Leiden University

MSc International Relations and Diplomacy

Master's Thesis – Alexander L.M. van Rijn

Moving Towards A Greater European Economic and Political Union

A liberal intergovernmentalist and neofunctionalist analysis of EU crisis management and economic integration since "Maastricht"

First reader:
Prof. Dr. Madeleine Hosli
(Leiden University)

Second reader:
Dr. Frans-Paul van der Putten
(Netherlands Institute of International Relations Clingendael)

Leiden, 10 June 2015

Table of Contents

Abbreviations

BDI	Bundesverband der Deutschen Industrie
BRRD	Bank Recovery and Resolution Directive
Confindustra	Confederazione Generale dell'Industria Italia
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
DGSD	Deposit Guarantee Schemes Directive
EA	Euro Area / Eurozone
EBA	European Banking Authority
ECB	European Central Bank
ECJ	European Court of Justice
ECOFIN	Economic and Financial Affairs Council
ECSC	European Coal and Steel Community
EDP	Excessive Deficit Procedure
EFST	European Financial Stability Facility
EIP	Excessive Imbalances Procedure
EP	European Parliament
EMU	European Monetary Union
ERT	European Roundtable of Industrialists
ESM	European Stability Mechanism
EU	European Union
GLF	Greek Loan Facility
IMF	International Monetary Fund
LI	Liberal Intergovernmentalism
MIP	Macroeconomic Imbalances Procedure
MEDEF	Le Mouvement des entreprises de France
MTO	Medium-term budgetary objectives
NF	Neofunctionalism
OECD	Organization for Economic Co-operation and Development
OMT	Outright Monetary Transactions
SGP	Stability and Growth Pact
SMP	Single Markets Program
SRM	Single Resolution Mechanism
SSM	Single Supervisory Mechanism
TFEU	Treaty on the Functioning of the European Union
TSCG	Treaty on Stability, Co-ordination and Governance in the Economic and Monetary Union

1. Introduction

The process of European integration is one of the most studied political phenomena since the second half of the twentieth century. What started as the European Coal and Steel Community (ECSC) which involved only six nations, has steadily evolved into the supranational entity with twenty-eight member states, with more states desiring to become a part of the Union. The dream of those that had survived the horrors of the Second World War has become an institutional certainty, a common market with a common currency as well as common regulation across all member states. Consequently decision-making has also shifted to an extent from the member states to the European supranational institutions: the European Commission and European Parliament (EP). However, a closer look at European integration reveals that this process has been accelerated not so much by an overwhelming desire of the European people but as the result of times of crises. Indeed it was the initial tension resulting from the Cold War which drove the establishment of the ECSC and similarly the collapse of the 'Iron Curtain' which accelerated the introduction of Europe's common currency, with further integration to be expected (Niemann and Ioannou, 2015). From this perspective the prediction made by Jean Monnet, one of the European project's founding fathers, that Europe will be forged through crisis seems to fit. This sense of optimism is premature given that public opinion towards the European project has fallen considerably, even more so amongst Europe's younger generations since the onset of the financial crisis (Guiso et al, 2014), bringing into question future European economic integration, let alone a political union. Looking back over the past few decades few events have given rise to the debate and speculation as to the state of the EU and its future to the extent the Eurozone crisis has. In light of this, why and how the EU and Eurozone have not contracted but strengthened and integrated further merits closer investigation (Ioannou, Leblond and Niemann, 2015).

With more and more previously domestic competences being concentrated at the supranational level along with decision-making, it is prudent to view the European project through the lens of integration. Two of the most prevailing theories on European integration which will be employed for the analysis of this research are neofunctionalism and liberal intergovernmentalism. These rival theories were specifically chosen because of their academic prominence resulting from their respective ability to explain further integration, which is expanded on in the *Theoretical Framework* section. Also, in light of the strict boundaries of this thesis, additional theories cannot be included. This thesis will examine the following research question: *to what extent do liberal intergovernmentalism and neofunctionalism explain EU crisis management policies and the resulting move towards further European economic integration?* To answer this question, this thesis will analyse not only the economic but also the political and institutional factors of the crisis.

Economic integrative steps which resulted from EU crisis management can be divided into three distinct categories: the creation of ESM, and steps realizing the European fiscal and banking unions and will be elaborated on as part of the *Literature Review* section. Despite facing the worst economic crisis of the twenty-first century the majority of Eurozone member states still favour the common currency. Using the Maastricht Treaty as a starting point, this thesis shall first provide an overview of the EU's crisis management and resulting integrative steps, focusing specifically on the cases selected for this thesis. Namely, on the European Stability Mechanism and the steps taken towards realizing the European fiscal and banking unions. This is followed by the *Research Design* section discussing the thesis methodology and hypotheses which will be tested. Subsequently, section five, the liberal intergovernmentalist analysis will probe core concepts discussed in the *Theoretical Framework* section, namely national preferences, intergovernmental bargaining and finally, credible commitment and institutional choice and how these concepts contribute to explaining integrative steps taken as a result of EU crisis management. To this same end, the neofunctionalist analysis in section six will probe the functional, political and cultivated spillovers focusing on the roles governmental and non-governmental actors, in addition to supranational institutions, specifically the European Commission, European Parliament and European Central Bank and their contribution to the final policy outcomes of EU crisis management. This is followed by the conclusion and discussion of the empirical findings.

2. Literature Review - EU Crisis Management Policies

As noted above the financial crisis which started in the United States eventually developed into three crises which threatened the continuity of the European project, and more specifically the stability of the Euro. In their report, titled "*Towards a genuine Economic and Monetary Union*", the presidents of the European Commission, the Eurogroup, the ECB and the European Council presented a "*specific and time-bound roadmap*" which "*lays down the actions required to ensure* *[its] stability and integrity of the EMU*".[1] To this end, the report puts forward four integrative building blocks: an integrated financial framework[2], budgetary framework[3], economic policy framework[4] and lastly, increased democratic legitimacy and accountability[5]. In other words, a banking union, a fiscal union and a political union. In response to, and in order to resolve, the Eurozone crisis, both EU and EA member states successfully implemented various reforms in addition to creating a number of supranational institutional mechanisms. Although the majority of the proposed mechanisms had already been created before the release of the December 2012 *Four Presidents* report, one should view the proposed measures as being aimed at addressing the current as well as possible future crises.

2.1 The European Stability Mechanism, Only Part of the Solution

When confronted with the Greek exclusion from capital markets, fellow Eurozone states did not have a firewall to protect themselves from financial market bond speculation in May 2010. The immediate response by member states came in the form of the Greek Loan Facility (GLF), but, because this measure was created with haste, the GLF was soon replaced by a broader rescue mechanism, i.e. the European Financial Stability Facility (EFSF).[6] Yet, sovereign bond investors responded to the announcement of the EFSF with concern regarding its June 2013 expiration date, as it became clear that the EFSF's three-year time frame would not be sufficient to address the underlying problems in Europe's fiscal and banking framework. A sustainable and long-term financial assistance mechanism for Eurozone member states only came with the adoption of European Stability Mechanism (ESM) at the European Council meeting in December 2010. The intergovernmental agreement between the Eurozone's 18 member states, i.e. the Treaty Establishing the European Stability Mechanism, was signed on July 11th the following year. It came into force following German ratification on the 27th of September, 2012 and paid out its first loan to Spain before Christmas that same year.[7] In contrast to the deemed unsuitable EFSF which was based on Eurozone state guarantees, the ESM has a maximum potential lending

[1] Van Rompuy et al, 2012, 2
[2] Ibid, 5-8
[3] Ibid, 8-12
[4] Ibid, 13-16
[5] Ibid, 16-17
[6] Cody, 07 May 2010
[7] Hewitt, 29 June 2012; Minder, Kulish and Geitner, 09 June 2012

capacity of €700 billion. Moreover, as will be explained below, the creation of the ESM is an important component towards achieving European banking and fiscal unions.

2.2 Towards a European Fiscal Union

Although it had been widely recognised before the Eurozone crisis that the Stability and Growth Pact (SGP) was inadequate[8], the Greek crisis and financial pressures experienced by Euro Area states again confirmed its ineffectiveness and inability to stabilise European public debt levels and financing.[9] In order to resolve this, supranational fiscal co-operation and rules had to be strengthened. This was achieved by implementing: 1) the so-called 'Six-Pack', 2) the Treaty on Stability, Co-ordination and Governance in the Economic and Monetary Union (TSCG), and 3) the 'Two-Pack' legal mechanism. [10]

The Six-Pack process started in March 2010 and culminated with adoption of one directive and five regulations in October 2011 which entered into force by December that same year. The adopted directive and regulations were directly aimed at reinforcing the SGP's fiscal surveillance. A key component of the Six-Pack is the 'reverse' qualified majority voting in the case of financial sanction imposition on Eurozone member states unable to bring their fiscal deficit and/or debt in line with the Excessive Deficit Procedure (EDP). In other words, upon the recommendation of the European Commission, to the European Council, financial sanction are semi-automatic unless a qualified-majority of Eurozone states votes against such sanctions. By comparison, before the introduction of the Six-Pack, a majority was required in order to impose financial sanctions for non-compliance.[11] A second important component of the Six-Pack is that European debt and deficit levels have been included specifically in the EDP, which entails that Eurozone countries can be placed in an EDP if their public deficit level is over 3 per cent of gross domestic product (GDP) and/or they have public debt exceeding the maximum threshold of 60 per cent of GDP.[12] Lastly, the Six-Pack put forward a new supranational surveillance mechanism, the Macroeconomic Imbalances Procedure, in addition to an enforcement mechanism called the

[8] Heipertz and Verdun, 2010
[9] Cody, 07 May 2010
[10] Ioannou and Stracca, 2014; Spiegel, November 2014
[11] Leblond, 2006
[12] Feldstein, 2011, 11

Excessive Imbalances Procedure aimed at addressing macroeconomic disparities between Eurozone economies.[13]

The TSCG, also called the 'Fiscal Compact', constitutes the second step towards a greater European fiscal union. Building on the SGP/Six-Pack as well as the Two-Pack discussed below, the TSCG requires its signatories to implement a balanced budget rule into national, preferably constitutional, legislation. In addition, under the TSCG, member states may not incur public deficits exceeding 0.5 per cent of GDP and may face financial sanctions to be imposed by the European Court of Justice (ECJ) should EA member states fail to comply with this commitment following a ECJ budgetary review. Importantly, Eurozone countries can only receive ESM funding as signatories to the TSCG.[14]

The final step towards achieving a greater European fiscal union came in the form of the legal mechanism known as the Two-Pack which entered into force on May 30th, 2013. The two EU regulations of which the Two-Pack consists are aimed at enhancing the fiscal discipline of Euro Area countries, on the basis of Article 136 of the Treaty on the Functioning of the European Union (TFEU). The two core features of the Two-Pack are: 1) improved monitoring requirements for EA countries in an EDP in addition to 2) creating a common European budgetary timeline.[15] The latter feature entails a timeline during which the European Commission is required to both examine and provide an opinion on the draft budgetary plans of Eurozone countries before these are discussed in the respective national parliaments.[16]

In sum, the EU's fiscal policy measures discussed above show that how considerable steps have already been made to reach the objectives laid out in the *Four Presidents* report, particularly in terms of further enhancing member state fiscal discipline. Despite this, the EU is still quite a long way off from becoming a complete fiscal union which has a central budget.

2.3 Towards a European Banking Union

At the June 2012 European Council summit, European Heads of State agreed to move towards a European banking union, or in the words of the *Four Presidents* report, an 'integrated financial framework'. The five key features of financial framework are: 1) the Single Supervisory

[13] Arghyrou and Kontonikas, 2012; De Santis, 2012
[14] Feldstein, 2011, 10-11; Spiegel, November 2014
[15] Spiegel, November 2014
[16] Pisani-Ferry, 2014, 110, 135, 164

Mechanism (SSM), 2) a single framework for EU financial regulation, 3) increased ESM recapitalization flexibility, 4) an individual resolution mechanism, and lastly, 5) a single deposit guarantee framework.[17]

Firstly, the SSM was specifically intended to sever the sovereign-bank nexus plaguing the Eurozone.[18] The SSM, based on the TFEU's Article 127(6), entered into force in November 2014 and consequently, the ECB has gained micro prudential supervisory authority over all Eurozone banks, also allowing for non-Eurozone countries to join. Secondly, the single framework for EU financial regulation reflects the desire of Eurozone member states to enhance the supervision as well as regulation of the EU's banks, which operate transnationally. At its core, this feature in essence sought to incorporate the Basel III banking standards into the European Union's legal framework, which was achieved by the adoption of the Capital Requirements Regulation (CRR) next to the Capital Requirements Directive (CRD) which became effective as of July 17th, 2013. The CRD increased the ECB's authority both in terms of sanctions and supervision, as well as reform national corporate governance legislation and banking risk management standards. The CRR was aimed at harmonizing EU banking regulations, specifically those pertaining to banking capital requirements. Thirdly, the ECB with the SSM's adoption is now able to directly assist banks facing liquidity troubles as opposed to indirectly via national governments. However, in June 2013 the Eurogroup decided to limit the ECB's bank recapitalization fund to €60 billion. This decision was made in order to ensure that European taxpayer funds would only be called on as a measure of last resort. Fourthly, another pillar of European banking union which accompanied the SSM was the Single Resolution Mechanism (SRM). This mechanism, which came into force on January 1st, 2015, applies to all banks which fall under ECB supervision and is funded primarily by bank levies which will be accumulated over the coming eight-year period through respective domestic resolution funds.[19]

Lastly, the first step towards the banking union's deposit guarantee framework was agreed on June 12th, 2014 in the form of the Deposit Guarantee Schemes Directive (DGSD) and is aimed at harmonizing: 1) cross-border co-ordination, pan-European bank deposit insurance at €100.000, 3) depositor payment arrangements, and finally, 4) by harmonizing member state deposit guarantee schemes. However, the European banking union's weakest link remains the

---

[17] Alessi, 2012; Spiegel, November 2014; Ioannou and Stracca, 2014
[18] See *Theoretical Framework* section for a discussion of the 'sovereign-bank nexus'
[19] Pisani-Ferry, 2014; Spiegel, November 2014

deposit insurance given the fact that little advancement has been made towards adopting a single Eurozone deposit guarantee scheme.[20]

All in all, the Eurozone crisis has led to considerable steps in terms of further European economic integration, which is even more significant given the speed and scale with which integrative measures have been implemented. Even though the Treaty of Maastricht specifically stated that EU institutions, including the ECB, were not permitted to bailout its member states, today the EU has a framework and mechanism in place which authorises the complete opposite.

3. Theoretical Framework

In terms of European integration the Euro Area crisis has had a substantial impact. For many EU member states the crisis entailed a major economic downturn, in turn decreasing citizen support for further integration, and even led to mass protests against the EU's austerity measures. Some countries even questioned their participation in the euro area, putting at risk the survival of Europe's common currency. However the crisis simultaneously led to major leaps toward further fiscal and financial integration intended to stabilise the euro area. By setting up a banking union and permanent bailout mechanism for insolvent countries, the European Stability Mechanism, the EU has since the onset of the crisis considerably enhanced their economic and fiscal surveillance capabilities.

From the mid-1960s with the 'empty chair crisis' we have seen how crisis and further European integration are closely interlinked. The signing of the Treaty of Maastricht in 1992 was a milestone for European integration, which resulted in the establishment of the European Monetary Union as well as Single Market Programme. This integrative leap forward was accompanied by the academic revival of neofunctionalism[21] and liberal intergovernmentalism[22]. After decades of stagnation, the subsequent politicization of European integration has since then sparked the ascension of new theories, including the post-functionalist approach to European integration which focuses on public opinion and mass-level politics[23]. However, in light of the scope of this thesis, the theoretical framework shall include only the two major rival theories which explain European integration and its prominent assumptions.

[20] Bordo, Markiewicz and Jonung, 2011; Alessi, 2012; Rossi, 2013
[21] Stone and Sandholtz, 1997
[22] Moravcsik, 1993
[23] Hooghe and Marks, 2009

3.1 Liberal Intergovernmentalism: Explaining Integration

Liberal intergovernmentalism (LI) is one of the major theories used to explain European integration. Created by Andrew Moravcsik through the course of the 1990s by merging the liberal concept of state preferences and neoliberal concepts of institutions and international interdependence with earlier realist theory, liberal intergovernmentalism promptly became the most sophisticated revision of intergovernmentalism.[24] In sum, the author argues "*that a tripartite explanation of integration – economic interests, relative power, credible commitments – accounts for the form, substance, and timing of major steps toward European integration*"[25]. LI views European integration as being the result of rational choices made by domestic political elites reacting to international interdependence.[26] Integration is the result of three steps by which national leaders act on the incentives of international interdependence, namely the initial domestic formation of national preferences, the subsequent institutional bargaining which leads to substantive bargaining culminating with the establishment of institutions with the goal of securing these agreements. In short, LI contends that national preferences are formed in large part by the economic interests of influential domestic groups in a situation of international interdependence, substantive agreements reflect both the bargaining power and the range of national preferences, and the resulting international institutions reflect the size of the problems they are tasked to address.

Given that liberal intergovernmentalism is a theory of integration it does not offer specifics answers to explain the crisis directly. However, the Eurozone's response to the crisis can be properly explained as being the result of intergovernmental bargaining, based on both diverging and converging interests of the member states, intended to stabilise and strengthen the common currency. Similarly, national preferences were the result of both the fiscal position of member states and strong interdependence within the Eurozone; despite divergent interests in regard to the distribution of costs for preserving the euro, preserving the common currency was very much a common preference amongst EA states. Frank Schimmelfenning describes this mixed motive situation as being a *"chicken game [...] characterized by dynamics of hard bargaining and brinkmanship"*.[27] Although the negotiations succeeded in finding a co-operative

[24] Lelieveldt and Princen, 2011, 38; Moravcsik, 1993, 1998
[25] Moravcsik, 1998, 4
[26] Moravcsik, 1998, 18
[27] Lelieveldt and Princen, 2011, 46; Schimmelfenning, 2015, 178

solution avoiding a breakdown of the common currency, asymmetrical interdependence meant that the resulting burden-sharing and, perhaps more importantly, institutional design reflected much more the preferences of the larger European states, primarily that of Germany. However, by taking a more historical perspective one can see that the original decision and design for the monetary union laid out in the Treaty of Maastricht (1992) largely constrained the crisis bargaining by creating inadvertent spillovers and path dependencies. Thus the bargaining dynamics and outcomes were shaped by the converging preferences in favour of preserving the Eurozone and the endogenous interdependence which both resulted from these spillovers.

3.1.1 National Preferences

Liberal intergovernmentalist theory is based on a number of assumptions. It views governmental preferences towards European integration as being national and issue-specific. The direct result of a process of preference formation which is aimed at maximising a country's national welfare in relation to the issue-area in question, thus making these preferences exogenous to European integration. Additionally, according to LI states do not strive to achieve geopolitical power as is the case with realist intergovernmentalism.[28] More importantly, integration preferences are the result of either negative or positive interdependence. Political actors will only seek further collective policy integration if they believe the benefits outweigh those resulting from unilateral national policies. LI therefore expects that integrative steps taken to address the euro area crisis to be based on similar perceptions on interdependence, a shared desire to avoid losses and of course a comparable wish to reap the benefits from further integration.

The nature of domestic actor preferences and interests vary depending on the respective issue at hand, but on issues pertaining to economic and commercial policy it can unequivocally be stated that domestic economic interests shape such preferences. The more "*institutionally represented and organized"*[29] such interests are, the less uncertainty there exists regarding the cause-effect relations between individual state welfare and EU rules. On the contrary, national interests will be less predictable and ideological preferences more prevalent should there be a *"weaker and more diffuse […] domestic constituency"*[30] combined with uncertainty concerning

[28] Schimmelfenning, 2015, 178-179
[29] Moravcsik, 1998, 36
[30] Wallace et al, 1999, 171

the substantive implications of the policy choice in question.[31] According to Moravcsik macroeconomic policies, e.g. fiscal or monetary policy, often fail to provide straightforward substantive implications for interests groups compared to market-regulating rules. As such, I expect the macro-economic preferences of ruling governments to directly reflect their preferences towards integration.[32] Given that the Eurozone crisis originated as financial and banking sector crisis before escalating into a sovereign debt crisis, and since implemented reforms comprise also of supranational financial market regulations, it is crucial to take business interests into account for this thesis. As the crisis progressed, European state and financial market interests became increasingly intertwined, what Schimmelfenning calls the "*sovereign-bank nexus*".[33] Additionally, the immediate welfare implications of different policy alternatives, principally the austerity policies, provided considerable clarity and certainty. Taken altogether, liberal intergovernmentalism assumes that ideological preferences will succumb to material interests.

The Eurozone crisis exposed the negative fiscal and financial interdependence which resulted from the inadequate original design of the monetary union agreed to at 'Maastricht'. LI presumes that this negative interdependence creates a powerful incentive for member states to pursue further integration conditionally dependent on governmental confidence that such action would reduce national costs more so that either stagnation or disintegration. According to *The Economist*, this was very much the case at the time.[34] Should the highly indebted countries have abandoned the common currency at the time it would almost certainly led to government default, a financial and monetary system breakdown, resulting in hyperinflation and no access to global capital markets. Most importantly, many believed this scenario would have contagion effects on the more solvent northern Eurozone states. Although a Greek default on its own could have been handled by euro countries, there was a much greater fear of financial markets losing confidence and withdrawing capital from other larger indebted states, including Italy and Spain. A default of such a large economy would have meant a breakdown of the common currency, resulting in currency appreciation for the remaining countries which would have led to a fall in exports in addition to a long-term recession.

[31] Moravcsik and Nicolaidis, 1999, 61; Moravcsik, 1998, 468-9
[32] Moravcsik, 1998, 3
[33] Schimmelfenning, 2015, 180
[34] The Economist, 25 May 2013, 26-27

Yet despite a common preference to avoid non-integration costs, there is an equally prevalent conflict regarding the costs and terms of such integration. In order to address the crisis, adjustment costs could either be nationalised by means of fiscal austerity policies, in which case indebted member states would be forced to service their creditors themselves without external assistance; or mutualised through for example, fiscal equalization schemes or introducing Eurobonds, which would entail solvent Eurozone states paying for the failure of debt-ridden member states in addition to their banking systems. These factors have led to the formulation of the first two LI hypotheses in the *Research Design* section of this thesis.

3.1.2 Intergovernmental Bargaining or the 'Chicken Game'

Governments entering into European integration negotiations start such a process with their own set of preferences. Whether negotiating treaty revisions or new treaties, a unanimous agreement combined with domestic ratification is required by every single participating state. As such integration is required to be "*pareto-efficient*"[35] in that each state should expect that the outcome leads to increased welfare. Depending on the issue, Pareto-efficient outcomes can vary in terms of the dispersal of costs and benefits between the participating states. Despite states always seeking to maximise their respective gains, negotiation outcomes will reflect the constellation of bargaining power. Intergovernmental negotiations on integration are no different. Such hard bargaining negotiations often include the withholding of side-payments, credible veto proposals as well as the formation of alternative alliances for the purpose of "*excluding recalcitrant governments*".[36] Different bargaining power is the result of asymmetrical interdependence, member states which are less exposed to interdependence also have less to gain from further integration. As a result they have a much stronger bargaining position allowing such states to negotiate a more favourable outcome.

The hard intergovernmental bargaining hypothesis, similar to national preferences, is most likely to be accurate in high stake cases with clear cost and benefit distribution. To clarify, LI differs from other theories on European integration in two distinct way: first, it does not attribute an important role to supranational institutions in reaching substantive negotiation outcomes which may result in further integration and secondly, nor does is consider normative

[35] Schimmelfenning, 2015, 184
[36] Moravcsik, 1998, 4

constraints to play an important role on bargaining.[37] In the case of the Eurozone crisis, the mixed-motive preferences reflect a 'chicken game' situation, which has numerous characteristic features. In the first place, actors have a shared preference to avoid the costly worst case scenario, in this case the failure of the common currency, whilst also averting the prospect of backing down first. Put differently, despite non-cooperation being the least preferred outcome, actors are rewarded with the highest payoff for non-cooperation when other actors have made the first move. Although all euro area governments saw the failure of Europe's flagship project as the worst case scenario, indebted countries would benefit more from waiting to be bailed out avoiding austerity measures being imposed on their economies. Conversely, solvent countries would most benefit by shifting adjustment costs to these indebted countries. Secondly, 'brinkmanship' in bargaining behaviour is also prevalent in chicken games. As actors move ever closer to brink they send signals of resolve to one another, making cooperative moves at last possible moment to avoid catastrophe. Only when the other actors act rationally does hard bargaining pay off. In such a scenario it is beneficial to give the impression of either incapacity or irrationality, given that both actors rely on their opponents' rational cooperation. An actor can force its opponent to back down if it convinces its opponent of its own incapacity to resolve the situation. During the Eurozone crisis, solvent member states had the incentive to bring forward different political, legal and financial constraints in turn forcing indebted countries into making budgetary cuts up to the point sovereign default became unavoidable. At the same time, indebted member states were incentivised into stalling costly adjustment measures thereby demonstrating an incapacity to address financial market pressures up until the moment solvent member states realised that anything short of a bailout would not suffice.

Unless an actor is superior at signifying either incapacity or irrationality it is hard to foresee which side will back down in the case of a symmetrical chicken game.[38] However, in the case of the euro area crisis interdependence was asymmetrical. Although all Eurozone countries were at risk, the immediate consequences of not reaching an agreement were drastically more severe for indebted member states which either faced unsustainably high bond rates and even bankruptcy in the position of Greece. This contrasts with Germany, Europe's largest economy, which enjoyed substantial confidence of financial markets and would later play an essential role

[37] Moravcsik, 1998, 54-8
[38] Lelieveldt and Princen, 2011, 232

in preserving the common currency in addition to any future rescue schemes. As such, solvent countries were in a relatively stronger position to see their integration preferences realised. Unfortunately, the situation could not be resolved solely by means of unilateral adjustment measures by indebted member states. Moreover, as an exit from the euro could not happen without damaging the rest of the Eurozone, solvent nations realised that a rescue plan would still be needed to prevent economic disaster. The combination of Germany's financial contribution being indispensable and the fact that it could not viably drop the euro as its currency meant that the German government had little choice other than to fully commit financially to the rescue efforts. Taken together, these factors have led to the formulation of the third and fourth LI hypotheses in the *Research Design* section of this thesis.

3.1.3 Credible Commitment and Choice

In addition to negotiating substantive integration terms, governments also negotiate on institutional design. As with functionalist and neoliberal theories, nation states create international institutions in order to monitor as well as sanction state compliance in addition to securing substantive negotiation outcomes. The extent of ceding competences to such supranational organizations depends on how much value a state places on the respective substantive outcomes and issues combined with uncertainty of future actions of other governments. [39] Both a states' willingness to centralise decision-making and to delegate sanctioning and monitoring authorities to supranational organizations depends on the issue area. For example, enforcement problems create incentives for states to defect unilaterally whereas coordination problems do not. As institutional preferences vary as much preferences of integration it is clear intergovernmental bargaining also impacts institutional choice. States with superior bargaining power tend to see their institutional preferences reflected in the final institutional design.

Because of the liberal intergovernmentalist emphasis on the functional demands of credible commitment, its assumptions concerning institutional choice again diverge from those of various other theories. LI rejects constructivist assumptions as it does not see democratic norms, federalist ideology nor any other standards of legitimacy and factors which shape institutional choice. In addition, LI also disputes supranationalism which advocates technocratic governance,

[39] Moravcsik, 1998, 486-7

which is based on the necessity to centralise information and expertise.[40] Lastly, the realist assumption that states are primarily motivated by maximizing its power[41] is also not shared by LI, but rather that supranational solutions

The Eurozone crisis exposed numerous enforcement problems which existed in the design of the Economic and Monetary Union agreed at “Maastricht”. Firstly, the Stability and Growth Pact, intended to ensure fiscal discipline of member states, had already been proved ineffective before the onset of the crisis. Secondly, the Eurozone crisis showed how countries even with the absence of excessive budget deficits, notably Spain and Ireland, were unable to handle exogenous market shocks, consequently coming into balance of payment difficulties. Thus, the enforcement problem here was how to ensure member state commitment to a collective rescue plan. Lastly, the financial market integration component of the EMU was based on the mutual recognition regarding national banking regulations. The Eurozone crisis showed the inadequacies of relying solely on national banking resolution and supervision. The frequently comfortable relations between politicians and bankers in member states, regulatory arbitrage, the sovereign-bank nexus and liability- and burden-shifting between national regulators when multinational banks were concerned altogether constitute regulatory failure.[42]

Given how institutional choice during the crisis principally faced enforcement problems, it is only logical that calls for stricter surveillance and supranational delegation soon followed. But, since interdependence between Eurozone countries was asymmetric it is to be expected that solvent countries will use their superior bargaining power to ensure greater surveillance and supranational delegation in terms of fiscal discipline. On the other hand, financial transfers and assistance which would commit solvent countries financially should according to LI stay under intergovernmental control. These considerations have led to formulation of LI hypotheses five and six in the *Research Design* section of this thesis.

3.2 Neofunctionalism and Spillovers: Explaining Integration

Neofunctionalism is a theory of European integration encapsulated and summarised by the following five assumptions. Firstly, European integration is explained as a process, a process which over time evolves to adopt its own dynamic. Secondly, according to neofunctionalist

[40] Moravcsik, 1998, 71
[41] Grieco, 1996
[42] Lelieveldt and Princen, 2011, 280-281; Schimmelfenning, 2015, 189

theory, regional integration is marked by numerous, diverse and shifting actors that build translational alliances.[43] Thirdly, decisions are made by rational and self-interested actors that have the capacity to both learn from and alter their preferences based on their past cooperative decision-making experiences.[44] Fourthly, incremental decision-making receives primacy over grand designs in cases where marginal adjustments are directed by unintentional consequences resulting from previous decisions, as neofunctionalism assumes that political actors are unable to conduct long-term purposive behaviour due the fact that decisions on European integration are usually made relying on imperfect knowledge regarding the consequences in addition to being made under pressure.[45] Fifth and lastly, neofunctionalism views the community setting exchanges not as supranational style decision-making but rather positive-sum games in which the actors seek to achieve compromises which upgrade common, not individual, interests and in which actors avoid unconditionally vetoing proposals.[46]

Neofunctionalism's conception of change is concisely captured through the concept of *spillover*. In general, the three main types of spillover, which will all be employed by this thesis, are 1) functional, 2) political, and lastly 3) cultivated.[47]

3.2.1 Functional Spillover

Functional spillover pressures occur when only further integrative steps can ensure the achievement of an original objective.[48] The source of functional spillover development is the interdependence of issue areas as well as policy sectors. Issues and sectors are likely to be interdependent in contemporary economies and political arenas to the extent that it becomes challenging to isolate them.[49] Internal interdependencies are inherent to functional pressures within or related to the European project, which prompt further integrative steps by policy-makers to enable the achievement of an original objective. Due to these intrinsic task linkages,[50] political actors cannot adequately address issue A without addressing issue B and possibly issue

[43] Wiener and Diez, 2009, 48
[44] Haas, 1958, 291; Wiener and Diez, 2009, 48
[45] Haas, 1970, 627
[46] Wiener and Diez, 2009, 49
[47] Tranholm-Mikkelsen, 1991, 1-5; see also Niemann, 2006; Lelieveldt and Princen, 2011
[48] Lindberg, 1963, 11
[49] Wiener and Diez, 2009, 49-50
[50] Nye, 1970, 804

C.[51] A good example which exemplifies the reasoning behind functional spillover dynamic is the construction of the European Single Market, which would ensure free movement of labour, capital next to goods and services. In order for European member states to establish an internal market they needed to harmonise regulations and standards amongst them. Moreover, the new single market would also mean the removal of border checks which would require harmonization of immigration and policing policies. Furthermore, given that the European single market would lead to increase in transnational commerce, domestic economies would become vulnerable to the pressures associated with increase currency fluctuations. In order to address these financial risks as well as the costs of growing trade, the European Monetary Union was a functional and logical requirement to protect member state economies as well as strengthen the single market.[52]

During the ensuing academic debate the possibility that the potency of functional spillover logics are not dependent on the extent of policy area interdependence. Rather two specific aspects determine the degree to which functional pressures have an impact on actors. Firstly, if functional dissonances are not resolved through additional integrative steps, this could lead to either shocks or crises which subsequently amplify function pressures which in turn shall likely spur required integrative steps. Secondly, an actor's behaviour cannot predictably be determined by existing functional structures. Actors must consider the functional logic either compelling or plausible in order for the logic to develop.[53] Put differently, how actors perceive functional logic determines its strength. An indicator for this may be the development and persuasiveness of functional logic within the political discourse of decision-makers. If functional spillover rationales are present in the discourse of decision-makers, they are likely to be expressed by means of political decisions.[54] Using such modifications of the functional spillover concept should allow for improved understanding of the impact functional pressures have on the EU policy process. Taken together, these factors have led to the formulation of the first NF hypothesis in the *Research Design* section of this thesis.

[51] Lindberg and Scheingold, 1970; Wiener and Diez, 2009, 49
[52] Lelieveldt and Princen, 2011, 12-13, 188-191
[53] Niemann, 2006, 30-31
[54] Lelieveldt and Princen, 2011, 145; Wiener and Diez, 2009, 42

3.2.2 Political Spillover

While functional spillover places its emphasis on European integration's more technical characteristics, political spillover entails the process by which actors, i.e. governmental elites, political parties or interest groups, conclude that a problem cannot be properly addressed at the national level. This should accompany a steady "*learning process*" which leads to national elites shifting their political activities, expectations and allegiance in the direction of a new European centre.[55] In other words, the political spillover process is fundamentally one of "*adaptive behavior*" the result of sectoral integration.[56] As a result, domestic elites are expected to promote further integrative steps contributing political incentives to the supranational integration process. Specifically, neo-functionalist political spillover stresses the importance of the role of individual national leaders.[57]

However, Haas (1958) was focused mainly on non-governmental elites and their exertion of pressure, in particular trade unions and associations,[58] yet neofunctionalist academics later changed this focus to include a wider range of interest groups.[59] These organizations are believed to expose existing functional interdependencies which exist between policy area operating mainly on the supranational level. Two prominent examples of European interest groups are the European Roundtable of Industrialists (ERT) and BusinessEurope.[60] Both these interest groups advocated in favour of the Single Market during the 1980s and subsequently, its expansion into Central and Eastern Europe following the fall of the Berlin Wall, citing the economic benefits of an expanded and more integrated single market. As such, the supranational interests and expectations of such interest groups do not also always align with the interests of domestic actors.[61]

In addition to the learning process discussed above, Niemann and Schmitter (2009) amongst other academics, highlight the importance of "*socialization processes*", i.e. as the interactions between EU institutions and national officials becomes more intensified, this leads to fostering of consensus amongst the various national agents.[62] Haas (1958) suggests that this

[55] Tranholm-Mikkelsen, 1991, 4-6
[56] Burley and Mattli, 1993, 55
[57] Tranholm-Mikkelsen, 1991, 4-6
[58] Haas, 1958, 312-313;
[59] Wiener and Diez, 2009, 49, 54
[60] Cowles, 1995; Dür, 2008
[61] Cowles, 1995; Haas, 1958, 15
[62] Niemann and Schmitter, 2009, 49-50

desire for consensus points to the supranational problem-solving mentality of national agents which consequently entails that rather than vetoing against undesirable proposals, national agents prefer to find a compromise thereby satisfying common interests.[63] In sum, neofunctionalist political spillover assumes that both political elites and non-governmental actors favour further integration should they perceive such supranational integrative steps and policies as beneficial in terms of serving national interests. These factors have led to the formulation of the second NF hypothesis in the *Research Design* section of this thesis.

3.2.3 Cultivated Spillover

The cultivated spillover pertains mainly to the role of supranational institutions, which are focused predominantly on augmenting their own authorities and influence, and their desire to become agents of further integration given the fact that these institutions would most likely benefit from such developments. However, once these supranational institutions are created they often proceed to adopt a mission of their own resulting in the actors that established these institutions losing control over them. Such institutions may indeed foster further integration by for instance adopting the role of policy entrepreneurs or a position of authority within the European project's political system thereby increasing their capacity of influence the relational dynamics between the myriad of different types of actors.[64]

A means by which EU institutions promote collective interest is through "*package deals*", which according to Lelieveldt and Princen (2011) entails the binding of different policy issues into a single legislative item during intergovernmental negotiations.[65] By putting forward package deals, EU institutions emphasise the need for member states to support one another in different policy areas, making individual concessions yet often securing supranational interests.[66] The cultivated spillover logic assumes actors act rationally during such intergovernmental negotiations. According to Tranholm-Mikkelson (1991), supranational institutions, serve national interests and bargaining positions through such package deals allowing intergovernmental negotiations to exceed the lowest "*common denominator*" and to serve the greater collective

[63] Haas, 1958, 312-315
[64] Tranholm-Mikkelsen, 1991, 6; Wiener and Diez, 2009, 50; Nye, 1970, 809
[65] Lelieveldt and Princen, 2011, 35
[66] Lindberg and Scheingold, 1970, 117

interest, often consequently expanding supranational mandates and authority.[67] These considerations have led to the formulation of the third NF hypothesis in the *Research Design* section of this thesis.

4. Research Design

The dependent variable in this thesis is the extent of European (economic) integration resulting from EU crisis management policies, specifically those taken in the period 2010 to 2012, concerning the following cases: the European Stability Mechanism, as well as integrative steps regarding the fiscal and banking unions. The independent variables are the core liberal intergovernmentalist and neofunctionalist concepts, succinctly encompassed in the nine hypotheses laid out below. The aim of this thesis is to find causal relations between the independent and dependent variables by means of process-tracing analysis of EU crisis management policies discussed in the *Literature Review* section.

4.1 Research Questions and Hypotheses

As stated in the introduction, this thesis seeks to answer the following central research question: *to what extent do liberal intergovernmentalism and neofunctionalism explain EU crisis management policies and the resulting move towards further European economic integration?* On the basis of the integrative steps and considerations brought up in the *Literature Review* and *Theoretical Framework* sections, the following six liberal intergovernmentalist hypotheses have been formulated for this thesis:

> H1: EU member states prefer increased European integration over maintaining the status quo or disintegration if such action prevents welfare losses in the case of negative international interdependence.
>
> H2: The national preferences of EU member states are shaped by their own fiscal position:
>
> > i) Indebted member states will favour a mutualised adjustment;
> >
> > ii) Solvent member states will favour a solution based on national adjustment.
>
> H3: Intergovernmental bargaining during EU crisis negotiations involved both brinkmanship and hard bargaining.

[67] Tranholm-Mikkelsen, 1991, 5-6

H4: Solvent member states will ultimately financially rescue indebted member states, but on the condition that they shape the terms of such a rescue package.

H5: The resulting reformed or newly created institutions increase member state commitment credibility to euro area stability.

H6: Supervision of EU institutions is less intergovernmental than EU institutions which provide financial assistance.

In light of the integrative steps and considerations highlighted in the *Literature Review* and *Theoretical Framework* sections, the following neofunctionalist hypotheses have been formulated which shall be examined by this thesis:

H7: The functional spillover will influence intergovernmental bargaining during EU crisis negotiations given:

i) original goal salience;

ii) existing functional interdependencies created by the original EMU framework;

iii) absence of plausible policy alternatives.

H8: The political spillover logic assumes non-governmental actors will favour further economic integration to resolve the Eurozone crisis.

H9: The cultivated spillover logic assumes that EU institutions will favour addressing existing EMU shortcomings.

Section five will analyse the degree to which LI can account for EU crisis management measures which resulted in further economic integration, particularly of Euro Area member states, during the course of the Eurozone crisis. In turn, section six of this thesis, the neofunctionalist analysis, will analyse the degree to which NF spillover concepts explain why EU crisis management resulted in further economic integrative steps.

4.2 Process-Tracing and Case Studies

In order to test the hypotheses derived from the respective theories explaining European integration, this thesis will employ process-tracing in order to identify causal chains and mechanisms between the outcome of thesis's dependent variable and the independent variables.[68] Moreover, this method allows this thesis to take into account *equifinality*, i.e. numerous causes, allowing for analysis of alternative explanations which lead to the same result, further economic

[68] George and Bennett, 2005, 181-182

integration.[69] The liberal intergovernmentalist analysis of the Eurozone crisis shall utilise core concepts elaborated on in the *Theoretical Framework* section, namely national preferences, intergovernmental bargaining in addition to institution-building. Although the LI analysis will focus on the negotiations and integrative steps taken to resolve the crisis it will not do so in chronological order but shall instead focus on the height of the Eurozone crisis and introduction of the European Stability Mechanism, amongst other major integrative steps, between 2010 and 2012 during the apex of the crisis. This process-tracing analysis will rely predominantly on official documents pertaining to integration outcomes and newspaper articles, as well as scholarly literature on the topic. The findings will be contrasted with the other theories employed in this thesis in order to evaluate which offers the best explanation for European integration during the Eurozone crisis.

The neofunctionalist analysis of the Eurozone crisis shall utilise core concepts elaborated on in the *Theoretical Framework* section: functional, political and cultivated spillovers and how these contribute to explaining integrative steps undertaken during the crisis. Functional spillover analysis shall focus on European Heads of State and their role as governmental elites. Given the scope of this thesis, the analysis of political spillovers will focus on non-governmental elites, specifically the role of interest groups, notably the European Roundtable of Industrialists and BusinessEurope, and that of financial markets during the Eurozone crisis. The cultivated spillover analysis will focus on the most significant supranational institutions in the context of the Eurozone crisis: i) the European Commission, ii) the European Parliament, and the iii) European Central Bank.

5. Liberal Intergovernmentalism and Crisis Management

As outlined in hypotheses one and two, liberal intergovernmentalism expects the Eurozone crisis to lead to mixed state motives. On the one hand a strong common interest to avoid financial catastrophe and preserve the euro based on interdependence and diverging preferences regarding the distribution of adjustment costs based on the member states' fiscal situation.

[69] George and Bennett, 2005, 204-207

5.1 National Preferences

From the onset of the crisis Eurozone member states have been committed saving and reinforcing the common currency, a commitment strengthened by both the existing negative interdependence as well as prohibitive costs. Both solvent and indebted countries indicated from the start that giving up the euro was not an option. Both Greek Prime Minister Papandreou[70] and German Chancellor Merkel vowed to "*stabilize the euro*"[71] and that "*Greece will be the first and the last case of its kind*"[72]. Both Chancellor Merkel and Finance Minister Schäuble openly defended the rescue plan for Greece, the latter emphasising that "*[w]e must defend the stability of the common European currency*"[73]. Minister Schäuble concluded that the costs of a Greek default outweigh that of any rescue plan, comparing the case with the Lehman Brothers bankruptcy which accelerated the 2008 financial crisis.[74] To this end, both politicians declared the Greek rescue to be "*alternativlos*," meaning the absence of alternative solutions.[75] Likewise, French President Sarkozy argued that if "*we created the euro, we cannot let a* [Eurozone] *country fall*," reaffirming French support for both the common currency and the Greek bailout.[76] By 2012, EU Heads of State, notably Chancellor Merkel,[77] Italian Prime Minister Monti and newly elected French President Hollande continued to (publicly) stress their commitment to preserving and consolidating the euro area.[78]

Although there was little dissenting opinion on defending the euro, a series on the crisis by Peter Spiegel of the Financial Times revealed how Greek EA membership was not always as unwavering.[79] Reportedly, Minister Schäuble, at the peak of the Eurozone crisis, lead the "*infected leg camp*" of various advisors and policy-makers which saw a Greek exit from the euro as essential to both save and strengthen the common currency. This starkly contrasts with the "*domino camp*" which feared the effects of "Grexit," specifically the uncertainty for the markets but also the contagion for other Eurozone states which could have led to further undoing of the common currency. Although Chancellor Merkel decided to prevent the risky Grexit, the debate

[70] Hopkins, 15 February 2010
[71] Volkery, 26 March 2010
[72] Traynor, 2010b
[73] Cody, 07 May 2010
[74] Franfurter Allgemeine, 24 March 2010
[75] The Economist, 03 February 2011
[76] Spiegel, November 2014
[77] Eddy, 24 August 2012
[78] Spiegel Online, 22 June 2012
[79] Spiegel, November 2014

on such a core policy highlighted how Germany's preferences were by no means unitary or internalised. Rather, they were the result of the high uncertainty and negative interdependence calculations.

Although Eurozone states ultimately agreed on preserving and strengthening the euro area, there were conflicting preferences on the means by which to accomplish this target. Supported by Finland, Austria and the Netherlands, Germany sought to decrease their financial assistance and liabilities. That which made these countries independent from external assistance was their high credit ratings and solvency. When Germany reluctantly committed itself to the Greek bailout in early 2010, it received support from the Finnish, Austrian and Dutch governments.[80] At the time, the German government had rejected capital raising by the Commission and Eurobonds, preferred International Monetary Fund (IMF) assistance and strengthening the SGP by introducing automatic sanctions including voting rights withdrawal, and a procedure for sovereign default as well as excluding countries that breach the rules.[81] By 2012, Germany continued this stance by opposing further expansion of the EFSF, the creation of a supranational European bank fund in addition to direct bank recapitalization.[82]

During this time, the preferences of Germany and France could not have been more divergent. From the start of the crisis, France took a position in favour of actively addressing the Greek debt crisis along with seeking to rein in the financial markets. Moreover, with the support of Portugal, Italy, Greece, Spain and Belgium, France opposed automatic sanctions for indebted member states and called for soft adjustment policies as well as the "*Europeanization*" of sovereign debt.[83] What characterised these member states was their shared fiscal and economic position: less prosperous, higher debt, and facing considerable financial market pressures. Thus it was in the self-interest of these states to push for added liquidity with little to no conditions attached. To achieve this, France and its southern Eurozone coalition pushed for direct recapitalization of European banks, bank licenses for both the ESM and EFSF, expansion of these European rescue funds, authorizing the ECB to purchase bonds, and for the Commission to raise

[80] Zeit Online, 22 March 2010
[81] Frankfurter Allgemeine, 21 March 2010
[82] Hewitt, 29 June 2012
[83] Schild, 2013

capital by introducing Eurobonds – whilst at the same time rigidly opposing automatic sanctions and strict austerity measures.[84]

Overall, state preferences during the euro area crisis can be adequately explained by liberal intergovernmentalism. All Eurozone countries pushed for deeper economic integration to resolve the present and potential negative interdependence brought on by the crisis. However, the terms of integration differed considerably depending on the member states' fiscal position, although France only partially fits this pattern.[85] Amongst the 'southern coalition' France was the most economically and fiscally stable state, having a triple-A credit rating and bond yields slightly higher than that of Germany, at the beginning of the crisis. However, by early 2010 French bond yields fell due to the contagion effects resulting from the Greek crisis which put increased pressure on its relatively overexposed financial system.[86] French preferences could therefore be the result of emerging and anticipated economic vulnerability. Explaining the stark differences in French and German preferences requires, in addition to analysing material conditions, taking into account the conflicting economic philosophies of both France (Keynesian) and Germany (Ordoliberalism).[87]

In spite of changing issues and government constellations, intergovernmental preference groups remained consistent during the course of the crisis. Although the French presidency changed from Sarkozy to Hollande in May 2012, French crisis policy remained largely consistent despite Hollande being critical of the Fiscal Compact and strongly favouring the introduction of Eurobonds.[88] Furthermore, all issues since the start of the crisis: from the initial bailouts and rescue funds, budgetary and monitoring reforms, to the advancement of the European banking union, all were shaped by the existing Eurozone coalitions. On one side, indebted states favouring less financial regulation and stronger pan-European commitments, in contrast to solvent countries preferring restricted financial commitments alongside stricter supranational financial and fiscal supervision thus confirming the first two LI hypotheses.

[84] Schild, 2013
[85] Schimmelfenning, 2015, 183
[86] De Santis, 2012
[87] Hall, 2012, 367; Olender, 2012; Schild, 2013
[88] Schild, 2013

5.2 Intergovernmental Bargaining

A closer look at the euro area crisis reveals an abundance of evidence for hard bargaining and brinkmanship behaviour by Eurozone member states. Highly indebted member states followed a pattern of emphasising impending disaster and stressing their institutional incapacity thereby attempting to force solvent creditor states into bailing them out. Additionally, these states initially delayed or blocked attempts of solvent states to impose strict conditions upon rescue packages, seeking to limit or avoid negative reactions from their respective domestic constituencies. This contrasts with solvent member states, for example Germany, which initially sought to delay or reject making financial commitments referring to domestic political obstacles, specifically public opinion and the *Deutsche Bundesbank*[89]. However, facing the imminent Greek default and conceivably the common currency, Germany and other solvent states agreed to keep indebted states afloat. Spiegel's euro area crisis assessment, based on interviews with various decision-makers between late 2011 and 2012, bears similarity to the chicken game metaphor discussed earlier. Interviewees, ranging from "*mid-level bureaucrats to prime ministers*," provide an unsettling narrative of near misses and "*foolhardy brinkmanship*," despite prevailing in the end at saving the euro.[90]

By mid-March 2010 negotiations of the first Greek bailout had reached its boiling point. Germany refused to make concrete commitments, advocating unilateral austerity measures besides threatening to exclude other indebted countries from future bailouts, albeit as a *"ultima ratio*". However, within a week Germany changed its position and redefined its 'last resort' as the granting of credit to indebted member states which no longer have access to the capital markets, yet when Greece asked for capital assistance in April 2010 the German government again delayed taking action.[91] It was only when the financial markets began speculating against other weakened states with downgraded credit ratings, fearing a chain reaction, that all Eurozone states agreed on the €110 billion bailout as well as the creation of the EFSF. Although unconfirmed, President Sarkozy supposedly threatened to leave the negotiations and even to abandon the common currency, according to Spanish sourced at the negotiations, should Chancellor Merkel disagree with the proposals.[92] Merkel's alleged retort was, in addition to also

[89] German Central Bank
[90] Spiegel, November 2014
[91] Traynor, 2010a
[92] Traynor, 2010c; Traynor, 2010d

suggesting a German euro-exit, to demand stripping the voting rights of Eurozone countries unable to meet their commitments. Although Merkel's spokesman dismissed these claims the next day as being "*not plausible*,"[93] and even though the threats possibly made by both parties ultimately proved inconsequential, the negotiations as a whole were characterised by hard bargaining methods.

As to the brinkmanship of other indebted countries, governments were hesitant to request capital assistance from the ESM or the EFSF with the goal of avoiding both damage to their reputation as well as the strict conditionality which accompanied such loans. Before Spain accepted a bailout and restrict foreign control over its banking sector, it was reluctant to act for weeks before succumbing to the increasing financial pressure.[94] Similarly, when the Irish government intended to reach out to the EFSF in November 2011 Irish Prime Minister Cohen actively blocked its efforts.[95] The negotiations between the EU and Cypriot government in 2013 endured for months. With the first agreement rejected, the second was only accepted by the Cypriot government after the ECB threatened to cut off financial support entirely, despite Prime Minister Anastasiades threatening resignation and to also drop the euro.[96]

However, in October 2011 the worst case of brinkmanship happened as Greek Prime Minister Papandreou announced that the bailout plan would be voted on through a national referendum. Papandreou did this in hopes of forcing both dissenting ranks within his own party as well as opposition leader Samaras into supporting the plan, thereby consolidating his government's position.[97] Unfortunately, the market response to this announcement was to send Greek and Italian bond yields rising steeply pushing the euro area closer to collapse. In response, Merkel and Sarkozy, at the G20 summit in Cannes, gave Papandreou the ultimatum to either stay in the euro and receive continued financial assistance, or to allow his referendum.[98] Soon a national unity government replaced that of Papandreou, supporting the bailout package and cancelling the referendum. The G20 meeting did, however, fail to find a solution to the escalating crisis as Italy continued to reject attempts to place it on an IMF programme. Citing Bundesbank

[93] Traynor, 2010e
[94] Minder, Kulish and Geitner, 09 June 2012
[95]McDonald, Moya and Elliot, 15 November 2010; Wearden, 18 November 2010
[96] The Economist, 25 May 2013
[97] Spiegel, 2014
[98] Kyriakidou and Neogy, 03 November 2011

opposition, Merkel in turn rejected EFSF replenishment with newly available IMF 'special drawing rights'[99].[100]

The latest major chapter of the euro area crisis took place during the first half of 2012 when Chancellor Merkel changed her once uncompromising opposition towards an expanded ECB role as a "*lender of last resort*". At the Los Cabos G20 summit in June Merkel still rejected Italian Prime Minister Monti's plan which would authorise ECB bond-purchasing, albeit only for rule-abiding Eurozone states suffering from financial market speculation.[101] During the European Council meeting which followed the same month, Spanish Prime Minister Rajoy and Monti cautioned their fellow European Heads of State that they would not last much longer with the current interest rates.[102] In the face of the developing 'Bankia' crisis and Spanish and Italian bond yields continually rising, Germany came to see its initial vision for the euro area - no bailouts and rescue funds, shared debt, and for some politicians, also no Greece - as unattainable. However, although Germany ended up supporting the ECB's Outright Monetary Transactions (OMT) bailout programme, it shaped the final outcome ensuring that shared burdens fall under centralised control.[103]

As was expected of European crisis decision-making, solvent member states, notably Germany, in return for dropping opposition to bailout programs for indebted states were able to prescribe the terms of integration. Solvent states prevented Eurobonds and other mutualised sovereign debt from being introduced, ensuring that debt remained national and that any financial assistance would be provided through a system of credit including IMF involvement. As a result solvent states were able to successfully reject attempts by indebted member states to grant bank licenses for the ESM and EFSF. Furthermore, Germany successfully pushed for strict austerity conditionality be attached to financial assistance which strengthened national budget monitoring and sanctioning capabilities of the EU,[104] plus the implementation of the Fiscal Compact which contained a 'balanced budget rule' which if possible would be enshrined in the constitutions of Eurozone states. Yet, not all German proposals found support, most notably automatic sanctions and voting right suspension in the case of excessive budgetary deficits. However, the threat of

---

[99] See IMF Special Drawing Rights: http://tiny.cc/na3syx
[100] Spiegel, November 2014
[101] Spiegel, November 2014
[102] Kollewe and Fletcher, 28 June 2012
[103] Spiegel, November 2014
[104] Corporate Europe Observatory, 2012a, 2012b

revoking voting rights was, according to an undisclosed observer, intended to serve as Germany's bargaining chip in order to achieve its more realistic targets discussed above.[105]

All in all, there is ample evidence which supports the third and fourth LI hypotheses pertaining to brinkmanship, hard bargaining and the dictation of rescue package terms by solvent euro area countries, most notably Germany. Firstly, hard bargaining during the crisis negotiations included leaving the common currency, voting rights suspension, and even threats to let indebted countries default on their obligations. Next, brinkmanship is apparent by both indebted countries, which sought to avoid strict loan conditionality, and solvent states, Germany and its allies, which continuously delayed and avoided committing to rescue packages for insolvent southern countries. The final outcome in terms of integration most closely reflects the preferences of the Eurozone member state with the greatest bargaining power, Germany. In return for German commitment to rescuing indebted states, other Eurozone states agreed to do so in accordance with German preferences. Secondly, intergovernmental negotiations led to the main reform and crisis management deals being reached, including the EFSF, ESM, the Fiscal Compact as well as EU budget monitoring and banking union guidelines and procedures. Although the European Commission brought forward various policy proposals and initiatives recommending supranational reforms, their success depended on whether they reflected the preferences of solvent euro area states. Although the banking union proposal, albeit slightly modified taking German concerns into account, succeeded, a noticeable failure for the European Commission came with the rejection of the Eurobonds proposal. Lastly, despite the important role played by the ECB by buying euro area governments more time to find a long-term solution for the crisis, the institution's agenda-setting role has not changed despite considerable institutional reform, discussed in the section below.

5.3 Credible Commitment and Choice

Throughout the course of the Euro Area crisis, institutional reforms and institution-building were motivated either by avoiding – or strengthening – credible commitments. Material preferences were an important factor in setting member state institutional preferences.

Solvent countries wanted to bolster the credibility of insolvent states' pledge to monetary discipline whilst limiting their own fiscal commitments. This accounts for Germany's preferences

[105] EUObserver.com, 28 October 2010

for placing fixed limits on the lending capacity of European intergovernmental bailout funds.[106] Although Eurobonds and supranational funds advocated by insolvent states would definitely have bolstered Eurozone state bailing out commitment credibility, it would have also resulted in less control and greater costs for solvent states. Then again, German proposals pushing for balanced budget rules into member state constitutions as well as strict and automatic sanctions for member states which violate the excessive deficit rules were intended to reinforce the credibility of the SGP and Excessive Deficit Procedure rules which had been severely lacking since the introduction of the common currency. To this end, Germany was willing to endow Europe's non-majoritarian supranational institutions, the European Court of Justice and the European Commission, with additional enforcement and monitoring capabilities. Proposals for the banking union also included both commitment-avoiding as well as commitment-enhancing preferences. While strongly supporting supranational supervision for European banks despite initial attempts to exclude a number of German banks, Germany did oppose a supranational recovery mechanism supported by a pan-European fund, dreading the prospect of large capital transfers to member states with unstable banks.

On the contrary, indebted states focused on bolstering the credibility of solvent country commitments towards resolving the euro area crisis whilst limiting their own commitment to budgetary discipline. Hence, these states preferred supranational bailout solutions which could not be blocked by solvent country vetoes given that such a system would not require a separate intergovernmental agreement each time a member state would face acute financial challenges. In addition, these countries opposed Germany's proposed automatic sanctions for budgetary and fiscal non-compliance preferring more flexibility and fearing domestic backlash from its constituencies. Preferences towards the banking union also directly conflicted with that of solvent countries, i.e. they opposed supranational banking supervision and preferred creating a supranational recovery fund and mechanism.

Nonetheless, Eurozone member states had a shared interest in establishing institutions which would improve credible commitments to the euro and stabilizing the euro area, despite having differing institutional preferences. The three main institutional reform efforts agreed to by Eurozone countries directly correspond with the three economic calamities, the financial crisis, the sovereign debt crisis and the institutional incapacity to counter loss of market confidence,

[106] Spiegel, November 2014

which together led to the euro area crisis. The Fiscal Compact and monitoring legislation aimed at ensuring member state budgetary compliance were implemented to address existing SGP enforcement problems, banking union legislation addresses the sovereign-bank nexus and enforcement problems created by having an integrated financial market supervised by national regulators, and lastly, the ESM resolves the issue of solvent member states having to directly bailout indebted states. Although these institutions do reflect the shared interest to increase credible commitment to the common currency, the final design of these institutions match German preferences, indicative of Germany's dominant bargaining power. Indeed, supranational intergovernmental monetary assistance, financial and economic monitoring, and the establishment of a banking union, which provides supranational banking supervision, indicate Germany's dominance during the crisis negotiations. Firstly, the Board of Governors of the European Stability Mechanism reaches decisions based on unanimity. When both the ECB and Commission determine that the stability of the Eurozone is threatened because the ESM failed to provide financial assistance, emergency voting procedure still requires an 85 per cent voting share, hence large member states effectively have veto power. Secondly, the Commission now has a greater role regarding supranational surveillance of member state fiscal and economic policies: an enlarged role in budgetary planning of euro area countries, resulting in more stringent balanced budget oversight allowing for timely implementation and credibility of sanctions for noncompliance. In the context of enforcement, member states now require a qualified majority to reject, rather than adopt, a proposal by the Commission, i.e. reverse qualified majority voting. Lastly, although the ECB is now authorised to directly supervise system-relevant banks, the resolution mechanism still retains both national and intergovernmental features. Specifically, bank resolution decisions are still made by an autonomous board of national authorities, as member state finance ministers can overturn any such decisions, and the mutualisation and accumulation of the fund is to be realised within eight years.

In sum, liberal intergovernmentalist expectations do match the fifth and sixth LI hypotheses. The concerns towards the euro area stability and the credibility of member state commitment is reflected in the undertaken institutional reforms. Though the final design of the supranational and intergovernmental institutions corresponds closely with solvent member state preferences, particularly those of Germany. Although the competences of Europe's supranational institutions have increased as a result, this should not be seen as counterfactual to liberal intergovernmentalism. Rather, they are the result of solvent country preferences, having the greater bargaining power vis-à-vis indebted states, who wished to address the existing enforcement problems discussed above.

6. Neofunctionalism and Crisis Management

The neofuctionalist analysis section of this thesis shall analyse, in the following order, functional, political and cultivated spillover in the Eurozone crisis management in line with expectations of hypotheses seven, eight and nine.

6.1 Functional Spillover and Political Actors

The extent to which functional spillover logic influenced intergovernmental bargaining outcomes during EU crisis negotiations is examined below. Moreover, neofunctionalism's spillover concept allows for the examination of both governmental and non-governmental actor influence towards EU crisis management outcomes next to the role of EU institutions.

6.1.1 Original Goal Salience

An original policy objective, whether significant, urgent or both, is necessary in order for functional pressures to develop. In the context of the Eurozone crisis and the integrative measures taken in response, there has been a constant and salient objective, namely preserving the stability of the European Monetary Union in turn safeguarding the single currency. All, if not most, euro area member states together with EU institutions supported this fundamental objective.[107] This objective is of course, in turn, closely related to the more fundamental goal of securing the Single European Market (SEM), as confirmed by key policy-makers including Spanish Prime Minster Rajoy[108] and German Finance Minister Schäuble.[109] Moreover, some have argued that the EMU and SEM represent policy objectives critical to the entire European project, succinctly captured in German Chancellor Merkel's statement: "*The euro is the guarantee of a united Europe. If the euro fails, then Europe fails*."[110] Overall, the original objectives can undoubtedly be considered salient.

[107] Schimmelfenning, 2014, 323
[108] Traynor, 06 June 2012a
[109] Spiegel, November 2014
[110] Spiegel Online, 07 September 2011

6.1.2 Functional Policy Interdependencies

As elaborated on in the *Theoretical Framework* section, functional interdependences between different policy areas can account for why an original integrative goal, specifically the aspiration to achieve it, can lead to integration in a different policy area. In the context of the Eurozone crisis, steps towards deeper European economic integration were taken in order to address functional pressures leftover from the incomplete financial architecture created by the Treaty of Maastricht.

According to Niemann and Ioannou (2015), "*functional interdependencies are based on the multitude of policy areas that are conducted in parallel and interconnected over different time horizons*."[111] What is important in this process is that policy, in accordance with the EMU design laid out in the Treaty of Maastricht, has been spread over various levels of government, as opposed to a single level. Although fiscal policies remained a predominantly national affair, exchange rate and monetary policy became an exclusively supranational EU competence following the introduction of the single currency. In addition, financial market regulation was both a national and supranational competence, whilst financial market supervision and also structural policies, which extend beyond the SEM, largely remained at the national level. As such, three functional dissonances which created further integrative pressures during the Eurozone crisis have been identified.

The first functional dissonance is evident from the intergovernmental fiscal, budgetary as well as structural policies and supranational monetary policy, leading to negative externalities. Although these externalities were supposed to be addressed by the SGP, the Maastricht Treaty's non-bailout clause in addition to sparsely coordinated European structural policies, it became clear that this framework was insufficient as it incentivised free riding behaviour. Moreover, insolvent euro area countries found themselves with few policy options to address the financial market pressure on their sovereign debt during the Eurozone crisis given the fact they could, for example, no longer adjust their nominal exchange rate.[112] The subsequent crisis management solutions, for example the ESM or the economic and fiscal framework improvements, addressed the functional dissonances between the non-bailout clause and a stable common currency and the decentralised national economic policies which brought on public over-indebtedness.

[111] Niemann and Ioannou, 2015, 201
[112] Leuffen et al, 2013, 173; Schimmelfenning, 2012

The second functional dissonance was that the EMU depended on national authorities for supervision of national financial institutions which operated within Europe's single financial market, despite the fact that these national credit institutions made cross-border investments (leaving themselves exposed) and/or were "*systematically important*". [113] Although the introduction of the single currency brought with it extensive financial market integration, [114] resulting in the financial markets and EU banking sector growth, supervision of these sectors remained a principally national competence which is even more troubling given the lack of sufficient institutional adjustments. Put differently, the constrained supranational European institutional framework and financial public policy did not align with the new single financial market and the subsequent Europeanization of the EU banking sector. This functional dissonance, which materialised between national fiscal policies, financial integration and stability, gradually became unsustainable. [115] Measures taken to diminish these functional dissonances stemming from this "*functional trilemma*" included the creation of the European banking union, yet the underlying baking system still functioned primarily in accordance with national policies which, according to Schoenmaker (2011), allowed for the build-up of private over indebtedness.[116]

The third functional dissonance is the 'sovereign-bank nexus' which resulted from the interaction between the two previous dissonances discussed above.[117] Whether because national governments were forced to recapitalise systematically important financial institutions or because these institutions were overexposed to failing sovereign debt, both private and public debt on the national level became increasingly interconnected. These two closely corresponding developments between bank and national debt had negative implications for European financial stability, concurrently disrupting the supranational monetary policy. As such, the sovereign-bank nexus threatened both Eurozone and EU-public goods, i.e. the single currency and financial stability, necessitating emergency countermeasures at both the supranational and national levels. The combined creation of both fiscal protection mechanisms, e.g. the EFSF and ESM, and the establishment of a centralised supranational resolution and supervisory framework were aimed at relieving functional pressures which emerged during the Eurozone crisis.

[113] Niemann and Ioannou, 2015, 202
[114] European Central Bank, 2005
[115] Schoenmaker, 2011, 57
[116] Schoenmaker, 2011, 58-59
[117] Lane, 2012, 12-13, 30-31, 100-103; European Council, 29 June 2012

6.1.3 Eurozone Crisis: Amplifying Existing Functional Pressures

If existing functional pressures are left unresolved by additional integrative steps, this can lead to future crises which in turn can, as a result of the crisis management process, cause additional functional pressures thereby required further integrative steps. This process was apparent after the introduction of the common currency in 1999. However, because a generally positive economic climate accompanied the monetary union during its first few years, the absence of sufficient integrative pressures meant that these, largely unnoticed, existing functional pressures were left unaddressed. Nonetheless, because these functional dissonances remained unaddressed, this allowed even prominent Eurozone member states, such as Germany and France, to neglect the SGP's fiscal rules as early as 2003.[118] Moreover, it failed to prevent the accumulation of financial imbalances and reduced the competitiveness of several Eurozone economies which failed to provide balanced fiscal and structural policies consistent with supranational monetary policy. Therefore, the first two discussed functional dissonances can to a certain extent be credited with amplifying the Eurozone crisis.[119]

The escalation of functional pressures during the Eurozone crisis was the result of lacking crisis management measures in the institutional framework agreed at "Maastricht". This directly led to the third functional dissonance as indebted member states had to bailout insolvent domestic financial institutions to preserve financial stability.[120] The Eurozone crisis revealed to European authorities the fact that they did not have the capacity to address the sovereign debt crisis's negative downward spiral. Specifically, the absence of a supranational fiscal mechanism meant that European authorities could not, yet, resolve the effects of the financial crisis.[121] Ultimately European leaders were able, by taking further institutional integrative steps, to relieve the functional pressures brought on by the crisis. This was done by introducing supranational regulation, supervision and resolution measures for financial institutions, and by taking collective action harmonizing European, and Eurozone, economic and fiscal policy and procedures coordination to secure future financial and economic stability.

---

[118] The Guardian. 27 November 2003
[119] Schmidt, 2012, 74-76
[120] Dyson, 2013, 215-217
[121] Bordo et al, 2011

6.1.4 The Absence of Plausible Policy Alternatives

If an original policy objective, in this case preserving the common currency and EMU stability, cannot be achieved by non-integrative means, it is expected that functional spillover logic will be strong. Numerous alternatives to the original policy objective were probed, ranging from maintaining the status quo, to creating a core EMU or splitting the common currency into a northern and southern euro, to a complete policy reversal entailing the dissolution of the single currency and the reintroduction of respective national currencies.[122] This thesis argues that these alternative options were considered by European decision- and policy makers as too economically and politically costly, as well as that path dependencies point towards a different solution.

Firstly, the Eurozone crisis credibly proved that retaining the status quo was a nunsustainable option. Secondly, the different spillback scenarios too were considered to be financially detrimental given that reversing the transition from national currencies to the common currency and accompanying monetary policy would be too costly resulting in "*sunk costs*" for both member states and corporations.[123] Moreover, as raised above, the EMU had created interdependencies between Eurozone countries due to the integration of financial markets. As a result, dissolving the EMU or even allowing for the exit of a single Eurozone country would have resulted in considerable political and economic risks and costs. Consequently, all members of the euro area collectively supported the preservation and strengthening of the Eurozone in its entirety.[124] Despite the expression of dissenting opinions in domestic political arenas,[125] these were in most cases heavily criticised by ruling governments. By and large, top euro area policy- and decision makers rejected these alternatives.

6.1.5 Functional Logic in Political Discourse

As raised in the *Theoretical Framework* section, actors need to accept functional logics as either urgent or plausible before these can substantially unfold. The Eurozone crisis, having amplified existing functional pressures, seems to have fostered learning effects thereby resolutely fortifying the functional logic. Even though the dynamic of the functional spillover stemming from the

---

[122] Schmidt, 2012, 166-193
[123] Niemann and Ioannou, 2015, 203
[124] Schimmelfennig, 2012, 403
[125] The Economist, 2013; Torres, 2013, 294

EMU was first raised by the Delors Committee in 1989,[126] it failed to gain traction until the Eurozone crisis in political discourse.

As the Eurozone crisis protracted, political discourse soon became filled with functional spillover rhetoric. This was evidently the case with representatives from both EU institutions and the respective Eurozone member states. During the crisis the functional link between the common currency and the single market was repeatedly brought up. European Council President Van Rompuy "*If the eurozone's integrity would not be preserved, one should not take the continued functioning of the internal market for granted*." Adding "*I will personally do my utmost to keep the 17 and the 27 together*."[127] Chancellor Merkel similarly reasoned that in order to secure both the common currency and single market, "*[w]e will have to give up powers to Brussels*." Moreover, to guarantee the future of the European project, the EU must become develop "*into a fiscal union and then a political union*."[128]

Regarding the single currency's resulting functional consequences, European leaders have also progressively employed functional spillover logic in their argumentation. Commission President Barroso stated that it was a mistake to pursue the "*common currency and single market* [whilst relying on] *national approaches to economic and budgetary policy*"[129] whose opinion was echoed by the 2012 *Four Presidents* report.[130]

European and national decision-makers proceeded this discussion by citing the functional link between the EMU and a potential yet vaguely described political union.[131] In addition to the *four Presidents* and Chancellor Merkel, also French President Hollande agreed with the logic looking towards future reforms that "*this eurozone must take a political dimension*." However, Hollande added that such an integrative step would first have to be preceded by a "*fiscal union, the banking union,* [and] *the social union*."[132] Unsurprisingly, the preposition that a political union would logically follow the introduction of the common currency was not perceived as uncontroversial by some segments of the European Parliament and Commission. This notably included European Commissioner for Competition Joaquín Almunia who stated, after recognizing the legitimate right of member states to pursue their own national interests, that "*at*

[126] Delors Committee, 17 April 1989
[127] EurActiv.com, 14 November 2011
[128] The Economist, 2012; EurActiv.com, 14 November 2011
[129] Barroso, 2011
[130] Van Rompuy et al, 2012, 3-4
[131] See also European Council 2012, 7
[132] EurActiv.com, 18 October 2012

the end of the day, individual nations need to do what is necessary in order to save Europe." For Commissioner Almunia this necessity also included a "*right to push for a political union after having achieved the economic and monetary union*."[133] The logical result of this political discourse on functional constraints are the integrative steps taken towards the establishment a supranational integrated financial framework.[134] Interestingly, those whom one would expect to argue in favour of retaining national sovereignty, namely politicians of national governments, also agreed with the functional logic. For example, British Chancellor of the Exchequer Osborne stated that a European banking union was always considered to be an essential requirement to ensure "*a more stable single currency for the Eurozone*."[135]

In light of ample evidence presented above, it is clear that during the Eurozone crisis functional logic received widespread acceptance in political discourse of both national and European policy-makers. This confirms that as the crisis progressed, functional pressures became increasingly convincing to European political elites. Given that a decision-maker's political options tend to be restricted by such discourse,[136] it is logical to assume that such discourse shall also be evident with subsequent political decisions of the same scale.

6.2 Political spillover and Non-Governmental Elites

As mentioned in the *Research Design* section, in light of the scope of this thesis the analysis of the concept of political spillover shall focus purely on the role of non-governmental elites. This analysis shall first proceed with the role of interests groups during the Eurozone crisis, before discussing the role played by financial markets.

6.2.1 Europe's Interest groups

The political spillover concept shall be probed by examining the extent to which 1) interest groups perceived supranational solutions as beneficial, 2) interest group representation took place via overarching Brussels-based organizations and/or was coordinated transnationally, and 3) determining the resulting impact of these interests groups on European decision-makers.

[133] Spiegel Online, 3 October 2012
[134] Van Rompuy et al, 2012, 16-17
[135] The Guardian, 13 December 2012
[136] Jachtenfuchs, 1997, 39–50.

Firstly, overall business leaders have reacted positively regarding the extent to which supranational solutions have been beneficial in resolving the Eurozone crisis. The survey data on Eurozone business leaders in the 2013 International Business Report concluded that 78 percent view joining the euro as positive,[137] 94 percent support saving the common currency,[138] and, importantly, 89 percent of Eurozone business leaders also support additional economic integrative steps.[139] Moreover, the assortment of business interest group statements, reports and position papers corroborate business leader interest in European supranational solutions to the crisis.[140] According to Jäger (2013), economic interest groups, specifically those representing corporations significantly involved in "*intra-currency union trade*" are inclined to support the single currency as it reduced transaction costs given the eliminated exchange rate risks associated with different national currencies.[141]

Secondly, and in accordance with neofunctionalism, the majority of business interest representation has gone through overarching Brussels-based organizations and/or was coordinated transnationally. For instance, on the eve of the June 2011 European Council summit which would vote on additional Greek bailout funds, a broad coalition of 50 top French and German business representatives, representing annual turnover surpassing €1.5 trillion and employing over five million workers globally, launched an advertisement campaign entitled "*The euro is necessary*" in which it called on European leaders to provide additional financial aid to Europe's indebted countries.[142] Moreover, in 2011 the Eurozone's three biggest business interest groups, the Italian 'Confindustra', the French 'MEDEF' and German 'BDI', delivered a joint statement in which they called for European leaders to both preserve the euro and push for deeper economic integration.[143] In addition, the campaign to stabilise the single currency also included substantial involvement from the European Roundtable of Industrialists, an influential interest group which seeks to increase competitiveness in the European Union, which in this case strongly encouraged the strengthening of the EMU's framework.[144] Furthermore, Europe's largest business interest group, BusinessEurope, has throughout the course of the Eurozone crisis

[137] Grant Thornton International Business Report, 2013, 10
[138] Grant Thornton International Business Report, 2013, 4
[139] Grant Thornton International Business Report, 2013, 8
[140] BusinessEurope, 2011; ERT, 2011, 2012
[141] Jäger, 2013, 119-120
[142] Rappaport, 2011; Jäger, 2013
[143] BDI, Confindustria and MEDEF, 2011
[144] ERT, 2011, 2012

indisputably and uninterruptedly supported these objectives,[145] whilst also taking collective action together with other European financial and industrial interest associations.[146]

Thirdly, ascertaining the exact degree to which these interest groups had an impact on European decision-makers is quite challenging, as evidenced by academic studies into the position of EU interest groups.[147] However, it is clear that the interest groups discussed above have during the crisis had meetings in person with key European decision-makers. On 10 May 2011, Gerhard Cromme, the initiator of the Franco-German media campaign, together with several German business leaders met in person with Chancellor Merkel to discuss their concerns over the troubled state of the single currency.[148] During the fall that same year, ERT representatives respectively met with French President Sarkozy, European Council President Thorning-Schmidt and again with Chancellor Merkel to discuss their Eurozone crisis management proposals aimed at deepening the EMU's framework.[149]

More concretely, when examining the different legislative packages which advanced integration one can definitely discern the influence of interest groups. Particularly with the 'Six-Pack' which was created to consolidate procedures which addresses macroeconomic imbalances and public debt reduction. During and preceding the Six-Pack negotiations, available evidence implies that BusinessEurope played a role of policy entrepreneur as several proposals first put forward and advocated by the interest group found its way into the final legislation. Examples of this include adopting stronger binding sanctions, including increased automatism as well as the streamlining of fine transfers towards the crisis resolution fund, weeks before these were raised by the European Council task force or the European Commission.[150] Although there is no direct evidence confirming that efforts made by BusinessEurope and other interest groups led to the inclusion of these provisions in the final legislative package by either the Council's task force or the Commission, the timing and context of the legislative proposals together with the direct interactions between BusinessEurope and EU and national decision-makers next to the four

[145] BusinessEurope, 2010a, 2010b
[146] BusinessEurope, EVCA, EBF, EFRP and FEE, 2010
[147] Lelieveldt and Princen, 2011, 141-142; Green Cowles, 1995; Dür, 2008
[148] Corporate Europe Observatory, 2012b
[149] Corporate Europe Observatory, 2012a, 2012b
[150] European Council, 2010b; European Commission, 2010a, 2010b; BusinessEurope, 2010a, 2010b

letters sent directly to the European Council President Van Rompuy[151] do suggest at the very least that these interactions were conducive towards the final legislative outcome.

Following the announcement of the Six-Pack legislative package, BusinessEurope openly relished the fact that a number of their policy recommendations had been adopted, particularly regarding its envisaged stern budgetary targets,[152] which is rather significant given that interest groups are generally inclined to downplay their level of influence.[153] Moreover, BusinessEurope continued to play the role of policy entrepreneur promoting economic governance reforms which would later be adopted as part of the Fiscal Compact given that the interest group, in its European Action Plan released in 2010, already proposed stronger fiscal rules and the reinforcing European supranational institutions, notably the ECB, to guarantee long-term member state budgetary discipline.[154]

In sum, the pressures of the Eurozone crisis provided business interest groups with an excellent opportunity to advocate further integrative steps which would stabilise the single currency and reinforce EU economic governance.[155] Preceding the December 2011 EU summit, BusinessEurope alongside other interest groups had promoted three big policy proposals: firstly, voting rule alteration which would make overruling Commission deficit recommendations by the European Council more difficult, secondly, an increase in EU member state commitment to enact necessary national reforms, and lastly, making ESM loans conditional upon the ratification of the TSCG.[156] Again, elements of the final legislative framework of the TSCG, which was signed in March of 2012, closely resembles Business Europe's original proposals.[157]

6.2.2 Europe’s Financial Markets

Even though financial markets have been considered mere arenas wherein different actors pursue their own individual strategies interacting solely with each other,[158] they are largely considered by academics to be actors during the course of the Eurozone crisis.[159]

[151] BusinessEurope, 2011
[152] BusinessEurope, 2010b, 2010c
[153] Dür, 2008
[154] BusinessEurope, 2010a
[155] Mandate Trade Union, 01 February 2012
[156] BusinessEurope 2011a, 1–4
[157] Corporate Europe Observatory, 2012b; Council of the European Union, 2012, 14-16
[158] Overbeek, 2012, 39-41
[159] Schimmelfennig, 2012, 395-397; Yiangou et al, 2013

As is suggested by hypothesis eight, this thesis argues that **f**inancial markets acted during the Eurozone crisis, both indirectly and directly, to promote further economic and financial integration. Although financial markets did not organise themselves as a single unitary actor during the Eurozone crisis, given the high degree of market uncertainty as well as the prevailing display of herd-like actions,[160] their behaviour appeared in the eyes of EU policy- and decision-makers as being unitary and as a result had a significant impact on EU crisis management forcing the acceptance and implementation of further integrative measures.[161] Specifically, financial markets not only highlighted the functional dissonances which existing the EMU's original framework, but in turn posed a significant threat to Eurozone stability through its drastic credit and economic risks re-evaluations. According to Arghyrou and Kontonikas (2012), financial markets perceived delays and hesitation by EU policy-makers as undermining to the credibility of financial guarantees, which only served to increase the risk of member state debt default.[162] As a result, considerable funding pressure arose in a number of Eurozone sovereign debt markets, which led to an unsustainable rise in borrowing rates. Particularly problematic for highly indebted countries, the increase in interest rates for freshly issued national debt securities led to further costs for financial unstable member states adding further pressure on EU budgetary deficits. This combined with downgraded creditworthiness of numerous Eurozone states generated a disastrous and economically unsustainable cycle of rising interests rates and sovereign debt, almost forcing fragile Eurozone states into bankruptcy.[163]

In light of these developments and given the potentially devastating economic consequences of allowing Eurozone member states to default, EU policy- and decision makers had no option but to address the situation. These risks and necessity of immediate action first became apparent at the emergency Euro summit on May 7th 2010[164] and according to Ludlow (2013), the financial market pressures by and large set the tone of the negotiations. For example, when Cypriot President Christofias request a few days to think over the new European bailout measures, Chancellor Merkel declined it immediately citing the importance of reaching an agreement before financial market reopened the next week.[165] Fortunately an agreement was

[160] Dyson, 2013, 219-220
[161] Schimmelfennig, 2012, 395
[162] Arghyrou and Kontonikas, 2012, 670-672
[163] De Grauwe 2011, 1
[164] European Council, 2010a; Ludlow, 2013
[165] Spiegel, November 2014

reached in time to create a supranational stabilization mechanism. This decision by the Economic and Financial Affairs Council (ECOFIN) would be the first in a series of integrative steps taken to address financial market pressures. Although the policy measures adopted in May 2010 prevented in the short-term the onset of a European financial crisis, they fell short of preventing financial market speculation which targeted the sovereign bond rates of indebted Eurozone countries.[166] Thus, not only did financial pressures persist following initial crisis management policy measures, they increased in scale consequently forcing EU policy-makers to consider more far-reaching reforms to the EMU framework. Over the course of the many summits, EU decision-makers repeatedly sought to convince Europe's financial markets of their capacity to resolve the seemingly dire economic situation, before eventually adopting durable integrative solutions including the Fiscal Compact, the Six-Pack, as well as banking union reforms.[167] Of the three integrative solutions, the Fiscal Compact is particularly interesting when analysing the role of financial markets. By the fall of 2011 it became apparent that the integrative measures which were taken in response to the Eurozone crisis proved insufficient to resolve existing financial market pressures. Consequently, as Greek sovereign bond yields and ECB overnight borrowing in December 2011 rose to record heights, this set the tone for the subsequent European Council summit negotiations. In addition, on the eve of the summit EFSF chief executive officer Regling spoke to European investors reassuring them that the summit would lead decrease the financial instability of the Eurozone, which in turn added additional pressure on the summit participants as they would have to convince financial markets that measures adopted at the summit were indeed sufficient to stabilise the Eurozone and remove the functional dissonances present in the initial EMU design.[168]

In sum, the existing functional dissonances increased the need for EU policy- and decision-makers to enact reforms which would replace governance by the markets with governance by member state governments, leading therefore to the creation of mechanism designed to stabilise the European Monetary Union.[169] Through the lens of neofunctionalism, European financial markets became the indicator of the extent to which functional pressures had been resolved. If the markets perceived Eurozone crisis management measures to be insufficient

[166] Panico and Purificato, 2012, 13
[167] Pisani-Ferry, 2014, 98, 109-111
[168] Spiegel Online, 2011
[169] Yiangou et al, 2013 238-239

or EU policy-makers failing to realise sustainable institutional reforms, they would respond negatively increasing the financial pressure on European sovereign bonds. Conversely, if such integrative measures were perceived as sufficient financial markets would respond positively.[170]

6.3 Cultivated Spillover and EU Institutions

Regarding the role played by Europe's supranational institutions in furthering integration during the euro area crisis, those institutions most significant are i) the European Commission, ii) the European Parliament and the iii) European Central Bank. These three institutions all favoured taking further integrative steps to resolve the Eurozone crisis and, overall, without their involvement the integrative process would not have gone as far as it has.

6.3.1 The European Commission

In terms of cultivating spillover pressures throughout the crisis, the Commission played a comparatively limited role. Hodson (2013) surmised that during the early years of the crisis the Commission did little to push for, or even arrange ideas and proposals supporting further integration. This can be explained by the agreed crisis management solutions, i.e. the ESM and EFSF, being largely intergovernmental, thus restricting the European Commission's right of initiative.[171] However, during the Fiscal Compact negotiations, the Commission successfully positioned itself on the 'winning side,' i.e. Germany and its allies, yet failed to realise its interests whenever those preferences diverged from those of Germany and its partners. The Commission did, by stressing functional spillover rationales, incentivise solutions which would further European integration.[172] Once European Heads of State had reached an accord authorizing further integrative steps, the Commission adopted a much more proactive role. Most notably and perhaps ambitiously, the Commission successfully put forward two legislative proposals which would eventually form the two pillars on which the banking union would be based, namely the Single Resolution Mechanism (SRM) and the Single Supervisory Mechanism (SSM). Although these proposals were met with considerable scepticism from some Euro area countries,[173] the European Commission ended up with additional competencies and increase authority to undertake

[170] Vilpišauskas, 2013, 371
[171] Hodson, 2013, 301-314
[172] Barroso, 2011, 4
[173] European Commission, 2009; Chaffin, 12 September 2012;

autonomous action through its role in the new SRM and given the surveillance procedures which accompanied the Six- and Two-Pack as well as the Fiscal Compact.

6.3.2 The European Parliament

The EP did contribute substantially in terms of cultivating spillover pressures throughout the crisis, even playing an important role in areas where it lacked a mandate to do so. During the EFSF, ESM and Fiscal Compact negotiations, the EP was cast aside as European governments opted to reach intergovernmental agreements. Still, the EP was continuously critical of each step taken which side-stepped the Community framework[174] and as a result of this pressure, it was decided to link both the ESM, and in time the Fiscal Compact, with the Treaties by means of revision circumventing the ratification process required for new treaties.[175] Regarding the Six-Pack negotiations, the EP successfully pressured the European Council into preventing that supranational legislation proposals would be attenuated. For example, concerning the Commission's future role, it succeeded in limiting the role of member states by securing a greater level of procedural automaticity thus preserving the position of the Commission. Despite that the European Parliament only had co-decision rights on four of the six legislative proposals in question, MEP's successfully persuaded the Council to negotiate the legislative package in its entirety with the EP.[176] The same was done during the SSM negotiations, when the EP in effect gained co-decision rights alongside the Council on SSM regulation by allocating supervisory competencies to the ECB again by treating these regulations as an intrinsic regulatory component of the European Banking Authority (EBA). Lastly, although the EP had no intention of strengthening the competencies of Europe's supranational institutions, it did seek a proportionally greater accountability role in the context of the new institutional solutions.

6.3.4 The European Central Bank

Compared to the European Commission and the EP, the ECB received by far the most attention during the course of the crisis. One of the main challenges for the ECB was to ensure euro area price stability despite uncertainty concerning its monetary policy.[177] More specifically, the ECB

[174] European Parliament, 20 November 2012
[175] Ludlow, 2013
[176] Chang, 2013, 262-264
[177] Alessi, 2012

had to address fears regarding euro reversibility next to preserving financial stability. Its monetary policy measures, both standard and non-standard, included: key interests rate reduction, collateral policy changes, in addition to its *Long-term refinancing operations*.[178] During the course of the crisis this came to include the 2012 Outright Monetary Transactions which succeeded the 2010 Securities Market Programme (SMP) and was aimed at "*safeguarding an appropriate monetary policy transmission and the singleness of the monetary policy*" through securities purchases in secondary markets[179], and three 'covered bond purchase' programmes.[180] Regarding the non-standard monetary policy measures, although some claimed that the ECB had surpassed its competences,[181] others claimed the ECB did too little by not acting as a "*lender of last resort*".[182]

Aside from the implementing its monetary policy measures, the ECB from the start of the crisis advocated further integration of the EMU through its role in the 2010 Van Rompuy Task Force, its legal opinions on legislation pertaining to the EMU, its interactions with respective financial authorities in forums including the European Council and the Euro group, but also through its contribution to the 2012 *Four Presidents* report.[183] Due to the interconnectedness of EMU policy domains, the ECB was also able to play a role in designing and subsequently monitoring supranational economic adjustment programmes, albeit in an advisory capacity.

Perhaps the most evident case in which the ECB advanced its integration preferences was during the negotiations on the banking union. Already preceding the euro area crisis did the ECB have a proactive standpoint towards encouraging greater financial integration,[184] which would during the crisis translate to its preferences towards increased monetary policy transmission efficiency in the context of the banking system. Hence the ECB strongly favoured the creation of the SSM next to its role as single supervisor, despite not being "*the only solution, [it was] the only practical one*" given the circumstances.[185] Additionally, the ECB supported the SRM seeing the potential emergence of further functional dissonances should supervision not be tied together with an effective supranational resolution mechanism.

---

[178] For an oversight of key ECB (and EU) measures taken since December 2005, see ECB, 2015
[179] ECB, 2012a
[180] In 2009, 2011 and 2014
[181] Sinn and Wollmershäuser, 2012
[182] De Grauwe, 2011, 3-4
[183] Van Rompuy et al, 2012
[184] European Central Bank, 2005, 3
[185] Angeloni and Ioannou, 2013

In line with Traynor (2012), appeals to further strengthen and integrate the EMU's institutional architecture by the ECB were warranted given its responsibility to secure the stability of the common currency.[186] Other observers have even argued that the ECB's stance is partially the result of policy paralysis brought on by the non-bailout clause of the Maastricht Treaty[187] in addition to weak political leadership.[188] According to Alessi (2012), it was the slow response on the part of European Heads of State during the crisis that led to the ECB, being the only institution "*capable of intervening promptly and decisively*,"[189] to exceed its initial mandate.[190]

In the end, the ECB's encouragement towards not only adjustment but also deepening of the EMU framework can be explained by neofunctionalism as the resolving of functional dissonances amid the diverse policy domains underlying the EMU which risked not only the ECB's independence but also its capacity to protect the euro and provide price stability. The ECB's independence came under pressure in May 2010 at the onset of Europe's sovereign debt crisis, when French President Sarkozy in effect demanded a bailout from ECB President Trichet. In response, Trichet warned that the Governing Council of the ECB would react unfavourably to such pressure in light of the potential "*catastrophic consequences*" for Eurozone stability.[191]

Observers differ in their perception of the ECB's behaviour at the time, with some describing it as entirely regular,[192] or a failure to act,[193] which Yiangou et al. (2013) view could have led to deeper integrative steps being undertaken.[194] Schmieding (2012) builds on this by concluding that the ECB was willing to let financial pressure accumulate, as such pressure incentivises politicians to enact difficult and often unpopular reforms to help stabilise their economies.[195] Moreover, De Grauwe (2011) suggests that this approach by the ECB has effectively forced euro area members to establish the ESM.[196] In sum, the ECB cultivated

[186] Traynor, 06 September 2012
[187] Menz and Smith. 2013, 196
[188] Dyson, 2013; Torres, 2013, 287–300.
[189] The Economist, 22 October 2011
[190] Alessi, 2012
[191] Gleeson, 2014; Ludlow, 2010
[192] Schmieding, 2012, 181
[193] Dyson 2013, 216-219
[194] Yiangou et al, 2013, 223-224
[195] Schmieding, 2012, 182-183
[196] Grauwe, 2014, 3-4

spillover pressures during the crisis through its proportionate monetary policy actions as well as through its encouragement towards a deepening of the European Monetary Union.[197]

7. Conclusion

The goal of this thesis was to answer the following research question: *to what extent do liberal intergovernmentalism and neofunctionalism explain EU crisis management policies and the resulting move towards further European economic integration?* Overall, the two major theories which explain European integration both succeeded in this respect, as empirical evidence was found for all hypotheses, albeit to different degrees, derived from these theories were supported in the analysis of Eurozone crisis management and subsequent integration outcomes. This conclusion shall examine the liberal intergovernmentalist and neofunctionalist findings before proceeding with a discussion of the implications of the thesis findings for further research.

The analysis of national preferences reflected the existing negative interdependence in addition to the fiscal position of Eurozone member states, with the partial exception of France being as an outlier, thus confirming the first and second hypotheses. Eurozone governments agreed to pursue further integration to resolve the widespread negative interdependence with the aim of preventing additional costs which would have accompanied the fall of the single currency. However, member states all sought to reallocate as much of the adjustment costs as was possible to other Eurozone countries. What resulted from the existing preference constellation was a chicken game scenario which entailed a joint preference to stabilise the Eurozone, whilst at the same time willing to risk its implosion in order to reduce member state adjustment costs.

In line with the hypotheses three, through six, intergovernmental bargaining involved both brinkmanship and hard bargaining. The newly created or reformed institutions and policies created to stabilise the Eurozone combined banking regulations, financial assistance and surveillance with increased credible commitment of euro area states to also enforce the new rules. Notably, both the design of the newly established or reform institutions as well as the terms of Eurozone stabilization by and large reflected the preferences of Germany, the member state with the greatest bargaining power during negotiations. By accounting for the both the outcomes and features of EU negotiations at such a crucial phase in the European project's development, liberal

[197] ECB, 2012b, 6-8

intergovernmentalism reaffirms its capacity to explain important steps which lead to further European integration.

However, as is correctly pointed out by critics, although liberal intergovernmentalism is most effective in explaining isolated intergovernmental negotiation processes, it does fall short of accounting for the internal dynamics of European integration process, in other words how contemporary integration decisions are determined as a result of previous integrative steps and subsequently created path-dependencies. Significantly, the shared preferences of Eurozone states to both preserve and stabilise the single currency next to their willingness to credibly commit to institutional reforms can perhaps best be explained the earlier integrative step which created the single currency in the first place.[198] Confronted by the unforeseen negative costs of partial economic integration in addition to becoming aware of the negative interdependence which resulted from the previous decision to join the European Monetary Union left Eurozone states without a fall back option, these countries were to an extent forced to accept the new institutions and rules, which they had previously rejected during the EMU negotiations preceding the Treaty of Maastricht. However, had the global financial crisis occurred before the creation of the EMU, it is unlike member states would have agreed to such measures. This is evident and supported by the fact that non-Eurozone countries have generally chosen to not commit themselves to the various supranational reforms which have been introduced during the course of the crisis. As such one can irrefutably conclude that further economic integrative steps taken during the Eurozone crisis is determined predominantly by the choice member states made over twenty years ago. In addition, as the severity of the Eurozone crisis fades so too shall intergovernmental bargaining as has been evidenced by liberal intergovernmentalist analysis. This is illustrated by the fact that Germany in the context of the banking union's legislative process, has already been forced to make concessions given the slow but steady return of institutional reform to customary legislative procedures, i.e. European Commission initiatives and European Parliamentary co-decision.

The Eurozone crisis has shown that liberal intergovernmentalism is best applied to intergovernmental negotiations as it successfully captured the process by which member states negotiate based on the diverging preference and interdependence arrangements. Moreover, liberal intergovernmentalism has shown that, despite the context of path-dependent integration,

[198] Verdun, 2015

that asymmetrical interdependence, different national preferences and bargaining power remain crucial towards explaining European integration.

In terms of analysing integration during the Eurozone crisis, neofunctionalism has contributed considerably to understanding of the process. Specifically, neofunctionalism recognised numerous important factors and mechanism driving change. From this theoretical perspective, Eurozone crisis management led to integrative outcomes which addressed three key functional dissonances which resulted from the EMU's incomplete framework established by the Treaty of Maastricht, but were based on the shared salient policy objectives of protecting the single currency and EMU stability. The neofunctionalist analysis of this thesis has shown that these three dissonances triggered the Eurozone crisis, which consequently enlarged these functional dissonances. The functional spillover dynamic, given the lack of plausible alternative options, increased substantially and as a result played an important role in shaping political discourse of EU policy- and decision-makers. Besides the functional pressures, EU institutions also sought to assert integrative pressures, as shown by the ECB's assertiveness in advocating further integrative crisis management solutions designed to address the EMU's governance shortcomings as well as by the EP's policy entrepreneurship throughout the Six-Pack negotiations. Moreover, interest groups provided additional integrative pressures as they generally also favoured additional economic integration as a solution to the Eurozone crisis. What is even more important is the role played by financial markets, given the uncovering and exposing of functional dissonance in addition to reprimanding decision- and policy-maker inactivity or when deciding that proposed integrative solutions were insufficient.

An important theoretical limitation is evident from the neofunctionalist analysis above, specifically the focus of integration dynamics fails to explain the limitations of European integration. An example of this includes the fact that neofunctionalism cannot adequately explain why Eurozone countries have to-date not reached consensus on the introduction of fully supranational fiscal union in light of the lack of disintegrative pressures. Nonetheless, the continued relevance of neofunctionalism is evident by is analysis of the Eurozone crisis, given the continued potential for spillovers due to the lingering functional dissonances, suggests that there is significant potential for further research as a result of the analysis and findings presented by this thesis.

8. References

Alessi, C. 2012. The role of the European Central Bank, *Council on Foreign Relations*, 12 September 2012. Retrieved 01 June, 2015 from: http://tiny.cc/l153yx

Angeloni, I. and Ioannou, D. 2013. The European Banking Union is moving ahead, *Boao Review 4*, 25 May 2013. Retrieved 01 June, 2015 from: http://tiny.cc/3153yx

Arghyrou, M. and Kontonikas, A. 2012. The EMU sovereign-debt crisis. *Journal of International Financial Markets, Institutions and Money* 22(4), pp.658–677.

Armingeon, K. and Ceka, B. 2012. The loss of trust in the European Union during the great recession since 2007: The role of heuristics from the national political system. *European Union Politics* 15(1), pp.82-107.

Barroso, J.M. 28 September 2011. 'European renewal – State of the Union Address 2011'. Retrieved 01 June, 2015 from: http://tiny.cc/y253yx

Baun, M.J. 1995. The Maastricht Treaty as high politics. *Political Science Quarterly* 110(4), pp.605-624.

BDI, Confindustria and MEDEF. 2011. 'Call for deeper European integration', 8 October 2011. Retrieved 01 June, 2015 from: http://tiny.cc/g353yx

Bergsten, C.F. and Kirkegaard, J.F. 2012. The Coming Resolution of the European Crisis. *Peterson Institute for International Economics policy brief*, pp. 1-10.

Bordo, M., Markiewicz, A. and Jonung, L. 2011. A fiscal union for the euro, *National Bureau of Economic Research, Working Paper 17380*, 24 September 2011. Retrieved 01 June, 2015 from: available at http://tiny.cc/j453yx

Bølstad, J. 2014. Dynamics of European integration: Public opinion in the core and periphery. *European Union Politics* 16(1): pp.23-44.

Burley, A-M and Mattli, W. 1993. Europe Before the Court: A Political Theory of Legal Integration. *International Organization* 47(1), pp.41-76.

BusinessEurope. 2010a. 'Combining fiscal sustainability and growth: a European action plan', March 2010. Retrieved 01 June, 2015 from: http://tiny.cc/t453yx

BusinessEurope. 2010b. 'Declaration on economic governance', October 2010. Retrieved 01 June, 2015 from: http://tiny.cc/s553yx

BusinessEurope. 2011. 'Letter to Council President Van Rompuy', 4 March 2011. Retrieved 01 June, 2015 from: http://tiny.cc/6553yx

BusinessEurope, EVCA, EBF, EFRP and FEE. ‘Financial reforms and the recovery’, 25 June 2010. Retrieved 01 June, 2015 from: http://tiny.cc/8553yx

Chaffin, J. 2012. ‘Barroso unveils European banking union’, *The Financial Times*, 12 September 2012. Retrieved 01 June, 2015 from: http://tiny.cc/r653yx

Chang, M. 2013. Fiscal policy coordination and the future of the community method. *Journal of European Integration* 35(3), pp.255–69.

Cody, E. 2010. ‘Greek bailout plan approved by German Parliament’, *The Washington Post*, 07 May 2010. Retrieved 01 June, 2015 from: http://tiny.cc/u753yx

Cooper, I. 2011. The Euro-Crisis as the Revenge of Neo-Functionalism, September 21 2011. Retrieved 01 June, 2015 from: http://tiny.cc/2753yx

Corporate Europe Observatory. 2012a. ‘Austerity Treaty: no democracy without referendums’, 24 January 2012. Retrieved 01 June, 2015 from: http://tiny.cc/k853yx

Corporate Europe Observatory. 2012b. ‘Inspired by big business: the EU Austerity Treaty’, 08 March 2012. Retrieved 01 June, 2015 from: http://tiny.cc/3853yx

Corporate Europe Observatory. 2012c. ‘The Roundtable goes for full conquest’, 13 July 2012. Retrieved 01 June, 2015 from: http://tiny.cc/b953yx

Council of the European Union. 2012. *Treaty on Stability, Coordination and Governance in the Economic and Monetary Union*, Brussels, 02 March 2012. Retrieved 01 June, 2015 from: http://tiny.cc/q953yx

Delors Committee. 17 April 1989. Report on Economic and Monetary Union in the European Community, Luxemburg: EC Publications Office. Retrieved 01 June, 2015 from: http://tiny.cc/y953yx

De Grauwe, P. 2011. Only a more active ECB can solve the euro crisis, *Centre for European Policy Studies Policy Brief 250*, 04 August 2011. Retrieved 01 June, 2015 from: http://tiny.cc/4953yx

De Santis, R. 2012. The euro area sovereign debt crisis. Safe haven, credit rating agencies and the spread of the fever From Greece, Ireland, and Portugal, *ECB Working Paper Series 1419*, Frankfurt: European Central Bank.

Dunn, T.M. 2012. Neo-Functionalism and the European Union: Neo-Functionalism Reflected the

Political Dynamics in the Early Years of European Integration. In What Ways is it Still a Useful Approach Today?, *E-International Relations*, November 28 2012. Retrieved 15 February 2015 from: http://tinyurl.com/pcooe9z

Dür, A. 2008. Measuring interest group influence in the EU. *European Union Politics* 9(4), pp.585-602.

Dyson, K. 2013. Sworn to grim necessity?. *Journal of European Integration* 35(2), pp.207–22.

Eddy, M. 2012. 'Merkel Vows to Help Greeks Stay in Euro Zone', *The New York Times*, 24 August 2012. Retrieved 01 June, 2015 from: http://tinyurl.com/ng4dydo

Eichenberg, R.C. and Dalton, R.J. 2007. Post-Maastricht Blues: The Transformation of Citizen Support for European Integration, 1973-2004. *Acta Politica* 42, pp.128-152.

Eichengreen, B. 2006. "European Integration," in *Oxford Handbook of Political Economy*, edited by Barry R. Weingast and Donald A. Wittman. Oxford: Oxford University Press, pp.799-813.

EUObserver.com. 2010. 'EU leaders give green light to tweak treaty', *EUObserver.com*, 28 October 2010. Retrieved 01 June, 2015 from: http://tiny.cc/f52syx

EurActiv.com. 2011. 'EU comes to terms with 'two-speed Europe'', *EurActiv*, 14 November 2011. Retrieved 01 June, 2015 from: http://tinyurl.com/nhohuye

EurActiv.com. 2012. 'Hollande to Merkel: Political union comes after banking, social unions', *EurActiv*, 18 October 2012. Retrieved 01 June, 2015 from: http://tiny.cc/6b63yx

European Central Bank. 2005. 'Indicators of financial integration in the euro area', Frankfurt, September 2009. Retrieved 01 June, 2015 from: http://tiny.cc/fc63yx

European Central Bank. 2012a. 'Press release 6 September 2012 – Technical features of Outright Monetary Transaction', Frankfurt, 06 September 2012. Retrieved 01 June, 2015 from: http://tiny.cc/lc63yx

European Central Bank. 2012b. 'Monthly bulletin, October 2012'. Frankfurt, October 2012. Retrieved 01 June, 2015 from: http://tiny.cc/wc63yx

European Central Bank. 2015. 'Key dates of the financial crisis (since December 2005)'. Retrieved 01 June, 2015 from: http://tiny.cc/fd63yx

European Commission. 2009. 'Commission Decision of 23 January 2009 establishing the Committee of European Banking Supervisors', Brussels, 23 January 2009. Retrieved 01 June, 2015 from: http://tiny.cc/hd63yx

European Commission. 2010a. ‘Reinforcing economic policy coordination’, Brussels, 12 May 2010. Retrieved 01 June, 2015 from: http://tiny.cc/ee63yx

European Commission. 2010b. ‘Enhancing economic policy coordination for stability, growth and jobs’, Brussels, 30 June 2010. Retrieved 01 June, 2015 from: http://tiny.cc/ee63yx

European Commission. 2013. ‘Commission proposes Single Resolution Mechanism for the Banking Union’, Brussels, 10 July 2013. Retrieved 01 June, 2015 from: http://tiny.cc/ee63yx

European Council. 2010a. ‘Statement of the Heads of State or Government of the Euro Area’, Brussels, 07 May 2010. Retrieved 01 June, 2015 from: http://tinyurl.com/nhckfmh

European Council. 2010. ‘Strengthening economic governance in the EU; report of the task force to the European Council’, Brussels, 21 October 2010. Retrieved 01 June, 2015 from: http://tinyurl.com/poacf8x

European Council. 2012. ‘Euro area summit statement of 29 June 2012’, Brussels, 29 June 2012. Retrieved 01 June, 2015 from: http://tinyurl.com/6mskd4y

European Parliament. 2012. ‘European Parliament resolution of 20 November 2012 with recommendations to the Commission on the report of the Presidents of the European Council, the European Commission, the European Central Bank and the Eurogroup ‘Towards a genuine Economic and Monetary Union’, Strasbourg, 20 November 2012. Retrieved 01 June, 2015 from: http://tinyurl.com/navs9wp

European Roundtable of Industrialists. 2011. ‘Euro crisis: European industry leaders call for coordinated actions to reinforce EMU’, 12 October 2011. Retrieved 01 June, 2015 from: http://tinyurl.com/p8fcztj

European Roundtable of Industrialists. 2012. ‘Creating growth in Europe’, 16 January 2012. Retrieved 01 June, 2015 from: http://tinyurl.com/ovgf9la

Feldstein, M. 2011. The Euro and European Economic Conditions, *National Bureau of Economic Research Working paper series 17617,* pp.1-17.

Frankfurter Allgemeine. 2010a. ‘A daily new attitude towards Greece’, *Frankfurter Allgemeine*, 21 March 2010. Retrieved 01 June, 2015 from: http://tinyurl.com/oz2gxu4

Frankfurter Allgemeine. 2010b. ‘Interview Wolfgang Schäuble. First the sentence, then the fund’, *Frankfurter Allgemeine,* 24 March 2010. Retrieved 01 June, 2015 from: http://tinyurl.com/qdytz43

Gleeson, C. 2014. ‘Jean-Claude Trichet and the Irish bailout: A timeline’, *The Irish Times*, 06 November, 2014. Retrieved 01 June, 2015 from: http://tinyurl.com/qxy5vjc

Grant Thornton International Business Report. 2013. ‘The Future of Europe’, pp.1-13. Retrieved 01 June, 2015 from: http://tinyurl.com/qgg3nse

Cowles, M.G. 1995. Setting the agenda for a new Europe. *Journal of Common Market Studies* 33, pp.501-526.

George, A.L. and Bennett, A. 2005. *Case Studies in Theory Development in the Social Sciences*. Cambridge, MA: MIT Press.

Grieco, J. 1996. State interests and international rule trajectories: a neorealist interpretation of the Maastricht Treaty and European Economic and Monetary Union. *Security Studies* 5(3):pp. 261-306.

Guiso, L., Sapienza, P. and Zingales, L. 2014. Monnet's Error?. *Brookings Institution working paper*, pp. 1-76.

Haas, E.B. 1958. *The Uniting of Europe; Political, Social, and Economic Forces, 1950-1957*. Stanford: Stanford University Press.

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

Haas, E.B. 1970. The Study of Regional Integration: Reflections on the joy and Anguish of Pretheorizing. *International Organization* 24(4), pp.607-46.

Hall, P. 2012. The economics and politics of the Euro crisis. *German Politics* 21(4), pp.355-71.

Heipertz, M. and Verdun, A. 2010. *Ruling Europe: The Politics of the Stability and Growth Pact,* NY: Cambridge University Press.

Hewitt, G. 2012. ‘Euro: Merkel gives concessions to Italy and Spain’, BBC News, 29 June 2012. Retrieved 01 June, 2015 from: http://tinyurl.com/qzry7d2

Hobolt, S.B. and Wratil, C. 2015. Public opinion and the crisis: the dynamics of support for the euro. *Journal of European Public Policy* 22(2), pp.238-256.

Hodson, D. 2013. The little engine that wouldn’t: supranational entrepreneurship and the Barroso Commission. *Journal of European Integration* 35(3): pp.301–14.

Hooghe, Liesbet. 2003. Europe Divided? Elites vs. Public Opinion on European Integration. *European Union Politics* 4(3): pp.281-304.

Hooghe, L. and Marks, G. 2009. A postfunctionalist theory of European integration: from permissive to consensus to constraining dissensus. *British Journal of Political Science* 39(1), pp.475-495.

Hopkins, K. 2010. 'Greece's euro dilemma. Will Greece stay in the eurozone - and what happens if it leaves?', *The Guardian*, 15 February 2010. Retrieved 01 June, 2015 from: http://tinyurl.com/qe567aq

Ioannou, D. and Stracca, L. 2014. Have euro area and EU economic governance worked? Just the facts. *European Journal of Political Economy* 34, pp.1-17.

Ioannou, P.L. and Niemann, A. 2015. European integration and the crisis: practice and theory. *Journal of European Public Policy* 22(2), pp. 155-176.

Jachtenfuchs,M. 1997. 'Conceptualizing European governance', in K.E. Jorgensen (ed.), Reflective Approaches to European Governance, Basingstoke: Macmillan, pp. 39–50.

Jäger, K. 2013. Sources of Franco-German corporate support for the euro. *European Union Politics* 14(1), 115-139.

Kollewe, J. and Fletcher, N. 2012. 'Eurozone crisis live: EU summit to outline plans for further integration', *The Guardian*, 28 June 2012. Retrieved 01 June, 2015 from: http://tiny.cc/s82syx

Kyriakidou, D. and Neogy, A. 2011. 'Greek PM ready to go, dump referendum, for euro deal', Reuters, 03 November 2011. Retrieved 01 June, 2015 from: http://tinyurl.com/5svgtpp

Laffan B. and Mazey S. 2006. "European integration: the European Union –reaching an equilibrium?" in Richardson J. (ed.), European Union. "Power and policy-making" 3rd edition, Abingdon, Routledge, pp.31-54

Lane, P.R. 2012. The European Sovereign Debt Crisis. *Journal of Economic Perspectives* 26(3), pp.49–68.

Leblond, P. 2006. The political stability and growth pact is dead: long live the economic stability and growth pact. *Journal of Common Market Studies* 44(5), pp.969-990.

Lefkofidi, Z. and Schmitter, P.C. 2015. Transcending or descending? European Integration in Times of Crisis. *European Political Science Review* 7(1), pp.3-22.

Lelieveldt, H. and Princen, S. 2011. *The Politics of the European Union*, Cambridge: Cambridge University Press.

Leuffen, D., Rittberger, B. and Schimmelfennig, F. 2013. *Differentiated Integration*, Houndmills : Palgrave Macmillan.

Lindberg, L. 1963. *The Political Dynamics of European Integration*, Stanford, CA: Stanford University Press.

Lindberg, L. and Scheingold, S. 1970. *Europe's would-be Polity*, Englewood Cliffs. NJ: Prentice Hall.

Ludlow, P. 2010. 'In the last resort. the European Council and the euro crisis', *Eurocomment Briefing Note 7/8*, June 2010. Retrieved 01 June, 2015 from: http://tinyurl.com/prs4bgf

Ludlow, P. 2013. 'Eurocomment: economic policy, EMU and enlargement. The European Council of 27–8 June 2013', *Eurocomment*. Retrieved 01 June, 2015 from: http://tinyurl.com/o2h8fcg

Mandate Trade Union. 2012. 'EU unions' No to EU stability treaty', 01 February 2012. Retrieved 01 June, 2015 from: http://tinyurl.com/oxlbwqc

McDonald, H., Moya, E. and Elliot, L. 2010. 'Ireland told: Take EU bailout or trigger crisis', *The Guardian*, 15 November 2010. Retrieved 01 June, 2015 from: http://tinyurl.com/p9y6w7e

Mearsheimer, J. 1990. Back to the future, instability in Europe after the cold war. *International Security* 15(1), pp.5-56.

Menz, G. and Smith, M. 2013. Kicking the can down the road to more Europe?'. *Journal of European Integration* 35(3), pp.195–206.

Minder, R., Kulish, N. and Geitner, P. 2012. 'Spain to Accept Rescue From Europe for Its Ailing Banks', *The New York Times*, 09 June 2012. Retrieved 01 June, 2015 from: http://tinyurl.com/o4q6aea

Moravcsik, A. 1993. Preferences and power in the European Community: A liberal intergovernmentalist approach. *Journal of Common Market Studies* 31(4), pp.473-524.

Moravcsik, A. 1998. *The Choice for Europe: Social Purpose & State Power from Messina to Maastricht*. Ithaca, NY: Cornell University Press.

Moravcsik, A. and Nicolaidis, K. 1999. Explaining the Treaty of Amsterdam: Interests, Influence, Institutions. *Journal of Common Market Studies* 37(1): pp.59-85.

Niemann, A. 2006. *Explaining Decisions in the European Union*, Cambridge: Cambridge University Press.

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

Niemann, A. and Schmitter. 2009. "Neofunctionalism," in *Theories of European Integration*, edited by Wiener A. and Diez, T. Oxford: Oxford University Press, pp.45-66.

Nye, J. 1970. Comparing common markets: a revised neo-functionalist model. *International Organization* 24, pp.796–835.

Olender, M. 2012. Germany's euro crisis. Preferences, management, and contingencies. *Review of European and Russian Affairs* 7(2), pp.1-17.

Overbeek, H. 2012. Sovereign debt crisis in euroland. *The International Spectator* 47(1), pp.30-48.

Panico, C. and Purificato, F. 2012. 'The role of institutional and political factors in the European debt crisis', *Working Paper Series No.280*, March 2012. Amherst: Political Economy Research Institute. Retrieved 01 June, 2015 from: http://tinyurl.com/pxg54jp

Pisani-Ferry, J. 2014. *The Euro Crisis and its Aftermath*, Oxford: Oxford University Press.

Rappaport, S. 2011. 'German And French Businesses Just Unleashed A Huge Marketing Campaign To Save The Euro', *Business Insider,* 21 June 2011. Retrieved 01 June, 2015 from: http://tinyurl.com/o75t5ox

Rossi, S. 2013. Financialisation and monetary union in Europe: the monetary-structural causes of the euro-area crisis. *Cambridge Journal of Regions, Economy and Society* 6(3), pp.381-400.

Sweet, A.S. and Sandholtz, W. 1997. European integration and supranational governance. *Journal of European Public Policy* 4(3), pp.297-317.

Scharpf, F. 1997. Economic integration, democracy and the welfare state. *Journal of European Public Policy* 4(1): pp.18–36.

Scharpf, F. 1999. *Governing in Europe: Effective and Democratic?*, Oxford: Oxford University Press.

Schimmelfennig, F. 2012. Between Neo- and Post-functionalism: Integration Theories and the Euro Crisis. *Politische Vierteljahresschrift* 53(4), pp.394–413.

Schild, J. 2013. Leadership in hard times: Germany, France, and the management of the eurozone crisis, *German Politics & Society* 3(1), pp.24-47.

Schimmelfenning, F. 2014. European Integration in the Euro Crisis: the Limits of Postfunctionalism. *Journal of European Integration* 36(3), pp.317-337.

Schimmelfenning, F. 2015. Liberal Intergovernmentalism and the euro area crisis. *Journal of European Public Policy* 22(2), pp.177-195.

Schmidt, S. 2012. *The Law of the Crisis, How Banks Govern Politics*. Munich: Droemer Verlag, pp.1-240.

Schmieding, H. 2012. Tough love: the true nature of the eurozone crisis. *Business Economics* 47(3), pp.177-189.

Schmitter, P.C. 2005. Ernst B. Haas and the Legacy of Neo-functionalism. *Journal of European Public Policy* 12(2), pp.255-272.

Schmitter, P.C. 2012. *European disintegration? A way forward*. *Journal of Democracy* 23(4), pp.39-48.

Schoenmaker, D. 2011. The financial trilemma. *Economics Letters* 111, pp.57-59.

Shambaugh C. Jay. 2012. The Euro's Three Crises. *Brookings Papers on Economic Activity*, pp.157-231.

Sinn, H. and Wollmershäuser, T. 2012. Target loans, current account balances and capital flows: the ECB's rescue facility. *International Tax and Public Finance* 19, pp.468–508.

Spiegel, P. 2014. 'Euro in crisis', *The Financial Times*, November 2014. Retrieved 01 June, 2015 from: http://tinyurl.com/pswg45g

Spiegel Online. 2011. 'If the Euro Fails, Europe Fails': Merkel Says EU Must Be Bound Closer Together', *Spiegel Online*, 07 September 2011. Retrieved 01 June, 2015 from: http://tinyurl.com/pbgwvjo

Spiegel Online. 2012. 'Billions in Support: Merkel, Monti and Co. Agree to European Growth Pact', *Spiegel Online*, 22 June 2012. Retrieved 01 June, 2015 from: http://tinyurl.com/q5tlyln

Spiegel Online. 2012. 'EU Commissioner Almunia on Spanish Bank Bailout: Nations Must Do What is Needed to Save Europe', *Spiegel Online*, 3 October 2012. Retrieved 01 June, 2015 from: http://tinyurl.com/nert6vs

Spolaore, E. 2013. What is European Integration Really About? A Political Guide for Economists. *Journal of Economic Perspectives* 27(3), pp. 125-144.

The Economist. 2010. 'The Merkel memorandum', *The Economist*, 11 August 2012. Retrieved 01 June, 2015 from: http://tinyurl.com/9vpax3n

The Economist. 2011a. 'The constant chancellor. Angela Merkel may not look as strong as the German economy does—but she will still be hard to topple', *The Economist*, 03 February 2011. Retrieved 01 June, 2015 from: http://tinyurl.com/nba5mrs

The Economist. 2011b. ‘Ready for the ruck? Taking over the European Central Bank puts Mario Draghi in a position as perilous as Europe’s’, *The Economist,* 22 October 2011. Retrieved 01 June, 2015 from: http://tinyurl.com/3jfor8f

The Economist. 2013. ‘A better deal, but still painful’, *The Economist*, 25 May 2013. Retrieved 01 June, 2015 from: http://tinyurl.com/bmhh8mm

The Guardian. 2003. ‘What is the stability and growth pact?’, *The Guardian*, 27 November 2003. Retrieved 01 June, 2015 from: http://tinyurl.com/kstyddx

The Guardian. 2012. ‘Eurozone moves a decisive step closer to banking union’, *The Guardian, 13* December 2012. Retrieved 01 June, 2015 from: http://tinyurl.com/nv86y6d

Torres, F. 2013. The EMU’s legitimacy and the ECB as a strategic political player in the crisis context. *Journal of European Integration* 35(3), pp.287–300.

Tranholm-Mikkelsen, J. 1991. Neo-functionalism: obstinate or obsolete?. *Millennium Journal of International Studies* 20(1), pp.1–22.

Traynor, I. 2010a. ‘Angela Merkel agrees on Greece rescue package – but wants new euro rules’, *The Guardian,* 26 March 2010. Retrieved 01 June, 2015 from: http://tinyurl.com/pyfp2qx

Traynor, I. 2010b. ‘Greek debt crisis: Euro leaders call emergency summit to avert meltdown’, *The Guardian,* 28 April 2010. Retrieved 01 June, 2015 from: http://tinyurl.com/qg88pay

Traynor, I.. 2010c. ‘Nicolas Sarkozy threatened to pull out of euro over Greece row’, *The Guardian,* 14 May 2010. Retrieved 01 June, 2015 from: http://tinyurl.com/phddgph

Traynor, I. 2010d. ‘How the euro – and the EU – teetered on the brink of collapse’, *The Guardian,* 14 May 2010. Retrieved 01 June, 2015 from: http://tinyurl.com/ox4m8em

Traynor, I. 2010e. ‘Angela Merkel warned that Germany could abandon the euro’, *The Guardian*, 03 December 2010. Retrieved 01 June, 2015 from: http://tinyurl.com/nstw3et

Traynor, I. 2012a. ‘Spain calls for new tax pact to save euro’, *The Guardian*, 06 June 2012. Retrieved 01 June, 2015 from: http://tinyurl.com/nb2wkeo

Traynor, I. 2012b. ‘ECB introduces unlimited bond-buying in boldest attempt yet to end euro crisis’, *The Guardian,* 06 September 2012. Retrieved 01 June, 2015 from: http://tinyurl.com/p8u4xtu

Van Rompuy, H., Barroso, J.M., Juncker, C. and Draghi, M. 2012. ‘Towards a Genuine Economic and Monetary Union’, Brussels, 05 December 2012. Retrieved 01 June, 2015 from: http://tinyurl.com/cog5mfv

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

Vilpišauskas, R. 2013. Eurozone crisis and European integration?. *Journal of European Integration* 35(3), pp.361–73.

Volkery, C. 2010. 'The Greek Bailout Plan: Merkel's Risky Hand of Brussels Poker', *Spiegel Online*, 26 March 2010. Retrieved 01 June, 2015 from: http://tinyurl.com/oomc5hm

Wallace, H., Caporaso, J.A., Scharpf, F. and Moravcsik, A. 1999. Review Section Symposium: The Choice for Europe: Social Purpose and State Power from Messina to Maastricht. *Journal of European Public Policy* 6(1), pp.155-179.

Wearden, G. 2010. 'Ireland's debt crisis - today as it happened', *The Guardian*, 18 November 2010. Retrieved 01 June, 2015 from: http://tinyurl.com/nn92cwp

Wiener, A. and Diez, T. 2009. *European Integration Theory* (Second edition). Oxford: Oxford University Press.

Yiangou, J., O'Keeffe, M. and Glöckler, G. 2013. Tough love': how the ECB's monetary financing prohibition pushes deeper euro area integration. *Journal of European Integration* 35(3), pp.223-37.

Zeit Online. 2010. 'Vor dem EU-GipfelEU-Außenminister erhöhen Druck auf Merkel', Zeit Online, 22 March 2010. Retrieved 01 June, 2015 from: http://tinyurl.com/nsenppk