their budget deficits and debts accordingly. Spain’s successful exit from the ESM programme signals positive feedback and the ESM equilibrium has been reinforced. Moreover, the political decision to make the ESM the only rescue

national governments as well as among EU member states.	mechanism within the Union as of 1 July 2013 also reinforces the ESM equilibrium's resistance to change.

Case study results in Table 8.9 show that all the four possible political processes posited by H15 are effective in the three cases, demonstrating a strong effectiveness of path dependence of the three new measures. The formation and operation of the three new measures can be studied and traced back by a series of events, and the four sub-mechanisms entailed in H15 offer an HI perspective/epistemology to sort out the sequences of these events. On the one hand, the four causal chains just posit possible while not unavoidable political processes indicating the effectiveness of path dependence; on the other hand, the selection of the sequence of events may not be exhaustive and consequently might neglect possible political processes. Therefore, H15 tends to explain and unwind path dependence rather than to prescribe, offering an interpretative instrument to elucidate what has happened rather than to predicate what will happen. H15 represents an ex-post clarification to the facts. Moreover, though four assumed political processes happened in the three cases, the third case of the ESM suggests that the four sub-mechanisms are not necessarily in a consecutive linear order. The ESM is an intergovernmental institution set up by intergovernmental negotiations; due to this special nature, the operation of the ESM is still subject to further interstate bargains against a developing external environment. As a result, contingencies of relatively small events but with large impact may happen unexpectedly due to the newly rising situations: Spain and Italy successfully took the opportunity to approve a new growth pact upheld by new French President Hollande to revise what had been agreed on the ESM on paper. Though the second mechanism of contingency implies the third mechanism of a critical role for timing and sequencing, the case of the ESM suggests that the second mechanism not only can happen before, but also may after the third one. Thus, the four political processes supposed to feature the effectiveness of path dependence are not necessarily in a consecutive linear order. Finally, in addition to the effects of increasing returns and positive feedbacks, political decisions to make a new measure being the only available choice can also reinforce the inertia process (see also H14C_{extended}).

8.7 Evidence for H16: Testing the Hypothesized Path Dependence Model

In accordance with the analyses after the formation of H16 in chapter four, before moving to the test for H16, this dissertation first delineates the contour of the rules related to the adoption of the three new measures (under the Lisbon Treaty) dating back to the Nice Treaty, then to the Amsterdam Treaty, and finally to the Maastricht Treaty (i.e. the TEU). As Table 6.22 has already explored possible different legal bases under the Nice Treaty and the Lisbon Treaty to adopt the three new measures, this section pushes the research further back to the prescriptions in the Amsterdam Treaty and in the TEU related to the adoption of the three new measures.

Table 8.10 Tracing back the Legal Bases to Adopt the Three New Measures (From the Lisbon Treaty to the Maastricht Treaty)

	The European Semester	The ESRB	The ESM
The legal bases provided by the Lisbon Treaty (see Table 6.22)	Codified by the OLP (i.e. the co-decision procedure) based on Article 121 TFEU (ex Article 99 TEC, which gets amended by the Lisbon Treaty via, for example, introducing Commission's warnings to the member states concerned and changing the relevant co-operation procedure to the OLP).	Established by the OLP (i.e. the co-decision procedure) based on Article 114 TFEU (ex Article 95 TEC, which is amended by the Lisbon Treaty mainly via adding the EP's role in paragraph 4 and 5 and specifying the application of the OLP on the basis of the co-decision procedure in the Nice Treaty).	Created by the ESM Treaty, an intergovernmental Treaty based on Treaty amendments to Article 136 TFEU; Article 136 TFEU under the chapter of "Provisions Specific to Member States Whose Currency Is the Euro" itself is a newly inserted Article under a newly added chapter by the Lisbon Treaty.
  Tracing back into EU Treaties			
The Nice Treaty	Article 99 TEC prescribes coordination and multilateral surveillance of member states' economic policies and performances, which shall be	Article 95 TEC prescribes the co-decision procedure laid down in Article 251 TEC to be possibly taken to address the issues	No legal basis available for the creation of the ESM.

	codified as EU rules in accordance with the procedure laid down in Article 252 TEC (i.e. the co-operation procedure). No changes have been made to this Article by the Nice Treaty.	related to the establishment or functioning of the internal market. The Nice Treaty makes no changes to this Article in the Amsterdam Treaty.	
The Amsterdam Treaty	Renumbering ex Article 103 TEC as Article 99 TEC and ex Article 189c as Article 252 TEC without substantial content changes.	Renumbering ex Article 100a TEC as Article 95 TEC and ex Article 189b as Article 251 while replacing ex Article 100a (3), (4) and (5) with new paragraphs.	No legal basis available for the creation of the ESM.
The TEU (e.g. The Maastricht Treaty, where the term “European Economic Community” was replaced by the term “European Community”)	Article 103 TEC made changes to ex Article 103 (Chapter 1 — Policy Relating to Economic Trends, TITLE II — Economic Policy) of the Treaty establishing the European Economic Community by introducing a new framework of economic policy coordination and multilateral surveillance, prescribing that detailed rules in those aspects shall be adopted in accordance with the procedure referred to in Article 189c TEC, that is, the co-operation legislative procedure introduced by the SEA. Later, Article 189c TEC was accordingly renumbered as Article 252 TEC by the Amsterdam Treaty.	Article 100a (1) TEC made changes to ex Article 100a (1) of the SEA which prescribed the co-operation procedure to be applied to the issue concerned; consequently, the related legislative procedure shifted from the co-operation procedure prescribed by the SEA to the co-decision procedure laid down in Article 189b TEC.	No legal basis available for the creation of the ESM.
Summary	The Maastricht Treaty serves as a critical juncture for EU economic policy coordination and surveillance, as Article 103 TEC was inserted to prescribe the relevant rules and the legislative procedure to rely on: the co-operation procedure laid down in Article 189c TEC; the contents of Articles 103 and 189c TEC did not get changed till the Lisbon Treaty.	The legal basis to establish the ESRB can be traced back to the SEA, which introduced Article 100a of the EEC Treaty. Article 100a of the EEC Treaty firstly was revised by the Maastricht Treaty by shifting the co-operation procedure into the co-decision procedure	The historical roots for the ESM legal basis are comparatively “shallow”: only after 25 March 2011, when the European Council adopted the decision to add the third paragraph to

	(Article 100a (1) TEC), which, after being renumbered as Article 95 TEC by the Amsterdam Treaty, was finally laid down as Article 114 TFEU.	Article 136 TFEU, did the creation of the ESM obtain the legal basis in the EU Treaties; moreover, Article 136 TFEU itself is a newly inserted part by the Lisbon Treaty.

Sources: “EU Treaties” (European Union) and “Treaty of Lisbon, Questions and Answers” (European Union).

According to Table 8.10, the case of the ESM does not support the proposed path dependent model of H16, as the legal basis for the creation of this permanent crisis resolution mechanism only can be traced back to the Lisbon Treaty. The ineffectiveness of H16 in ESM shows that, on the one hand, when the Maastricht Treaty laid down rules for EU and EMU economic governance, it did not foresee far enough of the collective sovereign debt crisis in the beginning of the 21th century, that is, EU decision-makers at that time were delimited by their horizons and expectations, while on the other hand, the EU actively took serious actions to deal with the newly rising challenges and the regional integration project gets developed and expanded into new policy areas. Besides, in order to get a permanent ESM in place, Treaty amendments were made to the Lisbon Treaty via the simplified revision procedure rather than the ordinary revision procedure, illustrating the resilience and flexibility of the EU project to adapt itself to the new environments. The failure of H16 to account for the ESM suggests that not all EU developments have a deep HI root that can date back to the birth of the “European Union”; new challenges may initiate totally new “sprouts” on the “trunk” of the EU project, while these new sprouts of paths shall provide HI roots for the EU’s developments in the future.

Subsequently, this dissertation will check the assumed path dependent model with the European Semester and the ESRB, and the research results for each are presented in Table 8.11 and Table 8.12, respectively.

Table 8.11 Checking H16 with the European Semester

Checking the three features of the proposed path dependent model H16	The European Semester
<i>(a) the TEU shapes and reinforces the preferences of the salient actors, which get further reinforced with the iteration of Treaty rules, and from T0 to T2, the initial rules set down at T0 get changed due to exogenous challenges rather than endogenous needs;</i>	➤ For the first half: Yes; The Maastricht Treaty for the first time laid down the relevant rules and possible legislative procedure to rely on to coordinate and monitor member states' economic policy and performance; the contents of Article 103 TEC did not get changed until the Lisbon Treaty. The Lisbon Treaty Article 99 (i.e. Article 121 TFEU) made changes to ex Article 103 TEC laid down by the Maastricht Treaty, mainly including: (a) inserting that "the Commission may address a warning to the Member State concerned", and (b) replacing "The Council, acting in accordance with the procedure referred to in Article 252, may adopt detailed rules" by "The European Parliament and the Council, acting by means of regulations in accordance with the ordinary legislative procedure, may adopt detailed rules"; The salient actors involved in the issue concerned by the European Semester are national governments and EU supranational institutions; the unchanged legal basis from the Maastricht Treaty to the Nice Treaty has reinforced the equilibrium between the two types of actors that no binding decisions shall be made under the economic policy coordination and multilateral surveillance procedures; the amendments introduced by the Lisbon Treaty further strengthen EU supranational institutions' interests via more involvement of the Commission and the EP, and the OLP (to codify the European Semester) substitutes the co-operation legislative procedure since the Maastricht Treaty; ➤ For the second half: No; The reforms introduced by the Lisbon Treaty mean to meet both the external globalization challenges and internal increasingly integrated economies' needs. The expansion and normalization of the previous co-decision procedure as the OLP intend to improve EU efficiency while enhancing the democratic credibility of the EU collective decision. Due to intense and fast interactions between the external and internal environments, it is difficult to tell whether a measure is only to meet the exogenous challenges or endogenous needs; as far as the topic covered by the European Semester is concerned, to improve and reinforce EU economic policy coordination and surveillance as well as to strengthen EU economic governance is the demands from both the outside and inside of the Union. However, the implementation and codification of the European Semester show that the initial rules and the equilibrium between national states and EU supranational institutions laid down in the Maastricht Treaty (T0) remain almost intact and the basic framework of the European Semester itself, which dates back to the SGP, tends not to be changed endogenously (see Table 8.7).
<i>(b) the institutional arrangements and</i>	Yes; Economic policy coordination and surveillance of national fiscal performances

<i>increasing sunk costs make actors stick to the existing course;</i>	are beneficial to national economies and the EU economy as a whole (cf. Table 8.7).
<i>(c) the EU's new measures to cope with the euro area sovereign debt crisis after the enforcement of the Lisbon Treaty (T2) are unintended consequences of the initial decisions of the TEU (T0) as (i) more national government competences and powers are delegated to EU institutions and national governments' control over the EU policies (i.e. the new measures) is further reduced, and (ii) member states would have taken very different measures if they had faced the sovereign debt crisis after the enforcement of the TEU.</i>	Not fully confirmed ; The European Semester adopted by the EU to address the crisis does not exhibit an unintended consequence of the initial rules laid down in the Article 103 TEC of the Maastricht Treaty as ● H16(c)(i):No; The European Semester does not see the trade-off competences and powers between national governments and EU supranational institutions, as no binding decisions shall be made under the European Semester procedure, there is no sanction mechanism for member states' non-compliance to the Commission's CSRs, and national parliaments have their final decisions on national budgetary and economic plans; (see (11) in Table 6.19) ● H16(c)(ii): Yes; The legal basis to codify the European Semester has been shifted from the co-operation legislative procedure to the OLP; due to the Conciliation Committee entailed in the OLP, the adopted measure under the OLP must obtain approval from both the EP and the Council, while in the former process, the EP's veto can be overridden by a unanimous Council (see section 6.4). Besides, the insertion of "the Commission may address a warning to the Member State concerned" by the Lisbon Treaty to the original prescriptions in the Maastricht Treaty defines a new role for the Commission. Moreover, the procedure and format design of the European Semester are based on the SGP adopted in 1997 (see Table 8.4); therefore, the European Semester would assume a different framework if it were created after the adoption of the TEU.

Table 8.12 Checking H16 with the ESRB

Checking the three features of the proposed path dependent model H16	The ESRB
H16 (a);	➤ For the first half: Yes; ● Article 18 SEA prescribes that "The EEC Treaty shall be supplemented by the following provisions: 'Article 100a 1. [...]. The Council shall, acting by a qualified majority on a proposal from the Commission in co-operation with the European Parliament and after consulting the

Economic and Social Committee, adopt the measures for the approximation of the provisions laid down by law, regulation or administrative action in Member States which have as their object the establishment and functioning of the internal market. [...]"

Article 100a introduced by the SEA deals with the harmonization of legislation to ensure the establishment and the functioning of the internal market.

- The Maastricht Treaty changes the relevant co-operation procedure to the co-decision procedure, as the amendment goes:

"Article 100a(1) shall be replaced by the following:

'1. [...]. The Council shall, acting in accordance with the procedure referred to in Article 189b and after consulting the Economic and Social Committee, adopt the measures for the approximation of the provisions laid down by law, regulation or administrative action in Member States which have as their object the establishment and functioning of the internal market.'"

- The Amsterdam Treaty rennumbers ex Article 100a as Article 95 TEC and ex Article 189b as Article 251 TEC and replaces paragraphs 3, 4 and 5 of ex Article 100a with new paragraphs;
- The Nice Treaty goes without changes to these two Articles;
- The Lisbon Treaty clearly normalizes the previous co-decision procedure as the OPL with the emphasis of the EP's equal role to the Council in Article 100a(1); consequently, the EP's role is accordingly added to other paragraphs in this Article (e.g. the words in paragraph 4 "If, after the adoption by the Council or by the Commission of a harmonisation measure" are replaced by "If, after the adoption of a harmonisation measure by the European Parliament and the Council, by the Council or by the Commission"). Consequently, Article 114 TFEU (ex Article 95 TEC) says: "1. [...]. The European Parliament and the Council shall, acting in accordance with the ordinary legislative procedure and after consulting the Economic and Social Committee, adopt the measures for the approximation of the provisions laid down by law, regulation or administrative action in Member States which have as their object the establishment and functioning of the internal market."

Therefore, from the Maastricht Treaty to the Lisbon Treaty, the essence of the legal basis to adopt the ESRB remains unchanged, and the interests of the salient actors involved in regulating EU financial markets (e.g. EU supranational institutions, societal groups represented by the EESC, and national governments) are reiterated and reinforced throughout time. Under the Lisbon Treaty, the EP's equal role to the Council's is further emphasized and thus the EU supranational institutions' role gets strengthened;

➤ For the Second half: Not applicable, because the co-decision procedure is renamed as the OLP and they actually refer to the same set of the legal procedure. Nevertheless, the establishment of the ESRB is more exogenously pushed rather than endogenously induced (see section 8.1).

H16 (b);

Yes;

As early as in the Maastricht Treaty, the legal basis to adopt measures related to approximating laws and harmonizing legislation so as to ensure the establishment and the functioning of the internal market was the co-decision procedure (which later got

	renamed the OLP by the Lisbon Treaty). Measures addressing the improvement of EU financial surveillance definitely are beneficial to national economies and the EU project. (cf. Table 8.7)
H16 (c)(i) and (ii).	No; The newly implemented ESRB adopted under the Lisbon Treaty does not suggest an unintended consequence after the initial rules laid down in the Article 100a TEC of the Maastricht Treaty as ● H16(c)(i):No; The ESRB recommendations have no binding powers to its addressees, and there are no sanction mechanisms for non-compliance. Rather, the principle under the ESRB is “act/comply-or-explain”, and accordingly, there is no trade-off of the competence and powers between national governments and EU supranational institutions (see e.g. Table 6.6 and (11) in Table 6.19); ● H16(c)(ii): No; Under the Maastricht Treaty, the legal basis for the creation of the ESRB would be the co-decision procedure, being the same as the OLP under the Lisbon Treaty. Moreover, as the ESRB is a new invention without any previous designs to model, it is very likely that member states would have taken a similar measure like the ESRB to fulfill the vacuum of macro-prudential oversight in the EU project under the TEU.

According to the case study results (Tables 8.11 and 8.12), the European Semester and the ESRB only partially support the proposed $T0_{the\ TEU}-T1a_{the\ Amsterdam\ Treaty}-T1b_{the\ Nice\ Treaty}-T2_{the\ Lisbon\ Treaty}$ path dependent model. The two cases confirm H16(b) and the first half of the mechanism specified in H16(a), while the second half of H16a appears not true for the European Semester and not applicable to the ESRB; in comparison, H16(c) gets partially confirmed by the European Semester while it totally collapses in the case of the ESRB. The confirmation of the first half of H16a by the two cases shows an enduring structuring effect of the Maastricht Treaty on the EU’s later development and strong historical and institutional roots for the two new measures; nevertheless, the second half of H16(a) is rejected by the fact that any new EU policies and measures shall meet the endogenous needs of the EU, and due to ever increasing economic interaction and interdependence between the EU and the external world, the assumed distinctive line between exogenous-pushed and endogenous-needed policies tend to be diffuse. Moreover, Treaty conclusions and revisions demarcating the tested path dependent model result from both external and internal imperatives and pressures. However, it is true that from the SGP agreed in 1997 to the implementation of the European Semester in 2011, the coordinated issues like budgetary plans are domestically-oriented and the basic contents and framework of the SGP have sustained through over time into the European Semester. With regard to the case of the ESRB, the second half of H16 (a) turns out to be inapplicable, because the legal basis to adopt

the ESRB under the Lisbon Treaty has essentially remained unchanged since it was laid down in the Maastricht Treaty, which, in one respect, displays the stability of the EU structure, while in another respect, suggests that issues related to the smoothing function of the single market from the onset of the creation of the “European Union” have received “maximum” attention as they are covered by the co-decision procedure which was firstly introduced by the Maastricht Treaty. As regards the “unintended consequences” argument posited in H16(c), neither the European Semester nor the ESRB sees the competence and power trade-off between national governments and EU supranational institutions, because no legally binding decisions shall be taken under both measures. So such a case study result suggests that unintended consequences shall be related to the development of EU binding rules. Lastly, apart from the legal bases prescribed in the EU Treaties, the relevant preceding practices are another factor that is very likely to have enabled the EU member states to take very different measures under the Maastricht Treaty if the 2008 crisis had happened at that time: the design and operation of the European Semester root in the SGP of 1997, and without the influence of the SGP, the structure and procedure of EU policy coordination and surveillance would have been different. Without doubt, the environment and context are quite different at different time points: the Maastricht Treaty laid down the three stages to realize EMU, while the SGP came after the Maastricht Treaty as a sort of guarantee for the finalization and proper functioning of EMU. Evolving from the SGP to the European Semester, EU policy coordination and surveillance, on the one hand, exhibits strong path dependence, while on the other hand, the SGP has changed the initial policy making environment, making itself a new variable to the design of the new measures in the future by defining possible models to be built upon and available choices to be selected from; thus the European Semester can be regarded as an unintended consequence of the initial decisions of the TEU (T0) as its policy predecessors have altered the initial context where the EU would have taken a different measure without the influence of path dependence starting from the SGP. Therefore, path dependence entails unintended consequences of possible different measures-taken in the initial conditions. In contrast, the ESRB has no precedents to be modeled from, and furthermore, its legal basis has remained the same since the Maastricht Treaty, so it is possible that the EU would have forged a similar measure like the ESRB to address the crisis; consequently, the establishment of the ESRB cannot be viewed as an unintended consequence of the initial decisions of the TEU (T0). Based on those

findings, Proposition 28 is put forward to condition the effectiveness of unintended consequences:

Proposition 28: *Unintended consequences after the initial decision tend to appear in two types of situations: (a) adopting new measures of legally binding powers where national control over EU policy is constrained; (b) adopting new measures built upon the previous practices or models, which have changed the context of the initial decision.*

Despite that the proposed path dependent model collapses in the three cases to different degrees, looking into the historical and institutional paths of the three new measures reveals a dynamically developing Union.

Table 8.13 Historical and Institutional Paths of the Three New Measures since the Maastricht Treaty

	<i>T0_{the TEU}</i> (Signed on 7 February 1992 and entering into force on 1 November 1993)	<i>T1a_{the Amsterdam Treaty}</i> (Signed on 2 October 1997 and entering into force on 1 May 1999)	<i>T1b_{the Nice Treaty}</i> (Signed on 26 February 2001 and entering into force on 1 February 2003)	<i>T2_{the Lisbon Treaty}</i> (Signed on 13 December 2007 and entering into force on 1 December 2009)
The European Semester (referring to Table 8.4)	The SGP was agreed in 1997, among which Council Regulation (EC) No 1466/97 of 7 July 1997 was adopted “in accordance with the procedure referred to in Article 189c of the Treaty” ^① . Accordingly, the SCPs “shall be submitted before 1 March 1999. Thereafter, updated programmes shall be submitted annually” (①, Article 4 and Article 8).	In March 2000, the Lisbon Strategy was launched by the European Council, setting out a ten-year strategy aiming at making the EU “become the most dynamic and competitive knowledge-based economy in the world by 2010 capable of sustainable economic growth with more and better jobs and greater social cohesion and respect for the environment” (④, p.2); following a	Particularly based on Article 99(5) and “in accordance with the procedure laid down in Article 252 of the Treaty”, Council Regulation (EC) No 1055/2005 of 27 June 2005 amending Regulation (EC) No 1466/97 was adopted ②. In re-launching and revamping the Lisbon Strategy in March 2005, it was agreed that a set of IGs consisting of BEPGs and EGs would be adopted as “a general instrument for coordinating economic policies”, with the former “continu(ing) to embrace the whole range of	● 3 March 2010: The Europe 2020 strategy was adopted with the purpose of helping the EU “go out of the crisis and prepare [the] EU economy for the next decade”, and it is built upon what has been achieved and the lessons learned from the Lisbon Strategy starting from 2000 (revised in 2005) ^⑤ ; ● March 2010: The Task Force was established and the idea of the European Semester was put forward by the Task Force; ● 7 September 2010: The Ecofin Council approved the

mid-term review, the Lisbon Strategy was re-launched in 2005, introducing a set of new and more powerful measures so as to steer and monitor economic policy reform to achieve the goals: (a) the IGs; (b) NRPs; (c) CSRs; (d) new OMCs launched under the Lisbon Strategy (④, pp 20-21).

macroeconomic and microeconomic policies, as well as employment policy insofar as this interacts with those policies” while the latter “ensuring general economic consistency between the three strands of the strategy” (③, item 39 (b)); based on the IGs, each member state shall draw up NRPs, which “will make allowance for national policy cycles and may be revised in the event of changes in the situation” (③, item 39 (c)). Another innovation of the 2005 re-launch is the CSRs, which “[f]or the first time, policy advice covering the entire field of economic and employment policy was submitted to the European Council and the Council on a country-specific basis” (④, p.21).

amendments to the Code of Conduct on implementing the SGP and agreed with the launch of the European Semester from 1 January 2011;

- March 2011: Commitments of the Euro Plus Pact shall be included in the SCPs and NRPs;

- 13 December 2011: The “six-pack” became effective, among which the European Semester mechanism was codified in Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 amending Council Regulation (EC) No 1466/97, and a new element — preventing macroeconomic imbalances — was introduced by Regulation (EU) No 1176/2011 via issuing the AMR under the European Semester;

- January 2013: The Fiscal Compact subsumed in the TSCG further strengthened the enforcement of the MTO demanded by the SGP under the European Semester;

- May 2013: The “two-pack” pushed the

				six-pack reforms further by setting up a common budgetary surveillance timeline for the euro countries, which is designed under the European Semester as being an autumn counterpart to the spring semester exercise.
The ESRB (referring to Table 8.2)	No precedents to the ESRB.	No precedents to the ESRB. The EP's resolution on 13 April 2000 pointed out the necessity of establishing a forecasting system for systemic risks while the EP's resolution on 21 November 2002 spotlighted the issue of macro- and micro-prudential policies.	No precedents to the ESRB. The EP's resolutions on 11 July 2007 called for identifying and evaluating systemic risks and potential financial crises, on 23 September 2008 stressed the subsidiarity principle applied to EU financial regulation, and on 9 October 2008 suggested the establishment of macro-prudential supervision with early warnings and interventions at the EU level.	Particularly based on Article 114 TFEU and in accordance with the OLP, the ESRB was established by Regulation (EU) No 1092/2010 of the European Parliament and of the Council of 24 November 2010. The ESRB tasks were expanded after the CRD IV-Package was published in the EU Official Journal on 27 June 2013. Besides, the forthcoming creation of the SSM may change the policy domain of the ESRB.
The ESM (referring to Table 8.3)	No precedents to the ESM.	No precedents to the ESM.	No precedents to the ESM.	● May 2010: The Ecofin Council agreed to establish the temporary rescue mechanism EFSF; ● 25 March 2011: The European Council made amendments to Article 136 TFEU, providing the legal basis to create the permanent ESM; ● 11 July 2011: The ESM Treaty was signed by the eurozone countries; ● 2 February 2012: The modified ESM Treaty incorporating new agreements on the ESM was signed again; ● 27 September 2012: The ESM Treaty entered into force;

- 8 October 2012: The ESM became operational after the ratification by all 17 euro member states;
- December 2012: The ESM granted its first assistance to Spain;
- 8 May 2013: The ESM approved financial assistance to Cyprus;
- 1 July 2013: The ESM became the sole operational rescue mechanism for the euro area countries;
- 31 December 2013: Spain successfully exited the ESM programme.

Sources: ① Council Regulation (EC) No 1466/97; ② Council Regulation (EC) No 1055/2005; ③ Presidency Conclusions-7619/1/05 REV 1. (23 March 2005); ④ European Commission-SEC(2010) 114 Final (2 February 2010); ⑤ “Lisbon Strategy for Growth and Jobs, Towards a Green and Innovative Economy” (European Commission).

Table 8.13 displays different “depths” of HI roots for the three new measures, among which the European Semester exhibits the “longest” path from the past decisions, echoing the test results for H10 where the European Semester represents strong policy stickiness rather than a critical juncture. Table 8.13 also enlightens the research results of H10 by the other two cases: both the ESRB and the ESM mark critical junctures in each policy domain as they initiate totally new policies to the EU, introducing new equilibriums of national-national and/or national-supranational power distributions. As for the issues addressed by the ESRB, though after the Amsterdam Treaty, there were calls and attention for systemic risks and macro-prudential supervision, no concrete actions and policies have materialized at the EU level, and it is not until the global financial crisis in 2008 that the issues concerned were placed in the foreground; consequently, the ESRB was established under the effectiveness of the Lisbon Treaty. As for the adoption of the ESM, Table 8.13 illustrates how it embodies a critical juncture for the new path of the EMU assistance mechanism.

Taking the case study results in Tables 8.11, 8.12 and 8.13 into consideration, among the three new measures, the European Semester supports the proposed model of $T0_{the\ TEU}-T1a_{the\ Amsterdam\ Treaty}-T1b_{the\ Nice\ Treaty}-T2_{the\ Lisbon\ Treaty}$ most; subsequently, this dissertation, according to the analyses in section 4.2.4, will probe into the case of the European Semester to check the thirteen analytical factors entailed in the proposed path dependent model.

Table 8.14 A Path Dependence Analysis of the European Semester since the Maastricht Treaty

Checking the proposed T0-T1(T1a-T1b)-T2 HI model	Path dependence of the European Semester: the evolution of EU budgetary and economic policy coordination under the EU Treaties
T0 _(the TEU) - (IGC 1990-1991)	● Treaty bases for EU economic policy coordination and surveillance: Article 103 TEC and Article 189c TEC (i.e. the co-operation procedure); ● Concrete measures and policies developed under the TEU: the SGP reached in 1997, among which Council Regulation (EC) No 1466/97 particularly addressed the issue of strengthening the surveillance of budgetary positions and the surveillance and coordination of economic policies, where national submission of the SCPs was brought into existence.
T1a _(the Amsterdam Treaty) - (IGC 1996; T1 stage in HI's T0-T1-T2 model indicating analytical factors (1)-(4) and (8)-(13))	● Treaty bases: Article 99 (ex Article 103) TEC and Article 252 (ex Article 189c) TEC (i.e. the co-operation procedure); no changes brought by the Amsterdam Treaty to the two relevant Articles in the Maastricht Treaty; ● Concrete measures and policies developed under the Amsterdam Treaty: the Lisbon Strategy launched in March 2000; Analytical factors: (1): Yes; (2) No, the SGP for budgetary surveillance and economic policy coordination was not in place yet when the 1996 IGC took place, so the factor of micro-level adaptations was absent; (3) No, economic policy coordination at that time under the BEPGs and the EGs was not legally binding; (4) No, the relevant legal bases were not changed, and national governments' control over relevant EU policies was not reduced as no EU institutions shall issue legally binding decisions to the member states; (8) No, the Amsterdam Treaty just renumbered ex Articles 103 and 189c TEC without changing the prescriptions in the two Articles; (9) and (10): No, the legal basis and the co-operation procedure to adopt the measures related to economic policy coordination and fiscal condition surveillance remained unchanged from the Maastricht Treaty; (11) Yes, policy coordination was indispensable for economic prosperity, particularly due to the increasingly integrated national economies, and thus switching away from the existing EU policy coordination rules and practices meant high costs; (12) Yes, though there were no binding rules for the issue concerned, a specific equilibrium between EU institutions and national governments had been established by the SGP, and the launch of the Lisbon Strategy showed strengthened preferences of actors pushing cooperation further; (13): Yes, the SGP went without changes.
T1b _(the Nice Treaty) - (IGC 2000; T1 and T2 stages in HI's T0-T1-T2 model, encompassing (1)-(13) analytical elements)	● Treaty bases: Article 99 and Article 252 TEC; no changes brought by the Nice Treaty to the two relevant Articles laid down in the Amsterdam Treaty and in the earlier Maastricht Treaty; ● Concrete measures and policies developed under the Nice Treaty: (a) the re-launched Lisbon Strategy in 2005, introducing the practices of NRPs and CSRs; (b) SGP reforms in 2005, including Council Regulation (EC) No 1055/2005 amending Regulation (EC) No 1466/97; Analytical factors: (1): Yes; (2) Yes, the SGP rules and the Lisbon Strategy were generally regarded as beneficial measures to promote micro-level economic growth; (3) No, because no legally binding decisions shall be made

	for the issue concerned; (4) No, the legal bases for the issue concerned were not changed, and no legally binding decisions suggested that national governments' control over relevant EU policies was not reduced; (8), (9), (10): No, no Treaty changes were made to the two relevant Articles passed down from the Amsterdam Treaty and the co-operation legislative procedure remained unchanged, which indicated that the power and competence of the supranational institutions also remained unchanged since the Maastricht Treaty; (11): Yes, economic policy coordination and surveillance was an indispensable element for EU economic growth and prosperity, and breaking away from the existing rules and practices suggested high costs for national economies; (12) Yes, though there were no binding rules for the issue concerned, a specific equilibrium between EU supranational surveillance and national governments' ultimate decisions on their budgetary plans and economic policies had been established and reinforced; the SGP reforms and the re-launched Lisbon Strategy showed reinforced preferences of national governments and EU institutions on the issue concerned; (13) Yes, though the SGP was amended, the purpose to do so was to strengthen the SGP rules as well as EU economic governance, and the basic principles entailed in the SGP were not changed, exhibiting the stickiness of the SGP rules and the increasing unlikelihood to change or break away from the SGP radically. ● A changed context for 2000 IGC negotiations: (A) (5) member state preferences for the issue concerned did not undergo changes as the relevant Articles in the Nice Treaty remained the same and still no legally binding decisions shall be made; thus the presence of factor (1) at time T1a_(the Amsterdam Treaty) appeared not decisive in shaping national government preferences for the issue concerned; (B) (6) member state bargaining powers were not relevant for the issue concerned; as (3) and (4) at time T1a_(the Amsterdam Treaty) influence (6) at time T1b_(the Nice Treaty), the negation of (3) and (4) at time T1a_(the Amsterdam Treaty) did appear to account for the negation of (6) at time T1b_(the Nice Treaty); (C) (7) powers of other actors were maintained at the status quo, as no Treaty amendments happened to the two relevant Articles; thus the negation of (4) at time T1a_(the Amsterdam Treaty) appeared to explain the negation of (7) at T1b_(the Nice Treaty).
T2_(the Lisbon Treaty) (IGC 2007; T2 stage in HI's T0-T1-T2 model, indicating (5)-(7) analytical factors)	● Treaty bases: Article 121 of the TFEU (amending ex Article 99 TEC) and Article 294 TFEU (ex Article 251 TEC) (i.e. the co-decision procedure/the ordinary legislative procedure (OLP)) ● Concrete measures and policies developed under the Lisbon Treaty: (a) <i>Europe 2020</i> launched in March 2010, which was based on the lessons and experience gained from the Lisbon Strategy covering the first decade of the 21st century; (b) the European Semester implemented as of 1 January, 2011 and codified into EU law in December 2011; (c) new coordinated and monitored elements (such as the AMR of the MIP) added to the European Semester procedure, particularly by the 'six-pack' and the 'two-pack' reforms of the SGP;

- A changed context for 2007 IGC negotiations:
 - (A) (5) member state preferences changed from the co-operation procedure to the OLP to codify the relevant measures into EU law and stressed the role of the EP and the Commission, exhibiting more democratic control as well as national willingness to strengthen economic policy coordination and fiscal performance surveillance; thus the presence of factor (2) at time $T1b_{(the\ Nice\ Treaty)}$, which was absent at time $T1a_{(the\ Amsterdam\ Treaty)}$, appeared more prominent in explaining those preference changes, while mechanism (4) of the posited path dependence model was still absent;
 - (B) (6) member states understood the needs to strengthen the issue concerned, towards which they showed a consensus rather than power distributions; the discussion of member state bargaining powers was not relevant also because of the negation of (3) and (4) at time $T1b_{(the\ Nice\ Treaty)}$; the other way around, the absence of (3) and (4) at time $T1b_{(the\ Nice\ Treaty)}$ did account for the inapplicability of member state bargaining powers (i.e. the negation of (6) at time $T2_{(the\ Lisbon\ Treaty)}$) in the proposed path dependence model;
 - (C) (7) treaty changes made to ex Article 99 TEC prescribed more responsibilities for the Commission and the EP, while the relevant legislative procedure was shifted from the co-operation procedure to the OLP; thus the negation of (4) at time $T1b_{(the\ Nice\ Treaty)}$ appeared inadequate to account for the changes of (7) at time $T2_{(the\ Lisbon\ Treaty)}$, but the essence of the equilibrium between EU institutions and member states, since the preventive arm of the SGP adopted in 1997, has remained unchanged due to the non-binding decisions regarding the issue concerned. The redefined role for EU institutions, (7), can be explained by (2), (8), (11), (12) and (13).

Notes: *‘On the issue concerned’ refers to the themes and functions of the European Semester: EU budgetary and economic policy coordination and surveillance, which can be traced back to the SGP’s preventive arm (i.e. Council Regulation (EC) No 1466/97).

To avoid internal text repetitions, the thirteen analytical factors are not presented here again. For the propositions of the thirteen factors and explanations to the formation of the proposed path dependent model, see section 4.2.4.

Table 8.14 illustrates how and to what extent the proposed path dependent model $T0_{the\ TEU}-T1a_{the\ Amsterdam\ Treaty}-T1b_{the\ Nice\ Treaty}-T2_{the\ Lisbon\ Treaty}$ was effective or ineffective in accounting for the European Semester. The negation/absence of certain causal steps among these thirteen analytical factors entailed in the proposed model restates Proposition 28(a): the particularity of the European Semester and its preceding practices where no legally binding decisions shall be taken have led to the partial collapse of the proposed path dependence model to account for the birth of the European Semester. Two findings can be derived from Table 8.14:

Proposition 29: *Among the three factors: (a) shifts in domestic conditions, (b) micro-level adaptations and “sunk costs” and (c) heavily discounted or unintended effects, factor (b) tends to exert decisive influence on member state preferences rather than the other two factors.*

Proposition 30: *On the issues that require coordination and cooperation among the individual member states as well as between the EU and national authorities, EU institutions (particularly the Commission) tend(s) to be assigned more functional tasks to maximize the synergistic effects between each individual member state, while national consensus rather than bargaining powers prevails in these issues.*

Proposition 30 once again highlights an important element of the EU project: how to deal with the collective challenges faced by the member states from a holistic approach so as to maximize the synergistic effects between each individual member state; the most realistic and pragmatic reason for the existence and unstopping development of the European regional integration project is that it brings extra benefits to the member states, which they cannot obtain on their own. The rationale behind the ever developing EU can be stated as: achieving more than the sum of individual parts, or else nation states would choose to develop separately. The previous Proposition 21 and *H14a_{extended}* have already expected a policy tendency of the EU in the future: macro-level coordination, cooperation and surveillance of micro-level performances, which tend to cut across national borders and/or policy areas. Along with the ever integrated economies among member states, EU supranational institutions, typically represented by the Commission, tend to play a more active and synergistic role in strengthening EU economic governance with collective and holistic approaches.

9 Chapter Nine: Conclusions

In the beginning of this new millennium, the European integration project reached another new milestone in its history: after arduous national ratification, the Lisbon Treaty, a revision of the aborted Constitutional Treaty, became effective as of 1 December 2009. A new era of the EU began, but at the same time, the world economy encountered a serious recession due to the 2008 global financial crisis, which firstly originated from the 2007 US subprime mortgage crisis and subsequently triggered the most severe challenge to the EU and EMU since their creation: the eurozone sovereign debt crisis starting from the fall of 2009. From the US subprime mortgage crisis, to the worldwide financial turmoil, and then to the euro area sovereign debt crisis, these consecutive events illustrate how deeply the world economies are interconnected with each other in the 21st century.

Facing unexpected difficulties and challenges, the EU and its member states have been actively engaging in working out solutions to the negative impacts exerted by the global financial crisis, particularly the euro area sovereign debt crisis, which has tottered the credibility of the common single currency — the euro — as well as the existence of EMU and the European integration project as a whole. After the 2008 global financial crisis, a series of new measures and policies have been adopted and implemented by the EU under the newly effective Lisbon Treaty, which aim at stopping the spread of the eurozone sovereign debt crisis, restoring financial stability and regaining economic growth and prosperity. Tables 1.2 and 1.3 of this dissertation have offered a glimpse of the initiatives and new developments of the EU during the post-2008 crisis era as well as after the Lisbon Treaty. Thus, the research question rose: Along with the EU's various new measures to counter the crisis, where are the EU and EMU heading? That is, what are the tendencies of EU economic governance after the 2008 crisis (as well as after the Lisbon Treaty)? This is the main research question (MRQ) of this dissertation, and to address it, another five sub-research questions (SRQs) were developed: Is the EU on the way towards a political union/political integration (SRQ1)? Do the current developments of the EU signify supranationalism over nationalism (SRQ2)? Why did the EU and member states agree to take these new measures (SRQ3)? What are the implications and consequences of the new

developments of the EU during the crisis (SRQ4)? What are the prospects for the EU and EMU in the future (SRQ5)? To answer these questions, this dissertation resorts to three main European integration theories — neo-functionalism, intergovernmentalism (represented by LI, a later development of intergovernmentalism) and HI, which, developed on the basis of EU empirical facts and aiming at theorizing the EU, provide useful epistemic tools to understand the EU and grasp its developing trends. The philosophical base of utilizing European integration theories to answer the research questions and unravel our puzzles of the external world is the relationship between ontology (i.e. what is the world?) and epistemology (i.e. how can we know the world?): human history and various creations till today show that human beings can conceptualize and make changes to the external world. Via the epistemic tools offered by the three main European integration theories which by nature conceptualize the EU project, we can understand and grasp the EU and even make changes to improve the EU. Naturally, these conceptual tools should be continuously checked and modified by empirical developments, thus the theories themselves also get developed and updated, suggesting a benign relationship between theories and practices. Towards the same case of EU development, different integration theories may approach it from different angles with different focuses and emphasized factors. Then this gives rise to another SRQ of this dissertation: What is the explanatory and predictive power of the three different European integration theories when they are applied to the EU's recent developments during the post-2008 crisis era (SRQ6)? That is, do these European integration theories account for the EU well and are there any theoretical developments of new variables and causal mechanisms to the existing theories? What are the theoretical reflections of the solutions to the crisis?

To answer these SRQs and the MRQ, this dissertation utilizes the congruence method and process-tracing to test the derived hypotheses from each theory with the three selected cases consistently — the European Semester, the ESRB and the ESM. Adopted under the Lisbon Treaty, these three newly implemented measures typically represent the EU's three distinctive rationales and approaches to address the negative impacts brought by the 2008 global financial crisis, particularly the eurozone sovereign debt crisis. First, implemented from 1 January 2011, the European Semester is designed as a reinforced EU policy coordination and surveillance procedure for coordinating, monitoring and giving recommendations to national fiscal and economic plans before national governments adopt their next year's budgets; as more coordinated contents

and policy dimensions are added to the European Semester's timetable, it has been developed into a grand and inclusive policy coordination and supervision mechanism, integrating all possible coordinated policy dimensions into a single framework. The European Semester represents the EU's rationale to address the crisis via strengthening the coordination and supervision of member states' fiscal and economic behavior so as to direct national fiscal conditions back to a sustainable track while promoting economic growth and job creation. Second, the 2008 global financial repercussions on the EU financial market revealed a "blind spot" of the EU financial system: there is no EU agency responsible for EU-wide macro-prudential oversight; thus, the purpose of establishing the ESRB is to fill such a vacuum in the EU project. The ESRB started on 1 January 2011, and its main function is to prevent or mitigate systemic risks via issuing warnings and recommendations so as to keep financial stability and thus contribute to a stable internal market and EU economic growth. Obviously, the creation of the ESRB stands for the EU's rationale to counter the crisis by strengthening EU financial supervision and blocking the loopholes of the Union's financial system. Finally, the adoption of the permanent ESM via Treaty revisions shows the EU's rationale to establish a permanent crisis resolution mechanism to provide direct, timely, and substantial financial assistance to the debt-ridden euro member states. Inaugurated in October 2012, the ESM works alongside the temporary financial assistance mechanism — the EFSF, but since 1 July 2013, the ESM has become the sole mechanism to provide financial assistance to the new requests in the future. Therefore, the three selected cases bear adequate variations for hypothesis tests so far as their nature, purposes and functions are concerned.

Accordingly, chapter one, "Introduction", mainly presents the research questions, the selection of the three European integration theories and the three new EU measures as cases to be studied, the research methods of congruence testing and process-tracing, and the whole research structure of this dissertation. Chapters two to four give the literature review of neo-functionalism, intergovernmentalism and HI consecutively, and based on each theory, hypotheses on the EU's development during the post-2008 crisis era, particularly the eurozone sovereign debt crisis, are derived. Chapter five offers a summary of all the hypotheses to be tested, including the relationship among the derived main hypotheses and their sub-hypotheses, after which a general description of the selected three cases follows. Subsequently, chapters six to eight carry out hypothesis tests and case studies, one chapter for one theory's hypotheses tests,

confirming, rejecting or revising these hypotheses, based on which new Propositions, as modifications or new developments to the existing European integration theoretical frameworks, are posited. Needless to say, all the Propositions in this dissertation are subject to further empirical tests. This chapter, Chapter nine, concludes: first, it will summarize the research results of hypotheses tests and case studies in the previous chapters; second, based on these research results, it will answer the research questions put forward in the beginning of this dissertation; finally, it will point out the research limitations of this dissertation and possible research topics in the future. Table 9.1 gives a summary of the hypotheses test results and new developments to the three EU integration theories.

Table 9.1 Summary of Hypotheses Test Results in Chapters Six, Seven and Eight

Vindication? Refutation? New Findings and Theoretical Developments?
Neo-functionalism (H1-H5)
➤ H1: confirmed; three new findings: Proposition 1: <i>Political integration (of different degrees) will follow economic integration, because political integration is the extension of economic interests and it is a necessary step to foster further economic benefits.</i> Proposition 2: <i>The mode and degree of EU political integration are defined and limited by EU Treaties; the political integration degree entailed in an EU measure links to the competence division and the legal basis prescribed in the Lisbon Treaty, which suggests a low-to-high scale of political integration via the division of supporting competences/competences of coordinating economic and employment policies — shared competences — exclusive competences.</i> Proposition 3: <i>Non-EU nationals' citizenship acquisitions and foreign tourist travelling, indicating personnel mobility across the EU, contribute to increasing social interactions which enhance EU political integration; the former tends to be subject to internal factors but impervious to external challenges, while the latter tends to be susceptible to external environments but impervious to internal crises.</i> ● H1a: not fully confirmed; a model construct: "Figure 6.5 A Functional Spillover Model"; ● H1b: confirmed and extended; three new findings: <i>H1b_{extended}: Confronted with collective problems and challenges (e.g. the sovereign debt crisis), national interest actors, both governmental and non-governmental, support further integration and promote European-level solutions over national-level means because (a) to do so brings more benefits and (b) it is an internal logical demand by the nature of collective issues which, on the one hand, cannot be addressed by individual member states, while on the other hand, the solution to the collective issues ultimately relies on the substantial cooperation and efforts of the member states.</i> Proposition 4: <i>Confronted with crises, actors of different levels within the EU (i.e. interest groups, national governments, and EU institutions) tend to forge common positions and support EU integrative actions, so crises also mean opportunities and tend to push further integration; during the crises, the EU is a useful scapegoat for national governments to carry out economic and social reforms when national interest groups oppose to do so.</i>

Proposition 5: *The core interests of interest groups decide their positions towards the EU project as well as their alliance with the Commission and/or the national government; interest groups tend to ever support EU integration so long as their core interests are not intruded upon by EU policies.*

Proposition 6: *The strength of interest groups' support for an EU policy proportionately links to the degree of political integration indicated by that policy: the higher the degree of political integration entailed in an EU policy, the stronger support by interest groups for that policy will be.*

- H1c: not fully confirmed; five new findings:

Proposition 7: *In formulating solutions to the crisis, the Commission's proposed initiatives tend to be framed up by the European Council and/or the Council of the Minister rather than by the Commission itself, which indicates that the fate of the EU still largely rests in the hands of the nation states.*

Proposition 8: *Confronted with crises, two main EU institutions, the Commission and the EP, not only tend to forge common supportive positions towards the EU project, but also tend to take further pro-integrative measures to push the EU forward.*

Proposition 9: *EU supranational institutions tend to take crises as opportunities to expand their powers and autonomy; meanwhile, EU institutions tend to mutually support each other's positions. (Termed "a synergy of the cultivated spillover effects of EU institutions")*

Proposition 10: *Confronted with crises, actors within the EU, both institutional and non-institutional, not only tend to forge common pro-integrative positions toward the crises, but also willingly take new integrative steps, thus pushing EU political integration further; meanwhile, these actors tend to support each other's positions. (Termed "a synergy between political spillover and cultivated spillover")*

Proposition 11: *A member state's contributions to the EU integration project, which are largely proportionate to its economic power, decide its political status and political clout within the EU system, that is, the stronger an economy is, the bigger share it shall contribute, and then the greater influence it shall exert over EU policy making; consequently, the EU's developments tend to reflect the biggest member states' interests.*

- H1d: not fully confirmed; three new findings:

Proposition 12: *There is a distinctive line between the euro and non-euro states within the EU: the euro countries tend to be more supportive of the EMU project and more enthusiastic about EMU affairs than the non-euro countries.*

Proposition 13: *During the crisis, the support rates for EMU tend to decrease, and thus the gap between public and elite support for the EMU project tends to get enlarged rather than narrowed.*

Proposition 14: *During the crisis, though the EU is still regarded as the most effective level at which to tackle the crisis, the public view seeing national governments as the most effective actors to cope with the crisis tends to increase.*

➤ H2: partially confirmed;

- For the first half of H2, confirmed with a model construct: "Figure 6.17: Favorable Conditions Fostering Spillover" and two new findings:

Proposition 15: *Crises, in institutional and/or non-institutional aspects, contribute to the occurrence of spillover and thus promote EU integration; five non-institutional factors (i.e. GDP growth; government budget deficits and debts, inflation, unemployment and sovereign bond yields) can be used to measure the magnitude of the crises, and the more severe the five indicators are, the more likely spillover will happen.*

Proposition 16: *During a crisis, spillover effects tend to occur, because the threat imposed by the crisis tends to activate and promote actors' motivations to work out solutions to the crisis.*

- For the second half of H2, rejected; a new finding:

Proposition 17: *The EU integration process will not slow down, because (a) as new unanticipated challenges emerge along with globalization, policy areas for member states to reach agreement are not going to be exhausted, and (b) though more national actors will pursue their political rights at the EU level, confronted with crises, different interests tend to forge common positions, and meanwhile, EU institutional arrangements frame up the channels and the possible representation for different interests.*

➤ H3: not fully vindicated; modifications to each sub-hypothesis:

H3a_{modified}: Increasing cross-border transactions among EU member states demand more regulation at the EU level (i.e. European standards, rules, and/or dispute resolution mechanisms) and/or macro-frameworks to improve the environment of transactions, leading to a process of EU institutionalization where rules are introduced, revised or reinforced on the basis of the mutual enforcement among EU institutions, EU rules, and transnational society, which appears more salient in front of crises.

H3b_{modified}: Along with the process of institutionalization, when EU supranational governance of making binding rules in a given policy area increases, national capacity to control policy outcomes in that policy area tends to decrease.

H3c_{modified}: During crises, the EU's new developments, which result from increasing cross-border transactions and transactors' demand for more regulation at the EU level and which may lead to a higher degree of EU supranational governance, exhibit a path dependence fashion, which is hard to reverse as current supranational rules define transactors' means to pursue their interests and/or dispute resolution mechanisms that shape the context for subsequent interactions and delineate the normative and institutional contours of future policy.

➤ H4: rejected; a new finding: "a saturated state" for some integration approaches and theories to account for the EU, e.g. *institutional/legalistic spillover does not necessarily accompany EU political integration.*

➤ H5: not fully confirmed, as

- H5a: confirmed;
- H5b: confirmed;
- H5c: not applicable to the three selected cases;
- H5d: confirmed by the cases of the ESRB and the ESM while refuted by the case of the European Semester.

LI (H6-H9)

➤ H6 (a criticism levelled at LI's predictions of consensus practices in the council): not gaining adequate supporting evidence, while the intergovernmentalist assumption that *the informal consensus practices in the Council tend to be impervious to external factors (e.g. the institutional design, the composition of the Parliament, and/or the views of the Commission)* (Proposition 18) is still subject to empirical tests;

➤ H7 (a revised LI three-stage model): the ESM (a suitable case) + the European Semester and the ESRB (unsuitable cases) (see Table 7.5); two models constructed: "Figure 7.2 A Simple Steady Process of the LI Model I" and "Figure 7.3 An Elaborated Process of the LI Model";

- H7a: confirmed by the ESM; two new national preference formation modes and a new scope condition added to the LI model presented in Figure 3.2:

Proposition 19: *When addressing the general economic and financial environment and/or the interconnectedness across different sectors, the line between producers and taxpayers/regulators tends to become diffuse as national preferences are based on the general economic considerations rather*

than any specific individual sectoral interests, exhibiting an equilibrium of the responsibility and actions between the national/micro level and the EU/macro level.

Proposition 20: *In terms of issues directly related to the fate of the euro and/or the EU, national preference formation is not only based on economic interest calculations, but also carries political considerations on securing the political project which enshrines more than half a century's efforts.*

Proposition 21: *On the issues cutting through multiple policy domains and addressing the interconnections and interdependence among various economic and financial sectors, the representation of domestic societal interests tends to be weak and diffuse; nevertheless, national governments tend to assume predictable pro-integrative positions, and meanwhile, EU institutions and their leaders tend to exert influence on policy formation as they possess macro-level information, resources, expertise and/or legitimacy that each individual national government lacks.*

- H7b: not confirmed by the ESM and thus another new scope condition added to the LI model:

Proposition 22: *The LI model's second stage (i.e. interstate bargains) works better when the negotiating parties belong to the same block in terms of the relevance of the agreement to them.*

- H7c: confirmed, and more causal mechanisms added to H7c:

H7c_{extended}: The EU's new measures and policies to solve the euro area sovereign debt crisis tend to reflect big countries' will rather than supranational entrepreneurship, because EU entrepreneurs rarely possess information or expertise unavailable to the member states; the amount of financial contributions to the new measures and policies, which is proportionate to member states' economic powers, decides each member state's political influence and bargaining power over the formation of the new measures and policies — the measures and policies concerning only EMU countries tend to reflect Germany's and France's national interests, which, however, can be challenged by a coalition of other EMU member states, particularly by the coalition forged by Italy and Spain.

Three new findings after H7b and H7c:

Proposition 23: *Interstate bargains consist of (several rounds of) national interest swaps and compromises; negotiating parties can make use of various strategies to secure their national interests the most, such as (a) offering package deals, (b) forming an alliance with other powerful parties, (c) making concessions in the marginal interests in exchange for support for core interests, (d) meeting certain demands of domestic opposition, (e) threatening to veto, (f) withdrawing from financial commitments, and/or (g) excluding recalcitrant negotiators.*

Proposition 24: *National core interests are the bottom line of interstate bargains, which tend to be unwavering during negotiations while exhibiting national policy tradition over time.*

Proposition 25: *The eurozone sovereign debt crisis further strengthens Germany's leading role while weakening France's political leverage in EMU affairs; nevertheless, Germany must form a coalition with France so as to materialize its national interests. Consequently, on the one hand, the new EMU policies and measures tend to start from and/or end at the merger and/or compromise of the propositions of the two core euro states, which normally are characterized by a German-French style of stricter v.s. lessened fiscal rules and of budgetary cuts v.s. spending growth emphases; on the other hand, Germany tends to make concessions to France's demands, but the negotiation results tend to represent Germany's national interests more than France's due to asymmetrical national economic powers.*

- H7d: not fully confirmed by the ESM, and thus a modified H7d:

H7d_{modified}: In order to solve the debt crisis, nation states make institutional choices to delegate and pool sovereignty to EU supranational institutions and/or intergovernmental institutions among (part of) EU member states so as to guarantee the credibility of intergovernmental commitments, and the latter may cause differentiated integration speeds among EU member states.

- H7e: confirmed and extended;

H7e_{extended}: Member states' credible commitments can be guaranteed and realized via strengthening the national executive, the national judicial branch, the national parliament and/or the very domestic groups that support the policy in the first place vis-à-vis other domestic forces favoring non-compliance.

- H7f: not applicable till the end of 2013 and remaining open to empirical tests in the future;
- H7g and H7h: confirmed by LI's failure in accounting for the European Semester and the ESRB; further complemented by another two scope conditions: Propositions 21 and 22.

➤ H8: not fully confirmed by the ESM, fully rejected by the European Semester and partially rejected by the ESRB; two points justified: (a) LI's argument of EU constitutional settlement and possible substantial reforms due to unforeseen exogenous shocks, and (b) crises can also be opportunities for incremental changes or for substantive reforms; a new finding: a crack on national government control over their fiscal activities, which is a core of national interests and expected to remain national, has been signaled by the ESM.

➤ H9: EP election turnout data in 2014 not available in the spring of 2014, and thus only preliminary analyses.

HI (H10-H16)

➤ H10: confirmed by the ESRB and the ESM (which indicate critical junctures) while rejected by the European Semester (which displays strong path dependence rather than a critical juncture);

➤ H11: confirmed;

➤ H12: not fully confirmed; new findings echoing, for example, Proposition 4; holistic approaches to the crisis stressed;

➤ H13: not fully confirmed; two new findings:

Proposition 26: *The once competitive options are not the necessary components of path dependence, but the unique functions and indispensable role of a new measure tend to adequately guarantee path dependence initiated by the new measure.*

Proposition 27: *Institutional structuring effects claimed by HI appear more observable in the legally binding measures adopted by the collective Community method, while they tend to be diffuse and weak in the measures concluded by intergovernmental approaches, because the latter are more subject to intergovernmental bargains and political will.*

➤ H14: H14(a)-(d) all confirmed except H14(d) not applicable to the European Semester and the ESRB; a newly developed favorable condition added to H14(a)-(d):

H14a_{extended}: The EU's new measures to address the crisis entail considerable institutional start-up costs and/or holistic collective approaches beyond individual member states' capacity which intend to serve the interests of the EU as a whole while maximizing each individual member state's gains from the increasingly integrated process; thus strong incentives are there for actors to stick to the new measures.

H14b_{modified}: National actors actively engage in learning and adapting to the new measures as the new measures are considered helpful to keep economic and financial stability; as actors gain more experience and expertise with these new measures and/or due to the inspiration from other practices, they are likely to introduce further innovations and changes into these measures and/or into other related policy areas.

H14c_{extended}: The new measures are compatible with the activities of other actors and institutions, and moreover, the new measures promote new developments in the linked areas and policies, which in turn increase the viability of the new measures; in addition, political decisions to make a new measure the

sole available mechanism of its kind reinforce the viability of the new measure.

H14e_{added}: The uniqueness and indispensability of the new measures to the EU project also contribute to nurturing path dependence after they have been taken. (restating Proposition 26)

➤ H15: confirmed; echoing *H14c_{extended}*;

➤ H16: partially confirmed by the ESRB and the European Semester, while totally rejected by the ESM; three new findings:

Proposition 28: *Unintended consequences after the initial decision tend to appear in two types of situations: (a) adopting new measures of legally binding powers where national control over EU policy is constrained; (b) adopting new measures built upon the previous practices or models, which have changed the context of the initial decision.*

Proposition 29: *Among the three factors: (a) shifts in domestic conditions, (b) micro-level adaptations and “sunk costs” and (c) heavily discounted or unintended effects, factor (b) tends to exert decisive influence on member state preferences rather than the other two factors.*

Proposition 30: *On the issues that require coordination and cooperation among the individual member states as well as between the EU and national authorities, EU institutions (particularly the Commission) tend(s) to be assigned more functional tasks to maximize the synergistic effects between each individual member state, while national consensus rather than bargaining powers prevails in these issues.*

Notes: Table 9.1 is complementary to Tables 5.1 and 5.2.

With the research results listed in Table 9.1, the answers to the MRQ and SRQs raised in the Introduction to this dissertation (chapter one) can now be given. The following first addresses the six SRQ, and then comes to the MRQ.

SRQ1 asked whether the EU is on the way towards a political union/political integration. Based on the empirical analysis of this dissertation, the answer is “Yes”. Table 6.1 indicates that the EU is on the way towards a political union, which, nevertheless, is unlikely to evolve into an entity of the highest degree of political integration (i.e. Mode 6 in Table 6.1); a prominent characteristic of this political union is the uneven political integration degrees across different policy areas, where the highest degree of political integration is entailed in the operation of the ECB with a unified monetary policy for the euro member states while the lowest degree of political integration tends to appear in policy coordination areas without legally binding powers to the member states, such as the European Semester. (See also the vindication of H1, Propositions 1, 2, 3, 6 and 10, and the new finding to H4)

SRQ2 asked whether the current developments of the EU signify supranationalism over nationalism. The answer, in light of the research results, is “Not too much”. According to Table 6.19 and the hypotheses test results of H3 about EU supranational governance based on transaction-based theory, implementing legally

binding policies is the key to pushing EU supranational governance over national control (see H3b_{modified}). Since the two new measures — the European Semester and the ESRB — do not have binding powers to their addressees, they do not signify supranationalism over nationalism, but the two do display strengthened and improved EU economic governance. The two measures' unique functions and indispensable roles to the EU project indicate the trend of EU supranational governance in the future: (a) addressing collective challenges from holistic approaches (e.g. H14a_{extended}); (b) emphasizing macro-level coordination and surveillance which serve the general interests of micro-level economic activities and tends to cut across different policy areas (e.g. H3a_{modified} and Proposition 21); and (c) enhancing and improving coordination and cooperation among various actors at both the EU and national level (e.g. Proposition 30). In contrast, the ESM, which almost fully confirms the eleven causal steps entailed in H3 (see Tables 6.19 and 6.20), expresses supranationalism over nationalism, but the ESM has been developed by the intergovernmental approach (i.e. concluded by part of EU member states via interstate bargains) rather than by the Community method (e.g. the OLP which codified the European Semester and created the ESRB). The intergovernmental method, however, imposes new challenges for the EU: how can the intergovernmental treaties (which may only stand for part of member states' interests) be compatible with the EU legal framework (i.e. the *acquis communautaire*), and to what extent is it justifiable for these intergovernmental interests to make use of existing EU institutions and resources which are supposed to serve the collective interests of the EU? Those worries had already been cited by the UK Prime Minister David Cameron when the TSCG went ahead without the participation of the UK (see Miller 27 March 2012). The parallel of intergovernmental approaches with EU collective decision-making also brings about another two concerns: first, intergovernmental treaties concluded by only a part of the member states and thus not binding to all tend to divide the EU member states into “ins” and “outs”, which causes different integration speeds (e.g. H7d_{modified}) and may polarize the existing cleavages in the EU project, such as South-North, big-small, core-periphery or euro-non-euro; second, intergovernmental treaties, though legitimized by national governments and their electorates, lack the participation and legitimization of the EP at the EU level, and thus raise the issue of democratic credibility when implemented at the EU level (Hallerberg et al. September 2012, 29). As a consequence, both the EU and its member states must solve the legality challenges and implementation problems

brought by the juxtaposition of existing EU law and the newly concluded intergovernmental binding agreements among (part of) EU member states.

As for SRQ3 about the reasons for the EU and member states to agree to take these new measures, the research reveals that basically, dealing with the collective sovereign debt crisis as well as the general financial turmoil and economic recession in the wake of 2008 global financial crisis is beyond individual member states' capacity and ability (see confirmation of H5b). The new measures, approaching the problems from the macro level with holistic perspectives, can bring realistic benefits to national economies (e.g. H1b_{extended} and H14a_{extended}). The supranational entity — the EU — is the most suitable available choice to fulfill the functions of macro-level coordination and surveillance, and despite the fact that public support for EMU decreased during the crisis, the EU is still regarded as the most effective level at which to tackle the crisis (Propositions 13 and 14). Other explanations may include: (a) national leaders' political considerations to secure the EMU and the EU project (Proposition 20), (b) EU policies are taken as a useful "scapegoat" to carry out reforms that national levels should but have failed to implement due to domestic pressures and opposition (Proposition 4), (c) crises push both the EU and national governments to forge common pro-integrative positions (Proposition 10), (d) national interest groups' representation tends to be diffuse on the issues cutting through multiple policy domains and/or addressing financial and economic interconnectedness and interdependence (Propositions 19 and 21), (e) policy tradition and institutional structural effects (see the confirmation of H11), (f) international discourse and the EU's own original initiatives (see hypotheses tests for H5d).

Concerning SRQ4, each confirmed hypothesized causal mechanism and the revisions and theoretical developments made to the hypotheses in this dissertation explain the implications and consequences of the EU's new developments during the crisis from various perspectives. For instance, from a neo-functionalist point of view, the new EU measures of economic integration lead to EU political integration, the degree of which tends to increase along with growing economic cooperation and social interaction among member states; standing on an LI camp, we find that though national governments, facing the severe collective crisis, tend to reach a consensus on strengthening policy coordination and fiscal, financial and economic supervision from a macro perspective, the EU's new developments during the post-2008 crisis era still tend to reflect big countries' will, especially on EMU affairs where Germany's leading

role has been further reinforced while France's political leverage has been weakened via the dealing with the eurozone sovereign debt crisis. In comparison, from an HI perspective, though the crisis has pushed a gush of institutional and policy reform of the EU, not all policies suggest critical junctures of substantial reforms to the EU project, and some measures display strong stickiness to EU and member state previous practices and policy traditions. Therefore, these three integration theories provide us with very useful epistemic lenses and conceptual tools to understand and unravel the EU.

SRQ5 is closely related to SRQ4, as the implications and consequences of the EU's new developments naturally indicate and, to a certain degree, prescribe the future of the EU and EMU. As a matter of fact, SRQ5 can be viewed as another version of the MRQ; still, SRQ5 about the prospects of the European integration project can be approached by probing the nature and the dynamics and driving forces of the EU. So firstly, what is the EU? According to Cini and Borragán (2010b, 3),

“The European Union is a family of liberal-democratic countries, acting collectively through an institutionalized system of decision making. When joining the EU, members sign up not only to the body of EU treaties, legislation, and norms (the so called *acquis communautaire*), but also to a set of shared common values, based on democracy, human rights, and principles of social justice. Even so, members, and indeed the European institutions, are keen to stress the diversity of the Union — most obviously in cultural and linguistic terms.”

Compared with such a general conception of the EU, the EU, based on the analysis in this dissertation, can be defined from its functions:

The European Union is a political project purposely forged by the European national states to meet their common challenges and to realize collective prosperity, stability and security. The EU aims to properly complement national functions and fulfill those that are beyond each individual member state's capacity and ability. Challenges and crises always expose nation states' limitations while also pointing out the necessity and the potential benefits of strengthening EU-wide supranational governance, coordination and cooperation, and thus they also mean and indeed provide opportunities for EU growth and development (e.g. Proposition 4). Coming into the new era of globalization, the likelihood for EU member states to retreat from this regional integration regime becomes dimmer, while the importance of the EU, like “an

aircraft carrier” providing a safe and stable platform for the member states (like “individual aircrafts”) has ever been increasing. How would it be realistic and possible for a single “aircraft” (i.e. an EU member state) to abandon this European “carrier base” (i.e. the EU)? More likely is that member states will build this giant “carrier” more accommodationable for each “aircraft” to handle specific “internal mechanic difficulties” (i.e. domestic problems) and/or “external bad weather” (i.e. external challenges).

From such a perspective, besides supranational and national actors, newly emerging situations and crises (being external or internal) are also the driving forces behind the integration process (see Propositions 4 and 9 and justified point (b) after H8 test), and EU dynamics, apart from institutionalization and intergovernmental negotiations, also rest on solving problems arising from national searches for economic prosperity, political stability and military security from the ever integrated and interdependent national economies as well as the world economy. Consequently, this dissertation asserts that EU economic integration with political integration results is irreversible, and the EU and EMU have become more mature and stronger after weathering through the crisis.

SRQ6 addresses the explanatory and predictive power of the three European integration theories to account for EU recent developments after the 2008 crisis. Based on the empirical analysis of this dissertation, the following answers can be given.

Table 9.1 provides the hypotheses test results for each hypothesis derived from the three European integration theories. Generally speaking, the causal mechanisms posited by the three theories (except the inapplicable situations and unsuitable cases) largely account for the three selected measures, and meanwhile, based on the case studies, some of the derived hypotheses have been modified or extended, new propositions (as many as thirty) with some new variables have been added, and three models have been constructed (see Figure 6.5 A Functional Spillover Model; Figure 6.17: Favorable Conditions Fostering Spillover; Figure 7.3 An Elaborated Process of the LI Model).

To be specific, among the five neo-functionalist hypotheses (H1-H5), H1 is fully confirmed, while the other four partially collapse in the three cases. Though H1 has been vindicated by the three measures, the specific three sub-type spillover mechanisms (H1a-H1c) are effective to different degrees, and only H1b (i.e. political spillover) has been fully confirmed by the three cases. H1d is an attempt to ascertain a

proportionate increase among political spillover, cultivated spillover and public support, along with increasing functional spillover; the case study results, however, refute such a proportionate connection assumption, and public support rates for the EU project appear to be issue- and country-specific. With regard to LI — a later and adapted form of intergovernmentalism — it turns out to be the most rigorous theoretical framework among the three selected theories, as it not only effectively accounts for the creation of the ESM, but also the two scope conditions attached to the LI model work well in explaining LI's applicability to the suitable case (i.e. the ESM) and LI's weak applicability to the unsuitable cases (i.e. the European Semester and the ESRB). Nevertheless, LI's failure and inapplicability to EU daily decision-making (see Table 7.5) have restrained its theoretical explanatory and predicative power to account for the EU's developments. Targeting at and specializing in explaining EU milestone-like developments brought about by intergovernmental negotiations, the LI model has been continuously checked, modified, and expanded; similarly, in this dissertation, the existing propositions got refined and new factors and causal mechanisms were added to the LI model. As a consequence, this dissertation with new propositions has sharpened LI's accuracy and rigorousness. Besides, the intergovernmentalist constitutional settlement argument has been justified, while another two assumptions (Proposition 18 and H9) still need further checking. As for HI, it advocates a retrospective view to evaluate EU policies and offers a dichotomous understanding of EU development: path dependence or critical junctures. Any policies and actions must have historical roots and ancestors, or else they represent critical junctures so far as they define a new national-national and/or supranational-national competence and power geometry compared with the previous practices. The argument of path dependence emphasizes policy continuities due to the structural effects of the context as well as the mutual structural effects between policies and the general context (institutional and non-institutional), while the proposition of critical junctures stresses substantial reforms departing from the previous practices or the existing structural constraints, indicating changed competence and power distributions between EU institutions and member states and/or among the member states. Such dialectically dichotomous historical and institutionalist views seem to make HI unassailable — it actually represents an effective epistemic instrument to recognize and grasp reality, but still, the case study results of this dissertation indicate several deficiencies of HI assumptions (e.g. see Propositions 26 and 27). For example, HI's arguments of the trade-off between

increasing supranational governance and decreasing national control over EU policy-making and unintended consequences (also a neo-functionalist perspective) tend to be only applicable to explain legally binding policies; besides, not all EU policies have solid and deep historical roots, and suddenly rising unexpected situations can bring new sprouts of paths, such as in the case of the ESM.

Approaching the EU from different perspectives with different focuses, the three integration theories tend to complement rather than compete with or substitute each other. Neo-functionalism tends to grasp the general spillover and supranational governance trends of the EU project in a globalization context with the focuses on EU collective decision-making involving supranational institutions together with national governments and interest groups, while LI is particularly devoted to explaining EU leaping developments forged by intergovernmental negotiations, emphasizing national interests, bargaining powers and asymmetrical gains. Generally speaking, neo-functionalism takes a top-down approach, while LI (intergovernmentalism) presents a bottom-up view to account for the EU. Nevertheless, despite their sharp contrasts, it is amazing to find that the new findings via their own lenses tend to support the propositions of each theory's "traditional opponent". For instance, Proposition 5 formulated after the neo-functionalist political spillover hypothesis test stressed "core interests" of societal groups in deciding their positions towards the EU process and EU policies, which actually is a key concept wielded by LI (see Proposition 24 and Figure 7.3); in turn, the case study results after the LI model test further confirmed the indispensable role of EU supranational institutions and their leaders (Proposition 21), which has always been valued the most by neo-functionalism — even though the existing LI model has already admitted and prescribed the role for the supranational actors as being one of its scope conditions (see H7). Moreover, both neo-functionalism and LI address some common topics: (a) public support for the EU (H1d and H9), (b) potential two speeds of integration (Proposition 12, H7d_{modified}), and (c) the proportionate links among the national economic power, financial contribution to the EU/EMU project, and the political leverage over EU/EMU affairs and thus EU policies tending to express big member states' wills and preferences (Proposition 11 and H7c_{extended}). Viewing all of these three integration theories together, all of them are based on the micro level economic activities: neo-functionalism emphasizes cross-border transactions, LI domestic constituents (e.g. producers v.s. taxpayers/regulators), HI "sunk costs"; without doubt, micro economic activities are

the ultimate base, engine and goal of the European integration project.

Regarding the possibilities suggested in the Introduction (chapter one) of this dissertation of synthesizing multiple causal chains linking the specific independent and dependent variables (i.e. possible “equifinality” in typology), this dissertation suggests a combination of the three distinctive theoretical tools to explain a new measure simultaneously, as each of the three has its own peculiarities. The experience of the case studies of this dissertation vividly supports the following.

Proceeding with the hypotheses tests in chapters six, seven and eight, the prominent features of each theory were revealed: neo-functionalism stresses spillover effects and the pro-integrative role of both supranational and national actors; in contrast, LI mainly focuses on national interests and preferences and national governments’ role in deciding EU policies via interstate bargains, while HI tends to explore policy constraints and roots from the past into the future, emphasizing the structural effect of path dependence. Facilitated by the three theories, the dissertation has obtained particular epistemic lenses and theoretical tools to understand and unravel the EU: chapter six, offering neo-functionalist hypotheses tests, makes studies on EU collective decision-making mainly involving EU supranational institutions as well as the general trend of EU economic integration; then chapter seven of LI changes the focus to the national states: national interests, bargaining powers, potential asymmetrical institutional access and benefit gains, and finally chapter eight diverts attention to the policy roots and historical paths of the new measures. Obviously, each of the three theories has its own strengths and particular value in accounting for the three new measures as well as the EU, and it is not until in chapter eight that the relevant previous EU practices and policy traditions of the three new measures were revealed.

Therefore, combining the three integration theories’ particularities together will be a powerful and relatively comprehensive epistemic tool to understand, grasp and unravel the EU. Equipped with the three European integration theories, when coming across a new EU policy or measure, we know how to understand it better by asking and answering: how has it been brought into existence against a specific context (a neo-functionalist perspective)? What are national government positions based on domestic interest groups (an LI approach)? How is it connected with the previous practices and how about its viability in the future (an HI perspective)? Based on the research results of this dissertation, a scope condition for the application of the three is advised: neo-functionalism is more suitable to explain policies and measures developed

via the EU's collective decision-making procedures, while LI is more appropriate in accounting for those developed outside the Community method, that is, via intergovernmental negotiations; by comparison, HI is more applicable to those of legally binding powers to their addressees.

Having focused on the answers to the SRQs of this dissertation, it is now possible to move to the MRQ of this dissertation: along with the EU's new developments during the post-2008 crisis era, particularly during the eurozone sovereign debt crisis, what are the tendencies of EU/EMU economic governance now and in the future? The first five SRQs actually have provided detailed answers to the MRQ from five related, but different angles. Here, focuses are shifted to the three selected cases themselves to see what trends of EU economic governance in the future are particularly entailed and reflected by the three new measures. The most prominent feature of the European Semester and the ESRB is that under both, no legally binding decisions shall be taken, which indicates a trend of strengthening EU economic governance in the future: promoting macro level guidance, cooperation and surveillance, which may not necessarily have legally binding powers to the addressees, so as to serve micro level activities better. This trend demands and suggests another trend of EU economic governance in the future: improving policy and institutional coordination and cooperation cutting across multiple policy areas and involving various national and supranational actors, which implies taking holistic approaches to the issues concerned from a whole EU perspective so as to bring out a maximal synergetic effect of each individual member state as well as individual policies and agencies (see also Proposition 30); in essence, how to maximize the synergistic effect, and as for the EU, how to maximize the extra benefits brought by the coming together of 28 member states. With regard to the ESM, its formation and functional evolution show a German-Franco dominance over EMU affairs, where German leverage begins to surpass France's due to the enlarged gap of the economic powers between them, but at the same time, France is an indispensable partner/coalition member for Germany to materialize its national interests. Being designed as the permanent crisis resolution mechanism for the euro area countries, the ESM indicates a justification for a two-speed EU. Last but not least, the EU's new developments after 2008 almost happen with the effectiveness of the Lisbon Treaty — the selected three cases are the examples, so the conclusions above also suggest EU economic governance trends after the Lisbon Treaty.

Apart from the theoretical developments, new findings and answers to the research questions, this dissertation also has its research limitations: it does not examine the interactions and possible synergetic effects of the three selected measures, neither does it delve into the real impacts and effectiveness in solving the crisis after their implementation. Nevertheless, with solid literature reviews and applications of three major European integration theories, this dissertation has gained a broad understanding of EU economic governance and the EU's efforts to solve the crisis, which shall build up a platform for the further research on the issues related to the eurozone sovereign debt crisis and EU economic governance. Research after this dissertation could address the limitations pointed out above, mainly focusing on the practical functions and effects of the individual measures over time, such as the European Semester. Moreover, the EU's methods, experience, and lessons to counter the severe economic recession and the sovereign debt crisis have provided valuable examples for other countries and regions to improve economic governance. As the author of this dissertation comes from China, the world's second largest economy today, the author plans to carry out research of "lessons and inspirations of EU economic governance during the post-2008 crisis era to China's economic governance in transformation". This dissertation is a summary of doctoral research, but a new starting point to probe the EU deeply in a global context.

10 Appendices

Appendix 1: The Stability and Growth Pact (SGP)¹⁵¹: Surveillance of Budgetary Policies

➤ Overview:

Agreed in 1997, the SGP contains two arms: “[t]he preventive arm seeks to ensure that fiscal policy is conducted in a sustainable manner over the cycle, preventing recourse to the corrective arm” while “[t]he corrective arm – also known as the Excessive Deficit Procedure (EDP) – sets out the framework for countries to take corrective action in the case their government deficit is above 3% of GDP or when their debt is over 60% of GDP and not falling quickly enough towards the Treaty reference value” (SGP FAQs, European Commission).

“The cornerstone of the preventive arm is the country-specific medium-term budgetary objective (MTO), defined in structural terms (i.e. in cyclically adjusted terms and net of one-off and other temporary measures). Member States outline their medium-term budgetary plans in stability and convergence programmes (SCPs), which are submitted and assessed annually in the context of multilateral fiscal surveillance under the European Semester.

[...]

Non-compliance with either the preventive or corrective arms of the Pact can lead to the imposition of sanctions for euro area countries. In the case of the corrective arm, this can involve annual fines for euro area Member States and, for all countries, possible suspension of Cohesion Fund financing until the excessive deficit is corrected.” (“Stability and Growth Pact”, European Commission)

In short, “3%” and “60%” are the two key convergence criteria for the EU member states to join EMU as well as the rules in place to ensure sound public finances of the euro countries. The evolution of the SGP reflects the demands and necessity of strengthening the fiscal discipline for the eurozone states. In comparison, “[t]he Macroeconomic Imbalances Procedure (MIP) operates alongside the SGP to identify and correct macroeconomic

¹⁵¹ If not otherwise indicated, this appendix is adapted from “Stability and Growth Pact” (European Commission).

imbalances and monitor competitiveness developments” (“Stability and Growth Pact”, European Commission).

These two crucial ‘convergence criteria’ were maintained later, while other elements were introduced during the evolution of the SGP between 1997 and the SGP reforms of 2005, in 2011 with the “six-pack” and in 2013 by the “two-pack”. Moreover, the intergovernmental TSCG, also known as the “Fiscal Compact”, concluded by the eurozone countries plus eight non-eurozone members (but without the participation of the UK and the Czech Republic), has entered into force on 1 January 2013. An emphasis was notably put on the country-specific MTO, aimed at meeting the two fiscal criteria defined in the original SGP, which actually is the core of the “balanced budget rule” as introduced by the TSCG (Hosli and Pan 2014).

➤ Legal basis of the SGP:

Treaty on the Functioning of the European Union (TFEU): Articles 121 and 126 provide the legal basis for the SGP preventive arm and the corrective arm and the EDP; Protocol 12 defines public deficit and debt reference values: 3% and 60% of GDP.

➤ The evolution of the SGP’s preventive arm:

● Origin:

1997: The SGP was approved as secondary legislation: *Council Regulation (EC) No 1466/97 of 7 July 1997 on the Strengthening of the Surveillance of Budgetary Positions and the Surveillance and Coordination of Economic Policies*, which entered into force on 1 July 1998.

● Significant SGP reforms in 2005 and 2011 via the six-pack:

2005: *Council Regulation (EC) No 1055/2005 of 27 June 2005 Amending Regulation (EC) No 1466/97 on the Strengthening of the Surveillance of Budgetary Positions and the Surveillance and Coordination of Economic Policies*, which entered into force on 27 July 2005. “The two original criteria were maintained but other aspects were introduced, including the long-term sustainability of public finances in the assessment of the stability and convergence programmes”.^①

2011: Two of the six-pack — *Regulation (EU) No 1175/2011 of the European Parliament and of the Council of 16 November 2011 Amending Council Regulation (EC) No 1466/97 On the Strengthening of the Surveillance of Budgetary Positions and the Surveillance and Coordination of Economic Policies* and *Regulation (EU) No 1173/2011 of the European Parliament and of the Council of 16 November 2011 on the Effective Enforcement of Budgetary Surveillance in the Euro Area* — became effective as of 13 December 2011. The former codified the European Semester into EU law, while the later introduced an interest-bearing deposit sanction (amounting to 0.2% of GDP) to the preventive arm of the SGP.

March 2010: *The European semester* was agreed, and at the beginning it was framed as a new code of conduct on the implementation of the SGP, which only needed approval from the Ecofin Council of 7 September 2010 to initiate the first cycle of the Semester.^(④, p.12)

September 2010: The Commission proposed the “six-pack”, which consists of five Regulations and one Directive to strengthen EU economic governance.

12 January 2011: The adoption of the first AGS by the Commission marked the start of the first European semester in line with *the Europe 2020 strategy* (which was launched in 2010, concerning the EU’s ten-year growth and jobs strategy).

March 2011: *The Euro+ Pact (i.e. the Euro Plus Pact)* concluded by the 17 euro states with another six non-euro member states (Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania) aims at “improving the fiscal strength and competitiveness of Member States” via “present(ing) their commitments in time to be included in their SCPs and NRPs”^①, and thus the Euro Plus Pact falls directly into the European Semester mechanism. It is not a secondary legislation, and rather a political commitment of the euro area states and other interested EU member states to enhance policy coordination.

13 December 2011: *The “six-pack”* entered into force, legislatively bringing the coordination, surveillance and policy advice given on the budgetary and economic policies under the same umbrella of the European Semester. Among other things, “[t]he Economic Dialogue codified by the six-pack gives the European Parliament the right to intervene in the Semester at almost any point in time”, thus redefining the EP’s role in as well as giving legitimacy and credibility to the Semester process (④, p.14); meanwhile, the new MIP is also introduced by the six-pack, “which imposes compulsory adjustment on euro area Member States that suffer from significant macroeconomic imbalances” (④, p.15). Furthermore, the six-pack strengthens financial sanctions for euro area states by introducing reverse qualified majority voting (RQMV) for most sanctions.

● Further SGP reforms after the six-pack:

1 January 2013: *The Fiscal Compact*, contained in the intergovernmental TSCG, entered into force, further strengthening SGP key provisions by enshrining a balanced budget rule with a lower limit of a structural deficit of 0.5% GDP and a country-specific automatic correction mechanism “in case of deviation from the MTO (as defined in the SGP) or the adjustment path towards it (also included in the ‘two-pack’)” into national law, preferably of constitutional nature^②, and the failure to do so may lead to a financial sanction of 0.1% GDP imposed by the ECJ^⑤. The TSCG without the participation of the UK and the Czech Republic, is binding on all euro states which shall ratify it, “while other contracting parties will be bound only once they adopt the euro or earlier if they signal it”^②. Other provisions in the TSCG aiming at reinforcing the SGP include: re-stating the debt rules introduced by the six-pack, particularly deficit behavioural commitment reproducing RQMV for the euro states and reinforcing economic policy coordination and surveillance via “ex-ante coordination of debt issuance plans among Contracting Parties and economic partnership programmes for Member States in EDP, which detail the structural reforms needed for an effective and durable correction of their excessive deficit”^⑤. Though the TSCG is an intergovernmental Treaty and not an EU Treaty, it does prescribe the incorporation of its substance into the EU legal framework within five years. Currently, the TSCG runs in parallel with the six-pack. In fact, the TSCG further strengthens SGP rules and continues SGP reforms after the six-pack via an intergovernmental approach: it imposes more stringent sanction rules than the six-pack does. For instance, Article 7 of the TSCG suggests that the RQMV applies to all stages of the EDP, as the eurozone states breaching the deficit criterion have to support the Commission’s proposals or recommendations unless a qualified majority opposes the Commission’s decisions. This means RQMV “applies to all stages of the EDP, even if not foreseen in the six-pack”^⑤.

30 May 2013: *The “two-pack”*, built on the six-pack and complementing the SGP reforms, “the

European framework for fiscal surveillance, and the European Semester for economic policy coordination” while only applicable to the euro area states, entered into force, with the purpose of specifically introducing additional surveillance and monitoring procedures and thus stronger budgetary discipline mechanisms for the euro area countries due to “the higher potential for spillover effects of budgetary policies in a common currency area”; it paves the way for further reinforcing EMU with the steps outlined in the Commission’s “Blueprint for a Deep and Genuine EMU”^③. The six-pack reforms the SGP mainly by adding new requirements to budgetary policy, notably new fiscal rules to the EU member states, while the “two-pack” focuses on euro states’ budgetary coordination and surveillance by introducing and integrating a common budgetary timeline and common budgetary rules into the European Semester: “national draft budgets (of the euro states) need to be submitted to the Commission by 15 October every year so that the Commission can check adherence to commitments taken in their Stability Programmes” (④, p.46). The relation between the two-pack with other EU economic governance measures are as follows: (1) regarding the TSCG, it integrates some elements of the Fiscal Compact into EU law, “including the requirements for Member States in EDP to prepare economic partnership programmes and the requirement for ex-ante coordination of Member States’ debt issuance plans”; (2) as for the reformed SGP and the European Semester, it adds an autumn counterpart to the spring semester exercise, focusing on the eurozone countries’ budgetary plans for the coming year so as to check whether national budgetary policy is in line with the SGP and CSRs and thus give opinions before national budgets get adopted; in addition, due to the enhanced surveillance process (i.e. the new reporting procedures of the measures taken by member states in the EDP), it strengthens the Commission’s “toolbox” for making timely on a breach of EDP recommendations, which may lead to decisions of imposing gradual financial sanctions introduced by the six-pack; (3) concerning the operative financial backstops, it is consistent with ESM/EFSSF guidelines, and moreover, it “embeds in the EU legal framework the working practices established under these intergovernmental instruments”^③.

- Further SGP reforms and content expansions of the European Semester may continue in the future.

Sources: ① European Parliament-2012/0002(NTT); ② “Stability and Growth Pact” (European Commission); ③ European Commission-MEMO/13/457 (27 May 2013); ④ Hallerberg et al. (September 2012); ⑤ “Six-Pack? Two-Pack? Fiscal Compact? A Short Guide to the New EU Fiscal Governance” (European Commission). The Table of “The evolution of the SGP” above is adapted from ①,②,③,④,⑤ and “Surveillance of Budgetary Policies” (European Union).

Appendix 2: The ECB's Responses and Actions in the Post-2008 Crisis Era

In the entry of “EU Response to the Economic and Financial Crisis” on the official website of the Economic and Financial Affairs of the European Commission, it is clearly stated that

“The economic crisis has prompted intense and sustained action by the EU’s national governments, the European Central Bank and the Commission. All have been working closely together to support growth and employment, ensure financial stability, and put in place a better governance system for the future.” (“EU Response to the Economic and Financial Crisis — April 2014”, European Commission)

Therefore, in order to obtain a rounded picture of the EU’s efforts to address the eurozone sovereign debt crisis, which is the main theme for the EU after the 2008 crisis, it is essentially necessary to know the ECB’s responses and measures to counter the economic and financial crisis as well as the euro crisis. Apart from its procedural involvement in adopting new EU regulation and rules to address the crisis (e.g. the codification of the European Semester, the establishment of the ESRB, the six-pack, and the two-pack) and the new concrete tasks conferred upon the ECB along with the implementation of the EU’s new measures to combat the crisis, the ECB has its own eye-catching initiatives: it purchases member states’ sovereign debts on secondary markets, contributing to the building up of a financial stability safety-net alongside the EFSM, the EFSF, the permanent ESM and the IMF. Two events demonstrate such initiatives.

The first one is that, from 6 July 2009 to the end of June 2010, the ECB directly purchased a nominal amount of 60 billion euro-denominated covered bonds issued in the euro area, which is called the “covered bond purchase programme” (CBPP) (Beirne et al. 2011, 5).¹⁵² This initiative aims at “(a) promoting the ongoing decline in money market term rates; (b) easing funding conditions for credit institutions and enterprises; (c) encouraging credit institutions to maintain and expand their lending to clients; and

¹⁵² Also see ECB Press Release (4 June 2009, *Purchase Programme for Covered Bonds*); ECB/2009/16 (*Decision of the European Central Bank of 2 July 2009 on the Implementation of the Covered Bond Purchase Programme*). Trichet (13 July 2009) explained that “[c]overed bonds are debt securities issued by banks, which give them access to funding of a longer-term nature than the ECB’s refinancing operations. Covered bonds thus allow banks to manage the maturity mismatch between their assets and liabilities”, which are believed to complement the ECB’s other liquidity management measures.

(d) improving market liquidity in important segments of the private debt securities market” (ECB/2009/16), and it is evaluated that “the CBPP has been effective in meeting its objectives” (Beirne et al. 2011, 5). As this CBPP expired on 30 June 2010, the ECB, after “taking into account market conditions and the Eurosystem’s monetary policy needs”, decided to start a second CBPP (CBPP2) of a nominal value of EUR 40 billion from 4 November 2011 onwards till 31 October 2012 with the objectives to “(a) easing funding conditions for credit institutions and enterprises, and (b) encouraging credit institutions to maintain and expand lending to their clients” (ECB/2011/17), and being available for lending is the salient feature of the CBPP2 portfolio (ECB Press Release, 3 November 2011). Such new policies, however, are against the statutory rules for the ECB as being a fully independent institution (Hosli 2005, 51), so when the two CBPPs were legalized, the ECB clearly stated that the *Guideline ECB/2000/7 of 31 August 2000* (ECB/2000/7) is NOT applicable to both programmes.¹⁵³ This new policy instrument of covered bond purchasing is defended by former ECB President Trichet (1 November 2003 — 31 October 2011) as one of the “non-standard measures” — compared with the traditional standard measure: the interest rate management — taken by the ECB to tackle the new problems arising from the new situations (Trichet 13 July 2009).

The second initiative taken by the ECB is that on 6 September 2012, “aim(ing) at safeguarding an appropriate monetary policy transmission and the singleness of the monetary policy”, the Governing Council of the ECB, following the terminated Securities Market Programme (SMP), decided to implement outright purchases of sovereign bonds on secondary markets in the euro area — a new framework called Outright Monetary Transactions (OMTs), which is conducted with strict and effective conditions to the countries attached to an appropriate programme under the EFSF and the ESM (e.g. Cœuré 23 September 2012; Draghi 9 October 2012).¹⁵⁴ New ECB President Draghi (9 October 2012) said it is an important initiative for the ECB to address the distortion and the asymmetry of financing costs for banks across the euro area, which “hinder[...] the smooth functioning of credit markets and the transmission of monetary policy”, but the conditionality means that the countries concerned have to request a bailout via the EFSF or the ESM before the OMTs can be activated. The

¹⁵³ See Decision of the ECB of 2 July 2009 (ECB/2009/16) and Decision of the ECB of 3 November 2011 (ECB/2011/17).

¹⁵⁴ See also ECB Governing Council Decisions (September 2012).

OMT is a bold method put forward by the ECB to drive down the sovereign debt yield levels in Spain, Italy and other troubled euro countries, and the market did give positive reactions to the ECB's this decision as the Spanish government's costs of borrowing over two years fell from 4.71% to 2.80%, three years from 5.09% to 3.68%, and four years from 5.97% to 4.60% ("ECB's Mario Draghi Unveils Bond-Buying Euro Debt Plan", *BBC News*, 6 September 2012). The OMTs are valued to be able to "address severe distortions in government bond markets which originate from, in particular, fears on the part of investors of the reversibility of the euro" and thus is taken as an instrument of the ECB to support confidence in the European financial market as well as to keep price stability in the euro area (Cœuré 23 September 2012). Again, the OMT framework does not comply with the original ECB rules, which forbid the ECB to monetize national debts or directly buy government bonds, and the OMT tool, "cut(ting) the borrowing costs of debt-burdened eurozone members by buying their bonds", is a new invention by the ECB against the new harsh financial and economic situation to save the single currency ("ECB's Mario Draghi Unveils Bond-Buying Euro Debt Plan", *BBC News*, 6 September 2012). Draghi, the President of the ECB, defends this new device in the following way:

"The Governing Council remains firmly committed to preserving the singleness of its monetary policy and to ensuring the proper transmission of the policy stance to the real economy throughout the euro area. OMTs will enable us to provide, under appropriate conditions, a fully effective backstop to avoid destructive scenarios with potentially severe challenges for price stability in the euro area. Let me repeat again what I have said in past months: we act strictly within our mandate to maintain price stability over the medium term; we act independently in determining monetary policy; and the euro is irreversible". (Draghi et al. 4 October 2012).

Moreover, the ECB has adopted other measures such as admitting certain assets denominated in pounds sterling, yen or US dollars as eligible collateral (ECB/2012/23) and lowering key interest rates¹⁵⁵ to improve euro countries' capital liquidity. Altogether, as Trichet (13 July 2009) once summarized, the ECB approaches the financial crisis and then the euro crisis from four dimensions: interest rates, enhanced

¹⁵⁵ Starting from 11 July 2012, the ECB decided that the interest rates on the main refinancing operations, on the marginal lending facility and on the deposit facility are at 0.75%, 1.50% and 0.00%, respectively. Since 2008 till October 2012, it has lowered its policy rate from 4.25% to 0.75%. See "Key ECB Interest Rates" (European Central Bank).

credit support, liquidity management measures, covered bond purchases.¹⁵⁶ All in all, the most significant and eye-catching policies adopted by the ECB during the post-2008 crisis era are the newly implemented non-standard measures, such as the modification of the allotment procedures and the collateral policy and the introduction of OMTs so as “to ensure the effective transmission of its monetary policy across the euro area” (Cœuré 23 September 2012). All the non-standard measures suggest the creativity, flexibility and changing positions of the ECB in front of the new severe challenges.

Finally, it is worth pointing out that an integrated “banking union” is forming. On 12 September 2012, the Commission made proposals on a single supervisory mechanism (SSM) for all banks in the euro area under the leadership of the ECB (COM(2012) 510 Final), which “includes further components such as a single rulebook, common deposit protection and a single bank resolution mechanisms”, marking the first step towards the establishment of a “banking union” (“Banking Union”, European Commission). Later, on 8 October 2012, Cœuré, a Member of the Executive Board of the ECB, said that the ECB was proceeding with a banking union and he elaborated the banking union as follows:

“It is an institutional framework which ultimately should have three legs: a single supervisory mechanism (SSM), a common resolution structure and a shared deposit insurance. The SSM would bring all supervisory decisions about euro area banks under one roof, at the ECB, allowing supervisors to take into account externalities and general exposures to systemic risk. The common resolution structure, with a unified resolution regime and single resolution fund, would manage efficiently the wind-down even of large cross-border banks. Shared deposit insurance would reassure depositors that their money is safe in any euro area bank, regardless of its country of operations or legal domicile.” (Cœuré 8 October 2012)

The SSM is finalized and created by two regulations: Council Regulation (EU) No 1024/2013 (in accordance with a special legislative procedure) and Regulation (EU) No 1022/2013 (in accordance with the OLP), and according to the latter, the SSM becomes effective as of 30 October 2013. The significance of the creation of the SSM, as Draghi (17 December 2012) once pointed out, lies in the fact that re-launching the

¹⁵⁶ For the detailed and updated information on the ECB’s responses to the post-2008 crisis situation, see the Annex of “Chronology of Monetary Policy Measures of the Eurosystem” in each *ECB Monthly Bulletin* from, for example, January 2009.

longer-term vision on EMU, the SSM shall complete the current EMU “towards a genuine EMU” with “a clear demonstration that euro area Member States are ready to agree to a substantial sharing of sovereignty when circumstances require”. Meanwhile, Cœuré (8 October 2012) emphasizes that the banking union should be jointly implemented with other measures, such as the Fiscal Compact and the functioning of the EBA. Besides, according to the Commission website, on 10 July 2013, the Commission tabled its proposal for a Single Resolution Mechanism (SRM) for the Banking Union (COM(2013) 0520 Final), which, as being designed “to centralize key competences and resources for managing the failure of any bank in the Euro Area and in other Member States participating in the Banking Union”, is believed to complement the SSM and the bank union; it is now in the legislative procedure, and on 15 April 2014, the EP gave its support to the Commission’s proposal (“Banking Union”, European Commission).

In a nutshell, each new policy and measure developed by the ECB is an integral component contributing to keeping the financial stability of EMU and enhancing the credibility of the euro. Taking a holistic point of view, each EU institution and member state shall pay their shares in solving the post-2008 crisis, and the mutual communication, coordination and cooperation among various actors and institutions at both the EU and the national level is a requirement for the successful and effective implementation of EU policies.

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Summary

The Title:

Crises and Opportunities: Strengthened European Union Economic Governance after the 2008 Financial Crisis

This dissertation uses three different major schools of thought to analyze recent developments in European economic governance during the post-2008 crisis era, which was thematically dominated by the euro area sovereign debt crisis. The main research question driving the work is: Along with the adoption and implementation of the EU's new measures, what path are the EU and European Economic and Monetary Union (EMU) embarking on? That is, what are the economic governance tendencies of the EU and EMU after the 2008 crisis? This main research question (MRQ) is divided into five sub-research questions (SRQs): Is the EU on the way towards a political union/political integration (SRQ1)? Do the current developments of the EU signify supranationalism over nationalism (SRQ2)? Why did the EU and member states agree to take these new measures (SRQ3)? What are the implications and consequences of the new developments of the EU during the crisis (SRQ4)? What are the prospects for the EU and EMU in the future (SRQ5)?

To answer the SRQs and thus the MRQ as well as to unravel the development of the EU, this dissertation resorts to three main EU integration theories — neo-functionalism, liberal intergovernmentalism (LI) (a latest descendant of intergovernmentalism) and historical institutionalism (HI) — whose propositions are expected to explain the EU's recent developments and provide predictions about the EU's development in the future. This also leads to another SRQ of this dissertation: What is the explanatory and predictive power of these three different European integration theories when studying the EU's recent developments after 2008 (SRQ6)?

From the theoretical frameworks offered by the three European integration theories, a broad range of hypotheses has been deducted. These hypotheses are then applied to three selected cases in terms of recent EU developments (differing in terms of nature and functions, but being similar in the intention to solve the crisis): the European Semester, the European Systemic Risk Board (ESRB), and the European Stability Mechanism (ESM). Using congruence testing and process tracing, each theory

is tested in detail in terms of its proposed causal mechanisms accounting for the development of the EU. If the causal chains suggested by the hypotheses drawn from each integration theory are present in the selected cases, the hypotheses will be vindicated, and if not, the hypotheses are found to lack sufficient evidence to support them and thus require further examinations and modifications. When a hypothesized mechanism fails wholly or partially in the case studies, the reasons causing such a failure are probed, and thus new variables, hypothesized mechanisms or theoretical explanations are possibly developed. As a result, based on the hypotheses tests by the three selected cases, some new variables are explored and added to the original hypotheses, new propositions formulated in hypothesis form, and predictions made. The acceptance, rejection or revision of the hypotheses makes a possible contribution to on-going debated EU studies and the ever further developing European integration theories; moreover, they provide answers to the SRQs of this dissertation, which finally lead to the answers to the MRQ.

Accordingly, the dissertation is structured as follows. The first chapter (introduction) states the research questions and objectives, defines the theoretical frameworks, and describes research design and methodology. Then chapter two, chapter three and chapter four present the literature review and hypotheses derivation based on the three integration theories respectively. Chapter five offers a summary of the hypotheses formulated and to be tested, with an illustration of the relationships among the hypotheses and their sub-hypotheses. Chapter five also offers a general description of the three selected new measures. The next three chapters — chapter six, seven and eight — carry out the case studies and hypotheses tests for the three theories, each chapter for one theory, with research results, new findings and predictions presented in the form of Propositions. Finally, chapter nine draws conclusions based on the research, where answers to the SRQs and MRQ as well as research limitations are offered based on the hypotheses tests and the case studies of the previous chapters.

The findings can be summarized as follows. The empirical analysis of this dissertation shows that the EU is on the way towards a political union, but it is unlikely to evolve into an entity of the highest degree of political integration. A prominent feature of this political union is the uneven extent of political integration across different policy areas, where the highest degree of political integration is entailed in, for example, the operation of the European Central Bank (ECB), with a unified monetary policy for the euro member states, while the lowest degree of political

integration tends to appear in policy coordination areas without legally binding powers to the member states (answers to SRQ1). The recent wave of EU reforms and new developments does not suggest a strong trend of supranationalism over intergovernmentalism, because the two among the three selected new measures do not have legally binding powers for their addressees; nevertheless, they entail strengthened and improved EU economic governance, which also indicates new trends of EU supranational governance in the future (answers to SRQ2). A basic reason for the EU and member states to agree to take these new measures is that addressing the crisis is beyond individual member states' capacity and ability (answers to SRQ3). As for the implication and consequences of the new developments of the EU during the crisis, the three European integration theories tested on the basis of the case studies offer their own particular perspectives via the vindication and modification of their assumptions on the basis of the empirical findings. From a neo-functionalist point of view, the new EU measures of economic integration lead to EU political integration, while from an LI angle, the EU's new developments during the crisis still tend to reflect and reinforce the big countries' influence and powers. By comparison, an HI exploration reveals that not all policies adopted and implemented during the crisis suggest critical junctures of substantial reforms to the EU project; rather, some measures display strong connections to the previous practices and policy traditions (answers to SRQ4). The prospect for a member state to quit the EU or EMU appears unlikely; EU integration is irreversible and the regional integration project appears to have become more mature and stronger after weathering through the crisis (answers to SRQ5).

All of these findings lead to the answers to the MRQ: To address collective issues and challenges from holistic approaches is a tendency of EU economic governance for the future, which, tending to cut across different policy areas, requires effective communication, coordination and cooperation among various actors within the EU. The rationale behind collective EU-level solutions is to maximize synergistic effects among the individual member states as well as individual EU institutions and policies, aiming to achieve more than the sum of the individual parts. The research of this dissertation shows that crisis is also an opportunity for the EU to develop and mature, and EU economic governance has been strengthened after the 2008 global financial crisis (as well as after the Lisbon Treaty).

As far as SRQ6 about the explanatory and predictive powers of the three main European integration theories is concerned, the hypotheses test results suggest that the

causal mechanisms posited by the three theories (with the exception of a few inapplicable situations and unsuitable cases described in the case study sections) largely account for the three selected main measures. Approaching the EU from different perspectives with different focuses, the three integration theories tend to complement, rather than compete with or substitute each other. Neo-functionalism appears to work better to explain policies and measures developed via the EU's collective decision-making procedures, while LI turns out to be more suitable to account for approaches developed outside the Community method, that is, via intergovernmental negotiations; by comparison, HI tends to be more applicable to areas characterized by legally binding powers to their addressees.

Apart from the theoretical developments, new findings and answers to the research questions presented above, this dissertation has its research limitations: it does not examine the interactions and possible synergetic effects of the three selected measures, neither does it delve into the actual impacts and effectiveness in solving the crisis after their implementation. Research in the future may address these limitations and the author, who comes from China, plans to carry out research on "lessons and inspirations of EU economic governance during the post-2008 crisis era to China's economic governance in transformation". This dissertation serves as a starting point to explore the EU in such a global context.

Samenvatting

De Titel:

Crisis en Mogelijkheden: Versterkt Economisch Bestuur na de Financiële crisis van 2008

Dit proefschrift maakt gebruik van drie verschillende belangrijke denkkaders om de recente ontwikkelingen in het Europees economisch bestuur in de periode na de financiële crisis van 2008 te analyseren. Deze periode werd thematisch gedomineerd door de schulden crisis in de eurozone. Dit proefschrift is opgezet rond de volgende hoofdonderzoeksvraag: Welke nieuwe weg slaan de EU en de European Economische en Monetaire Unie (EMU) in, tegelijk met het aannemen en implementeren van de nieuwe maatregelen van de EU? Met andere woorden, wat zijn de beleidsvoornemens van het economisch bestuur van de EU en de EMU na de crisis van 2008? Deze hoofdonderzoeksvraag (HOV) is onderverdeeld in vijf sub-onderzoeksvragen (SOVs): Is de EU op weg naar een politieke eenheid/politieke integratie (SOV1)? Wijzen de huidige ontwikkelingen van de EU eerder op supranationalisme dan op nationalisme (SOV2)? Waarom gingen de EU en de deelnemende staten akkoord om deze nieuwe maatregelen aan te nemen (SOV3)? Wat zijn de implicaties en de gevolgen van de nieuwe ontwikkelingen van de EU tijdens de crisis (SOV4)? Wat zijn de vooruitzichten voor de EU en de EMU in de toekomst (SOV5)?

Om de SOVs alsook de HOV te beantwoorden en om de ontwikkeling van de EU te ontrafelen, maakt deze dissertatie gebruik van drie fundamentele EU integratie theorieën – het neo-functionalisme, het liberaal intergouvernementalisme (LI) (een recente tak van het intergouvernementalisme) en het historisch institutionalisme (HI). De stellingen van deze integratie theorieën worden verwacht de recente ontwikkeling van de EU te verklaren en voorspellingen te bieden over de ontwikkeling van de EU in de toekomst. Dit leidt tot een andere SOV van deze dissertatie: Wat is de verklarende en de voorspellende kracht van deze drie Europese integratie theorieën bij het bestuderen van de recente ontwikkelingen van de EU na 2008 (SOV6)?

Vanuit de theoretische kaders die de drie Europese integratie theorieën bieden, werd een brede range aan hypothesen afgeleid. Deze hypothesen zijn vervolgens toegepast op drie geselecteerde cases van recente EU ontwikkelingen (die verschillend

zijn op vlak van hun aard en functies, maar overeenstemmend zijn in hun intentie om de crisis op te lossen): Het Europees Semester, het European Systemic Risk Board (ESRB), en het Europees Stabiliteit Mechanisme (ESM). De voorspellingen van de theorieën over de causale mechanismen die de ontwikkeling van de EU kunnen verklaren werden in detail getest aan de hand van congruence testing en process-tracing. Als de causale ketens, voorspeld door de hypothesen van de verschillende integratie theorieën, teruggevonden worden in de geselecteerde cases, dan zijn de hypothesen gerechtvaardigd. Als dit niet het geval is, dan is er niet genoeg evidentie die de hypothesen ondersteunt en is er bijgevolg nood aan verder onderzoek en aan aanpassingen. Wanneer de case studies een van de hypothetische mechanismen volledig of gedeeltelijk tegenspreken, dan wordt de oorzaak hiervan onderzocht en worden er bijgevolg wellicht nieuwe variabelen, nieuwe hypothetische mechanismen of theoretische verklaringen ontwikkeld. Bijgevolg worden er, gebaseerd op de hypothesetoetsing door de drie verschillende cases, nieuwe variabelen onderzocht en toegevoegd aan de oorspronkelijk hypothesen, worden er nieuwe voorspellende hypothesen geformuleerd en worden er voorspellingen gemaakt. Het aanvaarden, verwerpen of herzien van de hypothesen levert een mogelijke bijdrage aan de gedebatteerde EU studies en aan de Europese integratie theorieën die zich blijvend verder ontwikkelen. Daarenboven verschaffen ze antwoorden op de SOVs van deze dissertatie wat tot een antwoord op de HOV leidt.

Deze dissertatie is daarom als volgt opgebouwd. In het eerste hoofdstuk (inleiding) worden de onderzoeksvragen en doelstellingen, de theoretische kaders, het onderzoeksdesign en de onderzoeksmethode uiteengezet. In hoofdstuk twee, hoofdstuk drie en hoofdstuk vier wordt een literatuuroverzicht gegeven en worden de hypothesen van de drie verschillende integratie theorieën besproken. Het vijfde hoofdstuk biedt een samenvatting van de hypothesen die geformuleerd zijn en getoetst moeten worden, en bevat daarnaast een illustratie van de verbanden tussen de verschillende hypothesen en de sub-hypothesen. Daarenboven biedt hoofdstuk vijf een algemene beschrijving van de drie geselecteerde nieuwe maatregelen. In de volgende drie hoofdstukken – hoofdstuk zes, zeven en acht – worden de case studies en de hypothesetoetsing van de drie theorieën besproken, alsook de onderzoeksresultaten, nieuwe bevindingen en voorspellingen geformuleerd in de vorm van stellingen. Elk van deze hoofdstukken focust op één van de theorieën. Tenslotte worden in hoofdstuk negen conclusies geformuleerd over het onderzoek. Hierbij worden antwoorden op de SOVs en de HOV

en de beperkingen van het onderzoek toegelicht, gebaseerd op de hypothesetoetsing en de case studies van de voorgaande hoofdstukken.

De bevindingen kunnen als volgt samengevat worden. Uit de empirische analyses van deze dissertatie blijkt enerzijds dat de EU op weg is naar een politieke eenheid, maar dat het anderzijds onwaarschijnlijk is dat de EU een eenheid zal worden die gekenmerkt wordt door de hoogste mate van politieke integratie. Een opvallend kenmerk van deze politieke unie is dat er sprake is van een verschillende mate van politieke integratie over de verschillende beleidsgebieden. De hoogste mate van politieke integratie wordt teruggevonden in, bijvoorbeeld, de werking van de Europese Centrale Bank (ECB), waarbij er eenheid is op vlak van het monetair beleid voor de Europese lidstaten. De laagste mate van politieke eenheid, daarentegen, wordt teruggevonden in politieke coördinatiegebieden die geen legale bindende krachten kennen voor de lidstaten (antwoord op SOV1). De recente golf van EU hervormingen en ontwikkelingen wijst er niet op dat er eerder sprake is van een trend van supranationalisme dan van intergouvernementalisme, want twee van de drie geselecteerde nieuwe maatregelen hebben geen legaal bindende krachten. Desondanks houden ze wel een sterker en verbeterd EU economisch bestuur in, wat ook wijst op een nieuwe tendens van EU supranationale bestuur in de toekomst (antwoord op SOV2). Een reden van de EU en lidstaten om akkoord te gaan met de nieuwe maatregelen is het feit dat het aanpakken van de crisis buiten de capaciteiten en mogelijkheden van de individuele lidstaten ligt (antwoorden op SOV3). Met betrekking tot de implicaties en gevolgen van de nieuwe ontwikkelingen van de EU tijdens de crisis, verschaffen de drie Europese integratie theorieën – die getest zijn op basis van de case studies – hun eigen particuliere standpunten via de rechtvaardiging en aanpassing van hun assumpties op basis van de empirische bevindingen. Vanuit een neo-functionalistisch standpunt leiden de nieuwe EU maatregelen van economische integratie tot EU politieke integratie. Anderzijds, vanuit het perspectief van LI, reflecteren en versterken de nieuwe ontwikkelingen van de EU tijdens de crisis nog steeds de invloed en kracht van de grote landen. In overeenstemming hiermee stelt het HI perspectief dat niet alle beleidsmaatregelen die aangenomen en geïmplementeerd zijn tijdens de crisis op belangrijke keerpunten en substantiële hervormingen van het EU project wijzen, maar dat sommige maatregelen eerder sterke overeenkomst vertonen met de vroegere praktijken en beleidstradities (antwoord op SOV4). Het is onwaarschijnlijk dat een lidstaat in de toekomst de EU of EMU zal verlaten. EU

integratie is onomkeerbaar en het blijkt dat het regionaal integratie project sterker en meer matuur geworden is na een periode van verwerping door de crisis (antwoorden op SOV5).

Deze bevindingen leiden tot antwoorden op onze HOV: een trend van EU economische bestuur in de toekomst is om collectieve kwesties en uitdagingen aan te pakken met een holistische benadering, en dit vereist effectieve communicatie, coördinatie en coöperatie – over de grenzen van verschillende beleidsgebieden - tussen de verschillende actoren in de EU. De rationale achter de collectieve EU-level oplossingen is om de synergetische effecten tussen de individuele lidstaten te maximaliseren, alsook tussen de individuele EU instituties en beleidsvormen. Dit heeft als doel om meer te bereiken dan enkel de som van de individuele delen. Het onderzoek van deze dissertatie toont aan dat crisis ook een mogelijkheid biedt voor de EU om verder te ontwikkelen en de EU economische bestuur is sterker geworden en is verder gegroeid sinds de globale financiële crisis van 2008 (als ook na het Verdrag van Lissabon).

Wat SOV6 betreft over de verklarende en voorspellende kracht van de drie belangrijke Europese integratie theorieën, suggereren de resultaten van de hypothesetoetsing dat de causale mechanismen die de drie theorieën voorstellen (met de uitzondering van enkele ontoepasbare situaties en niet geschikte casussen beschreven in de case studie secties) grotendeels de drie geselecteerde maatregelen kunnen verklaren. In het bestuderen van de EU vanuit verschillende perspectieven met verschillende focus, blijkt dat de drie integratietheorieën elkaar eerder aanvullen dan elkaar te vervangen of dan elkaar tegen te spreken. Neo-functionalistische lijkt goed te zijn in het verklaren van beleid en maatregelen die ontwikkeld zijn door collectieve beslissing makingsprocedures van de EU. De LI blijkt geschikt te zijn om benaderingen te verklaren die niet ontwikkeld zijn op basis van de Community methode, maar via intergouvernementele onderhandelingen. De HI blijkt vooral goed toepasbaar op vlak van zaken die gekenmerkt worden door legale bindende krachten tussen de verschillende partijen.

Naast de theoretische ontwikkelingen, de bevindingen en antwoorden op de onderzoeksvragen die hierboven beschreven zijn, heeft deze dissertatie ook onderzoeksbependingen. De interacties en mogelijke synergetische effecten van de drie geselecteerde maatregelen werden niet bestudeerd. Daarenboven werd ook de actuele impact en effectiviteit in het oplossen van de crisis niet in detail bestudeerd.

Toekomstig onderzoek kan deze beperkingen adresseren, en de auteur van dit proefschrift, die afkomstig is uit China, plant om onderzoek uit te voeren naar “lessen en inspiraties van EU economische bestuur tijdens de post-2008 crisis periode voor de transformerende Chinese economische bestuur”. Deze dissertatie biedt een beginpunt om de EU te verkennen in zo’n globale context.

Curriculum Vitae

Wen Pan was born on 5 June 1981 in Leshan, China. She went to China West Normal University in September 1999 after the national college entrance examination, and obtained a Bachelor of Arts degree in English in June 2003. After that, she became an English teacher at Kangding Nationality Teachers College, China, working there from July 2003 to August 2006. Among the main courses taught by her were Comprehensive English, American Literature and A General Survey of the UK and the USA. During her teaching in Kangding, she passed entrance exams for postgraduate studies, and continued with a master study at Sichuan University from September 2006 to July 2009 on the basis of a full scholarship, majoring in European Cultural Studies. When she graduated and got a Master of Arts degree in 2009, she was awarded a CSC (China Scholarship Council) grant by the Chinese government to pursue her PhD at Leiden University. She attended courses within the Political Science program and under the supervision of Prof. Madeleine O. Hosli, established a strong research interest in EU politics and economic governance. She published co-authored articles in Chinese, presented papers at international conferences and during her PhD studies at Leiden, was also an adjunct researcher at the Centre of European Studies (Jean Monnet Centre of Excellence) of Sichuan University, China.

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