

2015

Legitimising Discourses and the Efforts to Reform the European Union's Fiscal Governance Arrangements

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<http://hdl.handle.net/10026.1/5141>

<http://dx.doi.org/10.24382/4653>

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***Legitimising Discourses and the Efforts to Reform the
European Union's Fiscal Governance Arrangements***

By

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A thesis submitted to Plymouth University in partial fulfilment for the
degree of DOCTOR OF PHILOSOPHY

School of Government

March 2015

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Legitimising Discourses and the Efforts to Reform the European Union's Fiscal Governance Arrangements

.....Abstract.....

With a rapid centralisation of fiscal sovereignty now being aired as a possibility following on from the financial and economic crisis, this thesis considers how legitimising discourses are shaping the efforts to reform EU fiscal governance. Norman Fairclough's 'moderately constructivist' three-dimensional framework for CDA is drawn upon. This approach is also combined with insights drawn from the new institutionalist literature base (particularly from its historical and discursive strands of thought), with an additional emphasis being placed on broader understandings of structural forms of power as developed through the writings of Susan Strange. It is found that the emerging debate over EU fiscal governance reform is dominated by a limiting neoliberal legitimising discourse. This research also makes a contribution to our understanding of the ideational and institutional roots of the current impasse in European Integration. Finally, it is concluded that the efforts to reform the EU's fiscal governance arrangements are likely to bring about, at best, incremental change along a path-dependent line.

Acknowledgements

This thesis could not have been completed without the support and input of many people based both in the UK and in Brussels. First, I would like to express my gratitude to my supervisors located at Plymouth University: Dr Patrick Holden and Professor Kerry e. Howell. They provided expert guidance, enthusiasm and constant support throughout the research. I would also like to thank the wider staff and research community based within the School of Governance for their advice.

This research would also not have been possible without the willing participation of the interviewees based within Brussels. Many of them took the time to talk to me at a period when the Union was facing perhaps its greatest crisis—I am very grateful for that! I would also like to thank the academics and member of the policy community who attended the 2013 Sheffield Political Economy Research Institute Conference on ‘Austerity versus Growth’. Many of them provided valuable input into this research and were a source of ideas.

I would also like to thank my external examiner: Professor Wyn Grant who has served as Head of Dept of Politics and International Studies at the University of Warwick.

Most of all I would like to thank my family. My mum Helen, dad Ken and twin sister Louise. Their constant support extends well beyond the time spent completing this research.

Author's Declaration

At no time during the registration for the research degree has the author been registered for any other University award. The author also declares that no work submitted for this research degree at Plymouth University may form part of any other degree either at the University or at another establishment, This study was financed with the aid of a studentship from the University of Plymouth

Relevant seminars and conferences were attended.

Word Count of the main body of the text: 75, 502

Date 10/03/2015

Signed:

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Chapter One: Introduction

Despite warnings from economists during the run up to monetary union in Europe, Economic and Monetary Union (EMU) was designed on an asymmetrical basis with member states retaining ultimate budgetary sovereignty (Verdun 1996, 1998). Within this framework, fiscal policy coordination remained firmly under the guidance of the rules-based Stability Growth Pact (SGP) framework for fiscal discipline. The intensification of the global financial and economic crisis in Europe around late 2010 has, however, broken the relative stability which characterised the fiscal governance policy-making environment. With policy-makers confronting at times an 'existential crisis of the EU' (as termed by a Senior Spokesman for the European Council President; Interview Extract O 2014:1), they have been forced to embark on a potentially far reaching program to reform the EU's existing fiscal governance arrangements.

Current reform possibilities progress from what would be a limited status quo reform agenda building on the SGP framework up until an altogether more far reaching integration leap in the direction of full fiscal and political union. With fiscal policy and the ability to tax and spend remaining deeply rooted at the national parliamentary level, this reform debate is intimately linked with emotional conceptions of state sovereignty and moral hazard. The possibility for a rapid transfer of fiscal sovereignty to the supranational level also raises highly challenging questions over democracy and how the balancing act between the European Parliament and its national level counterparts should function. These events could also necessitate a fundamental rethink of the labels we might attach to the EU as an actor—whether federal or intergovernmental. In sum, the EU fiscal governance reform issue is an important and uniquely politically salient issue—and it is this fact that makes the need for legitimisation arguments all the more acute.

The literature base on EU fiscal governance has been overwhelmed by contributions from the economics profession. While not to be dismissed, these

contributions have been underpinned largely by rational choice models of analysis, which eschew more ideational accounts of institutional change in favour of material interests. There has also been little in the way of political analysis carried out into the role of legitimacy considerations within this context (even in the wake of the financial and economic crisis), which is unfortunate in this instance given the richness of the political issues at stake. In order to bridge these gaps in the literature, the central research question guiding this research process is: *Which legitimising discourses are shaping EU fiscal governance reform?* A hypothesis is not adopted here due to the *qualitative methodology* and open ended nature of the study. A number of sub-questions also logically flow from the main research question. These sub-questions include: *what legitimising discourses have been produced in the course of the reform debate?; how do they relate to political and economic power structures?; and what is the impact on policy proposals?*

To answer the research question (and sub-questions) Norman Fairclough's 'moderately constructivist' three-dimensional framework for Critical Discourse Analysis (CDA) is drawn upon which analyses discourse as a text, as a discourse practice, and as a form of social practice (Fairclough 1992, 2003, 2005, 2005a, 2006). However, with a view to increasing the explanatory potential of a CDA approach that is well suited to interdisciplinary research (Woodak & Meyer 2001), it is combined with a selection of broader theoretically informed ideas and power concepts. Central here are the insights drawn from the new institutionalist literature base (particularly from its historical and discursive strands of thought), with an additional emphasis being placed on broader understandings of structural forms of power as developed through the writings of Susan Strange (1994). In developing a conceptualisation of legitimacy, the work of Fritz Scharf is drawn upon. He manages to capture the multiple dynamics of legitimacy by making a useful distinction between input and output dimensions of legitimacy (Scharpf 1999). The two-dimensional framework for legitimacy developed for this research process is also receptive to the institutional and procedural dimensions as well as to more sociological/discursive and constructivist processes by which legitimacy is, at least partly, socially constructed. Combined such theorising provides a fruitful explanatory framework for exploring legitimising discourses in what is a uniquely politically salient policy-making area.

Research Focus

Since the launch of the common euro currency in 1999, the EMU set-up has been characterised by a profound asymmetry between a centralised monetary policy and a decentralised fiscal policy (Verdun 1996, 1998). Within this schema, while monetary policy decision-making was placed in the hands of the independent ECB, fiscal (as well as broader economic) sovereignty continued to reside with member states at the national level. As will be discussed at length in chapter 1, from early on many economists were united by what they saw as an incomplete blueprint for integration within EMU, i.e. monetary union without fiscal union (see Eichengreen 1990, Sala-i-Martin & Sachs 1991, Robert & Rubinfeld 1992, Tamim & Masson 1995, Eichengreen & von Hagen 1996, amongst others). In short, these economists reached a series of negative conclusions regarding the absence of a system of fiscal redistribution (or solidarity mechanisms) to offset asymmetric shocks across the single currency area. Moreover, Belgium economist and foremost expert on the functioning of monetary unions Paul De Grauwe has used Optimal Currency Area (OCA) theory to warn against the inherent fragility of EMU without a fiscal union—in terms of a ‘European government with the power to tax and spend’ (De Grauwe 2006:72). Yet despite persistent doubts being raised about the suitability of constructing EMU on an asymmetric basis, no major integration steps were taken in the direction of a deeper level of fiscal union during the first decade of the single currency area.

This asymmetry within the EMU set-up when it was created, however, did raise the issue of possible ‘negative spill-overs’, resulting from member states with excessive deficit biases transferring negative costs on to neighbouring member states in the form of inflation or high interest rates (Feldmand 2003, Heipertz & Verdun 2004). With a view to limiting such negative spill over effects, the EU sought to maintain a level of fiscal discipline within EMU through the rules-based SGP framework, adopted in 1997 (Begg et al. 2003, Fatás et al. 2003). A product of a

memo put forward in 1995 by the then German Minister for Finance Theo Waigel, the SGP that was finally adopted through secondary legislation following negotiations did not include some of the provocative elements, including automatic sanctioning or fully independent supervision (Heipertz & Verdun 2011:5). As laid down within the original Maastricht Treaty, the SGP was guided by two key budgetary criteria: 1) budget deficits should not be allowed to exceed 3% of GDP; 2) and public debt should not be seen to exceed 60% of GDP. The relevant legal acts on which the SGP was comprised were two Council regulations: regulation No 1466/97 'on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies' (the so-called preventative arm); and regulation No 1467/97 'on speeding up and clarifying the implementation of the Excessive Deficit Procedure' (the so-called corrective arm)—with a politically significant resolution as agreed by the European Council to underpin the fiscal framework as a whole (see European Council 1997).

The full aims and operational procedures of the original SGP as adopted in 1997, as well as the key institutional actors involved in fiscal policy coordination, will be discussed at length as part of chapter 4. In brief, whereas the emphasis on the preventative arm was more on 'soft' coordination through multilateral surveillance and peer pressure, the corrective arm was more concerned with 'hard' formal procedures leading up ultimately to the possibility of financial sanctions. In terms of the actors involved in SGP coordination, it is also notable that finance ministers operating within the ECOFIN Council (acting on the basis of Commission recommendations) were left with considerable political discretion in advancing decision making procedures under both the preventative and corrective arms of the pact (see Figure 1 and Figure 2 in the appendix for an overview of the actors involved in advancing procedures under both arms of the SGP). Despite some minor reforms to the SGP being implemented in 2005 providing for a more flexible interpretation of the rules, the procedures, rules-based nature and two-pronged structure of the pact remained largely in place. This is not to say, however, that there was not a significant level of doubt as to both the underlying logic and effectiveness of the pact in exercising fiscal discipline within EMU (for a detailed discussion see Coeuré & Pisani-Ferry 2005, Calmfors 2005a, Buiters 2006, Fischer et al. 2006, amongst others).

With a relatively benign macroeconomic environment prevailing in Europe during the first decade of the single currency area, the SGP framework remained in place as the most visible way of coping with an asymmetrical EMU institutional set-up. However, this benign macroeconomic environment was shattered by the intensification of the financial and economic crisis in Europe around the middle of 2010—a period which saw investor confidence collapsing and bond yields on weaker Eurozone countries diverging markedly with the core states. While a full overview of the key events and characteristics defining this period of ‘crisis’ will be provided in chapter 4, in brief the use of the term ‘crisis’ is justified in this context by the considerable ‘risk’ element associated with sovereign default and contagion, with an added crucial ‘timing’ dimension resulting from the need to keep up with market forces. Faced with a financial and economic crisis of potential existential proportions, the EU was forced to embark in haste on a program to reform the EU’s existing fiscal governance arrangements. In brief, chief amongst the reform initiatives implemented included an economic legislative six-pack (adopted December 2011), a related legislative ‘two-pack’ (adopted March 2013) an intergovernmental ‘Euro Plus Pact’ (adopted in March 2011) and finally a fiscal compact (an intergovernmental treaty adopted in March 2012) (Commission 2012).

A defining characteristic of these short term reform initiatives is that they were largely limited to strengthening fiscal discipline within EMU by building on, rather than replacing, the pre-existing SGP framework. Nevertheless, with market sentiment towards the Eurozone seen to be improving significantly come the later end of 2012 (owing largely to rhetoric and exceptional monetary policy actions taken by the ECB under the leadership of Mario Draghi), the attention of European leaders has now switched to the longer term reform measures required to strengthen EMU (read the remarks made by the President of the European Council following a meeting of EU leaders at the end of June 2012 where the prospect for a ‘longer-term’ reform vision for EMU was set out; Van Rompuy 2012). There is now a prospect for marked increases in the centralisation of fiscal powers at the European supranational level—in a policy area that remains deeply embedded in national conceptions of sovereignty. The possibility of heightened fiscal integration also poses highly challenging questions over democracy legitimacy and

accountability and to the role of the European Parliament alongside its national level counterparts. This raises the spectre of what legitimising arguments will be required in this politically salient domain.

Fundamentally, it is the legitimising discourses emerging in the context of this ongoing reform debate over the future of EU fiscal governance that are the focus of this research. Before moving on to outline the key patterns of legitimising discourse that feature in this analysis, it is important to briefly expand on the concept of legitimacy guiding this research process (for a far more detailed overview of the key legitimising arguments involved here see chapter 2). The research builds on the work of Fritz Scharpf (1999). He makes an analytical distinction between the concepts of 'input legitimacy' and 'output legitimacy'. This leaves a normative articulation of legitimacy underpinned by a set of arguments related to input legitimacy ('involving political participation by and representation of the people') and output legitimacy ('a performance criterion centred on the ability of EU institutions to govern effectively') (Schmidt 2010:6). These arguments can be explored through discourse in the context of the ongoing fiscal governance reform debate. The framework for legitimacy drawn on in this research context is also receptive to the institutional and procedural dimensions (Pierson 1996, 2000, 2001, 2004, Bulmer 1998, 2009, Majone 1998, Scharpf, 1999, 2006 Moravcsik 2002) as well as to the complex sociological/discursive and constructivist processes by which legitimacy is, at least partly, socially constructed (March and Olsen 1989, Hall & Taylor 1996, Schmidt 2006, 2008, 2010).

A classification of the key patterns of legitimising discourse that need to be explored in the context of the ongoing debate over EU fiscal governance can now be expanded upon—following on from findings that will be detailed in full during the undertaking of the critical literature review (before being built on further in chapter 3). In an overarching sense, two key patterns of legitimising discourse can be identified as needing to be factored into the analysis. The first is an output oriented neoliberal discourse which is centred on the securing of strengthened fiscal discipline within EMU under the SGP framework, with input legitimacy being incurred largely indirectly. As a model of fiscal federalism this discourse if implemented would represent the point of minimum departure from the status quo. The second reform

discourse brings together both the input and output dimensions as part of a synergising relationship with the prospect of making a qualitative integration leap within EMU towards full fiscal and political union. As a model of fiscal federalism, this discourse, if implemented, would represent a significant departure from the current status quo. These key patterns of discourse have been presented below as part of a refined table that corresponds with the two-dimensional framework for legitimacy already outlined (for a more in depth reading as to how these patterns of discourse will guide the analysis stage see chapter 4).

Table 1.1: Reform Options for EU Fiscal Governance

	Input legitimacy	Output legitimacy	Model of Fiscal Federalism
Model 1	Indirect legitimacy via representative of member states in the Council and European Council	Inspired by a neoliberal ideology . Building on, rather than replacing, the rules-based SGP framework as a means to secure fiscal discipline.	Limited model of fiscal federalism: rules-based fiscal union with indirect channels of legitimisation.
Model 2	More channels of direct legitimacy via a strengthening of the European Parliament	Inspired by an economic solidarity agenda . Enhanced (neo-Keynesian) solidarity mechanisms involving debt mutualisation and/or the development of a EU fiscal capacity (EU budget) with redistributive and/or stabilisation functions.	Far reaching model of fiscal federalism: full fiscal union with flanking political union aspect.

In recognition of the deficiencies that have already been identified within the asymmetric EMU framework concerning the lack of a fiscal union aspect—a deficiency which ultimately has been seen to play a crucial role in bringing about the intensification of the financial and economic crisis in Europe (see De Grauwe 2013)—a position in favour of the implementation of the more far reaching reform discourse is adopted for the purposes of this research undertaking (arguments which will be developed further as part of chapter 1 and chapter 3). Such a positioning is also beneficial here as it helps to guide the research in a more critical direction. Some of the key questions that need to be explored in this schema include which dominant ideologies are guiding the reform debate and from within which institutional setting?; do these policy responses result from a particular interpretation (possibly a misguided one) of the crisis in the first instance?; are these discourses recently established or can they be historically located in the EU context?; and is the mix legitimising mechanisms being relied upon sufficient? Also, if a more limiting neoliberal discourse is dominating in a particular institutional setting, then exploring some the broader arguments that may be being used to prevent an integration leap towards a deeper level of fiscal and political union in Europe is essential. And, as will be discussed at length in the critical literature review, this is where sensitive issues related to sovereignty concerns and issues of moral hazard may need to be factored into the analysis—in a policy area which after all has historically remained deeply embedded at the national level.

Finally, three key policy settings have been identified in chapter 4 as dominating fiscal policy coordination within EMU: 1) the intergovernmental settings, including the European Council, ECOFIN Council (shadowed by the Eurogroup), as well as the various deliberations which take place at committee level; 2) the Commission setting as the Unions foremost supranational actor; 3) and the European Parliament setting as a more marginal, although not inconsequential, policy actor within EMU. And a separate case study chapter is devoted to exploring legitimising discourses from across the three institutional settings identified.

Research Agenda: Distinguishing Features and Intellectual Contribution

The literature compiled on the EU's fiscal governance arrangements is dominated by contributions from the economics profession, who generally have carried out analysis that eschew more ideational accounts of institutional change in favour of material interests (see chapter 1 for a critical overview of the literature base). And relatively little in the way of political analysis has been carried out into exploring the topic of EU fiscal governance reform in the wake of the financial and economic crisis, particularly with a view to factoring in the role played by the all-important legitimacy considerations. In order to bridge these observed gaps in the literature base, this research is underpinned by a strong political dimension, and it applies meanings and concepts from European political economy. As already made clear, at the heart of this more politically aware approach is Scharpf's (1999) two-dimensional concept of legitimacy, which is explored through discourse in the context of the ongoing efforts to reform the EU's fiscal governance arrangements. In order to operationalise these research objectives, Norman Fairclough's three-dimensional framework for CDA (see chapter 3) is drawn upon in which discourse is analysed as a text, as a discourse practice, and as a form of social practice (Fairclough 1992, 2003, 2005, 2005a, 2006). The complex methodological issues underpinning this CDA approach will be discussed in depth as part of chapter 3. However, there are a number of unique features to the CDA approach that make it of particular value to the researcher in this context.

First, Fairclough's CDA approach is underpinned by the premises of critical realism (see Bhasker 1986, 1989, Archer 1995, Sayer 2000): a philosophy that retains an ontological realism (a real world exists independently of our knowledge about it) while accepting a form of epistemological relativism (our understanding of this reality is partly constructed from our own perspectives and standpoint). For this reason the approach can be labelled as being 'moderately constructivist', with the tendency on the part of some extreme constructivist or post-modernist scholars to

reduce the study of social life to discourse being rejected here. As Fairclough explains:

“This version of CDA views discourse as an element of social processes and social events, and also an element of relatively durable social practices, though neither are reducible to discourse: they are articulations of discourse with non-discoursal elements” (Fairclough 2005:921).

The focus of this CDA approach is, therefore, far broader than discourse *per se*, for it also factors in its dialectical relationship with non-discourse elements of the social at the broadest levels. It is also on the basis of these assumptions that Fairclough is also able to integrate broader social theory with more textually orientated discourse analysis (Chouliaraki & Fairclough 1999); and, in doing so, is able to oscillate from the micro text level up to the broader cultural, institutional, and societal context at the macro level. Such dialectic logic also allows for a more detailed exploration of the interrelations between structure, agency and change—a characteristic seen to be lacking in some of the earlier more social grounded research traditions (Newton 1998, 2003, Reed 1997, 2000). The moderately constructivist approach adopted by Fairclough is also consistent with the concept of legitimacy being drawn upon to guide this research process, i.e. one which is receptive to both the institutional and procedural dimensions as well more complex sociological/discursive and constructivist processes. In sum, Fairclough’s three-dimensional framework for CDA is understood to be able to achieve a far more complex understanding as to the relations between legitimising discourse and non-discourse elements of the social in the context of the ongoing efforts to reform the EU’s fiscal governance arrangements.

In a more general sense, as an approach to social enquiry CDA is also well suited to interdisciplinary investigations (Woodak & Meyer 2001). Therefore, with a view to providing for greater explanatory potential, Fairclough’s CDA approach is combined at the broadest level of social practice—the point at which due consideration is given to the wider policy environment (in terms of the ‘institutional’, ‘situational’ and ‘societal’ context) from which the reform discourse has been

produced—with a selection of wider theoretically informed ideas and power concepts (for a full overview of how such diverse theorising will be combined and incorporated into the CDA analysis see chapter 2). Key here are the insights drawn from the ‘new’ institutionalist literature, with particular attention being paid in this instance to the historical (see Zysman 1994, Pierson 1996, 2000, 2001, 2004, Bulmer 1998, 2009, Thelen 1999, Mahoney 2001, Ackril & Kay 2006, Kaiser 2008, amongst others) and discursive components (see Campbell & Pedersen 2001, Hay 2001, Blyth 2002, Schmidt 2002, 2006, 2008, 2010a, 2011, amongst others). While historical institutionalism’s focus on concepts such as ‘path dependency’ and ‘critical junctures’ is useful for helping understand the ‘stickiness’ that often characterises many aspects of EU policy-making (Pierson 1996, Greer 2000, Mahoney 2001, Bulmer 2009, Ackril & Kay 2006), discursive institutionalism helps to focus more on the role of ‘substantive ideas’ and ‘discursive interactions’ in bringing about potential change (or continuity as the case may be) (Schmidt 2006a, 2008a, 2011).

Moreover, while notions of power are implicit within both CDA and new institutionalist theorising (at both a ideational and structural level), for the purpose of analysing discourses at the level of social practice it is felt necessary to provide a more explicit concept of power (for the reasoning behind this logic see chapter 2). Particularly relevant here is the concept of ‘structural power’ as developed by Susan Strange. She defines it as ‘the power to shape and determine the structures of the global political economy within which other states, their political institutions, their economic enterprises and (not least) their scientists and other professional people have to operate’ (Strange 1994:24-25). As well as not being overly deterministic, structural power also combines ideational and material components. And these qualities also make the concept well adapted to exploring where relations of power may lie within the EMU institutional setting. In sum, it is believed that by combining Fairclough’s three-dimensional CDA framework with the new institutionalism and deeper understandings of structural power it should facilitate a fruitful explanatory framework at the level of social practice.

Thesis Overview

This research thesis was undertaken over a 36-month time period based at the University of Plymouth. It consisted of a detailed reading of the literature across the major areas of interest including, but by no means confined to, legitimacy, fiscal governance, and the broader European political economy literature. The theoretical and methodological premises of discourse analysis were also studied at length. The data collection phase involved an extensive sourcing of official EU policy documents released on the subject of fiscal governance reform. Also, two separate trips were made to Brussels in the Spring of 2013 and 2014. A total of 20 in depth interviews were carried out during this time with senior level officials located within all of the relevant institutional settings. This list includes senior members of DG ECFIN involved in fiscal policy coordination (including members of the secretariat who are represented within the Eurogroup and further down at committee level); senior officials located within the Council Directorate for Economic Policy; senior members of the Cabinet for the European Council President; ministers of the Permanent Representation for Economic, Financial and Monetary Affairs; and finally, members of the European Parliament. Due to the seniority and expert knowledge of the interviewees, their individual views on the process of fiscal governance reform are invaluable in both contextualising and adding to the more formal discourse collected from official EU policy documents. Informal observations of the policy-environment were also made during this time, and there were also opportunities to speak more informally with members of the policy community working within the EMU institutions.

The structure of this research thesis is as follows: Chapter 1 provides a critical overview of the literature base with a view to outlining the key justifications for the research focus. Chapters 2 and 3 are both necessary to outline in full the complex theoretical and methodological underpinnings. First, a two-dimensional conceptual framework for legitimacy will be developed (along with the key legitimising arguments that feature on both the input and output side). A general introduction to CDA as an approach to social enquiry will then be provided, and the broader

theoretical insights being drawn upon with a view to enriching the analysis will be discussed. Following this, a far more exacting methodological overview of Fairclough three-dimensional framework for CDA will be carried out. The key legitimising patterns of discourse making up the data analysis will also be presented at this point. Chapter 4 provides an overview of fiscal-policy coordination within EMU (in terms of the key decision-making procedures and institutional actors involved), as well as an in depth reading of the financial and economic crisis period. Chapters 5, 6 and 7 make up the core of the analysis. A contextual overview has been provided for each case study in order to make the chapters more intelligible. All of these chapters are quite detailed in their analysis, although an effort has been made to make clear and concise arguments. Following the CDA framework as set out by Fairclough, a separate chapter (no. 8) will be allocated at the end of the analysis for carrying out a much broader exploration (from a historical perspective) of the institutional, situational and societal context that surrounds the discourse at the level of social practice. Finally, the conclusion will bring together the analysis chapters and make some general comments on the future prospects for fiscal governance reform in light of the legitimising discourses previously uncovered.

Chapter Two: Critical Literature Review

Introduction

This literature review is organised according to a two-topic format, which is appropriate in this instance given the two broadly distinct subject areas that lie at the heart of the research: 'legitimacy' and 'fiscal governance'. First, a review of the literature is completed for fiscal governance; and second, a review of the literature is completed for the concept of legitimacy. Finally, there will be a review of the literature base linking the two subject areas together. According to which is appropriate, the literature is presented in either chronological order or in accordance with the literatures key theoretical premises. The key aim of this chapter is to outline in full the key justifications for the focus of this research. Knowledge gaps within the literature will therefore be highlighted in the literature—along with any theoretical or methodological deficiencies that are found to be occurring. Many of the key concepts and terms that form the nucleus of the research are also introduced. At the beginning of the literature review a brief (unreferenced) summary is provided of the current state of knowledge within the research area. Finally it should be observed that the purpose of this chapter is not to outline in any substantive detail the complex theoretical and methodological framework that has been developed in order to inform the research process (that is undertaken in chapters 2 and 3).

Summary

Legitimacy can be identified as one of the main challenges confronting the EU in the modern period. The most popular way of framing the legitimacy issue in this

context has been through the two-dimensional framework for legitimacy provided by Schapf (1999). He makes a useful distinction between the input and output dimensions of legitimacy in a democratic polity. In the context of this debate, while some contributions emphasise the alternative ways by which legitimacy may be conferred through a focus on effective policy outputs alone, such claims are increasingly doubtful given the nature of the EU as an actor in the modern period. Instead, there is an increasing need to consider the democratic legitimacy and accountability of decision making on the input side is well.

The defining feature of the literature base on EU fiscal governance is that it has been dominated by contributions from economists employing largely rational choice accounts of institutional change. These approaches have often been neglectful the rich political dimension that surrounds what is a highly politically salient research area, and they have generally eschewed more ideational accounts of institutional change in favour of material interests. Some of the earliest literature discussing EU fiscal governance was produced by economists who were united by what they perceived to be an incomplete blueprint for integration within EMU, i.e. monetary union without fiscal union. These economists typically drew on the optimal currency area (OCA) literature and reached a series of negative conclusions regarding the absence of a system of fiscal solidarity (or transfer mechanisms) to offset asymmetric shocks across the single currency area.

A whole new wave of literature has emerged focussing on EU fiscal governance following on from intensification of the financial and economic crisis in Europe around mid-2010. The crisis has reignited early scepticism amongst many economists concerning the viability of constructing a monetary union without taking major integration steps towards a fiscal union. Two key explanations exist as to why the crisis erupted in Europe and the single currency area: 1) the Keynesian view, with the crisis being understood more as a balance-of-payments crisis; 2) and the misguided neoliberal interpretation of events which focuses on fiscal discipline—or the lack of. Stark policy implications result from the particular crisis diagnosis elected for. For example, those who adopt a neoliberal interpretation of the crisis are more

likely to focus on limited measures to strengthen fiscal discipline. However, those who accept the Keynesian version of events focus more on EMU's structural deficiencies (i.e. the lack of fiscal union), and they proceed accordingly to propose a series of integration steps towards the implementation of solidarity mechanisms within the single currency area.

When framed in the context of Schaprf's two-dimensional conception of discourse, the two reform discourses identified are seen to rely on highly contrasting legitimising arguments. While one is reliant on the quality of its neoliberal policy outputs, the other brings together the two dimensions of legitimacy with a view to making a qualitative integration leap in the direction of full fiscal and political union. With the latter reform discourse, in particular, implying a rapid centralisation of fiscal policy at the supranational EU level, more emotional conceptions of state sovereignty and moral hazard may also be influential here. With the research area being dominated by contributions from economists, legitimacy considerations have not been explored within the context of this emerging reform debate over EU fiscal governance. This is unacceptable as tax and spend policy is deeply rooted within national conceptions of state sovereignty and has major redistributive consequences. There is a requirement, then, to see how these legitimising discourses are shaping the official debate over EU fiscal governance reform—and in turn how they may be influencing policy.

Legitimacy and the EU

Legitimacy, and the beliefs surrounding it, are understood to play a crucial function in ensuring an effective functioning government in liberal democratic polities. As Scharpf (2006) argues:

“[L]egitimizing arguments invoking shared legitimacy beliefs imply a socially sanctioned obligation to comply with government policies even if these violate the actor's own interests or normative preferences, and even if official sanctions could be avoided at low cost” (Scharpf 2006:1).

It follows, therefore, that if such legitimising beliefs are not held by the citizen base at large, then the polity in question would be seen to be chronically ‘ineffective’—or at worse it would need to transform into a non-democratic entity, i.e. a ‘police state’ (Scharpf 2006:1-2). Such logic is worrying if applied in the EU context where the rejection of the Constitutional Treaty by the French and Dutch voters in 2005; the ongoing budgetary issues; the declining public support for the European project as reflected in public opinion polls; and the rise of anti-establishment parties in the 2014 European Parliamentary elections all points to the existence of a serious legitimacy problem for the EU. In view of the elevated significance of this debate, it is not unsurprising that the scholarly literature concerning EU legitimacy has grown to vast proportions in recent years.

The majority of scholars who have addressed the topic of EU legitimacy have done so—in either explicit or implicit terms—through the two-dimensional framework for legitimacy provided by Fritz Scharpf (1999). He distinguishes between input legitimacy and output legitimacy. This leaves a normative articulation of legitimacy that is underpinned by a set of arguments related to input legitimacy (‘involving political participation by and representation of the people’) and output legitimacy (‘a performance criterion centred on the ability the ability of EU institutions to govern effectively’) (Schmidt 2010:6). A minority of scholars have recently added a third dimension in the form of ‘throughput legitimacy’ (Risse 2010, Schmidt 2010, Schunz & Bruyninckx 2011). As an under-theorised concept, however, there is still much confusion as to the precise qualities which the term defines (Meuwese, 2008, Schmidt 2010)—although vaguely the concept points to the quality of the decision making process itself. In any case, many of the scholars who incorporate the notion of input legitimacy into their analysis are receptive to many of the legitimising arguments commonly associated with throughput legitimacy, including the norms of accountability, transparency and deliberative quality. Throughput legitimacy,

therefore, will not be considered as a separate analytical category of legitimacy during this review of the literature base.

One final distinction can be made when considering the literature exploring legitimacy and the EU through the two-dimensional conceptual framework provided by Scharpf. Building on the reflections made by Schmidt (2010), whereas one group of scholars provide accounts of legitimacy broadly based on either 'rational choice' (Majone 1998, Moravcsik 2002, Scharpf, 1999, 2006) or 'historical institutionalist' frameworks of analysis (Pierson 1996, 2000, 2001, 2004, Bulmer 1998, 2009); a second group approach legitimacy through a framework of analysis more closely aligned with 'sociological' (March and Olsen 1989, Hall & Taylor 1996) and 'discursive' institutionalist theorising (Schmidt 2006, 2008, 2010), or more broadly constructivism (Risse 2009). As such, while the former group of scholars develop accounts of legitimacy that draw upon the 'logic of institutional form and decision making', the latter group are more inclined to emphasise the 'ideational constructions and discursive interactions of identity and community' (Schmidt 2010:5-6). In view of the observations made so far concerning the literature base on EU legitimacy, it is appropriate to review the literature in sequence across the input and output dimensions. During this review of the literature a further distinction is also made where appropriate between institutional form and practice and interactive construction, although the boundaries between the two are often not exacting.

Output Legitimacy

A number of scholars, drawing on analytical frameworks focused largely on institutional form and practice, have argued that the EU is able to derive its legitimacy almost solely from the effectiveness of its policy outputs. Relevant here is Scharpf (1999, 2001, 2006, 2009) who discounts the possibility of input-orientated solutions for the EU democracy because such solutions ignore the 'preconditions of legitimate majority rule', which he argues 'cannot be created through constitutional engineering' (Scharpf 2006:18). In terms of the preconditions involved, Scharpf (1999) is making reference to the lack of a 'thick collective identity' (or demos) of the

kind that we have come to associate with national level democracies. Here Scharpf is forming an argument on the basis of the '*no demos thesis*'. This thesis runs the argument that without a European demos—which is usually conceptualised in terms of the 'democratic identity of the population', a 'European public space' or a 'European civil society' (Wiesner 2009:103-105)—then there is little point in proceeding with further democratisation within the EU, until that is it is able to pass the 'no demos' hurdle (Grim 1995, 1997, Kielmasegg 1996).

Yet, while Scharpf remains sceptical regarding the democratic potential of the EU, the possibility of legitimising selected policy areas by reference to the effectiveness of their policy outputs is not discounted. At present though he identifies a 'problem solving gap' that needs to be overcome in politically salient policy areas. This refers to situations where the 'EU generates problems and constrains solutions at national levels', but 'where effective solutions at the European level are blocked by political conflicts among member governments' (Scharpf 2006-17-18). One key suggestion put forward for securing more effective policy outputs is through what is termed as 'differentiated integration'—of a kind that would permit 'member states to adopt consensual European solutions applying only to members of the group' (Scharpf 2003).

Like Scharpf, Majone (1996, 1998, 2009) also privileges the 'output' dimension of legitimacy, but on the grounds that he understands the EU as essentially a 'regulatory state', i.e. one without a widespread redistributive social policy. Because regulatory policies are considered by Majone as a potentially 'positive sum game' (one in which everybody can gain provided the right policies are adopted)—as opposed to redistributive (which is zero sum)—the EU is said to be exempt from the majoritarian standards of democratic legitimacy required at the state level. According to this logic, then, for as long as the EU continues to focus overwhelmingly on efficiency enhancing regulatory policies, the Union will not be required to reach the normative democratic standards expected of the nation state (Majone 1996, 1998). From his perspective this is just as well. After all, Majone remains unequivocal that we 'cannot expect democratic politics to flourish at the EU level' as long as the 'citizens of the member states oppose the idea of a European super-state' (Majone 1998:6).

Moravcsik (2001, 2002) develops a number of similar themes to the scholars cited above. First, the notion that the EU ought to be held to the same democratic standards as its member states is contested because the EU's substantive mandate is said to be focused primarily on the 'regulation of policy externalities resulting from cross-border economic activity' (Moravcsik 2002:607). By this logic, the EU is said to resemble only a limited constitutional polity, which is more constrained than any national polity due to its 'own plural structure of checks and balances' (Moravcsik 2002:611). Moravcsik (2002) also cites two supplementary mechanisms which from his point of view ensure that adequate standards of democratic participation and accountability are met: 'indirect democratic control via national governments' and 'the increasing powers of the European Parliament' (Moravcsik 2002: 611). These democratic mechanisms and inbuilt constitutional checks and balances are believed to be adequate for ensuring that 'EU policy-making is, in nearly all cases, clean, transparent, effective and politically responsive to the demands of European citizens' Moravcsik (2002:605).

There is also an important interactive construction component that needs to be taken into consideration here too. As Schmidt (2010) argues, being 'European' is generally built not just on 'doing' (institutional outputs) but also on 'saying' what the EU is doing—a process which in turn makes for more constructive outputs (Schmidt 2010:13). Important in this respect is communicative discourses, which are understood to play an important 'identity building function' (Schmidt 2006, 2010). If accurate, this analysis raises several inconveniences for the EU polity. Firstly, and perhaps most significantly, it has been documented by Koopmans (2010) that 'executive actors' (political and business elites) remain by far the most 'important beneficiaries of the Europeanization of public debates', at the expense of the core representatives of the EU who are accountable to the citizen base (Koopman 2010:120). As such, European political communication is seen to take place within a highly competitive environment in which actors compete for very limited public visibility, resonance and legitimacy (Koopmans 2004, Koopmans & Statham 2010). It is of little surprise, then, that that discourse intended as a means to convince the citizen of the requirement or suitability of an EU policy is often marginalised (Schmidt 2006, Koopmans & Statham 2010, Risse 2010). Of course, because national

politicians rarely will speak out on the EU's behalf this problem is, at least partly, facilitated by the nature of the particular institutional environment—although through the increased development of communal aspirations and activities the degree to which citizens are able to identify with the EU could potentially be altered over time. Or, as Schmidt (2006:17) argues, identity is not only a question of 'being' but also of 'doing'.

The contributions that have been cited above demonstrate the alternative ways by which the EU, partly owing to its unique institutional format and decision making structures, may be able to preserve its legitimacy through a focus on effective policy outputs. There are some possible risks, however, that could result from an over reliance on deriving legitimacy from the output side alone. First, because of the increasing range and depth of EU competencies, the degree to which the EU is functionally distinct from member states is no longer clear. It has already been observed, for example, that the lack of 'electoral contest' over the EU's 'political leadership' and future 'policy agenda' is a key instigator for apathy and disconnect between the citizen and the Union (Føllesdal & Hix 2006). Also relevant here is Schmidt (2006). She points out that EU policymaking is still made with little in the way of democratic inputs—a situation which she claims has made for 'policy without politics'. Not only are these deficiencies said to leave European citizens with little direct input over EU related policies that affect them but; far more alarmingly, it is observed that such circumstances could act as catalyst for voter dissatisfaction or even political extremism (Schmidt 2006:6-9). There is certainly a risk, then, that a failure to embed more explicitly redistributive policy areas (including those related to budgetary matters in particular) in a democratic framework could ultimately provoke some sort of backlash from the citizen base as they reject integration in these domains.

Of course, it could be argued that this is where indirect forms of citizen representation come into play given ministers links to the democratic nation state (Moravcsik 2002), although this is also a problematic interpretation of events. First, national parliaments are not equal in their indirect representation at the European level, particularly in the Council and European Council settings where powerful member states enjoy increased bargaining power. Also if there is no direct

democratic process in play it is difficult to see how it could be guaranteed that ministers are aware and acting on behalf of the preferences of their national citizen base. Furthermore, while Scharpf draws attention to the possibility of legitimising certain policy areas through a focus effective policy outputs, he makes it perfectly clear that the current arrangements are far from optimal. In view of these qualifications, it would seem that legitimising arguments focussing solely on the output dimension appear to be resting on increasingly thin foundations.

Input legitimacy

Through the application of frameworks receptive to institutional form and practice, it is notable that a separate group of scholars have chosen to reflect more on the role of input legitimacy in the EU context. As one might expect, this debate has been heavily influenced by insights drawn from normative democratic theory. A number of scholars, for example, have set out to explore if the EU meets a series of normative democratic standards concerning accountability and representation (Beetham, 1991, Beetham & Lord 1998, 2001, Coultrap 1999, Dahl 1999, Decker 2002, Bellamy and Castiglione 2003). However, while there has been an almost unanimous agreement amongst these scholars that there is a need to apply certain representative standards of democracy at the EU level, there has been little agreement as to whether these standards should mirror the democratic systems as they exist at the member state level

To begin with, Dahl (1999) argues that a democratic polity requires political institutions that provide citizens with 'opportunities for political participation, influence and control' that are approximately 'equivalent' to those existing in democratic countries (Dahl 1999:31). Accordingly, the EU is considered as a non-democratic entity by Dahl because accountability is still seen to be confined to elitist stakeholders and will be, it is claimed, for as long as there is no 'international equivalent to national political competition by parties and individuals seeking office' (Dahl 1999:31). Beetham & Lord (1998, 2001) also argue that democratic standards

as they exist at the level of the state should apply to the EU, notwithstanding the polity's *sui generis* character. This is said to be justified by the nature of the decisions being taken by the EU and by the mandate that enables it to do so, which are considered as being on a similar level to that currently enjoyed by member states. Accordingly, while a selection of 'post-parliamentary solutions' are suggested, the scholars are defiant that these can only serve as 'complements' rather than 'substitutes' for parliamentarism at the EU level (Beetham & Lord 2001:458).

Focussing more on interactive input construction, Føllesdal & Hix (2006) draw attention to the importance of citizen preferences that have had a chance of being 'created' or 'modified' in arenas of 'political contestation' (Føllesdal & Hix 2006:22). Following this trajectory, Føllesdal & Hix assert that the main challenge for the EU should be to develop institutions that provide more 'opportunities' and 'responsiveness' (Føllesdal & Hix 2006:22-24). As well as proposing substantial increases in the powers conferred on the European Parliament, they suggest that the direct election of the Commission President represents the most obvious way to generate political contestation and debate. Of course, concerns about the lack of political contestation at the European level are by no means new. For example, concerns were first raised all the way back in 1979 when the European parliamentary elections of that year were famously described as representing "second-order national elections" (Reif and Schmitt, 1980). This phrase has since become a dominant one in subsequent scholarly dissuasions concerning the EP elections (Marsh & Franklin 1996, Van der Eijk and Franklin 1996, Føllesdal & Hix 2006, Van der Brug & Van der Eijk 2007). Nevertheless, it has been reasoned that because very little is perceived to be at stake in terms of executive power, the fact that national parties treat European Parliament elections with indifference is not unjustified (Marsh & Franklin 1996:12).

Separately, research conducted by Koopmans (2004) suggests that the lack of input legitimacy is also strongly related to the lack of collective communicative discourses within the EU's political sphere. Responsibility for Europe's rather thin political discourse structure has been blamed on the lack of a European demos and on the high degree of language diversity across Europe (Kielmasegg 1996, Grimm 1997, Weiler 1999). However, in responding to the *no demos thesis*, both Habermas

(2001a, 2006, 2006a) and Weiler (1995, 1997, 1999) have firmly rejected any notion that a demos has to be conceptualised in exclusively ethno-cultural terms. Habermas, in particular, has sought to expose the myth of national consciousness which he claims is shaped as much by the 'intellectual construction of national histories' as it is by the 'discourse of competing parties', 'struggling for political power' (Habermas 2001a:15-16). It is these artificial conditions in which national consciousness came into existence, he argues, that have given rise to the 'empirical circumstances necessary for an extension of identity formation beyond national boundaries' (Habermas 2001a:16). These conditions are said to include the 'emergence of a European civil society', the 'construction of a European-wide public sphere' and the 'shaping of a political culture that can be shared by all European citizens' (ibid).

While the emergence of a European demos still appears to be some way off, it has been recognised in fact that a limited form of Europeanization of national political debates is already taking place (Koopmans 2004, Risse 2010, Koopmans & Statham 2010). Empirical research has, however, revealed that European elections still barely feature in the general media, with few references to the debates or character of the elections being apparent (De Vreese et al 2007). Moreover, to the extent that there is a debate, this is still deemed to be no match for the debate that takes place between national governments and the European Commission (Koopmans & Statham 2010, Risse 2010). The propensity of national leaders to hold the EU responsible for unpopular policies while taking the credit for more popular ones has also been documented (Schmidt 2006:37-43). Nevertheless, while the current lack of Europeanized identities and a transnational public sphere are seen to be detrimental to the EU's input legitimisation potential, it is recognised that the lack of a collective EU political discourse is, at least partly, also a result of the tangible institutional deficiencies that also need to be factored in (Risse 2010, Schmidt 2010). And, as noted above, there are reasons to believe that collective identity can be manufactured.

All of the contributions from the scholars that have been cited above point towards the need to increase the level of democratic inputs at the EU level. Key here is increasing the mechanisms of representative democracy at the EU level (particularly through a strengthened European Parliament), although the extent to

which these should mirror those currently in place at the member state level is disputed. One issue that has yet to be addressed fully is the balance that needs to be set between the European Parliament and its national level counterparts. Alongside representative democracy, more participatory forms of democracy (or 'post-parliamentary' mechanisms) can also not be discounted in the EU context as well. Aside from matters of institutional form and practice, interactive construction has also been seen to be vital to ensuring input legitimacy. While at present a demos or collective public sphere would appear to be lacking at the European level—a feature detrimental to achieving adequate levels of political contestation—there are grounds to believe that these will not prove permanent hurdles to effective democratisation at the EU level. It also may be the case that citizen interest in EU politics may increase as (if) they are afforded more opportunities to have their say over the shape of EU policy.

To conclude this section on legitimacy and the EU as whole, it has been clear from an evaluation of the literature that legitimacy is one of the main challenges confronting the Union as a whole. It has also been demonstrated that the most effective way of framing the legitimacy issue in this context is through the input and output concepts as provided by Schaprf (1999). While some contributions have shed light on the alternative ways by which legitimacy may be able to be conferred through a focus on effective policy outputs, such claims have been shown to be increasingly doubtful given the nature of the EU as an actor in the modern period. Instead there is an increasing need to consider the democratic legitimacy and accountability of decision making on the input side. It has been observed, however, that there exists little in the way of any consensus over the precise representative and participatory mechanisms that are required to secure adequate democratic input legitimacy. Before reviewing the state of the literature addressing legitimacy and EU fiscal governance combined, a critical overview of the literature compiled on EU fiscal governance will be provided

EU Fiscal Governance

Since the launch of the common euro currency in 1999, the EMU set-up has been characterised by a profound asymmetry between a centralised monetary policy and a decentralised fiscal policy (Verdun 1996, 1998). This resulted from the fact that monetary policy decision-making was placed in the hands of the independent ECB while fiscal (as well as broader economic) sovereignty was left to reside with member states at the national level. Within this framework, fiscal policy coordination has taken place under the guidance of the rules-based Stability Growth Pact (SGP) framework for fiscal discipline (an in depth overview of the logic, rules and procedures underpinning this fiscal policy coordination instrument will be provided for in chapter 4). As will be demonstrated, the most defining feature of the literature on EU fiscal governance over more than a decade is that it has been dominated by contributions from economists employing largely rational choice accounts of institutional change (an observation already confirmed by Dyson 2002a, Overbeek 2003, Heipertz & Verdun 2005, 2005a, Talani 2008, 2014). These approaches have often therefore been neglectful of the rich political dimension that surrounds what is a highly politically salient research area, and they generally have employed analysis that eschew more ideational accounts of institutional change in favour of material interests.

Some of the earliest literature discussing EU fiscal governance was produced by economists who were united by what they perceived to be an incomplete blueprint for integration within EMU, i.e. monetary union without fiscal union (see Eichengreen 1990, Sala-i-Martin & Sachs 1991, Robert & Rubinfeld 1992, Tamim & Masson 1995, Eichengreen & von Hagen 1996, amongst others). These economists typically drew on the optimal currency area (OCA) literature (Mundel 1961) and reached a series of negative conclusions regarding the absence of a system of fiscal solidarity (or transfer mechanisms) to offset asymmetric shocks across the single currency area. More recently, Belgium economist and foremost expert on the functioning of

monetary unions Paul De Grauwe (2006, 2007, 2010a, 2013) has also used OCA theory to warn repeatedly of the fragile nature of EMU without a deeper level of fiscal union. He spoke at length, for example, about some of the benefits of achieving a higher degree of fiscal solidarity in a monetary union:

‘Political union makes it possible to organize systems of fiscal transfers that provide some insurance against asymmetric shocks. Thus when one member-country is hit by a negative economic shock, the centralized union budget will automatically transfer income from the member states that experience good economic conditions to the member state experiencing a negative shock’ (De Grauwe 2006: 722-733).

Thus, while De Grauwe agrees that the EMU is a ‘remarkable achievement’, he warned that it remains ‘fragile because of a flaw in its governance’ (De Grauwe 2006:73). Furthermore, the size of the current EU budget leaves little reason for optimism here. As Begg (2011) observed:

“Certainly, the EU budget does not provide an answer. Not only is it too small relative to GDP – barely 1 percent – to have more than a minimal stabilising effect, but it is also structured in a way that does not easily respond to macroeconomic shocks or cycles” (Begg 2011).

The conclusions to be drawn from this literature is that EMU is incomplete and could be left vulnerable to economic shocks unless it is accompanied by a deeper level of fiscal integration, i.e. in the direction of a deeper level of fiscal union with solidarity mechanisms. An important early discussion of many of these key issues can be found in the 1977 *MacDougall Report*, which was produced at the request of the Commission to study public finance issues in the context of increasing integration of the European Community. It is worth citing the report findings at some length here:

“As well as redistributing income regionally on a continuing basis, public finance in existing economic unions plays a major role in cushioning short-term and cyclical fluctuations. For example, one-

half to two-thirds of a short-term loss of primary income in a region due to a fall in its external sales may be automatically offset through lower payments of taxes and insurance contributions to the centre, and higher receipts of unemployment and other benefits” (MacDougall Report 1977:12).

In simple terms, this means that an effective monetary union was understood to require the implementation of considerable fiscal solidarity mechanisms, i.e. in the form of a fiscal union endowed with a strong fiscal capacity (or federal budget) for stabilisation purposes. Following this logic the *MacDougall Report* concluded:

“If only because the Community budget is so relatively very small there is no such mechanism in operation on any significant scale as between member countries, and this is an important reason why in present circumstances monetary union is impracticable” (MacDougall Report 1977:12).

Of course, the Maastricht Treaty did in fact set the path towards the development of a single currency area of the type that was coined as ‘impracticable’ by this analysis. After all, it has already been noted that the Community budget remains to this day anchored at around 1% of Europe’s annual GDP. This compares with a figure of between 5% and 7% as advised within the *MacDougall Report* for a ‘federal’ EU (and this figure was itself conservative—lying far short of that achieved in mature federations).

It is worth noting that the *MacDougall Report*—as well as many of the early sceptical contributions by economists—were inspired by more by Keynesian ideas, which after all assign a proactive role to fiscal policy. During the negotiations over EMU, however, it was very much neoliberalism and its early financial counterpart ‘monetarism’ that was the dominant paradigm (McNamara 1998, Verdun 1998, Marcussen 2000, Heipertz, M. & Verdun 2004, 2005, 2011)—an ideology which is sceptical regarding the implementation of an active fiscal policy, beyond rules on fiscal discipline. This goes some way to explaining why, despite widespread doubts being raised about the suitability of constructing EMU on an asymmetric basis, no

major integration steps were taken in the direction of a deeper level of fiscal union during the first decade of the single currency area (see chapter 8 for a complete overview of institutional and ideational factors leading to the embedding of neoliberalism within this framework). Instead, fiscal policy coordination remained firmly under the guidance of the rules-based SGP framework for fiscal discipline.

With the SGP framework being a central feature of EU fiscal governance, it is little surprise that a very substantial literature base has been amassed looking into the design and reform of the pact—without anything in the way of a consensus forming. And again, this literature has been very much dominated by contributions from the economics profession. Following the systematic analysis of over 100 reform proposals that were put forward by academic and non-academic economists between 1998 and 2003 for the SGP, Fischer et al (2006) classified them into four broad schools of thought. 1) ‘disenchanted reformers’ (scholars with a very critical view of the utility of effectiveness of the SGP; see Uhlig 2002, Calmfors, 2003, Tanzi, 2004); 2) ‘defenders of fiscal discipline’ (scholars who consider a common framework as necessary and useful to achieve fiscal discipline; see Wyplosz 2002, Calmfors 2003, Eichengreen 2003); 3) ‘advocates of economic growth’ (scholars who argued that an excessive focus on short-term fiscal discipline provides insufficient scope for achieving economic growth; see Bolfingher, 2003, Fitoussi 2002, Mathieu and Sterdyniak 2003); 4) ‘supporters of long-term sustainability’ (scholars who prioritise the sustainability of public finances in the long run as target; see Pisani-Ferry 2002, Beetsma & Debrun 2003, Calmfors & Corsetti 2004). From a reading of these proposals the overriding view was one of mild scepticism. This scepticism also continued following a series of minor reforms to increase the SGP’s flexibility in 2005 (Calmfors 2005a). Buitter (2006:391) even went so far as to declare the pact ‘*de facto* dead’.

Moving on to the more politically themed literature, on the infrequent occasions when political scientists have approached the topic of EU fiscal governance, their analysis have usually been set on the domestic (and more infrequently international) conditions which prevailed within or amongst the most powerful EU member states around the time of the SGP’s formation (Sandholtz 1993, Martin 1994, Moravcsik 1998, Dyson & Featherstone 1999, Young 1999, Verdun &

Christiansen 2000, Heipertz & Verdun 2004, 2005, 2011, Talani 2008). Furthermore, when political scientists of a broadly neo-constructivist persuasion have applied methodologies more accommodating to the role of ideational or discursive constructions, their analytical focus has often been limited to exploring the dialectic relationships between experts and politicians within the EMU's advisory committees (Engelmann et al. 1997, McNamara 1998, Risse et al. 1999, Dyson 2000, Marcussen, 2000). Most of these analyses are therefore heavily tied to the dominant theories of EU integration, and the majority are set firmly around historical events surrounding the birth of the SGP. The latest account by Heipertz and Verdun (2011) also provides a theoretical account of the evolution of the SGP, but it does lead them to make some predictions on the functioning of the SGP following on from the recent crisis period. This account though is focussed quite narrowly on the implementation and effectiveness of the SGP specifically, and it does not consider the far broader (and potentially more far reaching) fiscal governance reform debate evolving in the EU context.

The literature on EU fiscal governance so far has been dominated by economists and can be split into two groups. First there are the economists who have focussed on fiscal governance in the broader EMU context. They are largely united by what they see as an incomplete blueprint for integration within EMU, i.e. monetary union without a full fiscal union. Then there are the economists who have focused far more specifically on the SGP instrument, with little in the way of any consensus forming on issues related to the design and reform of the SGP reform—although the overriding feeling is one of scepticism. It is worth noting though that a whole new literature emerged focussing on EU fiscal governance following on from intensification of the financial and economic crisis in Europe around mid-2010—a period which saw investor confidence collapsing and bond yields on weaker Eurozone countries diverging markedly with the core states (see chapter 4). In particular, the crisis has reignited early scepticism amongst many economists concerning the viability of constructing a monetary union without taking major integration steps towards a fiscal union. And, linked to this debate, it has also led to a number of policy recommendations being suggested as to the reforms that need to be enacted to secure the single currency area.

Crisis and the Reform of EU fiscal Governance

There are two explanations as to why the crisis erupted with such added intensity within Europe and the single currency area—with stark policy implications arising in accordance with the particular diagnosis elected for. The first explanation is a Keynesian one, with the crisis being understood more as a balance-of-payments crisis (see Buitter et al 2011, Alessandrini et al 2012, Merler and Pisani-Ferry 2012, De Grauwe 2013, amongst others). Rather than focussing on the build-up of public sector debt, this interpretation focuses on the role of macroeconomic imbalances—particularly those related to the current account positions of member states within EMU. The second explanation is the neoliberal interpretation of events which places fiscal discipline, or the lack of, at the heart of any account of the crisis (von Hagen et al 2009). Here, certain member states are blamed for pursuing lax fiscal policies in breach of the SGP rules. Stark policy implications arise from the interpretation of events drawn upon. After all, those who adopt a Keynesian view of the crisis pay recognition to the major structural deficiencies that have been present from the beginning within the EMU framework related to the lack of a fiscal union aspect, which have played a crucial role in bringing about the intensification of the crisis in Europe (De Grauwe 2013). However, those who adopt a more narrow neoliberal interpretation of the crisis are more likely to focus on limited measures to strengthen fiscal discipline under the pre-existing SGP instrument. In view of the evidence, it will be argued here that the neoliberal explanation of the intensification of the financial and economic crisis in Europe is ultimately a misguided one that results from a misdiagnosis of the crisis itself.

The majority of observers and academic analysts argue, more in accordance with the Keynesian perspective, that the financial and economic crisis in Europe is at least as much of a balance-of-payments crisis as a fiscal one—with the northern (or core) member states profiting from surpluses and the south (or periphery) member states enduring chronic deficits (see Buitter et al 2011, Alessandrini et al 2012, Merler and Pisani-Ferry 2012, amongst others). For example, Alessandrini et al (2012) finds

that the divergences in the Eurozone member states imbalances have been driven largely by ‘wage and labour productivity differentials which have not been compensated by real exchange rate adjustments’. A Keynesian reading of the crisis is also adopted by the foremost expert on monetary unions Paul De Grauwe (2013):

“With the exception of Greece, the reason why countries got into a sovereign debt crisis has little to do with public profligacy. The cause of the debt problems in the Eurozone is to be found in the unsustainable debt accumulation of the private sectors in many Eurozone countries [...] It can be seen that household and bank debt were increasing fast prior to the debt crisis. Surprisingly, the only sector that did not experience an increase in its debt level (as % of GDP) was the government sector” (De Grauwe 2013:11-12).

From this reading, it was therefore the accumulation of private debt (as opposed to public debt) that led to the development of boom and bust cycles in the Eurozone—before governments were forced to intervene (resulting in the transfer of private sector debt onto public sector balance sheets).

The Keynesian view also contains an inherent rejection of the neoliberal explanation that fiscal profligacy (i.e. the build of public debt) was the proximate cause of the crisis. The evidence provided to support this view is that many of the southern European countries (Greece being the exception) who found themselves under market pressure had in fact pursued sounder fiscal positions than many of the northern states (including even Germany) prior to the onset of the crisis. Again, as De Grauwe (2013) observes:

“Even more striking is to find that in two countries that have experienced severe government debt problems recently, Ireland and Spain, the government debt ratios were declining spectacularly prior to the crisis. These were also the countries where the private debt accumulation has been the strongest” (De Grauwe 2013:18).

Krugman also reaches similar conclusions: 'For this is really, really not about fiscal irresponsibility. Just as a reminder, on the eve of the crisis Spain seemed to be a fiscal paragon'. And again, Alessandrini et al (2012) adds that the crisis 'cannot be interpreted only as the result of fiscal indiscipline'.

Adopting such a Keynesian view of the crisis has major implications in terms of the resulting reform agenda that is understood to be required within EU fiscal governance. After all, those scholars who subscribe to a Keynesian view of the crisis focus on some of the major structural deficiencies that have long been identified as being present within the EMU framework relating to a lack of a fiscal union (see Eichengreen 1990, Sala-i-Martin & Sachs 1991, Robert & Rubinfeld 1992, Tamim & Masson 1995, Eichengreen & von Hagen 1996, De Grauwe 2006, 2007, amongst others). As already noted, these economists were seen to have reached a series of negative conclusions early on regarding the absence of a system of fiscal solidarity (or transfer mechanisms) to offset asymmetric shocks within EMU. As you might expect, the intensification of the financial and economic crisis in Europe has only magnified these doubts and led to renewed calls for EMU to be completed through a major policy shift towards the development of a fiscal union endowed with substantial fiscal solidarity mechanisms.

For example, in the wake of the crisis De Grauwe (2013) reiterated that EMU must ultimately be embedded in a fiscal union to be sustainable:

'Finally, in the long run the monetary union will have to be embedded in a significant fiscal union. This is probably the hardest part of the process to make the Eurozone sustainable in the long run, as the willingness to transfer significant spending and taxing powers to European institutions is very limited. It remains a necessary part, though. Without significant steps towards fiscal union there is no future for the euro' (De Grauwe 2013:31).

The literature concerning the specific fiscal solidarity measures required to complete fiscal union within EMU is itself very sizeable. However, the most common policy initiatives revolve around two themes: 1) debt mutualisation and financial risk

sharing instruments; 2) and/or the development of an EU fiscal capacity (federal EU budget) with a mixture of redistributive and/or stabilisation functions. Both of these solidarity mechanisms are supported by De Grauwe (2012, 2013) as well. First he argues that a form of debt mutualisation is necessary in order to ‘shield the weakest in the union from destructive movements of fear and panic that regularly arise in financial markets of a monetary union and that can hit any country’ (De Grauwe 2013:28). And second he calls for the development of an EU fiscal capacity (or ‘central budget’) that can ‘automatically organise financial transfers towards countries experiencing economic difficulties’ (De Grauwe 2012:407).

In terms of some of the broader literature, the discussion concerning debt mutualisation is very extensive—although the scholars are agreed that some form of risk sharing is required in Europe (see Claessens et al. 2012 for a complete overview of the main proposals). Some of the more prominent suggestions for commonly issued securities include: the so called European Safe Bonds (Euro-nomics group 2011), Eurobills-blue/red bond (Delpha & Von Weizsäcker 2010, Philippon & Hellwig 2011), Redemption bonds (Bofinger et al. 2011) and stability bonds (Commission 2011). Generally speaking, the proposals envision a partial debt mutualisation. Also, it is generally envisioned that such risk sharing will need to be combined with safeguards to ensure sustainable budgetary positions. As with the proposals for debt mutualisation, there have been many suggestions put forward as to how the development of an EU fiscal capacity should take place. According to a *Bruegel Policy Contribution*, there are four main options for the development of a fiscal capacity for the purposes of stabilisation of regional shocks to the euro area are: 1) unemployment insurance; 2) payments related to deviations of output from potential; 3) the narrowing of large spreads; 4) and discretionary spending. In terms of size, resources amounting to around 2 percent of Eurozone GDP is envisioned to start with (Wolf 2012).

A policy paper released by *Notre Europe* also explores this issue and suggests introducing a ‘Cyclical Adjustment Insurance Fund’ based on differences in output gaps, with a view to increasing convergence across the cycle. (Enderlein 2013). A separate study by Pisani-Ferry et al (2013) examines four different schemes for fiscal stabilisation and proposes a unique scheme based on GDP-

indexed debt instruments, or bonds. The options considered here are: 1) 'A federal budget with unemployment and corporate taxes shifted to euro-area level'; 2) 'a support scheme based on deviations from potential output'; 3) 'an insurance scheme via which governments would issue bonds indexed to GDP'; 4) and 'a scheme in which access to jointly guaranteed borrowing is combined with gradual withdrawal of fiscal sovereignty'. The analysis reveals very differing results depending on the original debt levels and macroeconomic situation of the member state involved.

Of course, completing fiscal integration within EMU through the implementation of fiscal solidarity mechanisms of this kind would be dependent on significant transfers of sovereignty (of varying degrees) to the EU level. This is not least because a centralised European authority would in principal need to be put in control of managing the transfer of taxpayer's money across borders. Debt mutualisation, which would involve shared liability for each other's debt across borders, would also have to be introduced alongside a framework providing for increased budgetary surveillance. The main reason for this is the issue of moral hazard—a fear that countries with higher borrowing costs may take advantage of those with a better credit worthiness. In order to reduce these fears it is therefore inevitable that significant transfers of budgetary sovereignty would need to be transferred to the central level. Numerous proposals have been put forward as to how this could be achieved (see Von Hagen & Wyplosz 2008, Dullien & Schwarzer 2009, Baldwin, et al. 2010, Baldwin & Gros 2010, Burda & Gerlach 2010, Calmfors 2010, Eichengreen 2010, Holinski et al. 2010, IMF 2010, Lane 2010, Larch et al. 2010, ECB 2011, Clasesens et al. 2012, 2012a, Whalley & Nam 2012, amongst others). Most of these proposals suggest increased EU level supervision of national budgets through a whole variety of supervisory procedures. More decentralised solutions have also been suggested, although this is a minority standpoint (Wyplosz, 2010, 2011)

The second explanation for the intensification of the financial and economic crisis in Europe is the neoliberal interpretation of events which places fiscal discipline, or the lack of, at the heart of any account of the crisis (von Hagen et al 2009). Here, the periphery member states are blamed for pursuing lax fiscal policies in breach in of the SGP rules. As already demonstrated, this viewpoint is not common amongst

academic economists, with most commentators subscribing to the more Keynesian version of events. This is not unexpected since it has already been demonstrated that, with the possible exception of Greece, the fundamental causes of the crisis are to be found in unsustainable private debt accumulation and major structural deficiencies related to the lack of a fiscal union within EMU (De Grawue 2013). However, one notable exception is provided by von Hagen et al (2009). They argue that ‘financial markets’ reactions were not random but rather reflect an intensification of risk concerns, especially regarding the state of public finances’. They conclude that:

“Calls for more European solidarity, for instance via issuing EU common bonds to avoid an alleged irrationality of financial markets, are not justified. On the contrary, they may result in higher interest rates if market participants anticipate less disciplined fiscal policies as a consequence” (Von Hagen 2009).

Instead, in accordance with a neoliberal logic, they suggest that ‘compliance with the European rules for public finances, as included in the Stability and Growth Pact, is a necessary condition to safeguard against the high costs of public debt’ (*ibid*).

While the neoliberal interpretation is not a popular one amongst academics, there are several good reasons to suspect that it may still be influential in guiding the official EU fiscal governance reform debate. First, during the time of EMU’s construction there was a shift in economic thinking amongst the monetary authorities of Europe away from Keynesianism in favour of neoliberalism and its early financial counterpart ‘monetarism’ (McNamara 1998, Verdun 1998, Marcussen 2000, Heipertz, M. & Verdun 2004, 2005, 2011). While monetarism as a set of economic ideas is to a large extent concerned with monetary policy and its related institutional frameworks, it is also understood to be important that excessive levels of public debt do not inhibit the maintenance of the price stability objective (Heipertz & Verdun 2011:93). For these reasons EMU can be interpreted as representing the implementation of the constitutionalism of ‘disciplinary neoliberalism’ (see Gill, 1998). And there is no doubting that it was designed partly as a neoliberal construction in the first instance, with price stability and fiscal discipline objectives at its heart—and Germany’s

uploading of 'ordoliberal ideas' was particularly influential here too (see chapter 8 for an in depth analysis of how neoliberalism became institutional and ideationally embedded within EMU). Neoliberalism within Europe is also of course intimately linked too much wider process. Important here are global and regional institutions who lend intellectual support to the neoliberal paradigm. This includes (but by no means is excluded too) the IMF, OECD, Bank for International Settlements, as well as multinational corporations (Dyson 2000, 2002). Finally, on a more global level, it is also worth observing that neoliberalism has been seen to have remained surprisingly resilient since the 2008 financial crisis (Grant & Wilson 2014).

To conclude this section, a mass of literature emerged focusing on EU fiscal governance reform following on from intensification of the financial and economic crisis in Europe around mid-2010. It has been found that two key explanations exist as to why the crisis erupted in Europe and the single currency area: 1) the Keynesian view, with the crisis being understood more as a balance-of-payments crisis; 2) and the misguided neoliberal interpretation of events which focuses on fiscal discipline—or the lack of. Stark policy implications have been seen to result from the particular crisis diagnosis elected for. For example, those who are seen to adopt a neoliberal interpretation of the crisis are more likely to focus on limited measures to strengthen fiscal discipline. However, those who accept the Keynesian version of events focus more on EMU's structural deficiencies (i.e. the lack of fiscal union) and proceed accordingly to propose a series of integration steps towards the implementation of solidarity mechanisms within the single currency area. The emerging reform debate on EU fiscal governance raises a number of legitimacy considerations—and it to these issues that literature review will now turn.

Legitimacy Considerations and EU Fiscal Governance

Legitimacy considerations, on both the input and output side, have already been shown to be one of the key challenges confronting EU integration in the modern period. There is also good reason to believe that these legitimacy

considerations could be amplified in the fiscal governance domain more specifically. As Scharpf (2003) argues:

“[T]he need for legitimation varies with the salience of the preferences that are potentially violated. Policies that interfere significantly with life, liberty or property interests, or that violate deeply held normative preferences of the governed, will need to be justified by stronger legitimating arguments than pareto-superior policies that are thought to increase social welfare without violating salient interests” (Scharpf 2003:6).

This is significant because tax and spend policy, like foreign and social policy, is deeply rooted within national conceptions of state sovereignty. Fiscal policy also by its very nature has major redistributive consequences, and the tax policies that are pursued by different states are often embedded in quite specific social, cultural, political and economic traditions. There is, therefore, every reason to suppose that legitimacy considerations will be an important factor in shaping the latest reform debate over EU fiscal governance reform—particularly given that there is a prospect for a rapid centralisation of fiscal sovereignty.

Despite the potential importance of legitimacy considerations within the context of EU fiscal governance, the literature exploring the two issues combined is very thin. This is not unsurprising. After all, the literature base has already been revealed to be dominated by contributions from economists who have neglected the rich political dimension that surrounds this politically salient research area. Even within the literature that has addressed legitimacy in this context, it has largely done so as part of a wider research context concerning EMU more generally. For example, early on disapproval was expressed with the EMU framework as a whole because it was seen to have no overarching supranational authority that could be held accountable for the management of EMU (Verdun 1998, 2000, 2002, Verdun & Christiansen 2000). A central issue for Verdun was ‘How to handle the politicisation of EMU as its effects become more visible and directly impact on individuals in the absence of a supranational structure of democratic legitimacy’ (Verdun 2002:97). Similarly, Hodson & Maher (2001:1-2) argued that monetary credibility is too ‘narrow

a pedestal upon which to build EMU'; and, more relevant in this context, they added that if economic policy becomes 'more a creature of the EU' then an 'alternative basis for legitimacy will be needed' (Hodson & Maher 2001:2-3). Moreover, Dyson (2002b) pointed out that notions of 'accountability' and 'transparency' are 'tests that Euro economic governance must meet if it is to prove compatible with democratic legitimisation', even if they are disputed (Dyson 2002b:352-3). A number of scholars have focused more narrowly on the ECB (Begg & Green 1998, Buitter 1999, De Grauwe 2000, Dyson 2000, Hadjimmanuil 2000, Hodson & Maher 2001, Jabko 2003, De Hann et al. 2005). In short, while some commentators denounced the ECB's operational independence for its lack of democratic inputs, others maintained that for the sake of efficient output it should be exempt from parliamentary involvement (Scharpf 1999, Issing 1999, & Vila Maior 2003 argued quite strongly on this last point).

Although the above mentioned literature was not focus on the EU's fiscal governance arrangements *per sa*, it did highlight some of the tensions that exist between the input and output dimensions within the broader EMU framework. For reasons already made clear, however, there is a need to consider more specifically legitimacy considerations in relation of the emerging reform debate over EU fiscal governance. In this context, two contrasting reform options have already been laid out. The first is limited to the securing of strengthened fiscal discipline within EMU and results from a neoliberal interpretation of the crisis. The second reform possibility is centred on the prospect of a qualitative integration leap towards a far deeper level of fiscal union and results from a Keynesian interpretation of the crisis. From our previous analysis of the wider legitimacy literature on the EU, it is also quite well established that deeper integration in politically salient areas such as the fiscal domain need to be underpinned by sufficient democratic inputs. This means that deeper fiscal integration will also require parallel integration steps in the direction of a deeper level of political union—as reflected in the saying *no taxation without democratic representation*. This leaves two reform possibilities that are reliant on very different legitimising arguments. For ease of understanding, these two reform models have been provided below as part of table that corresponds with Scharpf (1999) two-dimensional conception of discourse.

Table 2.1. *Reform Options for EU Fiscal Governance*

	Input legitimacy	Output legitimacy	Model of Fiscal Federalism
Model 1	Reliant on at best indirect legitimacy via representative of member states in the Council and European Council settings.	Inspired by a neoliberal interpretation of the crisis as a public debt crisis Involving building on, rather than replacing, the rules-based SGP framework for budgetary surveillance as a means to secure fiscal discipline and broader objectives related to price stability and securing economic growth potential.	Limited model of fiscal federalism: rules-based fiscal discipline with indirect channels of legitimisation.
Model 2	Calls for more channels of direct legitimacy via a strengthening of the European Parliament as the only directly elected representative of the citizens of Europe as a whole. Most commentators also envision a role for (indirect) national parliamentary involvement in European economic affairs here-although there is need to ensure that nationally elected bodies do not encroach on, the European Parliament	Inspired by a Keynesian view of the crisis as a balance-of-payments crisis Centred on a commitment to endowing the single currency with enhanced neo-Keynesian solidarity mechanisms involving debt mutualisation/financial risk sharing instruments and/or the development of a EU fiscal capacity (EU budget) with redistributive and/or stabilisation functions. EU level supervision, including a possible veto over national budgets also a possibility here.	Far reaching model of fiscal federalism: full fiscal union with flanking political union aspect.

Two overarching patterns of legitimising discourse have been identified in the table above. The first is an output oriented neoliberal discourse which is centred on the securing of strengthened fiscal discipline within EMU under the SGP framework, with input legitimacy being left to be conferred largely indirectly. As a model of fiscal federalism this discourse represents the point of minimum departure from the status quo. The second discourse brings together both the input and output dimensions as part of a synergising relationship with the prospect of making a qualitative integration leap within EMU towards full fiscal and political union. As a model of fiscal federalism, this discourse represents a significant departure from the current status quo. It has also already been established that the neoliberal discourse is based on a misguided view of the crisis and ultimately fails to address the underlying structural deficiencies within EMU related to a lack of a fiscal union. There is, therefore, a need to explore which patterns of legitimising discourses are dominating the official fiscal governance reform debate and crucially whether the legitimacy mechanisms being relied upon are sufficient. It also could be that more emotional conceptions of state sovereignty and moral hazard—which have already been shown to be significant in the context of this debate—are preventing a leap towards a deeper level of fiscal and political union in Europe.

Chapter Three: Theoretical and Conceptual Overview

Introduction

The central concept in this piece of research is that of legitimacy, and it will be explored through discourse in the context of the ongoing efforts to reform the EU's fiscal governance arrangements. In order to operationalise these research aims, a dual framework for legitimacy is developed building on the work of Fritz Sharpf (1999). He makes a useful distinction between 'input' and 'output' dimensions of legitimacy. Moreover, with a view to providing a more eclectic conceptualisation of legitimacy, a range of legitimising arguments related to both institutional form and practice and interactive construction are drawn upon.

The methodological framework informing this research process follows closely the work of Critical Discourse Analyst analyst Norman Fairclough (1992, 2003, 2005, 2005a, 2006). With a view to increasing the explanatory potential of a CDA approach that is well suited to interdisciplinary research generally (Woodak & Meyer 2001), it is combined with a selection of broader theoretically informed ideas and power concepts. Central here are insights drawn from the new institutionalist literature bases, with particular attention being focused on the historical (see Zysman 1994, Pierson 1996, 2000, 2001, 2004, Bulmer 1998, 2009, Thelen 1999, Mahoney 2001, Ackril & Kay 2006, Kaiser 2008, amongst others) and discursive institutionalism (see Campbell & Pedersen 2001, Hay 2001, Blyth 2002, Schmidt 2002, 2006, 2008, 2010a, 2011, amongst others). These new institutionalist strands of thought are also combined with a broader understanding of structural forms of power as developed through the writings of Susan Strange (1994). Such theorising when combined provides a fruitful explanatory framework for exploring the broader social environment that surrounds the EU fiscal governance reform debate.

Legitimizing Framework: Between Input and Output

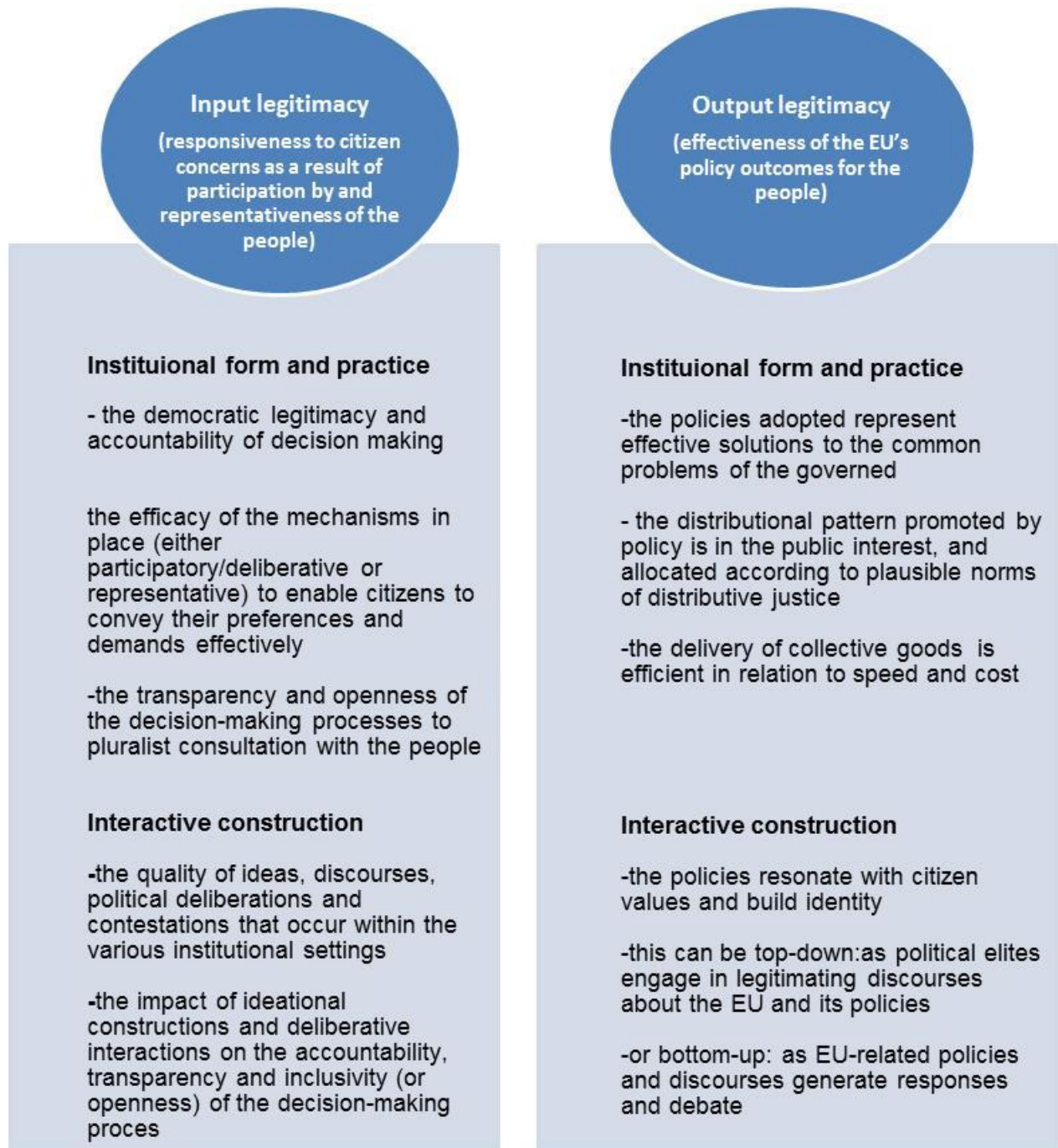
As summarised in the critical literature review, legitimacy and the beliefs surrounding it are understood to play a crucial function in ensuring an effective functioning government in liberal democratic polities (Scharpf 2003). In the context of this process, a dual framework for legitimacy is developed building on the work of Fritz Scharpf (1999). He makes a useful distinction between 'input' and 'output' dimensions of legitimacy. This leaves a normative articulation of legitimacy that is anchored in a set of arguments related to input legitimacy ('involving political participation by and representation of the people') and output legitimacy ('a performance criterion centred on the ability the ability of EU institutions to govern effectively') (Schmidt 2010:6) These argument can be explored through discourse in the fiscal governance context .

As observed during the undertaking of the critical literature review, by and large the majority of the scholars who have explored legitimacy considerations in the EU context as part of Scharpf's (1999) two-dimensional typology adopt one of two analytical approaches: One group provided accounts of legitimacy broadly based on either 'rational choice' (Majone 1998, Moravcsik 2002, Scharpf, 1999, 2006) or 'historical institutionalist' frameworks of analysis (Pierson 1996, 2000, 2001, 2004, Bulmer 1998, 2009); whereas a second group approached legitimacy through a framework of analysis more closely aligned with 'sociological' (March and Olsen 1989, Hall & Taylor 1996) and 'discursive' institutionalist theorizing (Schmidt 2006, 2008, 2010) or more broadly constructivism (Risse 2009). In the context of this research process, however, the framework for legitimacy drawn upon is receptive to both the institutional and procedural dimensions as well as to the complex sociological/discursive and constructivist processes by which legitimacy is, at least partly, socially constructed.

Such a commitment follows on from the observation that the literature on EU fiscal policy has been dominated by contributions from economists employing largely rational choice accounts of institutional change (Dyson 2002a, Overbeek 2003, Heipertz & Verdun 2005, 2005a, Talani 2008, 2014). It is, therefore, deemed important that the analysis is receptive to the importance of identity, normative belief systems, speech acts, modes of argumentation and discursive power structures for the legitimisation of the EU polity (Diez 1999, Dyson 2002, Jabko 2006, Schmidt 2006, Risse 2010). Also, such an understanding of legitimacy represents a tacit acknowledgement on the part of the researcher that both material and ideational aspects are important in producing social outcomes (Patomaki & Wight 2000)—a methodological stance that is very much in keeping with the moderately constructivist CDA approach through which this research process is operationalised.

With the above prerequisites in mind, the framework for legitimacy drawn upon for this research draws extensively, although not exclusively by any means, on the work contributed by Schmidt (2006, 2008, 2010). More specifically, input legitimacy is judged in terms of the 'EU's responsiveness to citizen concerns as a result of participation by and representativeness of the people'; and output legitimacy is judged in terms of the 'effectiveness of the EU's policy outcomes for the people' (Schmidt 2010:5). Moreover, for reasons already discussed, several of the legitimising arguments that are occasionally located under the rubric of throughput legitimacy are in this context incorporated under the input dimension of legitimacy. Thus, throughput legitimacy, which can be judged in terms of the accountability, transparency and efficiency of the EU's decision-making processes along with their openness to pluralist consultation with the people (Schmidt 2010:5), is integrated on the input side of the framework. For the sake of clarity, an illustration of the key arguments that make up the conceptual framework for legitimacy being operationalised for this research process has been provide below (see Figure 1).

Figure 3.1: Two Dimensional Legitimacy Framework



Source: Building on the work of Schmidt (2006, 2008, 2010)

The methodology through which this dual framework for legitimacy is explored through discourse in the context of the ongoing fiscal governance reform debate will be expanded upon as part of chapter 4. However, in short here, the key patterns of discourse being explored as part of the analysis will conform broadly with the two-dimensional conceptual framework for legitimacy provided above.

Theoretical Underpinnings

The operationalisation of this research process takes place through the application of Norman Fairclough's three-dimensional model of CDA (1992, 2003, 2005, 2005a, 2006). The precise methodology underpinning Fairclough's moderately constructivist CDA approach will be outlined as part of chapter 4. However, in short it demands not just an analysis of the linguistic features of texts and the wider discourse from which the text is situated, but ultimately a much broader analysis of the institutional, situational and societal context at the level of 'social practice'. And notably, it is when approaching this broader level of social analysis that Fairclough's CDA approach is combined with a selection of theoretically informed ideas and power concepts with a view to enriching the analysis. Central here are the insights drawn from the 'new' institutionalist literature, with particular attention being paid to the historical and discursive components. While historical institutionalism's focus on concepts such as 'path dependency' and 'critical junctures' is useful for helping us understand the 'stickiness' that often characterises many aspects of EU policy-making (Pierson 1996, Greer 2000, Mahoney 2001, Bulmer 2009, Ackril & Kay 2006), discursive institutionalism helps us focus more on the role of 'substantive ideas' and 'discursive interactions' in bringing about potential change (or continuity as the case may be) (Schmidt 2006a, 2008a, 2011). When combined with a deeper understanding of structural forms of power (Strange 1994), such theorising facilitates a far more comprehensive analysis of the broader social context from which the current debate over EU fiscal governance reform has arisen.

Principles of Critical Discourse Analysis

Although in this research context the primary reference point is the CDA approach as theorised by Norman Fairclough (1992, 2003, 2005, 2005a, 2006), in more general terms CDA can be said to encompass a wide variety of theories and approaches towards social analysis (see Van Dijk 1993, 1995, 1997, 1998, Wodak, 1995, 1996, Fairclough & Wodak 1997, Chouliaraki & Fairclough 1999, Woodak & Meyer 2001, Chiapello & Fairclough 2002, Fairclough et al. 2004, amongst others). It is for this reason important to locate Fairclough's version of CDA within the context of the wider scholarly environment from which it is part. While the individual CDA approaches may differ in 'theory, methodology and the type of research issues to which they tend to give prominence' (Fairclough 2005b:76), there are some notable commonalities that have come to define CDA as a distinct approach to social enquiry. For example, Hussein (2008) observes that CDA applicants generally:

“Define discourse in broad terms to include written and spoken language in addition to visual representation; they subscribe to the dialectical relationship between discourse and social reality; and they are all politically committed to examining the role of discourse in the (re)production of social power” (Hussein 2008:132).

However, arguably the most defining characteristic that differentiates CDA from more traditional styles of discourse analysis are its 'constitutive problem-oriented', 'interdisciplinary' style (Woodak & Meyer 2001:2). And these qualities are very much manifest in the broad domain of research areas embarked upon by scholars of CDA in recent times, which include political and economic discourse (Chilton 1988, 1995, Wodak 1989, Fairclough 1989, 1992, 2000, Chouliaraki & Fairclough 1999, Jessop 2004, Ngai-Ling & Jessop 2010), discourse of globalisation (Fairclough 2006), institutional discourse (Sarangi & Slembrouck, 1996, Wodak 1996, 1997, Chouliaraki 1998, Kress et al. 2001, Hall et al. 2006), gender issues (Wodak 1997a, Talbot 1998, Walsh 2001), and ideology more generally (Kress Hodge 1979,

Wodak 1989, Thompson 1990, Van Dijk 1998, 2002). The adaptability of CDA to multidisciplinary research is taken advantage of in this research context, with a decision being taken to employ CDA alongside a selection of broader theoretically informed insights and ideas.

In view of the diverse nature of the CDA paradigm, the observation that this mode of social enquiry is a product of a series of earlier research traditions is a fairly predictable, yet important, point (Woodak & Meyer 2001). And at the heart of the theory behind CDA is the 'mediation between the social and linguistic' (Chouliaraki & Fairclough 1999:16). With regard to the former, for example, scholars of CDA have been strongly influenced by a whole range of social theorists who have drawn attention to the role of language in society. Notable additions to this list includes: neo-Marxists (Althusser 1971, Gramsci 1971), critical theorists (Habermas 1984, 1987), Sociologists (Bourdieu, 1990, Bernstein, 1996), theorists of post-modern thought (Harvey, 1989, Giddens, 1990, 1991) as well as post-modernists and post-structuralists (Lyotard, 1979, Derrida 1976). The Foucauldian view of discourse has also been very influential here, particularly with regard to the crucial role that discourse plays with regard to generating social change (Foucault 2002). Foucault's concerns with power relations have also been matched by scholars of CDA, although power is not reduced to language in the Foucauldian sense. Fairclough, in particular, has also been seen to draw heavily on the work of Foucault when developing understandings of discourse as a form of 'social practice' (Fairclough 1989). The concept of 'orders of discourse' (which Fairclough understands to mean the semiotic aspects that take place at the level of social practice) has also been more explicitly adopted (and recontextualised) from the work of Foucault.

However, while scholars of CDA have clearly strived to anchor their analysis on the ideas developed as part of these more socially grounded research traditions, these fields of enquiry have been accused of falling into a level of discursive idealism (or reductionism), as well as being criticised for being seen to be unable to account for processes of human agency and change (Newton 1998, 2003, Reed 1997, 2000). CDA scholars, including Fairclough, have therefore sought to combine insights from the more socially grounded approaches to the analysis of discourse with a range of linguistic techniques for carrying out more textually orientated discourse analysis. It

is at this crucial juncture, then, that we can trace the immediate ancestry of CDA back to the Critical Linguistics (CL) movement that was born in the early 1970's (see Fowler et al. 1979, Hodge & Kress 1979, amongst others). Like their contemporaries who work within the field of CDA, scholars active within this prior CL movement were observed to be primarily concerned with developing a 'social approach to linguistics' that is capable of theorising 'power relationships' (Flowerdew 2008:195). Another similarity was that scholars of CL were also seen to be keen to explore how agency is represented within language use. A key resource that aided CL scholars with their textual analysis was Halliday's Systemic-Functional Linguistics (SFL; Halliday 1978), which views 'language as a semiotic system that is structured in terms of strata' (Chouliaraki & Fairclough 1999). And fundamentally, it was out of this initial (rather limited) hybridisation of social theory and textually orientated discourse analysis that CDA as an approach to the study of language emerged in its contemporary form (Martin & Wodak 2003).

Owing to its varied theoretical legacy, CDA in its modern guise offers offer a valuable research framework that brings together both linguistic and more sociological techniques to the (critical) analysis of discourse. There are also some more general theoretical observations that can be made at this point concerning the application of a CDA approach to social enquiry. First, and perhaps most importantly, all CDA scholars are committed to an understanding of discourse (which encompasses language use in both speech and writing) as a form of 'social practice' (Fairclough & Wodak 1997). This implies that there is a so-called 'dialectical relationship' between a particular discourse event (text) and the situation, institutions, and structures that frame it (ibid). Or, in other words, discourse is 'socially constituted' as well as 'socially conditioned' (ibid). In keeping with this logic, then, while a textual linguistic type analysis is understood to remain an integral part of any CDA exploration, it is also deemed essential that the analysis oscillates between a focus on specific micro-level texts and wider social-cultural practice at the macro level, with discourse practice mediating between the two (Fairclough 1992:231-238). And it is by means of such an understanding that CDA scholars are able to further incorporate insights from both broader social theory and more textually orientated analysis into their respective CDA approaches. Furthermore, such reasoning, through the aligning of notions such as 'power with semiotic activity' (a category

which includes non-linguistic elements) (Thompson 2003:352), implies that uncovering the discursive nature of power relations is at the forefront of the research agenda.

Finally, a number of advantages are gained from the decision to adopt a CDA type approach to research—as opposed to a more conventional approach to discourse analysis. To begin with CDA, particularly of the variety developed most consistently by Fairclough (1992, 2003, 2005, 2005a, 2006), draws on a critical realist ontological position (see Bhasker 1986, 1989, Archer 1995, Sayer 2000). What it entails to apply critical realist ontology to research will be discussed at length in chapter 4. In short, though, critical realists place a particular emphasis on ‘social construction’ and the ‘critique of the idea that science is an objective process’; however, the ‘phenomena studied in research are not viewed as complete constructions’ but as ‘corresponding to real entities or processes which exist independently of us’ (Sullivan 2010:30). In adopting such a nuanced ontological position, critical realists manage to escape the intellectual straight jacket that can often result from a commitment to positivism or from extreme versions of constructivism (or post-modernist/ structuralist theorising) (Danermark et al. 1997, Kurki & Wight, 2007). Also critical realists are able to avoid the common tendency on the part of many discourse analysts (particularly post-structuralists and extreme constructivists) who end up viewing the ‘social as nothing but discourse’ (i.e. so called ‘discourse idealism’) (Chouliaraki & Fairclough 1999:28).

Speaking in the context of this research process more specifically, adopting a version of CDA premised on the theoretical underpinnings of critical realism is also in keeping with the relational framework for legitimacy that has been outlined already (between institutional form and practice and interactive construction). And, by drawing attention to the influence the material world places on such discourse formations, it follows that versions of CDA underpinned by a critical realist ontology are able to facilitate a far more complete analysis of legitimising discourse effects and their dialectical relationship with non-discursive elements of the social. As already hinted at, owing to CDA’s highly varied intellectual and theoretical roots, CDA is also clearly well positioned to contribute to interdisciplinary research generally—and it is a position that the researcher takes advantage of by

incorporating new institutionalist insights alongside broader concepts of power. Also, because CDA has been applied successfully in the past in order to explore topics of interest across the social, political and economic fields, there is every reason to believe it is well suited to application at the intersection of politics and economics.

Broader Theoretical Considerations

With a view to increasing the explanatory potential of a CDA approach that is well suited to interdisciplinary research generally (Woodak & Meyer 2001), it is combined at the level of social practice with a selection of broader theoretically informed ideas and power concepts. Central here are insights drawn from the new institutionalist literature bases, with particular attention being focused on the historical and discursive institutionalist perspectives. These new institutionalist strands of thought are also combined with the broader concept of structural power. Together such theorising provides a powerful explanatory framework with which to explore the broader social context surrounding the current debate over EU fiscal governance reform.

Since the 1980's, there has been a movement within EU studies away from so-called 'grand theorising' over the process of EU integration—a state of affairs that had led to the field being dominated by neo-functionalism and liberal intergovernmentalism—in the direction of understanding how the EU functions as a political system. This movement has led to scholars drawing on wider political science literature with a view to developing a deeper understanding of how the EU actually works. It was set against this backdrop that the 'new institutionalism' emerged as a new way of understanding EU integration and governance. The one underlying assumption that unites the new institutionalism as a distinct approach is that 'institutions matter' (Armstrong & Bulmer 1998:50). Moreover, this new variant of institutionalism can be differentiated from older variants in that 'institutions are not only defined as the formal organisations that the old institutionalism had recognised—such as parliaments, executives and judicial orders—but also extended

to categorise informal patterns of structural interaction between groups as institutions themselves (Bache et al 2011:22). Of course, institutionalism did not originate in the field of EU studies per se; however, as an example of the most highly institutionalised model of regional cooperation in the world, it is of little surprise that the new institutionalism is utilised frequently with a view to accounting for policy developments in the EU (see Pollock 2008 for an overview of new institutionalisms vast application in EU studies).

Much of the literature addressing the legitimacy of the EU can be broadly classified as new institutionalist in character. When piecing together the analytical framework for legitimacy for use during this research process, for example, a distinction was made between those scholars who have approached legitimacy through the lens of 'rational choice' and/or 'historical institutionalism' (see Bulmer 1998, 1999, Hix 1998, 2008, Majone 1996, 1998, Pierson 1996, Moravcsik 2001, 2002, Scharpf 1997, 2006, amongst others), and those who have drawn more strongly on the 'sociological and/or 'discursive institutionalist' (or constructivist) insights to inform their analysis (see Habermas 1996, 2001, Dyson 2002, Schmidt 2006, 2010, 2011, Risse 2010, amongst others). It should come as little surprise, then, to learn that these four strands of thought, broadly speaking, make up the new institutionalism: 'rational choice', 'historical', 'sociological' and 'discursive' (sometimes referred to as constructivist) (Schmidt 2011; see Table 3.2 for a more detailed breakdown of the key assumptions which inform these four strands of thought). As a broad church, the distinctions between these four research agendas are often somewhat blurred, particularly with regard to historical institutionalism and the nature of the interface between rational choice and sociological research agendas.

Table 3.2: The Four New Institutionalisms

	Rational Choice Institutionalism	Historical Institutionalism	Sociological Institutionalism	Discursive Institutionalism
Object of Explanation	Rational behaviour and interests	Historical rules and regularities	Cultural norms and frames	Ideas and discourse
Logic of Explanation	Calculation	Path-dependency	Appropriateness	Communication
Problems of Explanation	Economic determinism	Historical determinism	Cultural determinism or relativism	Ideational determinism or relativism
Ability to Explain Change	Static: continuity through fixed preferences	Static: continuity through path dependency	Static: continuity through cultural norms	Dynamic: change and continuity through ideas and discursive interaction

Source: Adapted from Schmidt (2011:50)

In the context of this research process, two theoretical approaches from the new institutionalist paradigm are primarily drawn upon when conducting the analysis at the level of social practice: namely historical (see Zysman 1994, Pierson 1996, 2000, 2001, 2004, Bulmer 1998, 2009, Thelen 1999, Mahoney 2001, Ackril & Kay 2006, Kaiser 2008, amongst others) and discursive institutionalism (see Campbell & Pedersen 2001, Hay 2001, Blyth 2002, Schmidt 2002, 2006, 2008, 2010a, 2011, amongst others). Discursive institutionalism, with its focus on ideas and discourse is, when employed alongside historical institutionalisms more structural, temporal insights, well suited to exploring the historical roots of the discourse environment surrounding the EU fiscal governance reform debate. Starting with historical institutionalism, this approach can be said to add an overall 'temporal dimension' to the research process (Bulmer 2007). Moreover, because historical institutionalism does not represent a direct 'counterpoint' to rational choice or more sociological institutionalist approaches (Bache 2008:14), the insights provided by the approach

can be incorporated with relative ease alongside those provided by discursive institutionalism (Schmidt 2006a, 2008a, 2011).

In order to emphasise the importance of political practices embedded over time, historical institutionalist scholars point to the sources and significance of 'path dependency' and 'critical junctures' for helping us understand the 'stickiness' that often characterises many aspects of institutional change (Pierson 1996, Greer 2000, Mahoney 2001, Bulmer 2009, Ackril & Kay 2006). The basic idea behind path dependency is a simple one and it was neatly articulated by Bulmer (2009) when commenting on the founding contribution made by Paul Pierson in his text called *Politics in Time*

“Path dependence is not about expressing the point that history matters; it highlights how political processes entail trajectories that are difficult to reverse because they are underpinned by mechanisms of positive feedback and increasing returns, as reflected in sunk costs and vested interests” (Bulmer 2009:209-310).

Path dependency is a particularly useful concept for application in the EU context generally due to the complexity of the EU as a legal system (e.g. with multiple veto points) and owing to the sheer diversity of opinion and interests that are reflected within it. Moreover, following numerous enlargements and the expansion of EU policy competencies, this observation is set to become even more relevant over time. Path dependency has already been utilized as means of exploring the evolution of policy in multiple areas of EU policy-making, including the Common Agricultural Policy and the Multiannual Financial Framework (see Bulmer 2009 for an overview of the application of historical institutionalism analysis to the political system of the EU connected with policy analysis). There are also several reasons to suppose that path dependency is a concept that is well suited to explaining institutional inertia in the fiscal governance domain. This is because of the considerable sunk costs made during the initial construction of EMU and in view of the possible forces of vested interests from member state actors, officials and other stakeholders who may be able to constrain far reaching reform in this area.

Historical institutionalism is also able to factor in more radical change as part of what it terms as a 'critical juncture' event—otherwise referred to as 'punctuated equilibrium' (Collier & Collier 1991, Bulmar 2009). As Bulmar (2009: 209) points out, 'These analyses bring in the second dynamic of radical change to challenge the default position of path dependence'. It has also been documented that critical junctures can be caused by a whole range of endogenous and exogenous crises or a combination of both, and that they can vary in duration from relatively quick moments to long periods of transitional change (Collier & Collier 1991). The possibility of a critical juncture event arising to break the path dependent nature of a policy area is relevant in the context of this research process, with the recent intensification of financial and economic crisis in Europe representing a moment when more radical change may be a possibility within EMU. The question is whether this critical moment will be exploited or not, as the case may be.

Despite factoring in the possibility for critical juncture events, a case can be made that historical institutionalism is, on balance, better suited to 'explaining institutional continuity rather than change' (Schmidt 2008a:2). Therefore, while the temporal dimension is made explicit during the analysis at the level of social practice, discursive institutionalist theorising is also factored in at this level of the CDA analysis alongside its more historical/ structuralist counterpart (see Campbell & Pedersen 2001, Hay 2001, Blyth 2002, Schmidt 2002, 2006, 2008, 2010a, 2011, amongst others). What makes discursive institutionalism distinct is that it preferences the role of 'substantive ideas' and 'discursive interactions'—a methodological position that should result in a more complete insight into why 'institutions change' generally (Schmidt 2008). Hence, when applied in the context of this research process, it is able facilitate a more in depth reading of the overarching ideological struggles (and in turn power relations) that may be constraining or facilitating change in the context of EU fiscal governance reform. Discursive institutionalism also recognises the role of communicative discourses in promoting legitimisation. As Schmidt (2011) outlines:

“Discursive institutionalism considers the discourse in which actors engage in the process of generating, deliberating, and/or legitimizing

ideas about political action in institutional context according to a logic of communication” (Schmidt 2011:48).

On top of this, there are some obvious parallels between a CDA approach that emphasises the role of discourse in the (re)production of social power and discursive institutionalism, which is primarily interested in discourse as an agent of institutional and social change.

Finally, these new institutionalist strands of thought are combined with a broader understanding of structural power as theorised by Susan Strange (1994). This is not to discount the large role that power relations play within new institutionalist thought by itself—at both a structural and ideational level. However, for the purpose of analysing discourses at the level of social practice in this research context, it is felt necessary to provide a more explicit concept of power. This because the distribution of power amongst member states, especially amongst Germany and France as the twin engines of EU integration, is certainly a key factor in any discussion addressing the nature EMU governance (Heipertz & Verdun 2011:19-42). Also, German power, including ideational power, needs to be factored in when addressing the construction phase of EMU in particular (Verdun 1998, De Grauwe 2007, March 2011).

In order to take into account the impact of these power relations within EMU, a deeper understanding of power is needed that goes beyond simply direct or relational power. Relevant to this discussion is the concept of ‘structural power’ as developed by Susan Strange (1999). She defines it as ‘the power to shape and determine the structures of the global political economy within which other states, their political institutions, their economic enterprises and (not least) their scientists and other professional people have to operate’ (Strange 1994:24-25). Strange also argues that structural power can be derived from a distinct ideational component (or ‘knowledge structure’) that ‘comprehends what is believed (and the moral conclusions and principles derived from those beliefs); what is known and perceived as understood; and the channels by which beliefs ideas and knowledge are communicated—including some people and excluding others’ (Strange 1994:119).

As well as bringing together material and more ideational components, structural power is not structurally deterministic. *For example, In Search of Structural Power: EU Aid Policy as a Global Political Instrument*, Holden (2009) draws on the work of Strange and formulates a working definition of structural power that recognises its scope for agency. Structural power is understood by the author to also include ‘agents that possess the capacity to mould the formal institutions and deeper material and ideational structures of the international system’ (Holden 2009:13). In sum, then, by incorporating structural power into the analysis at the level of social practice, it facilitates a more comprehensive analysis as to where power lies within EMU in terms of both material and ideational aspects—and in terms of the interplay between agents and structures who operate within this environment.

Conclusion

In order to operationalise the research question, a dual framework for legitimacy is developed building on the work of Fritz Sharpf (1999). He makes the useful distinction between ‘input’ and ‘output’ dimensions. The framework also contains legitimising arguments related to both institutional form and practice and interactive construction. The overarching methodological framework guiding this research process is informed by the work of CDA analyst Norman Fairclough (1992, 2003, 2005, 2005a, 2006). However, with a view to increasing the explanatory potential of this CDA approach at the broader level of social practice, a selection of broader theoretically informed ideas and power concepts are drawn upon. This includes insights taken from the new institutionalist literature bases, with particular attention being focused on the historical and discursive institutionalist perspectives. These new institutionalist strands of thought are also complimented by a deeper understanding of structural power as developed through the writings Susan Strange. Together, such theorising facilitates a far more comprehensive analysis of the broader social context from which the current debate over EU fiscal governance reform has arisen.

Chapter Four: Methodological Framework—A Critical Discourse Analysis Approach

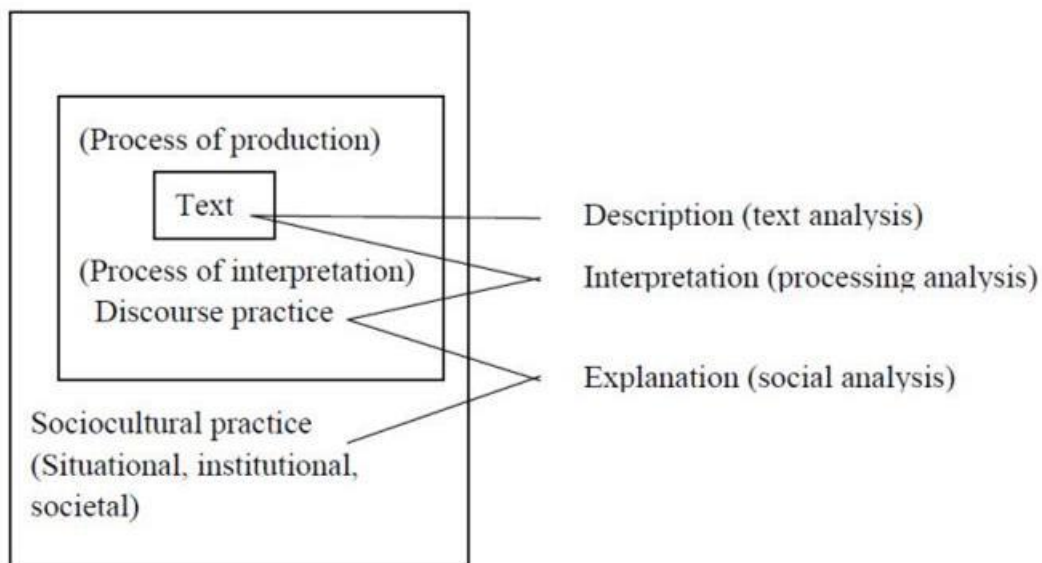
Introduction

The methodology adopted for this research is based upon Fairclough's three-dimensional framework for CDA in which discourse is analysed as a text, as a discourse practice, and as a form of social practice (Fairclough 1992, 2003, 2005, 2005a, 2006). This CDA approach is underpinned by the premises of critical realism (see Bhasker 1986, 1989, Archer 1995, Sayer 2000): a philosophy that retains an ontological realism (a real world exists independently of our knowledge about it) while accepting a form of epistemological relativism (our understanding of this reality is partly constructed from our own perspectives and standpoint). Such an understanding leads to an approach to social enquiry that is receptive to the role of discourse in leading to social change, although it represents a rejection of the tendency on the part of some extreme constructivist or post-modernist scholars to reduce the study of social life to discourse. The data collection phase is guided by the development of a mixed method approach involving in the main data collected through a series of interviews with senior level policy-makers and the sourcing of official EU policy documents. The operationalisation of such methods facilitates the collection of discourse on fiscal governance reform expressed both formally and informally.

Fairclough three dimensional CDA

The specific linguistic, interpretative and explanatory techniques underpinning Fairclough's three-dimensional model of CDA will be expanded upon in full in due course. In brief, however, there is a description as to the linguistic make-up of the text (text analysis); then the relationship between the productive and interpretative processes which lie between discourse practice and the text is interpreted (process analysis); and finally the wider relationship between discourse practice and social practice is explained (social analysis). The manner by which Fairclough's three-dimensional CDA approach brings together both the linguistic and more sociological techniques to the (critical) analysis of discourse can be made more intelligible for the reader by relating it to the diagram offered below (see Table 4:1). For the purposes of clarity, it should also be recalled that it is at the third level of analysis (i.e. explanation of discourse at the level of social practice) that the theoretical insights and power concepts provided for as part of chapter 3 are incorporated into the analysis.

Figure 4.1 : Fairclough's Three-Dimensional CDA framework



Source: Fairclough's (1992:73; 1995)

Fairclough adopts a view of discourse as an 'element of all process, events and practices', although these elements of social life are not reduced to discourse in their entirety (Fairclough 1992:2). Instead, it is more appropriate to think of discourse in this CDA context as 'articulations of discourse with non-discoursal elements' (Fairclough 2005:924). Discourse in the most general and abstract sense though is understood as being indicative of a grouping which encompasses the broadly 'semiotic elements' (contrasting with 'non-semiotic elements') of the world, which includes 'language' 'visual semiosis' and 'body language' (Fairclough 2005b:77). Though as Fairclough (2005:925) comments, 'the use of the term discourse rather than language is not purely or even primarily motivated by the diversity of forms of semiosis'. Instead, the use of such terminology is primarily a result of the 'relational way' by which Fairclough understands linguistic/semiotic elements of social events and practices as being interconnected with other components (*ibid*). It is through such an understanding of discourse that Fairclough is able to offer a far more complete analysis of discourse effects and their dialectical relationship with non-discourse elements of the social.

Fairclough's methodological framework (similar to a large number of CDA approaches to social enquiry) is underpinned by a critical realist ontological position, along with the associated epistemological benefits it gives rise to (see Bhasker 1986, 1989, Archer 1995, Sayer 2000). Such an ontological commitment to critical realism facilitates an awareness of the 'real structures of society' that are said to constitute our world, although with a recognition that knowledge of these structures will only ever reflect 'partial experiences' of them (Forsyth 2004:16). In keeping with this logic, Fairclough is guided towards a 'dialectical' understanding of the 'relationship between structure and agency' and of the 'relationship between discourse and other elements or moments of social practices and social events' (Fairclough 2005b: 76-77). And this stance is manifested in Fairclough's (2005, 2006) understanding of the dimension of social practice (a term that encompasses the relatively stable social networks that make up the social world, including institutional and organisational circumstances) as a mediating category between social structures and social events

(2005, 2005b). In sum, then, in an ontological sense there is understood to be an important semiotic element to every level of social reality: social structures to languages, social practises with orders of discourse, and social events with texts (Fairclough 2003:24).

It is also as a consequence of Fairclough's decision to draw on the ontological premises of critical realism that can account for his decision to centre the analysis of discourse within an analytically dualist epistemology: one that prioritises the investigation of relations between 'agency' (social processes and events) and 'structure' (Fairclough 2005:916). While such an approach is receptive to the role of discourse in leading to social change, the tendency on the part of many extreme constructivist or post-modernist scholars to reduce the study of social life to discourse is outright rejected (Fairclough 2003, 2005). Rather Fairclough (2003) makes an important distinction between 'construction' and 'construal':

"[W]e may textually construe (represent, imagine etc) the social world in particular ways, but whether our representations or construals have the effect of changing its construction depends on various contextual factors-including the way social reality already is, who is constructing it, and so forth" (Fairclough 2003:7-8).

The above remarks account for why a key endeavour of Fairclough's CDA approach is to identify the dialectical relations between discourse and other non-discursive elements of the social world. The latter of were identified by Harvey (1996) as encompassing a broad range of moments including: 'power', 'values', 'social relations', 'institutions' and 'material factors'. And because this version of CDA is seen to be concerned with exploring the complex inter-relationship between discourse practices and social structures at the broadest levels, it is able to achieve a far more complex understanding as to the role of discourse in shaping (and being shaped) by the social world around us.

The epistemological approach guiding Fairclough's version of CDA is contingent on what is termed 'retroductive' reasoning, which involves explaining events by postulating (and identifying) mechanisms which are capable of producing

them (Sayer 1992:107). From such a vantage point, the research process is understood as initially progressing from the 'concrete' (or empirical) to the more 'abstract' (or theoretical) explanations of the generative mechanisms concerned (Jessop and Sum 2006: as cited by Fairclough 2007:13). Following the completion of this step, a retroductive approach to social enquiry is then understood to be contingent on a 'movement back to concrete-complex analysis of concrete realities that deploys in combination categories arrived at through abstraction' (Jessop and Sum 2006: as cited by Fairclough 2007:13). This means that rather than 'start from the text' during the process of CDA, an exploration of the 'complex articulation of diverse moments which constitute concrete process and events' must first be carried out (Fairclough 2007-13-14).

Operationalisation of Research

Chapter 5 will provide a full historical overview of fiscal governance within EMU, and this chapter will also provide justifications for the key time-frame and institutional locations within which the discourse analysis will take place. In short, though, it will be charted as part of the historical overview chapter how the SGP remained relatively unchanged up until the intensification of the financial and economic crisis in Europe around mid-2010—a period which saw investor confidence collapsing and bond yields on weaker Eurozone countries diverging markedly with the core states. Two separate phases of the crisis will then be identified: an 'immediate crisis period' and what will be termed as a 'post-crisis period'. And it is the legitimising discourses to emerge during these two phases of the crisis reform debate that are of principle concern to the researcher when applying the CDA approach being operationalised for this analysis. The precise qualities that define this period as one of 'crisis' for European policymakers will also be further developed at this point, although in short it was the considerable 'risk' elements that made it so—with an added 'timing' element stemming from market pressures that were often seen to move quicker than Europe could legislate for.

In setting out the specific institutional settings that makeup the focus of the analysis of discourse, three key policy settings will also be identified in chapter 5: 1) the intergovernmental settings, including the European Council, ECOFIN Council (shadowed by the Eurogroup), as well as the various deliberations which take place at committee level; 2) the Commission setting as the Unions foremost supranational actor; 3) and finally, the European Parliamentary setting as a more marginal, although not inconsequential, policy actor within EMU. And notably, a separate case study chapter is devoted to exploring the legitimising discourses being produced within each of these three institutional settings when tackling the fiscal governance reform issue. Also, following the CDA framework as set out by Fairclough, a separate chapter is also allocated at the end of the analysis for carrying out a much broader exploration (from a historical perspective) of the institutional, situational and societal context that surrounds the discourse at the level of social practice.

The data collection techniques employed during the undertaking of this research, as well as a summary of the various stages that will constitute the CDA analysis, will be outlined in full in due course. However, first a classification of the key patterns of legitimising discourse that will be explored in the context of the ongoing debate over EU fiscal governance reform will be reiterated here—following on from the findings made during the undertaking of the critical literature review. It was found that two separate explanations exist as to why the crisis erupted with such added intensity within the Europe and the single currency area: 1) the neoliberal interpretation of events which places fiscal discipline, or the lack of, at the heart of any account of the crisis; 2) and the Keynesian view, with the crisis being understood more as a balance-of-payments crisis than a public-debt issue. It was also discovered that stark policy implications result from the particular crisis diagnosis elected for. For example, those who were seen to adopt a neoliberal interpretation of the crisis were more likely to focus on limited measures to strengthen fiscal discipline under the pre-existing SGP instrument. However, those who accepted the Keynesian version of events were inclined to advocate a more far-reaching integration leap in the direction of a far deeper level of fiscal union where neo-Keynesian type solidarity mechanisms play an enhanced role. Finally, it was also found to be well established in the literature that deeper fiscal integration will require parallel integration steps in the direction of a deeper political union, i.e. *no taxation without democratic*

representation. These key patterns of discourse have been presented below as part of a table (see Table 4.2) that corresponds with the two-dimensional framework for legitimacy already provided for.

Table 4.2 Key Patterns of Discourse

	Input legitimacy	Output legitimacy	Model of Fiscal Federalism
Model 1	Reliant on at best indirect legitimacy via representative of member states in the Council and European Council settings.	Inspired by a neoliberal interpretation of the crisis as a public debt crisis Involving building on, rather than replacing, the rules-based SGP framework for budgetary surveillance as a means to secure fiscal discipline and broader objectives related to price stability and securing economic growth potential.	Limited model of fiscal federalism: rules-based fiscal discipline with indirect channels of legitimisation.
Model 2	Calls for more channels of direct legitimacy via a strengthening of the European Parliament as the only directly elected representative of the citizens of Europe as a whole. Most commentators also envision a role for (indirect) national parliamentary involvement in European economic affairs here-although there is need to ensure that nationally elected bodies do not encroach on, the European Parliament	Inspired by a Keynesian view of the crisis as a balance-of-payments crisis Centred on a commitment to endowing the single currency with enhanced neo-Keynesian solidarity mechanisms involving debt mutualisation/financial risk sharing instruments and/or the development of a EU fiscal capacity (EU budget) with redistributive and/or stabilisation functions. EU level supervision, including a possible veto over national budgets also a possibility here.	Far reaching model of fiscal federalism: full fiscal union with flanking political union aspect.

In the context of the reform debate over EU fiscal governance reform, there are two overarching patterns of legitimising discourse that need to be explored. The first is an output oriented neoliberal discourse that is centred on the securing of strengthened fiscal discipline within EMU under the SGP framework, with input legitimacy being left to be conferred largely indirectly. As a model of fiscal federalism this represents the point of minimum departure from the status quo. The second discourse brings together both the input and output dimensions as part of a synergising relationship with the prospect of making a qualitative integration leap within EMU towards full fiscal and political union. As a model of fiscal federalism, this discourse represents a significant departure from the current status quo. Of course, there are possibilities for integration models that rely on alternative legitimising mechanisms. Most notably, you could have a series of integration steps in the direction of a deeper fiscal union (i.e. with neo-Keynesian solidarity mechanisms) without the corresponding political integration. However, in accordance with the deeply embedded political standard of *no taxation without democratic representation*, such integration steps would seem highly unlikely in the EU context.

It is important to reiterate at this point that, for reasons expanded upon at length during the undertaking of the critical literature review, a position in favour of the second and more far reaching pattern of discourse has been adopted for the purposes of this research. This in recognition of the inherent deficiencies that have been understood to have been present from the beginning within the EMU framework (i.e. the lack of a fiscal union)—deficiencies which ultimately have been seen to play a crucial role in bringing about the intensification of the financial and economic crisis in Europe (De Grauwe 2013). By implication, such positioning does mean that in this research context the nature of the legitimising discourses being developed within the various EU institutional settings is of added importance. After all, failing to move towards a deeper level of fiscal and political union would be failing to adequately tackle the key weaknesses revealed by the crisis.

Adopting such a position also helps direct the analysis in a more critical direction. There is now more of a motivation to ask which dominant legitimising discourses are guiding the current fiscal governance reform debate—and from within

which of the various institutional settings. It is also vital to establish if the policy responses being adopted at the European level result from a misguided interpretation of the crisis in the first instance. Also relevant here is ascertaining if the discourses guiding the reform agenda have long been present at the European level; or alternatively whether these narratives have in fact arisen as a direct response to the crisis events in Europe. Of course, if a limiting neoliberal discourse is found to be dominant in the context of the EU fiscal governance reform debate, then a series of additional research questions inevitably arise. In particular, the question will need to be posed as to what is preventing an integration leap towards a deeper level of fiscal and political union in Europe. As already discussed at length in the critical literature review, this could be where sensitive issues related to sovereignty and moral hazard will need to be factored into the analysis, in a policy area which after all has historically remained deeply embedded at the national level. There is also a need to establish if reliance on indirect legitimacy mechanisms is enough to ensure the effective functioning of a neoliberal rules-based fiscal governance model. And finally, at the level of social practice, the theoretical and methodological tools already outlined would need to be employed in this instance in order to explore the historical roots of this constraining discourse environment that Europe has found itself in when confronting the topic of fiscal governance reform.

Data Collection Techniques

The data collection phase is guided by the development of a mixed method approach, involving data collected through a series of interviews with senior level policy-makers and the sourcing of official EU policy documents—speeches given by EU level officials will also be drawn on occasionally as a supplementation device. The adoption of such a mixed method approach is understood to be particularly relevant in this research context given that Fairclough's CDA approach is itself hinged upon a broad understanding of discourse—one which encompasses both written and spoken texts. Of course, whether written or spoken, the primary unit of analysis for CDA is still the text itself. A further distinction can, however, be made between what can be termed as 'formal' and more 'informal discourse' types.

The official policy documents (and speech acts), for example, represent more formal discourse. After all, these data sources are sourced from the individual institutional settings making up the analysis chapters, and are representative of the official public expression of the intent of the policy actors located within the institution in question. This official discourse can be interpreted as more of a collective voice that has been controlled and designed in such a way as to legitimise EU policy-making or governance. In this sense, the official discourse on the subject of EU fiscal governance reform is useful for grasping the overarching ideological position that is being utilised within a particular policy setting to legitimise policy action in that area. Of course, analytically speaking the informal discourse is still valuable as a reinforcement device for the more formal public orientated discourse. The interview data can, for example, be analysed with a view to seeing if there is a high degree of ideological overlap with the public discourse released from within a particular institutional setting over the issue of EU fiscal governance reform. Key here is assessing if the modes of argumentation and reform strategies being advanced contain irregularities, or not.

However, arguably the most beneficial use of the informal discourse that is not available to the public is for tracing the underlying, often concealed, reasons that led to the final release of an official EU policy document in its particular format. This is particularly relevant in a fiscal governance policy environment that has already been found to be highly complex (with multiple veto points), with a diversity of opinion and interests being reflected within it (from member state actors, officials and other stakeholders who may need to be taken into consideration). Informal discourse could also prove invaluable when posing the all-important counterfactual questions. It is hard to ascertain from official discourse, for example, why a particular policy document may have avoided a certain reform path or strand of argumentation altogether. The informal discourse, therefore, provides an important opportunity to see how some of the more sensitive issues already raised in the critical literature review concerning sovereignty concerns and issues moral hazard may be impacting upon the debate over EU fiscal governance reform. For obvious reasons, within documents designed for public consumption, it would be much harder to provide an adequate analysis of these potentially limiting factors.

In terms of the technicalities of the data collection process, two separate phases of the crisis will be identified in chapter 5: an 'immediate crisis period' (spanning approximately from early 2010 through to mid-2012) and what will be termed as a 'post-crisis period' (from late 2012 onwards). As will be demonstrated, some of the more immediate risks posed by the crisis events subsided by the middle of 2012 (following a series of unconventional policy intervention by the ECB), and the reform debate began to switch to the additional measures that need to be taken over the longer term in order to reform EU fiscal and broader economic governance (see in particular the remarks by European Council President Herman Van Rompuy following the European Council summit at the end of June 2012 where he laid down a 'longer-term vision' for strengthening EMU; Van Rompuy 2012). In keeping with these observations, the key policy documents discussing fiscal governance reform released between the two dates presented above have been drawn upon. And again, in setting out the specific institutional settings that make up the focus of the analysis of discourse, three key policy settings will be identified as part of chapter 5. In short, these are: 1) the intergovernmental setting, including the European Council, ECOFIN Council (shadowed by the Eurogroup); 2) the Commission setting 3) and finally, the European Parliamentary setting. While the intergovernmental settings constitute several overlapping institutional domains, during the crisis the same policy documents were often discussed at several levels of decision-making at once before being presented to the public (usually under the direction of the European Council President Herman Van Rompuy).

Moving on to interview data collection procedure, 20 in depth interviews have been carried out with senior level officials located within all of the relevant institutional settings mentioned above. This list includes senior members of DG ECFIN involved in fiscal policy coordination (including members of the secretariat who are represented within the Eurogroup and further down at committee level); senior officials located within the Council Directorate for Economic Policy; senior members of the Cabinet for the European Council President; ministers of the Permanent Representation for Economic, Financial and Monetary Affairs; and finally, members of the European Parliament. Due to the seniority and expert knowledge of the interviewees, their individual views on the process of fiscal governance reform is

invaluable for both contextualising and adding to the more formal discourse collected from official EU policy documents.

The interviews were set up on a one-to-one basis at a location of the officials choosing (with most interviews taking place in an office environment during work hours). The interviews were semi-structured in format, with the interviewees being permitted a considerable degree of leeway on how to reply to questions. This was useful because the emphasis was very much placed on how the interviewees themselves framed and understood the key issue surrounding fiscal governance reform. A semi structured format also meant that questions could be adjusted or deleted during the course of the interview according to the researcher's judgement as to flow of the interview and as to the topics that the interviewee was keen to address (see appendix for an overview of the interview questions posed). The interview questions themselves were also formatted specifically to suit each interviewee's role and knowledge area so as to be sure that the questions facilitated a deeper understanding of the material contained within the relevant policy-documents—policy documents that were in many cases drawn up within the same institutional setting from where the interviewee themselves were located.

At a more general level, every interview guide contained questions located around the key patterns of legitimising discourse already identified as being of key importance to the EU fiscal governance reform debate (as already demonstrated in table format above). Key questions were developed (but not restricted to by any means) around topics related to the causes of the crisis events in Europe; the key reform measures necessary to overcome the challenges posed by the crisis for both the immediate future and over the longer term; and finally the flanking political integration measures, if any, that may be necessary as an accompaniment to any integration on the fiscal side. The interviews were then recorded and the recordings were transcribed verbatim. Subsequently, following a preliminary reading of the interview transcripts, sections of the interview were then siphoned off in preparation for the application of Fairclough's three-dimensional CDA analytical framework. This siphoning phase was conducted in accordance to the data judged most relevant to the topic area at hand. Such a process was required because at times the interviewees strayed on to broader topics related to EMU reform (e.g. economic

union, banking union, ECB reform etc...)—topics which while important are not of immediate relevance to this analysis.

Data Analysis

Following the generation of the relevant data sources, Fairclough's three-dimensional model of CDA (see Figure 2) can then be applied. Just to recall, this involves a description of the linguistic make-up of the text (text analysis); then the relationship between the productive and interpretative processes of discourse practice and the text is interpreted (process analysis); and finally the wider relationship between discourse practice and social practice is explained (social analysis). While an analysis of the methodological and theoretical foundations underpinning the application of this approach has already been carried out, the more precise linguistic, interpretative and explanatory analytical techniques that will be used need to be further expanded upon. In accordance with the approach set out by Fairclough (1992), the text analysis stage proceeds under four key headings: 'vocabulary', 'grammar', 'cohesion' and 'structure' (see Table 4.4). The table in question sets out the linguistic categories in a kind of ascending formation. The formation starts with grammar at the micro level and proceeds all the way up until an altogether larger unit of analysis is factored in at the level of text structure. Due to space requirements and the large selection of texts being drawn upon for CDA, the linguistic analysis being carried out in research context is more focussed on the categories that can be positioned at the latter end of the scale, i.e. categories related to 'cohesion' and 'text structure'.

Table 4. 4: Dimensions of Fairclough's Text Analysis

Vocabulary	Grammar	Cohesion	Text Structure
Deals mainly with individual words	Deals with words combined into clauses and sentences	Deals with how clauses and sentences are linked together	Deals with large scale organisational properties
-Word meaning -Wording -Metaphor	-Modality -Transitivity and theme	-Connectives and argumentation	-Interactional control

Source: Locke (2004:46)

In terms of cohesion, it is important to include an assessment of the argumentative (or rhetorical) structure of the text, before it is linked to the overarching ideologies that are being constructed within the text at the level of text structure. Key here is uncovering the basic causality within the text to see if any of the key patterns of input and output oriented legitimising arguments already set out are present. The analysis concerning cohesion does overlap significantly with that demanded for text structure, although the latter category does include a more explicit overview of the text's coherence, structure and format as a whole. In the context of this research process, this involves illustrating in what way the patterns of discourse are brought together to form a coherent whole. This exercise could include exploring the neoliberal or more solidarity focussed reform discourses that may be guiding the reform agenda for fiscal governance contained within the text. Of course, just as relevant here is accounting for the arguments, perhaps related to sovereignty concerns or issues of moral hazard, that may be impeding integration in the fiscal domain. Also important is exploring which interpretation of the crisis is dominating at the text level, i.e. a neoliberal or Keynesian account. And, with reference to the input side, there is need to establish if such output oriented discourses are balanced with arguments involving the taking of parallel integration steps in the direction of a deeper political union, or not. The analysis at the level of text structure should leave an impression of an overarching meta narrative for EU fiscal governance reform. This overarching narrative of the text may, for example, be promoting a series of integration steps within EMU towards what could be a limited or more far reaching model of fiscal federalism.

After the linguistic analysis, a connection between the text event and more abstract social practices can be made by uncovering the interpretive and productive qualities of the text at the level of discourse practice. The distinction made by Fairclough (1992) between 'manifest intertextuality' and 'interdiscursivity' (otherwise referred to as 'constitutive intertextuality') is relevant at this point. While Intertextuality refers to the 'explicit juxtapositions of texts within each other', interdiscursivity is suggestive of the broader mix of discourse categories upon which the text draws upon (Fairclough 2003:218-219). By factoring into the analysis the concepts of intertextuality and interdiscursivity, it enables a drawing upon texts outside of the immediate data being analysed. In this research context, this facilitates an analysis of what patterns of legitimising discourse a text may have incorporated from earlier texts or policy-documents. It could be, for example that neoliberal discourses or discourses emphasising neo-keynesian solidarity within EMU are being drawn upon from earlier periods.

Finally, central to Fairclough's third level of analysis is expanding on the interface between the 'micro'-perspective of the individual texts and the 'macro'-perspective at the level of social cultural-practice (Fairclough 1989, 1992, 1995b). Empirically, this demands a much broader exploration of the institutional, situational and societal context surrounding the legitimising discourse uncovered during the prior stages of the analysis at the level of social practice. It is also important to recall that discourse at the level of social is 'socially constituted' as well as 'socially conditioned' (Fairclough & Wodak 1997): that is, it is constrained by institutional, situation and societal context but at the time it has an important role in changing it. As already discussed at some length during chapters 3 and 4, with a view to increasing the explanatory potential of a CDA approach that is well suited to interdisciplinary research generally (Woodak & Meyer 2001), it is combined at the level of social practice with a selection of broader theoretically informed ideas and power concepts. Central here are the insights drawn from the new institutionalist literature bases, with particular attention being focused on the historical and discursive institutionalist perspectives. It was also noted that these new institutionalist strands of thought are combined with some more explicit concepts of power in the form of 'structural power' as theorised by Susan Strange (1989).

Together such theorising provides a powerful explanatory framework with which to explore, from a historical perspective, the broader social context surrounding the current debate over EU fiscal governance reform.

Conclusion

The research takes place under the direction of Fairclough's three-dimensional framework for CDA in which discourse is analysed as a text, as discourse as practice, and as a form of social practice. This CDA approach is underpinned by the philosophy of critical realism, which combines ontological realism with a form of epistemological relativism. While such an approach is receptive to the power of discourse, it is only moderately socially constructivist in outlook and rejects any tendency for the study of the social world to be reduced to discourse. The data collection phase is guided by the development of a mixed method approach, involving in the main data collected through a series of interviews with senior level policy-makers and the sourcing of official EU policy documents. The operationalisation of such methods facilitates the collection of discourse on fiscal governance reform expressed both formally and informally.

Chapter Five: Contextual Overview—Fiscal Policy Coordination within EMU

Introduction

Fiscal policy coordination within EMU takes place under the rules-based SGP framework which sets upper limits on member states debt and deficit values. First introduced in 1997, the pact is far from an automatic sanctioning mechanism, with finance ministers operating within the ECOFIN Council enjoying considerable political discretion in advancing decision making procedures under both the preventative and corrective arms of the pact. The SGP remained relatively unchanged up until the intensification of the financial and economic crisis in Europe around mid-2010—a period which saw investor confidence collapsing and bond yields on weaker Eurozone countries diverging markedly with the core states. Despite the Union being faced by a crisis of potentially existential proportions, the reform agenda spearheaded during the immediate crisis period was still largely limited to measures building on the original SGP framework. It is no surprise, therefore, that while market sentiment was seen to have improved significantly by the latter end of 2012 (owing in large part to unconventional monetary policy action taken by the ECB), there has been a broad acceptance amongst EU level officials that additional measures need to be taken to strengthen the EMU framework over the longer term.

It is against this backdrop of crisis, then, that the legitimising discourses are being considered in the context of the ongoing fiscal governance reform debate. Finally, in setting out the specific institutional settings that make up the analysis of discourse in the context of this research, three key policy settings have been

identified as dominating fiscal policy coordination within EMU: 1) the intergovernmental settings, including the European Council, ECOFIN Council (shadowed by the Eurogroup), as well as the various deliberations which take place at committee level; 2) the Commission setting as the Union's foremost supranational actor; 3) and finally, the European Parliament setting as a more marginal, although not inconsequential, policy actor within EMU.

A Historical Perspective

The Eurozone currency area was set up in 1999 on the basis of a profound asymmetry between a centralised monetary policy and a decentralised fiscal policy. As a consequence of this asymmetry, while monetary policy decision making remained firmly under the control of the stability-orientated ECB, ultimate fiscal sovereignty was left to reside with member states at the national level. The peculiarity of this set up, however, did raise the issue of possible 'negative spill-overs', resulting from member states with excessive deficits biases transferring negative costs on neighbouring member states in the form of inflation or high interest rates (Feldmand 2003, Heipertz & Verdun 2004). As such, with the intention of limiting such punitive inconsistencies arising within the EMU framework, the EU sought to uphold fiscal discipline by aligning national fiscal policies along a common set of principles or rules. At the heart of the EU's efforts to coordinate the fiscal policies of its member states was the 1997 adopted SGP, which is a rules-based framework for the coordination of what remained national fiscal policies (Begg et al. 2003, Fatás et al. 2003).

The SGP was a product of a memo put forward in 1995 by Theo Waigel, the then German Minister for Finance, partly in response to domestic concerns from the Bundesbank and the public more generally (Heipertz & Verdun 2011:41-63). Yet the final legislation to emerge did deviate significantly from the German Finance Ministers original suggestions: It did not include, for example, some of the controversial elements proposed by German representatives, such as purely

automatic fines under the supervision of a newly to be established independent Stability Council (Heipertz & Verdun 2011:5). As such, while the European Commission was charged with monitoring compliance under the original SGP framework by making assessments of the Member States' stability and convergence programmes, it was the intergovernmental ECOFIN Council, acting on Commission recommendations, that was ultimately to be held responsible for issuing budgetary opinions or advancing sanctioning procedures under the pact (the latter only applying to euro area member states). It is of little surprise, then, that since its inception, the SGP has been far from an automatic budgetary surveillance mechanism, with ministers working within the ECOFIN Council being left with considerable political discretion over the implementation of the procedures envisioned for the SGP—particularly with regard to the advancement of sanctioning procedures under the EDP.

Under the original SGP framework that was adopted in 1997, member states were obliged to observe two key benchmark values laid down in the preceding Maastricht Treaty that together represent the nominal anchors of the pact: 1) budget deficits should not be allowed to exceed 3% of GDP; 2) and public debt should not be seen to exceed 60% of GDP (Eichengreen & Wyplosz 1998, Baily & Kirkegaard 2004). The relevant legal acts on which the SGP was originally adopted in 1997 consisted primarily of two key Council regulations (Council regulation No 1466/97 and of No 1467/97 of 7 July 1997), although these were also accompanied at the same time by a politically significant 'Resolution of the European Council on the Stability and Growth Pact' (see European Council 1997). The two Council regulations are, in accordance with their objectives and operational procedures, often labelled as making up the 'preventative arm' (the surveillance of budgetary positions and the coordination of economic policies) and 'corrective arm' (based on the EDP that is enacted primarily with reference to the 3% of GDP deficit ceiling reference value). It is also worth noting that the preventative and the surveillance arms of the pact were in fact provided for within the original Maastricht Treaty (see Article 99 and Article 104 and their equivalent protocols for their application in primary legislation), although by building on secondary legislation the SGP added significantly to the provisions laid down at Maastricht, which provided only limited

capacity for enforcing fiscal discipline once member states entered the third stage of EMU.

In its original form, the emphasis on the preventative arm was on soft procedures that foster fiscal discipline and joint policy coordination through multilateral surveillance and peer pressure. This was in some contrast to the corrective arm where formal procedures were in place leading up to the possibility of financial sanctions. Under the preventative arm, EU member states were obliged to submit annual stability and convergence programmes to the European Commission and ECOFIN Council explaining how they intend to meet their 'medium-term budgetary objective' (representing a budgetary position that safeguards against the risk of breaching the 3% deficit threshold). If instructed to do so following a Commission assessment, the ECOFIN Council could then issue an early warning to member states at risk of breaching the 3% deficit value. As already observed, at the heart of the corrective arm was the EDP, which had the potential to be triggered when a member state's planned or actual deficit is found to be in breach of the 3% threshold (with the 60% of debt to GDP rule being *de facto* non-operational at this time).

Essentially, if the ECOFIN Council came to a decision, on the basis of a commission recommendation, that the deficit was excessive it could issue its own recommendations to the member state concerned and a timeframe for correcting the excessive deficit. In the case of non-compliance with the recommendations, then financial sanctions had the possibility of being enforced. Again though, because automatic sanctions were considered inappropriate by member states, the EDP did not operate as an automatic sanctioning mechanism. Instead, the ECOFIN Council enjoyed ultimate decision making power over the operationalisation of sanctions (as was the case with the issuing of recommendations and notices under the EDP), leaving the Commission's power restricted to the right of initiative. The table below provides a brief overview of the key reference values guiding the SGP framework as originally adopted in 1997, many of the features of which remain up until the present day.

Table 5.1 Overview of the 1997 Adopted SGP Framework

	Objective	Specification	Adjustment Path	Enforcement Mechanism
Preventative Arm	Medium term budgetary objective that is close to balance or surplus	Designed round the 3% deficit value	-	-
Corrective Arm	Correct gross policy errors	Occurs if there is a breach of the rule for a deficit of 3% of GDP or sufficiently diminishing debt to GDP ratio of 60% (later non-operational)	The EDP follows a step-by-step procedure that is outlined in detail in Art. 126 of the Treaty	Sanctions coming at the very end for euro area member states

In placing the SGP in historical context, it is significant that a number of challenges very quickly threatened the credibility of the EU's fiscal governance framework, including widespread non-observance with key SGP rules, the momentary suspension of the EDP by the ECOFIN Council in 2003 with reference to France and Germany, and the subsequent decision of the Commission the following year to bring these countries before the ECJ for failing to uphold their treaty obligations (a move which resulted in a ECJ judgement challenging ECOFIN's decision to suspend the EDP while in effect failing to force the institutions compliance) (Heipertz & Verdun 2011, 2005, Hallerber & Birdwell 2008). The fact that such challenges were facing the SGP so early in its existence led to the European Council endorsing a ECOFIN Council report on the reform of the SGP in 2005 on the basis of a Commission proposal. The subsequent reform agenda that

was operationalised was centred on the rationale of constructing an SGP more sensitive to the prevailing economic conditions and individual countries economic circumstances (Berger & Moutes 2007, Flipek & Schreiber 2010), although many policymakers (including the ECB) and academics (Coeuré & Pisani-Ferry 2005, Calmfors 2005a, Buiters 2006) interpreted the reforms as representing a substantial weakening of the pact, not entirely without justification. For apart from providing for a more flexible interpretation of the rules, the reforms failed to fundamentally alter the procedures, rules-based nature or two-pronged structure of the pact (Morris et al 2007, Crowley & Rowley 2008). Yet, while the instruments capacity to secure a sustainable level of fiscal discipline within EMU remained as questionable as ever, the subsequent emergence of a benign macroeconomic environment in Europe served to ease, albeit temporarily, the anxiety building up over the SGP.

Crisis and Reform

The benign macroeconomic environment prevailing in Europe was shattered in 2007-08 come the arrival of the global financial crisis and the economic turbulence that followed it. With the onset of the crisis, government balance sheets deteriorated significantly across the EU as a result of the severity of the cyclical downturn and owing to the large sums of financial support provided to prop up the financial sector. In fact, within the Eurozone in particular, budget deficits rose to reach an average of 6% of GDP by 2010 and average public debt levels climbed 85% over the same period (Schuknecht, L. et al. 2011:5). And, more alarmingly, five countries saw their debt ratios approaching or exceeding 100% of GDP (ibid). As a matter of course, therefore, 24 EU member states were seen to enter the EDP during the 2009-10 period (Commission 2010b:2). This steadily deteriorating macroeconomic environment was then compounded by the onset of the European sovereign debt troubles in 2010 as investor confidence collapsed and bond yields on weaker Eurozone countries started to diverge markedly with the core states. By this stage the epicentre of the crisis had shifted firmly from America to Europe as the continent found itself mired in a protracted financial and economic crisis.

As was outlined during the critical literature review, there are two separate explanations as to why the crisis erupted with such added intensity within the Europe and the single currency area—with stark policy implications arising in accordance with the particular diagnosis elected for. The first is the neoliberal interpretation of events which places fiscal discipline, or the lack of, at the heart of any account of the crisis (see von Hagen et al 2009). Here, certain member states are blamed for pursuing lax fiscal policies in breach in breach of the SGP rules. The second explanation is the Keynesian view, with the crisis being understood more as a balance-of-payments crisis (see Buitter et al 2011, Alessandrini et al 2012, Merler and Pisani-Ferry 2012, De Grauwe 2013, amongst others). Rather than focussing on the build-up of public sector debt, this interpretation focuses on the role of macroeconomic imbalances, particularly those related to the current account positions of member states within EMU. Again, for reasons expanded upon at length during the undertaking of the critical literature review, a position in favour of the latter Keynesian version of events is adopted for the undertaking of this research. In short, here, in adopting this position the researcher is paying recognition to the inherent deficiencies that have been present from the beginning within the EMU framework (i.e. the lack of a fiscal union), which ultimately have played a crucial role in bringing about the intensification of the financial and economic crisis in Europe (De Grauwe 2013). This has been seen to be in some contrast to those who adopt a neoliberal interpretation of the crisis, who are more likely to focus on measures to strengthen fiscal discipline under the pre-existing SGP instrument. It has also been seen to be well established in the literature that deeper fiscal integration will require integration in the political realm, i.e. no taxation without democratic representation.

In expanding upon what warrants the use of the term ‘crisis’ in this context, it is important first to point out some of the risks that were (and still are to a lesser degree) confronting policymakers in Europe as result of the financial and economic turmoil were of potentially ‘existential’ proportions: that is, not only as existential risk to the single currency area but also to the Union itself (see Interview Extract O 2014:1 with a Senior Spokesman for the European Council President). In elaborating on some of the more specific risk factors, there was a concern that a periphery country—most notably Greece—could default on its outstanding debt obligations.

This was then linked with contagion fears resulting from the negative that could result following a disorderly default as investors re-assess the fragilities of the Eurozone. The activation of the so-called 'doom loop' was also an important consideration here, with the negative feedback loop between banks and their sovereigns having the potential to spread systematic risk throughout the currency area and wider Europe. The risks were also not limited to Europe alone. After all, with the euro area being the world's largest economy after the United States (as a share of world GDP), the risk of financial and economic turmoil in Europe causing a crisis of more global proportions was very real. And, even assuming that a major crisis could be averted, the potential for the Eurozone to act as a dampener on global growth figures had to be taken very seriously.

Of course, aside from the economic and financial risks associated with the crisis, there was also the destructive social and political impact to consider. This included the impact of mass unemployment, extreme poverty, and loss of public expenditure on broader society and human wellbeing, not to mention the political implications that could result from a possible citizen backlash against incumbent governments or to the Union itself (as evidence in the domestic and European election results). As well as the considerable risks associated with the crisis period, there was also a profound 'timing' element to the crisis. As a senior member of the Cabinet for the European Council President argues, this was born out of the fact that European policy-makers 'were also responding directly to external market pressures that have the capacity to react quicker than decision makers' (Interview Extract 2014:2). So, in effect, policy-makers (both at domestic and supranational level) were battling to stem market forces that could react at a far greater speed than they could legislate for. Overall, then, in reflecting on what the term 'crisis' actually represents in this context, it would appear to reflect primarily the considerable 'risk' element associated with sovereign default and contagion, with an added crucial 'timing' dimension resulting from the need to keep up with market forces. As one would expect, with the Union being faced by a financial and economic crisis of potentially existential proportions, the EU was forced to embark quickly on a program to reform the EU's existing fiscal governance arrangements. This necessity to act led to the emergence of an initial reform debate taking place during what could be termed as the more immediate crisis period, which spanned approximately from

early 2010 through to mid-2012. This debate was spearheaded by the Commission in tandem with a task force that was established by the European Council and chaired by its President Herman Von Rompuy. Chief amongst the reforms initiatives to have materialised out of this debate included an economic legislative six-pack (adopted December 2011), a related legislative 'two-pack (adopted March 2013) an intergovernmental 'Euro Plus Pact' (adopted in March 2011) and finally a fiscal compact (adopted by intergovernmental treaty in March 2012) (Commission 2012). For ease of understanding, the table presented below provides an overview of the main changes introduced by this package of fiscal governance reform measures (see table 5.2). As will be revealed in due course, by the fall of 2012 market sentiment towards the Eurozone had improved significantly (not in small part owing to rhetoric and unconventional monetary policy actions taken by the ECB under the leadership of Mario Draghi) and attention turned in Europe to the longer term reform measures required to strengthen EMU.

Table 5.2: Immediate Crisis Response —An Overview

Six-Pack (co-decision)	Key Changes	To Whom it Applies
Strengthened preventative arm	<ul style="list-style-type: none"> Member states are required to work towards a Medium Term Budgetary Objective (MTO). Financial sanctions in case of repeated non-compliance (interest-bearing deposit of 0.2% of GDP). 	<p>Surveillance measures apply to EU 27.</p> <p>Sanctions apply to non-compliant euro area member states only.</p>
Strengthened corrective arm	<ul style="list-style-type: none"> Launch of Excessive Deficit Procedure (EDP) can now result from government debt as well as from government deficit criteria (60% debt to GDP for the former and a 3% deficit limit for the latter). Failure of a euro-area country to comply with debt or deficit recommendations for corrective action will result in a fine (interest-bearing deposit of 0.2% of GDP). 	<p>Surveillance measures apply to EU 27.</p> <p>Sanctions apply to non-compliant euro area member states only.</p>
Minimum requirements for national budgetary frameworks	<ul style="list-style-type: none"> Member States should ensure that their fiscal frameworks are in line with minimum quality standards. National fiscal planning should adopt a multi-annual perspective, so as to attain the MTO. Numerical fiscal rules should also promote compliance with the Treaty reference values for deficit and debt. 	EU 27 (with the UK securing a opt out on the directive pertaining to national fiscal rules).
Two-Pack (co-decision)	Key Changes	To Whom it Applies
Enhanced monitoring (preventative arm)	<ul style="list-style-type: none"> Member states publish draft budgetary plans to the Commission for an opinion. The Commission can request a draft if it contains a serious breach of EU rules. National independent bodies' setup to monitor national fiscal rules. Closer monitoring for countries under the EDP. 	All euro area member states, with special provisions for those in EDP.
Enhanced surveillance (preventative arm)	<ul style="list-style-type: none"> Closer fiscal monitoring, including stress tests, detailed data on financial institutions, and a assessment of supervisory capacities Council can recommend, on a Commission recommendation, that a country adopt a precautionary programme or prepare a draft programme 	Euro-area member states experiencing severe difficulties, i.e. with regard to financial stability, receiving financial assistance, or subject to a full macroeconomic programme.
Fiscal Compact (intergovernmental treaty)	Key Changes	To Whom it Applies
Balanced budget rule	<ul style="list-style-type: none"> Member states commit to implementing in their national legislation a fiscal rule which requires that signatory's budgets are in deficit or in surplus, i.e. a balanced budget rule of at least-0.5% of GDP (structural terms). This must be accompanied by an automatic correction mechanism in the national legal order monitored by a independent institution. 	EU 27 (with the exception of the UK and the Czech Republic who are non-signatories).
Strengthened corrective arm	<ul style="list-style-type: none"> Reverse qualified majority voting (RQMV) applies to all stages of the EDP. 	EU 27 (with the exception of the UK and the Czech Republic who are non-signatories).

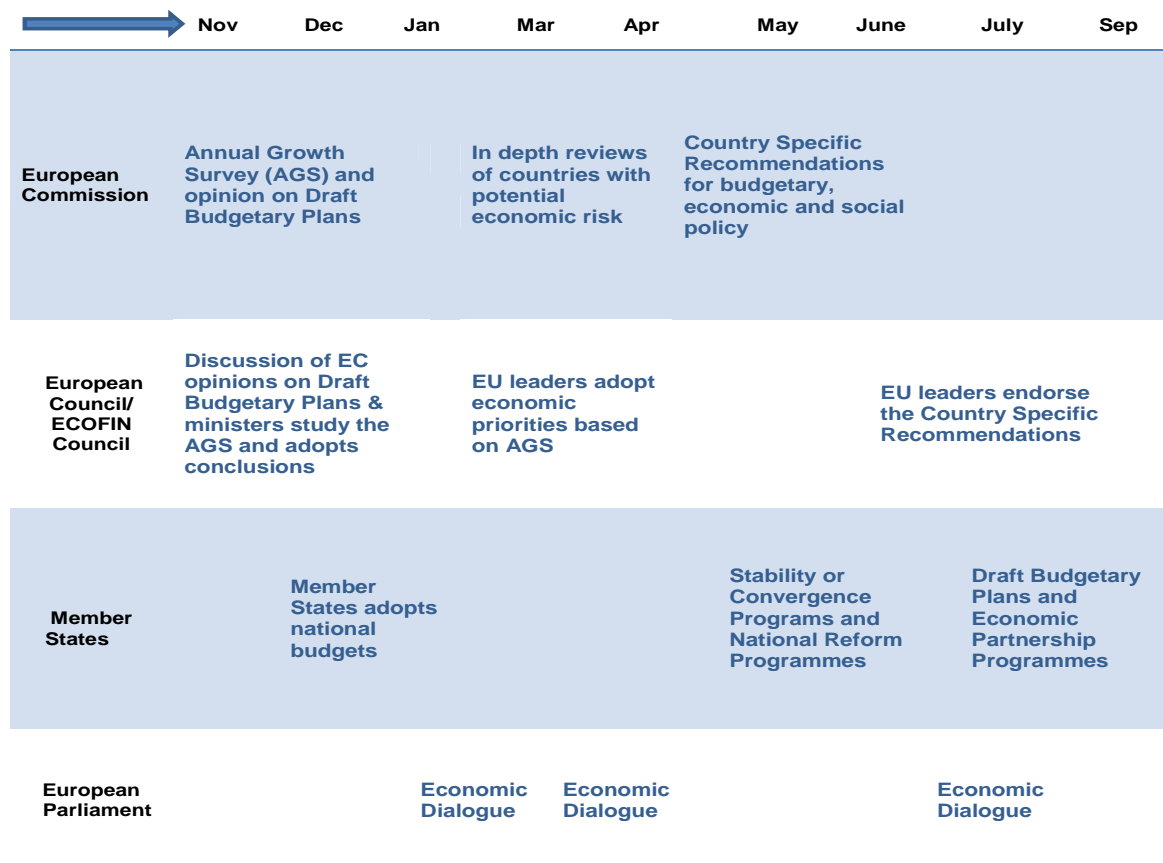
Source: Commission (2013a)

As is evident from the table presented above, the major reform initiatives introduced during what has been termed as the more immediate crisis period were largely limited to strengthening fiscal discipline within EMU by building on, rather than replacing, the pre-existing SGP framework. Both the two-pack and six-pack, for example, introduced measures designed to significantly strengthen both budgetary surveillance and sanctioning procedures under the preventative and corrective arms of the SGP. The preventative arm, in particular, was strengthened with more rigorous *ex ante* surveillance, including an early assessment of draft budgetary plans. This means that if the Commission were to assess in the future that a draft budgetary plan shows serious non-compliance with the SGP rules, the EU executive can request a budgetary revision. Moreover, for the first time the possibility of applying sanctions under the preventative arm of the pact was provided for. And, on the corrective side, the previously obsolete threshold limiting the debt to GDP ratio of member states to 60% was operationalised. Also, qualified majority voting (QMV) was introduced for most sanctions as a means to decrease the chances that a euro area member state will be able to escape sanctioning procedures in the future. As for the fiscal compact, this intergovernmental treaty in fact mirrored many of the initiatives contained within the six-pack and two-pack building on the SGP framework. However, it did lay out provisions that require signatory member states to incorporate into their constitutions a so-called 'golden rule', i.e. a balanced budget rule (overlapping with those already contained within the SGP) that limits member states to a structural deficit of at least - 0.5% of GDP.

The EU Commission also put in place a yearly cycle for economic policy coordination referred to as the European Semester, which was approved by member states in November 2010 (see figure 4.3. below for an overview of the Semester cycle). Within the framework of the European Semester all policy areas, including both fiscal and broader economic and financial issues, are now analysed under one coherent framework on an annual basis. The cycle begins with the Commission publishing a general Annual Growth Survey and with the individual member states submitting their draft budgetary plans to the Commission for an opinion. The findings documented within this report should then feed into fiscal and broader decision making at the national level. Member States are then required to detail these changes in their Stability and Convergence Programmes and National Reform

Programmes later in the year. The former programmes also include the all-important medium-term budgetary objectives of each Member State as well as the steps foreseen as necessary to attain adequate progress towards this objective. These programmes then form the basis for the European Commission's proposals for country-specific recommendations (CSR's), which are adopted in by the European Council following discussion in the ECOFIN Council. Importantly, the CSR's can act as a trigger for further procedural steps either under the preventive arm or the corrective arm of the Stability and Growth Pact. Space prevents us from documenting stage by stage the various decision-making stages as they now progress under the preventative and corrective arms of the SGP (see figure 1 and figure 2 in the appendix for a complete breakdown of decision-making stages under the pact). However, as has historically been the case within EU fiscal governance sphere, it is the intergovernmental ECOFIN Council that is still generally responsible for progression under the pact, with ministers working within this setting acting on the basis of recommendations from the Commission.

Figure 5.3: European Semester Cycle of Policy Coordination



Source: Commission (2013)

While the reforms enacted through secondary legislation and by intergovernmental agreement during the more immediate crisis period were portrayed as a 'game changer' by the Commission (Commission 2011a), there was a broad acceptance amongst EU level officials that additional measures needed to be taken to strengthen the EMU framework. As such, spearheaded from within the Commission and the European Council settings (with input being provided from across the EU's institutional spectrum), a secondary debate emerged around the middle of 2012 over the additional measures that need to be taken over the longer term in order to reform EU fiscal and broader economic governance (see in particular the remarks by President Herman Van Rompuy following the European Council summit at the end of June 2012 where he laid down a 'longer-term vision' for strengthening EMU; Van Rompuy 2012). Although overlapping, this debate can be identified as having materialised during the transition to what can be identified as a 'post-crisis' phase (i.e. an environment characterised by a substantially reduced degree of immediate risk and timing pressure from market forces), with the intensity of the crisis in Europe seen to have diminished significantly by the latter end of 2012. A key turning point was when the President of the ECB, Mario Draghi, issued a statement in July 2012 that he would do 'whatever it takes [within the ECB's mandate] to save the euro'. This rhetoric, along with the release of technical details by the ECB concerning the launch of an 'outright monetary transactions program' (OMT), was enough to pull the yields on periphery nation debt downwards towards more sustainable levels. And certainly, the immediate threat of a Eurozone break up had lessened in the eyes of investors by this point.

Of course, this is certainly not to suggest that many of the financial, economic political and social risks resulting from the crisis were no longer a factor by this point—many clearly were and still are, albeit in a reduced form. For example, as late as May 2014 De Grauwe & Ji (2014:4) observed that 'the sharp decline of the spreads since OMT is totally dissociated from changes in fundamentals' (eg.. government debt, external debt, competitiveness, growth, etc....). Moreover, with the foundation of the EU's legislative response so far being limited to building the SGP framework (i.e. through the six-pact, two-pact and intergovernmental fiscal compact),

it therefore follows that only minimal progress has so far been made in addressing some of the deeper structural deficiencies inherent within EMU related to the lack of a fiscal union aspect. This is also despite the fact that it was precisely these deficiencies that have ultimately have been seen to play a key role in bringing about the intensification of the crisis in the first instance (De Graewe 2013). It is set against this rather uncertain backdrop, then, that an overlapping debate has emerged in the post-crisis period with a view to pinning down a longer term reform agenda for EU fiscal governance.

At this point, it is important to reflect that two separate, albeit overlapping, phases of the crisis have been identified: an 'immediate crisis period' and what has been termed as a 'post-crisis period'. And it is the legitimising discourses to emerge during these two phases of the crisis that are of principle concern to the researcher when applying the CDA approach being operationalised for this analysis. However, in order to frame the specific institutional settings making up the focus of the analysis of discourse in context, it is important to expand further on the key institutional actors and their responsibilities when it comes to the management of fiscal policy coordination within EMU.

The Management of Fiscal Policy Coordination

Decision-making responsibilities within EMU have always had a strong intergovernmental dimension due to the asymmetrical nature of the single currency area, i.e. with a centralised monetary policy and a decentralised fiscal policy. After all, with formal economic policy competencies remaining under national control, the coordinating of national fiscal policies along a common set of principles European wide has been conducive to the development of a set of decision making structures in which member state representatives played a major role. The most important decision-making institution within the fiscal realm is the ECOFIN Council, which brings together once a month the national ministers of finance from across the member states. As Puetter (2006:11) remarks, 'The Council is a place for the

articulation and formation of competing national interests as well as the common interests of the member states'; or alternately, it can be said to be reflective of the so-called 'balancing act' between the national and European level dimensions (Sbragia 1993) Therefore, while highly intergovernmental in structure, the common European interest would seem to be a feature in this setting.

As already observed, the ECOFIN Council is integral to the budgetary surveillance procedures for both the preventative and corrective arms of the pact. Not only does the ECOFIN Council play a key monitoring role, alongside the Commission, in assessing progress towards the budgetary objectives set out under the preventative arm of the pact; but the body also has the deciding role in determining compliance with debt and deficit rules on the corrective side and ultimately in the advancement of sanctioning procedures under the EDP (as well as for the newly installed sanctioning procedures put in place on the preventative side). Fundamentally, therefore, it is the ECOFIN Council, acting on the basis of Commission recommendations, who is responsible for advancing procedures under the SGP framework by qualified majority voting (QMV) or reverse qualified majority voting (RQMV). Of course, the ECOFIN Council is also very prominent in legislative terms, acting in co-decision or consultation alongside the European Parliament, according to the specific area involved. Overall, owing to the significance of the body's dual executive and legislative role, the ECOFIN Council can be said to lie at the heart of the workings of EU fiscal governance.

The Eurogroup, whose informal deliberations play a crucial role in fiscal policy coordination within the single currency area, is also relevant here. First initiated in 1997, the Eurogroup effectively mirrors the ECOFIN Council set-up, although it is attended exclusively by ministers of finance from member states participating in the single currency area. The Eurogroup typically assembles prior to ECOFIN Council meetings to discuss the all-important issues relevant to the euro-area dimension. While the Lisbon Treaty insists on the essentially 'informal' character of the Eurogroup, it has undergone a significant institutionalisation in recent years with the body possessing significant de fact decision making power (Puetter 2004, Pisani-Ferry 2006, Hodson 2011). In fact, Pisani-Ferry observes that, 'The Eurogroup has been transformed from a mere talking shop into what increasingly looks like a

polycymaking institution' (Pisani-Ferry 2006:840). The informal Eurogroup now not only, for example, de facto 'pre-agree all critical Council decisions with relevance for the Eurozone member states', but it also provides a forum where ministers 'decide on the overall orientation of economic governance in the euro area and establish common interpretations of EMU's core policy instruments' (Puetter 2004:854). What is clear, then, is that through its more informal working practices, the Eurgroup finds itself in a strong position to influence the fiscal policy-making direction advanced within EMU. And, as with the ECOFIN Council, while its form is strongly intergovernmental, there is a sense in which representatives of the member states do work collectively towards forging a consensus in the European interest.

The various deliberations which take place at committee level should also not be overlooked. Central here is Economic and Financial Committee (EFC) which is represented by senior finance officials from national administrations and central banks—with representatives from the ECB and the Commission in attendance as well. The EFC can also, however, meet in a special configuration known as the Eurogroup Working Group (EWG) in which only representatives from the Member States belonging to the single currency area are involved, again alongside Commission and ECB officials. In this configuration, the EFC is responsible for preparing the work deliberated on by the Eurogroup. In view of its unique institutional positioning, the EFC is able to make the important connection between the Council and the Commission. And also, owing to the committees mixed representation, it is also able to provide a bridge between the 'political ministerial level' and 'technical level', as put by one member of the Commission provided secretariat who contributes to the EFC (Interview Extract E 2013:1-2). When discussing how decision making process functions within this Committee, the same official also reveals:

"There are national interests of course. But they are policy experts who come to serve European interests. So they have to act in a constructive way and provide their expertise to help solve the substance points which then should be technically sound. But then it is up to the higher level to decide politically whether they agree with it or not" (Interview Extract E 2013:1).

Clearly, as in the ECOFIN Council and Eurogroup settings, it is too simplistic to label these deliberations taking place with the EFC as being purely intergovernmental, for there is a sense within the Committee that the European interest is being served. Also, as the official cited above observes, while politics is always a feature no matter what the decision making level, the Committee is a forum where crucial technical matters can be sorted, with more political issues being left to be agreed further up the decision-making chain amongst ministers or Heads of State or Government.

Finally, amongst the more intergovernmental institutions there is the European Council, which functions as a forum bringing together Heads of State or Government at the highest political level with a view to impacting upon the state of European integration. While the formal evolution of these meetings (or 'summits') can be traced back to 1974, it was not until the ratification of the Treaty of Lisbon in 2009 that the body was fully recognised as an EU institution in legal terms. Under the provisions set out in the Treaty, summits are to be convened as a matter of course twice every six months; however, an extraordinary meeting of the European Council may be called if a situation arises that demands it. The Lisbon Treaty also further clarifies the role of the European Council as defining the 'general political directions and priorities' of the Union (TEU art. 15, para. 1). In view of its defined role and high level representation, the European Council has historically operated from the side-lines with regard to EMU matters, with its role being restricted to defining the broad orientations of fiscal and economic policy making for the Union. After all, it would be left to the ECOFIN Council (shadowed by the Eurogroup) and various committees groups to interact as part of the regular fiscal policy coordination processes.

However, as will be discussed at greater length in chapter 6, intergovernmental policy coordination, particularly at the highest level amongst Heads of State or Government, became even more pronounced as a response to the challenges presented by the financial and economic crisis. In short, from a reading of interview extracts collected from EU officials working within DG ECFIN, the Council Directorate for Economic Policy and within the Cabinet of the European Council President, there was a conviction amongst key EU policy makers that only the

European Council was able to respond adequately and in a timely fashion to implement the measures that needed to be taken to respond to the existential crisis threatening Europe and the single currency area (see, in particular, Interview Extract B 2013:1-2, C 2013:1-2, D 2013:1-2, G 2013:1-2, O 2014:1-2). Although even in this ostensibly most intergovernmental of settings it has been observed that, while member states are of course aware and mindful of their own self-interests, there is awareness of the common European interest (Van Middelaar 2013:25-117)—an observation that is in itself quite a remarkable feature of decision making in this setting.

While intergovernmental policy coordination is clearly a strong feature of EMU governance, the supranational EU Commission is also integral to the workings of EU fiscal policy coordination. By tradition understood as the supranational expression of the EU collective interest, the Commission has been endowed with a vital dual legislative and executive role that renders it one of the key decision-making organs within EMU. It has already been observed, for example, that the Commission plays a key role in organising collective budgetary surveillance under both the preventative and correctives arms of the SGP framework, with the ECOFIN Council generally acting on the basis of Commission recommendations. The Commission also has representatives (often in the form of members of the secretariat located inside DG ECFIN) within both the European Council, ECOFIN council and informal Eurogroup decision making forums, as well as further down at Committee level through various channels. Lastly, the Commission also benefits greatly from its ability to mobilise economic and technical expertise on EMU matters. So it follows that the Commission, through a range of formal and informal channels, is a very important actor overseeing fiscal policy coordination within EMU.

There is also the more marginal role played by the European Parliament to consider. Despite the Parliamentary body increasing its influence across many areas of EU policy-making under the co-decision procedure, its role within the confines of EU fiscal governance is in fact largely limited to supervisory and consultation roles. After all, as already observed within the context of the European Semester cycle of policy-coordination, decision-making under the SGP framework is largely the preserve of various intergovernmental forums (including the European Council,

ECOFIN Council and Eurogroup) as well the Commission institutional setting as the EU's executive arm. Although, with the European Parliament's legislative role within EMU being enhanced post-Lisbon, it does mean that in the future the parliamentary body could play a far more enhanced role over EU fiscal policy coordination, despite its role at present remaining secondary to that of other actors. Finally, there is scope in the legislation for national parliaments to debate on various budgetary surveillance steps under the SGP, as encapsulated under the European Semester. At present, though, involvement for most national parliaments is highly limited (see Interview Extract A 2013:2 with a senior official located within DG ECFIN for confirmation as to the inadequacy of national parliamentary involvement at present).

In setting out the specific institutional settings that make up the focus of the analysis of discourse in the context of this research, three key policy settings have been identified: 1) the intergovernmental settings, including the European Council, ECOFIN Council (shadowed by the Eurogroup), as well as the various deliberations which take place at committee level; 2) the Commission setting as the Unions foremost supranational actor; 3) and finally, the European Parliamentary setting as a more marginal, although not inconsequential, policy actor within EMU. And a separate analysis chapter is devoted to exploring the legitimising discourses being produced within each of these three institutional settings.

Conclusion

At the heart of fiscal policy coordination within EMU is the SGP framework which sets upper limits on member states debt and deficit values. Throughout its history the pact has never functioned as an automatic sanctioning mechanism, with there being considerable room for political maneuver. In fact, except for a limited reform initiative implemented in 2005, the rules-based nature and two-pronged structure of the pact largely remained up until the intensification of the financial and economic crisis in Europe around mid-2010. Yet, despite the crisis threatening the

survival of the single currency area and even the larger Union itself, the immediate reform agenda was still largely limited to measures building on the original SGP framework. As such, while investor confidence was seen to have improved significantly by the latter end of 2012, there has been a broad acceptance amongst EU level officials that additional measures need to be taken to strengthen the EMU framework over the longer term. It is within such a crisis context, then, that the legitimising discourses being produced in the context of the ongoing fiscal governance reform debate are being considered. Finally, as set out above, in considering the specific institutional settings that constitute the focus of the analysis of discourse, three key policy settings have been identified as dominating fiscal policy coordination within EMU: 1) the intergovernmental settings; 2) the Commission setting; 3) and finally, the European Parliamentary setting.

Chapter Six: Intergovernmental Institutional Setting

Introduction

With Europe and the single currency area being confronted by a crisis of existential proportions, intergovernmental decision-making—which was already very pronounced within the EMU set-up generally—has become of heightened importance. Perhaps most important here is the European Council which, strengthened by the institutional reforms provided for under the Lisbon Treaty, has evolved to become the natural default crisis forum. This is because only Heads of State or Government have been able to respond adequately and in a timely fashion to the particular challenges that befell the Union come the onset of the financial and economic crisis. With the European Council taking on an increased executive role within EMU, the body has been placed in a stronger position to set the reform agenda for fiscal and broader economic governance—as reflected in the ascendancy of the task force, chaired by the then European Council President Herman van Rompuy. Of course, intergovernmental modes of decision making further down the decision making hierarchy have also had a crucial role to play during the crisis period, within the ECOFIN Council (shadowed by the Eurogroup) and various committees also taking on an increased workload as they have deliberated on the technical details concerning the reform agenda for EU fiscal governance.

During the course of this ongoing reform debate a consistent legitimising discourse has been articulated from within these more intergovernmental settings, for both the immediate and post crisis period. This discourse type has been a neoliberal one and at its core there has been a firm commitment to strengthening fiscal discipline on the output side through building on the pre-existing SGP framework. Such a policy response has resulted in part from a neoliberal interpretation of the crisis events in the first instance, with it being framed in these settings as resulting primarily from fiscal laxity as member states failed to comply

with the Union's budgetary surveillance rules. And, in this context, it is primarily Germany (alongside the other core states within EMU) that has been pushing the advancement of this neoliberal reform agenda as response to the challenges confronting the Union as a result of the financial and economic crisis. In relation to the reform agenda over the longer term, it is significant that a series of constraining discourses amongst key member states (including between Germany and France), concerning in particular sovereignty concerns and issues of moral hazard, have served to steer the reform agenda away from more far reaching integration steps that would be required to realise a qualitative integration leap within EMU towards a deeper level of fiscal union with a flanking political union aspect.

It would seem probable, therefore, that the reform agenda within these more intergovernmental settings is likely to continue to remain tied to a neoliberal narrative that dictates the centrality of rules-based fiscal discipline—with at best indirect channels of democratic legitimation and accountability on the input side. Clearly, as a model of fiscal federalism such a reform blueprint, if implemented, would represent the point of minimum departure from the status quo within EMU. And, given the highly intergovernmental nature of the institutional architecture governing EMU, the entrenchment of such a limiting discourse could serve to constrain any fiscal governance reform process to at best incremental change.

Contextual Overview

As discussed in chapter 5, decision-making responsibilities within EMU have always had a strong intergovernmental dimension due to the asymmetrical nature of the single currency area, i.e. with a centralised monetary policy and a decentralised fiscal policy. However, in reflecting on the institutional adaptations that have taken place within EMU in response to what has been labelled as constituting a 'existential crisis' by a senior spokesman for the European Council President (Interview Extract O 2014:1), it is notable that intergovernmental policy coordination, particularly at the highest level amongst Heads of State or Government, has become even more

pronounced—a fact confirmed by many of our interviewees working within DG ECFIN, the Council Directorate for Economic Policy and within the Cabinet of the European Council President (see, in particular, Interview Extract B 2013:1-2, C 2013:1-2, D 2013:1-2, G 2013:1-2, O 2014:1-2). It is also a coincidence that the reforms introduced under the Lisbon Treaty to formalise the European Council have in many senses reinforced many of the characteristics which have rendered the European Council as the default manager of the EU during the recent crisis period. One senior official located within the Council Directorate for Economic Policy touches on this issue when discussing the evolution of the European Council's role during the recent crisis period:

“It has certainly become a new animal, but this was already through the Lisbon Treaty. After all, it was only in December of 2009 that we got Von Rompuy appointed as permanent President; that was really a shift. [...] It coincided with important years of the crisis, as in the beginning of 2010 we shifted into the most serious stages of the crisis. So it is difficult to say how the European Council would have evolved without these crisis subjects on their agenda” (Interview Extract G 2013:1).

Clearly, then, it is difficult to say exactly how the institutional balance between the EU's institutions would have played out following the ratification of the Lisbon Treaty if it were not for the financial and economic turmoil which confronted the Union not long after. Nevertheless, the Treaty undoubtedly has placed the European Council in a strong position to help guide the Union through the subsequent crisis. In reflecting on why the European Council in particular has taken on a far more pronounced role during the recent crisis period, two main explanations are given during interview proceedings with President Van Rompuy's spokesman: First the situation confronting the Union is said to be 'unprecedented and we needed new rules', and 'the European Council basically is the rule setting body or the constituent power' (Interview Extract O 2014:1-2). On this first point, the official also adds at some length here:

'The Commission and some of the other institutions cannot do that because they exist on the basis of the rules. Or in the more official language, it's on the basis of delegated competencies' (Interview Extract O 2014:1).

The second reason given is that 'so much money was involved; and, according to the official, if you 'talk about engaging tax payer's money for such amounts, then this requires the Heads of Government to step in (Interview Extract O 2014:2)'. The official also raises a similar point when discussing the economic reform programs and austerity measures which were enacted around the same time: 'So we are talking here for some countries about potentially the very survival of their own economy and of their own government. And that is something which is really a matter for Heads of State to deal with' (ibid). Another factor intimately interconnected to these two points—even if not explicitly dealt with by the official cited above—is one of timing. This issue, for example, is highlighted by a senior member of the Cabinet for the European Council President who argues forcefully: 'Of course, it was absolutely imperative that we responded in an urgent and often adhoc manner in order to contain contagion risks and prevent a sovereign default or at worse a disorderly exit by a periphery member state from the Eurozone. (Interview Extract Q 2014:1). From a reading of these statements, it is evident that key EU policy makers have consistently supported a strengthened role for the European Council during the crisis period as the only institution equipped with the tools necessary to respond adequately and in a timely fashion to the existential challenges threatening Europe and the single currency area.

In expanding on what specific powers the European Council has taken on during the crisis, several of our interviewees comment that the body has seen a marked increase in its role as top executive power (Interview Extract B 2013:1-2, C 2013:1-2, D 2013:1-2, G 2013:1-2, O 2014:1-2). Moreover, while the Commission has been observed to have preserved *de jure* its role as the initiator of legislation within the confines of the Community method, it is also confirmed that at times during this period the Commission has functioned more as an implementing arm of the European Council on key legislative matters (Interview Extract D 2013:1-2). Of course, at other times integration has been pursued firmly outside of the Community

method by way of intergovernmental agreement amongst Heads of State or Government (as was the case for the intergovernmental fiscal compact treaty, for example). Without question, therefore, it can be said that the European Council has found itself in a strengthened position to set the agenda over the emerging debate concerning the reform of the EU's fiscal and broader economic governance arrangements during this recent crisis period. It is pertinent question to ask at this point whether the ascendancy of this more intergovernmental body will be a permanent feature of EU governance. And according to a senior spokesman for the European Council President the answer to this question is a nuanced one: 'So I think the European Council will be a bit more in retreat than in the heat of the crisis—I think you can already see that. But it will not be as before because of the experience of the crisis itself' (Interview Extract O 2014:2).

Of course, as noted by our interviewees cited above, other intergovernmental forums located further down the political hierarchy have also seen a substantial increase in their working methods during this time. Perhaps the most prominent example here are the informal Eurogroup sessions attended by euro area finance ministers which are then followed up by the more formal ECOFIN Council meetings. Together, these meetings have increased in frequency and duration during the crisis period as ministers have focussed their attention on the adequate policy responses to be taken (see Puetter 2012a). And often deliberations amongst ministers have been very informal with discussions taking place over breakfast, for example. Also, as would be expected, various technical deliberations also take place at committee level within the EFC amongst policy experts and representatives from the various member states. It is a feature here, as a senior official within the Council Directorate for Economic Policy confirms, that the 'the more political issues have ended up right at the top with Heads of State' (Interview Extract G 2013:2; see also Interview Extract E 2013:1, B 2013:1); or alternatively, the process has been 're-inversed' during the crisis period so that 'sometimes you had decisions made at the Head of State level which were not always prepared at a technical level' (Interview Extract E 2013:2). Either way, though, while forums further down the political hierarchy often deliberate on crucial technical details, the more politicised or controversial issues have been regularly left to be solved by finance ministers or even by Heads of State or Government within the European Council setting. This form of governance has

been conceptualised by Puetter (2012a) as representing a form of ‘deliberative intergovernmentalism’.

The extension of intergovernmental decision making has also been strengthened considerably by the setting up in March 2010 of a task force which was chaired directly by the European Council President Herman Van Rompuy and composed of the finance ministers of what was at the time 27 member states. In many ways the task force was representative of the ECOFIN Council—although it had a more diverse membership which included, alongside the representatives of the member states, officials from the ECB, Eurogroup and of course the Commission (European Council 2010:13-14). The task force was charged with the objective of exploring the options for a ‘improved crisis resolution framework and better budgetary discipline’ (European Council 2010:2), and ultimately there was seen to be a lot of coming together between the recommendations advanced by the task force and the six-pack of legislative proposals put forward by the Commission as an immediate response to the looming crisis. Hence, while the Commission and the European Council initially embarked on apparently separate reform paths—and inter-institutional rivalry may have been an issue here at times in view of the latter’s sudden ascendancy—in the end there was a reasonable degree of convergence between the two actors, which is predictable given the overlapping forums for debate.

With key representatives from the member states being relied upon to play a key management role during the immediate crisis period, it is no surprise that they were also keen to set the terms of the debate for a more ambitious reform of the EU fiscal and broader economic governance framework over the longer term. Accordingly, with a view to going beyond the immediate crisis resolution measures (as set out in the legislative six-pack, two-pact and intergovernmental fiscal compact), the President of the European Council was invited to develop at the June 2012 European Council a ‘specific and time-bound road map for the achievement of a genuine Economic and Monetary Union’ (see European Council 2012), in coordination with key stakeholders from the adjoining institutions. The report entitled *Towards a Genuine Economic and Monetary Union* proposes to move, over the next decade and beyond, towards a stronger EMU architecture based on an integrated framework for the financial sector, for budgetary matters and for economic policy.

Moreover, as would be expected in view of our previous analysis, the report was also extensively deliberated on both within the European Council setting and further down the decision making hierarchy amongst ministers with the ECOFIN Council and Eurogroup sessions, as well as at Committee level.

To conclude this section, the Union has adapted to the challenges presented by the financial and economic crisis through yet a further extension of intergovernmental modes of decision making within EMU. This is because, with Europe being faced by a possible existential threat, policy-makers have felt that national ministers—and often ultimately only Heads of State or Government at the highest level—have the capacity to advance a suitable reform agenda and take decisions in quick time concerning economic and budgetary matters under pressure from the markets. Of course, this is not to say that the adjoining institutions, including the Commission and the Parliament, have not been very much present within the ongoing reform debate over fiscal governance reform. Nevertheless, it does follow that policy makers working within these more intergovernmental settings may potentially have been able to exercise even more of an agenda setting role over the EU fiscal governance reform process than historically may have been the case. And it is in this context that the legitimising discourses being produced from within these settings during the ongoing fiscal governance reform debate need to be considered.

Legitimising Discourse Activity

Discourses of Crisis

As already documented, amid a worsening of the sovereign debt situation within the Eurozone periphery, the European Council made the decision to set up in the Spring of 2010 a Task Force with the cooperation of the Commission with the aim of establishing by year's end the 'measures needed to reach the objective of an improved crisis resolution framework and better budgetary discipline' (European Council 2010:3). The Task Force, which was chaired by the European Council President Herman Von Rompuy, was instructed to go about this task with the

intention ‘to exploit to the maximum all the possibilities that EU secondary legislation can offer within the existing legal framework of the European Union’ (ibid). Following six meetings of the task force the European Council President then presented the group’s final report at a European Council summit on the 28 and 29 October 2010 entitled *Strengthening Economic Governance in the EU*. The table presented below provides a brief summary of the key patterns of discourse contained within the report.

Table 6.1: Key Patterns of Discourse

	Input orientated discourse	Output orientated discourse	As a Model of Fiscal Federalism
Final Report of the Task Force	<p>Measures to improve democratic legitimacy and accountability of decision making on the input side not considered here.</p> <p>Therefore the potential to increase the role of the European Parliament or its national level counterparts within what would be a strengthened fiscal governance framework is not addressed—even in the context of the European Semester where there is scope for increased parliamentary oversight.</p>	<p>Neoliberal interpretation of the crisis events dominates, with it being framed as resulting primarily from fiscal laxity as member states failed to comply with the Union’s budgetary surveillance rules (with no recognition of deeper structural flaws).</p> <p>Neoliberal reform agenda advanced which is concerned with securing fiscal discipline under the SGP framework through strengthened surveillance and reinforced compliance with the key budgetary rules.</p> <p>Ideas for an improved an emergency bailout mechanism are raised tentatively, yet more far reaching neo-Keynesian solidarity mechanisms (i.e. debt mutualisation and/or the development of a more substantial EU fiscal capacity) are not.</p>	<p>Limited model of fiscal federalism: rules-based fiscal discipline with indirect channels of legitimisation.</p> <p>Point of minimum departure from the status quo.</p>

One overarching meta-narrative dominates the final report of the task force. This narrative concerns the reform measures required within EMU in order to respond to the challenges presented by the financial and economic crisis. This is expanded upon as part of the text introduction:

“The financial crisis and the more recent turmoil in sovereign debt markets have clearly highlighted challenges in the European Union’s economic governance. To address these challenges, a fundamental shift in European economic governance is needed, commensurate to the degree of economic and financial integration already achieved through the monetary union and the internal market” (European Council 2010:1).

Yet, while the report proceeds to set out the reforms identified as necessary to address the challenges presented by the crisis, it is reiterated several times within the text that the intention is to go about this task while ‘preserving national responsibilities on fiscal and economic policies’ . As such, even though the reform agenda is presented in the citation above as representing a ‘fundamental shift’ in European economic governance, any prospect of making a qualitative integration leap within EMU towards a deeper level of fiscal union is in fact been disregarded from the outset.

Before moving on to address more specifically what is in fact a rather limited set of reform proposals as laid out by the task force, it is important to elaborate on how the crisis itself is constructed within the report—not least because the manner by which the crisis is constructed and framed through discourse could itself be crucial to formulating a better understanding as to the nature of the eventual policy responses that were arrived at. Most fundamentally, here, the crisis is framed within the text as stemming from a failure of fiscal discipline, with member states seen to be failing to comply with the Union’s budgetary surveillance rules as laid down under the SGP framework:

“The recent economic crisis has proved the need for enhancing the credibility and effectiveness of EU fiscal rules through stricter

enforcement mechanisms in order to increase incentives for applying EU rules and recommendations and to prevent undesirable fiscal developments in Member States” (European Council 2010:4).

Thus, while the pre-existing SGP framework is said to have remained ‘broadly valid’, the key lesson resulting from the crisis is that ‘it needs to be applied in a better and more consistent way’ (European Council 2010:1). More specifically, there is seen to be a need for a ‘greater focus on debt and fiscal sustainability, to reinforce compliance and to ensure that national fiscal frameworks reflect the EU’s fiscal rules’ (*ibid*). As the report remarks though, ‘The global crisis has demonstrated that compliance with the SGP is not enough’ (European Council 2010:2). Therefore, it is observed that ‘action to address macroeconomic imbalances and divergences in competitiveness is required’ in the form of a new surveillance mechanism running parallel to the SGP (European Council 2010:8). Yet, the framing of fiscal discipline as the key policy challenge revealed by the crisis is reflected in the observation that over just under half the report explicitly falls under a heading entitled ‘Towards Greater Fiscal Discipline’. Numerically, fiscal discipline is also portrayed as the number one priority to be tackled. And, while macroeconomic issues are mentioned, some of the more fundamental structural design flaws related to the lack of a deeper level of fiscal union within EMU since the outset (as discussed in chapter 2) are not identified as contributing factors here.

Such a reading of the crisis is clearly, following on from observations made during the formation of the critical literature review, synonymous with a neoliberal interpretation as to the causes of the crisis in the first instance. It is of little surprise, therefore, to see that the majority of the policy innovations recommended by the task force follow ideologically in the same direction, with the key reforms being guided by an output oriented neoliberal legitimising discourse type—one concerned with building on, rather than replacing, the rules-based SGP framework with a view to securing strengthened fiscal discipline within EMU. As hinted at above, then, at the heart of the report are a series of proposals designed to ‘strengthen budgetary surveillance and reinforce compliance with EU budgetary rules’, under the original SGP framework (European Council 2010:3). First, for example, the report recommends implementing a series of provisions to ensure that the ‘criterion of

public debt be better reflected in the budgetary surveillance mechanism' (and made operational under the EDP (European Council 2010:4). Such changes are also quite significant when discussing the preventative arm of the pact for it would entail 'a faster adjustment path towards the medium-term objectives (MTO) should be required for Member States faced with a debt level exceeding 60% of GDP'—or for a member state with 'pronounced risks in terms of overall debt sustainability' (*ibid*). The second set of reforms recommended are concerned with 'enhancing the credibility and effectiveness of EU fiscal rules through stricter enforcement mechanisms' (under both the preventative and corrective arms) (*ibid*). These themes are expanded upon below:

“To increase their effectiveness in the future, a wider range of sanctions and measures, of both financial and reputational/political nature, should be applied progressively in both the preventive and the corrective arms of the SGP, starting at an earlier stage in the budgetary surveillance process” (European Council 2010:1).

Finally, on top of the measures suggested for stricter enforcement of the pact, are a series of recommendations proposed with a view to 'enhancing national fiscal rules and frameworks'. Key here is a set of agreed minimum requirements' to be incorporated into national frameworks to ensure improved compliance with the SGP's budgetary rules (European Council 2010:7-8).

However, while the mainstay of the recommendations advanced within the final report of the task force are guided by a neoliberal ideology and an overarching concern with the deliverance of rules-based fiscal discipline within EMU, it is worth noting that the requirement for 'deeper and broader coordination under the European Semester' cycle of policy coordination is also endorsed as a response to the crisis events (European Council 2010:10). Then again, the provisions set out for reinforced coordination under the newly configured European Semester is in fact strongly linked within the text to the attainment of 'fiscal discipline' and improved EU budgetary surveillance under the SGP framework (as well as to broader economic surveillance involving the targeting of macroeconomic imbalances within EMU). Key here is earlier *ex ante* budgetary coordination as provided for under the European Semester:

“This cycle of reinforced ex-ante coordination will cover all elements of economic surveillance, including policies to ensure fiscal discipline, macroeconomic stability, and to foster growth, in line with the Europe 2020 Strategy [.....] Stability and Convergence Programmes and National Reform Programmes will be submitted by Member States at the same time in the spring and assessed simultaneously by the European Commission. This earlier discussion at EU level will contribute to ensure that the EU/euro area dimension is better taken into account when countries prepare budgets and reform programmes, and will therefore contribute to a higher degree of policy coordination among Member States” (European Council 2010:10).

Following this logic, the European Semester is understood as complimenting, or even adding to, the pre-existing coordination frameworks in place for securing fiscal discipline. It is also worth observing that beyond vague observations by the Task Force that more work needs to be done exploring the prospects of setting up a more robust ‘ex ante crisis scheme’ (i.e. an intergovernmental emergency bailout mechanism)—one ‘capable of addressing financial distress and avoiding contagion’—any prospect of taking more far reaching integration steps with a view to setting up neo-Keynesian solidarity mechanisms within EMU (i.e. debt mutualisation and/or the development of a more substantial EU fiscal capacity) does not figure here (European Council 2010:10-11). Hence, in an overarching sense, it can be said that the task force is advancing a model of fiscal federalism within its final report that would represent a minimum departure from the status quo.

With neoliberal ideas concerning the deliverance of fiscal discipline on the output side dominating the recommendations of the task force, it is of little surprise that input oriented discourses remain conspicuously absent throughout the text. In fact, while a series of recommendations are made with a view to strengthening European budgetary surveillance, at no point are accompanying measures to improve democratic legitimacy and accountability of decision making on the input side considered. As such, the potential to increase the role of the European

Parliament or its national level counterparts within what would be a strengthened fiscal governance framework are not addressed. Even in the context of the European Semester, for example, where opportunities abound for both the European Parliament and the national parliaments to play a far more active role over EU fiscal policy (see Interview Extract A 2013:2 with senior level official from DG ECFIN for confirmation of this fact), the report only affirms the need for governments to increase ‘national ownership’ by ensuring the inclusion of recommendations by the Council and the Commission when submitting draft budgetary plans to parliament (i.e. before parliamentary approval) (European Council 2010:10). Clearly, while this may provide for increased European input over national budgets, how to ensure adequate levels of democratic input legitimacy within the European Semester cycle of fiscal and broader economic policy coordination—perhaps through the setting up of increased mechanisms for democratic participation and representation involving parliamentary oversight from both the national and European level—is a topic not even engaged with during the final report of the task force. Instead input legitimacy appears to have been left to be incurred indirectly, via national ministers and Heads of State or Government within the Council and European Council, with the priority in the wake of the crisis being strengthening the Union’s pre-existing arrangements for fiscal discipline.

The discourse findings of the final report of the task force can be reinforced through a reading of more informal discourse sourced from EU level officials working within the European Council setting and by those located further down the decision making hierarchy at ministerial and committee level. First, when commenting on the reform priorities advanced in the immediate wake of the crisis, a member of the secretariat located within DG ECFIN is absolutely clear which actors were most influential in guiding the initial neoliberal policy response:

“Germany, alongside several other core countries, were influential in pushing for strengthened fiscal discipline as a prior to any movement towards enhanced solidarity measures, yes. However, I think there was a big consensus that a number of things went wrong; the Commission identified these. Then there was a big discussion on the details themselves: on the balance of power between the Council

and the Commission, how intrusive they should be, and what the different steps should be” (Interview Extract E 2013:4).

Separately, when questioned if it was Germany that was keen to push a fiscal discipline agenda from early on in the crisis, a senior member of the cabinet for the European Council President answers along similar lines, albeit with some important caveats concerning the role of the ECB: ‘Yes on the whole you are right, but the ECB also played a big role over this. And the Nordic countries were influential here too. They are all more in favour of rules-based fiscal discipline—certainly for as long as it does not affect any of them’ (Interview Extract Q 2013:2). When speculating on the observed leading role played by Germany over the reform agenda for EU fiscal governance reform, another senior official located within the Council Directorate for Economic policy comments on the inevitability of Germany’s leading role: ‘But of course Germany takes a leading role here in view of its economic size. So Germany automatically was seen to take on a leading role, whether it wanted it or not’. (Interview Extract G 2013:6). It follows, then, that it is Germany that is seen to be at the forefront of efforts to push a neoliberal reform agenda for EU fiscal governance revolving around a strengthening of the SGP instrument.

Moving on, in accounting for the lack of discussion by the task force concerning the possibility of taking heightened integration steps towards a qualitatively deeper level of fiscal union (i.e. one endowed with neo-Keynesian solidarity mechanisms), the broader constraining discourses abounding amongst the member states are also of some significance. As one official working within the European Council Directorate for Economic Affairs observes when discussing the prospects for pooling of budgetary resources and/or joint issuance of debt:

“Yes. It would be the next stage of fiscal integration. But it effectively means the transfer of sovereignty, at least up to some extent. That is the biggest obstacle: that is what it is all about. In the end it comes down to sovereignty and money [.....] The whole debate is carried out along the lines of states foreseeing the amount of money that they might end up paying” (Interview Extract G 2013:4).

Clearly, the official in question is of the view that ‘sovereignty’ concerns will be key here, and this central point is also picked up on forcefully by two senior members of the Cabinet for the European Council President (Interview Extract O 2014:2-3, Q 2014:3).

In expanding further on the nature of the disagreements that have arisen over the issue of pooling fiscal or budgetary sovereignty, the significance of the Franco-German relationship (as well as the broader relationship between core and periphery states) is framed as key by several of our interviewees (see Interview Extract F 2013:2, G 2013:3, O 2014:3). A senior spokesman for the European Council President expands on the nuances of this disagreement:

“I mean the Germans want to have more commitment on the French side to fiscal discipline. This is because it very easy to say for France lets mutualise our debt, but the Germans are saying but guys you haven’t had a budget in equilibrium for 40 years. So obviously the French are keen to pool debt, yes. It’s a bit like living in an apartment block where you have all different house owners of the individual apartments and everyone takes care of their own space. But maybe to mend the roof they will agree to work together and pool resources—that can be done. Yet such a pooling cannot be done for the individual mortgages as it were” (Interview Extract O 2014:3).

From a reading of the above, the nuances of this debate can be conceptualised as follows then: France (along with the periphery states) calls for more solidarity but is unable to stomach the other side of the German (and core states) bargain, i.e. heightened rules on fiscal discipline. This is a significant observation because it renders any qualitative integration leap in the fiscal realm particularly challenging. In fact, when discussing the probability of moving towards a qualitatively deeper level of fiscal union (i.e. a model in which neo-keynesian solidarity measures play an enhanced role), the official remarks tersely: ‘I think it not very probable because of state sovereignty concerns’ (ibid). Also, as hinted at above, the issue of moral hazard also features prominently alongside the debate which revolves around the pooling of budgetary sovereignty at the EU level. For example,

when asked if sovereignty concerns are the main hurdle preventing further fiscal integration, a senior member of the cabinet for the European Council President gives the following reply:

“Yes, but also concerns of moral hazard amongst the core countries. The core countries want to be able to influence things. That is, if they are liable for someone else’s debt then you want to be able to influence their debt situation. And, for as long as that is the case, I don’t see any major moves towards a deeper level of fiscal union taking place” (Interview Extract Q 2014:3).

In sum, it has been identified how a series of constraining discourses amongst member states (though particularly amongst Germany and France as the most powerful member states) concerning primarily sovereignty concerns, but also the issue of moral hazard, have configured to limit any discussion by the task force to the neoliberal measures required to strengthen fiscal discipline on the output side. And, as witnessed, German preferences have been absolutely key here in guiding the neoliberal agenda of the task force.

Of course, the task force report has also been seen to eschew any substantive deliberations concerning the possibilities of taking steps towards a flanking political union aspect—with a view to reinforcing legitimacy on the input side. And again, in this context sovereignty concerns are raised as a major constraining issue by the interviewees. For example, when discussing the merits of the term political union, a senior level official working within the European Council Directorate for Economic Affairs comments:

“Well, the term is being used often but no one has pinned down exactly what it means. [...] People have different interests and different concepts of what a political union would be and as to what sovereign powers should be transferred. But this is not even discussed at sufficient length—so we are not even discussing this. But transferring more powers to the European Parliament would

seem to be an element of political union” (Interview Extract G 2013:5).

Clearly, with sovereignty concerns posing a major hurdle to jump over on the path towards any kind of political union, the prospect of accompanying any fiscal integration process with sufficient steps to ensure legitimacy on the input side has been side-lined for the foreseeable future. In fact, even in reference to the possibility of transferring of powers over the longer term to the European Parliament, the official remains adamant that ‘it is going to be very hard to make that step’ because fundamentally ‘it would imply that the national parliaments lose out while the European Parliament would gain’ (Interview Extract G 2013:6).

Similar observations are made by a member of the Commission provided secretariat who works alongside national officials within the informal Eurogroup setting. For example, with particular reference to the possibility of setting up a democratically elected ‘European Chamber’, the official remarks that ‘no one was really interested even though there has been a trend to give more power to the European Parliament’ (Interview Extract F 2013:5). Equally, when discussing the need to balance any reforms with ‘democratic legitimacy’, a separate member of the secretariat who works alongside member state representatives at committee level is equally pessimistic in arguing that ‘it is a development that will not go extremely quickly because it is something that did not exist so much before the crisis’ (Interview Extract E 2013:5). Again, therefore, sovereignty concerns amongst member states, as well as different conceptions of what political union might entail, go some way to accounting for the task force’s decision to skip over challenging questions concerning the reforms that might be required to inject increased input legitimacy into the EU’s fiscal governance arrangements.

The dominant neoliberal orders of discourse uncovered within the final report of the task force can be intertextually located within a series of earlier texts produced within the Council and European Council settings. However, in the modern period these narratives are supplemented with discourses of crisis which link strengthened rules-based fiscal discipline with a overcoming of the challenges presented by the financial and economic crisis. To begin with, for example, as part of one of the initial

two 1997 ECOFIN Council resolutions from which the integrated SGP budgetary rules was founded upon, fiscal discipline (or so called ‘sound government finances’) was, in accordance with a neoliberal logic, portrayed as a vital condition for securing ‘price stability’ and ‘strong sustainable growth’ on the output side—objectives which were in turn linked with increased ‘employment creation’ (Council 1997a:6). And again, a similar link between fiscal discipline and a series of broader macroeconomic outputs was made within the text of the ‘Resolution of the Amsterdam European Council on the Stability and Growth Pact’ that same year, which was approved in order to establish the political basis for the founding of the SGP within EMU (European Council 1997:1-2).

Moving forward, while the 2005 European Council endorsed reform agenda for the SGP increased the flexibility of the rules and procedures (see Council 2005 and 2005a for a full overview of the provisions contained within the two ‘amending regulations’), the Heads of State or Government did reaffirm here their commitment to the overarching ‘rules-based system’ as the ‘best guarantee for commitments to be enforced and for all Member States to be treated equally’ (European Council 2005:22). It is also significant that within the European Council produced text the securing of fiscal discipline under the SGP was linked with a series of familiar macroeconomic policy outputs, including the overarching goal of ‘macroeconomic stability’, which was presented in a hierarchal fashion as being ‘essential’ contributors to ‘economic growth and job creation’ (ibid) From a intertextual analysis of the connectivity between the final report of the task force and a series of earlier texts, it can be concluded then that analogous neoliberal orders of discourse have remained fairly constant within the European Council setting—notwithstanding calls for increased flexibility led by a chiefly Franco-German core throughout the 2003-05 period. However, while in earlier periods rules-based fiscal discipline was typically linked with the securing of price stability, economic growth, and employment creation on the output side, in the immediate crisis period these narratives have been supplemented by discourses of crisis.

To conclude, through an analysis of the final report of the task force—in conjunction with more informal discourse from senior EU level officials—it has been shown how during the immediate crisis period a neoliberal reform agenda was

pushed hard by the 'core' member states and particularly Germany. Also key were the series of constraining discourses abounding amongst member states, concerning sovereignty concerns and issues of moral hazard, which ensured that the reform debate shied away from any talk of realising a qualitative integration leap within EMU towards a deeper level of fiscal union (i.e. one in which neo-Keynesian solidarity mechanisms play an enhanced role) with a flanking political union aspect. Instead, the reform discourse being articulated within these settings remained entrenched during this period around a neoliberal ideology and a model of fiscal federalism which represents the point of minimum departure from the status quo: a model centred on the securing of rules-based fiscal discipline on the output side, with input legitimacy being left to be incurred largely indirectly via national ministers and Heads of State or Government.

Post-Crisis Discourse

The Task Force was influential in informing the key pieces of Community legislation advanced in the immediate aftermath of the financial and economic crises—including the so called six-pack legislation, which was then built on and complimented by the legislative two-pack. But, as already noted, with a view to going beyond the legislation introduced during the immediate crisis period, the President of the European Council was invited to develop, at the June 2012 European Council, a 'specific and time-bound road map for the achievement of a genuine Economic and Monetary Union' (European Council 2012a:2). This set of developments resulted in the drawing up of a potentially far reaching report released in December 2012 entitled *Towards a genuine Economic and Monetary Union (EMU)*, which proposes a series of integration steps to be taken over the short, medium to long term. The actions laid out over the different stages are said to be 'required to ensure the stability and integrity of the EMU', and the report 'calls for a political commitment to implement the proposed roadmap' (European Council 2012a:2). The table presented below provides a brief summary of the key discourse patterns contained within the report.

Table 6.2: Key Patterns of Discourse

	Input orientated discourse	Output orientated discourse	As a Model of Fiscal Federalism
Towards a genuine Economic and Monetary Union	<p>Both the European Parliament and national parliaments understood as having some kind of role to play in developing the democratic and accountability of decision making on the input side.</p> <p>The precise balance to be struck between the two levels, and the nature of the democratic mechanisms that would need to be set up, is left ambiguous.</p> <p>Challenging questions concerning the development of a flanking political union aspect have been side-lined for now.</p>	<p>Prioritisation of a neoliberal reform agenda over the short term involving the full implementation of the six-pack, two-pack and fiscal compact initiatives building upon the SGP framework for fiscal-discipline.</p> <p>Over the longer term the prospect of setting up contractual arrangements and a strictly 'limited' European fiscal capacity capable of absorbing country-specific economic shocks is put forward.</p> <p>There is a notable absence of any further policy recommendations exploring even the possibility of implementing limited debt mutualisation mechanisms within EMU (e.g. a debt redemption fund or t-bills) with a view to rectifying EMU's more deeply rooted structural deficiencies.</p>	<p>Model of fiscal federalism of only limited ambition:</p> <p>Continued centrality of rules-based fiscal discipline, with only 'limited' solidarity measures.</p> <p>Decisions on concrete integration steps towards a flanking political union aspect left for the future.</p>

In terms of the recommendations themselves, the short term priority measures have been, as one would expect given our previous discourse findings from the immediate crisis period, strongly linked to a familiar neoliberal output orientated legitimising discourse type. Key here is building upon the SGP framework for fiscal discipline, this time through the 'completion and thorough implementation of a stronger framework for fiscal governance' as laid out in the 'six-pack' 'two-pack' and 'Treaty on Stability, Coordination and Governance' (i.e. the intergovernmental fiscal compact) (European Council 2012a:4). As made clear within the report, it is

hoped that the 'new governance framework will provide for ample ex ante coordination of annual budgets of euro area Member States' while at the same time serving to 'enhance the surveillance of those experiencing financial difficulties' (European council 2012a:8). The priority here is to make the SGP more effective on the output side through improved ex ante coordination of member states annual budgets and enhanced surveillance for those states experiencing excessive deficits (European Council 2012a:8). As you would expect, the 'sound management of public finances' (a term synonymous with fiscal discipline) is the key policy objective at this point—the failure of which is presented as 'one of the root causes of the sovereign debt crises', in accordance with a neoliberal logic (European Council 2012a:4).

As a balance to these short-term neoliberal measures designed to secure strengthened fiscal discipline within EMU, it is envisioned that structural reforms could be supported through 'limited' targeted economic incentives of a contractual nature. Such measures, it is foreseen, could then act as a prelude to the third and final stage of the integration process: 'establishing a well-defined and limited fiscal capacity, through an insurance system set up at the central level' (European Council 2012a:5). It is acknowledged within the report that 'the exact conditions and thresholds for the activation of transfers would need to be studied carefully' (European council 2012:11). However, while the precise form that any fiscal capacity would take is left ambiguous, a common European budgetary framework is framed here as having the potential to 'improve the absorption of country-specific economic shocks' within EMU on the output side (European Council 2012a:5).

So, therefore, with reference to the reform agenda set out by the report for the medium to longer term time period, there can be said to be a slight variation in the discourse structure away from neoliberalism towards more of an emphasis on neo-Keynesian solidarity measures. However, the extent to which the report text deviates from the historically embedded economic ideas of neoliberalism should not be overstated. Firstly, as hinted at above, while the precise form of any fiscal capacity is left unambiguous, it is emphasised several times within the report that such a solidarity framework would be of a strictly 'limited' nature. Furthermore, it is also clarified within the report that any European fiscal capacity would be made strictly conditional on compliance with the rules enshrined under the SGP framework for

fiscal discipline and on the implementation of the reforms set out in the contractual arrangements (European Council 2012:12). And certainly, the absence of any policy recommendations exploring the possibility of implementing even limited debt mutualisation mechanisms within EMU (e.g. a debt redemption fund or t-bills) is also telling. In general, the report can therefore be said to have barely addressed some of the more fundamental structural design flaws related to the lack of a deeper level of fiscal union within EMU (as identified in chapter 2) with the model of fiscal federalism being advanced here being one of only limited ambition.

Finally, it can be observed that legitimising discourses emphasising the input dimension of legitimacy, and the democratic legitimacy and accountability of decision making within EU fiscal governance, are not totally absent from the report. For example, although the least well developed section of the report by far, ‘democratic legitimacy and accountability’ mechanisms are said to be ‘essential’ when moving towards a genuine EMU (European Council 2012a:3). While left vague, the guiding principal here is that ‘democratic control and accountability should occur at the level at which the decisions are taken’ (European Council 2012a:16). However, because it is recognised that ‘decisions on national budgets are at the heart of Member States parliamentary democracies’, the report makes a case for the ‘involvement of the European Parliament as regards accountability for decisions taken at the European level’ ‘while maintaining the pivotal role of national parliaments, as appropriate’ (European Council 2012a:16).

Following this logic, within the report both European and national parliaments are understood as crucial to the development of the democratic and the accountability of decision making on the input side; yet crucially, the precise balance to be struck between the two levels, and the nature of the democratic mechanisms that would need to be set up to ensure that such principles are realised in practice, is left ambiguous. For example, in the context of the European Semester, the report has this to say regarding the setting up of democratic legitimacy and accountability mechanisms:

“New mechanisms to increase the level of cooperation between national and European parliaments, for example building on Article

13 of the TSCG and Protocol 1 of the Treaty, could contribute to enhancing democratic legitimacy and accountability. Their precise organisation and modalities are a responsibility of the European Parliament and national parliaments to determine jointly” (European Council 2012a:16).

So clearly, while the potential to further increase the role of both the European and national level parliaments within the European Semester cycle of policy coordination is recognised, how such mechanisms would be developed in practice is not addressed. Likewise, while the report also recommends that ‘the creation of a new fiscal capacity for the EMU should also lead to adequate arrangements ensuring its full democratic legitimacy and accountability’, it is at the same time made clear that ‘the details of such arrangements would largely depend on its specific features, including its funding sources, its decision making processes and the scope of its activities’. In short, it would appear that challenging questions concerning the development of a flanking political union aspect have been side-lined in favour of more generalised observations concerning the more active participation of the European and national level parliaments over decision making in the fiscal governance sphere.

The dominant discourse patterns uncovered within the President of the European Councils towards a genuine EMU report can be reinforced through a reading of more informal discourse sourced from EU level officials working within the European Council setting and by those located further down the decision making hierarchy at ministerial and committee level. First though, it is apparent that the informal discourse cited during the previous section covering the more immediate crisis period is again directly relevant here. For example, it has already been demonstrated how the core Eurozone countries, led by Germany, were at the forefront of efforts to push a neoliberal reform agenda for EU fiscal governance as an immediate response to the challenges presented by the crisis (see Interview Extract E 2013,G 2013, Q 2014.) And, once again, these discourse findings have been born out within the subsequent towards a genuine EMU report which again demands, as an immediate priority, the full implementation of the provisions building on the SGP

framework for fiscal discipline as provided for within the six-pact, two-pact and intergovernmental fiscal compact.

It was also demonstrated through informal discourse how the existence of a series of constraining discourses within the European Council setting concerning sovereignty concerns particularly, but also issues of moral hazard, served to ensure that the reform debate largely shied away from any talk of realising a qualitative integration leap within EMU towards a deeper level of fiscal union with a flanking political union aspect (see Interview Extract F 2013, G 2013, O 2014:2-3, Q 2014). And, of course, the significance of the Franco-German relationship was found to be of significant consequence here with France (along with the periphery states) being active in calling for more solidarity but being unable to stomach the other side of the German (and core states) bargain, i.e. heightened rules on fiscal discipline. These observations are of some significance because similar constraining discourses appear to have again been a factor during the drafting of the towards a genuine EMU report, with only a very limited model of fiscal federalism being advanced at the text level. These conclusions can also be further reinforced by drawing again on the informal discourse sourced from EU officials located within the relevant institutional fora. To begin with, for example, when asked if state sovereignty concerns will stand in the way of progress towards a deeper level of fiscal integration within EMU, a senior spokesman for the European Council President answers candidly:

“Yes because a fully—fledged fiscal union with tax powers going to the European Union level would be completely turning upside down the way the Union is currently running. It would be the end of national democracies, and I think that will not happen. It is one thing to say that in three or four years’ time we will have a one percent of GDP Eurozone budget—I mean that I think is not excluded. But to have a full federal budget or debt mutilation then the answer is no. In these current political circumstances such integration would require far more trust amongst member states than there currently is—particularly trust in each other’s economic policies and trust in the sustainability of each other’s economic trajectories. And I do not see

that today between the Germans and the French” (Interview Extract O 2014:2-3).

Clearly, a shifting of budgetary sovereignty to the Union level is perceived by the official as a step too far for most member states because of the implications for national democracy where, after all, taxation and spending powers have been historically deeply rooted in European states. Also, issues surrounding moral hazard are also hinted at indirectly again with ‘trust’ in each other’s commitment to pursue sustainable fiscal and economic policies identified as lacking. A member of the permanent representation of Finland to the ECOFIN Council also observes that ‘one underlying problem might be a level of mistrust amongst some of the countries’. But interestingly, the official adds: ‘This is under the surface; it is not admitted publicly’ (Interview Extract N 2014:4).

It is also telling that the senior spokesman for the European Council President chooses to comment on the nature of the relationship between Germany and France in particular, as the twin drivers of EU integration historically. Of course, the basic nuances of, what is at times, a fractious relationship between the two countries has already been expanded upon in the previous section with France (along with the periphery states) being seen to be active in calling for more in the way of fiscal solidarity but being unable to accept German (and core states) prior demands for heightened rules on fiscal discipline—due to the French harbouring deeply rooted reservations concerning any ceding of budgetary sovereignty. The significance of this conflict of interest between the two major EU powers in relation to the fiscal governance reform debate in Europe can be further expanded upon, however. For example, a member of the permanent representation of France to the ECOFIN Council draws attention to the extent to which budgetary sovereignty is a concept deeply ingrained at the national level in France.

“In France there is kind of a contradiction. We are supposed to be far more European than the UK. We are supposed to love European economic integration. But at the same time a large part of politicians and public opinion want economic decisions to stay at the national

level. This contradiction has not been solved yet” (Interview Extract P 2014:3).

From the French perspective, therefore, the issue of budgetary sovereignty represents a major obstacle to furthering integration in the fiscal realm. Also, when discussing the issue of budgetary sovereignty, a member of the permanent representation of Finland to the ECOFIN Council remarks that not only is it ‘important to our parliament’, but ‘in France, in Sweden in many countries it is a very important issue (Interview Extract N 2014:3). And certainly, the overall significance of these observations concerning the French, and numerous other EU member states, reservations over the issue of budgetary sovereignty is heightened by the fact that Germany demands, prior to any moves towards the setting up of solidarity mechanisms within EMU, assurances over member states commitment to the objective of fiscal discipline.

In fact, the significance of the German (and other core states) positioning within the context of this debate is articulately expanded upon by a member of the permanent representation of France to the ECOFIN Council:

“Well the first step for Germany and many member states in the core is to have sound public finances; that is a key element. And after it may be possible to have a limited public mutualisation of debt. Of course, it is very difficult to marry someone without knowing what they are doing. And here, from a German point of view, debt mutualisation is basically a way of saying that we will be engaged for paying for people whose expenditure and real economic situation we do not know” (Interview Extract P 2014:2-3).

In sum, it can be said that a series of constraining discourses concerning issues of sovereignty and moral hazard amongst the core and periphery member states, led by Germany and France as two of the most powerful EU member states, are severely limiting any debate concerning a qualitative integration leap towards a deeper level of fiscal union in which more far reaching neo-Keynesian solidarity

mechanisms play a role. Of course, this in turn helps ensure that the reform agenda remains very strongly tied to a neoliberal discourse in which the focus remains on securing strengthened rules-based fiscal discipline under the SGP instrument

Similar constraining discourses also feature when discussing the input dimension and the possible steps that might need to be taken towards the development of some sort of political union aspect to accompany integration on the fiscal side. For example, a senior spokesman for the European Council President does not shie away from the significant challenges currently standing in the way of more meaningful integration on this front:

“On the democratic legitimacy side it is still a case of improvisation and there is not much movement. There is a bit of reluctance to deal with the problem because people know that you will not get agreement on anything politically and sovereignty concerns are an ever present issue. And I think amongst political leaders there is not magic wand to treat this kind of issue (Interview Extract O 2014:4)”

Again, then, discussion over the development of any political union aspect, which could well involve the explicit transfer of key budgetary powers to the supranational level, is being clouded by the sovereignty and broader political concerns harboured by member states. In asking where this leaves the state of EU integration in the political realm, the same official points towards the EU’s unique capacity to ‘muddle through’, in what is a surprisingly optimistic tone. In the officials’ own words:

“[I] am looking at it more from a historic perspective and see that the EU is built to overcome some of these tensions and differences and to create a space where they can exist alongside each other—and this is where we have ended up. You can call this muddling through, but that is how Europe works. And, if it is muddling through, then I would say that it is each time muddling through at a higher level—the fiscal and economic solidarity improvements are a good example of this. We are not going to abolish the existence of national

parliaments or even countries because we have a common currency. Nor are we going back the other way. My main thesis is, then, that we do not have a fateful choice between a breakup and a federation—no. Maybe in a way we are stuck but we are getting away from it' (Interview Extract O 2014:3-4).

If this official's analysis is accepted then the potential for integration on the political union front could well be limited to incremental change rather than any major integration leaps. This is because, fundamentally, political differences are understood as rendering any substantive debate on the topic of political union, and the particular steps that need to be taken towards such ends, highly challenging in an area where sovereignty remains deeply rooted at the national level.

The dominant neoliberal reform discourses which have been seen to be prioritised within the towards a genuine EMU report can be intertextually located within a series of earlier texts produced within the Council and European Council settings. It should be recalled that it has already been established in the section covering the more immediate crisis period that overlapping neoliberal discourses have long been utilised in the European Council (1997, 2005, 2010) and Council (1997, 2005, 2005a) institutional settings for the purpose of legitimising the implementation and reform of the SGP as an essential framework for securing fiscal discipline within EMU. Yet, of course, while historically rules-based fiscal discipline was linked within the documents cited above with the securing of 'price stability', 'economic growth', and 'employment creation' on the output side, such narratives in the present day make more of a connection between strengthened fiscal discipline within EMU and an overcoming of the challenges presented by the financial and economic crisis. And, in terms of the more explicit intertextual process embedded within the towards a genuine EMU report, it is notable that the six-pack, two-pack and fiscal compact (or 'Treaty on Stability, Coordination and Governance in Economic and Monetary Union') legislative procedures are also overtly cited within the text. As has already been established previously, all three of these initiatives cited introduce measures that are consistent with a neoliberal reading as to the causes of the crisis in the first instance and as to the adequate policy response demanded. In particular, central to the six-pack and two-pack legislation is building

on the preventative and corrective arms of the SGP framework for fiscal discipline. And, while the fiscal compact is slightly more nuanced in this respect, at the heart of the of the intergovernmental Treaty is the requirement for signatories to implement 'balanced budget rules' at the national level, mirroring those already contained within the European level SGP framework.

To conclude, the analysis of the towards a genuine EMU report—in conjunction with a reading of more informal discourse from senior EU level officials—has revealed how the reform agenda moving forward from the crisis continues to be guided by neoliberalism and the overriding prioritisation of measures designed to strengthen fiscal discipline under the pre-existing SGP instrument. Nevertheless, over the longer term these neoliberal discourses for reform have been tempered to a degree by those emphasising the setting up of solidarity measures (i.e. a so called European 'fiscal capacity')—although, as demonstrated, this mechanism was always designed to be 'limited' in ambition and at no point were more far reaching measures concerning debt mutualisation or financial risk sharing considered. Fundamentally, it has been found here that a series of constraining discourses amongst member states concerning both sovereignty concerns and issues of moral hazard have largely served to limit the debate over the integration steps to be taken towards a deeper level of fiscal union, with the fractious relationship between France and Germany being found to be particularly potent here. And similar concerns over sovereignty have also seen to be a limiting factor in the debate over the possible measures that might be required moving forward to inject the EU's fiscal governance framework with increased democratic legitimacy and accountability.

Conclusion

The more intergovernmental institutions have enjoyed a relatively pronounced role within EMU decision making historically— although this role has in fact become even more pronounced as the EU responded to a financial and economic crisis. Perhaps most striking here is the European council which, bolstered by the institutional reforms set out in the Lisbon Treaty, has become the natural default

manager of the EU in times of crisis. As to the question of whether this intensification of intergovernmentalism will be a permanent feature of EU governance, the answer is as yet unclear—although it seems likely that the EU's institutional landscape has been changed forever by the crisis events that befell the Union. In alluding to the nature of the legitimising discourses being produced from within the intergovernmental settings, it is notable that a consistent reform narrative has been advanced during both the immediate and post crisis periods. This discourse type has been an output oriented neoliberal one, and its primary concern has been with securing strengthened fiscal discipline within EMU through building on the pre-existing SGP framework. Such a policy response has resulted, in part, from a neoliberal interpretation of the crisis events in the first instance, with the crisis being framed as resulting primarily from fiscal laxity as member states failed to comply with the Union's budgetary surveillance rules. In this context, it is also Germany above all, alongside the other core states, that has been seen to be in the driving seat pushing the advancement of this neoliberal reform agenda as response to the crisis events unfolding in Europe.

In terms of the reform agenda set out over the longer term, it is notable that these neoliberal reform discourses have been tempered, albeit to a marginal degree, by those emphasising more the setting up of solidarity measures. However, the measures being considered over the longer term are still strictly 'limited' in nature, with more far reaching neo-Keynesian solidarity mechanisms involving debt mutualisation or financial risk sharing not even being aired for consideration. This is because it has been found that the manifestation of a series of constraining discourses amongst key member states (with particular regard to Germany and France), concerning both sovereignty concerns and issues of moral hazard, have largely served to guide the reform debate away from any mention of realising a qualitative integration leap within EMU towards a deeper level of fiscal union (one endowed with neo-Keynesian solidarity mechanisms) with a flanking political union aspect. Also, similar constraining discourses concerning sovereignty issues in particular have also limited the discussion over the development of the political union aspect. In fact, challenging questions concerning the role and balance between the European and national level parliaments have largely been left to be answered at some point in the future.

Overall, the reform agenda being advanced for EU fiscal governance from within the more intergovernmental settings has remained strongly tied to a limiting neoliberal legitimising discourse which dictates the centrality of measures required to secure strengthened fiscal discipline within EMU on the output side. And, of course, within this discourse context input legitimacy has been left here to be incurred largely indirectly via national ministers and Heads of State or Government. As a model of fiscal federalism, then, such a model, if adopted, would represent the point of minimum departure from the status quo within EMU. And, in view of the intergovernmental institutions pivotal role over the governance of EMU, the entrenchment of such a limiting discourse may well ensure that the fiscal governance reform process comes to be defined by at best incremental change.

Chapter Seven: Commission Institutional Setting

Introduction

As already outlined as part of earlier chapters, the intergovernmental logic of economic and fiscal governance within EMU long pre-dates the economic and financial crisis—although it is the case that more intergovernmental forms of decision making have been further extenuated in recent times in response to these crisis events. Despite this, the Commission, bolstered by its role as initiator of legislation and as executive authority, has worked hard to ensure that it has been in a position to provide substantial contributions to the reform debate for EU fiscal governance as it has developed. The dominant reform discourse articulated from within the Commission setting during the immediate crisis period was a neoliberal one, and it was centred on a commitment to securing strengthened fiscal discipline within EMU through building on the pre-existing SGP framework. Such neoliberal policy prescriptions have been seen to result, in part, from a neoliberal framing of the crisis in the first place, with member states failure to observe adequate levels of fiscal discipline in line with European rules being framed as being a key causal factor leading up to the crisis events that took place. Over the longer term time period, however, this reform discourse has shifted noticeably towards more of an emphasis on endowing EMU with far reaching neo-Keynesian solidarity mechanisms, which includes provisions for an increased European fiscal capacity alongside substantial steps towards the mutualisation of euro area member states debt. It is significant though that a reading of more informal discourse from DG ECFIN officials has in fact revealed a high degree of scepticism concerning the actual desirability and political feasibility of making such a qualitative integration towards a deeper level of fiscal union.

Following this logic, then, it would seem most likely that the reform agenda for EU fiscal governance being developed from within the Commission institutional

setting will continue to remain strongly tied to a well-established neoliberal discourse. And, of course, with the reform priority likely to remain centred on the securing of fiscal discipline on the output side, it is no surprise to see that challenging questions as to how the political union aspect and the democratic legitimacy and accountability of decision making on the input side might be ensured have up until now been sidelined. As a model of fiscal federalism, such a reform agenda, if implemented, would not represent a significant departure from the current status quo, with rules-based fiscal discipline and at best indirect channels of democratic legitimation and accountability remaining key features.

Contextual Overview

The Commission is the EU's executive arm and it is responsible for implementing EU law as defined within the treaties. As well as being guardian of the treaties, the body is also responsible for advancing the collective interest of the EU, with the Commission enjoying powers of legislative initiative within EU law making process. Owing to the nature of its legislative and executive role, which it carries out independently from national governments, the Commission is widely perceived as the primary supranational institution within the EU context. As already noted, however, decision-making responsibilities within EMU have always had a strong intergovernmental dimension owing largely to the asymmetrical nature of the single currency area, i.e. with a centralised monetary policy and a decentralised fiscal policy. Nevertheless, as the key supranational institution working in pursuit of the collective EU interest, the Commission is endowed with a range of executive and legislative powers that have enabled the body to play a key role within EU fiscal and broader economic governance within EMU.

It has already been observed, for example, that the Commission plays an integral role within the confines of the collective surveillance mechanisms employed under both the preventative and correctives arms of the SGP framework, with the ECOFIN Council generally acting on the basis of Commission recommendations. As would be expected, the Commission is also represented within both the European

Council, ECOFIN council and informal Eurogroup decision making forums, as well as further down at Committee level through various channels. Moreover, the importance of the Commission as a site for technical expertise and policy direction should not be underestimated in this context. And naturally, the Commission retains its powers within the confines of law relevant to the functioning of EMU over legislative initiative. Of course, in recent years there has been a further escalation of intergovernmental decision making within EMU as the EU sought to respond effectively to the potentially existential challenges facing the single currency area following the financial and economic crisis. However, despite the ECOFIN council (shadowed by the Eurogroup) and the European council being called upon at times to play a key leadership role during the crisis period, the EU's executive body has worked hard to provide substantial contributions to the reform debate for EU fiscal governance.

Within two communications released consecutively into the public sphere in the months of May and June in 2010, the Commission set out its initial policy ideas early for EMU reform (see Commission 2010, 2010a). The core ideas set out in these two communications were active, alongside the recommendations provided by the Van Rompuy led task force, in informing the six-pack legislative proposals put forward by the Commission in September 2011—a set of measures which together were said to comprise the ‘cornerstone’ of the EU's immediate response to the economic crisis (Commission 2012). Subsequently, at the height of the market pressure, the Commission was also able to table yet more proposals for a legislative two-pack, building on the six-pack, in November 2011. Undeniably, with the signing of the intergovernmental fiscal compact treaty between Heads of State or Government at a European Council meeting in March 2011 the Commission was seen to be far more explicitly side-lined. Nevertheless, it is the case that many of the reforms implemented to date, including those introduced under the intergovernmental fiscal compact treaty, have in effect served to strengthen the supervisory power of the Commission within a strengthened SGP framework (see chapter 4: table 5.2).

With the Commission continuing to be heavily relied upon on to provide a key supervisory role within EU fiscal governance—and given its already proven eagerness to provide substantive input to guide the Union through this crisis events

that confronted the euro area—it no surprise that the EU's executive body was once again keen to set the terms of the debate for a more ambitious reform of the EU's fiscal and broader economic governance framework over the longer term. And key here was the reform agenda outlined in the Commission's *Blueprint for a deep and genuine Economic and Monetary Union* published in November 2012 (see Commission 2012:b), which was designed with a view to ensuring a strong and stable EMU architecture over the longer term. It is also a demonstration of the Commission's desire to maintain a leading role in guiding the EMU reform process that the executive body felt it necessary to outline its own preferences for a more deeply integrated EMU at the same time as the European Council was active developing its own roadmap for the way forward in coordination with key stakeholders.

To conclude, owing to a dual executive and legislative role within EMU governance, the Commission has always enjoyed a prominent position within what is otherwise a highly intergovernmental policy setting. And, while some of the institutional adaptations demanded as a response to the recent crisis events that befell the Union had threatened to challenge this role, the EU executive has worked hard to ensure it is in a position to exert influence over the ongoing reform debate over EU fiscal governance. It is also a notable feature of the crisis to date that many of the legislative measures, even those driven more explicitly from within the European Council setting, have in effect conferred additional powers on the Commission and have therefore served to cement its standing within EU fiscal governance over the long term. It is in this nuanced context, then, that the nature of the particular legitimising discourses being produced from within the EU Commission setting during the ongoing fiscal governance reform debate need to be considered.

Legitimising Discourse Activity

Discourses of Crisis

As part of a Commission Communication released into the public sphere in May 2010, the Commission set out its initial policy ideas for reforming fiscal and broader economic governance against a backdrop of escalating financial and economic turmoil in Europe. The Communication in question is entitled *Reinforcing economic policy coordination* (see Commission 2010), and the ideas set out within this text were, alongside those developed as part of the on-going Von Rompuy led Task Force initiated by the European Council in March 2010, influential in informing the subsequent package of six legislative proposals (the so called six-pack) that entered into force in December 2011—a series of legislative acts which together comprised the centrepiece of the EU’s immediate response to the crisis situation. The table presented below provides a brief summary of the key discourse patterns contained within the text of the Communication (see table 7.1)

Table 7.1: Key Patterns of Discourse

	Input orientated discourse	Output orientated discourse	As a Model of Fiscal Federalism
Reinforcing economic policy coordination	<p>Beyond quite vague and highly limited reflections on encouraging parliamentary involvement in the context of the European Semester cycle, any substantive measures to improve democratic legitimacy and accountability of decision making on the input side not considered at any length here</p> <p>As such, the possibility of increasing the role of the European Parliament or its national level counterparts within what would be a strengthened fiscal governance framework is not addressed</p>	<p>The crisis is framed, in accordance with neoliberal logic, as resulting from a failure to implement the SGP rules and observe adequate levels of fiscal discipline (with no recognition of more fundamental structural design flaws within EMU).</p> <p>The prioritisation of a Neoliberal reform agenda which is concerned with securing strengthened fiscal discipline through building on the preventative and corrective arms of the pre-existing SGP framework</p> <p>The need to setup a limited intergovernmental emergency bailout mechanism is also considered here, but more far reaching neo-Keynesian solidarity mechanisms (i.e. debt mutualisation and/or the development of a more substantial EU fiscal capacity) are not.</p>	<p>Limited model of fiscal federalism: rules-based fiscal discipline with indirect channels of legitimisation.</p> <p>Point of minimum departure from the status quo</p>

At the outset, it should be observed that one main meta-narrative can be identified as dominating the Communication: a narrative concerned with the reform measures that need to be enacted within EMU in order to respond to the challenges presented by the financial and economic crisis. As elaborated on in the introduction:

“The global economic crisis has challenged the current mechanisms of economic policy coordination in the European Union and revealed

weaknesses. The functioning of the Economic and Monetary Union has been under particular stress, due to earlier failures to comply with the underlying rules and principles. The existing surveillance procedures have not been comprehensive enough (Commission 2010:2).

In expanding on how the crisis itself is constructed within the text, it is notable that past failures to comply with the 'rules and principles' within EMU is attached primary importance here. After all, as outlined in the critical literature review, such a reading is strongly reflective of a neoliberal interpretation of the crisis events, with responsibility said to lie with the fiscal profligacy of certain member states that breached the budgetary rules.

In fact, in identifying the key happenings leading up to the crisis, the Communication remains explicit: 'Public debt was not sufficiently reduced over the past decade. There was not enough commitment to fiscal consolidation, in particular during good economic times' (Commission 2010:3). And, of course, with the crisis being framed as resulting from a failure to observe adequate levels of fiscal discipline, it is unsurprising that the necessity of improving member states compliance with the overarching SGP framework is placed at centre stage here:

"The rules and principles of the Stability and Growth Pact are relevant and valid. But, despite the Pact, Member States failed to build up adequate buffers in good times. Reinforcing the preventive dimension of budgetary surveillance must be an integral part of closer coordination of fiscal policy. Also, compliance with the rules needs to be improved and more focus needs to be given to sustainability of public finances" (Commission 2010:4).

It is also revealing in this context that Greece is singled out for particular attention with the country said to 'clearly highlight the vital importance of ensuring effective compliance with rules' (Commission 2010:4). After all, Greece was arguably the only country within the single currency area where fiscal profligacy was the primary cause of a worsening financial, economic and sovereign debt situation (as

reflected in the countries high debt to GDP ratio and fiscal deficit since its adoption of the euro in 2001). As such, the example of Greece, while isolated, is useful in this instance for reinforcing the neoliberal reading of the financial and economic crisis upheld within the text. Yet, the contribution played by 'macroeconomic and financial imbalances' (beyond budgetary balances) generally is paid recognition to here, with these imbalances said to have 'aggravated the vulnerability of the euro-area economy in particular' (Commission 2010:3). But certainly, in moving the discussion back to the fiscal realm, there can be said to be no recognition at any point within the text as to the manner by which some of the more fundamental structural design flaws inherent within EMU since the move was made to adopt the single currency may have contributed to the crisis events which followed.

With the discourses of crisis being found to be of a strongly neoliberal flavour within the Commission Communication, it is of little surprise to discover that the actual policy recommendations suggested within the text—with a view to overcoming the challenges uncovered by the financial and economic crisis—follow ideologically in the same direction. At the heart of the recommendations, for example, are a series of measures concerned with 'reinforcing compliance with the Stability and Growth Pact and deeper fiscal policy coordination', with the key aim being to secure fiscal discipline (or the or the so-called 'sustainability of public finances') (Commission 2010:4-6). More specifically, when addressing the preventative arm of the SGP, the text recommends that the frameworks 'impact and effectiveness should be decisively strengthened by increasing the ex-ante dimension of the process, and by giving it teeth' (with the later involving the possibility of 'imposing interest-bearing deposits in case of inadequate fiscal policies when Member States make insufficient progress towards their budgetary Medium-Term-Objectives in good economic times') (Commission 2010:4). Following on from this, in turning more to the corrective side of the pact and the functioning of the EDP specifically, it is observed that the enforcement mechanism 'could be improved by speeding up the procedures', especially for those Member States found to be in 'repeated breach of the Pact' (Commission 2010:5). And significantly, here, it is also suggested that: 'The debt criterion of the excessive deficit procedure should effectively be implemented', in order to better take into account member states in breach of the 60% of GDP threshold (*ibid*). Finally, member states are also encouraged to ensure their 'national

fiscal frameworks better reflect the priorities of EU budgetary surveillance' (Commission 2010:4). In considering this set of reforms together, it can be said that they are guided by an overlapping output oriented neoliberal legitimising discourse type: one concerned with building on, rather than replacing, the rules-based SGP framework with a view to securing strengthened fiscal discipline within EMU.

It is worth observing that, alongside the core recommendations building on the SGP framework for fiscal discipline, a series of more general provisions are set out for achieving 'integrated economic policy coordination for the EU' (i.e. a so called 'European Semester' cycle of policy coordination) (Commission 2010:8-9). However, while it is envisioned that the cycle will integrate the surveillance of macroeconomic policies across the board, the realisation of more effective budgetary surveillance to bring member states in line with SGP rules figures very prominently here. For example, with a view to future implementation within the confines of the European Semester cycle, the text draws attention to the benefits of better preventative budgetary oversight: 'The currently missing ex-ante dimension of budgetary and economic surveillance would allow the formulation of genuine guidance, taking into account the European dimension, and their subsequent translation into domestic policymaking' (Commission 2010:8). And key here is said to be the 'system of early peer-review of national budgets', which would be responsible for uncovering 'inconsistencies and emerging imbalances' (*ibid*). Moreover, for the euro area states in particular, it is envisioned that a 'horizontal assessment of fiscal stance should be carried out', with the possibility for revision recommendations to be issued in the case of 'obvious inadequacies in the budget plans' (Commission 2010:8-9). Following the logic of the text, then, it is clear that the European Semester is understood here as reinforcing SGP framework for fiscal discipline at the European level.

Separate from the ideas outlined above involving the future development of the European Semester cycle of policy coordination, are a series of recommendations involving moving towards a 'robust framework for crisis management' (Commission 2010:9-10). Essentially, this is understood to involve the setting up of a limited emergency bailout mechanism (via 'intergovernmental

agreement'), with any financial disbursements being accompanied by strict conditionality and interest rate charges. As elaborated on in the text:

'At the heart of this euro-area crisis resolution mechanism are strict conditionality and interest rates that create incentives to return to market-based financing while ensuring the effectiveness of the financial support. When crisis prevention fails, and this is evidenced by an objective financing need, assistance would be activated as a last resort, to safeguard financial stability in the euro area as a whole' (Commission 2010:9-10).

It is telling, however, that beyond the setting up of an emergency bailout mechanism designed to provide as a last resort financial assistance to sovereigns facing a loss of market access, any prospect of setting in place an integration path towards the development of more far reaching neo-Keynesian solidarity measures within EMU does not feature here. Instead, the reform agenda set out within the text is built around a limited model of fiscal federalism—one which represents a minimal departure from the status quo—with debt mutualisation and/or the development of a more substantial EU fiscal capacity being left out.

With the Commission Communication being dominated by neoliberal ideas revolving the securing of strengthened fiscal discipline on the output side, it is not unsurprising that discourses emphasising the democratic legitimacy and accountability of decision making on the input side remain consciously absent at the text level. And significantly, this observation even holds true up until the point when the European Semester framework for economic policy coordination is reflected on at some length, even though opportunities abound for the increased inclusion of both the national and European level parliament within the annual cycle (see Interview Extract A 2013:2 with senior level official from DG ECFIN for confirmation of this fact). In fact, any mentioning of additional parliamentary involvement is limited within the text to two vague sentences: The first recommends that member states should be 'encouraged' to consult national parliaments before submission of their Stability and Convergence Programmes and National Reform Programmes; and the second simply adds that the European Parliament should be 'appropriately engaged' during

the surveillance procedures envisioned to take place during the preparatory phase of member states national budgets (Commission 2010:9). Overall, then, aside from the quite vague and highly limited reflections outlined above, how to ensure adequate levels of democratic input legitimacy within what would be a strengthened EU fiscal governance framework—perhaps through the setting up of increased mechanisms for democratic participation and representation involving parliamentary activity from both the European and national level—is a topic not really engaged with within the text of the Communication.

These discourse findings from within the Commission Communication can be reinforced through a reading of more informal discourse sourced from EU level officials located within DG ECFIN. First, for example, in making reference to the six-pack, two-pack and fiscal compact measures—measures which together build on and strengthen the SGP framework for fiscal discipline—one senior level official located within the Commission makes their feelings quite clear as to the reform priority in the wake of the crisis: ‘It is very important that these measures for reinforcing fiscal discipline within EMU are implemented for real and that all the players really take it seriously’ (Interview Extract A 2013:2). Similar sentiments prioritising the tightening of rules-based fiscal discipline within EMU are also echoed by a member of the secretariat located within DG ECFIN: ‘now, at least in the fiscal area, the priority is implementation in order to see if all these new reforms strengthening the SGP work well and that member states are convinced of the need to stick to them, that the Commission sticks to its role of pointing to the member states that do not do so, and to ensure that the new legislation are fully followed’ (Interview Extract E 2013:3).

As in the Commission Communication, then, a reading of more informal discourse reveals the prioritisation of what is by and large a neoliberal reform agenda as an immediate response to the crisis events. And again, it is not unsurprising that the necessity of such a policy response is seen to have resulted directly from a neoliberal interpretation of the crisis in the first instance, with a lack of fiscal discipline being understood to lie at the heart of events leading up to the financial and economic turmoil in Europe. As one policy advisor from DG ECFIN argues:

“[T]he focus of course in the first years of the crisis was on the preventative side: that means strengthening the fiscal rules of the SGP, which is logical. I mean that is where it went wrong, right? That is why we got into this mess. So the natural response is to fix the gaps” (Interview Extract B 2013:3).

From a reading of this analysis, there would appear to be a clear perception of a strong link between past implementation failures under the SGP and the subsequent onset of the crisis. In fact, a senior fiscal policy advisor working within DG ECFIN also comments that it would be useful to have ‘enhanced surveillance mechanisms’ because the ‘previous framework showed limitations in the monitoring’ (Interview Extract 2013 C:3). However, when further questioned if these measures will be enough to ensure the future cohesion necessary to sustain a future monetary union, then the policy advisor in question accepts that ‘the answer is probably no’ (ibid). And similarly, while a member of the secretariat located within DG ECFIN labels the initiatives designed to build on the SGP framework as being ultimately ‘good’, the official does conclude by pointing out that ‘we have not solved one of the key issues which is the Commission restraining because it does not want to upset member states’ (Interview Extract 2013 F:3). Nevertheless, what is clear is that during the immediate crisis period the possibility of putting in sequence concrete integration steps towards a qualitatively deeper level of fiscal union (i.e. a model in which neo-keynesian solidarity measures play an enhanced role) does not figure here, with the strengthening of the Union’s pre-existing arrangements for fiscal discipline being the priority.

Of course, with the focus during the immediate crisis period being centred on the implementation of a neoliberal reform agenda, it is not unsurprising that measures to ensure adequate levels of democratic legitimacy and accountability of decision making on the input side are also presented within the more informal discourse under analysis here as a matter of secondary importance. For example, on the subject of the balancing act between responding effectively and quickly to the crisis to please financial markets on the one hand and the ensuring of the democratic

legitimacy of the process on the other, the response from a senior level official working within DG ECFIN to this dilemma is telling:

“You do things urgently, but you do that within the existing legal framework. See, I am completely against the view that everything has to be consulted in all the parliaments of all the countries because that will never work—that is why we have representative democracies [.....] So as long as you do emergency decision making within the existing legal framework that has been fixed by the legislator then this is okay” (Interview Extract 2013 A:4).

In fact, on this topic the same official makes their feelings quite clear that it is only ‘if you really change the game’- ‘well then, you probably have to take more time and go through a more open consultation (ibid). Moreover, on the issue of decision-making within the crisis period, one policy adviser located within DG ECFIN also comments along similar lines: ‘There has been a necessity in the crisis to act very quickly, and that often comes with the cost of limiting the people involved in this mission’ (Interview Extract 2013 B:4). With a view to the longer term, however, the same official does stress that ‘the emphasis must shift to accountability and legitimacy issues’ (ibid). Nevertheless, such a reading of the reform priorities only confirms our prior made point as to the neglect of the input dimension of legitimacy during the immediate crisis period.

The dominant neoliberal discourses uncovered within the Commission Communication for *Reinforcing economic policy coordination*—and which were reinforced by a reading of more informal discourses sourced from officials located within DG ECFIN—can be intertextually located within a series of earlier texts produced by the Commission. To begin with, it should be made clear that while the securing of legitimacy on the output side has always been a central feature of Commission discourse regarding EU integration generally (see, in particular, Scharpf 1999 and Majone 1996), economic integration within EMU has historically been even more reliant on the quality of policy outputs for its legitimacy (Verdun & Christiansen 2000). In fact, the observation that the Commission is prepared to rely almost solely on the content of its policy outputs in order to sustain or promote

deeper integration towards EMU was made most apparent in 1990 following the release of the *One Money, One Market* report (see Commission 1990), which provided an evaluation of the cost and benefits of moving towards the adoption of a full EMU (also see Commission 1989 & 1991). Within the *One Money, One Market* report, and within the accompanying communications, an advancement towards the adoption of a single currency was linked to the following policy outputs: ‘efficiency and growth’, ‘price stability’, ‘adjusting to economic shocks’, ‘convergence’ and ‘realising the full gains of a single market’.

Following along this trajectory, you can also identify within a number of earlier texts produced by the Commission a series of familiar neoliberal patterns of discourse framed around the necessity of securing fiscal discipline within EMU on the output side. However, within these earlier texts discourses of crisis have been substituted for more of an emphasis on fiscal discipline as a facilitator of ‘price stability’ and in turn ‘economic growth’, in accordance with neoliberal economic theorizing. For example, as part of the EMU blueprint laid out in 1989 within the so-called ‘Delors Report’ (a report which was compiled by the Committee for the Study of Economic and Monetary Union with representatives from the Commission), the need for ‘binding procedures and rules’ on member states fiscal positions was framed as ‘indispensable’ to the smooth functioning of EMU (see Delors Report 1989). Notably, such a commitment to rules-based fiscal discipline within EMU has since been reaffirmed several times in later Commission communications, with the Union’s executive branch again drawing on a series of overlapping neoliberal arguments. In fact, even at a time when the credibility of the pact was at an all-time low point—following the 2003 ECJ ruling failing to force compliance with the Commission recommendations for a EDP—the Commission was quick to defend the necessity of maintaining an effective rules-based system of fiscal discipline (albeit a reformed version) within a subsequent Communication on the topic of SGP reform:

“The surveillance of fiscal discipline that has proven its effectiveness needs to be maintained and rigorous implementation be ensured [.....]. The objective is therefore to enhance the economic underpinnings of the existing framework and thus strengthen credibility and enforcement. The aim is not to increase the rigidity or

flexibility of current rules but rather to make them more effective”

(Commission 2004: para. 1).

On this basis, then, while greater recognition was to be paid to the economic circumstances within which individual member states found themselves (through the use of provisions already laid out within the existing surveillance procedures for ‘exceptional’ circumstances), the overriding commitment to the SGP framework and the budgetary rules contained within were actually re-affirmed at this time. Moreover, in keeping with a neoliberal logic, the Commission was sure to proceed within the text of the Communication to link an effective SGP framework with the securing of several policy outputs, including the maintenance of ‘sound public finances’, the fostering of the ‘EU’s economic growth potential’ and ‘price stability’ (Commission 2004). In a similar spirit, within the Commission’s 2004 *Public Finances in EMU report* released later that same year, the executive body again sought to link ‘fiscal discipline’ (or so called ‘sound public finances’), as secured through the SGP framework, as a key contributing factor to moving towards a ‘macroeconomic environment that fosters potential growth’ (Commission 2004a:4).

Alongside the intertextual relations outlined above, it is also apparent that during the construction of the Commission Communication a more explicit intertextual appropriation of texts has also been made use of. Perhaps the most notable example of this practice, however, is the series of references made by the Commission to its landmark *EMU@10 report*, released in 2008 (see Commission 2008). The Commission’s rationale for citing this report within the more recent communication under analysis here was to demonstrate that it had in fact already made the case for strengthening the SGP framework in the past. After all, while the Commission was uncompromising within the *EMU@10* report that the ‘key frameworks for fiscal policy surveillance and economic policy coordination are anchored in the Treaty and the SGP’, a case was put forward for ‘strengthening the preventive part of the SGP’ (Commission 2008:9)—a reform agenda which would of course, unbeknown to the Commission at the time, be given renewed impetus in the wake of the subsequent economic and financial crisis in Europe. And again, in not unfamiliar terms, a strengthening of the preventive arm of the SGP was framed within the report as not only essential for securing ‘budgetary discipline’, but also in

terms of helping 'address broader issues which may affect the macroeconomic stability of a country and the overall functioning of EMU' (ibid). Overall, from an intertextual reading of the connectivity between the Commission Communication and a series of earlier texts, it has been established that overlapping neoliberal orders of discourse have been consistently articulated within the Commission setting since before the introduction of the single currency area. Yet, while in the past fiscal discipline (or the securing of so called 'sound' or 'sustainable' public finances) was linked with a series of broader macroeconomic policy outputs related to price stability and the securing of the economic growth potential of member states in EMU, in the present day these narratives have been supplemented by discourses of crisis.

To conclude this section, the analysis of the Commission Communication for reinforcing economic policy coordination—in conjunction with more informal discourse from senior EU level officials—has revealed how during the immediate crisis period a neoliberal reform agenda was prioritised for EU fiscal governance. This neoliberal agenda was focussed overwhelmingly on securing strengthened fiscal discipline within EMU on the output side through building on, rather than replacing, the pre-existing rules-based SGP framework. It is also worth observing, in this instance, that such neoliberal policy prescriptions resulted largely from a neoliberal framing of the crisis in the first place, with member states failure to observe adequate levels of fiscal discipline in line with European rules being framed as being a key causal factor leading up to the crisis events that have taken hold within EMU in more recent times. Within this discourse context, the reform debate has been observed to have largely steered clear from any talk of realising a qualitative integration leap within EMU towards a deeper level of fiscal union (i.e. one in which neo-Keynesian solidarity mechanisms play an enhanced role). And furthermore, with the focus firmly set around the measures required to secure strengthened levels of fiscal discipline on the output side, the possibility of making provisions to ensure the adequate democratic legitimacy and accountability of decision making on the input side escaped attention. Instead, the reform discourse remained entrenched during this period around an output orientated neoliberal ideology and a model of fiscal federalism which represents the point of minimum departure from the status quo.

Post-Crisis Discourse

The neoliberal reform ideas set out in the Commission's May 2010 Communication for *Reinforcing economic policy coordination* in turn helped to inform several key pieces of Community legislation advanced as an immediate response to the economic and financial crisis, including the aforementioned six-pact legislation and complimentary legislative two-pack. However, as witnessed as part of the historical overview, the Commission was keen to provide its own longer term vision for a stable EMU, beyond that required to resolve the more immediate crisis events, along with the policy steps to make this reform vision a reality. For example, as was made clear by José Manuel Barroso, President of the European Commission, in late 2012:

“We must counter this crisis of confidence by showing that we are ready to move ahead and strengthen cooperation and integration in the financial, fiscal, economic and also in the political field”
(Commission 2012d).

From the analysis made above, there would appear to have been an understanding amongst policy officials located within the Commission that market confidence could only be sustained if more fundamental in roads on the road to EMU reform are taken over a longer term time period. And central to this debate is was a potentially far reaching Communication adopted by the Commission on the 28 November 2012 entitled, *A blueprint for a deep and genuine economic and monetary union: Launching a European debate* (see Commission 2012b). As the title implies, this Communication cited above was drafted by the Commission with the primary objective of outlining the series of integration steps that needed to be taken over the short, medium and longer term in order to ensure a ‘strong and stable’ EMU architecture. With this goal in mind, the blueprint considered measures across the financial, fiscal, economic and political domains, although here the analysis will centre on the aspects of direct relevance to the fiscal governance sphere. The table offered below provides a brief summary of the key discourse patterns contained within the blueprint in question.

Table 7.2: *Key Patterns of Discourse*

	Input orientated discourse	Output orientated discourse	As a Model of Fiscal Federalism
A blueprint for a deep and genuine EMU	<p>Argues the case that the Lisbon Treat has set the 'appropriate level' of democratic input legitimacy for EMU-at least up until the point when treaty change is required.</p> <p>Some minor institutional adaptations considered over the longer term with a view to ensuring the 'commensurate' involvement of the European Parliament in EU decision making as integration within EMU progresses.</p> <p>Overall, challenging questions concerning the development of a flanking political union aspect have been left for consideration at a future date.</p>	<p>Prioritisation of a neoliberal reform agenda over the short term with the first concern said to be the full implementation of the six-pack and the two-pack legislation building on the SGP framework for fiscal discipline.</p> <p>Over the medium to longer term there is more of an emphasis placed on the implementation of far reaching neo-Keynesian solidarity mechanisms, including an enlarged European fiscal capacity alongside substantial steps towards the mutualisation of euro area member states debt.</p> <p>There is also a recognition at least that in the initial design of EMU integration was lacking relative to other currency unions, i.e. It combines a centralised monetary policy with decentralised responsibility for most economic and fiscal policies.</p>	<p>Far reaching model of fiscal federalism with far reaching integration steps towards a qualitatively deeper level of fiscal union</p> <p>Nevertheless, decisions on the integration steps to be taken towards a flanking political union aspect side-lined.</p>

In terms of the policy initiatives contained within the text of the blueprint, the measures suggested for implementation in the fiscal domain over the short term as a 'priority' are strongly neoliberal in character. Once again, here, a neoliberal

interpretation as to the crisis events is influential in dictating the advancement of such a reform agenda, with the so-called ‘vulnerabilities’ arising during the recent crisis period framed as being at least ‘partly due to insufficient observance of and respect for the agreed rules underpinning EMU as laid down in the Stability and Growth Pact’—although ‘the lack of a tool to address systematically macroeconomic imbalances’ is again recognised as being a contributing factor here (Commission 2012b:2).

Nevertheless, with the failure to implement the SGP framework being singled out for particular attention, the Commission remains steadfast that ‘immediate priority should be given to the full deployment of the new economic governance tools brought by the six-pack as well as rapid adoption of current Commission proposals such as the two-pack’ (Commission 2012b:12). Of course, this logic follows for the Commission because, covered as part of the contextual overview on EU fiscal governance, the legislation contained within these two initiatives is concerned overwhelmingly with realising strengthened fiscal discipline within EMU through building on the preventative and corrective arms of the SGP framework. And fundamentally, within this latest blueprint for EMU reform, ‘budgetary discipline’ is framed as an ‘essential safeguard of the stability of the euro area’ and as a ‘necessary step towards a fully-fledged integrated budgetary framework’ (Commission 2012b:14).

Over the medium to longer term there is a noticeable change in the pattern of discourse within the text of the blueprint away from neoliberalism towards more of an emphasis on taking integration steps towards a deeper level of fiscal union characterised by the implementation of enhanced neo-Keynesian solidarity mechanisms. And significantly, as a backdrop to these observed changes in the discourse there is recognition at least that, in the initial design of EMU, fiscal integration was lacking relative to other currency unions:

“EMU is unique among modern monetary unions in that it combines a centralised monetary policy with decentralised responsibility for most economic policies, albeit subject to constraints as regards national budgetary policies. Unlike other monetary unions, there is

no centralised fiscal policy function and no centralised fiscal capacity (federal budget)” (Commission 2012:b2).

Yet, while recognising some of the more fundamental structural weakness in EMU as initially conceived (with fiscal policy remaining largely under the decentralised control of national governments), the Commission is careful to avoid linking these observed weakness explicitly with the crisis events that followed within the blueprint. However, this is not to say that the text is not attentive to the integration steps that could possibly be taken to rectify the structural deficiencies within the initial EMU model, with a series of integration steps being proposed here over the medium to longer time period in the direction of a qualitatively deeper level of fiscal federalism.

Over the medium term the possibility is floated of making ‘steps towards the mutualisation of issuance of sovereign debt between the member states’—possibly through the setting up a ‘European Redemption’ Fund and/or through the issuance of a common European ‘short term’ debt framework (Commission 2012b:25-30). As elaborated on at the text level:

“The reduction of public debt significantly exceeding the Treaty criterion could be addressed through the setting-up of a redemption fund. A possible driver for fostering the integration of euro area financial markets and in particular to stabilise volatile government debt markets is common issuance by euro area Member States of short-term government debt with a maturity of up to 1 to 2 years” (Commission 2010b:29).

For the Commission, then, a partial mutualisation sovereign debt is seen as a possible way to alleviate some of the more damaging legacies of the financial and economic crisis. When commenting on the debt mutualisation measures aired, however, it is recognised that ‘these possibilities would require amending the Treaties’ (Commission 2010b:26).

Ultimately, it is then envisioned that a dedicated 'fiscal capacity' (a term synonymous with 'federal budget') for the euro area could be set up over a longer term time period, building on a convergence and competitiveness framework. As is acknowledged within the blueprint though, 'How large this central budget would be will depend on the depth of integration desired and on the willingness to enact accompanying political changes' (Commission 2010b:31). However, while the precise details of any future European fiscal capacity to be developed are left open for debate here, a case is made that such a framework could serve two main purposes:

“A common framework dedicated to macroeconomic stabilisation could provide an insurance system whereby risks of economic shocks are pooled across member states, thereby reducing the fluctuations in national incomes. Second, it may help improve the conduct of national fiscal policies throughout the cycle. In particular, it may encourage fiscal retrenchment during economic booms, while providing additional room for manoeuvre for a supportive fiscal stance in downturns” (Commission 2012b:32).

From a reading of the above analysis, it is evident that the Commission is of the opinion that the development of an autonomous European fiscal capacity could deliver considerable gains compared with the fiscal arrangements as they currently exist. Finally, it is foreseen within the blueprint that, following the arrival of a more deeply integrated fiscal governance framework within EMU, the conditions would be ripe for a more far reaching mutualisation of sovereign debt. And it is at this point that the possibility of introducing 'Stability Bonds' (also more commonly referred to as 'Eurobonds') is raised, with the frameworks being promoted within the text as a way to 'create new means through which governments finance their debt' while offering 'safe and liquid investment opportunities for savers and financial institutions (Commission 2012b:13)'.

The blueprint for a deep and genuine EMU would seem, then, to be reflective of a desire on behalf of the Commission to progress EMU in the direction of a more highly integrated model of fiscal federalism: one in which far reaching debt

mutualisation and an enlarged federal euro area budget are defining features. And, in doing so, this text can be said to represent a real attempt by the Commission to address some of the fundamental weakness identified in the original EMU model, which saw fiscal policy being left to be a formation of national governments. Nevertheless, it is worth observing that more traditional neoliberal economic ideas are far from an absent feature within the text over this more extended time period. After all, a key theme within the blueprint is the principal according to which 'steps towards more responsibility and economic discipline are combined with more solidarity' (Commission 2012b:11).

In effect, this means that the development of solidarity measures would have to be made strictly conditional on the adequacy of the prior steps taken to ensure adequate levels of fiscal discipline within EMU. And a number of specific avenues to achieve this goal are considered by the Commission, including 'an obligation for a Member State to revise its (draft) national budget if the EU level so requires'; 'building upon the tighter monitoring and coordination process set up by the two-pack'; or the setting up of 'clear competence for the EU level to harmonise national budgetary laws' (along the lines of the fiscal compact) (Commission 2012b:26-27). While these proposals are contrasting, it is clear that all of these suggestions serve the same neoliberal logic: to reinforce, to varying degrees, the commitments already made under the original SGP framework for fiscal discipline. Thus, while discourses emphasising solidarity are visibly more prominent over the medium to longer term within the blueprint (with neoliberal reforms taking clear priority over the short term), more traditional neoliberal justificatory discourses still feature over this longer term time period, albeit to a lesser extent.

With the blueprint reviling a series of potentially far reaching integration steps to be taken over the short, medium to long term time period, it is not surprising that ideas related to how the democratic legitimacy and accountability of decision making on the input side can be ensured throughout this process is also addressed here. For example, the need to ensure the 'democratic legitimacy and accountability of decision-making' is raised several times within the communication under the heading of 'political union' (Commission 2012b:1-54). Yet the discourses which do concern the development of this political union aspect, as an accompaniment to integration

on the fiscal side, are addressed in rather tentative fashion largely as part of the Commissions longer term vision for EMU, i.e. following the period when the scope for carrying out economic governance reform through secondary legislation has been depleted and major reform of the treaties is required in order to cement further integration steps within EMU. It is also reflective as to the priorities of the blueprint that the section falling under the heading of 'Political Union' features numerically at the very end of the report.

In rather vague terms, then, it is remarked that over the longer there will be a need to ensure that any strengthened role of EU institutions will be accompanied by the so called 'commensurate involvement of the European Parliament in the EU' (Commission 2012b:35). Although short on specifics here, some institutional adaptations are then put forward with a view to ensuring the democratic legitimacy of the process, including the establishment of a 'euro-committee' within the European Parliament; enhanced 'political direction' and 'democratic accountability' within the Commission; 'reinforced powers to co-legislate' for the European Parliament; and the provision by the European Parliament of the 'necessary democratic scrutiny for all decisions taken by the EU's executive' (Commission 2012b:28-40). Yet, most importantly in this context, is the observation that the Commission actually makes an attempt within the blueprint to argue the case for the adequacy of the current institutional setup for ensuring the democratic legitimacy of any reform process, at least up until the point treaty change may be required:

'The Lisbon Treaty has perfected the EU's unique model of supranational democracy, and in principle set an appropriate level of democratic legitimacy in regard of today's EU competences' (Commission 2012b:35).

Hence, although a limited number of measures are advanced within the text with a view to making progress over the long term (i.e. following a successful process of treaty change) towards some kind of political union aspect with 'commensurately stronger democratic accountability', questions concerning the attainment of adequate levels of input legitimacy over the short to medium term are left largely unanswered here (Commission 2012b:35-41). And this observation only

serves to reinforce the impression that the Commission has prioritised the securing of legitimacy on the output side here, leaving the input dimension of legitimacy to be incurred largely indirectly via National Ministers and Heads of State or Government.

The dominant discourse patterns uncovered within the blueprint for a deep and genuine EMU can be qualified somewhat through a reading of more informal discourse sourced from EU level officials working within DG ECFIN. To begin with though, it is apparent that the informal discourse cited during the previous section covering the more immediate crisis period is again of some relevance here. It has been demonstrated previously, for example, that Commission officials prioritised what was, by and large, the implementation of a neoliberal reform agenda as an immediate response to the crisis events that confronted the Union. And, once again, these discourse findings have been born out within the subsequent Commission blueprint under analysis here, which again demands, as an immediate priority, the full implementation of the six-pack and two-pack legislation building on the SGP framework for fiscal discipline. In relation to the medium to longer term period, however, it has been observed that the Commission is keen to provide within its Blueprint a fairly ambitious road map towards a qualitatively deeper level of fiscal union, i.e. one in which neo-Keynesian solidarity mechanisms would play a far more enhanced role. Yet, despite the Commission ostensibly harbouring ambitions to take a series of major integration steps towards a deeper level of fiscal union, it is significant that a reading of more informal discourse in fact reveals a substantial degree of scepticism amongst Commission officials concerning both the desirability and political feasibility of moving towards such an endpoint.

For example, the most senior level official spoken to working within DG ECFIN expresses an altogether ambivalent attitude when discussing their opinions as to the necessity of moving towards a deeper level of fiscal union involving an increased pooling of budgetary resources and/or a joint issuance of debt:

“Are they necessary now, in three years’ time and in five years’ time- are we all going to die all together if we do not have it: probably not. I think everyone agrees now that all the political capital should be put

towards banking union, which is sufficiently difficult” (Interview Extract A 2013:3).

Notably, a similar sentiment was also expressed by a policy advisor working within DG ECFIN who differentiated between what represents a ‘needs-based approach’ and what you could picture as a ‘profitable way of going towards a stable Union’ (Interview Extract B 2013:3). And when applying this logic to the issue of fiscal integration the interviewee is quite clear: ‘So I think while debt mutualisation and fiscal transfers could be profitable, I do not think it is absolutely necessary’ (ibid). From these analyses, then, there would appear to be a sense that taking the minimum integration steps necessary to stabilise EMU is sufficient, in view of the political challenges arising when discussing deeper integration issues.

The remaining interviewees working within DG ECFIN are equally vague when it comes to expanding upon their longer term vision for fiscal governance with EMU. For example, one senior Fiscal Policy Advisor is candid in this respect: ‘I think there needs to be some ingredients of fiscal union. It’s not entirely clear which ones and to what extent; there are different views and these are tricky questions’ (Interview Extract C 2013:3). Also, again, political realities are raised as a possible hindrance to fiscal integration over the long term:

“[I]f you just talk of a large budget we will not get anywhere, so what we need to put some stones down in order to go in this direction. Although the end result may not be entirely clear or entirely pre-determined at the beginning of the process” (Interview Extract C 2013:3).

Similarly, on the topic of future fiscal integration, an official working within the Directorate for Fiscal Policy notes that they were ‘reticent to have a full vision’ (Interview Extract D 2013:3). Their justificatory remarks are that ‘it’s not a pure economic decision—in that there is no right and wrong’ (ibid). The ‘subsidiarity’ principle is also raised as a particular issue here with the interviewee interpreting this norm as implying that member states need to ‘decide a lot for themselves’ as a matter of principal) (ibid). Interestingly, though, the official’s view is that ‘if you want

to be very strict on what countries can and cannot do then it's helpful to have this other side as an added incentive' (ibid). Clearly, therefore, from a reading of more informal discourse collected from Commission officials located within DG ECFIN, it would seem that, running contrary to the blueprint drafted for achieving a deep and genuine EMU, the actual desirability and political feasibility of moving towards a deeper fiscal union endowed with solidarity measures is in fact a prospect greeted with a high degree of scepticism amongst officials working within the Commission setting. This could have the important ramification that the more historically grounded neoliberal type reform discourses could remain paramount within the Commission setting, even over the medium to longer term.

In discussing the steps that may need to be taken to ensure the democratic legitimacy and accountability of decision making on the input side, there are no such discrepancies between the Commission blueprint on the one hand and the informal discourse collected from officials located within DG ECFIN on the other. For example, when discussing ideas on how the political union aspect should be developed within a future EMU—with particular reference to the balancing act between the national and European level parliaments—the most senior level official spoken to working within DG ECFIN is only able to provoke more questions than answers:

“[T]here roles should be clear: are we talking about legislative power, are we talking about consultative power, are we talking about ex-ante or ex-post. I think all that should be really clarified in the various policy areas. If a policy competency is moved to the European level, then it also has to be clear that this has been moved to the European level. And then, maybe, it is the European Parliament that could take on a role. Also, maybe experts could think of some kind of way to involve national parliaments-maybe a consultative role or something like this- but I do not know” (Interview Extract A 2013:3).

The official is also quite clear that any discussion concerning political union will be inherently tricky because of the political sensitivities involved here: ‘I think it is challenging to come to a clear specification because that implies political trade-offs and in the end someone has to give up something’ (Interview Extract A 2013:3).

Separately, a policy adviser working within the Directorate for Fiscal Policy is equally short on detail when it came to expanding upon the nature of the political union they envision being developed as an accompaniment to integration on the fiscal side. This is because they reason, 'It depends entirely on the steps we take on the road to further fiscal integration' (Interview Extract B 2013:4). However, while short on detail, it is stressed that 'any further steps taken towards increased EU integration should be accompanied by sufficient steps in the area of political union' (ibid). Similarly, when discussing what form a future political union may take in Europe, a separate Commission official working within the Directorate for Fiscal Policy does comment that not only would the European Parliament 'want to play an enhanced role' but that 'it would be very difficult not to give it a role' (Interview Extract D 2013:4). Yet again, there is a lack of clarity regarding some of the fundamental questions that would concern any future advancement towards political union within EMU. For example, as the official makes clear, 'The question is whether it has an advisory role or whether it is able to somehow, in part, set the totals within which countries are allowed to move' (ibid). Finally, one senior fiscal policy advisor within DG ECFIN questions whether the debate should be centred on the European Parliament all. Instead, they argue, it is about 'building a strong executive' in order to 'steer decisions' (Interview Extract C 2013:4-5). The advisors concluding statement is also telling in this respect: 'So while I am happy to say democratic legitimacy and empower the parliament, I am worried about the executive. I think we need to think about having an executive that is really an executive in Europe' (ibid).

The dominant neoliberal reform discourses which have been seen to be prioritised within the blueprint for a deep and genuine EMU can be intertextually located within a series of earlier texts produced within the Commission setting. For example, the Commission cites the May 2010 Communication entitled *Reinforcing economic policy coordination*, as well as the subsequent six-pack, two-pack and fiscal compact (or 'Treaty on Stability, Coordination and Governance in Economic and Monetary Union') legislative procedures which followed. Of course, as established in the previous section covering the more immediate crisis period, the Communication and the accompanying legislation prioritises the same neoliberal reform narrative: one which builds on the SGP framework for fiscal discipline. Also,

alongside the more explicit intertextual elements that factored in the production of the Commission's blueprint for a deep and genuine EMU, similar overlapping neoliberal orders of discourse can also be intertextually traced far back before the economic and financial turmoil took hold in Europe (see, in particularly, Commission 2004, Commission 2004a, Commission 2008 & the 1989 'Delors Report'). Of course, however, while the link between fiscal discipline (or the securing of so called 'sound' or 'sustainable' public finances) has been related within these more historical texts to a series of broader macroeconomic policy outputs related to price stability and the securing of the economic growth potential of member states within EMU, within the more recent blueprint fiscal discipline is linked more closely overcoming the challenges presented by the financial and economic crisis.

To conclude this section, through the analysis of the Commission's blueprint for a deep and genuine EMU—in conjunction with informal discourse from senior EU level officials located within DG ECFIN—it has been found that a neoliberal reform agenda building on the SGP framework for fiscal discipline has been prioritised moving forward from the crisis. Nevertheless, over the medium to longer term the blueprint does shift towards more of an emphasis on endowing EMU with reaching neo-Keynesian solidarity measures, including provisions for an increased European fiscal capacity alongside steps towards the mutualisation of euro area member states debt. Yet a reading of more informal discourse from DG ECFIN officials has in fact revealed a high degree of scepticism concerning the actual desirability and political feasibility of making a qualitative integration towards a deeper level of fiscal union. And, of course, with the Commission's overriding focus seen to be set on securing a neoliberal reform agenda for EMU, challenging questions concerning input dimension of legitimacy and the development of a flanking political union aspect have been found to be neglected.

Conclusion

Although intergovernmental modes of decision making have become an even stronger feature of EMU governance since the onset of the financial and economic crisis, the Commission, bolstered by its dual executive and legislative role within EMU, has worked hard to ensure that it has been in a position to provide extensive input into the ongoing fiscal governance reform debate. During the immediate crisis period, the Commission demonstrated a strong commitment to a neoliberal reform agenda and a discourse which at its heart contained a commitment to securing strengthened fiscal discipline within EMU through building on the pre-existing SGP framework. Such neoliberal policy prescriptions resulted to a significant extent from a neoliberal framing of the crisis in the first place, with member states failure to observe adequate levels of fiscal discipline in line with European rules being framed as being a key causal factor leading up to the crisis events that took place. Over the longer term time period, however, this reform discourse has shifted noticeably towards the prospect of making an integration leap within EMU towards a qualitatively deeper level of fiscal union. As part of this discourse, a series of integration steps have been outlined for moving progressively towards the eventual adoption of very far reaching neo-Keynesian solidarity mechanisms within EMU, including a significantly enlarged European fiscal capacity and an extensive mutualisation of euro area member states debt.

Yet it is an important finding that informal discourse from DG ECFIN officials has in fact revealed a high degree of scepticism concerning the desirability and political feasibility of moving towards a deeper level of fiscal union. With this in mind, it would seem that the most likely outcome would be that the Commission will continue to prioritise a reform agenda for EU fiscal governance defined strongly by a neoliberal logic. Of course, with the implementation of fiscal discipline on the output side remaining the overriding focus here, the observation that challenging question concerning the development of a political union aspect, as an accompaniment to integration on the fiscal side, have been side-lined is not unexpected. In fact, at present there would not seem to be even a vague idea as to the nature of the

mechanisms required to ensure the democratic legitimacy and accountability of decision making on the input side. Overall, then, it is probable that the Commission, inspired by a commitment to neo-liberalism, will remain committed to a model of fiscal federalism not too far removed from the current status quo.

Chapter Eight: European Parliament Institutional Setting

Introduction

Decision making within EMU has always had a strong intergovernmental dimension—although there has been an ongoing trend in recent years which has seen more powers and influence being won by the European Parliament over decision making within EMU. These reforms have not, however, prevented the European Parliament from being excluded from some of the key negotiations, particularly amongst Heads of State or government, that have taken place at various stages during the crisis. The parliamentary body has, though, had other opportunities to provide its own valuable input into the reform debate arising over EU fiscal governance reform—opportunities that it has taken enthusiastically. In identifying the key patterns of discourse arising from within the EU's parliamentary setting during both the immediate and post-crisis period, it is notable that they have in fact remained remarkably consistent. The reform discourse has, for example, always sought to address both the input and output dimensions of legitimacy as part of a synergising relationship with the prospect of making a qualitative integration leap towards full fiscal and political union.

On the output side the discourse has been set around the prospect of implementing far reaching neo-Keynesian solidarity mechanisms within EMU, including the prospect of an enlarged EU budget along with steps towards the joint mutualisation of sovereign debt over the longer term. And, while by no means absent, there has been altogether less of a focus on the measures required to strengthen fiscal discipline under the SGP. This can partly be attributed to the fact that the European Parliament has been seen to deviate significantly from more neoliberal interpretations of the crisis, which attach blame for Europe's sovereign debt troubles almost solely on the fiscal profligacy amongst certain member states. Instead, the crisis was framed in close accordance with a Keynesian logic, according to which the

Eurozone crisis is seen as being as much of a balance-of-payments crisis as a public debt crisis.

With reference to the input side of the reform discourse, it has been understood as vital in this context that any integration in the direction of a deeper level of fiscal union is matched by equal steps towards the setting up of a flanking political union aspect. The potential for a strengthened European Parliament has been the decisive factor here, with the Parliament being understood as the only body with the capacity to ensure the democratic legitimacy and accountability for decisions taken at the European level. However, this is not to suggest that the national parliaments, acting in coordination with their supranational equivalent, have not also been understood as having an important role to play in underpinning these legitimising mechanisms. As would be expected, though, the role of intergovernmental decision-making and structures has been flat out rejected as undemocratic and illegitimate—perhaps reflecting a preference for the European Parliament to be a fully active participant within the EU policy making framework. Finally, as a model of fiscal federalism, such a reform agenda would, if implemented, represent a significant departure from the status quo—although given the European Parliaments historically more marginal position within EMU, there are still doubts over its capacity to push it through to implementation.

Contextual Overview

The European Parliament is the only directly elected institution in the EU, with the Parliament being directly elected for the first time in 1979. As the only directly elected institution at the European level, the European Parliament is widely seen by EU officials as undertaking a crucial role in conferring democratic legitimacy and accountability onto supranational EU level politics. Of course, though, it would be wrong to suggest that opinions do not diverge widely when discussing the actual capacity of the parliamentary body to carry out this role effectively (as was discussed during the undertaking of the critical literature review). For the purposes of this

chapter, however, it should be observed that the European Parliament does in many respects function as a working parliament would at the national level. It is not, for example, divided along national lines and dominated by groups whose votes coincide with their respective member state affiliations. As is observed by Hix et al. for example, when discussing this topic: 'Politics in the European Parliament is very much like politics in other democratic parliaments, dominated by left-right positions and driven by the traditional party families of domestic European politics' by (Hix et al. 2007:23). Instead of national groupings, however, there is a series of transnational party groupings (or Europarties) which serve to structure the vote of members sitting in the European Parliament along ideological lines. Nevertheless, these transnational political entities are intimately linked to domestic politics, with transnational party groupings being made up of numerous national political parties across Europe that, despite sometimes significant differences, share an overlapping ideology.

In the last Parliament, whose mandate ran from 2009-2014, a total of seven transnational party groupings were formed, although in practice the Parliament was often dominated by an informal 'grand coalition' between the centre-right European People's Party (EPP) and the centre-left Progressive Alliance of Socialists and Democrats (S&D), with the centralist Alliance of Liberals and Democrats for Europe (ALDE) also often contributing to making up a majority coalition (Hix 2009). The formation of a grand coalition was helped by the high rate of voter cohesion among the dominant European political parties. And, in the rare occurrence when the two largest groups did not vote together (i.e. the EPP and S&D), a centre-left or a centre-right coalition involving the inclusion of several smaller parties was still a possibility for forming a majority (*ibid*). In relation to this chapter, then, it is significant that the workings of the European Parliament favour a winning coalition that, while differing on left-right issues, is ideologically close to the centre ground and (mildly) pro-European when confronting the majority of integration issues. Meanwhile, it is worth pointing out that, while influential through various channels, a Eurosceptic coalition often does not, even if they vote cohesively, have enough seats to win votes. And, even though the rise of populist parties was a factor in the recent 2014 European Elections, sober analysis demonstrates that centralist pro-European parties are still able to dominate the process of coalition building. In fact, even before the elections some informed commentators concluded that 'the ironic result of a popular upswing

will be to bolster the influence of MEPs in the mainstream political groupings' (Bertoncini & Kreilinger 2013:22).

In relation to the European Parliament's actual role within EU governance, it is worth observing that during its early history it was largely consultative one, although since the mid-1980s the body has secured an altogether more expanded position. In fact, from this point onwards, the parliamentary body has been observed to have gained power in two main areas of authority: 'to control the executive and to make legislation' (Hix et al 2007:13). However, while the European Parliament has in fact enjoyed a considerable expansion of its influence across many areas of EU policy making, within the confines of EU fiscal governance specifically it's role is largely limited to supervisory and consultation privileges. After all, policy making in this sphere has been, and still often is, the preserve of decisions taken in various intergovernmental forums (including the European Council, ECOFIN Council and Eurogroup) as well the Commission institutional setting as the EU's executive arm. However, despite the European Parliament's activities in this area being historically quite marginal compared with that of other institutions, there has been an ongoing trend in recent years which has seen more powers and influence being won by the parliamentary body over decision making within EMU.

To begin with, it is a significant coincidence that the ratification of the Lisbon Treaty coincided not long after with a shifting of the epicentre of the financial and economic crisis towards Europe. After all, it can be recalled here that the adoption of the Lisbon Treaty provided a modest boost to the European Parliament's role in relation to EU fiscal governance. This is because the parliamentary body was made 'co-legislator as regards the setting of detailed rules for multilateral surveillance' (Article 121(6) TFEU), and it is now 'consulted on secondary legislation implementing the excessive deficit procedure' (Article 126(14) TFEU) (EP 2013a:4). The reforms introduced at Lisbon have therefore been highly influential in terms of dictating the particular role the European Parliament came to be play following the onset of the crisis events in Europe. A senior official located within the Council Directorate for Economic Policy reaches similar conclusions when discussing this topic:

“Well the European Parliament has not been marginalised. On the contrary, it has also received more prominence through the legislative files (six-pack, two-pack). But there again there is a coincidence because of the Treaty of Lisbon introduced much more co-decision across the policy areas. This also coincided with the crisis, so the six pack measures that were prepared in 2010 and then negotiated went through co-decision, at least most of them did. [.....] And the same goes for the two pack, which followed in 2012” (Interview Extract G 2013:2).

Clearly, then, the reforms introduced at Lisbon have made it possible for the parliamentary body to amend key pieces of legislation introduced as a response to the crisis events that confronted Europe. However, the European Parliament’s role is still, on balance, often seen to be secondary relative to other more influential actors. Not only, of course, was the European Parliament excluded from much high level intergovernmental deliberation that took place at the height of the crisis, but the body’s tangible power to influence decision making on matters related to EU fiscal governance is still often decidedly limited. A member of the secretariat located within DG ECFIN reaches similar conclusions when discussing how the European Parliament has functioned throughout the crisis period:

“They [referring to the European Parliament] have been quite active considering their role in economic governance before the crisis was pretty small, with their role, visibility and impact being not that big. They have indeed worked through the six-pack and the two-pack and they really negotiated hard to get a bigger role. It is still a role largely restricted to dialogue though; it has little decision making power—although they do have co-decision making power over parts of the legislation. But, in day to day managing of the crisis, I would say their role has increased but not in the nature that it influences decisions directly” (Interview Extract E 2013:2).

The role of the European Parliament during the crisis has been a nuanced one then: While it has utilised its increased power to influence fiscal governance

legislation to good effect, it has at other times found itself excluded as deliberations amongst Heads of State came to the fore. Also, its tangible decision making role over the day to day running of EU fiscal governance is still secondary, although Lisbon has made it possible for the Parliament to continue the trend of gaining more powers—a trend which, on balance, has probably been exacerbated by the crisis, at least over the longer term anyway (see Interview Extract J 2013:2 & K 2014:2 for MEP's estimations as to the increased role acquired by the European Parliament since the crisis).

Overall, it follows that the European Parliament has been in a position to influence, rather than dictate, the terms of the debate evolving over the process of fiscal governance reform in Europe. What's more, the European Parliament, during the course of the financial and economic crisis, has been seen to have taken a number of deliberate actions with this ultimate goal in mind. To begin with, in response to the initial global financial crises of 2007-2008 (i.e. before the full scale of Europe's economic and financial difficulties were revealed), the European Parliament established on the 7 October 2009 the 'Special Committee on the Financial, Economic and Social Crisis' (referred to as the 'CRIS' Committee in abbreviated form). In light of the subsequent sovereign debt problems that would soon follow in Europe, the Committee was inevitably obliged to focus at least some of its attention on the appropriateness of the EU's fiscal governance arrangements and to the possible reform agenda that might follow. In fact, over the course of two years, two key reports were produced by the CRIS Committee from which the plenary adopted two resolutions outlaying its key recommendations as to the fiscal (and broader economic and social) reform measures that need to be pursued in response to the economic and financial crisis: *European Parliament resolution of the 20 October 2010 based on the CRIS Committee's mid-term report* (see EP 2010) and a second *European Parliament resolution of the 6 July 2011 based on the final report of the CRIS committee* (see EP 2011). As such, while the parliamentary body significantly was not represented on the task force chaired by the European Council President Herman Van Rompuy, it was able to influence the reform agenda indirectly at least through various channels.

As you might expect, with the European Parliament seen to be keen to play an active role in influencing the terms of the reform debate during the immediate crisis period, it is of little surprise that the parliamentary body was also keen to make its mark over the emerging debate concerning the possibility of taking more ambitious integration steps within EU fiscal governance over the longer term. Again though, it is telling here that the President of the European Parliament was not directly involved in the drafting of the President of the European Council's *Towards a genuine Economic and Monetary Union* report, which was developed in close cooperation with the President of the Commission, the President of the Eurogroup and the President of the ECB, before its presentation at the European Council meeting held in June 2012—a situation described in a subsequent parliamentary resolution as being 'unacceptable' both from a 'democratic point of view' and given the 'provisions of the Lisbon Treaty' (European Parliament 2012b:6). Again, however, while the European Parliament was not able to participate directly in the preparations for the road map *Towards a Genuine EMU*, it did issue a motion for a resolution with recommendations to the Commission in response to the report submitted by the President of the European Council (see European Parliament 2012). This resolution was adopted on 20 November 2012. It outlines in depth the European Parliament's preferences, as voted on during plenary sessions, for fiscal governance and broader economic governance reform over the longer term following the crisis events in Europe.

To conclude, it is clear that the European Parliament has been keen to utilise the additional powers extended to it through the Lisbon Treaty to maximum effect during the ongoing crisis period. This was reflected in the European Parliament's efforts to fight for amendments to the six-pack and two-pack legislation where it was keen to make its voice heard. Over the longer term the parliamentary body has, through the adoption of various resolutions following approval in plenary sessions, sought to provide a substantive vision as to how it envisions the fiscal governance reform process should proceed over the short, medium to long term. Of course, there is no denying that during the ongoing crisis there have been times when the European Parliament has found itself explicitly side-lined, particularly during periods when intense intergovernmental deliberation has taken centre stage. And, to its obvious disdain, the President of the European Parliament was not represented on

the influential Van Rompouy led Task Force or in the drafting of the President of the European Council's towards a genuine EMU report.

Perhaps more than anything, though, this marginalisation reflects the fact that the European Parliament's role over decision making within EMU, while enhanced in recent times, is still largely limited to a supervisory and consultation role. However, following the provisions introduced under the Lisbon Treaty and the extension of co-decision rights, there is an opening for the body to play a substantially increased role over EU fiscal governance moving forward. This could also be bolstered by the European Parliament's self-made assertions as to its crucial role in conferring democratic legitimacy and accountability onto supranational EU level politics. While the latter point may be a contested one, what is clear is that the European Parliament's capacity to influence, rather than dictate, the EU fiscal governance debate should not be underestimated—even if it is a role which it is often forced to carry away from the core decision making and deliberative forums within EMU. It is from this rather fluid vantage point, then, that the nature of the particular legitimising discourses being produced from within the European Parliament setting are considered.

Legitimising Discourse Activity

Discourses of Crisis

As hinted at above, in response to the global financial crises of 2007 the European Parliament established on the 7 October 2009 the 'Special Committee on the Financial, Economic and Social Crisis' (the so called 'CRIS' Committee), represented by 45 MEP's selected from across the party groupings. As part of the Committee's remit, it was directed to 'analyse and evaluate the current implementation of Community legislation in all the areas concerned' (CRIS Committee 2011:15). This briefing naturally led the Committee towards analysing and evaluating the appropriateness of Community legislation across a whole number

of policy areas related to the broader economic and social realm. And, as you might expect, the workings of EU's fiscal governance arrangements figures prominently within the Committees remit. Following on from this, two key reports key were eventually drafted by the CRIS Committee from which the plenary adopted two resolutions outlaying its key recommendations: *European Parliament resolution of the 20 October 2010 based on the CRIS Committee's mid-term report* (see European Parliament 2010) and a second *European Parliament resolution of the 6 July 2011 based on the final report of the CRIS committee* (see European Parliament 2011). Notably, this analysis will focus on the final parliamentary resolution here dated the 6 July 2011 because the extended time frame means the CRIS Committee was able to factor in to its analysis the events that led to the intensification of the crisis in Europe specifically—as market concerns heightened over periphery member states sovereign debt situation. The table presented below provides a brief summary of the key discourse patterns contained within the text of the parliamentary report (see table 8.1

Table 8.1: Key Patterns of Discourse

	Input orientated discourse	Output orientated discourse	As a Model of Fiscal Federalism
Parliamentary resolution based on the final report of the CRIS Committee	<p>Political integration is attached equal importance as integration on the fiscal side</p> <p>Calls are made for a deeper political union aspect—at the centre of which is a strengthened European Parliament.</p> <p>The resolution remains vague though when it comes too elaborating on the precise mechanisms that would be involved here.</p> <p>A firm stand is taken against intergovernmental modes of decision making that would work to exclude the European Parliament from actively participating.</p>	<p>A Keynesian (as opposed to a neoliberal) view of the Eurozone crisis is taken, with the role played by balance-of-payments imbalances being emphasised over and above the build-up of public debt.</p> <p>The policy response extends far beyond the measures required to reinforce compliance with the SGP frame work in the direction of the implementation of neo-Keynesian solidarity mechanisms within EMU.</p> <p>Calls for far reaching debt mutualisation (possibly through Eurobond issuance) and a significant shift of competences and spending towards the Union, i.e. in the direction of an enlarged EU budget. The prospect of a European Debt Agency also endorsed.</p>	<p>Far reaching model of fiscal federalism: full fiscal union with flanking political union aspect.</p> <p>Significant departure from the current status quo</p>

When addressing the question of EU fiscal and broader economic governance, the resolution is dominated by a consistent narrative which emphasises the integration leap required within EMU in response to the challenges facing the Union

as a result of the financial and economic crisis. The resolution is quite clear in this respect:

“[T]he European Union is at a crossroads: either the Member States decide to join forces in deepening integration or, owing to stagnation at the decision-making level and divergences at the economic level, the EU could drift apart” (European Parliament 2011:16).

The crisis, then, is depicted in existential terms as a threat not only to the single currency area but to the wider Union itself. And, as made explicit in the above citation, a deepening of integration within EMU is understood as the only adequate response to preventing a possible breakup of the EU. In expanding on how the crisis is framed within the text of the resolution, it is apparent that a Keynesian view dominates (as opposed to the neoliberal alternative), with the role of macroeconomic imbalances being afforded a prominent role. For example, the text:

“Underlines the fact that the sovereign debt crisis has revealed the risks posed by intra-European imbalances; stresses the need for the EU to react as one, to develop a much closer coordination of fiscal policies and, where appropriate, a common one with a sufficient EU budget funded partly through own resources, and to put in place adequate provisions for crisis management and economic convergence” (European Parliament 2011:4).

As is evident, the imbalances revealed within the euro area are understood as providing enough justification for the taking of a series of integration steps within EMU towards a more far reaching model of fiscal federalism, with closer fiscal coordination and the development of enlarged fiscal capacity being key features here.

The the issue of public debt is not left untouched, however. Yet, unlike more neoliberal interpretations of the crisis that attach blame for Europe’s sovereign debt troubles almost solely on the fiscal profligacy amongst certain member states, the resolution takes a far more nuanced position. For example, the text:

“Recalls the triangle of inter-linked vulnerabilities, whereby the unbalanced fiscal policy of some Member States has amplified the pre-crisis public deficits and the financial crisis has contributed significantly to a further ballooning of those deficits, followed by tensions in sovereign debt markets in some Member States”
(European Parliament 2011:3).

In this respect, while it is accepted that fiscal profligacy is a contributing factor for selected member states within the euro area, it is recognised that it was the financial crisis itself, as well as ensuing problems in the sovereign debt markets, which ultimately compounded the Eurozone’s public debt problem. It is also telling that the SGP is only made reference to twice within the entire resolution, with budgetary discipline and the need to reinforce compliance with deficit and debt rules appearing to be just one of many objectives aspired to by the CRIS Committee. However, the issue of internal ‘imbalances’ is mentioned a total of eight times here, reflecting perhaps the heightened importance attached to the issue of macroeconomic imbalances in the context of the observed financial and economic turmoil in Europe. Finally, ‘credit rating agencies’ are attached a significant portion of the blame for the intensification of the crisis events in Europe, owing to what is termed as their ‘assignment of faulty ratings to structured finance instruments which had to be downgraded’ (European Parliament 2011:3).

With the crisis being framed in close accordance with a Keynesian logic within the resolution, according to which the Eurozone crisis is viewed as being as much of a balance-of-payments crisis as a public debt crisis, it is of little surprise to see that the policy response advanced within the same text also extends far beyond the measures required to reinforce compliance with the SGP framework for fiscal discipline to include a number of broader macroeconomic objectives. For example, it is observed that:

“[T]he crisis has made clear the need for progress towards establishing a genuine economic governance of the Union, consisting of a systematic set of policies designed to ensure sustainable growth, good stable jobs, budgetary discipline, the

correction of excessive macro-economic imbalances, competitiveness and productivity in the EU's economy, and stricter regulation and supervision of financial markets, as well as a suitable mechanism for resolving the financial crisis" (European Parliament 2011:2).

As already hinted at above, the securing of such a broad range of objectives is seen to demand in the fiscal realm a qualitative integration leap within EMU towards a deeper level of fiscal union in which neo-Keynesian solidarity measures play an enhanced role. The European Parliament, for example, makes a request that the Commission should carry out an 'investigation into a future system of Eurobonds', with the primary aim being to determine the 'conditions under which such a system would be beneficial to all participating Member States and to the eurozone as a whole' (European Parliament 2011:4-5). Two overarching aims are suggested for the far reaching debt mutualisation measure: 1) 'to reduce sovereign debt'; 2) and 'to avoid moral hazard and prevent speculation against the euro' (*ibid*). Notably, with a view to meeting these objectives consecutively, it is emphasised that issuance would be 'limited' to a debt to GDP ratio of 60%, with added so called 'incentives' being put in place to reduce member states sovereign debt to that level. It is no surprise, then, to see Eurobond issuance linked with increased 'budgetary discipline and compliance with the Stability and Growth Pact (SGP)' (*ibid*). However, once again budgetary or fiscal discipline is not the primary objective here with Eurobonds being linked with a whole range of broader objectives, including their potential for fostering 'integration of the European sovereign debt market', 'lower borrowing costs', 'increase liquidity', 'promote coordinated structural reforms', and 'make capital markets more stable' (*ibid*).

Following along this trajectory, the resolution also goes on to argue 'that tackling the public debt crisis and increasing the EU's competitiveness, convergence and solidarity require a shift of competences and spending towards the Union', i.e. in the direction of an enlarged EU budget. In fact, the text is quite explicit as to significant integration steps that are seen to be required with this outcome in mind:

“[I]n order to achieve political union and economic integration commensurate with monetary union, in line with the priorities agreed by the European Council, the EU needs a budget of sufficient size to accommodate the euro in a sustainable way, providing the currency with a relevant budget space on the level of political organisation at which it is issued” (European Parliament 2011:17).

Evidently, there would appear to be a strong opinion that an enlarged EU budget is integral to the functioning of the single currency area as it currently stands. Yet, in terms of the specific redistributive and/or stabilisation functions that such an EU fiscal capacity could play, these are left largely untackled within the resolution. It is mentioned, however, that the ‘burden on national budgets would be considerably eased’ and that such provisions would allow for a more ‘optimal use and allocation of existing fiscal resources on all levels’ (European Parliament 2011:17). And furthermore, the influential McDougall report, which advocated the creation of a major European fiscal capacity with stabilisation functions of between 2.5 and 10 per cent of Union GNI, is also cited here (with the report envisioning a gradual increase over time) (*ibid*). Finally, calls are made for the intergovernmental European Stabilisation Mechanism to be converted into a more permanent and more far reaching ‘European Debt Agency’ that would be in charge of common debt issuance for Eurozone member states (European Parliament 2011:5).

While the text of the resolution argues forcefully in favour of the implementation of far reaching neo-Keynesian solidarity measures on the output side, discourses calling attention to the political union aspect and the measures required to underpin the democratic legitimacy and accountability of decision making on the input side are addressed equally as part of a synergising relationship. For example, the text:

“Calls for a deeper democratic political Union in which the EU institutions are given a stronger role in both the design and the strengthening the democratic legitimacy and control of the Union”
(European Parliament 2011:16)

Clearly, a strengthening of the European Parliament as the only directly elected EU institution would seem to be an integral part of this envisioned flanking political aspect, as an accompaniment to integration on the fiscal side. The text is quite vague though when it comes to elaborating on the precise mechanisms that would be required to ensure adequate levels of democratic participation and representation on the input side. Nevertheless, ‘the need for a stronger European Commission made more accountable to Parliament’, is highlighted for particular attention (European Parliament 2011:16).

The text is absolutely clear, however, that fiscal and broader economic governance ‘must be organised using the Community method and steered by the Union institutions’ (although it is stressed that this processes would take place with ‘national parliaments being fully involved’) (European Parliament 2011:16-17). The crucial point is though that the resolution stands firmly against intergovernmental modes of decision making that naturally would exclude the European Parliament from actively participating. Instead, as elaborated on within the text, there is a conviction that:

“[P]olitical decisions on economic governance should not endanger the commitments agreed at EU level reflecting the goals and interests of all Member States, and that such decisions should be anchored in the Treaty and be pursued with the full institutional involvement and scrutiny of the European Commission and of Parliament” (European Parliament 2011:18).

As such, it is envisioned that the future development of any political union aspect needs to be firmly embedded within the Community Method as laid down with the EU treaties. This stance is to be expected, of course, because working within the confines of the Community Method ensures the full involvement of the European Parliament as co-legislator, compared with the intergovernmental method where the parliamentary body is at best only informed or consulted.

The key discourse findings from the parliamentary resolution based on the final report of the CRIS committee can be further reinforced from a reading of more

informal discourse sourced from MEP's who sit on the relevant Economic and Monetary Affairs Committee (ECON), where the bulk of the legislative work is done for matters concerning fiscal and broader governance. Of course, the individual MEP's views are particular to their party affiliation and cannot be said to reflect the plenary as a whole; nevertheless, together they add up to revealing picture as to the policy orientations of the parliamentary body during the recent financial and economic crisis. To begin with, while the MEP's interviewed from across the political spectrum displayed varying degrees of support when questioned about the core legislative initiatives building on the SGP framework that were prioritised during the height of the crisis period (i.e. six-pack, two-pack and fiscal compact), there is a general consensus that reforms supporting neoliberal fiscal discipline should have been just one part of the solution to be pursued at this time—as opposed to the solution. For example, the former vice-president of the ECON Committee, MEP Mr Pablo Zalba Bidegain from the centre-right EPP group, expresses an altogether nuanced position when questioned on the balance between fiscal discipline and solidarity:

“I am a bit fed up with the austerity debate. I think the European Union needs to promote a growth friendly austerity and fiscal discipline policy [.....] So it is clear that we need fiscal discipline, because we have seen how irresponsible fiscal policy by member states affects the rest of the euro area. So we need that discipline, but it needs to be applied in a clever flexible way in my opinion”
(Interview Extract J 2013:2-3).

From this analysis, the vice-president of ECON would appear to be of the opinion that the SGP needs to be implemented with more flexibility in order to support economic growth. Similarly, MEP Ms Danuta Maria HÜBNER, again from the centre-right EPP, argues that the SGP should be implemented with increased flexibility so as to ensure member states growth prospects are not hampered, alongside the need for various structural reforms:

“Of course, it is easy to talk in hindsight. But I think that some of us insisted from the very beginning the importance of having a growth

aspect to support the states going through fiscal consolidation under the SGP. I am not putting in question the need for all sorts of reforms, especially those of a structural nature. I was shocked that the Greeks, for example, didn't have any structural reforms already in place like we in Poland did at the beginning of the 1990's. So there was clearly a need for reforms and a level of fiscal consolidation, but there needs to be a degree of flexibility here and you cannot just do it by killing growth” (Interview Extract K 2014:3).

Separately, MEP Ms Emilie TURUNEN from the centre-left S&D grouping criticises the effectiveness of the ‘internal devaluation’ and ‘fiscal contraction’ measures which have dominated the policy regime in Europe since the crisis for being ‘too one size fits all, too panic, too fast and too deep’—with ‘very little focus on macroeconomic imbalances is well and particularly the issue of current account imbalances’ (Interview Extract M 2014:1). The SGP framework is also singled out for particular criticism for being ‘very rigid’ and for ‘not really helping counterweight the economic cycle’ (Interview Extract M 2014:3). The interviewee finishes by adding that ‘there needs to be more clear provisions about exceptions in terms of defining more precisely the depth of a downturn’ (*ibid*). Finally, MEP Bas Eickhout from the centre-left Group of the Greens/European Free Alliance also cannot hide his frustration regarding what he perceives as Europe’s general misdiagnosis of the causes of the crisis in the first instance:

“Well I would say the emphasis placed on fiscal discipline is a deliberate misjudgement of where the crisis came from. It is also a deliberate political agenda. Ireland, for example, had a public debt of 25%—so what the beep! Spain had a public debt of 40% and was running a budgetary surplus, at least up until 2008. So according to the SGP rules Spain and Ireland were doing great up until 2008. And these are countries that are no experiencing great problems. That is because the problems laid elsewhere” (Interview Extract L 2014:2).

As to where the problems really lie, then the interviewee cites the now quite familiar issues concerning the build-up of ‘private debt’ and ‘trade balances’ within

the Eurozone as being the particular problems that need to be addressed with more vigour (Interview Extract L 2014:2).

Overall, the informal discourse sourced from MEP's representing a selection of the (admittedly relatively pro-European) transnational party groupings reveals varying degrees of disapproval with the neoliberal initiatives that have been perceived as dominating the European policy agenda in the wake of the crisis events. As witnessed, the bulk of the criticism is consumed by two key factors: 1) the lack flexibility in implementing the SGP framework; 2) and the lack of focus on broader macroeconomic imbalances, as opposed to debt and deficit criterion, where the true seeds of the crisis are perceived to lie. Of course, these informal discourse findings raise the issue of what alternative reform path the MEP's would wish to see pursued for EU fiscal governance in the wake of the crisis—a question which will be analysed at greater length in the following section. However, in brief here, it is notable that the majority MEP's interviewed are in favour of integration steps being taken within EMU towards a qualitatively deeper level of fiscal union in which far reaching neo-Keynesian solidarity mechanisms play an enhanced role.

For example, the former vice-president of the ECON Committee, MEP Mr Pablo Zalba Bidegain from the centre-right EPP group, is clear that deeper fiscal integration is a necessity, even if it may not be realised straight away:

“I think Eurobonds are not something to be ready in one or two years, but it is something that—together with a European Treasury—will sooner or later will have to be implemented” (Interview Extract J 2013:3).

MEP Ms Danuta Maria Hübner, again from the centre-right EPP, argues along similar lines, although the interviewee is quite clear that such measures may in fact need to be set up with immediate effect in view of the heterogeneous nature of the single currency area:

“I think the reality is we have a very highly differentiated Eurozone. For example, those countries that will join in the coming years will be

probably for decades less developed in the sense of competitiveness and technological competitiveness, so we will continue to exist in a differentiated Eurozone. So what is important is to put in place urgently all sorts of mechanisms, including both fiscal transfer's, debt mutualisation measures as well as enhanced surveillance measures, to reduce the risk of badly performing governments or irresponsible governments” (Interview Extract K 2014:4).

It is also interesting here that those steps towards increased fiscal solidarity are envisioned as running in parallel with increased budgetary surveillance within EMU, presumably as a way to tackle concerns surrounding the issue of moral hazard concerns. This highlights that fiscal solidarity and fiscal discipline are not necessarily understood as totally opposing goals, although there would appear to be a clear understanding amongst many of the MEP's interviewed that there needs to be a heightened focus on the former in view of the centrality of fiscal discipline objectives in the early stages of the crisis period .

MEP Mr Olle Schmdt from the centralist ALDE reaches similar conclusions when questioned if some kind of debt mutualisation is necessary to make the currency union effective. However, the importance of basic structural reforms, alongside the fiscal integration process, was also brought attention to:

“I do think basic structurally reforms are necessary is well: look at Ireland, it is about getting back on track and doing your homework. But, of course, in view of the unemployment rate, especially amongst youth, we need to do much more in the way of fiscal solidarity in this transition period” (Interview Extract H 2013:3).

And separately, MEP Bas Eickhout from the centre-left Group of the Greens/European Free Alliance is also absolutely clear as to how much deeper fiscal integration needs to be progressed within EMU in the coming years: ‘In the end it needs to go pretty deep. In fact, I find it difficult to go to see a halfway house solution, and I think that has to do with the fundamentals of a currency union’ (Interview Extract L 2014:3). In terms of specifics, a ‘mutualisation of debt’ as well as the

setting up of a ‘permanent or automatic stability transfer mechanism ties to the economic cycle of member states’ were suggested as crucial undertakings for realising a stable currency area (*ibid*). Finally, MEP Ms Emilie TURUNEN from the centre-left S&D grouping argues that ‘if one wants to make the single currency area stable we need more fiscal integration in terms of a larger budget, debt mutualisation schemes and even Eurobonds’ (Interview Extract M 2014:2).

As in the parliamentary resolution based on the final report of the CRIS committee, while the informal discourse reveals MEP’s clear support for progressing towards a qualitatively deeper level of fiscal union in which solidarity mechanisms figure on the output side, there is an equal concern for the input side of the debate and the need to balance any integration in the fiscal realm with a series of parallel steps towards a flanking political union aspect. For example, the former vice-president of the ECON Committee, MEP Mr Pablo Zalba Bidegain from the centre-right EPP group is clear: ‘I think the key challenge we face in the coming years is the democratic legitimacy. I am really concerned about that’ (Interview Extract J 2013:1). As to what needs to be done to rectify this deficit, then a strengthened role for the European Parliament figures high up on the agenda:

“We have a more important role than before the entry of the Lisbon Treaty. I mean everything has changed dramatically in this Parliament. We have real power: we are a real co-legislator along with the Council. This has changed, but this has to change more”
(Interview Extract J 2013:2).

In fact, when discussing the future reform initiatives for EU fiscal governance that may be embarked upon in the wake of the crisis, the MEP is adamant that ‘unless they are controlled politically by the European Parliament these will fail’. And significantly, the interviewee adds: ‘it is not just the reforms that will fail but the project’. (Interview Extract J 2013:3). It is also no surprise to learn that the implementation of reforms through the ‘community method’ is the preferred route here because it is said to be ‘much more democratic’ (Interview Extract J 2013:1). Finally, one challenge is understood as central by the vice-president of the ECON to progressing successfully with the fiscal governance reform process: ‘to convince

member states to give sovereignty to the European Union, including crucially the European Parliament, to guarantee legitimacy like we have been talking about' (Interview Extract J 2013:3).

The necessity of strengthening the European Parliament is also emphasised by MEP Mr Olle Schmdt from the centralist ALDE, although the potential for national parliaments to play an enhanced role in conferring democratic legitimacy was discussed too:

"Yes, absolutely. There needs to be a marked strengthening of the European Parliament equal to the centralisation of powers at the central level that has taken place within EMU since the crisis. There also needs to be a much strengthened role for national parliament's participation in scrutinising EU policymaking. Of course, such channels need to be set up more rapidly within the Eurozone group because they need it. The Euro group, for example, needs to be more accountable and responsible" (Interview Extract H 2013:2).

A differentiation is also made between the euro and non-euro countries due to the fact that democratic mechanisms may have to be set up with greater hesitancy for the former group due to the greater centralisation of powers that has taken place subsequent to the crisis. In an overarching sense though the MEP is clear that there is only one path to be pursued when reforming EMU: '[T]he European Parliament, alongside national parliaments, have to be involved in decision making within EMU. And even if there is a backlash we have to live with that is well. But we cannot deviate from the democratic path—never' (Interview Extract H 2013:3).

MEP Ms Danuta Maria HÜBNER, again from the centre-right EPP, also points out that the recent crisis has bought about 'shifting competencies from the national to the European level'—and it is at this point, it is argued, that the 'whole issue of democratic legitimacy at the supranational level raises its head' (Interview Extract K 2014:2). The MEP expands upon the democratic challenges to be overcome and the key institutional reforms demanded in response, as she sees it:

“[O]f course, if you go outside of the treaty, this issue is even more challenging. So we were complaining that this lack of legal basis and this reaching out to intergovernmental agreements in fact led to decision making that is to a greater extent forged behind closed doors. The way the European Council has been working, for example, is not very transparent. And that is why we believe that the European Parliament, secured by the treaty, should have been playing an active role in processing all those reforms already passed for building a deeper fiscal union. After all, as representative of citizens and not nations, the involvement of the European Parliament would have given more democratic legitimacy to the decisions” (Interview Extract K 2014:2).

Clearly, a strengthened role for the European Parliament, as the only directly elected institution in the EU, is understood as being crucial in this context. However, in a similar manner to MEP Mr Olle Schmdt, the interviewee observes that we are currently in a so called ‘transition phase’ (i.e. between European and national level democracy) so we need to make an effort to ‘link the national parliaments to the European level’ (Interview Extract K 2014: 2-3).

MEP Ms Emilie TURUNEN from the centre-left S&D grouping also questions the logic of progressing with fiscal integration in Europe without due consideration as to how the political union aspect might be developed. In the MEP’s own words:

“So if one wants to make the single currency area stable we need to have more fiscal integration in terms of a larger budget, debt mutualisation schemes and even Eurobonds—ultimately yes. But then the question arises do you have the democratic setup ready for that because you cannot have taxation without representation. And it is at this point that we need to consider how to develop an enhanced political union involving in particular a strengthening of the European Parliament within the workings of EMU” (Interview Extract M 2014:2).

MEP Bas Eickhout from the centre-left Group of the Greens/European Free Alliance also argues that we ‘need better democratic control in place’ as an accompaniment to the fiscal integration taking place—‘even if, in the MEP’s words, ‘you can think of various fiscal integration measures that clever guys can push through secondary legislation without a treaty change’ (Interview Extract L 2014:3). When questioned further on the nature of the political union aspect that needs to be developed in order to ensure this democratic control the answer given is a definitive and radical one: ‘Well I do not see how you can do this without a more federal structure involving a clear separation of competencies between the European Parliament and its national level counterparts’ (*ibid*). Overall, then, all the MEP’s interviewed from across the political spectrum display a strong commitment to matching any integration in the fiscal domain with parallel steps towards the development of a flanking political union aspect and the reinforcing of democratic legitimacy and accountability on the input side. And here a vision of a markedly strengthened role for the European Parliament within EMU dominates, although the important role that national level parliaments would continue to play in this context is far from discounted.

Many of the dominant patterns of discourse uncovered within the parliamentary resolution based on the final report of the CRIS committee can be intertextually located within a series of earlier texts produced by the European Parliament. To begin with, it is worth observing that the European Parliament has actively advanced arguments in favour of the implementation of neo-Keynesian solidarity mechanisms on the output side within EMU since before the single currency areas inception. For example, as part of a *Resolution on the Commission’s Annual Economic Report for 1996*, the European Parliament argued in favour of exploring the possibilities for developing an EU fiscal capacity, or so called ‘counter-cyclical policy instruments at Community level’ (European Parliament 1996:70). Notably, similar utterings were heard again the following year as part of the equivalent *Resolution on the Commission’s Annual Economic Report for 1997*. Moreover, within this later text, the parliamentary body even called for, as a ‘priority task’, a form of ‘economic government’ at the EU level: one that is able to ensure ‘enhanced co-ordination and concerted action’ within the ‘economic’, ‘fiscal’, ‘structural’, ‘monetary’ and ‘income’ policy domains (European Parliament 1997:102).

That same year, as part of a *Resolution on the coordination of fiscal and taxation policy in the Monetary Union*, the European Parliament further clarified that a ‘substantially increased Community budget’ would be ‘theoretically the best way of dealing with economic crises’ (European Parliament 1997c:39). And the resolution contained a stark warning that the Community budget would ‘not enable fiscal and taxation policy to be used at Community level, nor would it permit substantial budget transfers as a means of stabilizing the economy in the event of difficulties by one or more Member States’ (*ibid*). Similar arguments are also made through discourse in the more recent time period. Most notably, as part of a 2008 resolution entitled *EMU@10: The first 10 years of Economic and Monetary Union and future challenges*, the European Parliament requested that the ‘Commission examine the creation of European bonds’ and work to ‘develop a long-term strategy which enables the issuing of such bonds within the euro area’ (European Parliament 2008:10). And finally, as part of a resolution on *public finances in the EMU 2007-2008* passed the following year in 2009, the European Parliament reiterated its commitment for an enlarged ‘European public infrastructure investments policy’, funded through new European financial instruments such as a limited ‘Eurobond’, ‘European Investment Fund’ or through an enlarged ‘EU budget’ (European Parliament 2009:43).

Also, as in the parliamentary resolution based on the final report of the CRIS committee under analysis here, the European Parliament has historically combined these output oriented discourses with an equal concern for strengthening democratic legitimacy and accountability of decision making on the input side within EMU. For example, as part of a 1996 resolution discussing the changeover to the single currency, the European Parliament remarked, with particular reference to the prescribed budgetary deficit and government debt limits decided upon at Maastricht, that the ‘introduction of the euro cannot be carried out against the will of European citizens’ (European Parliament 1996:60). And it is in this context that European Parliament went on to reason that ‘open debate on the common currency must be intensified’ (*ibid*). Again, the following year, within a separate resolution passed on *Economic Policy Coordination in stage 3 of EMU*, the parliamentary body spoke at some length about how its ‘role’ in relation to the procedures set out in ‘Articles 103’ (multilateral surveillance) and ‘104c’ (Excessive Deficit procedure) of the EC treaty,

provisions that would later be put into effect under the SGP framework, should be 'strengthened' (European Parliament 1997a:39). The same resolution also urged 'member states to offer their parliaments the best possible arrangements at the national level for participating in the discussions on the framing of the broad guideline of the economic policies of member states and the Community' (ibid).

The European Parliament's concern with strengthening the input legitimacy of EU fiscal governance has been carried forward into the modern period. For example, within the text of a 2006 parliamentary resolution on *Public Finances in EMU*, the European Parliament argued that a 'public debate' on matters concerning budgetary projections should take place in the European Parliament together with representatives of national parliaments (European Parliament 2007:783). Also, as part of the previously mentioned motion for a resolution concerning 'EMU@10: The first 10 years of Economic and Monetary Union and future challenges', the parliamentary body outlined an agenda for increasing the role of the Parliament in the set up for fiscal and economic policy coordination. The resolution in question also called for a 'more regular and structured dialogue on macroeconomic issues between Parliament, Commission and the Eurogroup', similar to that in the monetary policy domain (European Parliament 2008:19). And, more generally, the European Parliament put forward a case that all the major relevant EU institutions—including the Council, the Commission, the Eurogroup and itself as the only directly elected institution—should strive to 'work together to strengthen the future working of the EMU as regards economic governance' (European Parliament 2008:18).

To conclude this section, through an analysis of the parliamentary resolution based on the final report of the CRIS committee—in conjunction with more informal discourse from MEP's from across the political spectrum—it has been demonstrated how during the immediate crisis period the Europe Parliament advanced a pattern of discourse that attempted to bring together the input and output dimensions of legitimacy as part of a synergising relationship with the prospect of making a qualitative integration leap within EMU towards a full fiscal union with flanking political aspect. On the output side the discourse is set around the prospect of implementing far reaching neo-Keynesian solidarity mechanisms within EMU, including far reaching debt mutualisation through Eurobonds and a significant shift of

competences and spending towards the Union', i.e. in the direction of an enlarged EU budget. In part, these policy prescriptions resulted from a Keynesian (as opposed to a neoliberal) view as to the causes of the crisis in the first instance—with the Eurozone crisis being understood as being as much of a balance-of-payments crisis as a public debt crisis. It is of little surprise, therefore, to see that the reform discourse extended far beyond any neoliberal measures required to reinforce compliance with the SGP, with fiscal discipline being one of many broader macroeconomic objectives.

Of course, it was also understood as imperative in this discourse context that fiscal integration is matched without delay by adequate steps being taken towards the development of a flanking political union aspect in order to ensure the democratic legitimacy and accountability of decision making on the input side. Central to this discussion was providing for a strengthened role for the European Parliament over EMU decision making, with national parliaments also envisioned as making an important contribution too. In view of this, it is also of little surprise that the proliferation of more intergovernmental modes of decision making, as witnessed during the immediate crisis period, were also heavily criticised here for their exclusion of parliamentary involvement and perceived lack of democratic accountability. Instead, there was a commitment within the discourse to organising fiscal governance strictly according to the Community method, with the full involvement of the European Parliament as the only directly elected EU institution. In a general sense, then, the patterns of discourse being advanced from within the European Parliament setting for the immediate crisis period sought to combine the two dimensions of legitimacy, with a view to advancing a model of fiscal federalism that represents a significant departure from the current status quo: in the direction of a full fiscal and political union.

Post-Crisis Discourse

The European Parliament was not directly involved in the drafting of the President of the European Council's *Towards a genuine Economic and Monetary Union* report, which was developed in close cooperation with the President of the Commission, the President of the Eurogroup and the President of the ECB—before its presentation at the European Council meeting held in June 2012. Within a subsequent resolution the European Parliament made clear its feelings at being left out of the drafting process for this crucial report laying down a time-bound vision for EMU:

“[F]rom a democratic point of view and in the light of all the provisions of the Lisbon Treaty it is unacceptable that the President of the European Parliament, which is composed of elected Members representing more than 502 million European citizens, has not been involved in the drafting of the abovementioned report entitled ‘Towards a Genuine Economic and Monetary Union’ (European Parliament 2012:6)

Yet, while the European Parliament was not able to participate directly in the drafting process for the road map towards a genuine EMU, the Parliamentary body was able to issue a motion for a resolution on a report containing key recommendations to the Commission in response to the proposals outlined within the report by the President of the European Council. This report entitled *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* was adopted during a plenary session on the 20 of November 2012. The report in question provided a valuable insight into parliamentary body's preferences and vision for EMU reform over the longer term following on from the economic and financial crisis events in European. However, while the report considered a broad spectrum of measures across the fiscal, economic, financial and political domains, the analysis here will be confined to the aspects of direct relevance to the fiscal governance sphere. The

table presented below provides a brief summary of the key discourse patterns contained within the text of the parliamentary report (see table 8.2).

Table 8.2: *Key Patterns of Discourse*

	Input orientated discourse	Output orientated discourse	As a Model of Fiscal Federalism
Parliamentary report on: Towards a genuine Economic and Monetary Union'	<p>Integration on the political side is understood as a necessary precondition to any further fiscal integration.</p> <p>A strengthened European Parliament viewed as the ultimate guarantor of the Union's legitimacy here. And, as a rule, the report subscribes to a view that any centralisation of power should be matched by democratic control and accountability to parliament.</p> <p>National parliaments also seen as playing an important cooperative role with this schema, although it would be a secondary one for decisions taken at the European level.</p> <p>Intergovernmental decision-making structures are criticised for a severe lack of democratic legitimacy.</p>	<p>Envisions the need for a integration leap towards a 'truly federal Europe'.</p> <p>Neoliberal discourses emphasising fiscal discipline are outweighed by those emphasising the principal of solidarity within EMU.</p> <p>One key priority here is an enlarged EU budget with an array of redistributive and stabilisation functions, with a gradual roll over to a debt redemption fund and the mutualisation of member state sovereign debt envisioned over the longer term.</p> <p>In order to tackle the issue of moral hazard though, these (neo-Keynesian) solidarity mechanisms are linked with neoliberal fiscal discipline and member state compliance with their SGP budgetary commitments.</p> <p>The prospect of a European Treasury Office also put forward, which would have significant powers of revision of national budgets</p>	<p>Far reaching model of fiscal federalism: full fiscal union with flanking political union aspect.</p> <p>Significant departure from the current status quo</p>

In identifying the overarching vision for EMU reform contained within the report, it is made explicit early on the ambitious reform leap expected from European policymakers:

“[T]he time has come for the political leaders of and within the Union to demonstrate their determination, creativity, courage, resilience and leadership to remove the remaining deficiencies that continue to hamper the proper functioning of EMU; whereas the intergovernmental method has reached its limits and is not well suited for democratic and efficient decision-making in 21st century; whereas a leap should be made to a truly federal Europe”
(European Parliament 2012:6).

The report is unambiguous here that it anticipates nothing less than a qualitative integration leap within EMU towards what is termed as a ‘truly federal Europe’. In fact, such an integration leap is framed as the only option for policymakers wanting to ensure a ‘proper functioning’ EMU without so-called ‘deficiencies’. The use of the ‘intergovernmental method’ moving forward is dismissed out of hand as undemocratic, perhaps hinting at the full participation expected of the European Parliament in the future within what would be a more highly integrated Union and single currency area. At this early stage, then, there can already be said to be a degree of overlap with the patterns of discourse that were observed to have been developed from within the European Parliament setting during the more immediate crisis period, with the report again being supportive of a series of far-reaching integration steps being taken within EMU towards a deeper level of fiscal union with a flanking political union aspect.

In expanding upon the policy initiatives contained within the report for implementation over the short-term, there are some measures suggested for strengthening fiscal discipline within the EMU that can be identified as being strongly neoliberal in character. For example, the text argues that ‘the smooth functioning of the EMU requires a full and swift implementation of the measures already agreed upon under the reinforced economic governance framework such as the reinforced

SGP' (notably through the implementation of the 'Treaty on Stability, Coordination and Governance'—otherwise known as the fiscal compact) (European Parliament 2012:11-12). As observed in previous chapters, the fiscal compact is primarily designed to reinforce the SGP framework for fiscal discipline, particularly by putting in place overlapping balanced budget rules in the national constitutions of signatory member states. It is qualified, however, that these reforms need to be 'complimented with growth enhancing policies' (*ibid*). Also on the topic of fiscal discipline, the report observes that 'under the existing Treaties the coordination and surveillance of the budgetary discipline of the Member States whose currency is the euro could be made binding and subject to the control of the Court of Justice of the European Union on the simple basis of Article 136 TFEU in conjunction with Article 121(6)' (i.e. without the need to recourse to a wholesale revision of the treaties)—although again there is a qualifying remark here that states that 'this step should be taken into consideration only if it would substantially strengthen Parliament's role as far as the detailed implementation of Articles 121(3) and 121(4) TFEU is concerned' (European Parliament 2014:19).

Therefore, in the short term at least, some of the policy suggestions for fiscal governance reform are strongly neoliberal in flavour and centred by and large on the prospect of strengthening fiscal discipline within EMU. Nevertheless, these neoliberal discourses are more than balanced by a concern for increasing solidarity within EMU. For example, the report expresses a desire that:

“the growing divide between core and peripheral countries in the Union should not become chronic in nature; whereas a permanent framework must be created in which Member States in difficulty should be able to rely on solidarity-based support from other Member States” (European Parliament 2012:6).

Here the contrasting situations between the core and periphery countries in Europe, which has become a defining feature of the crisis period, is presented as enough justification for the implementation of 'solidarity based support' within EMU (or what is termed here as neo-Keynesian solidarity mechanisms). Again, though, the report is clear in its conviction that 'member States which desire solidarity should

be obliged to shoulder their responsibility for implementing all their commitments in the budgetary field' (in a reference to their obligations in line with the SGP framework) (*ibid*).

As to the nature of the solidarity mechanisms in mind, one key priority is an enlarged EU budget with an array of redistributive and stabilisation functions. The case for the setting up of such a fiscal capacity is made below:

"[The European Parliament] is of the opinion that a "genuine EMU" cannot be limited to a system of rules but requires an increased budgetary capacity based on specific own-resources (including an FTT) which should, in the framework of the EU budget, support growth and social cohesion addressing imbalances, structural divergences and financial emergencies which are directly connected to the monetary union, without undermining its traditional functions to finance common policies" (European Parliament 2012:19).

It is also particularly revealing that the report is unambiguous in its conviction that a so called 'Genuine EMU' cannot be limited to a 'system of rules'. After all, this is a direct reference to the SGP and the limits of having a fiscal union which at its centre is held together by a rules-based framework for fiscal discipline, absent any permanent fiscal solidarity mechanisms. The report also cites the 'enhanced cooperation procedure' as a way of demonstrating that 'Member States whose currency is the euro can finance an increased EU budget in the framework of the own resources procedure by introducing specific taxes (i.e. without the need for a revision of the treaties) (European Parliament 2012:13).

Over a longer term time period the report envisions that 'a stronger and more integrated fiscal union should include a gradual roll-over into a redemption fund' (a debt mutualisation instrument that would acquire euro area debt over and above 60% of GDP and fund it through a common bond issuance by the participating member states) (European Parliament 2012:13). It is anticipated that such a common issuance of debt with financial risk sharing amongst members of the single currency area 'may require a change to the Treaties' (*ibid*). Furthermore, it is also emphasised that a

'precondition' for any common debt issuance is the setting up of a 'sustainable fiscal framework' and 'control instruments to prevent moral hazard' (*ibid*). This could account for why a 'key feature of a genuine EMU' is said to be the creation of a 'European Treasury Office', which would have enhanced powers to revise national budgets (European Parliament 2012:12). Again then, solidarity is linked to fiscal discipline and member state compliance with their budgetary commitments as set out under the SGP framework.

It is a significant observation that the patterns of discourse contained within the parliamentary report under analysis here correspond significantly with those uncovered for the more immediate crisis period within the European Parliamentary setting. As such, while the text of the report argues for deeper fiscal integration and the implementation of neo-Keynesian solidarity mechanisms on the output side (albeit with qualifications concerning member states compliance with the SGP), the political union aspect and the accompanying measures required to underpin the democratic legitimacy and accountability of decision making on the input side are also addressed equally as part of a synergising relationship. To begin with though, and rather surprisingly, the report lays out what is understood as dual basis for the Unions legitimacy: 'that of the people represented by Parliament and the more intergovernmental (or indirect) route which is 'through member states represented by the Council' (European Parliament 2014:16). From a reading of the report, however, it is clear that the first legitimising route is prioritised, with a strengthened European Parliament being absolutely central to the vision of political union being advanced in this context. For example, within the text of the report it is made clear that it:

"[c]onsiders a substantial improvement of the democratic legitimacy and accountability at Union level of the EMU governance by an increased role of Parliament as an absolute necessity and a precondition for any further step toward a banking union, a fiscal union and an economic union" (European Parliament 2012:18-19).

So it is the European Parliament that is understood to be the ultimate guarantor of democratic legitimacy and accountability on the input side at the European level. In fact, the report proceeds to argue that 'the current

intergovernmental structure represents a severe lack of democratic legitimacy' (European Parliament 2012:5). Also, the decision by Heads of State and Government to take the 'intergovernmental route' at times during the crisis—a decision which excluded the European Parliament from deliberations over crisis management and future reform options—is described with obvious disdain as 'deplorable' (European parliament 2012:17).

Following along this trajectory, the report subscribes to a view that as a general rule all 'proposals falling within the competence of the Union decisions should be taken in accordance with the ordinary legislative procedure' (i.e. with the full involvement of the European Parliament as co-legislator) (European Parliament 2012:17). Also it is deemed necessary that the 'executive powers of the Commission in the rules-based approach to the economic governance framework' (as set out under the reinforced SGP framework), must be open to 'ex-post democratic control by, and accountability to Parliament' (*ibid*). And it is reasoned that the 'intergovernmental instruments' that have been developed with a view to responding to the financial and economic crisis should be 'communitarised'—again in order to embed them in a framework where the European Parliament can provide adequate oversight (*ibid*). Looking more to the future, the report has a clear vision of what needs to accompany any centralisation of powers at the European level, again involving a strengthened European Parliament:

“[W]here new competences are transferred to or created at Union level or new Union institutions are established, corresponding legitimacy, democratic control by, and accountability to, Parliament should be ensured” (European Parliament 2012:17).

According to this view, legitimacy can therefore be guaranteed if fiscal (or broader economic) integration is accompanied by parallel steps to strengthen the role of the European Parliament over decision making within EMU. Cooperation alongside the national parliaments is also envisioned as being important here too though in order 'to improve exchange of views and the quality of the parliamentary activity in the field of the EMU' (European parliament 2012:17-18). The report does, however, warn against the creation of a 'new mixed parliamentary body', which it

argues would be both ‘ineffective and illegitimate on a democratic and constitutional point of view’ (*ibid*). This statement is further evidence as to the pinnacle role understood to be played by the European Parliament in conferring democratic legitimacy and accountability on the input side as part of any future political union aspect within EMU. Finally, European policy-makers are called upon to ‘prepare for the necessary Treaty changes in order to guarantee legal certainty and democratic legitimacy’ while at the same time ensuring that ‘new intergovernmental agreements should be excluded’ (European Parliament 2012:18).

The discourse findings from the parliamentary report can be reinforced through a further reading of the informal discourse sourced from MEP’s who sit on the relevant ECON Committee. As was touched upon in the last section, the majority of MEP’s have been found to be in favour of integration steps being taken within EMU towards a qualitatively deeper level of fiscal union—and this theme can again be further explored here. To begin with, the former vice-president of the ECON Committee, MEP Mr Pablo Zalba Bidegain from the centre-right EPP group, labels the setting up of a ‘European Treasury’ along with further progress towards ‘debt mutualisation’ as at present only ‘possibilities’ (Interview Extract J 2013:3). The issue of the ‘German mentality’ is raised as a particular problem area in this context because it requires them to want ‘to clarify and to have every small detail clear before we move on’ (i.e. in relation to member states compliance with the SGP budgetary rules) (*ibid*). Ultimately, though, the conclusion reached by the vice-president of ECON is an uncompromising one: ‘Over the longer term we need these deeper fiscal integration measures though, otherwise we will fail’ (*ibid*).

When questioned if fiscal transfers and/or some level of debt mutualisation are necessary to stabilise the single currency area, MEP Ms Danuta Maria Hübner also answers to the positive: ‘I think we are and should be moving in that direction’ (Interview Extract K 2014:4). Again, this answer is not given without qualification though:

“Of course, to reach a point where debt mutilation measures in particularly can be developed we need to make sure all of the surveillance mechanisms are in place to reduce moral hazard. There

is a risk in Europe that as you move to more and more control from the central level then moral hazard becomes an issue as national governments push responsibility for their economic situation onto the European level” (Interview Extract K 2014:4).

The analysis outlined above is overlapping with the one made by the vice-president of ECON who cited the hurdle of the German mentality on this issue. Of course, the report by the European Parliament also points to the need to balance the setting up of solidarity mechanisms with a series of parallel measures to calm fears over moral hazard and ensure compliance with the SGP framework.

MEP Bas Eickhout from the centre-left Group of the Greens/European Free Alliance cites the contrasting situations between Spain and the UK as evidence for the necessity of taking a number of integration steps within EMU towards a deeper level of fiscal union:

“So why did it go so wrong in Spain but not the UK? That has to do with the currency union, i.e. it was not very easy for investors to move capital out of the UK whereas the opposite was true for Spain. So a country getting into problems was getting in more problems because of the nature of single currency area it was part of [.....] So, in the end, for a stable currency we need certain mechanisms including a mutualisation of debt and fiscal transfers —I do not see a stable currency without that in the end. And I think we need a permanent or automatic stability mechanism tied to the economic cycle of member states” (Interview Extract L 2014:2)

According to this analysis, the implementation of risk sharing mechanisms and some kind of fiscal capacity with a transfer system between member states is not an optional extra but integral to the very functioning of the single currency area over the long term. And notably, like the interviewees cited above, the MEP adds that ‘for political reasons you would need more fiscal oversight as an accompaniment to these deeper solidarity mechanisms’ (Interview Extract L 2014:3). Finally, MEP Ms

Emilie TURUNEN from the centre-left S&D grouping also argues that substantial integration steps need to be taken towards the introduction of certain fiscal solidarity mechanisms within EMU in order to guarantee the functioning of the single currency area: ‘Well I think it is very tricky because we can be certain that we have a fragile and non—functioning monetary union—and we still have that after the reforms have been introduced. So if one wants to make the single currency area stable we need to have more fiscal integration in terms of a larger budget, debt mutualisation schemes and even Eurobonds—ultimately yes’ (Interview Extract M 2014:2).

Again, however, as in the parliamentary report drafted as a response to the President of the European Council’s towards a genuine EMU report, output oriented discourses concerning the progression towards a deeper level of fiscal union are paralleled by an equal concern with the input dimension and the steps that need to be taken towards a flanking political unions aspect . For example, the former vice-president of the ECON Committee, MEP Mr Pablo Zalba Bidegain from the centre-right EPP group, warns of the consequence of not progressing with integration on the political side:

“I mean no one wants to be in control —that is clear. But I think that unless the economic governance reforms are controlled politically by the European Parliament these will fail. And it is not just the reforms that will fail but the project. I mean, we know that the solution to the crisis is more Europe: more economic integration, more political integration and so on. But we know that citizens in Europe are really disaffected with the EU. And why, if the solution is Europe are people disaffected with Europe? I think that it is the lack of democratic legitimacy” (Interview Extract J 2013:2).

This raises the question of what reforms need to be implemented in order to inject more democratic legitimacy into EMU governance. And, on this point, the vice-president of ECON is uncompromising that ‘we need somehow more democratic political control by Parliament over decision making within EMU’ (*ibid*). With this in mind the interviewee is also quick to add that while on many issues the European

Parliament is already in fact a ‘real co-legislator along with the Council’ (post-Lisbon), fundamentally ‘this has to change more’ (*ibid*).

MEP Mr Olle Schmdt from the centralist ALDE is also of the belief that a ‘delegation of power to the Parliament needs to come-step by step, in line with the fiscal integration process’ (Interview Extract H 2013:2). For the MEP, however, the development of a political union also involves national parliamentary involvement, including at a regional level:

“[N]ational politicians have to take responsibility and be accountable in the national parliaments. They have tried to look at Brussels and say these are the bad guys- and this is not of course true. [.....] I have changed my mind. We need to create different fora, also within the political parties, so that we mix up those that are responsible at the national level and perhaps even at the regional level where we have federal states—and here in parliament” (Interview Extract H 2013:2).

MEP Ms Emilie TURUNEN from the centre-left S&D grouping puts forward a vision of a political union which is shaped more exclusively around a ‘strengthening of the European Parliament within the workings of EMU’ (Interview Extract M 2014:2). As to how much power should be conferred upon the European Parliament, then the answer given is that this would be entirely ‘dependent on how much you integrate fiscally—but the MEP was clear that ‘the two must run side by side’ (*ibid*). The interviewee also questions whether there is a ‘real appetite’ for such an integration leap, although the final conclusion given is a stark one: ‘I do not see us going backwards—not politically or economically’ (*ibid*).

Finally, MEP Bas Eickhout from the centre-left Group of the Greens/European Free Alliance has a more explicitly ‘federal’ and all together more far reaching vision of what a future political union should look like within Europe. At the heart of this vision is the idea of a ‘clear separation of competencies between the European Parliament and its national level counterparts’ (Interview Extract L 2014:3). The MEP elaborats on what such a set up might entail in practice:

“I could foresee in the future that you will have the European Parliament and then your second chamber which would become more a representative of national parliamentarians. This second chamber would replace the role of governments within EU decision making as it currently takes place. I do not see that change taking place tomorrow but on the real longer term I could foresee a debate like that and I don’t mind” (Interview Extract L 2014:3)

Clearly, this vision would be dependent on an altogether more far reaching integration leap within EMU towards what would in practice be a European ‘federal’ economic government. At its heart would be a European Parliament much strengthened than its current form. And, what is more, the traditionally intergovernmental structures, which have traditionally been at the heart of EMU and European decision making more generally, would be replaced by national assembly’s sitting in Europe. It follows, then, that while opinions have been shown to differ as to the precise steps that need to be taken, all the MEPs cited here demonstrate a strong commitment to the input dimension of legitimacy and the necessity of accompanying of any fiscal integration process with parallel steps towards the development of a political aspect. And again, the stand out feature here is prospect of a strengthened role for the European Parliament, with national parliaments also seen as being able to contribute through various channels too.

Many of the dominant patterns of discourse uncovered within the report drafted on towards a genuine EMU, and which have been reinforced through a reading of more informal discourse, can be intertextually located as part of earlier documents produced from the European Parliament setting. However, due to the continuity in the patterns of discourse shown for the European Parliament setting between the immediate and post crisis periods, the intertextual elements of the report can be said to overlap significantly with those intertextual findings demonstrated in the previous section covering the more immediate crisis period. In brief though, it was observed that the European Parliament has actively advanced arguments in favour of the implementation of neo-Keynesian solidarity mechanisms within EMU since before the single currency areas inception, including calls for an

enlarged EU fiscal capacity and/or steps towards the mutualisation of member state sovereign debt (see European Parliament 1996, 1997, 1997c, 2008, 2009). And it was also observed that the European Parliament has historically combined these output oriented discourses with an equal concern for strengthening democratic legitimacy and accountability of decision making within EMU on the input side, with the strengthening of its own role within EMU being the primary policy suggestion here (see European Parliament 1996, 1997a, 2007, 2008).

To conclude this section, from an analysis of the parliamentary report drafted on towards a deep and genuine EMU—in conjunction with a reading of more informal discourse sourced from MEP's—it has been revealed how the European Parliament in the post crisis period has attempted to address the input and output dimensions of legitimacy together as part of a synergising relationship with the overriding objective of making a qualitative integration leap within EMU towards a full fiscal and political union. In terms of the output oriented discourse, this has reflected a principal concern for increasing neo-Keynesian solidarity mechanisms within EMU. And one key priority here has been an enlarged EU budget with an array of redistributive and stabilisation functions—along with a gradual roll over to a debt redemption fund and the mutualisation of member state sovereign debt envisioned over the longer term.

Neoliberal discourses have not been absent in this context, however, with increased fiscal solidarity being linked with member states compliance with their budgetary commitments made under the SGP framework. Such measures have been deemed necessary to diminish anxieties, particularly German ones, over moral hazard. Separately, with reference to the input side of the debate, it has been seen as essential that integration towards a deeper level of fiscal union is matched by equal steps towards the setting up of a flanking political union aspect. Central to this vision of political union has been a markedly strengthened European Parliament, with the representative body being understood as the ultimate guarantor of democratic legitimacy and accountability at the European level. Also, national parliaments have been understood as continuing to play an important communication role here too, although their role in conferring input legitimacy is seen as being somewhat secondary to the European Parliament (that is, in the context of

decisions taken exclusively at the European level). Finally, alongside calls for strengthened parliamentary oversight within EMU, there has been a fundamental rejection of intergovernmental decision making structures throughout the crisis period, which are labelled as undemocratic and illegitimate.

Conclusion

In recent times there has been an ongoing trend which has seen more powers and influence being won by the European Parliament in what has historically been an EMU dominated by intergovernmental policy coordination. Nevertheless, aided by the institutional reforms introduced under the Lisbon Treaty, the European Parliament has fought tirelessly to provide its own input into the fiscal governance reform debate evolving in Europe. In identifying the reform discourse itself to emerge out of this institutional setting, it has in fact remained highly consistent throughout the immediate to post-crisis period. The reform discourse has, for example, consistently sought to address both the input and output dimensions of legitimacy as part of a synergising relationship with the prospect of making a qualitative integration leap towards full fiscal and political union. First, on the output side, the discourse has been set around the prospect of implementing far reaching neo-Keynesian solidarity mechanisms within EMU, including the prospect of an enlarged EU budget along with steps towards the joint mutualisation of sovereign debt over the longer term. Moreover, while measures to strengthen the SGP framework have not been totally absent within this schema, fiscal disciplining measures have not been the reform priority here. This is, at least partly, attributable to the fact that the European Parliament shunned more neoliberal interpretations of the crisis which attach blame for Europe's sovereign debt troubles on the fiscal profligacy of certain member states. Instead, an interpretation of the crisis more closely aligned with Keynesian thinking prevailed, with the Eurozone crisis being understood as being as much of a balance-of-payments crisis as a public debt crisis.

Turning to the input side of the reform discourse, the European Parliament has adopted a strong normative position throughout the crisis period which dictates that integration in the direction of a deeper level of fiscal union be accompanied by equal steps in the direction of a flanking political union aspect. Key here has been the position of a strengthened European Parliament at the heart of EMU decision-making, with the parliamentary body being understood as the only institution with the capacity to ensure the democratic legitimacy and accountability for decisions taken at the European level. Yet national parliaments, acting in coordination with their supranational equivalent, have also been understood as having an important role to play here, even if it is an altogether secondary one when it comes to decision already transferred to the European domain. With such a commitment to a strengthened European Parliament, it is of little surprise that intergovernmental decision-making and structures have been more explicitly rejected as being undemocratic and illegitimate features of EU governance. Finally, as a model of fiscal federalism, such a reform agenda would, if implemented, represent a significant departure from the status quo—although given the European Parliaments historically more marginal position within EMU, there are still doubts over its capacity to push it through to implementation.

Chapter Nine: Legitimising Discourse—a Social Practice Dimension

Discourse Findings

Through the application of the first two stages of Fairclough's three-layered model of CDA, two key patterns of discourse have been identified as guiding the process of EU fiscal governance reform subsequent to the financial and economic crisis. The first and most dominant reform discourse is underpinned by neoliberal ideological thinking, and it is currently very much in the ascendancy within the EU institutions at the heart of decision-making within EMU. There is a second pattern of discourse for EU fiscal governance reform, however, that has been seen to have emerged from within the more marginal EU parliamentary setting. This counter reform discourse is distinguished in that it seeks to address both the input and output dimensions of legitimacy as part of a synergising relationship with the prospect of making a qualitative integration leap towards full fiscal and political union. With the key patterns of discourse identified, it is time to proceed to complete the third and final stage of the analysis which takes place at the broader level of social practice. Analysing discourse as a form of social practice involves giving due consideration as to the wider policy environment (in terms of the 'institutional', 'situational' and 'societal' context) from which the reform discourse has been produced (see chapter 3).

It is also at this broader level of social analysis that CDA will be combined with a selection of theoretically informed insights and ideas with a view to enriching the analysis. In brief, the insights to be gained from the 'new' institutionalism literature will be a central feature here, with particular attention being paid in this instance to the historical and discursive components. While historical institutionalism's focus on concepts such as 'path dependency' and 'critical junctures' is useful for helping us

understand the 'stickiness' that often characterises many aspects of EU policy-making (Pierson 1996, Greer 2000, Mahoney 2001, Bulmer 2009, Ackril & Kay 2006), discursive institutionalism helps us focus more on the role of 'substantive ideas' and 'discursive interactions' in bringing about potential change (or continuity as the case may be) (Schmidt 2006a, 2008a, 2011). When combined with a deeper understanding of structural forms of power (Strange 1994), such theorising should provide a powerful explanatory framework with which to explore the historical roots of the constraining discourse environment that has led to the current reform debate over EU fiscal governance becoming entrenched around a limiting neoliberal narrative. It should also be made clear from the outset that the intention of this chapter is not to provide a full theoretical account of the development of EU fiscal governance over time through the lens of the major EU integration theories. Studies of this nature have, after all, already been completed (for an exhaustive overview of the SGP through the different theoretical lenses consult Heipertz & Verdun 2010).

EMU: Convergence Towards Neoliberalism

During the time when EMU was first being developed as an idea in the 1960s and 1970s Keynesian policies were still frequently seen to be pursued by member states within Europe. Yet by the 1980s there was an acute shift in economic thinking amongst the monetary authorities of Europe away from Keynesian in favour of neoliberalism and its early financial counterpart 'monetarism' (McNamara 1998, Verdun 1998, Marcussen 2000, Heipertz, M. & Verdun 2004, 2005, 2011). The monetarist paradigm attaches primary importance to the objective of 'price stability' as a condition for growth, with independent central bank control over interest rates being an important factor here too (Verdun 2011:91-93). However, while monetarism as a set of economic ideas is to a large extent concerned with monetary policy and its related institutional frameworks, it is also understood to be important that excessive levels of public debt do not inhibit the maintenance of the price stability objective (Heipertz & Verdun 2011:93). Thus, monetarism, and neoliberalism more

generally, do have as a core teaching a requirement for governments to adhere to strict fiscal discipline objectives.

In view of this shift towards neoliberalism, it is of little surprise that when central bankers were brought together to draft the 1989 Delors report (a report outlining a blueprint of the road towards full EMU as laid down in the Maastricht Treaty) they drew very closely on the German Bundesbank as their model of monetary integration, which at the time represented the living ‘embodiment’ of monetarist paradigm (De Grauwe 2007:164). In terms of Germany’s structural power, Germany was in a particularly strong position to shape the construction of EMU due to its underlying economic weight and owing to the domineering strategic position of the D-Mark and of the Bundesbank within prior European currency arrangements, including the European monetary System (Verdun 1998, Marsh 2011). Moreover, it should also be observed in this context that ‘ordoliberalism’ was the underlying economic ideology that informed the German negotiating position on EMU (Dyson 2002C). As an ideology ordoliberalism combines neoliberal ideas with the social-democratic ideas of welfare and industrial partnership (Gamble 2013:58). Therefore, alongside a requirement for independent central banks geared towards the objective of ‘price stability’, the need for ‘automatically enforceable rules on fiscal discipline’ is again a strong feature here (Dyson 2002c:177). It is no surprise, then, that the increasing consensus in favour of neoliberalism experienced on a global scale only served to legitimise and further strengthen the German negotiating position on EMU—a set of circumstances which further facilitated the institutionalisation of neoliberalism (or German ordoliberal principles) within the EMU framework.

It is a peculiar feature of EMU, though, that while there developed a relative consensus that monetary policy would function in accordance with the German domestic model, very little thought was given during the negotiations leading up to the signing of the Maastricht Treaty in 1992 to the possibility of taking accompanying integration steps within Europe towards a deeper level of fiscal and political union. Commenting on the fiscal union aspect specifically Verdun remarked:

“[T]here was no common understanding about how much, and which, taxes would have to be harmonized, or indeed levied at the

Community level, or about who would be responsible for it, who would pay for it, and who would benefit for it. Fiscal policy harmonisation was just simply one step too far; there was no support for a transfer of sovereignty over these matters to the European level” (Verdun 1999:122).

The prospect of setting up within EMU a system of fiscal redistribution or solidarity of the sort that exists in most mature fiscal federations was therefore never really discussed prior or subsequent to the agreement on the monetary set up. It would seem that with fiscal policy remaining so deeply entrenched within the national parliamentary tradition of member states, any talk of relinquishing sovereignty or transferring tax and spending powers to the EU level in this highly politically salient area would be too much. Moreover, while a second intergovernmental conference was convened on the topic of ‘political union’, it was limited largely to a discussion on foreign and security matters (Verdun 1999). This neglect was ultimately reflected in the institutional design for EMU that was eventually arrived at which has been seen to be deficient by numerous authors in relation to the criteria of democratic accountability and legitimacy on the input side (Verdun, 1998, Verdun and Christiansen 2000, Hodson & Maher 2001).

Following the provisions laid down in the Maastricht Treaty, Europe was therefore left with a single currency area characterised by a profound ‘asymmetry’ between a centralised monetary policy and a decentralised fiscal policy. However, from the perspective of aligning EMU within an institutional framework that is in keeping with neoliberal ideas of ‘sound money’, the process of EMU integration (particularly from a German ‘ordoliberal’ perspective) was not completed at Maastricht. After all, as previously indicated, neoliberalism implicitly demands a strict fiscal discipline policy as a means to ensure the maintenance of the key monetarist price stability objective. And, up until this point, the Maastricht Treaty only provided limited provisions for enforcing fiscal discipline in the form of the convergence criteria and excessive deficit procedure, loosely defined (Heipertz & Verdun 2011:80). This inevitably resulted in a build-up of domestic pressure throughout the mid 1990’s being placed upon Theo Waigel, the then German Minister for Finance, from a ‘sceptical Bundesbank’, ‘unfavourable public’, ‘opposition parties’ and ‘internal

competitors' who all wished to ensure that EMU would not imply a weakening of the 'stability' culture that is ingrained into German ordoliberal and broader neoliberal economic thinking at the time (Heipertz & Verdun 2011:85-109).

It was set against this institutional and ideational context that Waigel advanced a proposal for a rules-based 'Stability Pact for Europe' in 1996. Yet, despite the domestic pressures building upon Waigel to cement fiscal discipline within EMU, the eventual legislative proposal produced by the Commission the following year did not include some of the more divisive elements, including 'automatic sanctioning mechanisms' or the creation of an 'independent Stability Council' (Heipertz, & Verdun 2004, 2005, 2011). This was because such far reaching obligations could not be implemented under the legal basis provided for by the Maastricht Treaty (Heipertz, & Verdun 2004, 2005, 2011). And following the troubles in ratifying the Maastricht Treaty there was understandably little appetite across Europe for any significant Treaty reform. Moreover, the Commission and the majority of member states led by France (with the notable exception of Holland) were anxious to avoid any further restrictions on national sovereignty and supported 'flexibility' and political 'discretion' (Heipertz & Verdun 2011:102). In the end, therefore, there was a high degree of legal spill over between the Maastricht Treaty and the eventual rules-based SGP framework as it was finally adopted through secondary legislation (see Article 99 TEC and Article 104 TEC and their equivalent protocols, which together form the basis of the preventative and corrective arms of the pact) (Heipertz, & Verdun 2004, 2005, 2011).

The idea of path dependency is relevant at this point. As observed during the theoretical and conceptual overview, the basic idea is relatively simple and it has been summed up well by Bulmer when commenting on the contribution made by Paul Pierson in a text called *Politics in Time* (Pierson 2004):

"Path dependence is not just about expressing the point that history matters; it highlights how political processes entail trajectories that are difficult to reverse because they are underpinned by mechanisms of positive feedback and increasing returns, as reflected in sunk costs and vested interests (Bulmer 2009:209-310)".

There are also several reasons to suspect that path dependency is a concept that is well suited to explaining institutional inertia in the fiscal governance domain. First there is the issue of sunk costs to consider. It is an obvious point, for example, that an elaborate cooperation framework has been built around the rules-based SGP, including institutional provisions, procedures as well as complex methodologies for implementation. Any major policy change would therefore involve substantial financial costs. There are also the 'learning' costs to consider for those actors who have adapted to the SGP over time. This includes not only officials located within DG ECFIN and within the various committees, but also actors working at a more political ministerial level.

It should also be acknowledged that the negotiations on EMU leading up to Maastricht, as well as subsequently during the negotiations on the SGP, were the result of decades of political negotiation amongst officials from twelve independent states. The solutions arrived at, then, reflect often painstaking compromises in what is an extremely complex and contested policy environment—and this is not to speak of the difficulty generally of translating economic ideas into legislation. Such a political investment over time renders any major institutional or legal break with the past particularly difficult in the fiscal governance policy setting. Of course, as observed above, the institutional rigidity arising from sunk costs is also further reinforced in this context by the constraining factor of treaty change. Treaty change is, after all, a complex process and fraught with political danger resulting from the difficulties any ratification process would likely face. Any negotiation on major changes involving treaty change, or even negotiations on smaller scale amendment to secondary legislation, is also likely to be particularly challenging in this context due to the highly politically salient nature of budgetary matters. Any policy amendments are, therefore, likely to be hotly contested, often in view of the general public.

Finally, there are also the forces of vested interests to consider. This includes the officials who control and administer the SGP framework who have converged around it over time, including commission officials located within DG ECFIN and members of the secretariat. From a self-interest point of view, major changes are

likely to be demanding on them personally. There is also the vested interest of the actors who encouraged the neoliberal construction of EMU since its inception. This includes, in particular, German politicians and members of the Bundesbank, as well as many other politicians and policy experts from across Europe who were active in the formation of the single currency area. Many of these actors, whether working at a technical or more political level, have staked their reputation on the credibility of the SGP framework on numerous occasions past and present. And politicians more specifically have also often been seen to pursue strategies for electoral interest that have committed them to be on the side of a strict interpretation of EU budgetary rules. Together the existence of sunk costs and the forces of vested interest help to encourage a high degree of structural inertia or institutional path-dependency in the fiscal governance setting.

Despite the observations made above, there was a possibility at least of more fundamental reform in the early 2000's when the governments of Germany and France made assurances at the time in the form of tax deductions to the voting public that were out of line with budgetary commitments made under the SGP framework (Heipertz, M. & Verdun 2005, 2011). In response, the Commission took the decision in 2004 to uphold their treaty obligations following the advancement of a blocking majority in the ECOFIN Council by appealing to the ECJ for legal advice—a move which resulted in a ECJ judgement challenging ECOFIN's decision to suspend the EDP while in effect failing to force the institutions compliance (Heipertz & Verdun 2005, 2011, Hallerber & Birdwell 2008). The fact that such challenges were facing the SGP so early in its existence led to the European Council endorsing a ECOFIN Council report on the reform of the SGP in 2005 on the basis of a Commission proposal.

As would be expected, in view of their difficulties at the time in meeting their EU level budgetary commitments, during negotiations France and Germany were vocal in advocating a more 'flexible interpretation of the SGP' (Heipertz & Verdun 2001). Yet, despite the reform agenda being driven forward by the powerful axis of Germany and France, the eventual amendments, apart from providing for a more flexible interpretation of the rules, were again highly path-dependent and failed to fundamentally alter the procedures, rules-based nature, or two-pronged structure of

the SGP (Morris et al 2007, Crowley & Rowley 2008, Heipertz & Verdun 2011). This is because, reinforced by the existence of sunk costs and the forces of vested interest, the neoliberal consensus amongst European policy actors on the need to embed EMU with rules for fiscal discipline had not gone away; no one was calling for the complete abandonment of the pact altogether; and Treaty Change was not a desirable option at the time (Heipertz & Verdun 2005, 2011). And furthermore, in practice even a slight re-working of the original SGP regulations required a high degree of consensus amongst member states given that amending 1467/97 required unanimity and 1466/97 required QMV in the Council (Heipertz & Verdun 2011:172).

To conclude this section's findings, it has been demonstrated how the asymmetric institutional design of EMU arose at a time when a global shift was taking place in economic thinking away from Keynesianism in the direction of neoliberalism and its financial counterpart monetarism. It was set against this paradigm shift that Germany was able to fully utilise its structural power in order to ensure that EMU was implemented largely in accordance with the German model, i.e. with an independent central bank orientated towards the maintenance of price stability. Key factors ensuring Germany's structural power over EMU design included its considerable economic weight and dominance within previous currency arrangements within Europe, as well as the hegemony of the Bundesbank and German 'ordoliberal' ideas at the time. Yet, with the monetary aspect of the negotiations on EMU progressing fluidly in Germany's favour, little thought was given to the possibility of ensuring integration steps towards a deeper level of fiscal and political union. This was also compounded by state sovereignty concerns amongst member states that showed little interest in relinquishing control over tax and spend policies to the European level. Of course, though, in order to address German concerns that errant member states may run excessive budgetary deficits and undermine price stability, the rules-based SGP framework was introduced in 1997 with the expectation of guaranteeing fiscal discipline within EMU.

It was against this institutional and ideational backdrop that Europe arrived with an EMU framework characterised by a highly limited model of fiscal federalism: one with rules-based fiscal discipline with at best indirect channels of democratic legitimisation on the input side. From quite an early stage it was also made apparent

that path dependency is likely to be a strong feature in the fiscal governance sphere, with the existence of sunk costs and the forces of vested interest helping to encourage a high degree of structural inertia in a policy setting that remains deeply embedded at the national level. Ultimately, these findings were confirmed in 2005 when the reform of the SGP failed to deliver anything beyond incremental changes. This was also encouraged by the fact that throughout this period the neoliberal consensus on the necessity of embedding EMU with strict budgetary rules remained deeply embedded.

Financial and Economic Crisis: a Critical Juncture for EU Fiscal Integration?

During the first 10 years of the single currency area the EU level commitment to neoliberalism, and to the necessity of implementing rules-based fiscal discipline within EMU, remained relatively steadfast, not discounting the minor reform initiatives to the SGP that took place in 2005. However, there was always a possibility that a 'critical juncture' event—triggered perhaps as a result of an exogenous economic shock—could result in a fundamental transition from the previous institutional order. In order for change on this scale to take place, such a critical juncture event would need to be accompanied by a significant breakdown in the prevailing neoliberal consensus built up over EU fiscal governance. And just such a critical moment appeared to be on the horizon following the onset of the 2008 global financial crises and the interconnected heightening of sovereign risk concern that ensued in Europe around two years later. Together these chains of events were seen to bring spectacularly to an end the benign macroeconomic environment that endured before the crises. Yet an analysis of the reform discourse for EU fiscal governance being produced from around this period has in fact revealed that neoliberal ideological thinking is still in the ascendancy within the EU institutions at the heart of decision-making within EMU, with the notable exception of the European Parliament. These discourse findings raise the issue of how one can account for the continued dominance of neoliberalism in the face of what many would have

predicted as a likely critical juncture event in the form of the financial and economic crisis.

To begin with, it is important to point out that senior policymakers within Europe perceived the financial and economic crisis as presenting a challenge of potentially ‘existential’ proportions’: that is, not only as existential challenge to the single currency area but also to the Union itself (see Interview Extract O 2014:1 with a Senior Spokesman for the European Council President). As an almost functional necessity, therefore, it was deemed vital that policymakers responded to the challenges presented by the crisis. But it was not only the substance of the response that was deemed important here, it was also the timing and the rapidity of the response that was seen to be a decisive factor. This crucial point is picked up on by a senior member of the Cabinet for the European Council President:

“Of course, it was absolutely imperative that we responded in an urgent manner and often ad hoc manner in order to contain contagion risks and prevent a sovereign default or at worse a disorderly exit by a periphery member state from the Eurozone. We were also responding directly to external market pressures that have the capacity to react quicker than decision makers. When faced with such an emergency situation you need act quickly, so yes decisions were taken outside of the Community Method during the heat of the crisis” (Interview Extract Q 2014:1).

A number of notable phrases are used to describe this period above: ‘urgent’, ‘emergency’ ‘risk’ and ‘pressure’. Moreover, there was also the ever present perception that policymakers were battling uphill against market forces that can react at a far greater speed than Europe can legislate for. These articulations together add up to a crisis context consumed by risk (e.g. contagion, sovereign default or disorderly exit ect....), with an added timing element resulting from the need to keep up with market forces. It was in this context of crisis, then, that intergovernmental decision-making, which was historically already very pronounced within the EMU set-up generally, became of heightened importance. And, as elaborated on within previous chapters, particularly important here was the role played by the European

Council as Head of State or Government were brought together to guide the Union through the crisis period.

In accounting for the continued dominance of neoliberalism over the ongoing reform debate for EU fiscal governance, several points related to the observations made above are worth making here. To begin with, the sunk costs and vested interests previously spoken about are still a limiting factor over the current debate for fiscal governance reform. In fact, it is likely that during a period defined by crisis, structural inertia is likely to be exaggerated in view of the need to find solutions in what remains a highly complex and contested policy environment. Path dependency is also reinforced by the fact there is again little desire amongst member states to push for the associated treaty amendments that would be required for a qualitative integration leap in the direction of a deeper level of fiscal and political union. The lack of support for a revision of the treaties from across the political spectrum—even within Germany where some officials initially greeted the prospect of treaty change positively—is a topic spoken about at some length by one senior member of the Cabinet for the European Council President:

“[W]hile German leaders in particular were more enthusiastic, at least early on, as to the possibility of revising the treaties, this enthusiasm has been much reduced in recent times. I think there is a realisation here that most member states, including France, have no desire for a big new treaty—not given the problems such ratification would bring in the current political climate. Also, German ideas as to fiscal and political union are much more limited than the rest. They are therefore wary of opening a path to greater integration that could leave them worse off financially” (Interview Extract Q 2014:4).

That such negative sentiment is seen to exist at present when discussing the topic of treaty change is not unsurprising, particularly given the politically salient nature of the reforms and the difficulties that arose when presenting the Lisbon treaty for ratification before national parliaments. Separately, a senior spokesman for the European Council President sums up the situation succinctly:

“Of course, leaders read opinion polls and they can see that there are major public opinion issues with the European Union and the euro as it is. Against this backdrop talk of treaty change evaporates—that is the reality we have. We have to deal with this as good as possible” (Interview Extract O 2014 :4.

On top of the problems concerning the ratification process for any forthcoming treaty, there is also the issue of overcoming the substantive differences of opinion amongst member states over a policy area that remains deeply rooted at the national parliamentary level. For example, it has been demonstrated within previous chapters how a series of constraining discourses amongst key member states (though particularly between Germany and France), concerning both sovereignty concerns and issues of moral hazard, have served to steer the reform debate away from any talk of progressing with more reaching integration steps within EMU in the direction of a deeper level of fiscal and political union. In concise form, the debate can be summed up as follows: France (along with the periphery states) calls for more solidarity but is unable to stomach the other side of the German (and core states) bargain, i.e. heightened rules on fiscal discipline. Also, of course, in view of the unanimity rule (whereby any major treaty amendment undertaken through either the ordinary revision procedure or the simplified revision procedure requires the unanimous approval by Heads of State or Government), a divergence in opinion amongst member states over the transfer of powers up to the supranational level is likely to become a major obstacle to change in this area, further entrenching neoliberalism along a path-dependent line.

With dwindling political support for a qualitative integration leap within EMU amongst member states, it leaves the scope of the existing reform agenda restricted to largely building on secondary legislation as part of the existing legal framework. In the context of this reform episode this would involve tweaking, rather than replacing, the two original regulations that make up the preventative and corrective arms of SGP framework (Council regulation No 1466/97 and No 1467/97 of 7 July 1997, as revised as part of the 2005 reforms). The persistent dominance of neoliberalism within the ongoing reform debate over EU fiscal governance reform can therefore be identified as partly representative of a form of legal spill over from the original legal

framework. This can again be interpreted as a classic example of path dependency within an institution, leading to at best incremental change.

This path dependency is also aided a continued commitment to neoliberal ideological thinking with the dominant EU institutions involved in the EU fiscal governance. Again, as revealed in earlier chapters, this includes Commission officials located within DG ECFIN, as well as members of the secretariat who are represent the Commission at both ministerial and committee level. On top of a commitment to a neoliberal reform agenda, these officials have also demonstrated a high degree of scepticism concerning the actual desirability and political feasibility of making a qualitative integration towards a deeper level of fiscal and political union. A number of so called 'hardliner' (or core) countries have also taken up a strong position on enforcing fiscal discipline within EMU since the crisis. Most obviously this includes Germany as by the far the most vocal and powerful advocate of fiscal rectitude; but it has also been joined by several other member states including the 'Netherlands', 'Finland', 'Sweden' and 'Slovakia' (Interview Extract F 2013:2) . Of course, the ECB is also important here too who, as already observed, was set up as very much the living 'embodiment' of monetarism (De Grauwe 2007) and therefore has remained a staunch defender of rules-based fiscal discipline within EMU.

Such a formidable coalition can be contrasted with the position of the more marginal European Parliament whose counter reform discourse articulates a contrasting vision for a qualitative integration leap within EMU towards full fiscal and political union. The European Parliament is almost alone in diffusing its reform discourse for EU fiscal governance. On top of this, while the European Parliament has enjoyed an enhanced legislative role following the Lisbon reforms (changes which made it possible for the parliamentary body to amend key pieces of legislation introduced as a response to the crisis), its tangible role within EMU is still largely limited to supervisory and consultation privileges. The European Parliament was also excluded from much high level intergovernmental deliberation that took place at the height of the crisis. This means that the degree of communicative overlap between the parliamentary body and officials located within the adjoining EU institutions, whether at Commission, Ministerial or Committee level, has been relatively limited within this context. In view of the institutionally restricted role of the European

Parliament within EU fiscal governance, it is therefore difficult to envision the parliamentary body acting on its own being able to successfully see its counter discourse for EU fiscal governance reform through to implementation.

Within the context of this crisis situation as already described, the notion of German structural power also needs to be factored in to this analysis in greater detail when accounting for the persistence of neoliberalism within the ongoing debate over EU fiscal governance reform. It has already been demonstrated in previous chapters that Germany was influential in pushing the advancement of a neoliberal reform agenda in the wake of the financial and economic crisis (see also Dullien & Torreblanca 2012, Featherstone 2012, Schmidt 2012, amongst others)—with the promotion of strengthened rules-based fiscal discipline under the SGP framework being the defining feature here. And again, the policy solutions being uploaded by Germany have been found to be consistent with the German domestic variant of neoliberalism: ‘ordoliberalism’. At the heart of the explanation for Germany’s considerable capacity to shape the reform agenda over EU fiscal governance is its structural economic power within the current EMU setup. As is observed by one senior official when commenting on the inevitability of Germany’s leading role:

“But of course Germany takes a leading role here in view of its economic size. So Germany automatically was seen to take on a leading role, whether it wanted it or not. In fact, at crucial stages during the crisis Merkel became, albeit reluctantly, almost a de facto president—with Europe often relying on her decision-making to keep the currency bloc together. France under the stewardship of Sarkozy also had a role to play here, yet it was a reduced one due to its economically weakened state. In effect, Sarkozy was forced to concede too many of Germany’s demands during the crisis deliberations” (Interview Extract G 2013:6).

Clearly, Germany’s structural economic power within EMU is underpinned first and foremost by its economic size, with Germany being by some distance the largest European economy and the fourth largest economy in the world (Speck 2014). Due to its economic size within Europe, Germany has also been the lead contributor to

the emergency bailout funds that have been activated during the crisis. It should also be added that Germany made it through the financial and economic crisis in comparatively good order, particularly when compared with many other euro area countries. To quote an article that appeared in *Foreign Affairs* in June 2013:

“Not only has the German economy bounced back from the 2008–9 financial crisis -- with revitalized export industries and record-low unemployment -- it has done so while most other European economies are still reeling. Where other countries see only economic hardship in their future, Germany sees an influx of skilled immigrants, low borrowing costs, a balanced budget, and a growing housing market. All of that is a boon for the German economy -- and for Merkel, who is up for reelection in September” (Reisenbichler & Morgan 2013)

So Germany, lifted by a solid manufacturing base and a government deficit that is close to balancing (although its debt to GDP ratio is approaching 80%), found itself in a relatively prosperous position amid a fragile Eurozone periphery. This could also account for why economically stagnating France has been forced to concede far more ground to its German counterparts than historically may have been the case.

At a more ideational level, German structural power has also enhanced by the fact that neoliberalism has been deeply embedded within the EMU framework since the founding of the single currency area. As such, Germany’s neoliberal ideas as to how to reform EU fiscal governance are more likely to be received positively at the European level where, as already observed, there is already a high degree of consensus around neoliberal principles amongst experts and policy officials located within DG ECFIN and further down at Committee level. This is reflected in the fact that Germany, in a similar manner to officials located with the DG ECFIN, was also keen to promote a neoliberal reading as to the causes of the crisis in the first instance: ‘[Chancellor] Merkel framed the crisis as a failure of individual countries to solve their problems of competitiveness through timely budgetary and structural reform’ (Schmidt 2012:10). Also, of course, German policy solutions have a natural tendency to conform in a legal sense with pre-existing agreements within EMU,

making them more receptive to be uploaded to the supranational level. In sum, as was witnessed during earlier periods of EMU construction and reform, Germany, buttressed by its considerable structural power resources, has been in a highly advantageous position to upload neoliberal policy ideas in the wake of the financial and economic crisis.

To bring this section to a conclusion, though the application of broad range of theoretical tools and power concepts, a number of ideational and institutional factors have been identified as contributing to the constraining discourse environment prevailing in the EU fiscal governance sphere. To begin with, the concept of path dependency and the link between sunk costs and vested interests has been invoked again, and they have been shown to be very pronounced in a policy setting that remains deeply embedded at the national level. Also, bolstered by such limiting forces, policy-makers acting in a scenario defined by crisis have been discouraged from proposing a more radical departure from the status quo due to lack of support for a revision of the treaties from across the political spectrum and due to a series of constraining discourses abounding amongst member states concerning both sovereignty concerns and issues of moral hazard. This has left the scope of the existing reform agenda limited to largely building on secondary legislation in an example of legal spill over, i.e. building on the SGP framework for fiscal discipline. This path dependency has also been aided though by a continued convergence around the neoliberal paradigm within the dominant EU institutions. Finally, Germany's structural power within EMU has also been an important factor here, with the country found to be in a unique position, due to both its economic standing and for historical reasons, to upload neoliberalism to the European level.

Conclusion

The first section of this chapter was centred on exploring the historical roots of the current constraining discourse environment that has led to the debate over EU fiscal governance reform being dominated by neoliberalism. It was found that there

was a period of ideational convergence within Europe towards neoliberalism during the initial formation of the single currency area. This was facilitated by an acute shift in economic thinking amongst key monetary authorities away from Keynesian in favour of neoliberalism and its early financial counterpart 'monetarism'. And German structural economic power was also influential in facilitating the final institutionalisation of neoliberal policy goals within EMU too. Notably, the prospect of moving towards a deeper level of fiscal union, as an accompaniment to integration on the monetary side, was never really discussed at this stage in view of sovereignty concerns and the fact that tax and spend policy remains so deeply embedded within the national parliamentary tradition of many member states within Europe. However, from the perspective of aligning EMU within an institutional framework that is in keeping with neoliberalism, the rules-based SGP framework for fiscal discipline was introduced through secondary legislation in 1997 in instance of legal spill-over.

Notably, the institutional and ideational forces that led to the establishment of neoliberal policy goals early on within EMU are similar to those that have given rise to a constraining discourse environment in the modern period, following the financial and economic crisis. For example, the forces of path-dependency are still ever present within the policy setting, rendering any agreement over a changed reform path in what is a politically highly salient area highly challenging. This is reinforced by a mixture of sovereignty concerns and moral hazard fears amongst member states, which serves to further discourage progress towards deeper fiscal and political integration. And, of course, the issue of treaty change is a constant limiting factor here. The structural power of Germany within the EMU set-up is also again a defining feature in the modern period, with the dominant economic power in Europe continuing to shape the design and rules embedded within the single currency area in a neoliberal direction. Finally, the ideational convergence that perpetuated the institutionalisation of neoliberalism within EMU during the founding years of the single currency area appears to have remained strong within many of the dominant EU institutions. Together, these institutional and ideational forces—many of which have a long history of limiting change within EMU—are likely to ensure that the reform debate for EU fiscal governance remains set around a limiting neoliberal narrative.

Chapter Ten: Conclusion

The central research question guiding this research process has been: *Which legitimising discourses are shaping EU fiscal governance reform.* And through the implementation of Fairclough's three-dimensional model of CDA it has been charted how the emerging debate over EU fiscal governance reform has been dominated by a neoliberal legitimising discourse. In fact, neoliberalism has been observed to be very much in the ascendency within all the EU institutions that currently lie at the heart of decision-making within EMU, including in the principal intergovernmental forums as well as in the EU Commission setting. In terms of the reform priorities underpinning this pattern of discourse, they have been largely set around the securing of strengthened fiscal discipline within EMU on the output side through building on, rather than replacing, the pre-existing rules based SGP framework. Such neoliberal policy prescriptions have been seen to result, in part, from a misguided neoliberal framing of the financial and economic crisis in the first instance—with member states failure to observe adequate levels of fiscal discipline in line with European rules being framed as a key causal factor leading up to the crisis events that took place. Given that the focus has been firmly set around the securing of fiscal discipline on the output side, input legitimacy has featured as a matter of secondary importance within this context and has been assumed to occur indirectly via representation of member states in the Council and European Council. In view of the dominance of neoliberalism within the major EU institutions—and in view of the institutional and ideational forces further constraining the discourse environment—it can be expected that the efforts to reform the EU's fiscal governance arrangements are likely to bring about at best incremental change along a path-dependent line.

There are some possible negative implications, however, that could arise from reforming EU fiscal governance on the basis of a neoliberal narrative. To begin with, there is a risk that a failure to embed what is a significantly strengthened budgetary

surveillance framework with more direct forms of democratic legitimacy and accountability mechanisms—whether through an increased role for the European Parliament or via improved parliamentary oversight from the national level, or both—could ultimately provoke a backlash from the citizen base as they reject the new neoliberal surveillance measures seen as imposed externally. After all, the reforms implemented to date building on the SGP have been driven to quite an extent from within the intergovernmental institutions—and in particular from within the European Council setting which brings together Heads of State or Government. While a case could be made that there is a form of indirect citizen representation in play here given ministers links to the democratic nation state (Moravcsik 2002), this is a highly problematic interpretation of events.

First, it has already been demonstrated that Germany, buttressed by its considerable structural power within EMU, has been dominant within the intergovernmental institutions in uploading neoliberal policy solutions in the wake of the financial and economic crisis. It is, therefore, clear that national parliaments are by no means equal in their indirect representation at the European level. This is most evident in the European Council setting, which has been influential in guiding crisis management at key stages during the crisis. And, while it could be rightly asserted that smaller countries retain the right of veto in this setting, in practice following negotiations or periods of hard bargaining it is inevitable that member states, particularly less powerful ones, will end up with policies imposed upon them out of line with their initial preferences. It is also hard to be sure how ministers could be assured of what their citizen preferences are in the first instance given a lack of direct democratic inputs and citizen debate over the future of fiscal governance within Europe. Even placing these criticisms aside, while a reliance on indirect citizen representation may have been adequate at a time when the EU was defined more as a regulatory state (Majone 1996), now that the recent legislation passed within EMU has more explicit redistributive consequences this argument holds less weight (due to the limitations imposed on member states budgets). Of course, choices concerning restrictions on fiscal policy are also a uniquely salient issue and liable to become politicised. This would imply that there are strict limits to the neoliberal centralisation of fiscal policy that can be pursued without democratic inputs before the citizen base reject them. These limits are also exacerbated by the economic and

financial crisis, particularly in the periphery states where internal devaluation with little in the way of financial solidarity has only served to exacerbate citizen disillusionment and national tensions.

In terms of the neoliberal budgetary surveillance and sanctioning procedures being pursued under the SGP framework, there is a high risk then that these instruments will ultimately prove ineffective without sufficient democratic underpinnings. Certainly, from a historical point of view, it has already been observed how an over reliance on indirect forms of democratic legitimisation undermines the very output potential or policy effectiveness of the SGP. And it is still far from clear that when faced with a significant challenge from a domestic government—a government that is responsible first and foremost to their citizen base—if the strengthened SGP framework will hold up. At present, it would seem probable that if there was a repeat of the debacle that occurred in 2003, when France and Germany breached the EDP rules, then again no European authority would have the legitimacy to overrule them or impose sanctions. This is because the Commission still lacks a democratic mandate to defend the SGP rules against national prerogatives, particularly if it is one of the more powerful member states caught up in the sanctioning procedure. Also, as an inherently political body, the EU executive is liable to refrain from advancing procedures under the SGP in any case due to wider political considerations, as it has done repeatedly in the past. So, then, while the Commission's position has actually been strengthened marginally since the onset of the financial and economic crisis, largely due to the advent of reverse qualified majority voting in the Council over the advancement of sanctioning procedures (making it harder for dissenting member states to form blocking majorities), the effectiveness of the SGP remains vulnerable to the domestic considerations of sovereign member states where democratic input legitimacy ultimately still lies.

In sum, serious doubts need to be raised concerning the legitimacy of reforming EU fiscal governance on the basis of neoliberal narrative. Not only is the policy effectiveness of this framework in serious doubt, due to its failure to provide adequate channels of democratic input legitimacy, but it risks provoking a backlash from the citizen base at large as they reject its policy prescriptions. As a response to

these failings, it would seem logical to advocate the implementation of the counter reform discourse that has emerged from within the European Parliamentary setting as a possible alternative integration route for EU fiscal governance. This discourse is distinguished in that it has sought to address both the input and output dimensions of legitimacy as part of a synergising relationship with the prospect of making a qualitative integration leap towards full fiscal and political union. On the output side this discourse has been set around the prospect of fixing the deficiencies present within EMU since the outset (i.e. the lack of a fiscal union) by implementing more in the way of neo-Keynesian solidarity mechanisms. And, while not left completely unaddressed, there has been altogether less of a focus on strengthening fiscal discipline within EMU by building on the SGP framework. This reflects the fact that a Keynesian view as to the causes of the crisis was adopted in the first instance, with the Eurozone crisis being viewed as being as much of a balance-of-payments crisis as a public debt crisis. In making reference to the input side of the reform discourse, it has also been understood as vital here that any integration steps taken in the direction of a deeper level of fiscal union is also accompanied by equal progress towards the setting up of a flanking political union aspect. Key here has been the prospect of a strengthened European Parliament over decision-making within EMU—although national parliaments, acting in coordination with their supranational equivalent, have also been understood as having an important role to play in underpinning democratic legitimacy and accountability within this schema.

By combining rules-based fiscal discipline with solidarity mechanisms, it is probable that this model would prove to be more acceptable to the citizen base at large—with the obvious exception of the core countries where moral hazard concerns are prominent. In doing so, it would also in turn temper the risk of a citizen backlash. Moreover, the idea at least is that by combining these arrangements with accompanying steps towards a deeper level of political union—one involving the setting up of a governing structure where the European Parliament is endowed with adequate levels of budgetary power and democratic legitimacy to enable it to constrain national governments—European citizens would be able to collectively decide on the particular nature of the sanctioning mechanisms and solidarity instruments being developed at the European level. Yet it has to be acknowledged that the particular balance to be struck between national parliaments and the

European Parliament has still left quite ambiguous here. In essence, though, this pattern of discourse is as a whole has been premised on the prospect of setting up a European economic government involving significant transfers of budgetary sovereignty and a forging together of the two dimensions of legitimacy as part of a synergising type relationship. If realised, such a level of fiscal and political integration would also be seen to rectify many of the original design failures identified as preventing the proper function of EMU since its launch (De Grauwe 2013).

However, the CDA analysis carried out at the level of social practice has revealed a number of institutional and ideational forces—many of which have a long history of limiting change within EMU—that are likely to ensure that the reform debate for EU fiscal governance remains set around a limiting neoliberal narrative. And this is despite the emergence of a possible critical juncture event in the form of the financial and economic crisis, which had the potential at least to bring about a significant breakdown in the prevailing neoliberal consensus. To begin with, there are the forces of path-dependency in the form of sunk costs and vested interests, which are likely to reinforce institutional inertia in the fiscal governance domain. Fundamental change is also limited by the almost complete lack of support for treaty change in what is an extremely complex, contested and politically salient policy area. There is also the broader political European context to consider here, where anti-establishment parties have been on the rise.

This path-dependency is also further reinforced by the series of constraining discourses abounding amongst member states (though particularly between Germany and France), concerning both sovereignty concerns and issues of moral hazard, which have served to limit the reform debate. This means that while the possible integration steps on the path towards a deeper level of fiscal union are at least discussed, they have been left for the most part for the longer term—with seemingly little enthusiasm for their implementation amongst the member states or from EU officials. As to the political union aspect, challenging questions concerning the accompanying political integration measures that may be required have been almost completely side-lined during the crisis period. It is no surprise, then, that the appropriate role and balance between the European and national level parliaments has been largely left to be answered at some point in the future. As the dominant

economic power in Europe, the structural power of Germany within the present EMU set-up is also perhaps stronger now than it ever has been. This is in contrast to the position of France, whose economic and political influence in Europe is weaker now than it has been historically. This has had the effect of leaving Germany in a position to shape the design and rules embedded within the single currency area in a firmly neoliberal direction. Finally, and not to be underestimated, the ideational convergence that perpetuated the institutionalisation of neoliberalism within EMU during the founding years of the single currency area appears to have remained strong within many of the dominant EU institutions.

Together these institutional and ideational forces are giving rise to a highly constraining discourse environment—leaving the debate over EU fiscal governance reform to remain firmly entrenched around a limiting neoliberal narrative. And, in view of the continued dominance of neoliberalism across much of the EU's institutional landscape, it would seem highly improbable that the European Parliament will be in a position to guide its counter reform discourse through to implementation. Instead, the efforts to reform the EU's fiscal governance arrangements are likely to bring about at best incremental change along a path-dependent line. This means that, despite serious doubts being raised over its legitimacy and ultimately effectiveness, more initiatives building on the SGP framework for fiscal discipline are the most probable future possibility in terms of future fiscal integration within Europe—with little in the way of fiscal solidarity or political integration. As model of fiscal federalism, the current integration phase within EMU is therefore expected to represent the point of minimum departure from the status quo: i.e. with rules-based fiscal discipline and indirect channels of legitimisation remaining the norm. This would also signify that many of the deeper structural deficiencies that have been seen to play a large role in bringing about the intensification of the financial and economic turbulence in Europe in the first place would not have been corrected.

This research has demonstrated the value of conceptualising legitimacy through an analytical framework receptive to both institutional form and practice and its interactive construction elements. In particular, the manner by which claims to legitimacy have been partly constructed through dominant ideologies is a significant

finding—and one which would be overlooked if a purely institutional analysis were adopted. This research has also further revealed some of the complexities standing in the way of effective legitimisation at the EU level. It has demonstrated clearly, for example, some of the dangers of relying on effective policy outputs, particularly within integration domains that traditionally lie at the heart of national sovereignty. This is because, ultimately, a lack of legitimacy on the input side may lead to the erosion of policy effectiveness itself—or at least the implementation of policy that is out of line with citizen preferences.

Perhaps the key lesson here, however, is that there are no easy solutions to this legitimacy dilemma owing to the significant challenges of securing democratic accountability at the EU level (i.e. addressing the so called 'democratic deficit'). The precarious balance between national parliaments and the European parliament remains after all and very few actors, at least in the EMU policy-making context, have a true vision as to the future direction political integration in Europe should take. This is compounded by sovereignty concerns and disagreement over what powers and roles the European Parliament should take on in relation to its national level counterparts. These findings are also relevant to broader concerns on transnational democracy, which are set in the context of several contemporary developments including globalisation, regionalisms and global civil society. This is because the research highlights some of the key challenges of implementing democracy beyond the nation state level.

Aside from legitimacy considerations, the benefits of adopting a historical approach to EU studies generally has been made clear. Most notably, the concept of path-dependency and its related arguments have been revealed to have a large impact on the status of EU integration in what is a highly complex, multiple actor institutional environment. This study, therefore, builds on earlier studies that have also demonstrated the power of path-dependency in adjoining policy areas such as the CAP and the Multi-Annual Financial Framework. Within the context of EMU more specifically, this research has also provided more evidence as to the asymmetric nature of integration in this policy environment, with monetary integration once again preceding economic and political integration. The benefits of going beyond a purely institutional or material analysis to factor in the role played by ideational factors has

also been shown to add significant explanatory potential when exploring integration within EMU. The social construction of EMU through ideology, for example, have been revealed to be paramount in an area which is often solely approached through the lens of economics.

Finally, some of the limitations of this research need to be discussed. First, this research has focussed on the fiscal governance reform discourse emerging largely at the EU level as opposed to nationally at the member state level. Of course, given the high level of representation of national ministers and officials within EU level politics, national opinions have still been factored into the analysis. However, it would be worthwhile adopting a more explicitly domestic politics approach to the study of fiscal governance reform. Such an analysis could be used to assess the internal situation of the member states, particularly France and Germany, for a more in depth reading of how their governments came to play contrasting roles throughout the crisis period. It is also important to point out that the ongoing reform debate over EU fiscal governance is part of a far broader reform debate covering economic, financial and banking issues within EMU. While the lack of a fiscal union aspect was without doubt one the key shortcomings exposed by the financial and economic crisis, agendas for reform have been set in play for all these policy-making areas. A far broader political economy type analysis therefore needs to be carried out to assess the state of integration in these areas combined—and it would be highly relevant to factor in legitimacy considerations here too. While it could be speculated that there may be similar constraining forces in play across these policy domains, this would be merely speculation at this stage.

It is also interesting to note that these integration areas are all intimately interlinked. In particular, in view of recent proposals to set up a common fund to facilitate bank resolution, it can reasonably be asserted that the setting up of a full banking union within EMU would in practice *de facto* mark the arrival of a fiscal union. Clearly, there is much to be further researched here concerning the interconnects between the various policy domains, particularly when discussing the political integration that might need to follow. Similarly, another vital issue that requires clarification in this context is how the contrasting situations between the Eurozone and non-Eurozone countries will impact on integration within EMU moving forward.

And again, this is also an interesting question to pose in the context of any future political integration, with proposals being aired for a possible euro-chamber (i.e. a two-tier system within the European Parliament). Regarding the overarching methodological approach drawn upon, criticisms could be made that a more positivistic or systematic analysis of legitimacy could have been formulated with a view to reaching more exacting judgements of the interplay between the input and output dimensions (perhaps in terms of synergy or trade-off). However, it is believed that the benefits of drawing on a moderately constructivist CDA type approach far outweigh the costs given that it facilitates a 'thick' description of legitimising discourses at both the linguistic level and of how they interact in the broader social cultural and political context. It is also hoped that this research has made a contribution to our understanding of the ideational and institutional roots of the current impasse in European Integration.

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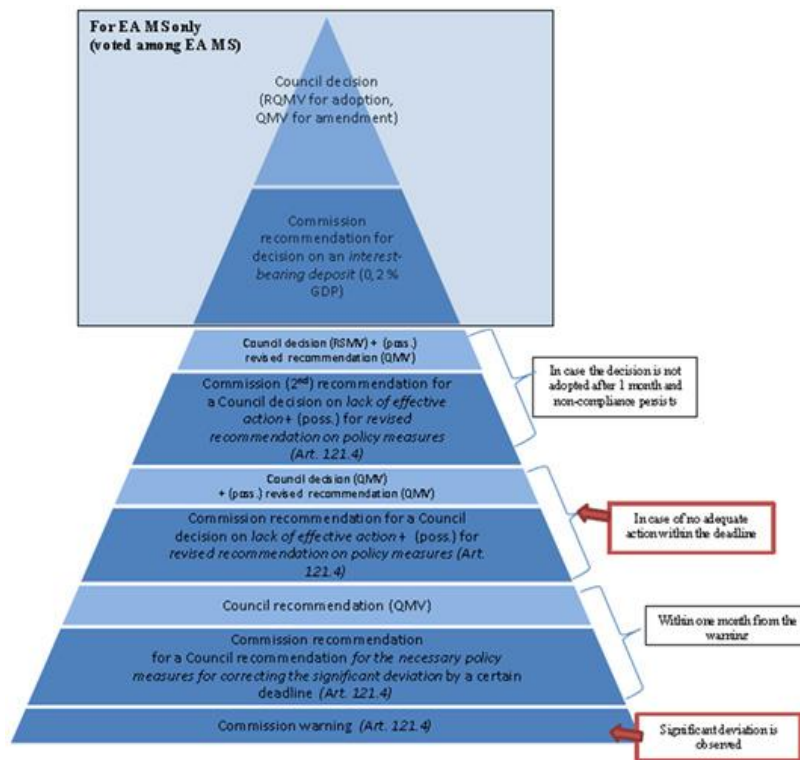
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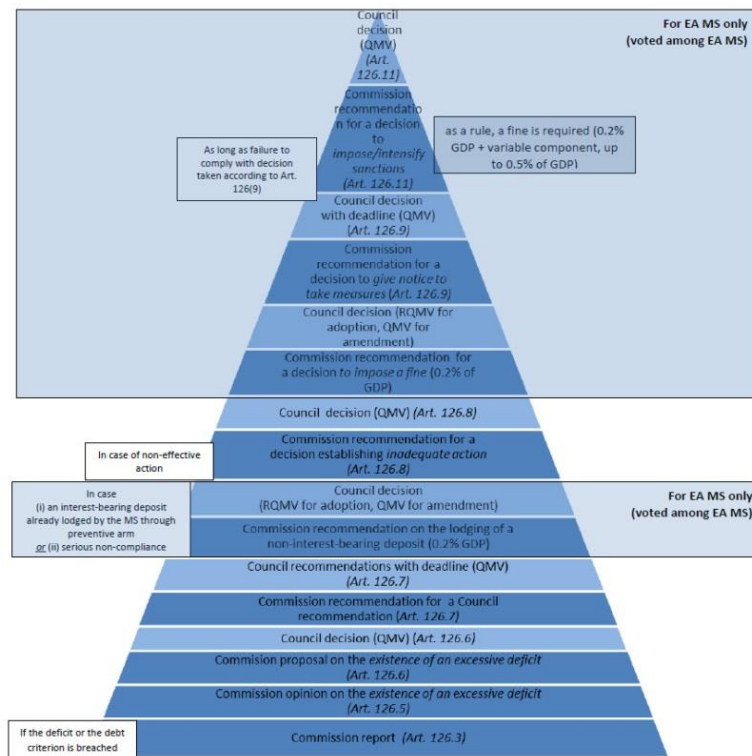
Appendix

Figure 1 Decision-Making under the Preventative Arm of the SGP



Source: Commission (2013a)

Figure 2: Decision-Making under the Preventative Arm of the SGP



Source: Commission (2013a)

Interview Participants

Interview Extract A

23/09/2013

Interviewee remained anonymous

Senior Official

Directorate General for Economic and Financial Affairs, European Commission
Policy Strategy and Coordination

Interview Extract B

24/09/2013

Mr Cornelis VAN DUIN

Policy Advisor

Directorate General for Economic and Financial Affairs, European Commission
Policy Coordination and Strategic Planning

Interview Extract C

23/09/2013

Interviewee remained anonymous

Senior Advisor

Directorate General for Economic and Financial Affairs, European Commission
Fiscal Policy

Interview Extract D

25/09/2013

Christine Frayne

Official

Directorate General for Economic and Financial Affairs, European Commission
Fiscal Policy (Programme Design and Support)

Interview Extract E

26/09/2013

Mr Pim Lescrauwaet

Secretariat

Directorate General for Economic and Financial Affairs, European Commission
Part of the Commission provided Secretariat located within DG ECFIN who
contributes to the EFC and EPC

Interview Extract F

26/09/2013

Mr Romain Berline

Secretariat

Directorate General for Economic and Financial Affairs, European Commission
Part of the Commission provided Secretariat who contributes to the Eurogroup and
Euro Working Group

Interview Extract G

27/09/2013

Interviewee remained anonymous

Senior Official

Directorate-General G-Economic Affairs and Competiveness, Council of the
European Union

Council Directorate for Economic Policy, including Eurogroup

Interview Extract H

Mr Olle SCHMIDT

24/09/2013

Member of the European Parliament

Group of the Alliance of Liberals and Democrats for Europe

Committee on Economic and Monetary Affairs

Interview Extract I

25/09/2013

Mr Ashley Fox

Member of the European Parliament

European Conservatives and Reformists Group

Substitute: Economic and Monetary Affairs

Interview Extract J

25/09/2013

Mr Pablo Zalba Bidegain

Member of the European Parliament

Group of the European People's Party (Christian Democrats)

Vice-President of the Economic and Monetary Affairs Committee

Interview Extract K

31/03/2014

Danuta Maria HÜBNER

Member of the European Parliament

Group of the European People's Party (Christian Democrats)

Substitute: Economic and Monetary Affairs

Interview Extract L

02/04/2014

Mr Bas EICKHOUT

Member of the European Parliament

Group of the Greens/European Free Alliance

Substitute Member of the ECON Committee on Economic and Monetary Affairs

Interview Extract M

02/04/2014

MEP Emilie TURUNEN

Member of the European Parliament

Group of the Progressive Alliance of Socialists and Democrats in the European Parliament

Substitute Member: Committee on Economic and Monetary Affairs

Interview Extract N

03/04/2014

Mr Jani Pitkäniemi,

Counsellor, Permanent Representation of Finland to the European Union

Ecofin (coordination), economic policy, EMU

Interview Extract O

04/04/2014

Interviewee remained anonymous

Senior Spokesman for the European Council President

European Council

Member of the Cabinet for the European Council President

Interview Extract P

03/04/2014

Mr de La Chapelle Bizot

Minister Counsellor for Economic, Financial and Monetary Affairs at the Permanent Representation of France to the EU

Interview Extract Q

02/04/2014

Interviewee remained anonymous

Senior Official

Cabinet for the European Council President Deal

Deals with social-economic questions

Interview Guide

- ***Please note that this interview guide is only a rough overview of the questions posed during the interview process. As made clear in chapter 4, questions were structured specifically in accordance with the interviewee's job location, role and area of expertise. The interview itself with also open-ended in format.***

The interview will follow Plymouth University's ethical guidelines for human participant research. And just to remind you that you can at any time during the interview process withdrawal from the interview in its entirety. Moreover, any questions you feel uncomfortable answering please say so and we will move swiftly on. And, as matter of course, your identity will remain strictly anonymous and you will not under any circumstance be quoted directly within any subsequent research piece. Finally, I would just to make you aware that I am keen to keep this interview semi structured and open ended so please feel free to expand on any issues which you consider to be of particular importance which may not have been posed directly in the questions. The focus of my questions, reflecting my research, are largely concerned with the topic of fiscal governance reform in the wake of the financial and economic crisis. And just to make you aware that many of the questions are more political in nature as opposed to purely technical, reflecting the particular angle of my research.

Question directly related the interviewee

- 1) First of all, in order to contextualise your answers, could I briefly ask you to expand on what your particular role entails in relation to decision-making within the EU's fiscal and broader economic governance framework?

General Institutional Observations

Now obviously, fiscal and broader economic governance within the EU has been strengthened significantly since 2010 following the introduction of the six-pack, two-pack, and fiscal compact, with more to come. But before I pose some questions about the reform agenda itself being developed for fiscal governance in the EU, I wanted first to ask you some questions on your perception as to the impact of the crisis upon the Unions key decision-making procedures and institutions, particularly in relation to the 'Community Method'.

- 2) And my first question in this context is just to ascertain your thoughts on what some commentators have termed as a rise in the European Council's role as top executive power when set against the Commission's traditional role as the initiator of legislation.
- 3) Have these policy environments functioned during the crisis as deliberative forums to prepare the ground for political compromise at a more senior level of governance-with the most controversial of issues being left to be solved in the European Council?.
- 4) And now, more in relation to the European Parliament. During this crisis period, as efforts have been made to reform fiscal and economic governance within the EU, do you think it been marginalised at all during this process?
- 5) In your opinion, do these general transformations you describe to EU decision making pose any challenges in relation to the democratic legitimacy and accountability of EU policy making? If yes are these justified by the need to respond effectively to the crisis?

Details of the Reform Agenda Itself

And I would like to ask some questions in particular reference to the so called “four presidents” ‘Towards a genuine economic and monetary union’ report released in Dec 2012 and the European Commission’s ‘Blueprint for a deep and genuine Economic and Monetary Union’ (questions framed in accordance with the interviewees working location):

From my reading of the documents it is evident that the immediate priority in responding to the challenges presented by the financial and economic crisis has been to strengthen budgetary coordination, surveillance and discipline by building on the rules-based SGP framework, through the full implementation of the six-pack, two-pack and fiscal compact.

- 6) In your opinion, are these short-term priorities the correct ones?

Over the medium to longer term both reports envision a graduated reform process towards a more highly integrated ‘fiscal union’ combining more centralised budgetary control as a prerequisite for the setting up of various solidarity mechanisms in the future. Although the Commission’s report does go noticeably further than the Four Presidents report in terms of its commitment to deeper fiscal integration- with it mentioning the possibility of common debt issuance, a European Treasury, a autonomous euro area budget with a stabilisation function and a European veto over national budgets.

- 7) My question is then, what level of fiscal integration do you personally believe needs to be put in place in order to respond effectively to the challenges presented by the economic and financial crisis?

Political Reform Aspects (in relation to the two reports mentioned above)

- 8) In the two reports there seems to be an understandable focus on overcoming of challenges presented by the crises and restoring stability and growth. However, as a consequence, it would seem that the section on political Union has remain under developed. So my question is does this reflect an unwillingness to tackle challenging questions concerning democratic input legitimacy and accountability, at least in the short term?
- 9) As an accompaniment to the fiscal integration process as envisioned in the two reports, I would like to ask you if there are any priority steps you personally believe need to be taken, over the short and long term, towards a enhanced political union at the European level in order to ensure adequate levels of democratic legitimacy and accountability (treaty change, more involvement of the EP,)
- 10) Very generally speaking, in relation to the reform agenda and the manner with which it has been applied, are you yourself satisfied that it has been implemented with adequate consideration as to the principles of democratic legitimacy and accountability.
- 11) Final question: What do you envision as the biggest hurdle to cross on the path towards the realisation full political and fiscal union.

