MASTERARBEIT / MASTER'S THESIS

Titel der Masterarbeit / Title of the Master's Thesis

"Crisis management in the European Union

How can we explain major steps in the evolution of the European Monetary Union?

Exemplary on the Eurozone financial-, and the coronavirus crises"

verfasst von /submitted by

Elisabeth Daniela Weissitsch, BA, BA

angestrebter akademischer Grad / in partial fulfilment of the requirements for the degree of

Master of Arts (MA)

Wien, 2021 / Vienna 2021

Studienkennzahl lt. Studienblatt / degree programme code as it appears on the student record sheet:	UA 066 824
Studienrichtung lt. Studienblatt / degree programme as it appears on the student record sheet:	Master Politikwissenschaft / Master of Political Science
Betreut von / Supervisor:	Univ.-Prof. Dr. Patrick Müller, Privatdoz. M.A.

ACKNOWLEDGEMENT

First, I would like to thank my thesis advisor Univ.-Prof. Dr. Patrick Müller, Privatdoz. M.A. of the Department of Political Science (Faculty of Social Sciences) at the University of Vienna. I have received a great support from Prof. Müller who helped me when I had difficulties. He offered me the possibility to focus on research areas I am interested in the most and steered me in the right direction whenever he thought I needed it.

I would like to acknowledge my parents, for giving me the possibility to study and for their never-ending support and important contributions throughout my years of study.

Finally, I want to thank my best friend and study colleague Claudia and my two brothers for providing me with unfailing support and continuous encouragement throughout our studies and through the process of researching and writing this thesis.

This accomplishment would not have been possible without them. Thank you.

DECLARATION UNDER OATH

I hereby declare that I have prepared this written work independently and that the literature or sources used have been cited by me correctly and in a verifiable manner. I am aware that I will be subject to consequences if I violate these rules.

EIDESSTAATLICHE ERKLÄRUNG

Ich erkläre hiermit, dass ich die vorliegende schriftliche Arbeit selbstständig verfertigt habe und dass die verwendete Literatur bzw. die verwendeten Quellen von mir korrekt und in nachprüfbarer Weise zitiert worden sind. Mir ist bewusst, dass ich bei einem Verstoß gegen diese Regeln mit Konsequenzen zu rechnen habe

ELISABETH WEISSITSCH

Date________________________________ Sign _______________________________

Content

List of Abbreviations

BEPGs .... Broad Economic Policy Guidelines
BOP .... Balance-Of-Payment (crisis)
EA .... Euro Area
EC .... European Commission
ECB .... European Central Bank
Ecofin .... Economic and Financial Affairs Council
ECSC .... European Coal and Steel Community
EDP .... Excessive Deficit Procedure
EEC .... European Economic Community
EFSF .... European Financial Stability Facility
EFSM .... European Financial Stabilisation Mechanism
EIB .... European Investment Bank
EMU .... European Monetary Union
EP .... European Parliament
ESCB .... European System of Central Banks
ESM .... European Stability Mechanism
EU .... European Union
EWG .... Eurogroup Working Group
GNI .... Gross National Income
IGB .... Intergovernmental Bargaining
IMF .... International Monetary Fund
LCD .... Lowest Common Denominator
LI .... Liberal Intergovernmentalism
LLR .... Lender of Last Resort
MFF .... Multiannual Financial Framework
MIP .... Macroeconomic Imbalance Procedure
MTOs .... Medium-Term Budgetary Objectives
NF .... Neofunctionalism
NGEU .... Next Generation EU
OMT .... Outright Monetary Transactions
ORD .... Own Resources Decision
PEPP .... Pandemic Emergency Purchase Programme
PF .... Postfunctionalism
RRF .... Recovery and Resilience Facility
SGP .... Stability and Growth Pact
SMP .... Securities Market Programme
SRF .... Single Resolution Fund
SRM .... Single Resolution Mechanism
SSM .... Single Supervisory Mechanism
SURE .... Support to mitigate Unemployment Risks in an Emergency
TEU .... Treaty on European Union (Maastricht Treaty)
TFEU .... Treaty of the Functioning of the European Union
TLTROs .... Targeted Long-Term Refinancing Operations
TSCG .... Treaty on Stability, Coordination and Governance
U.S. .... United States
UK .... United Kingdom

1. Introduction

This thesis examines the dynamics of crisis measurements of national and supranational actors within the process of further European integration. In particular, this thesis tests observable implications of the "failing forward" approach[1] to evaluate to which extent they matter to explain key aspects and institutional reforms in the European Monetary Union (EMU). Therefore, the failing forward argument is brought into the context of the Eurozone crisis and the coronavirus crisis. It is aimed at answering the guiding research question:

> *Crisis management in the European Union – "How can we explain major steps in the evolution of the European Monetary Union?"*

The enhanced deepening in the European integration process is observed by focusing on economic, financial, and monetary policies of the Euro Area (EA).[2] In this context European integration[3] is shaped by intergovernmental bargaining (IGB) solutions and the involvement of supranational actors. Crisis moments usually have pushed further integration, although national leaders resist comprehensive policy solutions and an extensive institutional framework for an "Economic, Political, Fiscal and Financial Union". Member states deny the enhancement of a fully integrated European Union (EU), while they are aware of the political and economic costs of an inefficient governance structure. It is an interesting aspect that integration still gets strengthened over time.

Certain integration dynamics are explained by the major integration theories "Liberal Intergovernmentalism" (LI) and "Neofunctionalism" (NF), which offer competing explanations of integration, yet lack to describe crises responses and integration over time. According to LI, integration is a result of compromises between nation states but does neither clarify enhanced integration over time, nor consider

---

[1] Jones, Erik / Kelemen, R. Daniel / Meunier, Sophie (2016a). Failing Forward? The Euro Crisis and the Incomplete Nature of European Integration, in: Comparative Political Studies 49(7), pp. 1010-1034.

[2] Euro Area and Eurozone are equally used in this paper and both refer to the 19 member states countries who have introduced the Euro: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

[3] European integration means the voluntarily approach of societies, states, and economies to unite above their present borders. Weidenfeld, Werner (2013). Die Europäische Union. Akteure – Prozesse – Herausforderungen. München: Wilhelm Fink. P. 14.

sufficiently the engagement of supranational agencies. On the other hand, NF describes integration over time by spill-over effects.[4] Thereby it neglects the role of sovereign states, by only focusing at the supranational level and expecting a comprehensive unification to happen via functional pressures.

A fusion of the classical theories by Jones, Kelemen and Meunier (2016a)[5], combined both aspects to outline the policy changes and measurements taken as a response to the Eurozone financial crisis. Since they describe it as a typical mechanism of crisis responses by the EU and an underlying crisis dynamic, the failing forward argument should also apply to other crisis moments. In this thesis, their proclaimed generalized approach is further applied to the current coronavirus crisis. According to their description of the development of the Banking Union as a reaction to the Eurozone crisis, the EU seems to spread towards deeper integration in economic fields via compromises and piecemeal solutions. A comprehensive policy solution, like a Political Union with a fully integrated institutional design, keeps absent. This effect triggers further crises, because it follows a cycle dynamic and therefore, a crisis follows another one due to the lack of comprehensive solutions. The mechanism is called "failing forward", since the EU seems to constantly fail in (comprehensive) crisis management, while it still takes steps towards further integration of more sensitive policy areas.

> *"The practise of advancing integration through cycles of incomplete reforms followed by more crisis may be politically expedient in the short term, but it undermines public support for the EU over the long term".*[6]

Over time the measurements taken by European and national leaders to face crises, lead to rising EU-scepticism and lower trust in European institutions, as well as the impression of a Union, that seems to exist permanent in crises.[7]

[4] This means that EU countries would rather cooperate in policy fields which are less "sensitive", like the currency, than finding common solutions for questions regarding health care systems, taxation, migration or other "high politics", but functional pressures lead to spill-overs from low to high politics.
[5] Jones, Kelemen and Meunier (2016a).
[6] Ibid. P. 1027.
[7] Ibid. P. 1010f.

Since the onset of the European integration process, crises have shaped the deepening and speed of integration. The international financial crisis of 2008 resulted in economic crises of most European countries and sovereign debt crises in the states of the so-called "periphery".[8] The situation since 2010 showed the weak parts of the instruments in the monetary and economic coordination of the EA. The financial breakdown of the United States (U.S.) subprime markets triggered the disruption of the crisis. This was caused by the incomplete structure of the EMU, which generated spill-over effects.[9] Due to the sovereign debt crises, a new banking crisis was endangering the European currency and led to interventions of EU institutions to prevent a "domino effect of sovereign debt defaults".[10]

Again, sovereign debt crises represented a risk at the beginning of 2020. Some institutional gaps have been amended, nevertheless the design of the EMU could not sufficiently face the pressures in the onset of the coronavirus crisis. The outbreak of the coronavirus led to worldwide lockdowns and containment actions to decrease the spread of the disease. This crisis questions once more the basic principles of the EU, since some member states rapidly closed borders and imposed export bans, without mutual coordination or common agreements.[11] Functional spill-over pressures and

[8] A sovereign debt crisis occurs when a country defaults because it cannot pay for its bills and has troubles to issue its liabilities. The countries of the periphery are usually referring to southern (Greece, Italy, Spain and Portugal), central and eastern Europe, as well as Ireland. They are also called debtor states. Howarth, David / Quaglia, Lucia (2015). The political economy of the euro area's sovereign debt crisis: introduction to the special issue of the Review of International Political Economy, in: Review of International Political Economy 22(3). P. 458; Hall, Peter (2012). The Economics and Politics of the Euro Crisis, in: German Politics 21(4). P. 355.

[9] Jones et. al. (2016a). P. 1020f. The reasons for the Eurozone crisis had led to diverging opinions between policymakers, while in the academic field, scholars from different backgrounds like economists and political scientists, have agreed that the Eurozone crisis was a debt- and balance-of-payment (BOP) crisis and triggered by the incomplete design of the EMU. This means that a country has deficits in their balanced payments and therefore accumulating debt. Frieden, Jeffry / Walter, Stefanie (2017). Understanding the Political Economy of the Eurozone Crisis, in: The Annual Review of Political Science 20(1). P. 373; Baldwin, Richard / Beck, Thorsten / Benassy-Quere, Agnes /Blanchard, Olivier / Corsetti, Giancarlo / De Grauwe, Paul / Den Haan, Wouter / Giavazzi, Francesco / Gros, Daniel / Kalemli-Ozcan, Sebnem / Micossi, Stefano / Papaioannou, Elias / Pesenti, Paolo / Pissarides, Christopher / Tabellini, Guido / Weder di Mauro, Beatrice (2015). Rebooting the Eurozone: Step 1 – agreeing a crisis narrative, in: CEPR Centre For Economic Policy Research Policy Insight 85. P. 1; Jones et. al. (2016a). P. 1020; De Grauwe, Paul (2016). The legacy of the Eurozone crisis and how to overcome it, in: Journal of Empirical Finance 39. P. 147-155.; De Grauwe, Paul / Ji, Yuemei (2015). Correcting for the Eurozone Design Failures: The Role of the ECB, in: Journal of European Integration 37(7). P. 740.

[10] Howarth and Quaglia (2015). P. 457f.

[11] Pausch, Markus (2020). Europa in und nach der Corona-Krise, in: Österreichische Gesellschaft für Europapolitik 10, pp. 1-12; Marin, Luisa (2020). The Covid-19 crisis and the closure of external borders:

supranational agency played an important role in the policies that still lay in the competence of national governments. The "European Commission" (EC) has established a common European response and was taking actions to help member states to coordinate their national reactions.[12] Once more, these pressures and spill-over effects led to IGB solutions, while the comprehensive results of integrated policies and a Political Union remained. Contrasting the view of a non-functional Union, it is argued, that the EU still has limited possibilities and a restricted scope of action. First, it does not have the competences to react like a supranational government in times of crises. Second, there is a huge lack of solidarity and loyalty towards the EU and third, crises reactions are undermined by national actions without common agreements.[13] Nevertheless, in 2020 the EU took a major step towards enhanced integration, by implementing funds on behalf of the Union (debt mutualization), which will be handed out via loans and grants. So far, common liabilities were neglected by national leaders.

Both crises reveal structural deficits of the EMU and limited possibilities for a common European answer, since national leaders resist comprehensive solutions and prefer integration step-by-step. These limitations should allow to observe a cycle of crises, if the underlying dynamic, described by Jones et. al. (2016a) also applies to other crisis reactions, apart from the establishment of the Banking Union.

The thesis is structured as follows: chapter 2 reviews the existing literature on European integration with a focus on crisis explanations. The arguments are based on further developed scientific research and more specific questions are discussed in the

---

another stress-test for the challenging construction of solidarity within the EU?, in: European Papers. P. 2f; Welfens, Paul J. J. (2020). Trump's Trade Policy, BREXIT, Corona Dynamics, EU Crisis and Declining Multilateralism, in: International and Economic Policy 17(3). P. 592ff.

[12] Protective equipment (masks), cross-border treatment for sick patients have been stretched out to help neighbours and other reactions like fighting disinformation or boarder management measures were made. The Coronavirus response team should help to coordinate the reactions to the pandemic. European Commission (2020i). Coronavirus response, in: ec.europa.eu, 24 July 2020; While the Commission shows pride of its actions, the media and members of the European Parliament questioned the delay of its reaction and even calls the responses of the EU a failure. Garraud, Jean-Paul / Bay, Nicolas (2020). Parliamentary questions. Question for written answer to the Commission E-002242/2020, Rule 138, in: europarl.europa.eu, 14 April 2020; Grill, Markus / Mascolo, Georg / Margottini, Laura / Schoen, Celine / Stockton, Ben (2020). EU-Reaktion auf Coronavirus Zu spät, zu langsam, in: tagesschau.de, 15 July 2020.

[13] Pausch (2020). P. 2.

literature. The development of the main integration theories is presented. There is a high number of studies in the field of the European financial crisis, while studies of the current coronavirus crisis remain few so far. Chapter 3 deals with limitations of the classical theories and their fusion (the failing forward argument), which is the basis of the theoretical approach in this thesis. Chapter 4 introduces the methods and data. The analysis tests the observable implications of the failing forward argument with respect to three moments of crises to show the dynamics of the cycle of crises. First, the pre-crisis situation and the development of the EMU is reported in chapter 5. It reveals the compromises taken since the onset of the Monetary Union, leading to lacking institutions, which triggered further crises. Second, the Eurozone financial crisis starting in 2008, is discussed in chapter 6. Third, the coronavirus crisis and the policy changes regarding to this crisis are analysed in chapter 7. Chapter 8 draws the main conclusions about the policy measurements and the failing forward dynamics.

The closer look at three different times over a longer period of the integration process does not necessarily lead to new theories or unexpectable outcomes, hence it will provide a deeper understanding of the dynamics described in the failing forward approach and the cycle of crises. Additionally, a so far exceptional new crisis is brought into the concept.

2. Literature Review

European integration and the reasons for the communalization of specific policy areas has been a central interest of research on the EU and its historic evolution.[14] Scientific research has tried to derive at a better understanding of the motivations, causes and obstacles for the integration process. Different influences have been taken under consideration and explanations of shortcomings and limitations of the integration process were observed. The following chapter describes two main theories of European integration, NEOFUNCTIONALISM and LIBERAL INTERGOVERNMENTALISM, that also constitute core conceptual building blocks of the failing forward approach employed by this thesis. Furthermore, the existing literature on integration is discussed and a certain focus is led on the explanation of crises in the process of integration.

2.1. European Integration

The European integration debate was mainly reflected by the question of how the final stage of the Union should look alike and how it will be reached. “Federalists” suggested two ways to establish supranational solutions. The more moderate, “gradual federalism” promoted that neither a big bang nor political will was the base for a federal union, but rather a step-by-step approach from one political form to another[15], like the “European Coal and Steel Community” (ECSC) as a first stage.[16] In opposite the “constitutional federalism” reaches the final union with a constitutional leap.[17] Those

[14] See more about the historic evolvement of the integration process: Weidenfeld (2013). P. 14ff; Große Hüttmann, Martin / Fischer, Thomas (2012). Föderalismus, in: Hans J. Bieling and Marika Lerch (eds.) Theorien der europäischen Integration. Wiesbaden: Springer VS. P. 36; Bieling, Hans Jürgen (2012). Intergouvernementalismus, in: Hans J. Bieling and Marika Lerch (eds.) Theorien der europäischen Integration. Wiesbaden: Springer VS. P .77; Giering, Claus / Möller Almut (2010). Integrationstheorie, in: Carlo Masala, Frank Sauer and Andreas Wilhelm (eds.) Handbuch der Internationalen Politik. Wiesbaden: VS Verlag für Sozialwissenschaften, P. 140; Giering, Claus (1997). Europa zwischen Zweckverband und Superstaat. Die Entwicklung der politikwissenschaftlichen Integrationstheorie im Prozeß der europäischen Integration, in: Werner Weidenfeld (ed.) Münchner Beiträge zur Europäischen Einigung, Band 1, Dissertation, Ludwig-Maximilians-Universität München, Bonn: Europa Union Verlag. P. 34ff; Wolf, Dieter (2012). Neo-Funktionalismus, in: Hans J. Bieling and Marika Lerch (eds.) Theorien der europäischen Integration. Wiesbaden: Springer VS, pp. 55-76.
[15] Große Hüttmann and Fischer (2012). P. 44; Gradual federalism was described by Carl Joachim Friedrich (1968) in: Giering and Möller (2010). P. 140.
[16] Morchetti, Andreas (2009). Die Europäische Sicherheits- und Verteidigungspolitik. Politikformulierung im Beziehungsdreieck Deutschland- Frankreich- Großbritannien. Baden-Baden: Nomos. P. 32; Große Hüttmann and Fischer (2012). P. 39.
[17] Morchetti (2009). P. 32; Bieling (2012). P. 77.

two viewpoints arose from the development of the functionalist theory, which understood European integration as a process to calm political controversy by technical cooperation which is usually maintained in non-controversy policy fields. Due to success of cooperation and technical needs, governments will seek to further cooperate in other, more politically controversial fields. The indicated process is called the “doctrine of ratification”.[18]

2.1.1. Towards Supranationalism

This notion was further developed of Ernst B. Haas[19] in the 1950s. The founder of the neofunctionalist approach saw the biggest danger for peace in the nationalism of nation states. He set a normative concept to ensure human rights, peace, and a European role model for regional cooperation.[20]

The NF did not only focus on unpolitical technical areas but claims that the integration of policy fields will lead to so called “spill-over effects” into other non-diverging policy fields.[21] Increasing integration happens in a defined policy area, where the pursuit of goals unintentionally leads to consequences in further integrational steps, since the aims are usually better attained by also considering similar policy sectors. In this understanding the integrational process comes from economically policy fields towards more sensitive policy areas and is expecting not only an economic, but also a political integration.[22] Transnational interdependences lead to the need of cooperation and communalization of technical aspects. The driving force for integration is therefore the spill-over of one policy area to another. For instance, countries agree on common policies for coal and steel, since it is more efficient and reduces production costs. Technical aspects in that field can be solved by experts and

[18] Giering and Möller (2010). P. 141.
[19] Haas, Ernst B. (1964). Beyond the Nation-State. Functionalism and International Organization. Stanford: Stanford University Press.
[20] Wolf (2012). P. 62.
[21] Giering and Möller (2010). P. 141.
[22] Morchetti (2009). P. 30f.

be implemented by a supranational institution. Soon the focus will not only be on the previous policy area, because cooperation expands in other fields.[23]

A supplementary integration boost is necessary and a centralized authority with decision making competences is the logical consequence of the previous steps.[24] NF therefore is mainly focusing on non-governmental actors, like interest groups and supranational institutions. In contrast to the Functionalism, the NF does not expect integration to happen automatically, but as a political process of national and transnational elites and interest groups.[25] Over the years Haas included a political learning-process and a rising loyalty towards the political centre, by the political elites which could strengthen further cooperation.[26] Governing without further integration tends to become ineffective and due to the higher interdependency the nation states will be forced to put competences at the supranational area. A critical point to this approach was, that it lacked to explain why integration does not continue constantly but has to deal with setbacks, such as happened in the 1960s.[27]

2.1.2. Renationalisation of the Integration Debate

In the 1960s the "empty chair politics", led to a crisis of the integration process and national interests came to the fore again.[28] The overall paradigm of how the integration process should look alike or can be explained, changed again to a perspective of the European integration with nation states as the main base units.[29]

---

[23] For instance the working conditions of miners need to be equalized to avoid social dumping. The same goes then with the price structures of the nation state, domestic driving, and resting periods of truck drivers and so on. Wolf (2012). P. 60.
[24] Ibid. P. 61.
[25] Morchetti (2009). P. 30f.
[26] Wolf (2012). P. 62.
[27] Giering and Möller (2010). P. 141.
[28] The French president, Charles de Gaulle boycotted the work in the Council until a compromise was negotiated months later. It was called „Luxembourg compromise" and mainly consisted of a clause, to prevent the outvoting of a nation state, if serious national interests are concerned. Majority voting with a veto right as a principle was introduced. By leaving the negotiation table, the unanimous decision-making process was blocked and showed, that national positions were still the prevailing opinion. Giering and Möller (2010). P. 141; Schimmelfennig, Frank (2015a). Liberal intergovernmentalism and the euro area crisis, in: Journal of European Public Policy 22(2). P. 177; Giering (1997). P. 64ff; Wolf (2012). P. 62.
[29] Bieling (2012). P.77.

This approach, the "Intergovernmentalism", explains that rational acting nation states are willing to integrate if they gain advantages from the process. Otherwise, they prefer national solutions. Integration only takes place if countries gain economically, maintain sovereignty, and hope for external security. Representatives of nations again build the main actors in integration processes[30] and cooperation does not extend the confederation status.[31] The transmission of political competences to the supranational area therefore is led by interest-driven and selective processes, controlled by national governments.[32] European integration is the result of bargaining national states and "a response to shifts in the balance of power".[33] Therefore, the main focus of integration is on economics, while national sovereignty remains untouched or is even strengthened. When it comes to high politics integration comes to a standstill. International institutions are considered to be a result of interdependence. The decision-making process breaks down in three steps: the domestic formation of national preferences, IGB; and the creation of European institutions to secure agreements.[34]

Based on the main critical point of this theory, of nation states having a static and given interest, LI tries to reflect also the domestic political conflicts as a part of the national preferences.[35]

2.1.3. Intergovernmental Bargaining

Therefore, the LI approach, which was developed by Hoffmann's student Andrew Moravcsik[36], holds that bargaining between national governments decide for the breath and speed of integration.[37] IGB results are based on the relative power of a nation state, which is why supranational institutions do not play a crucial role in the

[30] Morchetti (2009). P. 28.
[31] Giering and Möller (2010). P. 142.
[32] Bieling (2012). P. 85.
[33] Hooghe, Liesbet / Marks, Gary (2019). Grand theories of European integration in the twenty-first century, Journal of European Public Policy 26(8). P. 3.
[34] Ibid. P. 4-16.
[35] Morchetti (2009). P. 28f.
[36] Moravcsik, Andrew (1998). The Choice for Europe. Social Purpose & State Power from Messina to Maastricht. London: University College London Press.; Giering and Möller (2010). P. 142.
[37] Jones et. al. (2016a). P. 1014; Morchetti (2009). P. 29.

integrational processes according to this perspective.[38] LI can be explained by intensifying integration via rational choices from national leaders, as an answer to international interdependence.[39] For the achievement of European contracts, the driving forces are the national interests and national politics, rather than the transnational elites or supranational institutions. The core of national sovereignty is supposed to be untouched by spill-over effects.[40]

Considering the external security threats, the internal relationship in federations, as well as the domestic political goals, and the premise of the nations to be the main actors, the integrational processes remain the result of interest-led decisions of national politics. Integration happens on three pillars: economic interests, relative power, and credible commitments.[41] Those reflect the economic reasons, asymmetric powers and interdependences and is therefore a new form of "power politics".[42] Integration is a result of limitations or opportunities of the economically more powerful member states, the relative power of each state and the deepening of credibility between the national states duties and commitments.[43] States are willing to integrate, if the "benefits are high, the costs low, the expectations considerable"[44], which leads to the conclusion that states might be willing to integrate in economic policies, but political integration as a means of membership or high politics, does only apply if there are common aims and also domestic preconditions have to be taken under consideration.[45]

2.2. Crisis and Integration

However, when it comes to explain crises, those perspectives gain further aspects. Responses to the Eurozone crisis have been analysed independently also by other

[38] Morchetti (2009). P. 29.
[39] Schimmelfennig (2015a). P. 178; Moravcsik (1998). P. 18.
[40] Bieling (2012). P. 79.
[41] Schimmelfennig (2015a). P. 178. This is insofar an interesting thought, as usually integration is seen as normatively high valued, while in this understanding it is the simple result of rational sovereign intentions. Morchetti (2009). P. 29.
[42] Moravcsik (1998). P. 5.
[43] Ibid. P. 18.
[44] Hoffmann, Stanley (1966). Obstinate or obsolete: The Fate of the Nation-State and the Case of Western Europe, in: Daedalus 95(3). P. 882.
[45] Giering (1997). P. 72.

theories of European integration, such as the historical institutionalist approach[46] or with a focus on certain consequences, such as the decline of trust in European institutions.[47] Genschel and Jachtenfuchs (2018) offer suggestions for alternatives instead of further integration and show two crisis moments as examples for difficulties that emerged only due to more integrated policy areas.[48] Again others, focus on different actors, such as bargaining processes between France and Germany[49] or on the cooperation methods between nation states to act as regional powers.[50]

Crisisification described by Rhinard (2019), shows a different theoretical perspective to describe a process where the focus is led on the next urgent event, enhanced speed in decision-making and investigation of actors and the objectives of the EU. It creates "new narratives of what matters in European governance".[51] Series of crises have shaped the decision-making mode were long-term implementation and negotiations now have to face crisis-response methods. Policy fields at the EU-level had to add tools and procedures to react towards crises, via early-warning systems against possible interruptions or threats. Also, other research has directed the crisis related policy changes at the EU level, which showed that preferences of countries change and allow further supranationalisation. While in sensitive policy fields like foreign and migration policies it came to blockages, other areas were further integrated, like the regulation of the financial market. Further fields like energy and climate policy, did neither have a breakthrough, nor a standstill.[52]

---

[46] Verdun, Amy (2015). A historical institutionalist explanation of the EU's responses to the euro area financial crisis, in: Journal of European Public Policy 22(2), pp. 219-237.
[47] Braun, Daniela / Tausendpfund, Markus (2014). The Impact of the Euro Crisis on Citizens' Support for the European Union, in: Journal of European Integration 36(3), pp. 231-245.
[48] Genschel, Philipp / Jachtenfuchs, Markus (2018). From Market Integration to Core State Powers: The Eurozone Crisis, the Refugee Crisis and Integration Theory, in: Journal of Common Market Studies 56(1), pp. 178-196.
[49] Schoeller, Magnus G. (2018). The Rise and Fall of Merkozy: Franco-German Bilateralism as a Negotiation Strategy in Eurozone Crisis Management, in: Journal of Common Market Studies 56(5), pp. 1019-1035.
[50] Destradi, Sandra (2010). Regional powers and their strategies: empire, hegemony, and leadership, in: Review of International Studies 36(4), pp. 903-930; Kindleberger, Charles P. (1981). Dominance and Leadership in the International Economy: Exploitation, Public Goods, and Free Rides, in: International Studies Quarterly 25(2), pp. 242-254.
[51] Rhinard, Mark (2019). The Crisisification of Policy-making in the European Union, in: Journal of Common Market Studies 57 (3). pp.617.
[52] Falkner, Gerda (2016). The EU's current crisis and its policy effects: research design and comparative findings, in: Journal of European Integration 38(3), pp. 219-235.

Hooghe and Marks (2008) explain the rise of nationalist opposition to the European integration as a response to the Eurocrisis from a postfunctional perspective.[53] “Postfunctionalism” (PF) understands integration as a conflictual process, produced by different belief systems and cultural division. In contrast to the above-mentioned schools, a possible outcome apart from the status quo, is also disintegration.[54] Similar developments happened in the migration crisis were intergovernmental forces tried to bargain refugee quotas and NF actors tried to expand integration to avoid dysfunctionality (f.e. a more supranational Schengen). Again, PF focused the identity issues, because Europe was asked to host culturally different people and therefore “touched the nerve of national identity”.[55] The factors of identity in terms of community building and shared norms, was described by Schimmelfennig (2012) as the third major integration theory, which he calls constructivism, deriving from the PF.[56] Governments were able to limit the politicization by avoiding referendums and via delegation of policies at the supranational level.[57]

Ioannou, Leblond and Niemann (2015) observed the question of why the EMU got further integration while its survival was questioned so heavily. The discussion of EA disintegration and further integration is analysed by the main theoretical approaches on a complementary manner.[58] Additionally, Niemann and Ioannou (2015) further observed the functionalist forces in the Eurozone crisis regarding the spill-over mechanisms which led to a further integration of the EMU.[59]

Matthijs (2017) focuses on the weakening of democratic institutions and the impact of the Eurocrisis on democracy at the national and EU level. He observes the impact of the free market on rising national populist parties and increasing EU-

---

[53] Hooghe, Liesbet / Marks, Gary (2008). A Postfunctionalist Theory of European Integration: From Permissive Consensus to Constraining Dissensus, in: British Journal of Political Science 39(1). P. 10.
[54] Hooghe and Marks (2019). P. 5.
[55] Ibid. (2008). P. 10.
[56] Schimmelfennig, Frank (2012). Zwischen Neo- und Postfunktionalismus: Die Integrationstheorien und die Eurokrise, in: PVS Politische Vierteljahresschrift Jahrgang 53(3), pp. 394-413.
[57] Schimmelfennig, Frank (2014). European Integration in the Euro Crisis: The Limits of Postfunctionalism, in: Journal of European Integration 36(3), pp. 321-337.
[58] Ioannou, Demosthenes / Leblond, Patrick / Niemann, Arne (2015). European integration and the crisis: practise and theory, in: Journal of European Public Policy 22(2), pp. 155f.
[59] Niemann, Arne / Ioannou, Demosthenes (2015). European economic integration in times of crisis: a case of neofunctionalism?, in: Journal of European Public Policy 22(2), pp. 196-218.

scepticism. According to Rodrik (2011), the “globalization trilemma” shows, that countries have to choose between two options out of three: “national sovereignty democratic politics or economic integration”.[60] Matthijs (2017) argues, that in the Eurozone some member states get all three options, while countries of the south sometimes lost even two.[61]

In contrast, Seikel and Truger (2019) tried to detect perspectives on how the EU can be prepared for the next crisis and how the existing governance framework can be used to enhance the fiscal policy at the national level to act as an “instrument of macroeconomic stabilization”.[62] Far-reaching reforms like contained at the Five President’s Report or the suggestion of Emmanuel Macron for an large Eurozone budget, a separate Eurozone parliament and an European finance minister responsible for the budget, were neglected due to the “fundamental conflicts of interest between the member states”.[63] They show that due to the current constellation, a far-reaching solution is unlikely to happen because of the blockades imposed by diverging interests of Euro countries, although the EMU is not crisis-proof yet. Even more important seems to be a “pragmatic alternative to a comprehensive reform of the Euro”.[64] Opposing the idea, that more integrated fiscal policies and supervision would have saved the Eurozone from the severe crisis, Hodson and Puetter (2019) focus on the “new intergovernmentalism” whereby bodies like the Eurogroup, the European Council and the European Stability Mechanism (ESM) play the central role.[65]

Also, the aspect of politicisation has been considered and a “moral dimension to the discussion of right and wrong national economic models” was opened up.[66] Further, the effects of the crisis on economic and financial policies were observed,

---

[60] Rodrik, Dani (2011). The globalization paradox: why global markets, states, and democracy can't coexist. Oxford/New York: Oxford University Press.

[61] Matthijs, Matthias (2017). Integration at What Price? The Erosion of National Democracy in the Euro Periphery, in: Government and Opposition 52(2), pp. 266-294.

[62] Seikel, Daniel / Trugar, Achim (2019). The Blocked Completion of the European Monetary Union. Making the case for a pragmatic use of fiscal leeway, in: WSI Report Institute of Economic and Social Research 52. P. 2.

[63] Ibid. P. 2.

[64] Ibid. P. 12.

[65] Hodson, Dermot / Puetter, Uwe (2019). The Euro Crisis and European Integration, in: Michelle Cini and Borragán Nieves Pérez-Solórzano (eds.) European Union Politics. Oxford: Oxford University Press, pp. 389-405.

[66] Leupold, Anna (2016). A structural approach to politicisation in the Euro crisis, in: West European Politics 39(1). P. 99.

where the findings have shown, that “only particularly acute EU-wide crises could succeed in shaping a generalized preference for further integration”[67] and furthermore the fiscal integration varies. While Eurobonds (debt mutualization) are preferred by southern member countries, northern countries tend to go for enhanced fiscal government.[68] Schimmelfennig (2015, A) found that by averting the breakdown of the Euro, some member states had to deal with asymmetrical interdependences where the burden-sharing was mainly reflected by German preferences.[69] The adjustment costs, therefore, were not shared equally and had to be taken by the debtor states only via internal devaluation.[70] He also observed the Eurozone crisis from the perspective of both classical theories and found that there are hints of a “systemic crisis”, which still was faced by a rather “crisis proven” EU.[71]

However, the existing literature focusing economic and monetary policies, does not fully explain integration over time and lack to consider the different actors and governance levels. Those approaches rather focus certain aspects or policies and other influences on the integration process. To explain economic integration LI and NF appear to be the most useful perspectives. The next chapter therefore sums up the advantages and disadvantages of both theories and presents a fusion of both, to explain crisis moments in the EMU.

[67] Nicoli, Francesco (2018). Integration through crises? A quantitative assessment of the effect of the Eurocrisis on preferences for fiscal integration, in: Comparative European Politics 17 (3). P. 397.
[68] Ibid. P. 397–425.
[69] More about the role of Germany in the Eurozone crisis: Cafruny, Alan W (2015). European integration studies, European Monetary Union, and resilience of austerity in Europe: Post-mortem on a crisis foretold, in: Competition & Change 19(2), pp. 161–177; Schoeller, Magnus G. (2017). Providing political leadership? Three case studies on Germany’s ambiguous role in the Eurozone crisis, in: Journal of European Public Policy 24(1), pp. 1-20; Matthijs, Matthias / Oteri-Iglesis, Miguel / Zimmermann Hubert (2016). A new German Hegemony: Does it exist? Would it be Dangerous?, in: Hubert Zimmermann and Andreas Dür (Eds.) Key Controversies in European Integration. London: Palgrave, pp. 234-250.
[70] Schimmelfennig (2015a); De Grauwe (2016). P. 148f.
[71] Schimmelfennig (2015b). Die Eurokrise: Testfall für Integration und Integrationstheorie, in: Zeitschrift für Politikwissenschaft 25(2), pp. 249-256.

3. Theoretical Framework: the Failing Forward Approach

Based on the chosen perspective to analyse integration, certain aspects are highlighted and lead to assumptions of why specific negotiations failed or when the process has been insufficient or too slow. The abovementioned theoretical approaches are also used, to describe crisis responses and measurements.

Deep crises have usually shaped the debate of NF and LI perspectives new.[72] The responses to the Eurozone crisis have been explained by both views and those paradigms have changed, since outside factors put an increasing pressure on European leaders and the happening events needed quick policy solutions. They are not only explaining the unification process, but also the design and reform of the EU governance.[73] The failing forward argument, a fusion of both perspectives explains crisis moments as a crisis dynamic. This argument is further elucidated below.

3.1. A Theoretical Fusion

The LI combines state preferences with international interdependence and institutions.[74] The findings explain European integration as an economically driven bargaining process between national states.[75] The collective institutional outcomes, that are based on incentives, lie on the domestic structure of national inclinations, the IGB for compromises and the new institutional formations to shield those arrangements.[76] It also explains the speed and amount of integration via the power of national governments in bargaining processes. All agreements, such as transferring policies to the supranational level or delegating power to the existing EU institutions, are only the consequence of the "lowest common denominator" (LCD) in the negotiations with dominant member states.[77] Referring to the Eurozone crisis the responses can be seen as a set of "intergovernmental bargains, driven by the domestic

[72] Schimmelfennig (2015a). P. 177.
[73] Jones et. al. (2016a). P. 1014.
[74] Moravcsik, Andrew (1993). Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach, in: Journal of Common Market Studies 31(4), pp. 473-524.
[75] Ibid. (1998). P. 473.
[76] Schimmelfennig (2015a). P. 178.
[77] Moravscik (1993). P. 500f; Jones et. al. (2016a). P. 1014.

economic preferences of national governments”.[78] Some states saw a more comprehensive reaction as inimical to their domestic economic interests and therefore blocked reforms. IGB is also based on the interests of the member states to strengthen the commitment to the Euro:

> *“National preferences resulted from strong interdependence in the EA and the fiscal position of its member states: a common preference for the preservation of the euro was accompanied by divergent preferences regarding the distribution of adjustment costs.”*[79]

This pat situation led to hard bargaining and great risks during negotiation processes.[80] As a result of the LCD, according to the economic self-interests in the bargaining process, new competences in policy areas and the delegation of new power in existing EU institutions, were important steps in expanding European integration. Therefore, also crisis responses are a result of bargaining between governments. As soon as powerful member states see a reform as a negative development for their economic self-interest, they block the reform process.[81] This also portrays the main disadvantage of the LI approach. It lacks to explain, why intergovernmental cooperation can be blocked by national vetoes and therefore, prevent autonomous and direct political decision making.[82] Also, the influence of supranational actors or the development over time is not clarified. This leads to the need of a NF perspective, to explain crisis responses in the EU over a longer time. Crises have usually shaped the process of European integration and NF has described the long-term dynamics of integration.[83]

While the main advantage of the LI is to explain major bargaining results, it does not fully explain what in-between big bargaining processes and treaty negotiations happen. NF assumes that the international relations are driven by the desire of economic gain and state survival. Regional integration comes up when groups support supranational institutions more than national ones. Integration is set up by spreading policies, trust on non-state actors and citizens who attach towards supranational institutions. The results are more benefits of trade and

[78] Ibid. P. 1014.
[79] Schimmelfennig (2015a). P. 178.
[80] Ibid. P. 177.
[81] Jones et. al. (2016a). P. 1014.
[82] Wolf (2012). P. 60.
[83] Nicoli, Francesco (2020). Neofunctionalism revisited: integration theory and varieties of outcomes in the Eurocrisis, in: Journal of European Integration 42(7). P. 897.

interdependence. In the case of crises, integration can be delayed or retarded, but the prospect of an upward trend remains. NF explains integration as the outcome of cooperation and competition between actors.[84] Also it claims, that economic and monetary integration generate spill-over effects in other policy areas, which give impetus to further strengthen cooperation afterwards. Non-state actors such as EU officials, non-governmental organizations etc., play a central role, by putting pressure for an increasement of the integration process. Governmental preferences are also shaped by the interests of other actors and earlier steps of integration, as well as by the declining support of European integration by the public opinion and parties.[85] Due to the spill-over dynamics political leaders would manipulate these effects to promote and strengthen integration and societal actors would shift their loyalty towards the supranational level to promote further economic and monetary integration.[86] Additionally, the supranational actors, like the EC, are considered to be the main actors to intensify integration.

> *"Whereas supranationalism explains how earlier integration decisions create endogenous interdependence and preference updates, liberal Intergovernmentalism captures how governments negotiate and decide on the basis of the changed constellation of interdependence and preferences."*[87]

Various hints in the literature give incentives to re-evaluate the NF and the LI approach. Many IGB processes can be explained not only by the LI, but also by NF spill-over effects, that have constrained bargaining processes due to previous decisions on the design of the Monetary Union.[88] Both approaches explain parts of the events of the Eurozone crisis.

> *"Intergovernmentalism explains why, in moments of crisis, negotiations between EU leaders produce lowest common denominator bargains that yield only incremental reforms […], meanwhile, the neofunctional perspective […] does offer a plausible explanation of why a series of piecemeal reforms have produced a pattern of sustained deepening over time."*[89]

[84] Hooghe and Marks (2019). P. 2f.
[85] Jones et. al. (2016a). P. 1014; Schimmelfennig (2014). P. 321f.
[86] Jones et. al (2016a). P. 1015.
[87] Schimmelfennig (2015a). P. 192.
[88] Ibid. P. 179.
[89] Jones et. al (2016a). P. 1015.

Ioannou et.al. (2016) suggest analysing and explaining crisis events from a "productive coexistence of the various perspectives", rather than to compete theories.[90] Neither the LI approach, nor the NF perspective alone, can fully explain all crises, especially the reasons of upcoming ones. Therefore, European integration needs to be analysed more as a process of alternately approaches and explanations from both theoretical perspectives, which is why their fusion will be presented in the next chapter.

3.2. Failing Forward

A theoretical answer of the fusion of LI und NF is offered by Jones, Kelemen and Meunier (2016a) with the "failing forward" argument.[91] They claim, that the IGB strategy alone is inadequate, since there are too many different preferences of member states countries, which are overruled by LCD solutions. Their study explains the insufficiency as well as the major steps in European integration on the Eurozone financial crisis. Their argument builds up on the "incomplete nature of European integration", which was revealed by the Eurozone crisis not only once, but repeatedly. The reasons for the crisis were not all clear in the beginning and discussed solutions were either to dissolve the common currency, or to "push ahead and deepen the process of economic integration by filling gaps in the governance framework".[92]

Jones et. al (2016a) claim, that European leaders had to deal with this decision several times and chose to safe the Euro, but "nothing more". Still, they highlight that the incremental steps taken in the Eurozone crisis, have been "the most rapid periods of deepening of integration in EU history".[93] The bailout-funds, the enhanced surveillance of fiscal policies, the steps towards a Banking Union were major milestones in European integration, but they reflect "incomplete, unsustainable solutions and rejecting more comprehensive, reform proposals".[94] Their study is based on the explanation of these "piecemeal reforms". They interrogate why EU leaders implement incomplete reforms, which persist the crisis, rather than extensive

[90] Ioannou, Leblond and Niemann (2015). P. 156.
[91] Jones et. al. (2016a).
[92] Ibid. P. 1011ff.
[93] Ibid. P. 1012.
[94] Ibid. P. 1012.

solutions, knowingly that the incremental reforms can lead to further crises and suggestions for comprehensive solutions were already made earlier before.[95]

Eurozone member states were refusing to let the common currency fail, although many necessary reforms were unpopular at the domestic level. Even though consenting on the need to preserve the Euro, national leaders agreed on LCD solutions, rather than sustainable reforms. The reasons are that national leaders, whether they understand the insufficiency of limited reforms or not, try to postpone unpopular reforms for their successors. This does not mean that they are generally against further integration, but they prefer to transmit the political costs to future governments.[96] The result of which is that the European leaders evoke predictable further crises:

> *"Putting off more comprehensive reforms may ultimately prove more costly, because incomplete institutions are self-undermining: They stimulate further functional spill-overs that perpetuate the cycle of crises".*[97]

The authors argue that the ignorance of the need of an extensive structural reform prompt further spill-overs with following crises. Hence political leaders rather choose piecemeal solutions with lower up-front costs to correct previous decisions, than a full comprehensive reform or supranational solutions to prevent further crises. As an explanation for the compromises, they use the LI perspective of the interstate bargaining and minimum winning coalitions by Moravcsik. The LI approach offers explanations of the speed and dimension of integration in bargaining processes between national governments. New powers are delegated to the EU level based on LCD solutions. Those compromises are characterized by the economic interests of national states. The veto of member states for comprehensive solutions, results in piecemeal settlements, based on the LCD.[98]

> *"Thus, if the EU has taken piecemeal, incomplete reforms rather than comprehensive ones, this is because at least one or more powerful member states saw more comprehensive reform as inimical to their economic self-interests and blocked it."*[99]

[95] Ibid. P. 1011f.
[96] Ibid. P. 1016f.
[97] Ibid. P. 1017.
[98] Ibid. P. 1012-1017; See also chapter: 2.1.3.
[99] Ibid. P. 1014.

The second main consideration of the study is the question why those piecemeal reforms have constantly led to further integration, instead of the "dismantling of shared governance institutions and market structures".[100] Their assumption is that the constant deeper integration is based on an underlying dynamic of international negotiations. The result is that the EU seems to "fail forward":

> *"Again and again responding to the failures of incremental reforms by taking new steps to expand the scope and intensity of integration."*[101]

Jones et. al. (2016a) wonder why European leaders who recognize this pattern and are against a deepening of integration, still continue with piecemeal reforms which obviously lead to further European integration. The puzzling consideration is, that if European leaders were opposing to further integration, they also would not continue with the incomprehensive reforms, which lead to an enhanced integration process.[102]

The NF perspective has explained this pattern that each step towards integration of monetary and economic policies generates spill-overs in other policy fields, close to them. Those create incentives to further integrate, and non-state actors add additional pressure. Spill-over effects from monetary policy fields to fiscal policies and banking regulations, again made incentives for more deepening. By focusing on the intergovernmental negotiations and considering the influences of NF forces over a longer period, the events during the Eurozone crisis are explained.[103]

> *"Intergovernmentalism captures the dynamics at work in critical junctures, whereas neofunctionalism describes the mechanisms linking one critical juncture to the next."*[104]

The failing forward argument connects those two dynamics over time and seems to be characteristic for European integration. Jones et. al. (2016a) pointed out the complex situation of governments having different preferences but reacting to the crisis events in terms of compromises, while refusing to delegate centralized power to EU institutions. Those would have been necessary to govern in an effective way.

---

[100] Ibid. P. 1012.
[101] Ibid.
[102] Ibid.
[103] Ibid. P. 1014ff.
[104] Ibid. P. 1013.

> *"Advocates of more comprehensive solutions may have little choice but to embrace the piecemeal reforms that reluctant states are willing to accept."*[105]

The cycle of piecemeal reforms, policy failures and further reforms has maintained the Euro, but this political approach implements risks and negative outcomes. They argue that the economically price of these failures have cost the European citizens a lot (such as the reduction of salaries and other austerity measures)[106] and the political costs led in a decreasing support for European integration and the impression, that the EU is permanently in crisis.[107]

This dynamic in European solution finding, offers a broad new perspective on causes and explanations of crises in the Eurozone. The combination of two broadly observed theoretical approaches and the focus on incomplete solutions over time, gives incentives to further investigate crises and policy responses with the focus on the failing forward cycle dynamics. The failing forward argument therefore has different observable implications for the observation of crisis responses. The described dynamic shall prove that:

Crisis induced pressures expose deficits of existing institutions.

- In response to these crisis-related pressures, member states introduce incomplete governance structures, based on LCD bargains.
- Some national leaders express their concern during negotiations that the incomplete structures are deficient.
- The insufficient construction leads to spill-overs and trigger further crises.
- This cycle should repeat.[108]

---

105 Ibid. P. 1017.

106 Austerity measures comprise reductions of government expenditures, wages and pensions, as well as increasement of taxes and privatization. Correia, Leonida / Martins, Patricia (2019). The European crisis: Analysis of the macroeconomic imbalances in the rescued euro area countries, in: Journal of International Studies 12(2). P. 23-26. See also: chapter 6.2.2.

107 Jones et. al. (2016a). P. 1010f; Eppler, Annegret / Anders, Lisa H. / Tuntschew, Thomas (2016). Europe´s political, social, and economic (dis-)integration: Revisiting the Elephant in times of crises, in: Institute for Advanced Studies Working Paper 143. P. 2.

108 Jones et. al. (2016a). P. 1017.

3.3. Cycle of Crises

The connection of LI and NF offers "a convincing explanation of the dynamics of the euro crisis that yields broader implications for the (sic!) study of European integration".[109] NF does not sufficiently explain why integration is not constant over time but has to deal with setbacks. LI explains potential security threats and economic factors as the leading arguments for compromises between nation states but lacks to clarify integration over time and the influence of supranational agency. Just as Jones et. al. (2016a) claim, the outcomes of negotiation processes usually are the LCD, while clear comprehensive solutions tend to be ignored and therefore create further crises.

> *"The failing forward cycle alternates between incomplete integration, followed by crisis, followed by incomplete but deeper integration, followed by crisis, and so on."*[110]

Although the EU was facing different crises in the past years, whether it be the migration crisis, ongoing economic crisis in Greece or the Brexit, progress instead of the destruction of the EU can be observed. "Each time, crisis was followed by progress rather than collapse".[111] Europe seems to be failing forward.

Therefore, the suggested observable indicators of Jones et. al. (2016a) will be tested on the evolvement of the EMU to detect underlying reasons, causes and pre-conditions of crises situations. If failing forward is a verifiable dynamic, it should appear since the onset of the EMU. Next, those dynamics should emerge also in the Eurozone crisis, which is claimed to be homegrown, due to a "design failure"[112] of the structures of the EMU. The cycle of crises should repeat and be testable on different policy solutions and emergency reactions. The coronavirus crisis once more led to acute responses and new measurements at the supranational level. The focus will be led on the economic and financial policies in crisis responses. If the failing forward argument emerges as a typical dynamic of crisis responses, then the argument should be also verified in the current crisis and the cycle of crisis should appear clearly.

[109] Ibid. P. 1015.

[110] Jones, Erik / Kelemen, R. Daniel / Meunier, Sophie (2016b). Is Europe failing, or is it 'failing forward'?, in: washingtonpost.com, 05 July 2016.

[111] Jones, Kelemen and Meunier (2016b).

[112] De Grauwe and Ji (2015); De Grauwe, Paul (2011). The Governance of a Fragile Eurozone, in: Centre for European Policy Studies Working Document No. 346. P. 15f.

4. Methods

To test the failing forward argument as an applicable theory, a process tracing analyses will be the method for this qualitative case study. Process tracing allows to build causal explanations and therefore the causal mechanism is the focus of the analysis.[113] It gives "a better understanding of how a cause produces an outcome".[114] This work is a "basic research" because its aim is to test an existing theory.[115] The research is based on an empirical analysis and aimed to answer open questions[116], of how further integration can be explained and what role crisis responses play in the integration process, as well as trying to find answers to the concrete research question ("How can we explain major steps in the evolution of the European Monetary Union?"). Process tracing is a method to link the independent variables (national constraints, supranational solutions, economic interests, bargaining etc.) to the dependent variable (the deeper integration of policy fields over time due to crises).[117]

Starke (2015) describes this as a useful technique to test existing theories or further generate new theories. Usually, the number of cases is low (in this work it will be the three moments of crises situations), while the number of data (empirical observations) is broad. It is a methodological approach where the roots of a theory are analysed by cases and its link. "Various empirical observations within one or more cases are understood as potential implications of theoretical causal mechanisms".[118] Possible alternatives or theoretical explanations shall be proven by the empirical reconstruction of causal processes.[119] In this thesis the theoretical approach of the fusion of LI and NF within the failing forward argument, should be confirmed by the reconstruction of the cycle of crises by the observable implications of the theoretical

[113] Starke, Peter (2015). Prozessanalyse, in: Georg Wenzelburger and Reimut Zohlnhöfer (eds.) Handbuch. Policy-Forschung Wiesbaden: Springer Fachmedien, pp. 453-482.
[114] Beach, Derek (2016). It's all about mechanisms – what process-tracing case studies should be tracing, in: New Political Economy 21(5). P. 463.
[115] Ritchie, Jane (2003). The Applications of Qualitative Methods to Social Research, in: Jane Ritchie and Jane Lewis (eds.) Qualitative Research Practice. A Guide for Social Science Students and Researchers. London/Thousand Oaks/ New Delhi: SAGE Publications. P. 24.
[116] Patzelt, Werner J. (2013). Einführung in die Politikwissenschaft. Grundriss des Faches und studiumbegleitende Orientierung. Passau: Wissenschaftsverlag Richard Rode. P. 168ff and 194ff.
[117] Ritchie (2003). P. 24.
[118] Starke (2015). P. 454.
[119] Ibid.

framework. One policy failure is explained to cause the next, which is going to be analysed closer.

Based on Schimmelfennig's approach, the arguments should be tested by "preferences, bargaining and institution-building".[120] Preferences will be considered by focusing on the main discussions about policy changes, such as Euro- or coronabonds and austerity measures. Bargaining results will be focused by expressing the leading opinions or vetoes of national leaders throughout the negotiation processes, such as the role of debtor vs. creditor states or the frugal countries vs. countries pushing for further integration. The institution-building is described by the evolvement of major changes in the governance structure, such as the Banking Union or the Role of the "European Central Bank" (ECB) and the debt mutualization of the EC. There will be only a partly focus on a timeline of events. It is not a chronological report of all events and negotiations in the integrational process, but a closer look at the main institutional changes and bargaining processes during the cases. Just as Starke (2015) argues, the mechanisms link the cause with the effect. EU crises shall cause further integration, due to the failing forward mechanisms. This will be observed in the "context and order, that can be expected by the theory". Since the aim of the thesis is to detect underlying dynamics in EU crisis responses, the used method is more specifically a "deductive-theory-testing process tracing".[121] A variety of implications will be sticked together to link the causal chain. Thereby the puzzling, enhanced integration via failing forward attempts at the EU level should be explained.

The casing started from the crisis observed in the theory. Jones et.al. (2016a) base their argument on the development of the Banking Union as a response to the Eurozone crisis. They do not examine other policy changes in their essay, which is why they will be considered here to apply the failing forward argument also on other aspects of the Eurozone crisis. Additionally, the pre-crisis situation must be contemplated if causal mechanisms want to be detected. The authors argue, that failing forward is an underlying dynamic and self-inducing, so the early roots of this

[120] Schimmelfennig (2015a). P. 179.
[121] Starke (2015). P. 457.

crisis response method, is about to lie in the evolvement of the EMU. Apart from explaining the main structures of governance and policy at the EU level, this focus shall allow to detect early design failures. The most innovative part will be the focus at the current coronavirus crisis, as one of the first attempts in the research area to explain the latest crisis responses. The effects of this economic crisis and its financial policy solutions, are promising to offer answers to the observable implications in the same policy fields, such as within the Eurozone crisis.

The empirical observations of this study are naturally occurring data[122] and the chosen analysis method is a documentary analysis mixed with a secondary analysis. Naturally occurring data are existing documents "to understand their substantive content or to illuminate deeper meanings"[123] and are useful if the history of events is of interest or when direct observation is impossible. These data are public documents like minutes of meetings, government papers, publicity documents and procedural material.[124] The documents used to analyse the coronavirus crisis, are official press releases and negotiation papers of the EC and other important European institutions, as well as original EU-treaties. Those are structured with a theoretical sampling. This means that the analysis will be stopped when a considerable number of investigation units have been used to gain sufficient knowledge.[125] The method relies on the interpretation of the author to choose what material is considered.[126] With the selection of relevant papers and press releases the focus is led on certain aspects of the crisis dynamics which shall be highlighted to explain the causal mechanisms. Additionally, the publicity contents of the websites of the EC and other institutions, on most of the negotiations that took place will be considered. Those media reports or press releases and publicity

[122] Ritchie (2003). P. 34f; Lewis, Jane (2003). Design Issues, in: Jane Ritchie and Jane Lewis (eds.) Qualitative Research Practice. A Guide for Social Science Students and Researchers. London/Thousand Oaks/ New Delhi: SAGE Publications. P. 56.
[123] Ritchie (2003). P. 35.
[124] Ibid.
[125] Patzelt, (2013). P. 182f.
[126] Lewis (2003). P. 57.

documents are the main base of the analysis of the coronavirus crisis responses, which is why they also have to be considered as primary sources.[127]

To test the described dynamics on different crisis moments, the chosen data to analyse the evolvement of the EMU and the Eurozone crisis, as well as the coronavirus crisis, will be primary sources of the European integration process and secondary literature. Secondary analysis of existing research data has a high potential and allows the author to add a "new perspective to existing data"[128] or focus on data that have not been fully considered yet. Its quality and relevance to answer the research question will be carefully proven.[129] The literature on the Eurozone crisis is broad, therefore, the existing scholarly papers on the development of the EMU, as well as on the roots of the Eurozone crisis, are re-observed in order to reflect crisis reactions and negotiation outcomes. Secondary data on the coronavirus crisis is limited so far, but there is a broad concordance in the European science community to unite[130], which is important for the accuracy of the material. It allows an interdisciplinary approach to reach out for material not directly concerned at the study of political science, but also to consider existing papers from related disciplines like economics, market-, financial- or international studies.

[127] Due to the amount and for better readability the author will not put URL-links in the notes. Those are reported in the bibliography.
[128] Lewis (2003). P. 61.
[129] Ibid.
[130] European Research Council (2020). Resignation of Mauro Ferrari – Statement by the Scientific Council, in: erc.europa.eu, 08 April 2020; Blau, John (2020). EU Scientists Unite Against Coronavirus, in: Research Technology Management 63(4). P. 4.

5. The European Monetary Union

The unification of sovereign European nation states to the EMU is the result of years of negotiations and reviews between European countries.[131] The main objectives of the Monetary Union were freedom of goods, services, money and labour, and a potential single currency.[132] The early roots of the failing forward dynamics lie in the history of the EMU. IGB led to compromises and crisis moments to spill-over effects to deeper integration. For a better understanding of this dynamics the following chapters describe the beginning of monetary integration at the EU level, the governance and policy structures of the EMU and its actors, as well as the resulting structural deficits.

5.1. Evolvement and Early Roots of Failing Forward

The development of the EMU reaches back to the establishment of the ECSC in 1952, after World War 2, when the project of European integration began.[133] In 1958 the "European Economic Community" (EEC)[134] was the first step towards monetary integration. An agreement between the national leaders in a summit conference in The Hague in 1969 led to the plan towards an Economic and Monetary Union. The "Werner Plan" was proposed in 1970 and three stages were to be reached by 1980 in order to establish the EMU.[135] It was "the first to elaborate on the need for progress on the economic and institutional front in parallel with monetary convergence".[136] But different opinions on policies led to stagnation.[137]

---

[131] Verdun, Amy (2019). Economic and Monetary Union, in: Michele Cini and Nieves Pérez-Solórzano Borragàn (eds.) European Union Politics. Oxford: Oxford University Press. P. 343.
[132] Ibid. P. 347.
[133] Issing, Otmar (2008). The Birth of the Euro. Cambridge: Cambridge University Press. P. 3f. The Treaty of Paris was signed by Belgium, France, Luxembourg, Italy, West Germany and the Netherlands.
[134] Treaty on the Functioning of the European Union 2012/C 326/13. Consolidated Version of the Treaty on the Functioning of the European Union, in: Official Journal of the European Union, issued on: 26 October 2012.
[135] Those stages were to reduce the currency fluctuations, install economic policy guidelines and coordination of fiscal policies; to remove capital restrictions and integrate the financial market; and to fix the exchange rates, install economic policy convergence and a system of central banks. Chang, Michele (2016). Economic and Monetary Union. London: Palgrave. P. 10; The plan was named after the Prime Minister of Luxembourg, Pierre Werner, who chaired the Werner Group. Issing (2008). P. 5.
[136] Issing (2008). P. 5.
[137] Verdun (2019). P. 347; See more about the "monetarists" and "economists": Issing (2008). P. 5f.

With the next crisis moment, in 1973 when the “Bretton Woods system”[138] collapsed, Europe had to look for its own stability system. A cooperation on exchange rate mechanisms at the European level between France, Germany, Ireland, Luxembourg, and Netherlands started by the “Exchange Rate Mechanism”, also called “Snake”.[139] But the exchange rate fluctuations for European currencies were significant and caused harm in the trade relations, which is why in 1979 the “European Monetary System” was set up by the European Community members and became a symbol of successful European integration.[140]

In 1986 the “Single European Act”[141] was signed and adopted in 1987, with the aim to realize the EMU and to complete the single market.[142] After the implementation of the “Delors Report” in 1989 the relaunch of the EMU finally commenced. Its aim was “full freedom of goods, services, capital, and labour, and […] the introduction of a single currency”.[143] The first stage of the complementation of the EMU was the withdraw of internal barriers with the aim of free movement of capital and cooperation between the central banks.[144] Stage two was to finalize the EMU by adopting a progressive transfer of monetary policies at the EU-level and to establish a “European System of Central Banks” (ESCB), while stage three was to introduce a single European currency.[145] This was further formalized with the “Treaty on European Union” (TEU)[146] of 1990, which consisted of plans for the adoption of a Monetary

---

[138] The Bretton Woods agreement was a system of fixed exchange rates, which were adjustable and based on the gold-dollar standard. It lasted from 1944-1971. Chang (2016). P. 9f; Issing (2008). P. 5.
[139] Verdun (2019). P. 346; Dyson, Kenneth (2009). Fifty Years of Economic and Monetary Union: A Hard and Thorny Journey, in: Phinnemore, David and Alex Warleigh-Lack (eds) Reflections on European Integration. London: Palgrave Macmillan. P. 147; Chang (2016).
[140] Verdun (2019). P. 346f; Issing (2008). P. 5.; Chang (2016). P. 12f: the EMS was compound of Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg, and the Netherlands.
[141] Treaties establishing the European Communities 1987. ECSC – EEC – EAEC, Treaties amending these Treaties: Single European Act. Resolutions – Declarations, in: Office for Official Publications of the European Communities.
[142] Chang (2016). P. 13; Verdun (2019). P. 347.
[143] Verdun (2019). P. 347.
[144] Dyson (2009). P. 143; Chang (2016). P. 15; Verdun (2019). P. 347.
[145] Chang (2016). P. 15; Verdun (2019). P. 347.
[146] Treaty on European Union 1992. ECSC – EEC – EAEC, Council of the European Communities / Commission of the European Communities. Treaty on European Union, in: Office for Official Publications of the European Communities; also known as “Maastricht Treaty”.

Union, introduced the Euro as a common currency and set rules for government debt levels.[147]

To reach the first stage, the liberalization of capital markets started in July 1990. The so-called "Maastricht convergence criteria"[148] were negotiated to have balanced inflation-, interest- and exchange rates. Another agreement was the ban of excessive public debts and budgetary deficits. The implementation of those criteria was agreed and accomplished in 1991. Since then, member states needed to fulfil the convergence criteria to join the EMU. Additionally, the national central banks had to be politically independent and lost their privilege of monetary financing (f.i. printing money).[149] The aim of those strict fiscal rules was to guarantee a successful EMU and to keep weaker countries outside. This was contrasting the viewpoint of France and Italy that convergence could occur after joining the Community. A compromise was made between the German interests and French government, to implement the convergence criteria but to start the Monetary Union the latest on 1 January 1999, while the United Kingdom (UK) had a separate option to "opt-out".[150] The TEU, finally was signed in Maastricht on 7 February 1992.[151] Since Denmark rejected the Treaty in a referendum, the contingency plan was again questioned. Also, Denmark covenanted on a formal opt-out of the EMU, after a second referendum passed the Treaty in 1993.[152] This compromises mark failing forward moments, due to its character of IGB solutions for a further integration step.

In 1994 the second stage was reached by implementing the "European Monetary Institute", which was the forerunner of the ECB.[153] To manage the EMU better and to prevent freerides, the "Stability and Growth Pact" (SGP) was put in place in 1996, mainly as a deterrent tool.[154] It included the budgetary surveillance to prevent high deficits and a corrective arm, the so-called "Excessive Deficit Procedure" (EDP)

---

[147] Chang (2016). P. 15; European Commission (2020a). Timeline: The Evolution of EU Economic Governance, in: ec.europa.eu.
[148] Verdun (2019). P. 346f.
[149] Ibid. P. 346ff.
[150] Chang (2016). P. 17f.
[151] Treaty on European Union 1992; Since then, the unification of states is called "Union" instead of "Community". The main objective remained the final establishment of the EMU. Chang (2016). P. 17f.
[152] Chang (2016). P. 18f.
[153] Chang (2016). P. 19.
[154] See also: chapter 5.3.2.

for a deficit limit. In case of violation, financial sanctions towards the member state can be imposed.[155] Also the Eurogroup was created as a compromise for French concerns, instead of an economic ministry at the EU level.[156] Once more early failing forward moments can be observed by agreements on incomprehensive policy solutions.

The third stage finally, started in 1999 when the European Council agreed on 11 countries, without Denmark, Sweden, and the UK, to participate in the EMU and to permanently fix the exchange rates. Also, Belgium and Italy did not fulfil the SGP, but since they were "approaching", they could enter the EMU. The Monetary Union officially came into operation on 1 January 1999. Greece joined the EA in 2001, based on falsified economic data. Slovenia, Malta, Cyprus, and Slovakia followed between 2007 and 2009 and the Baltic countries with Estonia and Latvia in 2011 and 2014. With Lithuania in 2015 the EA today has 19 member states.[157]

The re-adaption of contracts and bargaining compromises were part of the European integration process since the beginning. In difference to the later 19 member states of the EMU, the main difficulties of national sovereign countries, was the overcoming of previous enmities and heavily diverging opinions. Since the finality question was skipped, because no agreement could be found in the onset of the European unification, LCD solutions and understandings were part of the European dynamics. Some compromises contained separate national solutions, like the opt-outs of the UK or Denmark. The noncompliance with the SGP or falsified data, mark the roots of macroeconomic divergences because compromises were made too quickly to install a Monetary Union, without an integrated ministry. The implementation of the Eurogroup instead of a ministry of economics or the lost privilege of national banks of monetary financing, were the foundation of the later crises due to lacking institutions. In the following chapter, those institutions concerning the economic and monetary

[155] Verdun (2019). P. 349f.
[156] Chang (2016). P. 20; See chapter 5.2.
[157] Verdun (2019). P. 349; Chang (2016). P. 22.

governance in the EMU, are further explained and should help to overview the responsibilities, as well as the limitations of the Eurozone governance.

5.2. Economic and Monetary Governance

There are different institutions in the EMU responsible for monetary and economic policies. Since it is important for the understanding of the governance deficits or the neofunctional forces, a closer look at the main institutions is part of the next section.

The EUROPEAN COUNCIL, which consists of all heads of state or government of the EU, sets the main policy guidelines. Since the onset of the financial crisis and with the ratification of the Lisbon Treaty[158] in 2009 a dual constitution entered into force: supranationalism was the main concept for internal market policies and intergovernmentalism for economic and financial policies. The European Council has become increasingly regularized. It meets quarterly, and the EA leaders have additional separate meetings. Those EA summits became institutionalized in 2011.[159]

The EURO SUMMITS since then, occur two times a year and its preparation is done by the "Eurogroup Working Group" (EWG). What started as "ad-hoc gatherings" of the "heads of state and government of euro area members and the president of the Commission"[160] became formalized in the "Treaty on Stability, Coordination and Governance" TSCG) in 2012.[161] The leaders of the EA meet after the EC meetings. They include the heads of states and governments (who ratified the TSCG), the presidents of the Commission and the Central Bank.[162]

[158] Treaty of Lisbon 2007/C 306/01. Amending the Treaty on European Union and the Treaty establishing the European Community, in: Official Journal of the European Communities, issued on: 17 December 2007.
[159] Chang (2016). P. 49f.
[160] Hodson, Dermot (2015). Policy-Making under Economic and Monetary Union, in: Helen Wallace, Mark A. Pollack and Alasdair R. Young (eds.) Policy-Making in the European Union. Oxford: Oxford University Press. P. 191.
[161] See also chapter: 6.3.2.
[162] Also, the presidents of the Eurogroup, the Parliament or non EA who have signed the TSCG can take part. Chang (2016). P 50.

The Council of the European Union (THE COUNCIL) "coordinates EU economic policy-making and decides whether a member state may adopt the euro".[163] It is comprised by all ministers of the EU. The Council meets with 27 national ministers in different configurations. Those are diverging according to the topic discussed. The configuration relevant for financial and economic policies is the Economic and Financial Affairs Council (Ecofin). In advance of Ecofin, the Eurogroup meets.[164]

The EUROGROUP, which began as informal meetings between financial ministers of the EA, became a "forum for real discussion and exchanges of viewpoints".[165] It brings the "euro area finance ministers together in advance of Ecofin to discuss the economic situation and shared policy challenges".[166] They "coordinate policies of common interest"[167] for the member states of the Eurozone and pre-agree on critical Council decisions.[168] They negotiate what will be formally agreed on in the Ecofin but they have no formal decision-making powers.[169] The informal meetings are recognized in the "Treaty of the Functioning of the European Union" (TFEU).[170]

The ECOFIN is composed by the finance and economic ministers of the entire EU and relevant EU commissioners. They meet on a monthly base to discuss economic policy, taxation, and financial regulation. Also issues around the Euro and the international positions are agreed there. Groundwork is done by the Economic and Financial Committee, which prepares the opinions and reviews of member states economic and financial situations.[171]

---

163 European Commission (2020e). What is the Economic and Monetary Union? (EMU), in: ec.europa.eu.
164 Puetter, Uwe (2004). Governing informally: the role of the Eurogroup in EMU and the Stability and Growth Pact, in: Journal of European Public Policy 11(5). P. 855.
165 Chang (2016). P 52; Puetter (2004). P. 855.
166 Hodson (2015). P. 190; The elected president of the Eurogroup is in charge for 2,5 years. Mario Centeno (Portugal) held the chairmanship for two years from 2018-2020 and since July 2020 Paschal Donohoe is the following president. It is assisted by the EWG who have an elected president for four years and offer "recommendations and helps to prioritize" the workload: Chang (2016). P 52.
167 European Commission (2020e).
168 Puetter (2004). P. 854.
169 Chang (2016). P 52; Puetter (2004). P. 855.
170 Treaty on the Functioning of the European Union 2012/C 326/13; The "Treaty of the Functioning of the European Union" (TFEU) and the "Treaty on European Union" (TEU) are the two treaties which build the constitutional base of the European Union. The TFEU originally was called the Treaty of Rome and has been consolidated various times since 1957. Since 2009 with the Treaty of Lisbon it was renamed to TFEU. Both treaties are the basis of the EU law.
171 Chang (2016). P 51.

The EUROPEAN COMMISSION (EC) is the equivalent of the government at the national level. It is responsible among other things "to shape the EU's overall strategy, proposes new EU laws and policies, monitors their implementation and manages the EU budget."[172] It got more attention in the EA governance since the onset of the sovereign debt crisis. Before that, more focus was led on the Ecofin and Eurogroup, as well as the ECB and its main tasks were surveillance and implementation.[173] Surveillance is also done by the work of Directorate-Generals. The "Directorate-General for Economic and Financial Affairs" suggests EU legislation, before passing it to the Ecofin and the EP for approval. It has a surveillance character towards the goals of the SGP and EDP, the "Macroeconomic Imbalance Procedure" (MIP) and the "Broad Economic Policy Guidelines" (BEPGs).[174] Financial assistance programmes, as part of the Troika[175], are created and implemented by the Directorate.[176] The second Directorate worth mentioning, is "Eurostat", which serves as the statistical office of the EU. Its European-wide coordination of statistics, information and surveillance got deepened over time. Eurostat constitutes the supranational rules on the national budgetary accounts and decide if the deficits and debt levels are in line with the convergence criteria, the SGP and the MIP, while other institutions and the members states then must accomplish them.[177]

---

[172] European Commission (2021). What the European Commission does, in: ec.europa.eu.
[173] Chang (2016). P. 56f.
[174] The BEPGs were introduced within the Lisbon Treaty. EUR-Lex (2020). Broad Economic Guidelines (BEPG) in: eur-lex.europa.eu; Treaty of Lisbon 2007/C 306/01; The BEPGs were intended to push the economic policies via "soft co-ordination" in the right direction, but they could not prevent or correct the unsustainable national policies. Salines, Marion / Glöckler, Gabriel / Truchlewski, Zbigniew (2012). Existential crisis, incremental response: the Eurozone's dual institutional evolution 2007-2011, in: Journal of European Public Policy 19(5). P. 666; Those "non-binding recommendations on the economic policies of the member states" were suggested by the EC and endorsed by the ministers of finance. Hodson (2015). P. 169ff.
[175] The Troika are comprised of the EC, the ECB, and the IMF. European Parliament (2020a). CRIS, in: europarl.europa.eu; Germany wanted to have a credible control institution, since it was about to contribute the highest amount of financial support. The conditions attached to the loans therefore should be monitored by the IMF, as an independent addition to the EU controllers. Hodson and Puetter (2019). P. 393f; Horn, Gustav / Lindner, Fabian / Tober, Silke / Watt, Andrew (2012). Quo vadis Krise? Zwischenbilanz und Konzept für einen stabilen Euroraum, in: IMK Institut für Makroökonomie und Konjunkturforschung 75. P. 8.
[176] Chang (2016). P. 56f.
[177] Ibid.; A famous example is the Eurostat report of 2004 which already stated problems with Greek data.

The EUROPEAN CENTRAL BANK (ECB) sets the monetary policy of the Eurozone. Its main objective is to maintain price stability in the EA and (later also) to act as the central supervisor for the financial institutions in the Eurozone.[178] Since the TEU the Central Bank is independent from political interruption.[179] Its legal character allows the ECB to "formulate opinions, deliver recommendations, and make regulations on policies that fall within its sphere of competences".[180] It has a decentralized decision-making structure and therefore national central bank governors are allowed having a seat in the Governing Council together with the president of the ECB, the vice-president and the ECB Executive Board. After the number of EA members rose, its voting structure changed to twenty-one people allowed to vote in the ECB Governing Council. Still its monetary policies are based on committees, which on the one hand can lead to less ideologically driven decisions, but on the other hand risks of too conservative and too slow acting in times of crisis. It has a unique status in the EU, since decisions are made with less checks and balances, than the Commission, for example by filling positions via "deals among the largest euro area members" or by its location in Frankfurt.[181] Another difference is that the ECB is an autonomous operative agency and has specific tasks, but limited policy answers. Its responsibilities apart from setting monetary policies, are the administration of foreign reserves and settlement systems and dealing with exchange rate policy. Apart from maintaining price stability, its tasks compared to the U.S. Federal Reserve, are rather conservative, by not dealing with maximum employment or constant long-term interest rates.[182] The sovereign debt crisis made the ECB as one of the most important actors of the European governance.[183]

The role of the EUROPEAN PARLIAMENT (EP) in the EMU is based on the "Economic and Monetary Affairs Committee", which is in charge of economic, monetary and financial policies. It has regular hearings in the ECB, which symbolizes accountability, but without real legal rights. It plays an important role for the setting of legislation on

[178] European Commission (2020e); Chang (2016). P. 52.
[179] Chang (2016). P. 54.
[180] Hodson (2015). P. 180.
[181] Ibid. P. 180f.
[182] Ibid. P. 181.
[183] See more in chapter: 6.4.2.

financial regulations and fiscal policy coordination. As part of the three legislative branches of the EU, besides the Commission and the Council, it adopts the legislation, that is proposed by the EC. It has also attempted to improve its legal power, for example by treating the "Six Pack", as a set of six regulations, while only four were regulations which needed co-decision. The EP also implemented the "CRIS committee" to analyse causes of the financial crisis and added an investigation of the Troika.[184] But its actual position during the crisis was limited, since the "community method"[185] was circumvented by agreeing on intergovernmental treaties, like the TSCG, the Euro Plus Pact[186] and the ESM. Its capability of "systemic change in the EU political system is weak and poorly developed" and the member states remain in their power of legislation.[187] The differences of responsibilities will be further described in the next chapter.

5.3. Economic and Monetary Policies

The Euro is seen to be an incremental symbol of European integration.[188] Advantages of a single currency were to reduce transactions costs and to reflect a signal for commitment to the EMU. To guarantee that the Euro will be a low-inflation currency, rules on public debt and budgets were introduced and to prevent a moral hazard the "no-bailout clause" should avoid the accumulation of debt of other member state countries.[189] The no-bailout clause was implemented in article 125 in the TFEU to ensure market discipline. The Union or

[184] Chang (2016). P 49; The committee is responsible for the evaluation of the Eurozone crisis extend and its impact.
[185] The community method describes one of the two decision-making modes on the EU-level. It is the method of integration (supranational method) and used for the policies, which were more technical, while the intergovernmental method was perceived as the cooperation between member states on politically more sensitive policy areas. Coman, Ramona (2018). Intergovernmental method, community method and open method of coordination. The resilience, efficiency and legitimacy of the EU's modes of governance, in: Andreas Grimmel (ed.) The Crisis of the European Union Challenges, Analyses, Solutions. New York: Routledge. P. 173.
[186] The Pact was an informal non-binding intergovernmental agreement between 23 European countries for stronger economic policy coordination. The EP has suggested to integrate it into EU law. European Parliament (2020b). Legislative Train Schedule. Deeper and Fairer Economic and Monetary Union, in: europarl.europa.eu.
[187] Chang (2016). P. 54f.
[188] Verdun (2019). P. 344.
[189] Ibid. P. 345. Its aim was to guarantee market discipline and to prevent moral hazard.

"A Member State shall not be liable for or assume the commitments of central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of another Member State."[190]

Also, the voluntary financial bailout was permitted. During the financial crisis, this clause was challenged, because the bankruptcy of one state would have been extremely negative also for the other member states. It was the base for the latter discussions about the Eurobonds and coronabonds.[191] The clause was installed to help countries prevailing to issue too much debt.[192] Still, it did not help to prevent the economic crisis, because of the EMUs systemic asymmetries, which are focused in the next section.

5.3.1. Policy Asymmetries

Monetary policy is usually formulated and carried out by central banks and sometimes in cooperation with the financial or economic ministry. Its main aim is to influence the circulating amount of money and the credit conditions. The key interest rate is also set by the central banks. Since the establishment of the EMU, those decisions are taken at the European level by the ECB. Its main aim is to achieve price stability as close to 2% inflation.[193]

Since 1991 the ESCB consists of all member states national banks and the ECB. The Eurosystem therefore is the compilation of the central banks of the Eurozone and the ECB. The Governing Council of the ECB formulates the monetary policy for the EA and responsible for the single currency. Also, it sets a key short-term interest rate and supervises the money supply. Economic and financial policies on the other hand lay in the hands of national governments.[194] While having integrated monetary policies, where governments have no control of, the supranational institutions have no power over the national economic and fiscal policies. This diverging dynamic led nearly to a

[190] Treaty on the Functioning of the European Union 2012/C 326/13. Article 125. P. 53.
[191] See chapter: 7.2.3
[192] Verdun (2019). P. 345.
[193] Ibid. P. 344.
[194] Ibid.

collapse in the Eurozone crisis, since both levels are dependent on each other while having no direct influence likewise.[195]

> *"The fact that while monetary policy is fully centralized, the other instruments of economic policies have remained firmly in the hands of the national governments is a serious design failure of the eurozone."[196]*

Therefore, the institutional design of the EMU is asymmetrical: while monetary policy is transferred to supranational institutions, the economic policies remain at the national level.[197] A full Economic Union would need a unification of all economies with common economic policies. Further a Political Union implies policymaking at the supranational level, which is reached only with the final stage of integration, a confederation.[198]

Also, the macroeconomic strategies diverged between the member states since the onset of the EMU. It was built upon different starting points, with the northern European countries having export-oriented growth-strategies and proper institutional frameworks, while southern European economies where ineffective to compete with their northern counterplayers. The strategies of Germany, Belgium, Austria, the Netherlands, and Denmark were based on strong fiscal standpoints, low increases of wages, innovation, and the replacement of capital for labour. Instead of domestic demand, growth was based on exports, while southern countries pursued expansive fiscal policies to face growing domestic demand.[199]

Clearly visible, the roots of the failing forward dynamics lie in the historic development of the EMU, were IGB compromises were necessary and led to incomprehensive policy solutions. Some piecemeal solutions (surveillance of national budgetary accounts and statistic data) were implemented by adaptions on the institutional framework. While different political leaders expressed their concerns either by wishing less or more integration, those disagreements were solved by the LCD, like the opt-out solutions of

[195] De Grauwe (2011). P. 15f.
[196] Ibid.
[197] Verdun (2019). P. 346; Hodson (2015). P. 167.
[198] Verdun (2019). P. 346.
[199] Hall (2012). P. 359f.

the common currency. Step-by-step those piecemeal reforms led to increasing integration, like the SGP, as described in the next section.

5.3.2. Stability and Growth Pact

The member states agreed on the surveillance and coordination of fiscal and economic policies to accomplish the rules of the TEU in 1992.[200] They had to commit to macroeconomic discipline by "meeting convergence criteria"[201] and had to "avoid excessive government deficits".[202] Those criteria were focusing on price stability, sound and sustainable public finances, a durable convergence, and an exchange-rate stability.[203] The criteria were agreed to as follows:

> *"A Member State has a price performance that is sustainable and an average rate of inflation, observed over a period of one year before the examination, that does not exceed by more than 1.5 (sic!) percentage points that of, at most, the three best performing Member states in terms of price stability".*
>
> *"Participation in the exchange-rate mechanism of the European Monetary System […] without severe tensions for at least the last two years before examination".*
>
> *"[…] one year before the examination, a Member State has had an average nominal long-term interest rate that does not exceed by more than two percentage points […]".*[204]

The convergence criteria were part of a broad academic discussion about NF and LI, whether the prior stages of European economic integration create spill-overs or force states to choose "between EMU and flexible exchange rates".[205] They were described as a result of IGB "between economic interests" and "macroeconomic stability", building the LCD.[206]

---

[200] Treaty on European Union 1992; European Commission (2020a).
[201] Hodson (2015). P. 170.
[202] Treaty on European Union 1992. Article 104c. P. 29; Treaty on the Functioning of the European Union 2012/C 326/13. Article 126. P. 54; and: Treaty on the European Union 2002/C 325/01. Consolidated Versions of the Treaty on the European Union and the Treaty of Establishing the European Community, in: Official Journal of the European Communities, issued on: 24.12.2002. Article 104. P. 73.
[203] Hodson (2015). P. 170f.
[204] Treaty on European Union 1992. P. 187.
[205] Hodson (2015). P. 171.
[206] Ibid.

The compromise was further developed by the SGP, which was a regulation pack of the Council, that included to prepare medium-term budgetary plans and was agreed by the heads of state and government. Its fiscal cooperation included price stability and the dismissal of expansive fiscal policies. The main aim was to prevent free riders in the EMU by high deficits and debts. In case of violation, they could be sanctioned. In 1998 a "preventive arm" and 1999 a "corrective arm" (EDP) were added.[207] The reference values on government deficits and debts as part of the EDP are:

> *"3% for the ratio of the planned or actual government deficit to gross domestic product at market prices" and "60 % for the ratio of government debt to gross domestic product at market prices".*[208]

If a deficit exists in the Councils perception (based on the Commissions suggestion), the member state is asked to reduce the debt levels according to the 3% of GDP-rule. After difficulties to implement the SGP, leading to an internal crisis, they were revised and adjusted.[209] The new rules of the SGP were first tested, in the onset of the financial crisis in 2008 and the increasement of government debts led to a different view of its importance.[210]

Coordination of budgetary policies was considered as the best way to achieve balanced and economic growth and price stability, which depicted the main objective of the EMU. A rule-based system therefore appeared to be the best solution for the Union at the beginning. With the SGP those objectives should have been implemented.[211] Therefore, the early roots of the failing forward dynamics are reflected by the process of the incomprehensive macroeconomic policy solutions, the further re-adaption of the criteria in the SGP, the spill-over of the insufficient agreements leading into a negotiation crisis and again opening the necessity of adaptions. Later, the SGP were further strengthened and revised with the Six Pack,

[207] Ibid. P. 184; Chang (2016). P. 39; Verdun (2019). P. 349; European Commission (2020a).
[208] Treaty on European Union 1992. P. 185.
[209] France, Germany and Portugal were warned in 2002 of breaching the SGP, but FR and GE could not make the necessary adaptions to lower their deficits. They did not get financial sanctions, because the SGP was paused for the two countries. After a decision by the court, the SGP were revised. Verdun (2019). P. 349f.
[210] Verdun (2019). P. 349f. See chapter: 6.3.1.
[211] Treaty on the Functioning of the European Union 2012/C 326/13. Declaration on Article 126. P. 303.

Two Pack and the Fiscal Compact, due to the lack of functioning measurements in times of crises.[212] Those structural deficits are further described in the next chapter.

5.4. Structural Deficits

The EMU is considered to have lacking structures and a not functioning design of the governance architecture. Mainly the incompleteness of the EMU lasts in insufficient macroeconomic adjustment policies, the lack of integrated fiscal policy[213] and inadequate banking regulations.[214] The next sections are dedicated to those deficits.

5.4.1. Macroeconomic Divergences

The macroeconomic divergences between the member states at the beginning of the introduction of the Euro were rather big. They varied in terms of growth, inflation, institutional configurations, and growth models. Dissimilar wages and prices had to be considered when the ECB created one monetary policy. A (functioning) single currency area should adopt a single monetary policy, which can be politically and economically challenging, especially if the members of such a union face different conditions.[215]

e ECB chose an interest rate in the middle of the slow-growing countries (Finland, Germany, France, Benelux, Austria) and the fast-growing states (Ireland, southern Europe). Yet, it was too low for the core countries to accelerate growth because domestic investment was narrow and therefore inviting to spend money abroad. Hence, the interest rate was low enough for the periphery to start lending money.[216] The dynamics of "booms and busts" are an explanation of the single interest rate proposed by the ECB being too high for countries with an upwards trend (booming) and too low for countries in recession.[217] It is stressed that the Monetary

[212] Verdun (2019). P. 354. See chapter: 6.3.
[213] Macroeconomic policies contain government spending, taxation, social and wage policies. De Grauwe and Ji (2015). P. 740.
[214] Copelovitch, Mark / Frieden, Jeffry / Walter, Stefanie (2016). The Political Economy of the Euro Crisis, in: Comparative Political Studies 49(7). P. 818ff.
[215] Frieden and Walter (2017). P. 373
[216] Ibid.; Copelovitch, Frieden and Walter (2016). P. 818-822; De Grauwe (2016). P. 151.
[217] Frieden and Walter (2017). P. 373; Copelovitch et. al. (2016). P. 818-822; De Grauwe (2016). P. 151.

Union even triggers the booms and busts dynamics at the national level.[218] The next sections explain how and why this bubble busted.

5.4.2. Lack of Integrated Fiscal Policy

While a centralized authority oversaw the monetary policies, the fiscal policies remained at the national level. There was no tool or authority implemented to deal with macroeconomic adjustments on the member states level.[219] But integrated fiscal policies or adaptions at the national level could have been helpful to prevent the extend of the crisis. Booming countries from the periphery should have imposed more restrictive fiscal policies to reduce the account deficit and to cut down foreign inflows. On the other side, the slow growing countries with account surpluses should have stimulated the domestic demand by implementing "more expansionary fiscal policies"[220] and by correcting the capital outflows. The member states though, did not want to give up their national competences in the macroeconomic policies.[221] Although having information about the risks of not having fiscal integration in a Monetary Union, almost all the national governments disagreed in introducing such politically sensitive measures in the onset of the crisis. The lack of structural reaction to asymmetric shocks and macroeconomic divergences was faced by the LCD of market structural reforms instead of further integration of policy areas.[222]

Another major institutional problem was the missing of fundamental stabilizing forces, like the national banks being the "Lender of Last Resort" (LLR).[223] Since the Euro countries lost their control over a currency in times of crises, this was "threatening to trigger self- fulfilling liquidity crises […], which would (sic!) degenerate into solvency problems."[224]

[218] De Grauwe (2016). P. 151.
[219] Jones et. al. (2016a). P. 1011.
[220] Copelovitch et. al. (2016). P. 819f.
[221] Ibid. P. 820.
[222] Jones et. al. (2016a). P. 1018.
[223] De Grauwe (2016). P. 150ff. This was changed during the crisis. See chapter: 6.4.3.
[224] Ibid. P. 152.

5.4.3. Lack of Banking Regulations

Also, the banking regulations remained at the national level. The main concept of the broader single market project was based on the free movement of capital and a single European market with financial and banking services. The actions of banks went pan-European, but the supervision, and regulation remained at the national level, which reflected the preferences of Germany, France, and the UK.[225]

The worst case of a lacking supranational supervision was a banking crisis, which threatened other European banks "whose banking systems were increasingly exposed to one another through the activities of cross-border banks and through the free movement of capital".[226] According to Jones et. al. (2016, the risks of cross-border capital flows were ignored by the European leaders in the first place, by not installing an EU wide level of banking regulation. They supposed that the financial institutions would be regulated by market forces, ignoring the fact that the stronger connection of them could threaten banks of other states, if one major bank gets into financial trouble. A lack of coordination between home and host countries, led to regulation gaps, which allowed cross-border banks to take on excessive risks in low regulated markets. Higher returns were expected to gain in peripheral states, for money inflows. This destabilized the system, since it lowered the pressure on public finances, the private sector borrowed excessively, and it increased the negative consequences of a sudden stop of capital flows for peripheral countries. Two main questions were neglected at that time: first, how the activities of banks would be overseen and second, if depositors were assured beyond borders.[227] "Greater centralization of banking regulation was rejected by national governments who resisted the deepening of European integration."[228] The financial regulation therefore remained at the national level, while financial institutions took advantage of the regulation gaps[229] by

[225] Jones et. al. (2016a). P. 1020f.
[226] Ibid. P. 1021.
[227] Ibid. P. 1019ff.
[228] Ibid. P. 1020.
[229] These gaps allowed cross-border banks to take on excessive risks in low regulated market. Higher returns were expected to gain in peripheral states, for money inflows, which destabilized the system. Jones et. al. (2016a). P. 1021; Hodson and Puetter (2019). P. 391.

arbitrage to achieve higher surpluses with higher risks. This created systemic problems and jeopardized contagion if a member state failed at its regulation.[230]

It is a useful example to express the crisis cycle dynamics of the failing forward argument: by creating systemic risks due to insufficient institutions, the crises are self-inducing, amplifying further crises. Those factors (the huge differences of macroeconomic preconditions, the lack of stabilizers and financial regulations) further fuelled the Eurozone crisis, after the onset of the global financial crisis in 2008.

5.4.4. Sudden Stop of Money Inflows

The second factor, which bolstered the crisis, was that financial institutions from the north expected higher outcomes by investing in the rapidly growing periphery.[231] As described by Frieden and Walter (2018), capital flew from countries with account surpluses to the ones with deficits. Ireland and Spain grew much faster, the more money flew, and rising asset prices attracted lenders to borrow even more money. These lenders therefore supported an upwards spiral which prompted increasing expansion and encouraged more capital flows. Parallel to the incurred boom and bubble, the unit labour costs, and real effective exchange rates rose, which harmed the competitiveness towards the core economies, leading to account surpluses in the prior and similar deficits in the periphery. Large current account imbalances were the consequence.[232] Northern countries were acting irresponsible by acquiring surpluses form the account deficits in the south (due to higher inflation rates and increases in unit labour costs), while claiming that southern countries took on too much debt.[233] Additionally, excessive account surpluses in some member states are also a problem of external imbalances[234] and lead to farther asymmetries. Another reason for excessive borrowing was the belief of the markets that countries would be forced to bailout member states in case of financial troubles, although the no-bailout clause

[230] Jones et. al. (2016a). P. 1020f; Copelovitch et. al. (2016). P. 821.
[231] Those loans mainly went to the housing market and the construction industries, while the Greek governments also covered growing public deficits. Frieden and Walter (2017). P. 373f.
[232] Ibid. P. 373f.
[233] De Grauwe (2016). P. 151f.
[234] Correia and Martins (2019). P. 23.

existed.[235] Since a sovereign default would cause major troubles for the Eurozone as a whole, those expectations were another reason to risky borrowing and lending, without the actual need to worry.[236] This also supports the claim, that the institutional set-up of the EMU was insufficient to face the crisis in the onset.

The reactions to the systemic problems could have been twofold: either by practising damage limitation through disbanding the Union and cutting losses or by adjusting the lack of a governance framework. EU leaders repeatedly chose the second option to save the Euro but did not proceed further integrational steps. Here, the moments of failing forward are already clearly visible. Extensive reform proposals were missed, instead, unsustainable solutions (small steps) were implemented, for example via bailout funds.[237] Another step towards economic integration was to raise minimum levels of bank deposit insurances between all member states, to stabilize the financial system in 2008. Additionally, the EC installed a working group under the "International Monetary Fund" (IMF) to suggest improvements for the governance of European financial markets. In their outcome the suggestion was to focus more on systemic risks, providing effective resources and to end up failing institutions. This supranational intervention can be seen as a first attempt towards a Banking Union.[238] A common system to deal with troubled financial institutions and a centralized bank deposit insurance system in the EU could have helped to manage the crisis better from the onset, but it was slowly adapted as a reaction to the crisis events explained in the next chapter.[239]

[235] Chang (2016). P. 36; Salines, Glöckler and Truchewski (2012). P. 666f.
[236] Copelovitch et. al. (2016). P. 822.
[237] Jones et. al. (2016a). P. 1011f.
[238] Ibid. P. 1022.
[239] Hodson and Puetter (2019). P. 391.

6. The Eurozone Financial Crisis

As mentioned before, the governance architecture of the EMU is supposed to be incomplete.[240] Scholars claimed that this lack had caused the Eurozone crisis and was responded by policy solutions which are characteristic for crisis-responses.[241] The reasons for the Eurozone crisis so far led to diverging opinions between policymakers, while in the academic field, scholars from different backgrounds have agreed on the underlying causes.[242] In opposite to the broad perception in the beginning of the crisis and between policy makers, it has been proven wrong, that budget deficits and inclining debt ratios were the reasons for the crisis. More likely they are the result of the events, that happened.[243] Economists state, that the Eurozone crisis was a BOP crisis[244], which was triggered by two factors. First, the internal structural problems of the EMU and the sudden stop of money inflows and second, the dynamics on the capital markets.[245] The structural problems and the "design failures"[246] of the European institutions did not help to prevent the imbalances between member countries. The missing of pre-existing stabilizers at the national level, like a LLR[247], as well as the missing of the devaluation function, the tight connection between financial institutions and governments ("doom-loop") and other economic reasons, supported

[240] See chapter 5.1.
[241] Jones et. al. (2016a). P. 1010; Weidenfeld (2013). P. 21.
[242] Baldwin et. al. (2015). P. 1.
[243] Horn et. al. (2012). P. 2. They also clarify that Spain and Ireland had very low debt levels in the beginning of the global financial crisis. The common factor was the indebtment of the private sector, rather than the government debts.
[244] Frieden and Walter (2017). P. 373.
[245] Copelovitch et. al. (2016). P. 817; Since the stabilizing forces were missing, the Euro countries lost their control over a currency in times of crises. This "lack of guarantee provided by Eurozone governments" triggered "self- fulfilling liquidity crises" due to a sudden stop of money inflow, which degenerated into solvency problems. De Grauwe (2016). P. 152; See also: De Grauwe and Ji (2015). P. 740; Horn et. al. (2012). P. 4; Correia and Martins (2019) state that, a comparison to previous financial crises showed that similar factors caused interruptions in the financial systems before as well. Usually crises start with a "period of credit booms, low risk premiums and rapid increases in asset prices" (p. 33). Recessions linked to busts in the credit system and the housing market, tend to last longer and are more difficult to overcome. The large credit expansions mirror the macroeconomic conditions, as well as the "failures in the regulation and supervision of financial institutions". Ibid. (2019). P. 33.
[246] De Grauwe (2016). P. 151.
[247] Ibid.; With the establishment of the Euro banks were not allowed anymore to guarantee money in times of debt by printing, while stand-alone countries can issue their debts with the national currency and guarantee creditors. De Grauwe and Ji (2015). P. 740. See chapter: 5.4.2.

the evolution of the crisis. The absence of a "crisis management framework"[248] caused the step-by-step responses and prohibited a proper reaction towards the crisis.[249]

The Eurozone crisis may have been provoked from the U.S., but the institutional gaps did not allow member states to bailout their banks beyond risking insolvency. The capital flow led to high macroeconomic imbalances between the countries from the periphery and the core-member states, although this was not directly visible. Some observers, such as the president of the European Council, Herman Van Rompuy claimed 2011, that the dynamics could risk the whole single currency and the European project.[250]

6.1. From a Global Financial Crisis to the Eurozone Crisis

Those structural connections remained undiscovered in the beginning**.** The collapse of the U.S. financial system had spread to Europe, first as a confidential crisis, then due to "repricing of risk and retrenchment in international capital markets"[251], and the following decrease of economic activities. Illiquidity then led to insolvency which broke financial systems.[252] Jones et. al. (2016a) state, that the first banks who suffered losses due to the U.S. financial crisis and those internal risks in late 2007, were French and German, only to be followed by the British regional bank "Northern Rock". It was the first facing huge deficits, in a row of banks getting in financial troubles. After the U.S. investment bank "Lehman Brothers" collapsed in 2008, concerns were also raised towards Irish banks. Those profited from low interest rates since the introduction of the Euro, which is why EA markets, mainly from the UK, made loans to finance Ireland property markets. Irelands banking regulations were lax, which encouraged to make risky loans. After 2008, the stability of the Irish banks was in danger as well, which is why lending dried up and investors started to flee. A fear of a run on Irish banks occurred between European policymakers and Ireland was asked to do whatever it needs to save their banks by offering a blanket guarantee. In the same year Ireland

[248] Ioannou et. al. (2015). P. 157.
[249] Jones et. al. (2016a). P. 1016.
[250] Ibid. P. 1011f.
[251] Ioannou et. al. (2015). P. 157.
[252] Jones et. al. (2016a). P. 1016.

guaranteed Irish banks, which caused that British savers switched to Irish bank accounts ("beggar thy neighbour policy"). Even if it prevented a banking run and inflows of savings started again, the outflow of deposits had caused a "wave of reassurances from other national governments".[253] Other member states followed in guaranteeing bank accounts, but altogether it was an uncoordinated approach. Therefore, Ireland had a sovereign default only in-between months, after years of impressive economic growth. The countries of the periphery had to bail out their banks at extremely high expense and owed debts to the northern creditors that they could not pay back anymore.[254]

> *"The Eurozone problems only turned into a sovereign debt crisis after the Irish and Spanish governments had to support domestic banks badly hurt by the global financial crisis, turning private debt into public debt."*[255]

Since the lending dried, debtor states could not service their arrears anymore, which resulted in the inability for further exports and no achievement of farther funds.[256] After not being able to devalue exchange rates, competitiveness decreased. Facing the growing domestic demand and rising inflation rate compared to the north, the unit labour costs sank, and exports decreased. Still the southern states followed a demand-led strategy since higher inflation lowered the real costs of credits for the south. Additionally, the northern countries benefitted from the account surpluses, which encouraged northern creditors to further lend cheap credits to the south.[257]

Creditor states therefore had become the "rule supreme" through the need of states of the south in acquiring financial support. The following austerity programmes in exchange of money caused spending cuts and recessions. Supposedly the EC became the agent of creditor nations instead of protecting debtor countries from the insistence of creditors to be repaid.[258] "Banks (the creditors) are equally responsible for the financial crisis" and should therefore "accept losses on their loan portfolios".[259] It was not the common view at that time, which is why adjustments (austerity

[253] Ibid. P. 1022.
[254] Copelovitch et. al. (2016). P. 822; Hodson and Puetter (2019). P. 391.
[255] Ibid. P. 820f. See also: Baldwin et. al. (2015). P. 14.
[256] Frieden and Walter (2017). P. 373.
[257] Hall (2012). P. 359f.
[258] De Grauwe (2016). P. 148.
[259] Ibid.

measures), like reducing wages and prices (internal devaluation), had to be taken by the debtor states only.[260] This resulted in great economic downturns, a high decrease of support for European integration and a potential threat for the EU[261], as well as mass protests against austerity measures and will be further focused in the next chapter.

6.2. Emergency Measures and Crisis Management Mechanisms

After the outbreak of the global financial crisis, the events in Europe where overturning. The EU responded with different actions to those events. A bunch of new regulations were implemented to oversee public finances and macro economies of member states, to prevent future crises and to improve crisis management.[262] The countries facing a liquidity crisis[263], were forced into macroeconomic adjustment programmes, which led into a deep recession, only to reduce government revenues even more. To face this, the measures were intensified, and the pressure of the markets and creditor nations pushed them into deeper deflation, which induced solvency crises.[264] Those developments will be further described in the following pages.

6.2.1. Funding Mechanisms and Facilities

In June 2010, the "European Financial Stability Facility" (EFSF) was initiated by the member states as a temporary mechanism to solve the crisis.[265] Ireland, Portugal, and Greece received financial assistance by EFSF bonds and debt instruments on the capital markets. The programme is now removed by the ESM, but continues to operate for repayments and outstanding liabilities, as well as interest and principal payments to the holders of those bonds.[266]

---

[260] Ibid. P. 148f.
[261] Dyson, Kenneth (2017). Playing for High Stakes: The Eurozone Crisis, in: Dinan, Desmond / Nugent, Neill / William E. Paterson (eds) The European Union in Crisis. London: Palgrave. P. 65ff.
[262] Laffan, Brigid / Schlosser, Pierre (2016). Public finances in Europe: fortifying EU economic governance in the shadow of the crisis, in: Journal of European Integration 38(3). P. 237.
[263] Greece, Italy, Ireland, Portugal, and Spain.
[264] De Grauwe (2016). P. 152. For an illustration of all key decisions and measurements taken during the Eurozone crisis see: Ioannou et. al. (2015). P. 158.
[265] European Stability Mechanism (2010). EFSF Framework Agreement, in: esm.europa.eu, 09 May 2010.
[266] European Stability Mechanism (2020b). EFSF - the temporary fiscal backstop, in: esm.europa.eu.

The “European Financial Stabilisation Mechanism” (EFSM) was a provision of financial help, created for the EC to assist financially struggling EU countries in May 2010. It was bound on the implementation of reforms in Ireland and Portugal between 2011-2014 and to Greece in 2015. The EFSM was also replaced by the permanent ESM as an intergovernmental institution by and for the Eurozone, but still can be used.[267] On 17 December 2010 the European Council agreed on the need of a permanent stability mechanism to provide financial assistance in the EA countries. The ESM therefore superseded the EFSF and the EFSM. Hence, the European Council adopted another article to the TFEU on 25 March 2011 to implement a “stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole” and added the granting being bound on “strict conditionality".[268]

The ESM was adopted in 2012 to maintain financial stability in the Eurozone.[269] Like the prior EFSF, financial assistance for struggling countries, or those in financial troubles, should be provided.[270] The ESM has disbursed € 295 billion loans so far, which is 2.5 times more than the IMF in the years from 2011-2015. Ireland, Spain, Portugal, Cyprus, and Greece have successfully exited the programmes of EFSF/ESM, while still 52.6% of Greece’s public debt is carried by the programme. The financial assistance by the ESM is only given in case its usage is necessary for the financial stability of the Eurozone and ESM members. The loans are either bound on macroeconomic adjustment programmes, like in Cyprus and Greece, or the ESM loan was used to directly recapitalise banks, which happened in Spain. Ireland, Portugal and again Greece received similar programmes, by the EFSF.[271]

The periphery of the Eurozone had troubles of the bursting bubbles due to the beforementioned mechanisms in the financial crisis and had to request financial aid.

---

267 European Commission (2020c). European Financial Stabilisation Mechanism (EFSM), in: ec.europa.eu; Council Regulation No 407/2010. Establishing a European financial stabilisation mechanism, in: Official Journal of the European Union L 118/1, issued on: 11 May 2010.
268 European Stability Mechanism (2012). ESM Treaty, in: esm.europa.eu.
269 According to the conclusions of the European Council adopted on 25 March 2011 on the establishment of a European stability mechanism. European Stability Mechanism (2012).
270 European Commission (2020b). European Stability Mechanism (ESM), in: ec.europa.eu; European Stability Mechanism (2020a). Home, in: esm.europa.eu.
271 European Stability Mechanism (2020a).

Ireland received € 85 billion in November 2010 and Portugal € 78 billion in May 2011.[272] Since also Spain and Italy were threatened of rising bond spreads, the ECB restarted to assume sovereign bond purchases.[273] Heavy tensions and debates of an exit of the EA by Greece ("Grexit")[274] followed, but a second bailout package was tied in March 2012 and consisted of € 130 billion. It also included a haircut for private creditors. In June the same year, Spain received a financial package of € 100 billion for the recapitalization of the banking sector. In March 2013 finally also Cyprus got financial aid, coped with huge losses for wealthy bank depositors.[275]

> *"With Europe in recession, pervasive downgrading of European countries' credit ratings, wide spread anti-austerity protests, and the more general sense that policymakers were doing too little, too late to address the underlying problems, the Eurozone crisis continued to accelerate".*[276]

6.2.2. Austerity in Exchange of Credits

In a combined situation of high government debts and a crisis, like in the Great Recession from 2010 to 2014, countries like Italy and Greece had accumulated debts without a specific reason, while Spain, Portugal and Ireland had a fiscal bubble in the housing sector.[277] In both cases this resulted in unsustainable high debts and macroeconomic adaption programmes (austerity) was introduced to correct past policy mistakes, combined with unexpected negative shocks. In exchange for money, they had to sign reform programmes for its economic policies, monitored by the Troika.[278]

---

272 Ibid.
273 See chapter: 6.4.3.
274 Wodak, Ruth / Angouri, Jo (2014). From Grexit to Grecovery: Euro/crisis discourses, in: Discourse and Society 25(4), pp. 417.423; Bansak, Kirk / Bechtel, Michael M. / Hainmueller, Jens / Margalit, Yotam (2020). Left-Right Ideology and the Debate over International Bailouts: The Case of Grexit, in: The Journal of Politics 82(2), pp. 509-528.
275 Further information about Cyprus: Phylaktis, Kate (2016). The Cyprus debacle. Implications for the European Banking Union, in: Juan E. Castañeda, David G. Mayes and Geoffrey Wood (eds.) European Banking Union. Prospects and Challenges. New York: Routledge, pp. 67-77.
276 Copelovitch et. al. (2016). P. 815.
277 Alesina, Alberto / Favero, Carlo / Giavazzi, Francesco (2019). Austerity. When it works and when it doesn't. Princeton: Princeton University Press. P. 2; Further explanations for reasons: Blyth, Mark (2013). Austerity. The history of a dangerous idea. Oxford: Oxford University Press. P. 2ff.
278 Alesina, Favero and Giavazzi (2019). P. 2; Hodson and Puetter (2019). P. 393f; Horn et. al. (2012). P. 8.

Austerity is usually introduced in times of crises, to reduce government debts, when creditors lose confidence for those governments to pay back debts.[279] Those consolidation programmes therefore are inclined to prevent national bankruptcy and to reduce government arrears, as well as to promote growth.[280] The fiscal consolidations usually consist tax increases and spending-cuts.[281]

> *"Austerity is a form of voluntary deflation in which the economy adjusts through the reduction of wages, prices, and public spending to restore competitiveness, which is (supposedly) best achieved by cutting the state's budget, debts, and deficits."*[282]

The scientific viewpoints on these measures vary broadly. Alesina et. al. (2019) claim, that adaption programmes would be unnecessary, if governments followed "adequate fiscal policies". The need occurs, when "tax revenues are low and government spending is high", like when fiscal stabilizers (f.e. unemployment benefits) are paid unusually high during a crisis.[283] Additionally, it would be unnecessary, if governments had a back-up funds for periods with cumulated financial needs. Since mostly governments do not follow those rules, debt is also accumulated in growing periods.[284] The question, whether countries like Spain or Greece could have postponed austerity after the recession, therefore is hard to answer: "We do not know what would have happened absent austerity".[285]

Discussions about the necessity of austerity have been rather unproductive and unpleasant between the different viewpoints. One side has even been called an "anti-austerity front", which usually points out the high increases of debt to GDP-ratio.[286]

---

[279] Alesina et. al. (2019). P. 2.
[280] Which did not work out according to: Blyth (2013). P. 4ff.
[281] Alesina et. al. (2019). P. 1.
[282] Blyth (2013). P. 2.
[283] Alesina et. al. (2019). P. 1.
[284] Ibid. P. 1f. The authors mention the extreme growth of Greece in the beginning of the Millenial, while accumulating high amounts of debt, and mention similar events in Belgium and Ireland in the 1970s and 1980s.
[285] Ibid. P. 7.
[286] Ibid. P. 2f; Supposedly, there is no evidence of the austerity programmes being successful because the governments debts ratio still grew since the beginning of the crisis. The opposite seems to happen: the forced deleveraging leads to recession, which results in declining government revenues, leading to higher deficits, resulting in even higher debts and an increasement in the debt-to-GDP ratios. De Grauwe (2016). P. 149f; The GDP sank between 2009 and 2013 in Portugal 3,6%, in Spain 4,4% in Cyprus 12% and in Greece 21,7%. Only Ireland gained 1% growth. Homburg Stefan (2015). Austeritätspolitik in der Europäischen Währungsunion: Bilanz und Perspektiven, in: Wirtschaftsdienst 95(4). P. 232; Also, the IMF report of 2010 showed a rise in unemployment rates around 0.3

Those countries forced into austerity measures faced a deep recession. This reduced government revenues even more, followed by tighter measures and the pressure of the markets and creditor nations pushing them into deeper deflation, resulting in solvency crises.[287] The advocates of austerity measures assume, that they can deepen the business confidence because they will prevent further debt accumulation of already highly indebted governments and that the market for investors will not migrate.[288] The fear of collapsing banks and defaults in Europe were big, since many banks held huge amounts of government debts. Additionally, the breakdown of the Euro as a currency was a decisive argument for easing markets via austerity measures.[289] But the provided rescue funds in the Eurozone crisis of almost € 1 billion lending capacities, bound on austerity measures, yet failed to calm the financial markets.[290]

> *"The rescue measures lacked conviction as they represented a minimalist consensus arising from a drawn out and costly struggle between national interests rather than a convincing European answer."*[291]

The cycle shows that financial markets have a great power in a Monetary Union, by forcing countries into a bad equilibrium. Mainly this is made via increasing interest rates and austerity measures, which in return lead to a deflationary spiral.[292]

The assistance by the EU was provided via different financial mechanisms to supply funds.[293] But, the members of the Eurozone have been discouraged by a rule imposed by themselves: public investment cannot be financed with bond issues but must be financed via current tax revenues. "This constraint prevents public investment

percentage and a reduction of GDPs by 0.5 percent within two years, if a fiscal consolidation of 1 percent of the GDP is introduced. International Monetary Fund (2010). World Economic Outlook, October. Recovery, Risk and Rebalancing, in: World Economic and Financial Surveys. P. 94.

[287] De Grauwe (2016). P. 152.

[288] Blyth (2013). P. 2; Spending more money than making profits, leads to devaluations of savings, which results in nonconsumption or harvesting for retirement provisions. Sturm, Roland (2015). Austeritätspolitik in der EU. Was heißt das, wozu dient sie?, in: Gesellschaft, Wirtschaft, Politik (GWP) 2. P. 183.

[289] Alesina et. al. (2019). P. 3.

[290] Dullien, Sebastian / Theobald, Thomas / Tober, Silke / Watt, Andrew (2020). Why Current EU Proposals for Corona-Related Financial Aid Cannot Replace Coronabonds, in: Springer Inter Economics 55(3). P. 152.

[291] Dullien et. al. (2020). P. 152.

[292] Ibid. P. 152; Correia and Martins (2019). P. 26.

[293] Correia and Martins (2019). P. 25.

from taking off and from sustaining the recovery”[294] and displays an insufficiency towards the recovering of domestic debt ratios. Additionally, the decrease of domestic demand cannot be compensated with external demand if countries cannot install nominal devaluation due to the measurements. Supposing that trading partners try to consolidate their households at the same time, mutual demand of exports decreases.[295] Therefore, it has been questioned whether austerity is superfluous since no economic growth is made possible. On the other hand, it is stated that, growth is only dependent on the production of goods and services in line with demand, which is why growth and austerity are not contradictory. If a country's competitiveness (productivity and innovative strength) is not given, austerity policy is seen as inevitable.[296]

Alternatives to austerity had also been discussed, like implementing more specific tax-policies[297] (for example in increasing taxes for high-salaries), implementing expansive fiscal policies in countries with a current account surplus[298] or deficit countries to leave the Eurozone. In that context discourses between sinners and victims, exclusion or leave of deficit countries from the Eurozone and campaigns against the international surveillance within the Troika were made.[299]

What has been verified is an increase of pauperisation in the societies and that the crises have produced different effects in the diverging groups. With those measures European policy for the first time had direct and visible negative effects for the citizens. Albeit the measurements have been taken by national governments they fuelled mass protests against EU policies.[300] Inequalities rose, since the tax burdens on weaker groups were larger, than on the stronger ones. Additionally, some groups

[294] De Grauwe (2016). P. 153.
[295] Horn et. al. (2012). P. 8.
[296] Sturm (2015). P. 182ff.
[297] Apparently different austerity measures lead to different results. Tax increases seem to fuel recession in the short-term with large decreases of GDP. Studies on OECD countries over the past 30 years have shown, that spending cuts on the other hand had often led to reductions of debt to GDP ratios. While some studies focus only on the short-term results of austerity, they do not include permanent effects, for example by focussing also on pension reforms, income distributions or sectoral reallocations. Alesina et. al. (2019). 1-15; “Although there is widespread agreement that reducing debt has important long-term benefits, there is no consensus regarding the short-term effects of fiscal austerity”: International Monetary Fund (2010). P. 93.
[298] Horn et. al. (2012). P. 19f.
[299] Wodak and Angouri (2014). P. 417ff.
[300] Schimmelfennig (2014). P. 322.

reached even higher advantages of the income developments and households among the bottom have been affected greater from tax measures.[301]

The aim of a balanced national budget was made the discursive role model for political actions since the beginning of the EMU.[302] Due to the far-reaching crises, these measurements and objectives have been questioned and politicized dramatically. Austerity leads to high political costs, since political incumbents who introduce tax raises or spending-cuts, are often punished in the next election by voters.[303] This led to the rise of populist parties all over Europe.[304]

In the failing forward logic, the austerity measures are a further example of insufficient policy solutions as an answer to a lack of the institutional design of the EMU. Apart from its utility, they distracted from the underlying problematic of economic and fiscal divergences. It has been stated many times by national leaders, that the implementation of austerity will create further crisis situations. Considering a referendum against those measurements in Greece[305], a high increase of unemployment and other social factors[306], the macroeconomic adaptions have

[301] Giannitsis, Tassos / Zografakis, Stavros (2015). Greece: Solidarity and adjustment in times of crisis, in: IMK Institut für Makroökonomie und Konjunkturforschung 38. P. 134ff.
[302] Stützle, Ingo (2013). Austerität als politisches Projekt. Von der monetären Integration Europas zur Eurokrise. Münster: Westfälisches Dampfboot. P. 14. See also chapter: 5.1.
[303] Alesina et. al. (2019). P. 8.
[304] Mudde, Cas / Kaltwasser, Rovira (2012). Populism in Europe and the Americas. Threat or Corrective for Democracy? Cambridge: Cambridge University Press; Caiani, Manuela (2018). Nationalism, populism and the rebirth of statehood in Europe, in: Andreas Grimmel (ed.) The Crisis of the European Union Challenges, Analyses, Solutions. New York: Routledge, pp. 91-103; Algan, Yann / Guriev, Sergei / Papaioannou, Elias / Passari, Evgenia (2017). The European Trust Crisis and the Rise of Populism, in: Brookings Papers on Economic Activity 2, pp. 309-382.
[305] The financial assistance program for Greece was accomplished by domestic protests. 2015 Alexis Tsipras, the Greek prime minister, intended to end the austerity, while keeping Greece in the Eurozone. Negotiations with Greece and the Troika came to a deadlock and Tsipras called out a referendum on the proposal for further financial support. After the referendum Greece defaulted as the first industrialized country on IMF loan, and had to close its banks and install capital controls. 61% of the Greek voters rejected the new proposal, but also an Grexit was not the solution. After a Euro-summit of 17 hours, Greece finally accepted a third bailout package, with even stricter conditionalities than before the referendum. Copelovitch et. al. (2016). P. 814ff; Walter, Stefanie / Dinas, Elias / Jurado, Ignacio / Konstantinidis, Nikitas (2018). Noncooperation by Popular Vote: Expectations, Foreign Intervention, and the Vote in the 2015 Greek Bailout Referendum, in: International Organization 72, pp. 969-994.
[306] Bell, David NF / Blanchflower, David G (2015). Youth unemployment in Greece: measuring the challenge, in: Journal of European Labor Studies 4(1), pp. 1-25; Marques, Paulo / Hörisch, Felix (2019). Understanding massive youth unemployment during the EU sovereign debt crisis: a configurational study, in: Comparative European Politics 18, pp. 233-255; Bruno, Giovanni / Marelli, Enrico / Signorelli,

triggered further crises by risking insolvency, as well as humanitarian crises. As a result of those developments, also the support for the EU has decreased heavily[307], such as indicated by the failing forward argument. The situation has even been called a "trust crisis".[308] In the next chapter the measurements at the EU level are discussed.

6.3. Economic Reform Proposals

While at the national level adjustment programmes were installed, at the EU level no far-reaching adaptions were taken. The EMU lacked fiscal components for countries beyond the debt and deficit criteria before joining the EA. After the beginning of the financial crisis, attempts to strengthen the fiscal coordination were made by the implementation of the Six Pack, the Fiscal Compact and the Two Pack. They were reforms supposed to delegate more power to the EC and increase fiscal surveillance, sanctions, and recommendations[309] and "aimed at both enhancing crisis management and crisis prevention."[310] Those reform packets are further described in the next section.

6.3.1. Six-Pack

The Six-Pack was agreed as the first policy action by the EU leaders to deal with the volatility of the bond markets. It also served to guarantee that the bailouts would be approved by the creditor states. From 2010 on, the design failures of the SGP were focused, since the non-conformity with the rules, were detected as the main reason for the crisis and not the economic performances of member states. The realization of the Six-Pack took 14 months, due to disagreements in agenda-setting between the EC and the European Council and legislative struggles between the European Council, the EP and the EC. The reform initiative of the Six-Pack is a secondary EU law aimed at all member states involvement.[311]

Marcello (2014). The Rise of NEET and Youth Unemployment in EU Regions after the Crisis, in: Comparative Economic Studies 56(4), pp. 592-615.

[307] Schimmelfennig (2014). P. 322.

[308] Algan et. al. (2017). P. 309.

[309] Chang (2016). P. 121.

[310] Laffan and Schlosser (2016). P. 237.

[311] Ibid. P. 238f.

The collection of six new laws was then finally agreed in September 2011. Budgetary and economic policies further shall be monitored in the EUROPEAN SEMESTER.[312] It was designed to monitor public finances and macroeconomic processes in the member states, especially of the EA.[313] The six requirements for the Eurozone's budgets were established to set clear budgetary rules to prevent further excessive deficits. Governments must operate public accounting systems, guarantee public access to fiscal data, plan fiscal policies on realistic macroeconomic aims, including the forecasts of the EC, plan a medium-term budgetary framework that contains multiannual budgetary objectives and guarantee consistency in accounting rules and government activities.[314]

It reformed the former existing surveillance mechanisms of the SGP and tried to correct the gaps and macroeconomic imbalances by putting a "greater emphasis on total government debt in excess of 60% of GDP in EU fiscal surveillance"[315], increased use of sanctions, installing of reverse voting[316], the establishment of the excessive MIP, changes to national budgetary rules[317], the "Rigorous Enforcement" and an "Early Warning Systems". The preventive arm of the SGP should guide the member states towards the country specific "Medium-Term (Budgetary) Objectives" (MTO)[318], and be a guidance for budgetary planning and outcomes. The corrective arm on the other side, tries to reduce debts.[319] The MIP was implemented to prevent countries to spill over macroeconomic imbalances and endangering other countries. The economic and fiscal surveillance is guaranteed by the EDP.[320] Those states who are in the EDP are

[312] European Commission (2020a).
[313] Laffan and Schlosser (2016). P. 237.
[314] Council Directive No 85/2011. Requirements for Euro area countries' budgets, in: Official Journal of the European Union L 306/41, issued on: 08 November 2011.
[315] Hodson and Puetter (2019). P. 397.
[316] In case of violation, the EC can introduce corrective actions, unless a qualified majority of the finance ministers oppose. Ibid. P. 397.
[317] Ibid.
[318] The EU member states have to reach their MTOs or adjusting the budgets to head towards the rate of 0.5% of GDP per year as the new benchmark. This should help to guarantee "sound fiscal health" and is a pre-orientation for the Commission to suggest an opening of the Significant Deviation Procedure. If still the deviations cannot be faced by a member country, the EDP will be opened under the corrective arm of the SGP. European Commission (2020h). Medium-Term Budgetary Objectives (MTOs), in: ec.europa.eu.
[319] European Commission (2011). EU Economic governance "Six-Pack" enters into force. Memo/11/898, in: ec.europa.eu, 12 December 2011.
[320] See chapter: 5.3.2.

obliged to take actions to correct the debt levels. They should focus on the recommendations made by the Council and can be financially sanctioned if they do not respect the necessities. Those "agreed fiscal consolidation paths" have to lead to a correction of the debt level within three years.[321] The threat of financial sanctions with the Rigorous Enforcement by fines, have been criticised as ineffective because they are foreseen to be used very late and have not been put in charge yet at all. The Early Warning Systems alert according to a scoreboard of ten indicators which show macroeconomic imbalances.[322] Additionally, the SGP became more extensive and easier to execute.[323]

6.3.2. Treaty on Stability, Coordination and Governance

In March 2012, the TSCG was developed and contained the so called "Fiscal Compact". It entered into force in January 2013 and introduced the Euro Summits, which now take place twice a year with the meeting of EA leaders.[324]

The compact included of agreements between 25 EA member states (except the UK and Czechia) to "strengthen fiscal discipline", implement "stricter surveillance" and introduce a "Balanced Budget Rule".[325] This means the economic policies shall be better coordinated and the objectives of the EU in terms of growth, employment, social cohesion and competitiveness should be better reached via new rules and budgetary discipline.[326] The Balanced Budget Rule is reached, if a government deficit "does not exceed 0,5% of the GDP at market prices".[327] It must also fulfil the country specific MTOs (in accordance with the SGP), has to be based in the national legal systems (ideally on the constitutional level) and consists of an automatised correction

[321] European Commission (2011).
[322] The Rigorous Enforcement regulates the deposit that has to be made if a corrective action does not succeed and the fines in case of a second violation of compliance or not submitting a corrective action plan. European Commission (2011).
[323] Ibid. (2020a).
[324] Ibid; European Commission (2012b). Fiscal compact enters into force. Presse 551, 18019/12, in: ec.europa.eu, 21 December 2012; Ibid. (2012); Treaty on Stability, Coordination and Governance D/2012/2. Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, in: ec.europa.eu, issued on: 01 February 2012. Art. 12.
[325] Treaty on Stability, Coordination and Governance D/2012/2. Art. 1; European Commission (2012b).
[326] Treaty on Stability, Coordination and Governance D/2012/2. Art. 1.
[327] Ibid. Art. 3.

mechanism.[328] In case of violation of the maximal debts, countries shall reduce the average rate and implement the EDP.[329] The Fiscal Compact is a legally binding international agreement and further granting under the ESM is conditional on the ratification of the compact.[330]

Hence, the main aim was rather symbolic to send a sign of commitment, after the UK vetoed on a treaty revision and to calm Germanys concerns of moral hazards. It did not change the European power distribution or further integrated powers at the EU level. This "intergovernmental twist in EU decision-making" has been called useful and realistic but less efficient, since it is an intergovernmental treaty and not included in the formal treaty framework.[331] But, since the distribution of money was bound on its compliance, it is one further step (failing) forward.

6.3.3. Two Pack

The Two Pack, is a more technical and specific legislation paper than the Six Pack, and was developed in the shadow of the Fiscal Compact and the ESM Treaty.[332] In 2013 the EU lawmakers agreed on common standards and a common timeline for submitting drafts of the member states budgets to the Commission.[333] It included the most far-reaching legislations when it comes to the centralisation of fiscal powers.[334] The two new laws should complete the budgetary surveillance cycle in the Eurozone and further improve economic governance. The shortcomings of the governance and surveillance were addressed by the installation of the European Semester in 2010-2011. The first regulation addresses states in the corrective arm of the SGP (EDP), while the second regulation sets standardised rules on the surveillance of struggling member states. The Two Pack also integrated parts of the Fiscal Compact into EU law, for

328 Ibid. Art. 3.
329 Ibid. Art. 4 and 5.
330 European Commission (2012b).
331 Laffan and Schlosser (2016). P. 243f.
332 European Stability Mechanism (2012).
333 European Commission (2020a).
334 Laffan and Schlosser (2016). P. 241.

example member states who must prepare economic partnership programmes, when in EDP, or the coordination of debt issuance plans.[335]

> *"The two pack, […] tightens budgetary surveillance in a similar vein by requiring euro area member states to submit national draft budget for the coming calendar year prior to their adoption for review by the Commission and the Eurogroup in October each year."*[336]

6.3.4. Four Presidents' Report

As described, the integration of fiscal policies through deeper surveillance was one further step for a more integrated Fiscal Union in order to challenge the remaining structural (macroeconomic) problems. To face some of the institutional gaps, the Presidents of the European Council, the EC, the Eurogroup and the ECB suggested another plan in December 2012.

"Towards a Genuine Economic and Monetary Union"[337] was providing a plan to complete the EMU, by enhancing economic governance, establishing a Banking Union, implementing an "Single Supervisory Mechanism" (SSM)[338], rules on bank recovery and resolution, as well as on deposit guarantees.[339] It consists of three stages by first breaking the link between sovereigns and banks. This aim was supposed to be reached by stronger fiscal frameworks like the Six-Pack, TSCG and Two Pack, a framework for economic policies, the establishment of the SSM and the "Capital Requirements Regulation and Directive", a harmonisation of deposit framework and the direct bank recapitalisation by the ESM. The second aim was to finalize a financial framework (including a resolution authority and a bank backstop) and sound structural policies. The last stage should implement shock-absorbing mechanisms as an insurance system at the central level.[340]

---

[335] European Commission (2013). 'Two-Pack' completes budgetary surveillance cycle for euro area and further improves economic governance. Memo/13/196, in: ec.europa.eu, 12 March 2013.
[336] Hodson and Puetter (2019). P. 397.
[337] European Commission (2012a). Four Presidents' Report "Towards a Genuine Economic and Monetary Union", in: consilium.europa.eu, 05 December 2012.
[338] The SSM is focusing to ensure the banking supervision to guarantee safety and soundness of the banking system in Europe, enhance stability and financial integration and to ensure monitoring. European Central Bank Regulation No 468/2014. SSM Framework Regulation, in: Official Journal of the European Union L 141/1, issued on: 16 April 2014.
[339] European Commission (2020a).
[340] European Commission (2012a). P. 4f.

6.3.5. Five Presidents' Report

In the Five President's Report in 2015 the objectives to deepen the EMU in three stages until 2025, were defined by the presidents of the EC, Euro Summit, Eurogroup, ECB and EP.[341] The proposal included the completion of four Unions, the Economic, Financial, Fiscal and Political Union.[342] The four Unions should ensure prosperous developments of member states in the EMU, guarantee the safety of the Euro, including risk-sharing of the private sector, (a pre-necessary step therefore is the Banking Union and Capital Market Union), fiscal reliability and "genuine democratic accountability, legitimacy and institutional strengthening".[343] The reports aim was to start the process and to ensure explicit orientation. The first phase therefore was called "deepening by doing" and was dated till 30 June 2017, to use existing instruments in the best possible way to ensure competitiveness and structural cooperation for the completion of the Fiscal Union. Stage 2 was called "completing EMU" and focused on the economic and institutional design of the EMU. The convergence was supposed to be introduced based on common agreement, bound into a legal nature, and focusing on shock absorption mechanisms. The last stage, which shall be completed the latest by 2025, should finally guarantee a "stable and prosperous place for all citizens"[344] of the Eurozone and focuses also on the democratic accountability, legitimacy, and key intergovernmental solutions like the TSCG, the Euro Plus Pact, the "Single Resolution Fund" (SRF)[345], the ESM, the Eurogroup and the SGP.[346]

The Commission revised the proposal and set 10 priorities for a deeper and fairer EMU. It included an improved approach to the European Semester, a national competitiveness board, an advisory European fiscal board, a unified representation in international financial institutions, like the IMF, and the necessary steps to complete

[341] European Commission (2015). The Five Presidents' Report: Completing Europe's Economic and Monetary Union, in: ec.europa.eu, 22 June 2015. P.2.
[342] Ibid. (2020a); Ibid. (2015). P. 4f.
[343] Ibid. (2015). P. 4f.
[344] Ibid. P. 5.
[345] The Single Resolution Fund is an intergovernmental treaty, to ensure financial stability of the financial system. Credit institutions and investment firms of 19 member states within the Banking Union participate. It was established in the SRM Regulation and is owned by the SRB. Single Resolution Board (2020a). What is the Single Resolution Fund?, in: srb.europa.eu; Single Resolution Board (2020b). The Single Resolution Fund, in: srb.europa.eu.
[346] European Commission (2015). P. 17f.

the Banking Union.[347] The Banking Union was a major approach to a deeper integration of economic policies and stricter surveillance. The next chapter therefore deals with the necessary steps to reach this aim and the role of the ECB in this process.

6.4. Institutional Changes

The intergovernmental solutions led to the establishment of the European Semester, which is not an institution itself, but sets clear institutional guidelines and therefore brought a big change in the surveillance of national macroeconomic policies.

6.4.1. Increased Macroeconomic Surveillance

The European Semester was introduced as a reaction to the financial crisis and should fill the gap of an overview on economic and budgetary policies at the EU level. So far, economic surveillance was a retrospective approach of coherence with the rules of the SGP and the BEPGs. The increasement on integrated fiscal and economic coordination via the yearly cycle of the European Semester first started in 2010.[348] It should coordinate the economic policies and the establishment of the six legislative measurements of the Six-Pack.[349] The European Semester is a "single annual policy coordination cycle" and guarantees fiscal surveillance (in accordance with the SGP), with the MIP and the coordination of the member states countries, in line with the integrated guidelines.[350]

> *"The European Semester aims to ensure sound public finances, prevent and correct excessive macroeconomic imbalances, foster structural reforms and boost jobs, growth and investment."*[351]

The Semester starts in November by announcing the "Annual Growth Survey" and "Alert Mechanism Report" by the EC. In February, the country reports are published.

---

[347] Ibid. (2020a).
[348] Ibid.; Delivorias, Angelos / Scheinert, Christian (2019). Introduction to the European Semester. Coordinating and monitoring economic and fiscal policies in the EU, in: EPRS European Parliamentary Research Service. P. 1.
[349] European Commission (2013).
[350] Delivorias and Scheinert (2019). P. 1.
[351] Efstathiou and Wolff (2018). P. 2.

Member states disclose their stability or convergence programmes in April.[352] By 30 April, the Eurozone countries must publish their medium-term fiscal plans and policy priorities ("National Reform Programmes").[353] In May the "country-specific recommendations" are announced. The "National Semester" then starts after July, and member states are requested to implement the discussed and suggested improvements into their drafts of national budgets.[354] By 15 October, the draft of the next year must be published and by 31 December they must adopt the budgets for the following year. The Commission will comment and give an opinion on the budget drafts until 30 November. In case of severe non-conformity with the SGP obligations, the drafts have to be revised. Since the evaluation in autumn is between two European Semesters, it guarantees "consistency between budgetary and other economic processes and decisions".[355]

> *"On the basis of this surveillance, the Commission can conclude that a Member State must take further measures since its financial situation could have major adverse effects on the financial stability of the euro area".*[356]

Due to its structure the European Semester makes it difficult to determine the location of the political authorities. Crum (2018) explains the problem: the governments are formally responsible but cannot be considered as a collective or execute each other's supervision. Therefore, the administrative process has to be delegated to a technical authority, which is the Commission. The EC is responsible for recommendations and representing the general interests of the Union, but not a political institution holding a mandate. Due to this gap its decisions are guided by rules and benchmarks, like the SGP. The strict 3% norm has been exchanged with the MTOs, as the preventive arm, to be more flexible and more context sensitive, which "exposes a gap in supranational political authorization".[357] Due to the lack of a coherent political orientation the member states follow the positions suggested by the Commission, rather than formulating their own. The negotiations and interactions at the European Semester

---

[352] Delivorias and Scheinert (2019). P. x.; Crum, Ben (2018). Parliamentary accountability in multilevel governance: what role for parliaments in post-crisis EU economic governance?, in: Journal of European Public Policy 25(2). P. 271f.
[353] European Commission (2013).
[354] Delivorias and Scheinert (2019). P. x.; Crum (2018). P. 271f.
[355] European Commission (2013).
[356] Ibid.
[357] Crum (2018). P. 278.

can differ, like active discussions and involvement in the process of deliberation, but the states do not remain with a veto power and do not considerably influence the EMU policy making processes. These soft policies are part of a dialogical process for pan-European guidelines, which are not sanctioned financially, but with further policy scrutiny and prescriptions (system on deterrence).[358] The final approval of the budgets remains in national hands, although the supranational level has increased its surveillance. The EC can suggest adopting corrective measures or set up a draft on macroeconomic adjustments. The role of the Commission in the surveillance and monitoring process is to state opinions and recommendations if the drafts are in line with the requirements of the SGP and the European Semester, before the budget is adopted, but it will not give the EC the possibility to change drafts or represents an obligation for member states to follow those lines.[359] It can be seen as an early warning system with a strong surveillance character.

One suggestion of the problem of competences is the nomination of a political interlocutor to be held accountable, like a “High Representative for Economic Affairs”. Additionally, the Parliament should be more credible.[360] This shift could lead to a lesser compliance with the country-specific recommendations but “reinforce the European Semester to a dialogical process, rather than a hierarchical one.”[361]

The failing forward towards more constrained fiscal policies due to the main policy orientations which are set in the European Semester, left the institutional gap open for a comprehensive solution like a supranational economic ministry. Also, the ECB reached great steps towards integration, but follows the failing forward logic, which is described in the next section.

[358] Ibid. P. 273ff.
[359] European Commission (2013).
[360]Apart from having the right to be informed and to act as an advisor, the member states should maximize their involvement and increase awareness of how to access at the supranational level to exchange initiatives and best practises. Crum (2018). P. 283.
[361] Ibid. P. 283.

6.4.2. The Role of the ECB

As mentioned before, the structure of the EMU has sharpened the booms and busts dynamics at the national level. The lack of stabilizers at the national level and the imposed interest rate of the ECB at the supranational level led to misbalances, being too low for booming countries and too high for countries in recession. Countries like Spain, Ireland and Greece had to struggle with inflation as soon as they were booming. "As a result, the single nominal interest rate led to a low real interest rate in the booming countries, thereby aggravating the boom".[362] States with low growth or recession faced the opposite.

Like described, the other major problem was the lack of stabilizing forces on the Eurozone level, like a function of an LLR. Due to the lack of guarantee the governments triggered self-fulfilling liquidity crises, since sudden stops of payments of investors, led to solvency problems. The lost confidence of investors was the reason for the massive selling of government bonds of struggling countries. This of course, pushed the interest rates to enormous levels. Countries in financial troubles, therefore, were not able anymore to face their debts with a reasonable interest rate. As a result, those countries were forced into austerity measures which led to deep recessions and a decline of the GDP. Those member states were pushed in bad equilibria, which led to banking crises, threatened by insolvency.[363]

Possible solutions where to set up the temporary bailout fund EFSF or the permanent ESM to run fiscal consolidation programmes in Spain and Italy. Other solutions were to transfer a banking license to the ESM to bailout also lager countries. Alternatively, the EFSF and ESM could directly inject money to troubled banks, without "placing pressure on sovereign borrowing".[364] Those constraints on national sovereignty were neglected by Spain and Italy. The EC meanwhile worried about the limits of resources of the EFSF and ESM, which would lead to a lack of credibility in the financial markets. Germany was against the increased leverage of the ESM by obtaining a banking license, because of possible risks on its capital. Also having the ECB

---

[362] De Grauwe and Ji (2015). P. 740.
[363] Ibid. P. 740f.
[364] Jones et. al. (2016a). P. 1024.

as a “liquidity backstop” would come alike financing governments[365], since the no-bailout clause was implemented to “instil market discipline on policy-makers through differentiated risk assessment and pricing in sovereign debt markets”.[366]

6.4.3. Lender of Last Resort

Therefore, the LCD was to allow direct financial injections of the ESM. Before this step could be taken the mechanisms of the “shared (“single”) supervision of European banks” had to be adopted.[367] This happened in the Euro Summit in 2012 and prompted consequences: the SSM had connotations for other policy fields like the creation of a single regulatory rulebook, resolutions mechanisms and funding, deposit insurances and the need of an institutional location, which could have been facilities of the LLR in the ECB.[368] But the plan was implemented too slow[369] and dependent on further institutional reforms, that is why in-between the markets menaced to go into a rout. The market panic eased only when 2012 the president of the ECB Mario Draghi, announced his willingness to do “anything to save the euro”, e.g., in becoming the role of the LLR (with the OMT program).[370]

> *“His solution was to put a floor under sovereign bond prices by promising to make “unlimited” purchases of obligations with short residual maturities on behalf of governments that agreed to participate in a fiscal consolidation program under the guidance of the Troika.”*[371]

The “Outright Monetary Transactions” (OMT) should not portray monetary financing or sovereign bailout, which was not allowed according to the EU treaties. Only the promise immediately calmed the threat of sovereign debt crises and the yields between Spain, Germany and Italy diminished.[372] That raised trust in the financial

[365] Jones et. al. (2016a). P. 1024.
[366] Salines et. al. (2012). P. 666.
[367] Jones et. al. (2016a). P. 1024.
[368] Ibid.; This shows a classic spill-over effect into similar policy fields.
[369] It has been argued that the crisis could have been prevented, if the ECB took initiatives in the beginning of the crisis. Horn et. al. (2012). P. 18f.
[370] European Central Bank (2012). Speech by Mario Draghi, President of the European Central Bank at the Global Investment Conference in London in: ecb.europa.eu, 26 July 2012; Jones et. al. (2016a). P. 1025.
[371] Jones et. al. (2016a). P. 1025.
[372] Ibid.

markets, believing that unlimited bond purchases from the ECB were possible.[373] This has now become famous as the "Draghi-Effect". It was "sufficient to take out the fear from the government bond markets".[374] Private lenders gained trust again in the future of the Eurozone and bought bonds of distressed governments.[375] The intervention of the ECB by providing (unlimited) liquidity ended the acute phase.[376] With this action the ECB was taking on the role of the LLR, to stabilize bond rates. The OMT program therefore established in 2012 promised unlimited amounts of sovereign bonds during crises. By providing liquidity in times of market panic, the ECB in return reduced the need to improve the fundamentals in debtor countries; also, the government bonds declined dramatically and the debt to GDP ratio increased. To keep the inflation close to 2%, the ECB started a government bond buying program. the quantitative easing (QE) to fight against the deflationary forces. The liquidity provided from the ECB had positive effects on exports and improved the competitiveness of Eurozone exporters.[377]

The reason why the action of the Central Bank was more successful, than intergovernmental measures is that the former is an independent institution and has the possibility to provide "endless" resources (by printing) and therefore not having a limit (in time and amount).[378] While intergovernmental funds or guarantees, give further impetus for markets to continue speculation, because they are exhaustible, the promise of the ECB increased the trust of the markets and fought speculation.

The new role for the ECB to be able to resolve or restructure insolvent financial institutions, put it in place of conflict with national authorities. Those were unwilling to agree to expensive solutions, but also to face the results of market fallout due to limited support for the Single Supervisor.[379] The reasons not to act earlier were of political and institutional nature. Some saw this unconventional monetary policy as a

---

[373] Hodson and Puetter (2019). 394f.
[374] De Grauwe and Ji (2015). P. 743.
[375] Ibid.
[376] Hodson and Puetter (2019). 395f.
[377] Copelovitch, Frieden und Walter (2016). P. 817; Quantitative easing is a monetary policy where money is injected into the economy by a central bank. This enhances economic activities; De Grauwe (2016). P. 152f. He argues, that the QE is not sufficient to bring back economic growth, also because money is hoarded (accumulation of money) which is leading to a liquidity trap.
[378] Hodson and Puetter (2019). P. 395.
[379] Jones et. al. (2016a). P. 1026.

violation towards the mandate to maintain price stability as the primary goal. Also, purchasing bonds could have taken the pressure from member states to reform their economies.[380] Additionally, with the absence of urgency also the plan for wholly reforms of the banking system faded into the background. An agreement of the SSM within the ECB was settled but the implication was delayed. The debate about a "Single Resolution Mechanism" (SRM) did not proceed, while the idea of a common deposit insurance was detached by adhering standards for national systems.[381]

6.4.4. Towards a Banking Union

The Irish and Spanish crises then showed the pointless control of member states fiscal policies without a Banking Union. The Spanish regional saving banks borrowed heavily with limited investments. The Spanish government tried to save some of the smaller banks by uniting them, called "Bankia", which threatened to default, if Europe would not support them. The necessary solution was to balance the possibility of nationally controlled banks forcing governments to socialize banking losses, since also the steadiest states would find themselves insolvent. Sovereign finances and banking solvency had to be linked, without bailing out disproportionate government arrears.[382]

During the banking crisis of Cyprus, the so-called "Banking Union" consolidated the different viewpoints, since it got visible that every country would face its own banking crisis. Due to the pressure of European negotiators the Cypriot government implemented capital controls by imposing losses on bank depositors. It was seen as a future role model for dealing with farther bailouts.[383] The Cypriot case has shown the need for a supranational supervisory system, a resolution mechanism for the whole Eurozone and a deposit insurance scheme.[384]

To resolve struggling banks, without the taxpayers to bail out, the Union established two actions. The first was the "Bank Recovery and Resolution Directive"

[380] Hodson and Puetter (2019). 395f. This became visible in 2015 when the Greek government was forced to establish capital controls to prevent a banking run. Jones et. al. (2016a). P. 1026.
[381] Jones et. al. (2016a). P. 1025.
[382] Ibid. P. 1024.
[383] Ibid. P. 1026.
[384] Phylaktis (2016). P. 75.

for early actions in case of difficulties and an SRM. The SRM is close to the SSM and is managed by a new "Single Resolution Board" be independent of the ECB. The resolution authority of each country is obliged to have a resolution fund (at least 1% of the covered deposits), as a backup for finance resolutions. Still, the EU did not install a single deposit or guarantee organisation to act as a resolution authority. So far, an intervention was only possible after insolvency and governments needed to bail out the bank or recapitalise it to continue.[385] The aim of the SRM was to guarantee an "orderly resolution of failing banks" to reduce the costs for taxpayers to the minimum.[386]

The Banking Union should depict the equivalent to the "Federal Deposit Insurance Corporation", in a way of an "European Deposit Insurance Corporation". If banks, who operate across borders, should fail, the Banking Union would solve the problematics.[387] It is supposed to break the dependency of governments on banks and banks on governments (doom loop) and to promote financial stability and put the Euro on a solid basement.[388]

> *"The single supervisory [sic!] mechanism (SSM) should reduce significantly the probability that banks will fail, and the single resolution mechanism (SRM) should reduce significantly, if not eliminate entirely, the likelihood that governments would have to bail out the banks if they did fail."*[389]

The Banking Union was agreed by the European Council in December 2012.[390] The speed to this agreement was urged by the need during the Eurozone crisis. The aims were to set common standards in the EU to make banks more resilient for shocks and to implement a supervision.[391] The financial industry now must follow common legal provisions and is regulated by the single rulebook. The ECB took over the role of the Single Supervisor[392], in supervising the larger cross-border banks, while smaller banks

---

385 Castañeda, Juan E. / Mayes, David G. / Wood, Geoffrey (2016). European Banking Union. Prospects and Challenges. New York: Routledge. P. 3ff.
386 European Council and Council of the European Union (2020e). Single Resolution Mechanism, in: consilium.europa.eu.
387 Castañeda, Mayes and Wood (2016). P. 1.
388 Huertas, Thomas F. (2016). Banking Union. The way forward, in: Juan E. Castañeda, David G. Mayes and Geoffrey Wood (eds.) European Banking Union. Prospects and Challenges. New York: Routledge. P. 23.
389 Huertas (2016). P. 23f.
390 Hodson and Puetter (2019). P. 397.
391 Castañeda et. al. (2016). P. 2.
392 Hodson and Puetter (2019). P. 397.

remain under the monitoring of national authorities. The SSM is divided into SSM-countries of the Eurozone and non-SSM countries, caused by the lack of will of member states to create a Single Supervisor for the whole EU and not only the Eurozone. This change in the whole EU a treaty, bound on unanimity, would have been too complicated by time pressure and lack of political will.[393]

By taking over the role of the Single Supervisor, the ECB today combines monetary policies and financial stability.[394] The ECB now not only has the responsibility to adopt guidelines and decisions for the performance of their tasks. The main objective is still to maintain price stability, set the key interest rates, formulate monetary policy for the Eurozone and establish guidelines for those decisions. But the newest responsibility is supervision of banks and adopt the decisions suggested by the Supervisory Board.[395]

> *"The European Central Bank is responsible for the prudential supervision of credit institutions located in the euro area and participating non-euro area Member states, within the Single Supervisory Mechanism, which also comprises the national competent authorities."* [396]

Due to the henceforth existing function of a LLR, the ECB turned into the "ultimate guarantor of the sovereign debt in the Eurozone".[397] It became a Central Bank comparable to the Federal Reserve or the Bank of England, with the main difference, that those governments can force the central banks to provide liquidity in times of crisis, while in the Eurozone governments depend on the "goodwill of the ECB".[398] Therefore, the lack of primacy of the Central Bank, which would be the base for a Fiscal Union, is described as one of the remaining institutional problems of the EMU.[399] The democratically elected governments future depends on the goodwill of unelected officials of the ECB. The same occurs with the EC where unelected officials, who do not face the cost of their decisions, can force countries to apply austerity measures. To

393 Castañeda et. al. (2016). P. 2.
394 Ibid.
395 European Central Bank (2020a). Home, in: ecb.europa.eu.
396 Ibid.
397 De Grauwe and Ji (2015). P. 748.
398 Ibid.P. 748f.
399 Ibid.

reach a Fiscal Union, opponents pledge for a consolidation of national government debts, by creating a fiscal authority who can control debts and prevent to be forced in default by markets. Additionally, one central budget as an insurance is suggested, knowingly about the risk of moral hazard. It has been stated that a minimum of solidarity and willingness for further integration is the survival strategy of the Union.[400]

The spill-over effects of the SSM towards other policy areas, like the single regulatory rulebook, show once more the cycle of failing forward: while deeper integration was necessary for the improvement of the institutional setup, it was neglected by national leaders who preferred piecemeal solutions, which cost the EU a lot and finally had to be adapted anyway. Compromises based on the LCD led to the urgent need of intervention of a supranational institution like the ECB, to ease the crisis. The participation in the Troika and supervision of the biggest banks of the Eurozone within the SSM, as well as the "Securities Market Programme" (SMP)[401], "Targeted Long-Term Refinancing Operations" (TLTROs)[402] and the OMT, has secured its position in the EA governance.[403] Gaps at the supranational level, like a single supervisor for the whole EU or the primacy over the Central Bank and the establishment of a Fiscal Union (for example with a central budget) remain. Those structural issues should be once more challenged in the ongoing economic crisis due to the spread of the coronavirus, which is further discussed in the next chapter.

[400] De Grauwe (2016). P. 154f.
[401] The SMP was superseded by the OMT in 2012. It was implemented to secure the liquidity of the "malfunctioning segments of the debt securities markets" and the reinstall the monetary policy transmission mechanism. European Central Bank (2010). Economic and Monetary Developments, in: ecb.europa.eu.
[402] The TLTROs are operations in the Eurosystem which provide financial sources to credit institutions. They offer banks long-term funding with attractive conditions and by that maintain the lending conditions for banks. This further stimulates borrowing to the real economy. European Central Bank (2020b). Targeted longer-term refinancing operations (TLTROs), in: ecb.europa.eu.
[403] Chang (2016). P. 54.

7. Coronavirus Crisis

On 11 March 2020, the spread of the new coronavirus, was declared a pandemic by the WHO.[404] The breakout of Covid-19 (the disease caused by the coronavirus) in 188 countries[405] led to lockdowns and strict regulations all over the world and appears to be the "first serious pandemic in a truly interconnected world".[406] The measurements to ensure the preservation of the health systems and protect vulnerable groups from infection, resulted in massive economic downturns. In the beginning of march, the stock markets worldwide lost about 20% and the price for oil shortly was below zero. There are first hints of the deepest recession in China (where the spread of the virus probably got its roots), as well as in Europe and the U.S.[407] The situation after Brexit with the new crisis could be a "make-it or break-it moment", since there are distressing anti-democratic tendencies rising.[408] Since the structural gaps have remained and the EU institutions still lacked more integrated competences, the economic crisis could unfold once more unhindered.

> *"In a public health crisis, the EU has limited authority and few tools at its disposal to help fight it".*[409]

7.1. Preconditions

The EU did not gain supranational competences, apart from the adapted compromise solutions mentioned in the previous chapters. In the beginning of 2020, the member states were still facing high-indebted countries of the periphery, which had to deal with the large cuts in their social and health systems due to the conditionalities of the bailout packages during the Eurozone crisis. Not only did the macroeconomic divergences still exist, but also the discrepancies of national debts and national infrastructures were rather big. Apart from the arrears, also the leave of the UK was

---

[404] WHO (2020). WHO announces COVID-19 outbreak a pandemic, in: euro.who.int, 12 March 2020.
[405] Herzog, Bodo (2020). Corona-Bonds und EU-Verschuldung: Zukunftsvision oder Europäische Naivität?, in: Zeitschrift für Wirtschaftspolitik 69(2). P. 149.
[406] Caparrós, Alejandro / Finus, Michael (2020). The Corona-Pandemic: A Game-Theoretic Perspective on Regional and Global Governance, in: Environmental & Resource Economics 76(4). P. 914.
[407] Herzog (2020). P. 149.
[408] Blau (2020). P. 4.
[409] Odendahl, Christian / Grund, Sebastian / Guttenberg (2020a). Sharing the fiscal burden of the crisis: A Pandemic Solidarity Instrument for the EU, in: voxeu.org, 05 April 2020.

ongoing, and the general rise of populism led to more difficult situations in IGB processes. Since the economic activities nearly stopped, the public deficits accumulated dramatically, and the threat of sovereign debt crises became real once more.

The situation of "weak economic activities, large fiscal deficits and high debt levels" reminded of panicking investors in 2010, which triggered the Eurozone crisis and stared the cycle of increasing public borrowing costs, decreased economic activities, capital flight and rising risk premiums.[410]

> *"Across Europe, the coronavirus crisis has pushed economies into recessions of a debt not experienced in generations".*[411]

Once more a cycle of crises threatened the overall EU. Probably the coordinated measures across countries were structured by the "weakest-link public good game".[412] It was suggested to establish cooperative institutions (like treaties) to "increase cooperation and to facilitate coordination".[413] This time "inequalities matter" in the EU (and elsewhere), since countries with "weaker sanitary systems and with social behaviour with more proximity between people, have been hit hardest".[414] Cooperation was supposed to be necessary, and for the first time the EU was considering shared bonds, besides the exchange of respirator equipment and moving patients between countries.[415] The pressure on the European single market was not only increased by the rise of government spreads, but also depleted by the uncoordinated closings of national borders and export restrictions of medical supplies.[416]

This was a first hint of deeper European integration caused by the latest crisis responses in a failing forward understanding. The crisis cycle due to the Eurozone crisis

---

[410] Dullien et. al. (2020). P. 152.
[411] Ibid.
[412] This describes a process where countries receive disadvantages by other countries ignoring control mechanisms to stop the spread of the virus, since all other countries would be affected as well. Further also the better developed countries in the EU might not have a sufficient control of outbreaks due to individual support. Therefore institutions coordinating an eradication are suggested. Caparrós and Finus (2020). P. 913ff.
[413] Ibid. P. 926.
[414] Ibid.
[415] Ibid.
[416] Dullien et. al. (2020). P. 153.

has evoked humanitarian and solidarity emergencies because of the austerity measures and the remaining debts, as well as the deconstruction of the social systems. Enhanced cooperation and solidarity were asked and a possible deeper integration via debt-sharing was considered, while on the other hand uncoordinated approaches in other policy fields (concerning the Schengen-area or health sector) followed due to the lack of a comprehensive response. The crisis reactions will be focused in the next chapters.

7.2. Crisis Reactions

The problems caused by the coronavirus crisis were broad. On the one hand, science and research resources were needed, the health systems demanded supplies, and the economies were on the verge to collapse. The EU reacted from the early days (in contrast to the Eurozone crisis).[417]

7.2.1. Emergency Support Measures

On 9 April 2020, the Eurogroup offered a € 540 billion emergency support package for businesses, member states and workers.[418] The ECB removed issuer limits from its emergency purchase programme in March and with it took a serious step to help member states.[419] The "European Investment Bank" (EIB) announced a package of € 40 billion[420] in March and further guarantees to companies, with a focus on small and medium sized enterprises.[421] Additionally, the Eurogroup implemented a guarantee fund of € 25 billion to farther € 200 billion EIB lending.[422]

---

[417] "It put in place immediate measures to mobilise the EU budget and enable maximum flexibility in the application of budget and state aid rules. […] the Eurogroup put forward a € 540 billion emergency support package […]. […] the recovery would require a joint effort at EU level: EU leaders decided to work towards establishing a recovery fund." European Council and Council of the European Union (2020a). A recovery plan for Europe, in: consilium.europa.ec.
[418] Ibid.
[419] McLellan, Lewis / Davies, Tyler (2020, April 27). EU leaders tussle over corona bond response, in: Euromoney Institutional Investor PLC. P. 1.
[420] Others note € 30 billion. Khadbai, Burhan / Davies, Tyler (2020). EU coronabonds: the key questions, in: Euromoney Institutional Investor PLC, 20 March 2020. P. 2.
[421] European Council and Council of the European Union (2020b). COVID-19: the EU's response to the economic fallout, in: consilium.europa.eu.
[422] Dullien et. al. (2020). P. 154.

Furthermore, the EC reacted to the current disaster, by suspending fiscal rules and lessening restrictions on state aid for companies. It announced a € 100 billion programme, called "(temporary) Support to mitigate Unemployment Risks in an Emergency" (SURE). Guarantees would have to be provided from the nation states and the funds would be disbursed as loans.[423] The EC removed the limitation of government spending over 3% of the annual GDP (deinstallation of the deficit gap of the SGP) to give the possibility of government spending as required.[424]

Once more the ECB, after resisting in the beginning, offered € 750 billion in government bonds with the "Pandemic Emergency Purchase Programme" (PEPP).[425] ECB President Christine Lagarde said, "there are no limits to our commitment to the euro".[426] In 2012 only the Draghi-effect eased market panic, albeit the OMT have never been used.[427] Now, the PEPP gave greater flexibility, although the concerns about debt sustainability for weaker countries remained at stake.[428]

While the negotiations of debt mutualization remained in March, the Eurogroup tried to make the ESM credit lines available to the member states with the "Enhanced Conditions Credit Line".[429] Lending of the ESM was limited to 2% of the national GDPs and without specific conditionalities. This new credit line has a time duration expanding by end of 2022 and is dedicated to expenditures related to health care, prevention, and cure due to the coronavirus crisis.[430] It could also allow member states to benefit from the OMT programme of the ECB to buy unlimited sovereign bonds with maturities of one to three years and acting as a LLR.[431] The monetary policies by the ECB led to a total of € 1350 billion in the PEPP. Other EU funds

[423] Ibid. P. 153f.
[424] McLellan and Davies (2020). P. 2.
[425] Dullien et. al. (2020). P. 153.
[426] Khan, Mehreen (2020). Lagarde bails out Europe, in: ft.com (Financial Times Online), 19 March 2020. P. 1.
[427] Dullien et. al. (2020). P. 152; Khan (2020). P. 3.
[428] McLellan and Davies (2020). P. 2.
[429] Ibid.
[430] Eurogroup (2020). Eurogroup Statement on the Pandemic Crisis Support, in: consilium.europa.eu, 8 May 2020.
[431] McLellan and Davies (2020). P. 3.

redirected its cohesions to support the most affected areas. Also, the application of EU rules was enabled to be maximum flexible on public finances and fiscal rules.[432]

What differs to previous crisis reactions is the willingness of EU leaders to a quick and comprehensive answer towards the upcoming economic crisis and a more stable Monetary Union. The development of different emergency measurements at the EU level was pushed by different supranational actors and institutions and its speed so far is incomparable to previous crisis reactions. Interestingly, the previous strict public finance and fiscal rules were also loosened. Still, the failing forward moments should enfold in the same dynamic as before. As described in the next paragraphs, different national preferences would further prevent a comprehensive solution for EU governance.

7.2.2. National Positions

To develop a recovery fund together with the nation states, different obstacles occurred. There were disagreements, between the allocation of funds as grants or loans, the refinancing procedure, and the legal form of budgetary plans. The discussions of an increased EU budget and cheap, as well as time-limited credits could lead to further national debt levels which risked investors panicking like in the previous fiscal crisis.[433]

> *"The risk of a self-fulfilling fiscal crisis caused by increasing spreads of highly indebted euro countries thus remains basically unchanged and is limited only by the willingness and the ability of the ECB to act."[434]*

The measurements like PEPP were not enough for some European member states. Coronabonds were requested in the end of March by the leaders of nine European countries[435], with a total of 57% of the Eurozone's GDP, to implement this common debt instrument, since the pandemic was a symmetric external shock, without a responsibility of a certain country. Fiscally conservative countries had opposed that

[432] The EU also adopted temporary state aid rules and suspended the airport slot requirement to cope the dramatic decrease of air traffic. European Council and Council of the European Union (2020b).
[433] Dullien et. al. (2020). P. 154.
[434] Ibid.
[435] Belgium, France, Greece, Ireland, Italy, Luxembourg, Portugal, Spain and Slovenia. McLellan and Davies (2020). P. 1.

idea of joint debts.[436] This has been called “counterproductive”[437] by Jean-Claude Trichet, the former head of the ECB. The Political Union would give the possibility for “natural Eurobonds”, while without the political federal union, it needs the agreement of all Europeans.[438]

7.2.3. Coronabonds Discussions

The disagreements concerning common EU assets lasts for more than 10 years.[439] One of the underlying problems are the mutualisation of debt obligations of member states while having national competences in fiscal and economic policies. This is a clear parallel to the discussions about the no-bailout clause and supporting indebted countries financially. Germany and low-deficit countries have opposed the idea to share the default risks of countries of the periphery[440] until the debate came up again because of the pandemic.[441] Proponents of a common debt instrument stated that financial markets would not add the increased debt of weak states to the liabilities of those since the arrears would be supranational. This would allow bonds to be as safe as German sovereign bonds, which provides a European safe asset in the financial system. It could be used by the ECB and act as a “stability anchor for the financial system”.[442] Conversely the benefits would be an increasement of the international role of the Euro and political clout. It has been claimed that in opposite of the Eurobonds discussion, coronabonds do not risk moral hazard.[443]

Opponents on the other hand, asserted that the EU is not a state and therefore has no fiscal sovereignty, no legal right to indebtedness, no fiscal budget, and no EU-finance minister. Those are explained as the reasons for diverging and country-specific

---

436 Ibid. P. 1. The greatest opponents are Germany and the Netherlands; also, Austria and Finland opposed the idea.
437 Amaro, Silvia (2020). ‘Corona bonds’: Here are three reasons why Germany and the Netherlands oppose the idea, in: cnbc.com, 08 April 2020.
438 CNBC (2020). Corona bonds would demonstrate absolute solidarity among EU members, former ECB president says, in: cnbc.com, 04 July 2020.
439 Khadbai and Davies (2020). P. 1. Eurobonds were discussed also in the financial crisis, but due to heavy headwind they were dismissed.
440 Ibid.
441 Nowotny, Ewald (2020). Euro-Bonds, Corona und “Kriegsfinanzierung“, in: Österreichische Gesellschaft für Europapolitik 09. P. 11.
442 Dullien et. al. (2020). P. 153.
443 Ibid. P. 153f.

differences in taxation, retirement age, pension level, number of hospital beds and so on. Second, even if having centralized instruments, the national economic difficulties will remain, as long as the national sovereignty and country-specific preferences will exist. Common debts should not be introduced in times of high uncertainty. In this point of view moral hazard is not an abstract risk, but reality.[444]

The suggestion is to implement either stricter fiscal rules or a Political Union, where debt mutualization is favoured. Still, common instruments will not help to dispose political absences and preferences at the national level. Some of the mechanisms of tax revenue sharing function on the domestic level but cannot be integrated without a Political Union. Historically and traditionally the financial, fiscal, job market, health and social policies are differently oriented, and the currency union would be destabilized. Also, politicians have to show willingness to give up competences to establish a Political Union. Probably this vision lies decades in future and it is unclear whether member states are ready for it.[445]

While a better functioning comprehensive solution like a Political Union can only be installed with a constitutional leap (in a constitutional federalist understanding), the only remaining way is to once more fail forward and correct the European institutions in small steps. The persisting national economic difficulties will most likely lead to following deadlock situations. The traumatic economic and social conditions due to the bailouts during the financial crisis should not be a future model for European actions in times of crises.

Therefore, common instruments to offer fiscal support for EU member states, have been called for by a rising number of scholars and is viewed as a comprehensive solution to face debts. This time, the main aim was to deal with the situation without further rising public debts. Crisis related expenditure was suggested to be targeted by common debt, either with the "coronabonds" or with the "Pandemic Solidarity

[444] Herzog mentions the constitutional debate of the German constitutional court on states responsibilities and the inconsistency of debt mutualization with EU law. Common bonds are not viable without a problem. For more information about the control of "ultra vires" of the German constitutional court: Herzog (2020). P. 152f.
[445] Ibid. P. 153-61; Henke, Klaus-Dirk (2020). Das EU-Budget in der Corona-Krise, in: Springer Berlin Heidelberg Wirtschaftsdienst 100(6). P. 409.

Instrument".[446] While the former describes a mutualization of liabilities, the latter is a suggestion of EU experts to give member states € 440 billion grants for instance for the support of health care or short-time work schemes:

> *"Our proposal rather fills a gap left by the EU budget: it is currently unequipped in terms of both size and structure to provide the kind of burden sharing across the entire Union that is needed in this unprecedented crisis."*[447]

The specific suggestion for coronabonds is to provide financial support to hard-hid countries. "The borrowed funds are distributed to them by a formula reflecting the severity of the health and economic crisis caused by COVID-19."[448] Servicing and repayment would be based on the GDP or a formula by the ECB. The liability of those bonds would be mutual.[449] Additionally, the communitization of debts should relate only to new bonds since the debt ratios differ greatly in the Euro countries. Furthermore, only grants should be implemented, instead of further loans, which do not have to be paid back.[450] Still, the support apart from some economists, must reach the political spectrum, where member states opposed this idea.[451] This changed when Germany and France reversed their political path on debt mutualization in May 2020.

7.3. Recovery Proposals

A shift in the national approach was brought by the French-German initiative of a recovery fund of € 500 billion, which would finance the most affected sectors and regions. The signal of unity would be sent by the joint borrowing to the citizens and financial markets, could be the start of more fiscal cooperation and builds the base for a more stable Monetary Union.[452]

> *"Europe will weather this crisis together and come out of it stronger than before. Achieving a sustainable recovery for the EU guides our joint efforts.*

[446] Odendahl, Christian / Grund, Sebastian / Guttenberg, Lucas (2020b). A proposal for a coronabond: The Pandemic Solidarity Instrument in: cer.eu (Centre for European Reform), 06 April 2020; Odendahl et. al. (2020a).
[447] Odendahl et. al. (2020a).
[448] Dullien et. al. (2020). P. 153.
[449] Ibid.
[450] Nowotny (2020). P. 11.
[451] Dullien et. al. (2020). P. 154.
[452] Ibid.

We, France and Germany, are fully committed to live up to our responsibility for the EU and we will help pave the way out of the crisis."[453]

7.3.1. Merkel-Macron Plan

On 19 May 2020 German chancellor Angela Merkel and French prime minister Emmanuel Macron presented a draft for a plan to recover which consisted a strategy for the improvement of health systems and standards for the healthcare industry, for research and development for vaccines and treatments and its distribution in times of external shocks, an implementation of a Task Force, as well as standards for health data interoperability.[454] The most sensational part was nevertheless the introduction of a recovery fund for solidarity and growth:

> *"France and Germany propose to allow the European Commission to finance such recovery support by borrowing on markets on behalf of the EU under the provision of a legal basis in full respect of the EU Treaty, budgetary framework and rights of national parliaments".*[455]

The proposal consisted of € 500 billion budget, bound on a repayment plan, to invest in the most affected sectors. Also, they pledged for a common and fair taxation system in the EU. Additionally, the green and digital transitions should be enhanced and boosted, as well as the economic and industrial resilience and sovereignty. The plan focused also on the importance of a functioning Schengen area and for a better common external border management. Finally, also minimum wages should be introduced to national situations.[456] This attempt was ground-breaking since Germany so far has hesitated in years (lately even in March 2020)[457] to take on common debts on behalf of the EU. Even if temporary limited, a repayment strategy as part of the EU budget was equally pioneering in terms of European integration towards a Political Union with common debts and payment strategies. Furthermore, the beforementioned policy areas clearly showed a spill-over effect of European integration into sensitive policy areas.

---

[453] Macron, Emmanuel / Merkel, Angela (2020). European Union – French-German initiative for the European recovery from the coronavirus crisis, in: diplomatie.gouv.fr, 18 May 2020.
[454] Ibid.
[455] Ibid.
[456] Ibid.
[457] Khan (2020). P. 3.

Besides the national reactions, the European Council's president Charles Michel and the president of the EC Ursula van der Leyen, already presented a plan on 21 April to overcome the crisis. It is one further example why supranational agencies mattered in the process. On 23 April, the members of the European Council agreed to develop a recovery fund by the EC. The EU budget should be involved in the plan as well. On 27 May Michel pledged for a negotiation of the "Recovery Plan". The EC proposed its recommendation for the recovery funds as well as the budget plan for 2021-2027.[458]

7.3.2. European Commission towards Recovery

On 27 May 2020, the Ursula Van der Leyen, the president of the EC suggested the EU budget plan for the next "Multiannual Financial Framework" (MFF) including a strategy to deal with the crisis due to the coronavirus. The investments as policy responses should be threefold: € 540 billion provided for the programmes SURE, the ESM Pandemic Crisis Support and the EIB Guarantee Fund for Workers and Businesses. A temporary reinforcement fund of € 750 billion should boost the budget with the "Next Generation EU" (NGEU)[459] programme. € 1100 billion should build the long-term budget until 2027.[460]

The NGEU should consist different instruments to invest for recovery of the member states, boost the economy and to learn lessons from the crisis. This policy response shall be financed as an exceptional and temporary measure and made possible by the "Own Resources Decision" (ORD). "The ORD is the legal basis that provides for the revenue sources of the EU budget."[461] The present will allow the EC to lend the suggested amount on behalf of the Union through the issuance of bonds. The EC suggested to reveal the money by loans and grants. A co-legislation period and examination by the European Council, the Parliament, and the Council of the European Union to finalise and finish the agreement on the framework should be completed by

[458] European Council and Council of the European Union (2020a).
[459] European Commission (2020j). Recovery plan for Europe. Europe's moment: Repair and Prepare for the Next Generation, in: ec.europa.eu, 27 May 2020.
[460] Ibid. (2020j).
[461] European Parliament (2020c). Vote on Own Resources: MEPs clear way for COVID-19 recovery plan, in: europarl.europa.eu, 16 September 2020.

autumn 2020.[462] The Commission's President Van der Leyen added that the funding will be repaid earliest 2028 and latest 2058. Her suggestion to adapt the previous MFF of 2014-2020 to make € 11.5 billion funding available already in 2020, was neglected.[463]

> *"This is Europe's moment. Our willingness to act must live up to the challenges we are facing. National efforts alone will not be enough -Europe is in a unique position to be able to invest in a collective recovery and a better future for next generations."*[464]

7.3.3. Supranational Agreements

In between the economic ministers discussed the objectives of funds in the economic and financial fields to ensure a sustainable recovery. The relation between the European Semester and the Recovery Plan was debated, also to avoid duplications and administrative burdens. On 12 June, the health ministers discussed the new "EU4Health" programme in the Commission's proposal. The budget is planned to be increased about 25 times and the ministers cherished the promotion of innovation and strengthening of health systems.[465] On June 23, the environment and climate ministers gathered in a video conference to discuss the policies of the "European Green Deal" pointing to the direction of a green growth and more resilient EU.[466] Between 17 and 21 July the EU leaders conceded about the future EU budget and the Recovery Plan. On 21 September, the Council set its priorities for the future internal market policy for a strong recovery and competitiveness. It welcomed the "Long-Term Action Plan" and the communication on barriers to the single market. On 1 and 2 October the heads of states complied on a minimum of 20% use of the funds for the digital change. On 6 October, the ministers of the Council of the EU agreed on the biggest instrument of the € 750 billion Recovery Plan, the "Recovery and Resilience Facility" (RRF).[467]

These steps can be considered as spill-over effects of the previous economic and financial fields towards more sensitive policy areas like health policies,

---

[462] Ibid.
[463] European Commission (2020j).
[464] European Commission (2020l). Europe's moment: Repair and Prepare for the Next Generation, 456 final, in: eur-lex.europa.eu, 27 May 2020. P. 16.
[465] European Council and Council of the European Union (2020a).
[466] The European Green Deal is a plan for a sustainable European continent and contains actions to face the climate challenges. European Commission (2020g). A European Green Deal, in: ec.europa.eu.
[467] European Council and Council of the European Union (2020a).

environmental and climate policies, or the digital transition. Still, the focus lies on the economic recovery. Probably the urgency of the crisis response has to be added to the failing forward argument to explain this increasing integration. Those motivations show an enhanced integration will of political leaders, which then has been abolished once more by national political leaders who rejected further integration, as described in the following section.

7.3.4. National Constraints

Since the UK had left the EU, Austria, Sweden, Denmark, and the Netherlands are taking the opposing position in EU negotiations, calling themselves the "frugal four".[468] The national leaders Rutte (Netherlands), Frederiksen (Denmark), Kurz (Austria) and Löfven (Sweden) put pressure in the bargaining process to lower the amount of grants to the disappointment of the "Club Med" countries (Spain, Italy, and Portugal).[469] For the first time the Union planned to take on common liabilities and redistribute the money. Van der Leyen pointed out that the agreement was historic, since the first proposal came only two months before the final agreement. Changes were negotiated and she criticized the cuts in health, migration, and foreign policy, as well as the suggestion from a funds for companies threatened of insolvency.[470] The frugal four had finally committed to the common bonds[471], in exchange for the reduction of grants from € 500 to 390 billion.[472]

The European Council was bargaining more than four days about the suggestions from the Commission. The leaders of the 27 EU-governments agreed on the 21 July 2020 in the Euro Summit on a packet worth € 1,8 trillion. It includes € 1074

---

[468] Der Standard (2020). Kanzler Kurz: War immer klar, dass es Zuschüsse geben wird, in: derstandard.at, 22 July 2020; Bialasiewitcz, Luiza (2020). National stereotypes in times of COVID-19: the 'frugal four' and the 'irresponsible South', in: opendemocracy.net, 12 July 2020; Economist (2020). After Brexit, who will be the British of the EU? There are lots of contenders for the New Brit awards, in: economist.com, 30 January 2020.
[469] BBC (2020). Coronavirus: EU leaders reach recovery deal after marathon summit, in: bbc.com, 20 July 2020.
[470] Welt (2020). „Haben uns zusammengerauft" – EU-Gipfel einigt sich auf historisches Corona-Paket, in: welt.de, 21 July 2020.
[471] European Council (2020a). Special meeting of the European Council– Conclusions, in: consilium.europa.eu, 17-21 July 2020. P. 2.
[472] Welt (2020).

billion for the next seven years for the general budget of the EU and € 750 billion for the programmes to cope with the coronavirus crisis.[473] The initial suggestion of the EC to change the supplies of the MFF from 2014-2020, was turned down. Instead, it was claimed, that the ReactEU and RFF programmes should be enough to provide the support needed. For the next MFF 2021-2027 the Gross National Income (GNI)-based contributions will be reduced for Denmark, Germany, the Netherlands, Austria, and Sweden. These corrections of the gross reduction will be financed by all member states according to their GNI. Also, the positive assessments of payment requests will be linked to the fulfilment of relevant milestones and objectives.[474]

As clearly visible, the results of the bargaining processes are in the typical dynamic of the LCD and the "conclusions present a balanced solution catering for the interests and positions of all Member States".[475] While a supranational actor from the EC stated the insufficiency of the proposed adaptions and also member states of the Club Med countries wished deeper integration, again the failing forward argument is supported. While some nations express their concerns, others cut down deeper integration of financial policies at the EU level. The linkage of national interests to reach the LCD in IGB compromises, can also be observed in the case of the rule of law.

The second disagreement was to link the funds to violations of the rule of law[476], which was heavily opposed by the Hungarian president Viktor Orban and the Polish prime minister Mateusz Morawiecki, who both run proceedings for violation of EU basic values. Other countries pledged to stop the financial support if common values are ignored.[477] In December 2020, those vetoes of Hungary and Poland about the rule of law mechanism, led to stagnation of the negotiations.[478] The Council agreement then

[473] Ibid.
[474] European Council (2020a). P. 6ff.
[475] Ibid. P. 2.
[476] European Commission (2020f). Rule of law, in: ec.europa.eu.
[477] Welt (2020).
[478] Mainly the issues about LGBT rights, migration and abortion led to heavy demonstrations and breaches with EU values. Due to the unanimity law the EU27 cannot sanction neither country since both back each other. The Guardian (2020). The Guardian view on Poland and Hungary: obstacles to progress … again, in: theguardian.com, 17 November 2020.

was to "underline" the compliance to respect EU values and to soften the terms of conditions, when the rule of law is supposed to be breached:

> *"The measures under the mechanism will have to be proportionate to the impact of the breaches of the rule of law […], and the causal link between such breaches and the negative consequences […] will have to be sufficiently direct and be duly established. The mere finding that a breach of the rule of law has taken place does not suffice to trigger the mechanism."*[479]

Since the conditionality of the rule of law, as well as the amount of grants was reduced, the national constraints are once more clearly visible. Compromises towards a crisis at stake, which needed quick policy solutions, trigger further (debt) crises in already indebted countries. It also ignores the problem of (dis-)respecting EU values in some European countries and a further destruction of the EU, like in the British case.

7.4. Crisis Management: The European Recovery Plan

Nevertheless, the need of a budgetary agreement to face the crisis, led to a rather quick understanding between national and EU leaders. The European Council agreed on a common European Recovery Plan on 21 July 2020 and thereby showed once more, why supranational agencies matter.

> *"This fund shall be of a sufficient magnitude, targeted towards the sectors and geographical parts of Europe most affected, and be dedicated to dealing with this unprecedented crisis."*[480]

Adaptions to the suggestions from the EC of the 27 May 2020 were made after negotiations. The plan involves three parts of financial funds: the first will be the SURE and ESM "Pandemic Crisis Support", as well as the EIB "Guarantee Fund for Workers and Businesses", with a total of € 540 billion endorsed by the European Council on 23 April 2020. The NGEU will provide a temporary reinforcement of € 750 billion. Those liabilities will be raised at the financial markets from 2021-2024.[481]

[479] European Council (2020b). European Council meeting –Conclusions, in: consilium.europa.eu, 10 and 11 December 2020.
[480] Statement of the European Council President Charles Michel in: European Council and Council of the European Union (2020a).
[481] European Commission (2020j).

Since the budgetary plan and the new instrument of ORD had to be approved by the different EU institutions, the final agreement was in December.[482] The Council can now adopt the decision by unanimity to enter into force in January 2021.[483] The EU response to the coronavirus crisis should concentrate on the first years of the budget duration until 2027. The main aim is to invest in green, digital and a resilient Europe. These aims shall be enrolled by supporting the member states in recovering, supporting the economy and private investment, and addressing strategic challenges in the health sector.[484] The structure of the plan will be further explained in the next chapter.

7.4.1. Next Generation EU

This instrument will be exceptional and temporary. The EC will be allowed to borrow up to € 750 billion common bonds on behalf of the EU by the ORD. Those funds will be handed out by grants (€ 390 billion) and loans (€ 360 billion) and distributed through seven programmes: "ReactEU" (€ 47.5 billion) should focus the cohesion policy programmes of the EU. "Horizon Europe" (€ 5 billion) should fund research in health, resilience, green and digital transitions. "InvestEU" (€ 5.6 billion) is implemented to mobilise private investment in projects all over Europe. "Rural Development" (€ 57.6 billion) is implemented to support rural areas for structural changes (in line with the European Green Deal). The "Just Transition Fund" (€ 10 billion) funds the support of businesses creating new economic possibilities and "RescEU" (€ 1.9 billion) is the civil protection mechanism.[485]

---

[482] The timeline was structured as follows: in May 2020, the EC proposed the revised MFF 2014-2020 & 2021-2027, in July 2020 the European Council agreed on the MFF 2014-2020 & 2021-2027 and the ORD. By summer 2020 also the EP had consultations on the ORD. The EP agreed to the ORD and the Recovery Plan on 16 September. The vote on the legislative opinion is necessary to be adopted by the Council and to be ratified by the member states. By autumn 2020 the MFF was adapted and corresponded sectoral legislation. In October, the European Council revised it again and by December the MFF (in consent with the EP) was adapted and the ORD was ratified by all Member states. The MFF implementation then started in January 2021. European Commission (2020k). Factsheet 1. The EU Budget Powering the Recovery Plan for Europe, in: ec.europa.eu, 27 May 2020.

[483] European Parliament (2020c).

[484] European Commission (2020k).

[485] European Council and Council of the European Union (2020a); European Commission (2020j).

The RFF will consist of 90% of the total funds (€ 672.5 billion). € 360 billion loans and € 312.5 billion grants will be distributed with the criteria of unemployment rate from 2015-2019, the inverse GDP per capita and the population share. 70% will be committed by 2021 and 2022. 30% will be disbursed by 2023 based on the criteria of drops in real GDP during 2020, the overall drop of real GDP in 2020-2021, the inverse GDP per capita and the population share.[486]

The member states should prepare national recovery and resilience plans which will be in line with the country-specific recommendations of the European Semester, the focus of strengthening growth potential, job creation, economic and social resilience, and the augmentation of green and digital transitions. The plans will be approved by the Council with a qualified majority vote on a Commission proposal.[487] The assessment of payments will depend on the fulfilment of the aims and objectives. The plans must align with the EU priorities in boosting growth, jobs, and resilience, support the green transitions with at least 37% distribution of resources on climate related projects and 20% should deepen the digital transformation. A provisional agreement between the Council and the Parliament was made on 18 December.[488]

7.4.2. Multiannual Financial Framework

The MFF will consist of € 1074.3 billion. The long-term EU budget is set for 2021-2027. Combined with the NGEU more than € 1,8 billion are planned for the recovery of Europe. The next MFF, was finally adopted on 16 December 2020, after compromises with Hungary and Poland were found.[489]

> *"Together with the € 540 billion of funds already in place for the emergency safety nets (for workers, for businesses and for member states), the overall EU's firepower to support the recovery amounts to € 2364.3 billion."*[490]

[486] European Council and Council of the European Union (2020a).
[487] Ibid.
[488] European Council and Council of the European Union (2020d). Recovery and Resilience Facility: Council presidency and Parliament reach provisional agreement, in: consilium.europa.eu.
[489] European Council and Council of the European Union (2020c). Multiannual financial framework for 2021-2027 adopted, in: consilium.europa.eu.
[490] Ibid. (2020a).

The positions of Poland and Hungary match the rising populism and Euroscepticism as a new fundamental problem for European integration, besides its very own structure or debates about competences. The negotiation outcome of December was reflected by Hungary and Poland as a victory[491], while the agreement and even a compromise not to directly bind the funds on the respect of the rule of law, was a necessary step. Especially those member states who face huge economic difficulties due to the coronavirus crisis and are indebted, were dependent on the start of the MFF in January 2021. Otherwise, the mentioned programmes and financial aids would have started with a delay and caused further crises. The prevention of further European integration so far was caused by national interests, while now also the respect of European values by national leaders are at stake. This also triggers future crises, as described a failing forward perspective, while it probably will concern different sectors than the economy. Since the LI focuses on the relative power of nation states, the new coalitions made after Brexit (i.e., the frugal four or the Hungarian-Polish coalition) are a compensation of the shifting balances of power. Additionally, decisions in the LI understanding are interest-led by national leaders, which explain the net contributor countries to push negotiations in the direction of the preferred outcome.

Implementing further, more integrated financial solutions, portray an integrational progress, in a NF understanding. Also, the Recovery Plan is bound on policy fields, which do not concern only the economic sector. To face challenges in the health sector and the digital transition, the loans are bound on national plans which must fulfil objectives in also climate related projects. The urgency of the crisis surely led to a quicker response and agreement of member states, than in the previous crisis where not all countries were concerned (almost) equally. Hence, the cycle of IGB and compromises can be reflected by the events happening since March 2020.

While scholars and EU leaders have claimed, that without a Political Union, the common bonds or lacking institutions can trigger further crises, national leaders have opposed this idea. Still, national economic difficulties will remain, while there is no fiscal sovereignty at the supranational level. Stricter financial rules were not implemented, in opposite some have been weakened to react quicker, while this risks

[491] Tagesschau (2020). EU einig bei Haushalt und Corona-Paket, in: tagesschau.de, 10 December 2020.

free riders and a collapsing system due to too much fiscal solidarity. Since the constitutional leap is far from being implemented at the EU level, the Political Union is supposed to be further achieved by piecemeal reforms.

8. Conclusion

The development of the EMU was marked by intergovernmental bargaining with compromises of the lowest common denominator, including separate national agreements. The policy asymmetries (integrated monetary policies, while economic policies remained at the national level) and the diverging macroeconomic strategies, were the foundation of the lacking infrastructure of the EMU. Export oriented countries, with growth strategies and proper institutional frameworks were unified with countries having expansive fiscal policies to face their growing domestic demand. A full Economic Union would have needed common economic policies and a Political Union is largely synonymous with policymaking at the supranational level. This would have come alike a confederation as the "result" of the unification process. But extended supranationalisation was not in the interest of national member states. Therefore, piecemeal improvements were the choice to face structural problems.

The Monetary Union focused from its onset on balanced economic growth, price stability and a rule-based system as its main objectives. To prevent free riders and implement macroeconomic discipline, convergence criteria were introduced within the SGP in 1996. But the governance architecture was incomplete from the beginning. The member countries faced different macroeconomic conditions without a devaluation function at the national level. The single monetary policy led to high macroeconomic divergences as well as booms and busts dynamics due to excessive lending. Additionally, the competitiveness was harmed because of the rise of the real effective exchange rates. Integrated monetary policies without integrated fiscal policies have caused the ineffectiveness of reactions towards asymmetric shocks or divergences. The missing of supervision of fiscal institutions and no stabilizing forces, like a lender of last resort, were detected to create systemic risks. Those limitations led to the loss of control over a currency in times of crisis. Furthermore, non-integrated banking regulations risked banking crises through contagion due to the strong connection of cross-border banks with persisting regulation gaps and the tight connections between governments and banks (doom-loop) that further triggered the crisis. Financial institutions took over excessive risks in low regulated markets, and therefore became competitors of national economies in asset management. Investment in the rapidly growing periphery led to rising asset prices and large current account imbalances. The creditor states and the markets extended too much debt, while the prior made profits and the latter believed that member countries would be forced to bail out states. When the bubble busted in 2008, the sudden stop of money inflows increased the gap for the periphery. While having to bail out banks without further receiving loans, the banking crises became sovereign debt crises which were faced by macroeconomic adjustment programmes in exchange of bailout packages. Austerity decreased support in European institutions and was aimed at correcting previous policy mistakes, while increasing the debt-to-GDP ratio in the indebted countries.

Reform proposals at the supranational level were made by the Six Pack, the Fiscal Compact and the Two Pack. They mainly enhanced the power of the EC of fiscal surveillance, implementation of sanctions and a system of recommendations for the national budgets. The clear budgetary rules were aimed at correcting gaps and macroeconomic imbalances, by different mechanisms.

The institutional changes faced the beforementioned three governance problems: the European Semester was implemented to increase fiscal and economic coordination through country-specific recommendations and evaluations, while the location of the political authority is still unclear. However, it is not an institution itself. It has a surveillance character with a deterrence tool, while a High Representative for Economic Affairs or an Economic Ministry, (e.g., a Fiscal and Financial Union) remains outstanding. The lack of integrated fiscal policies was further faced by the need of a Single Supervisor of European banks. Due to national disagreements about the best solution, direct financial injection to the ESM was the first measurement to face the sovereign debts. It was followed by the ECB becoming the LLR, due to the market situation in 2012. Additionally, the need for a Banking Union was faced in the same year to address the third structural deficit of lacking financial regulations. It broke the doom-loop and by the piecemeal reforms, spill-overs from the SSM, towards a single regulatory rulebook were made. The implementation of a SRM is meant to prevent banks of failing and if so, to avoid governments having to bail them out. The ECB now combines monetary policies and financial stability. A full Fiscal Union would additionally need a central budget (a single deposit) as an insurance, a fiscal authority to control debts and prevent governments to be forced in default by markets, as well as the primacy over the Central Bank to provide liquidity in times of market panicking or crises.

The threat of sovereign debt crises once more became real, when in 2020 the spread of the coronavirus led to massive economic downturns due to the lockdown measurements. Still, the EU did not have further authority or supranational tools to face the risks. The pressure on the single market was intensified also by the uncoordinated closure of national borders and export restrictions of medical supplies. Therefore, the call for mutual solidarity and more cooperation was loud and for the first time shared bonds, were considered. Even if having centralized instruments, like a European safe asset, national difficulties would remain. Scholars pledged for stricter fiscal rules, while having common financial instruments or implementing a Political Union, which is only possible with a constitutional leap and rather unrealistic at present due to the national constraints.

The chosen way was again to implement financial emergency measurements. The Central Bank removed issuer limits, the Investment Bank offered financial support packages and the Commission provided loans within the SURE program. Additionally, the deficit gap of the SGP was deinstalled. Finally, the ECB once more acted as the LLR with the provision of € 1350 billion government bonds within the PEPP program. Meanwhile, the Eurogroup implemented an affordable credit line within the ESM. This maximum flexibility on public financial and fiscal rule should help governments to face the crisis in its onset. For some nation states this was not enough and the divergences between financial supplies via grants or loans remained until Germany and France sent a signal of unity by the suggestion of joint borrowing. The Merkel-Macron Plan was a ground-breaking initiative in the integration process since it suggested to take on common debts on behalf of the Union. Additional policy proposals showed spill-over effects in other policy areas. Meanwhile, the EC prepared the Recovery Plan consisting of the NGEU funds and the MFF for the next household period. Within this plan further policy areas were focused, such as health, green- and digital transition and market policy recovery, while the economic recovery remained the primary goal.

While the Recovery Plan was completely accepted in July 2020, understandings to the national constraints (frugal four, rule of law) were found in the end of the year. The neofunctional spill-over effects as well as the deeper integration over time were clearly visible during the coronavirus crisis reactions. Furthermore, the moments of IGB constraints showed the cycle dynamics of the failing forward argument. Due to the piecemeal solutions, further crises were triggered. A major difference of both emergency reactions is the speed of its responses. While in the financial crisis years of failing forward dynamics could be observed, the coronavirus crisis showed a huge and quick step towards enhanced integration, also because all member states were equally concerned.

The main institutional changes after the Eurozone crisis were a permanent bailout mechanism for insolvent countries, namely the ESM, the Banking Union, the lender of last resort function and the deepening of fiscal and economic surveillance.[492] Nonetheless, a comprehensive solution for the limitations of the governance structure was left behind. Partly, this was faced in the coronavirus crisis since debt mutualization was introduced with the Recovery Plan and led to a deeper integration of monetary and financial policies at the European level. The most important institutional change as a reaction to the coronavirus crisis is the massive provision of money with the Recovery Plan, consisting of € 390 billion grants and € 360 billion loans to face the challenges of the pandemic and the long-term EU budget of € 1074.3 billion for the period of 2021-2027. This case clearly expressed, that supranational institutions matter in the integration process. The development was also reflected by national willingness as well as constraints, which was followed by intense negotiations.

As long as member states reject full integration and act arbitrary in a national way of thinking, rather than adopting European solutions, the EU will keep failing forward. After observing three different timepoints, comprehensive European

[492] Schimmelfennig (2015a). P. 177; De Grauwe and Ji (2015). P.743ff.

solutions seem to be unlikely to happen soon. First, there are different reasons, leading to European crises. What unites them, is the lack of a well-functioning European structure and the limitations of competences to act independently (which is restricted by the member states). National governments do not act as a collective and the EC has no mandate on its own.[493] While national states can implement emergency laws[494], the EU has no such legislative authority, although they play an important role in further integrational steps.

Second, the European crises responses have shown a slight learning effect, in terms of speed of reactions, willingness of EU leaders to re-adapt their national positions and accept a risk of domestic punishment in elections, as well as in implementing new measurements to enhance cooperation and solidarity. Still, full and comprehensive solutions remain neglected, due to the vetoes by some member states, although other national leaders expressed their concern.

Third, due to the high number of different crises, the integration process of each of the varying policy fields is slow. The European institutions react to those crises at stake and postpone other systemic problems. Finding compromises often is a difficult but democratic process, if complex situations, such as financial or health catastrophes, occur. Their experience in bargaining processes is an eminent and necessary characteristic of the EU.

In this thesis, the theoretical approach of the failing forward argument was tested regarding two major crises of the EU. It was clearly found and described in detail, that pure versions of the major integration theories cannot be conducted to the chosen events and completely explain their expiration. This is because LI does not consider the importance of supranational institutions and the functional spill-over effects over time. Just as, NF has no answer why EU integration still gets further strengthened, although national constraints lead to setbacks. Further, NF does not consider

[493] Interestingly EU actors are held responsible for decisions they have no power on, while they also exert power for actions, they cannot be held responsible for. Crum (2018). P. 269ff.

[494] As happened in the coronavirus crisis, for example by travel or trade restrictions, by prohibiting mass gatherings and events and sooner or later by enacting laws on movement restrictions (lockdowns).

negotiation outcomes and IGB compromises, which lead to a step-by-step improvement of the infrastructure at the European level. The fusion of both theories, by the failing forward approach, fills the theoretical gap to explain the piecemeal solutions over time. The cycle dynamics described by Jones et. al. (2016a) are not only a typical mechanism of the EU in crisis responses but also represent the mode of operation.

While the term “failing” gives the impression of a generally not functioning EU and unwilling member states, the coronavirus crisis has shown that member states do change their national positions in times of crisis. The integration processes speeded up in urgent situations. Due to IGB processes, where national leaders try to protect national interests and negotiate best economical solutions for their domestic electorate, the process of spill-overs happens against time. European integration, in opposite of the constitutional federalist approach, cannot be implemented in between two days but rather is a slow process. However, the speed is determined by internal (f.e. Brexit) and external factors (pandemic) that call for quick policy responses. The crisis reactions of the European institutions and negotiators are still reflected by a lack of willingness for comprehensive solutions like a delegation of policies to the supranational level and ergo “correcting” previous decisions taken. This expression reduces the negative connotation that resonates with the original formulation. In times of high uncertainty, rising populist parties and increasing Euroscepticism, the impression of a “correcting forward” and thereby improving EU is less problematic, than a “failing forward” EU, which deals with design failures and homegrown crises. Therefore, the failing forward argument should be slightly adapted. Nevertheless, the theoretical approach of Jones et. al. (2016a) also applies to other crisis moments and describes a typical dynamic of crises reactions. It is a useful theory, to explain major integration steps of the European Monetary Union.

9. Literature

Alesina, Alberto / Favero, Carlo / Giavazzi, Francesco (2019). *Austerity. When it works and when it doesn't.* Princeton: Princeton University Press.

Algan, Yann / Guriev, Sergei / Papaioannou, Elias / Passari, Evgenia (2017). The European Trust Crisis and the Rise of Populism, in: *Brookings Papers on Economic Activity* 2, pp. 309-382.

Amaro, Silvia (2020). 'Corona bonds': Here are three reasons why Germany and the Netherlands oppose the idea, in: *cnbc.com*, 08 April 2020, available under: cnbc.com/2020/04/08/corona-bonds-reasons-why-germany-and-the-netherlands-oppose-the-idea.html [last access: 12.12.2020].

Baldwin, Richard / Beck, Thorsten / Benassy-Quere, Agnes /Blanchard, Olivier / Corsetti, Giancarlo / De Grauwe, Paul / Den Haan, Wouter / Giavazzi, Francesco / Gros, Daniel / Kalemli-Ozcan, Sebnem / Micossi, Stefano / Papaioannou, Elias / Pesenti, Paolo / Pissarides, Christopher / Tabellini, Guido / Weder di Mauro, Beatrice (2015). Rebooting the Eurozone: Step 1 – agreeing a crisis narrative, in: *CEPR Centre For Economic Policy Research Policy Insight* 85, pp. 1-15.

Bansak, Kirk / Bechtel, Michael M. / Hainmueller, Jens / Margalit, Yotam (2020). Left-Right Ideology and the Debate over International Bailouts: The Case of Grexit, in: *The Journal of Politics* 82(2), pp. 509-528.

BBC (2020). Coronavirus: EU leaders reach recovery deal after marathon summit, in: *bbc.com*, 20 July 2020, available under: bbc.com/news/world-europe-53481542 [last access: 01.11.2020].

Beach, Derek (2016). It's all about mechanisms – what process-tracing case studies should be tracing, in: *New Political Economy* 21(5), pp. 463–472.

Bell, David NF / Blanchflower, David G (2015). Youth unemployment in Greece: measuring the challenge, in: *Journal of European Labor Studies* 4(1), pp. 1-25.

Bialasiewitcz, Luiza (2020). National stereotypes in times of COVID-19: the 'frugal four' and the 'irresponsible South', in: *opendemocracy.net*, 12 July 2020, available under: opendemocracy.net/en/can-europe-make-it/national-stereotypes-in-times-of-covid-19-the-frugal-four-and-the-irresponsible-south/ [last access: 30.07.2020].

Bieling, Hans Jürgen (2012). Intergouvernementalismus, in: Hans J. Bieling and Marika Lerch (eds.) *Theorien der europäischen Integration.* Wiesbaden: Springer VS, pp. 77-97.

Blau, John (2020). EU Scientists Unite Against Coronavirus, in: *Research Technology Management* 63(4), pp. 4-5.

Blyth, Mark (2013). *Austerity. The history of a dangerous idea*. Oxford: Oxford University Press.

Braun, Daniela / Tausendpfund, Markus (2014). The Impact of the Euro Crisis on Citizens' Support for the European Union, in: *Journal of European Integration* 36(3), pp. 231-245.

Bruno, Giovanni / Marelli, Enrico / Signorelli, Marcello (2014). The Rise of NEET and Youth Unemployment in EU Regions after the Crisis, in: *Comparative Economic Studies* 56(4), pp. 592-615.

Cafruny, Alan W (2015). European integration studies, European Monetary Union, and resilience of austerity in Europe: Post-mortem on a crisis foretold, in: *Competition & Change* 19(2), pp. 161–177.

Caiani, Manuela (2018). Nationalism, populism and the rebirth of statehood in Europe, in: Andreas Grimmel (ed.) *The Crisis of the European Union Challenges, Analyses, Solutions.* New York: Routledge, pp. 91-103.

Caparrós, Alejandro / Finus, Michael (2020). The Corona-Pandemic: A Game-Theoretic Perspective on Regional and Global Governance, in: *Environmental & Resource Economics* 76(4), pp. 913-927.

Castañeda, Juan E. / Mayes, David G. / Wood, Geoffrey (2016). *European Banking Union. Prospects and Challenges.* New York: Routledge.

Chang, Michele (2016). *Economic and Monetary Union.* London: Palgrave.

Coman, Ramona (2018). Intergovernmental method, community method and open method of coordination. The resilience, efficiency and legitimacy of the EU's modes of governance, in: Andreas Grimmel (ed.) *The Crisis of the European Union Challenges, Analyses, Solutions.* New York: Routledge, pp. 173-184.

Copelovitch, Mark / Frieden, Jeffry / Walter, Stefanie (2016). The Political Economy of the Euro Crisis, in: *Comparative Political Studies* 49(7), pp. 811-840.

Correia, Leonida / Martins, Patricia (2019). The European crisis: Analysis of the macroeconomic imbalances in the rescued euro area countries, in: *Journal of International Studies* 12(2), pp. 22-45.

CNBC (2020). Corona bonds would demonstrate absolute solidarity among EU members, former ECB president says, in: *cnbc.com*, 04 July 2020, available under: cnbc.com/video/2020/04/07/coronabonds-would-show-total-solidarity-among-eu-former-ecb-president.html [last access: 12.12.2020].

Council Directive No 85/2011. Requirements for Euro area countries' budgets, in: *Official Journal of the European Union* L 306/41, issued on: 08 November 2011, available under: eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=LEGISSUM:ec0021&from=EN [last access: 08.03.2021].

Council Regulation No 407/2010. Establishing a European financial stabilisation mechanism, in: *Official Journal of the European Union* L 118/1, issued on: 11 May 2010, available under: eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32010R0407&from=EN [last access: 08.03.2021].

Crum, Ben (2018). Parliamentary accountability in multilevel governance: what role for parliaments in post-crisis EU economic governance?, in: *Journal of European Public Policy* 25(2), pp. 268-286.

De Grauwe, Paul (2011). The Governance of a Fragile Eurozone, in: *Centre for European Policy Studies* Working Document No. 346, pp. 1-28.

De Grauwe, Paul (2016). The legacy of the Eurozone crisis and how to overcome it, in: *Journal of Empirical Finance* 39, pp. 147-155.

De Grauwe, Paul / Ji, Yuemei (2015). Correcting for the Eurozone Design Failures: The Role of the ECB, in: *Journal of European Integration* 37(7), pp. 739-754.

Delivorias, Angelos / Scheinert, Christian (2019). Introduction to the European Semester. Coordinating and monitoring economic and fiscal policies in the EU, in: *EPRS European Parliamentary Research Service*, pp. 1-29.

Der Standard (2020). Kanzler Kurz: War immer klar, dass es Zuschüsse geben wird, in: *derstandard.at*, 22 July 2020, available under: derstandard.at/story/2000118902790/kanzler-kurz-war-immer-klar-dass-es-zuschuesse-geben-wird [last access: 30.07.2020].

Destradi, Sandra (2010). Regional powers and their strategies: empire, hegemony, and leadership, in: *Review of International Studies* 36(4), pp. 903-930.

Dullien, Sebastian / Theobald, Thomas / Tober, Silke / Watt, Andrew (2020). Why Current EU Proposals for Corona-Related Financial Aid Cannot Replace Coronabonds, in: *Springer Inter Economics* 55(3), pp. 152-155.

Dyson, Kenneth (2009). Fifty Years of Economic and Monetary Union: A Hard and Thorny Journey, in: Phinnemore, David and Alex Warleigh-Lack (eds) *Reflections on European Integration.* London: Palgrave Macmillan, pp. 143-171.

Dyson, Kenneth (2017). Playing for High Stakes: The Eurozone Crisis, in: Dinan, Desmond / Nugent, Neill / William E. Paterson (eds) *The European Union in Crisis*. London: Palgrave, pp. 54-76.

Economist (2020). After Brexit, who will be the British of the EU? There are lots of contenders for the New Brit awards, in: *economist.com,* 30 January 2020, available under: economist.com/europe/2020/01/30/after-brexit-who-will-be-the-british-of-the-eu [last access: 31.10.2020].

Eppler, Annegret / Anders, Lisa H. / Tuntschew, Thomas (2016). Europe´s political, social, and economic (dis-)integration: Revisiting the Elephant in times of crises, in: *Institute for Advanced Studies* Working Paper 143, pp. 1-28.

EUR-Lex (2020). Broad Economic Guidelines (BEPG) in: *eur-lex.europa.eu*, available under: eur-lex.europa.eu/summary/glossary/broad_ec_pol_guidelines.html [last access: 03.12.2020].

Eurogroup (2020). Eurogroup Statement on the Pandemic Crisis Support, in: *consilium.europa.eu*, 8 May 2020, available under: consilium.europa.eu/de/press/press-releases/2020/05/08/eurogroup-statement-on-the-pandemic-crisis-support/ [last access: 25.10.2020].

European Central Bank (2010). Economic and Monetary Developments, in: *ecb.europa.eu*, available under: www.ecb.europa.eu/pub/pdf/other/mb201006_focus01.en.pdf [last access: 14.12.2020].

European Central Bank (2012). Speech by Mario Draghi, President of the European Central Bank at the Global Investment Conference in London in: *ecb.europa.eu*, 26 July 2012, available under: www.ecb.europa.eu/press/key/date/2012/html/sp120726.en.html [last access: 26.10.2020].

European Central Bank (2020a). Home, in: *ecb.europa.eu*, available under: www.ecb.europa.eu/home/html/index.en.html [last access: 08.11.2020].

European Central Bank (2020b). Targeted longer-term refinancing operations (TLTROs), in: *ecb.europa.eu*, available under: www.ecb.europa.eu/mopo/implement/omo/tltro/html/index.en.html [last access: 14.12.2020].

European Central Bank Regulation No 468/2014. SSM Framework Regulation, in: *Official Journal of the European Union* L 141/1, issued on: 16 April 2014, available under: eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0468&from=EN [last access: 08.03.2021].

European Commission (2011). EU Economic governance “Six-Pack” enters into force. Memo/11/898, in: *ec.europa.eu*, 12 December 2011, available under: ec.europa.eu/commission/presscorner/detail/en/MEMO_11_898 [last access: 09.11.2020].

European Commission (2012a). Four Presidents’ Report "Towards a Genuine Economic and Monetary Union", in: *consilium.europa.eu*, 05 December 2012, available under: consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/ec/134069.pdf [last access: 22.11.2020].

European Commission (2012b). Fiscal compact enters into force. Presse 551, 18019/12, in: *ec.europa.eu*, 21 December 2012, available under: ec.europa.eu/commission/presscorner/detail/en/PRES_12_551 [last access: 22.11.2020].

European Commission (2013). ‘Two-Pack' completes budgetary surveillance cycle for euro area and further improves economic governance. Memo/13/196, *in: ec.europa.eu*, 12 March 2013, available under: ec.europa.eu/commission/presscorner/detail/en/MEMO_13_196 [last access: 09.11.2020].

European Commission (2015). The Five Presidents' Report: Completing Europe's Economic and Monetary Union, in: *ec.europa.eu,* 22 June 2015, available under: ec.europa.eu/commission/publications/five-presidents-report-completing-europes-economic-and-monetary-union_en [last access: 22.11.2020].

European Commission (2020a). Timeline: The Evolution of EU Economic Governance, in: *ec.europa.eu*, available under: ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/timeline-evolution-eu-economic-governance_en#id2010 [last access: 06.11.2020].

European Commission (2020b). European Stability Mechanism (ESM), in: *ec.europa.eu,* available under: ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/financial-assistance-eu/funding-mechanisms-and-facilities/european-stability-mechanism-esm_en [last access: 07.11.2020].

European Commission (2020c). European Financial Stabilisation Mechanism (EFSM), in: *ec.europa.eu*, available under: ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/financial-assistance-eu/funding-mechanisms-and-facilities/european-financial-stabilisation-mechanism-efsm_en [last access: 07.11.2020].

European Commission (2020e). What is the Economic and Monetary Union? (EMU), in: *ec.europa.eu,* available under: ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/economic-and-monetary-union/what-economic-and-monetary-union-emu_en [last access: 28.11.2020].

European Commission (2020f). Rule of law, in: *ec.europa.eu*, available under: ec.europa.eu/info/policies/justice-and-fundamental-rights/upholding-rule-law/rule-law_en [last access: 20.12.2020].

European Commission (2020g). A European Green Deal, in: *ec.europa.eu*, available under: ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en [last access: 02.01.2021].

European Commission (2020h). Medium-Term Budgetary Objectives (MTOs), in: *ec.europa.eu*, available under: ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/preventive-arm/medium-term-budgetary-objectives-mtos_en# [last access: 02.01.2021].

European Commission (2020i). Coronavirus response, in: *ec.europa.eu*, 24 July 2020, available under: ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response_en [last access: 31.07.2020].

European Commission (2020j). Recovery plan for Europe. Europe's moment: Repair and Prepare for the Next Generation, in: *ec.europa.eu,* 27 May 2020, available under: ec.europa.eu/commission/presscorner/detail/en/ip_20_940 [last access: 01.11.2020].

European Commission (2020k). Factsheet 1. The EU Budget Powering the Recovery Plan for Europe, in: *ec.europa.eu,* 27 May 2020, available under: ec.europa.eu/info/sites/info/files/factsheet_1_en.pdf [last access: 30.10.2020].

European Commission (2020l). Europe’s moment: Repair and Prepare for the Next Generation, 456 final, in: *eur-lex.europa.eu*, 27 May 2020, available under: eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0456&from=EN [last access: 01.11.2020].

European Commission (2021). What the European Commission does, in: *ec.europa.eu*, available under: ec.europa.eu/info/about-european-commission/what-european-commission-does_en [last access: 03.02.2021].

European Council (2020a). Special meeting of the European Council– Conclusions, in: *consilium.europa.eu*, 17-21 July 2020, available under: consilium.europa.eu/media/45109/210720-euco-final-conclusions-en.pdf [last access: 30.10.2020].

European Council (2020b). European Council meeting –Conclusions, in: *consilium.europa.eu,* 10 and 11 December 2020, available under: consilium.europa.eu/media/47296/1011-12-20-euco-conclusions-en.pdf [last access: 19.12.2020].

European Council and Council of the European Union (2020a). A recovery plan for Europe, in: *consilium.europa.ec*, available under: consilium.europa.eu/en/policies/eu-recovery-plan/ [last access: 31.10.2020].

European Council and Council of the European Union (2020b). COVID-19: the EU's response to the economic fallout, in: *consilium.europa.eu*, available under: consilium.europa.eu/en/policies/coronavirus/covid-19-economy/ [last access: 01.11.2020].

European Council and Council of the European Union (2020c). Multiannual financial framework for 2021-2027 adopted, in: *consilium.europa.eu*, available under: consilium.europa.eu/de/press/press-releases/2020/12/17/multiannual-financial-framework-for-2021-2027-adopted/ [last access: 18.12.2020].

European Council and Council of the European Union (2020d). Recovery and Resilience Facility: Council presidency and Parliament reach provisional agreement, in: *consilium.europa.eu*, available under: consilium.europa.eu/de/press/press-releases/2020/12/18/recovery-and-resilience-facility-council-presidency-and-parliament-reach-provisional-agreement/ [last access: 18.12.2020].

European Council and Council of the European Union (2020e). Single Resolution Mechanism, in: *consilium.europa.eu*, available under: consilium.europa.eu/en/policies/banking-union/single-resolution-mechanism/ [last access: 05.01.2021].

European Parliament (2020a). CRIS, in: *europarl.europa.eu*, available under: europarl.europa.eu/committees/en/archives/7/cris/home/presentation-competencies [last access: 18.12.2020].

European Parliament (2020b). Legislative Train Schedule. Deeper and Fairer Economic and Monetary Union, in: *europarl.europa.eu*, available under: europarl.europa.eu/legislative-train/theme-deeper-and-fairer-economic-and-monetary-union/file-communautarisation-of-the-euro-plus-pact-on-competitiveness [last access: 18.12.2020].

European Parliament (2020c). Vote on Own Resources: MEPs clear way for COVID-19 recovery plan, in: *europarl.europa.eu*, 16 September 2020, available under: europarl.europa.eu/news/en/headlines/priorities/eu-response-to-coronavirus/20200910IPR86815/vote-on-own-resources-meps-clear-way-for-covid-19-recovery-plan [last access: 01.11.2020].

European Research Council (2020). Resignation of Mauro Ferrari – Statement by the Scientific Council, in: *erc.europa.eu,* 08 April 2020, available under: erc.europa.eu/news/resignation-mauro-ferrari-%E2%80%93-statement-scientific-council [last access: 25.10.2020].

European Stability Mechanism (2010). EFSF Framework Agreement, in: *esm.europa.eu*, 09 May 2010, available under: esm.europa.eu/content/efsf-framework-agreement [last access: 23.11.2020].

European Stability Mechanism (2012). ESM Treaty, in: *esm.europa.eu,* available under: esm.europa.eu/sites/default/files/20150203_-_esm_treaty_-_en_1.pdf [last access: 07.11.2020].

European Stability Mechanism (2020a). Home, in: *esm.europa.eu,* available under: esm.europa.eu [last access: 06.11.2020].

European Stability Mechanism (2020b). EFSF - the temporary fiscal backstop, in: *esm.europa.eu*, available under: esm.europa.eu/efsf-overview [last access: 06.11.2020].

Falkner, Gerda (2016). The EU's current crisis and its policy effects: research design and comparative findings, in: *Journal of European Integration* 38(3), pp. 219-235.

Frieden, Jeffry / Walter, Stefanie (2017). Understanding the Political Economy of the Eurozone Crisis, in: *The Annual Review of Political Science* 20(1), pp. 371-290.

Garraud, Jean-Paul / Bay, Nicolas (2020). Parliamentary questions. Question for written answer to the Commission E-002242/2020, Rule 138, in: europarl.europa.eu, 14 April 2020, available under: europarl.europa.eu/doceo/document/E-9-2020-002242_EN.html [last access: 08.03.2021].

Genschel, Philipp / Jachtenfuchs, Markus (2018). From Market Integration to Core State Powers: The Eurozone Crisis, the Refugee Crisis and Integration Theory, in: *Journal of Common Market Studies* 56(1), pp. 178-196.

Giannitsis, Tassos / Zografakis, Stavros (2015). Greece: Solidarity and adjustment in times of crisis, in: *IMK Institut für Makroökonomie und Konjunkturforschung* 38, pp. 1-143.

Giering, Claus (1997). Europa zwischen Zweckverband und Superstaat. Die Entwicklung der politikwissenschaftlichen Integrationstheorie im Prozeß der europäischen Integration, in: Werner Weidenfeld (ed.) *Münchner Beiträge zur Europäischen Einigung,* Band 1, Dissertation, Ludwig-Maximilians-Universität München, Bonn: Europa Union Verlag.

Giering, Claus / Möller Almut (2010). Integrationstheorie, in: Carlo Masala, Frank Sauer and Andreas Wilhelm (eds.) *Handbuch der Internationalen Politik.* Wiesbaden: VS Verlag für Sozialwissenschaften, pp. 135-147.

Grill, Markus / Mascolo, Georg / Margottini, Laura / Schoen, Celine / Stockton, Ben (2020). EU-Reaktion auf Coronavirus Zu spät, zu langsam, in: *tagesschau.de*, 15 July 2020, available under: tagesschau.de/investigativ/ndr-wdr/coronavirus-eu-113.html [last access: 31.07.2020].

Große Hüttmann, Martin / Fischer, Thomas (2012). Förderalismus, in: Hans J. Bieling and Marika Lerch (eds.) *Theorien der europäischen Integration.* Wiesbaden: Springer VS, pp. 35-53.

Haas, Ernst B. (1964). *Beyond the Nation-State. Functionalism and International Organization.* Stanford: Stanford University Press.

Hall, Peter (2012). The Economics and Politics of the Euro Crisis, in: *German Politics* 21(4), pp. 355-371.

Henke, Klaus-Dirk (2020). Das EU-Budget in der Corona-Krise, in: *Springer Berlin Heidelberg Wirtschaftsdienst* 100(6), pp. 407-410.

Herzog, Bodo (2020). Corona-Bonds und EU-Verschuldung: Zukunftsvision oder Europäische Naivität?, in: *Zeitschrift für Wirtschaftspolitik* 69(2), pp. 148-165.

Hodson, Dermot (2015). Policy-Making under Economic and Monetary Union, in: Helen Wallace, Mark A. Pollack and Alasdair R. Young (eds.) *Policy-Making in the European Union.* Oxford: Oxford University Press, pp. 166-195.

Hodson, Dermot / Puetter, Uwe (2019). The Euro Crisis and European Integration, in: Michelle Cini and Borragán Nieves Pérez-Solórzano (eds.) *European Union Politics.* Oxford: Oxford University Press, pp. 389-405.

Hoffmann, Stanley (1966). Obstinate or obsolete: The Fate of the Nation-State and the Case of Western Europe, in: *Daedalus* 95(3), pp. 862-915.

Homburg Stefan (2015). Austeritätspolitik in der Europäischen Währungsunion: Bilanz und Perspektiven, in: *Wirtschaftsdienst* 95(4), pp. 231-248.

Hooghe, Liesbet / Marks, Gary (2008). A Postfunctionalist Theory of European Integration: From Permissive Consensus to Constraining Dissensus, in: *British Journal of Political Science* 39(1), pp 1-23.

Hooghe, Liesbet / Marks, Gary (2019). Grand theories of European integration in the twenty-first century, *Journal of European Public Policy* 26(8), pp 1-21.

Horn, Gustav / Lindner, Fabian / Tober, Silke / Watt, Andrew (2012). Quo vadis Krise? Zwischenbilanz und Konzept für einen stabilen Euroraum, in: *IMK Institut für Makroökonomie und Konjunkturforschung* 75, pp. 1-28.

Howarth, David / Quaglia, Lucia (2015). The political economy of the euro area's sovereign debt crisis: introduction to the special issue of the Review of International Political Economy, in: *Review of International Political Economy* 22(3), pp. 457-484.

Huertas, Thomas F. (2016). Banking Union. The way forward, in: Juan E. Castañeda, David G. Mayes and Geoffrey Wood (eds.) *European Banking Union. Prospects and Challenges.* New York: Routledge, pp. 23-37.

International Monetary Fund (2010). World Economic Outlook, October. Recovery, Risk and Rebalancing, in: *World Economic and Financial Surveys*, pp. 1-279.

Ioannou, Demosthenes / Leblond, Patrick / Niemann, Arne (2015). European integration and the crisis: practise and theory, in: *Journal of European Public Policy* 22(2), pp. 155-176.

Issing, Otmar (2008). *The Birth of the Euro*. Cambridge: Cambridge University Press.

Jones, Erik / Kelemen, R. Daniel / Meunier, Sophie (2016a). Failing Forward? The Euro Crisis and the Incomplete Nature of European Integration, in: *Comparative Political Studies* 49(7), pp. 1010-1034.

Jones, Erik / Kelemen, R. Daniel / Meunier, Sophie (2016b). Is Europe failing, or is it 'failing forward'?, in: *washingtonpost.com,* 05 July 2016, available under: washingtonpost.com/news/monkey-cage/wp/2016/07/05/is-europe-failing-or-is-it-failing forward/ [last access: 12.12.2020].

Khadbai, Burhan / Davies, Tyler (2020). EU coronabonds: the key questions, in: *Euromoney Institutional Investor PLC*, 20 March 2020, pp. 1-4.

Khan, Mehreen (2020). Lagarde bails out Europe, in: *ft.com (Financial Times Online),* 19 March 2020, available under: ft.com/content/be7e37b0-697b-11ea-a3c9-1fe6fedcca75 [last access: 19.03.2020].

Kindleberger, Charles P. (1981). Dominance and Leadership in the International Economy: Exploitation, Public Goods, and Free Rides, in: *International Studies Quarterly* 25(2), pp. 242-254.

Laffan, Brigid / Schlosser, Pierre (2016). Public finances in Europe: fortifying EU economic governance in the shadow of the crisis, in: *Journal of European Integration* 38(3), pp. 237-249.

Leupold, Anna (2016). A structural approach to politicisation in the Euro crisis, in: *West European Politics* 39(1), pp. 84-103.

Lewis, Jane (2003). Design Issues, in: Jane Ritchie and Jane Lewis (eds.) *Qualitative Research Practice. A Guide for Social Science Students and Researchers.* London/Thousand Oaks/ New Delhi: SAGE Publications, pp. 47-76.

Macron, Emmanuel /Merkel, Angela (2020). European Union – French-German initiative for the European recovery from the coronavirus crisis, in: *diplomatie.gouv.fr,* 18 May 2020, available under: diplomatie.gouv.fr/en/coming-to-france/coronavirus-advice-for-foreign-nationals-in-france/coronavirus-statements/article/european-union-french-german-initiative-for-the-european-recovery-from-the [last access: 25.10.2020].

Marin, Luisa (2020). The Covid-19 crisis and the closure of external borders: another stress-test for the challenging construction of solidarity within the EU?, in: *European Papers*, pp. 1-16.

Marques, Paulo / Hörisch, Felix (2019). Understanding massive youth unemployment during the EU sovereign debt crisis: a configurational study, in: *Comparative European Politics* 18, pp. 233-255.

Matthijs, Matthias (2017). Integration at What Price? The Erosion of National Democracy in the Euro Periphery, in: *Government and Opposition* 52(2), pp. 266-294.

Matthijs, Matthias / Oteri-Iglesis, Miguel / Zimmermann Hubert (2016). A new German Hegemony: Does it exist? Would it be Dangerous?, in: Hubert Zimmermann and Andreas Dür (eds.) *Key Controversies in European Integration*. London: Palgrave, pp. 234-250.

McLellan, Lewis / Davies, Tyler (2020, April 27). EU leaders tussle over corona bond response, in: *Euromoney Institutional Investor PLC*, pp. 1-4.

Moravcsik, Andrew (1993). Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach, in: *Journal of Common Market Studies* 31(4), pp. 473-524.

Moravcsik, Andrew (1998). *The Choice for Europe. Social Purpose & State Power from Messina to Maastricht.* London: University College London Press.

Morchetti, Andreas (2009). *Die Europäische Sicherheits- und Verteidigungspolitik. Politikformulierung im Beziehungsdreieck Deutschland- Frankreich-Großbritannien.* Baden-Baden: Nomos.

Mudde, Cas / Kaltwasser, Rovira (2012). *Populism in Europe and the Americas. Threat or Corrective for Democracy?* Cambridge: Cambridge University Press.

Nicoli, Francesco (2018). Integration through crises? A quantitative assessment of the effect of the Eurocrisis on preferences for fiscal integration, in: *Comparative European Politics* 17 (3), pp. 397–425.

Nicoli, Francesco (2020). Neofunctionalism revisited: integration theory and varieties of outcomes in the Eurocrisis, in: *Journal of European Integration* 42(7), pp. 897-916.

Niemann, Arne / Ioannou, Demosthenes (2015). European economic integration in times of crisis: a case of neofunctionalism?, in: *Journal of European Public Policy* 22(2), pp. 196-218.

Nowotny, Ewald (2020). Euro-Bonds, Corona und "Kriegsfinanzierung", in: *Österreichische Gesellschaft für Europapolitik* 09, pp. 1-12.

Odendahl, Christian / Grund, Sebastian / Guttenberg (2020a). Sharing the fiscal burden of the crisis: A Pandemic Solidarity Instrument for the EU, in: *voxeu.org*, 05 April 2020, available under: voxeu.org/article/pandemic-solidarity-instrument-eu [last access: 12.12.2020].

Odendahl, Christian / Grund, Sebastian / Guttenberg, Lucas (2020b). A proposal for a coronabond: The Pandemic Solidarity Instrument in: *cer.eu (Centre for European Reform)*, 06 April 2020, available under: cer.eu/insights/proposal-coronabond-pandemic-solidarity-instrument [last access: 12.12.2020].

Patzelt, Werner J. (2013). *Einführung in die Politikwissenschaft. Grundriss des Faches und studiumbegleitende Orientierung.* Passau: Wissenschaftsverlag Richard Rode.

Pausch, Markus (2020). Europa in und nach der Corona-Krise, in: *Österreichische Gesellschaft für Europapolitik* 10, pp. 1-12.

Phylaktis, Kate (2016). The Cyprus debacle. Implications for the European Banking Union, in: Juan E. Castañeda, David G. Mayes and Geoffrey Wood (eds.) *European Banking Union. Prospects and Challenges.* New York: Routledge, pp. 67-77.

Puetter, Uwe (2004). Governing informally: the role of the Eurogroup in EMU and the Stability and Growth Pact, in: *Journal of European Public Policy* 11(5), pp. 854-870.

Rhinard, Mark (2019). The Crisisification of Policy-making in the European Union, in: *Journal of Common Market Studies* 57 (3), pp.616-633.

Ritchie, Jane (2003). The Applications of Qualitative Methods to Social Research, in: Jane Ritchie and Jane Lewis (eds.) *Qualitative Research Practice. A Guide for Social Science Students and Researchers.* London/Thousand Oaks/ New Delhi: SAGE Publications, pp. 24-46.

Rodrik, Dani (2011). *The globalization paradox: why global markets, states, and democracy can't coexist.* Oxford/New York: Oxford University Press.

Salines, Marion / Glöckler, Gabriel / Truchlewski, Zbigniew (2012). Existential crisis, incremental response: the Eurozone's dual institutional evolution 2007-2011, in: *Journal of European Public Policy* 19(5), pp. 665-681.

Schimmelfennig, Frank (2012). Zwischen Neo- und Postfunktionalismus: Die Integrationstheorien und die Eurokrise, in: *PVS Politische Vierteljahresschrift Jahrgang* 53(3), pp. 394-413.

Schimmelfennig, Frank (2014). European Integration in the Euro Crisis: The Limits of Postfunctionalism, in: *Journal of European Integration* 36(3), pp. 321-337.

Schimmelfennig, Frank (2015a). Liberal intergovernmentalism and the euro area crisis, in: *Journal of European Public Policy* 22(2), 177-195.

Schimmelfennig, Frank (2015b). Die Eurokrise: Testfall für Integration und Integrationstheorie, in: *Zeitschrift für Politikwissenschaft* 25(2), pp. 249-256.

Schoeller, Magnus G. (2018). The Rise and Fall of Merkozy: Franco-German Bilateralism as a Negotiation Strategy in Eurozone Crisis Management, in: *Journal of Common Market Studies* 56(5), pp. 1019-1035.

Schoeller, Magnus G. (2017). Providing political leadership? Three case studies on Germany's ambiguous role in the Eurozone crisis, in: *Journal of European Public Policy* 24(1), pp. 1-20.

Seikel, Daniel / Trugar, Achim (2019). The Blocked Completion of the European Monetary Union. Making the case for a pragmatic use of fiscal leeway, in: *WSI Report Institute of Economic and Social Research* 52, pp. 1-14.

Single Resolution Board (2020a). What is the Single Resolution Fund?, in: *srb.europa.eu*, available under: srb.europa.eu/en/content/single-resolution-fund [last access: 02.01.2021].

Single Resolution Board (2020b). The Single Resolution Fund, in: *srb.europa.eu*, available under: srb.europa.eu/sites/srbsite/files/_def_srb_fund-web.pdf [last access: 02.01.2021].

Starke, Peter (2015). Prozessanalyse, in: Georg Wenzelburger and Reimut Zohlnhöfer (eds.) *Handbuch Policy-Forschung*. Wiesbaden: Springer Fachmedien, pp. 453-482.

Sturm, Roland (2015). Austeritätspolitik in der EU. Was heißt das, wozu dient sie?, in: *Gesellschaft, Wirtschaft, Politik* (GWP) 2, pp. 181-188.

Stützle, Ingo (2013). *Austerität als politisches Projekt. Von der monetären Integration Europas zur Eurokrise.* Münster: Westfälisches Dampfboot.

Tagesschau (2020). EU einig bei Haushalt und Corona-Paket, in: *tagesschau.de*, 10 December 2020, available under: tagesschau.de/ausland/europa/eu-gipfel-einigung-105.html [last access: 19.12.2020].

The Guardian (2020). The Guardian view on Poland and Hungary: obstacles to progress … again, in: *theguardian.com*, 17 November 2020, available under: theguardian.com/commentisfree/2020/nov/17/the-guardian-view-on-poland-and-hungary-obstacles-to-progress-again [last access: 18.12.2020].

Treaties establishing the European Communities 1987. ECSC – EEC – EAEC, Treaties amending these Treaties: Single European Act. Resolutions – Declarations, in: Office for Official Publications of the European Communities, available under: europa.eu/european-union/sites/europaeu/files/docs/body/treaties_establishing_the_european_communities_single_european_act_en.pdf [last access: 08.03.2021].

Treaty of Lisbon 2007/C 306/01. Amending the Treaty on European Union and the Treaty establishing the European Community, in: *Official Journal of the European Communit*ies, issued on: 17 December 2007, available under: eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:C:2007:306:FULL&from=EN [last access: 08.03.2021].

Treaty on European Union 1992. ECSC – EEC – EAEC, Council of the European Communities / Commission of the European Communities. Treaty on European Union, in: *Office for Official Publications of the European Communities*, available under: europa.eu/european-union/sites/europaeu/files/docs/body/treaty_on_european_union_en.pdf [last access: 08.03.2021].

Treaty on Stability, Coordination and Governance D/2012/2. Treaty on Stability, Coordination and Governance in the Economic and Monetary Union, in: *ec.europa.eu*, issued on: 01 February 2012, available under: ec.europa.eu/commission/presscorner/detail/en/DOC_12_2 [last access: 08.03.2021].

Treaty on the European Union 2002/C 325/01. Consolidated Versions of the Treaty on the European Union and the Treaty of Establishing the European Community, in: *Official Journal of the European Communities*, issued on: 24.12.2002, available under: eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:12002E/TXT&from=EN [last access: 08.03.2021].

Treaty on the Functioning of the European Union 2012/C 326/13. Consolidated Version of the Treaty on the Functioning of the European Union, in: *Official Journal of the European Union*, issued on: 26 October 2012, available under: eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2012:326:FULL:EN:PDF [last access: 08.03.2021].

Verdun, Amy (2015). A historical institutionalist explanation of the EU's responses to the euro area financial crisis, in: *Journal of European Public Policy* 22(2), pp. 219-237.

Verdun, Amy (2019). Economic and Monetary Union, in: Michele Cini and Nieves Pérez-Solórzano Borragàn (eds.) *European Union Politics.* Oxford: Oxford University Press, pp. 343-357.

Walter, Stefanie / Dinas, Elias / Jurado, Ignacio / Konstantinidis, Nikitas (2018). Noncooperation by Popular Vote: Expectations, Foreign Intervention, and the Vote in the 2015 Greek Bailout Referendum, in: *International Organization* 72, pp. 969-994.

Weidenfeld, Werner (2013). *Die Europäische Union. Akteure – Prozesse – Herausforderungen.* München: Wilhelm Fink.

Welfens, Paul J. J. (2020). Trump's Trade Policy, BREXIT, Corona Dynamics, EU Crisis and Declining Multilateralism, in: *International and Economic Policy* 17(3), pp. 563-634.

Welt (2020). „Haben uns zusammengerauft" – EU-Gipfel einigt sich auf historisches Corona-Paket, in: *welt.de*, 21 July 2020, available under: welt.de/politik/ausland/article211957823/EU-Gipfel-mit-historischem-Corona-Paket-Von-der-Leyen-findet-Aenderungen-bedauerlich.html [last access: 31.10.2020].

WHO (2020). WHO announces COVID-19 outbreak a pandemic, in: *euro.who.int*, 12 March 2020, available under:

euro.who.int/en/health-topics/health-emergencies/coronavirus-covid-19/news/news/2020/3/who-announces-covid-19-outbreak-a-pandemic [last access: 01.11.2020].

Wodak, Ruth / Angouri, Jo (2014). From Grexit to Grecovery: Euro/crisis discourses, in: *Discourse and Society* 25(4), pp. 417.423.

Wolf, Dieter (2012). Neo-Funktionalismus, in: Hans J. Bieling and Marika Lerch (eds.) *Theorien der europäischen Integration.* Wiesbaden: Springer VS, pp. 55-76.

10. Appendix

Abstract (English)

This thesis explains crisis dynamics in the European integration process with a special emphasis on active players and underlying causes. Integration gets strengthened over time, although the institutions of the European Monetary Union (EMU) have to operate without a functioning governance structure. European leaders and supranational agencies respond towards crises with incomprehensive policy solutions and thereby seem to be "failing forward". This work analyses a recently published fusion of the classical integration theories, Liberal Intergovernmentalism and Neofunctionalism, as it offers answers to explain major steps in the evolution of the EMU over time. The causal process-tracing analysis is based on three different crisis moments to observe the crisis cycle dynamics of the failing forward argument: The pre- financial crisis situation and evolvement of the EMU reveal institutional limitations and early roots of failing forward. The implications are then applied to the major integrational steps and key reforms of the Eurozone financial crisis and the coronavirus crisis. Instead of comprehensive policy solutions and further supranationalisation, the EU seems to fail forward by correcting previous policy mistakes and adapting piecemeal solutions, which trigger further crises. One of the possible changes to manage responses and face future crises, could be the proper development of governmental structures in a supranational manner, by giving European institutions further competences. This presented thesis gives a comprehensive insight how a multinational complex institution (as the EMU) reacts to unstable situations, and further evaluates currently common scientific approaches dealing with several important aspects of crisis responses. It does not just help to understand these complex mechanism and structures but also gives an in-depth look of decisions and processes during a crisis. Furthermore, it explains key integration and reform steps in the financial and economic policy fields. Additionally, it could be a basis for future research, as the treated subjects are very topical and possible solutions, or a better understanding of crisis dynamics are relevant for the future of European unity.

Abstract (Deutsch)

Diese Analyse erklärt Krisendynamiken im europäischen Integrationsprozess mit besonderem Fokus auf die Akteure und die zugrunde liegenden Ursachen. Die Integration wird im Laufe der Zeit gestärkt, obwohl es den Institutionen der Europäischen Wirtschafts- und Währungsunion (EWW) an einer funktionierenden Struktur mangelt. Die Staats- und Regierungschefs, als auch supranationale Behörden reagieren auf Krisen mit unzureichenden politischen Lösungen und scheinen dadurch einer "failing forward" (vorwärts scheitern) Dynamik zu folgen. Durch eine Kombination der klassischen Integrationstheorien Liberaler Intergouvernementalismus und Neofunktionalismus werden wesentliche Schritte in der Entwicklung der EWW im Zeitverlauf erklärt. Diese kausale Prozessanalyse basiert auf drei verschiedenen Krisenmomenten, um die Zyklusdynamik von Krisen zu erläutern: Die Situation vor der Eurokrise und die historische Entwicklung der EWW zeigt institutionelle Grenzen und frühe Wurzeln der failing-forward-Momente auf. Die Dynamik wird dann auf die großen Integrationsschritte und Schlüsselreformen der Finanzkrise und der Coronavirus-Krise angewandt. Statt umfassender, supranationaler Lösungen scheint die EU politische Fehler „häppchenweise" zu korrigieren, wodurch es zu weiteren Krisen kommt. Die vorliegende Arbeit gibt einen umfassenden Einblick, wie eine multinationale, komplexe Institution (wie die EWW) auf instabile Situationen reagiert. Darüber hinaus evaluiert sie derzeit gängige wissenschaftliche Ansätze, die sich mit verschiedenen wichtigen Aspekten von Krisenreaktionen beschäftigen. Sie hilft nicht nur diese komplexen Mechanismen und Strukturen zu verstehen, sondern gibt auch einen detaillierten Einblick in die Entscheidungen und Prozesse während einer Krise. Zudem erläutert die Arbeit wichtige Integrations- und Reformschritte in den Politikfeldern der Finanz- und Wirtschaftspolitik. Darüber hinaus stellt sie eine Grundlage für zukünftige Untersuchungen dar, da die behandelten Themen sehr aktuell und mögliche Lösungen oder ein besseres Verständnis von Krisendynamiken relevant für die Zukunft der europäischen Einheit sind.