Demosthenes Ioannou, Patrick Leblond and Arne Niemann (2015)

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In: *Journal of European Public Policy*, *Vol. 22, No. 2*

This is a preprint of an article whose final and definitive form will be published in *Journal of European Public Policy*, *Vol. 22, No. 2* © Copyright SAGE Publications; *Journal of European Public Policy* online at http://www.tandfonline.com

This article is available at
http://dx.doi.org/10.1080/13501763.2014.994979

European integration and the crisis: practice and theory

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ABSTRACT

This paper is the introduction to a special collection of contributions that analyse the economic and financial crisis through various theoretical lenses. Accordingly, it does four things. First, it describes the EU's institutional response to the crisis, in order to provide a reference point for the contributions. Second, it summarises the contributions. Third, it compares them in order to develop a theoretical dialogue. Finally, it answers the fundamental question at the heart of the crisis and this special collection: why did EMU become deeper and more integrated when many feared for its survival?

KEYWORDS: banking union, economic and financial crisis, Economic and Monetary Union, euro area, European integration, European Union, fiscal union. integration theory

INTRODUCTION

Few events over the past few decades have given rise to an amount of debate and speculation concerning the state of the European Union (EU) and the future of European integration as the economic and financial crisis that began in 2007. In spite of substantial media, policy-making and academic attention, the fundamental questions of why and how the euro area (EA) has remained not only intact but also expanded and integrated further during the crisis require deeper theoretical investigation. One needs to understand not only the economics but also the politics and institutions of the crisis. A lack of such an understanding is the reason why a number of observers, at least initially, had a hard time making sense of policy-makers' decisions (and pace thereof), including why the EA did not implode as some predicted.[i] Economic theories provide a certain perspective for why the crisis occurred and what economic policies were and are needed to resolve it (e.g. Pisani-Ferry 2014); however, they fail to capture the crisis's deeper roots and management (see Leblond 2012).

In order to improve our understanding of a discussion that has oscillated between fears of EA disintegration on the one hand and the concrete advancement of integration during the crisis on the other, this special collection brings together leading scholars of European integration who apply key theoretical approaches – from liberal intergovernmentalism and neofunctionalism to other prominent theoretical accounts that have been applied to European integration such as historical institutionalism, critical political economy, normative theory, and a public opinion approach – to the economic and financial crisis. The contributions seek to

analyse, understand and/or explain the events that occurred and the (re)actions to them in order to draw conclusions concerning the applicability and usefulness of their respective theoretical perspectives.

We view the approaches included in this special collection as complementary rather than competitive and search for a productive coexistence of the various perspectives advanced here (see Diez and Wiener 2009). In addition, there may be scope to identify the 'home domains' of each approach, thus enabling us to ascertain how a division of labour between them may add up to a larger picture, in the sense of additive theory (Jupille *et al*. 2003: 21), without being combined or subsumed into a single grand theory through full-fledged synthesis.

In this introductory paper, we do three things. First, we describe the EU's institutional response to the crisis, which serves as a reference point for the contributions in this special collection in order to avoid unnecessary repetition across them. Second, we present in summary form the contributions to this special collection. Third, we compare the different theories and offer some thoughts concerning the possibility for dialogue among them. Finally, we conclude by answering a key question posed earlier: why did EMU become deeper and more integrated when many feared for its survival during the crisis?

EUROPEAN INTEGRATION DEEPENS WITH THE CRISIS

The contributions to this special collection have either explicitly or implicitly chosen as their dependent variable the events that took place during the crisis and in particular the decisions taken and integrative steps that were agreed in relation to

EMU. This section therefore provides a brief overview of the crisis and the integrative steps taken. We provide as much as possible a factual overview and leave the (theoretical) explanations behind the events to the contributors, which we summarize and discuss in the next sections.

A (very) short history of the crisis

The crisis began as financial turmoil in the United States (US) and Europe in 2007 when some credit institutions found themselves in an increasingly precarious position arising from 'toxic financial assets' on their balance sheets, which had been produced over a prolonged period of credit expansion and public and private over-indebtedness. Within a very short period of time these assets proved to be of much lower value than previously assumed. In the context of the liquidity shortages that ensued worldwide, the European Central Bank (ECB) injected liquidity into the European banking system already in August 2007. Illiquidity became acute in the US and elsewhere following the collapse of Lehman Brothers in September 2008. The collapse of a systemic financial intermediary at the heart of the US financial system led to a confidence crisis and a rapid and widespread repricing of risk and retrenchment in international capital markets, which quickly led to sharp drops in economic activity. In such a situation, illiquidity may quickly lead to insolvency and the collapse of the financial system (Rajan 2011). Nevertheless, in the European context, the support of illiquid banks to ensure financial stability became difficult for over-indebted national governments, especially given the absence of a clear crisis

management framework that included a lender of last resort and a fiscal backstop (de Grauwe 2011).

A number of EA member states proved too weak not only in defending their banking systems but also in allowing automatic fiscal stabilisers to fully absorb the impact of the resulting economic recession let alone considering fiscal and financial policy activism in an environment where imbalances had been building up for a number of years. Against this background, the shortcomings in the EMU's architecture came to the fore, as did the political economy spanning 17 EA members sharing the single currency. The crisis uncovered among other things the lack of appropriate firewalls that could ensure shock absorption and the prevention of contagion while at the same time avoiding moral hazard in public and private actors and across the borders of member states.

For the sake of brevity, Figure 1 illustrates the key decisions taken since 2007 against the background of one measure of financial tension and of sovereign bond yields, which are used as a simplified barometer of the intensity of the financial and sovereign debt crisis in various EA member states. The details of the institutional reforms that took place in the same period are described below.

INSERT FIGURE 1 APPROXIMATELY HERE

Integrative steps taken in response to the crisis

In December 2012, the presidents of the European Council, the European Commission, the Eurogroup and the ECB published a report whose objective was to

develop ‘a vision for the future of the Economic and Monetary Union and how it can best contribute to growth, jobs and stability’ (Van Rompuy *et al*. 2012). According to the report, there are four building blocks necessary to create a ‘genuine’ EMU: an integrated financial framework (i.e. banking union), an integrated budgetary framework (i.e. fiscal union), an integrated economic policy framework, and appropriate mechanisms of democratic legitimacy and accountability commensurate to the increased levels of integration (i.e. political union). As a result of the crisis, the EU and the EA implemented several governance reforms and put together a series of institutional mechanisms to help resolve the crisis and prevent others in the future. Many of these mechanisms came before the Four Presidents' Report was published. As such, they form part of the building blocks identified in the report and on which future steps would be built.[ii]

European Stability Mechanism

When Greece was shut out of capital markets in May 2010, there was no crisis ‘firewall’ for supporting EA member states that were faced with bond investors' panic. The Greek Loan Facility (GLF) was thus constructed under severe time pressures and as an ad hoc solution for Greece. However, the GLF quickly led to the creation of the European Financial Stability Facility (EFSF) as a broader (albeit also temporary) rescue mechanism for EA member states experiencing fiscal problems. Nevertheless, soon after the EFSF had become official, sovereign bond investors began worrying about what would happen when it expired at the end of June 2013. It quickly became obvious that the fiscal and banking problems experienced by

Greece and others would not be resolved in the ESFS's three-year time frame. The solution was to set up a permanent firewall/financial assistance mechanism: the European Stability Mechanism (ESM).[iii]

The European Council adopted the ESM in principle at its meeting on 16-17 December 2010. On 11 July 2011, finance ministers from EA member states signed the Treaty Establishing the European Stability Mechanism, which is an intergovernmental agreement between the 18 members of the euro area.[iv] The treaty came into force on 27 September 2012 when Germany ratified it, thereby surpassing the minimum ratification threshold of 90% of the ESM's original capital requirements. The ESM began its operations on 8 October 2012 with a lending capacity of €700 billion (including the remaining capacity of the EFSF). Unlike the EFSF, which was based on guarantees, the ESM has €80 billion of paid-in capital and €620 billion of callable capital used to issue money market instruments and medium- to long-term debt. It disbursed its first loans to Spain on 11 December 2012. As will be made clearer below, the ESM is an important element of both fiscal and banking unions.

Towards a European fiscal union

In light of the severe fiscal problems experienced by numerous EU member states, Greece being the most notable, it was clear that the existing Stability and Growth Pact (SGP) was insufficient to prevent EU governments' public finances from becoming unsustainable (Ioannou and Stracca 2014), though its weakness was

widely acknowledged even before the crisis (see Heipertz and Verdun 2010). Therefore, fiscal cooperation had to be bolstered along with stricter rules.

The first step towards tighter fiscal governance at the EU level was the so-called 'Six-Pack', whose process was launched in March 2010 in the midst of the Greek debt crisis to culminate into five regulations and one directive adopted in October 2011, with entry into force on 13 December 2011. The Six-Pack reinforces the SGP's fiscal surveillance, which is now embedded in a pre-determined yearly economic policy coordination cycle called the European Semester. One of the Six-Pack's key components is the so-called 'reverse qualified majority', whereby the imposition of financial sanctions on member states that do not bring their fiscal deficits or debts into line quickly enough under the Excessive Deficit Procedure (EDP) is semi-automatic upon a Commission recommendation to the Council unless a qualified-majority of member states votes *against* the sanctions. In contrast, before the Six-Pack a qualified-majority of votes was necessary to *impose* sanctions. In other words, a qualified-minority of member states (including those in excessive deficit) was sufficient to block sanctions from being imposed, which, together with an unclear procedure,[v] was among the causes for the SGP impasse in the ECOFIN Council of 25 November 2003 (see Leblond 2006). Another important feature of the Six-Pack is that public debt levels are now explicitly incorporated in the EDP along with deficit levels. This means that a member state whose public debt is above 60% of GDP can be put in an EDP even if its deficit is below the 3% of GDP threshold. The Six-Pack also provides the SGP with a stronger 'preventive arm' in the form of country-specific, medium-term budgetary objectives (MTOs) based *inter alia* on

expected economic growth rates. Finally, the Six-Pack offers a new surveillance mechanism called the Macroeconomic Imbalances Procedure (MIP) and a related enforcement mechanism known as the Excessive Imbalances Procedure (EIP), which deal with macroeconomic imbalances (such as excessive current account deficits or unit labour cost growth) between EU member state economies.

The second step towards a fiscal union in the EU is the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (TSCG), also known as the 'fiscal compact' or the 'fiscal (stability) treaty'.[vi] This is an intergovernmental agreement, not part of EU law, signed on 2 March 2012 (it entered into force on 1 January 2013) that builds on the Six-Pack/SGP and Two-Pack (see below).[vii] One of the TSCG's main features is the commitment by the signatories to include a permanent and binding balanced budget rule in national legislation, which includes a self-correcting mechanism, preferably of a constitutional nature. Moreover, under this rule annual structural (i.e. taking into account the business cycle) government deficits must not be above 0.5% of GDP. This commitment is subject to review by the European Court of Justice, including the possibility of financial sanctions imposed by the Court. Another important feature is the requirement for the signatories to report to each other their public debt issuance plans, which accompanies a non-binding commitment to have greater economic policy discussion *ex ante* and, where and when necessary, coordination. Finally, it should be pinpointed that only countries that follow the TSCG can receive funding from the ESM.

The final legal mechanism that the EU put together to enhance fiscal discipline among its member states is the 'Two-Pack', which consists of two EU regulations applying, on the basis of Article 136 TFEU, only to EA members. The Two-Pack entered into force on 30 May 2013 and consists of two core elements: (1) a common budgetary timeline and rules in which the Commission examines and gives an opinion on each EA member state's draft budgetary plans, possibly leading to revisions before the budget is tabled in national parliaments;[viii] (2) enhanced monitoring requirements for countries subject to an EDP, whereby the latter have to report not only additional but also more timely fiscal information to the Commission than what is already provided by the Six-Pack/SGP.

The above fiscal policy measures put in place by the EU and its member states go some way to achieve the Four Presidents' objective of creating an integrated budgetary framework that enhances fiscal discipline. However, it is still a long way from a fully-fledged fiscal union with an EU-level fiscal policy with a central budget, supranational taxes, commonly issued debt (e.g. Eurobonds) and fiscal transfers between member states.

The European banking union[ix]

The decision to move forward towards an 'integrated financial framework' was taken at the European Council summit of 28-29 June 2012, where a first draft of the Four Presidents' Report was also presented. The first element of what became the European banking union was the Single Supervisory Mechanism (SSM), which was announced in a parallel EA summit with the intention of breaking the so-called

bank-sovereign nexus.[x] Eventually, the banking union would also include: an advanced form of the single book of EU prudential regulation; a single resolution mechanism; the possibility of the ESM to directly (as opposed to only indirectly) recapitalise banks; and a common deposit guarantee framework.

The 'single rulebook of prudential regulation' (the term was first coined at the June 2009 European Council) corresponds to a common set of principles and rules governing the adequate regulation and supervision of banks in the EU. Essentially, it consists of transposing the new Basel III standards into the EU's legal framework, which was done with the adoption of the Capital Requirements Directive IV and the Capital Requirements Regulation (CRR) that came into force on 17 July 2013.[xi] Because EU regulations have direct effect into member states' national law, the CRR aims to maximize the harmonisation of prudential regulation across the EU. For instance, it contains detailed prescriptive provisions on capital and liquidity requirements, including limits on leverage. It also deals with disclosure requirements and counterparty risk. The directive (CRD IV), for its part, is less prescriptive as it has to be adapted to national law. It focuses particularly on the powers and responsibilities of national authorities (and the ECB following its assumption of supervisory tasks) in terms of authorisation, supervision and sanctions. It also includes provisions on banks' internal risk management and corporate governance.

As for banking supervision, on the basis of Article 127(6) TFEU, the SSM was developed after the June 2012 European Council summit and came into full operation in November 2014. As a result, the ECB acquired microprudential

supervision[xii] of all EA banks, though the SSM also foresees the possibility of non-EA member states to join the mechanism. Through the creation of a Supervisory Board at the ECB, the latter supervises directly the 130 most significant banking groups.[xiii] After one year of preparations during which a comprehensive assessment of these groups' balance sheets was performed (an Asset Quality Review and a Stress Test), the ECB assumed fully its supervisory tasks under the SSM framework on 4 November 2014.

With the SSM in operation, the ESM is able to provide temporary financial assistance directly to banks experiencing liquidity problems, not just indirectly through governments that take up an EU programme. This Direct Bank Recapitalisation facility is to act under strict rules that fully respect the new 'bail-in' regime (see below) created by the EU-wide framework of the Bank Recovery and Resolution Directive (BRRD)[xiv] and against the backdrop of the single market's state-aid rules that the European Commission revised in August 2013. In late June 2013, the Eurogroup decided to limit the ESM's ability to intervene directly in banks' recapitalisation at €60 billion. This was concomitant to the notion that under the bail-in regime taxpayer funds would be made available only as a very last resort and only after the bail-in of a bank's creditors, including senior creditors from 1 January 2016.

Together with the SSM, another key institutional pillar of an effective banking union emerged in the form of the Single Resolution Mechanism (SRM), which deals with banks that need to be resolved, especially the most significant ones supervised by the SSM. The SRM was agreed to on 30 July 2014 to begin operating on 1 January

2015. It applies to banks supervised by the ECB and is expected to be fully operational by 1 January 2016 (when the BRRD's senior bail-in provision comes into effect). Moreover, a Single Resolution Fund (SRF) was agreed to in May 2014. Bank levies will fund the SRM and be gradually pooled over eight years via national resolution funds.[xv]

The banking union's final pillar, a deposit guarantee framework, has started to take shape under the revised Deposit Guarantee Schemes Directive (DGSD), which was adopted on 12 June 2014. The DGSD harmonises the following elements: deposit coverage to €100,000; arrangements for paying out depositors, in terms of speed and cross-border coordination; and the financing of national DGSs, including mutual borrowing in the case of large bank failures. Such DGSs are deemed important because they could prevent bank runs by giving depositors confidence that their money is safe. Moreover, to maintain a level playing field in an integrated financial services market like the EU, a minimum harmonisation is required because customers could be tempted to deposit their money in the banks of member states where deposit insurance levels are higher. Nonetheless, deposit insurance remains the banking union's weak link, because no progress has been made towards a single EU- or euro area-level DGS.

In sum, the crisis in Europe has led to a great deal of institutional activity at the EU- and EA-level (for a timeline and more details on these institutional mechanisms, including the various pieces of legislation underpinning them, see the online Appendix <THIS ISSUE: PUBLISHER TO ADD/UPDATE DETAILS AT PROOF>). Together with the ECB's actions, the resulting institutions contributed to

overcoming the peak of the crisis (Chang and Leblond 2014) and will provide a better framework for preventing and managing future crises.

In terms of European integration, these achievements are remarkable, not only for their scale and scope but also the speed at which they were adopted and put into place. For instance, writing in 2010 as the sovereign debt portion of the crisis was reaching its apex, Leblond (2011) was critical of what had been achieved in terms of supranational financial (most especially banking) regulation and supervision. Yet, four years later, the EA has a banking union already in operation and the regulation and supervision of financial services more broadly have also been further integrated (Grossman and Leblond 2012). On the fiscal side, the story is the same. When the SGP was weakened following the 2003 crisis, many saw fiscal coordination in the EU as toothless, which is why it has been partly blamed for the crisis (Schuknecht *et al*. 2011). However, a significant strengthening of the fiscal rules and coordination has taken place in the EU and the EA over the last few years, though there are still concerns about implementation (OECD 2014). Finally, although the Maastricht Treaty made clear that the EU and the ECB could not bail out member states experiencing debt problems, the EA now has a permanent mechanism to do exactly that. So how do we explain these achievements? This is the main question that the contributions to this special collection try to answer but they do so from different theoretical lenses.

THEORETICAL PERSPECTIVES ON THE CRISIS

As mentioned in the introduction, this special collection brings together leading scholars of the EU to apply various theoretical perspectives to analyse, understand and/or explain the European economic and financial crisis and the integration that took place. In doing so, we try to push beyond the 'stones in a mosaic' methaphor (Diez and Wiener 2009) and identify theories' respective 'domain of application', one of four models of theoretical dialogue identified by Jupille *et al.* (2003)[xvi] and thus ascertain their division of labour (see next section).

Although the old rivals – neofunctionalism (NF) and liberal intergovernmentalism (LI) – are no longer at the heart of most scholarly analyses, they remain important reference points in the theoretical understanding of the EU (Mattli and Stone Sweet 2012; Richardson 2012). Therefore, it made sense to have LI and NF as the starting perspectives of this special collection.

Frank Schimmelfennig, in his contribution, analyses the crisis from a liberal intergovernmentalist (LI) perspective, which means that it allows him to take an 'essential first cut' at the crisis by considering LI's basic elements: national interests, national preferences, international bargaining and institutions to facilitate the bargaining's implementation (Schimmelfennig 2015). He focuses his analysis on the crisis's management and the institutional mechanisms put in place in response to the crisis because he considers LI to be a 'theory of integration', which means that it cannot account for the crisis itself. Schimmelfennig characterizes the crisis's management as a 'game of chicken' where hard intergovernmental bargaining and brinkmanship took place to prevent the EA from imploding, something that all the parties involved wanted to avoid. This 'game' was not so much about whether to

cooperate (i.e. integrate) or to save the EA but about how to share the adjustment costs of doing so. He argues that the bargains and institutional choices reflected mostly the preferences of the German-led coalition. This is because Germany (and its allies in the 'game') was less immediately threatened by the crisis than those member states facing default, exit from the euro, and overall economic collapse.

For their part, Arne Niemann and Demosthenes Ioannou (2015) shed a neofunctionalist light on the crisis. The authors deal extensively with the crisis's management by applying NF's three spillover mechanisms: functional, political and cultivated. Interestingly, however, their analysis of functional spillover's role in the crisis is as much about the origins of crisis as its management. Niemann and Ioannou identify three 'functional dissonances' associated with EMU, which are the result of the incomplete architecture agreed to at Maastricht when EMU was decided. Essentially, these dissonances or pressures are the result of monetary policy being decided independently at the supranational level by the ECB while fiscal policy, financial supervision (and to some extent regulation) have remained largely determined at the national level. If functional spillover provides the logic or impetus for further integration in the context of the crisis (i.e. completing EMU's Maastricht's architecture), political and cultivated spillovers contributed not only impetus to more integration – through the pressuring roles played by business interests, financial markets and supranational institutions such as the Commission, European Parliament and the ECB – but also content to the resulting institutional reforms and mechanisms. Nevertheless, the authors acknowledge that NF's strength in explaining the dynamics of integration is a weakness when it comes to the limits

imposed on integration, like the absence of a fully-fledged fiscal union. They nevertheless imply that functional dissonances continue to exist and may in the future re-emerge to push forward integration.

If LI and NF are justifiably the starting points of this special collection, we felt that an institutionalist perspective on the crisis was also warranted. After all, Pollack (2009: 141) concludes that new institutionalisms (rational choice, sociological and historical) 'have arguably become the dominant approaches to the study of European integration'. Herein, Amy Verdun (2015) uses the lens of historical institutionalism (HI) to analyse the institutional choices that were made in response to the crisis. Given that all options were open as a result of the crisis being a 'critical juncture', she wonders why the institutions that were created are similar in design to past and present EU institutional arrangements. She argues that only HI can provide an adequate explanation to this apparent puzzle, whereby new institutions were either 'copied' from or 'layered' onto other EU institutions.

If it is crucial to explain the policy and institutional choices that have been made in response to the crisis, as the above-mentioned contributions do, it is also important, as Sara Hobolt and Christopher Wratil (2015) point out, to analyse the role played by mass politics and public opinion (PO) in European integration (see also Hooghe and Marks 2009). Like Bellamy and Weale (2015) in this special collection (see below), Hobolt and Wratil argue that further integration depends on some form of public (or, in line with Scharpf (1997), input) legitimacy, which is why they study the dynamics of public support for the euro before and during the crisis. Perhaps surprisingly, they confirm that public opinion of the euro has remained

relatively stable and favourable in the euro area during the crisis. What is even more interesting for such studies is the fact that this (stable) support became increasingly driven by utilitarian considerations (i.e. based on cost-benefit analysis), as opposed to identity ones (i.e. based on national attachments), as the crisis progressed. This means that support for the euro is in fact not static but dynamic. Hobolt and Wratil conclude that their results challenge the notion, advocated by *inter alia* Hooghe and Marks (2009), that greater politicisation of European policy issues implies more constraints on the integration process.

As mentioned above, Richard Bellamy and Albert Weale (2015) also address the issue of legitimacy but they do so from a normative theory (NT) perspective. They argue that as EMU gets reformed in order to become more effective, especially on the fiscal front, there has to be a two-level contract between EU member states themselves on one level and between the member states and their citizens on the other if the European economic governance structure that emerges from the reform process is to be politically legitimate. According to them, such legitimacy for EMU does not come from a single *demos* but from agreements between the EA's various *demoi* via negotiation by their elected representatives. They call this process republican intergovernmentalism and argue that, as a result, national parliaments should be much more involved in EMU decision-making, notably in the integrated budgetary framework.

If Bellamy and Weale (2015) question the legitimacy of the integration path taken by the institutional response to the crisis and offer a remedy, something that is important for European integration theory to do (Diez and Wiener 2009: 18),

Magnus Ryner, in the final contribution to this special collection, offers a broader challenge not only to the institutional and policy choices made in the context of the crisis but also to European integration scholarship prior to the crisis (Ryner 2015). Using a Critical Political Economy (CPE) perspective, he first argues that the causes of the crisis may be understood as a particularly European manifestation of finance-led (over)accumulation inherent to the capitalist system. Second, he considers the steps taken to manage the crisis as a continuation of the German ordo-liberal tradition that is embedded within EMU. He concludes that the resulting one-sided attempt to rebalance competitiveness inside the EA will be catastrophic for member states in the periphery and puts EMU's long-term sustainability at risk.

EUROPEAN INTEGRATION THEORY AND THE CRISIS

The above-mentioned contributions represent major stones, though not all, in the European integration theory 'mosaic' (Diez and Wiener 2009). They help to explain why the crisis happened and how public opinion reacted. They also help to explain why certain integrative steps were taken in response to the crisis and why the resulting institutions were designed the way they were. Finally, they address the normative implications of the crisis and its management, especially in terms of legitimacy and socio-economic justice/development, which are deemed fundamental for EMU's long-term sustainability. However, it is important to step back and look at the whole mosaic in order to see how the pieces fit together and what picture they give us of European integration in the context of the crisis.

Commonalities and differences between theoretical perspectives

When comparing the various contributions, a number of commonalities and differences can be observed. To begin with, all contributors agree, more or less explicitly, that the crisis has led to a noticeable increase of European integration. Even through the lens of LI – an approach that is not known for exaggerating the progress of European integration – one speaks of 'a major leap in financial and fiscal integration' (Schimmelfennig 2015: 1 <THIS ISSUE: PUBLISHER TO ADD/UPDATE DETAILS AT PROOF>).

Second, while some contributors indicate that 'their' approaches do not offer any proposition to account for the crisis (Schimmelfennig 2015: 2 <THIS ISSUE: PUBLISHER TO ADD/UPDATE DETAILS AT PROOF>) or remain (justifiably) silent on this point (Bellamy and Weale 2015; Hobolt and Wratil 2015), other papers implicitly or partly contribute an explanation of why the crisis emerged (Niemann and Ioannou 2015; Ryner 2015; Verdun 2015). Niemann and Ioannou (2015: 10-12 <THIS ISSUE: PUBLISHER TO ADD/UPDATE DETAILS AT PROOF>) suggest that if functional pressures are not resolved through further integrative steps, this can promote crisis. They observe this process following the introduction of the single currency. Functional dissonances – e.g. between supranational monetary policy and intergovernmental budgetary, fiscal and structural policy, or between increasing financial market integration but largely national supervisory systems – allowed for the disrespect of the SGP's fiscal rules, the build-up of financial imbalances, and the loss of competitiveness in a number of economies failing to pursue sound fiscal, wage and structural policies in line with the single monetary and exchange rate

policy (see also Verdun 2015). For his part, Ryner (2015: 8-12 <THIS ISSUE: PUBLISHER TO ADD/UPDATE DETAILS AT PROOF>) understands the crisis as the result of a capital accumulation regime generated by financial markets driven by ever riskier investments in the absence of productivity growth. In Europe, surplus capital in the northern core was used to finance debt-driven private and public consumption in the periphery.

Third, LI, NF, HI, NT and CPE all provide key pieces of the explanatory puzzle when it comes to specific integrative steps taken in response to the crisis and the scale and scope of the institutions that were created as a result. For LI, the institutional arrangements were generally aligned with German preferences. For NF, the various spillovers are the key to understand the need for further integration in particular. In both accounts, however, interest groups play an important role. LI highlights organised interests through the domestic 'transmission-belt', whereas NF stresses the transnational organisation of interests. Moreover, both approaches emphasise the assumption of interdependence between economies, though NF emphasises the interdependence between policy and issue areas more strongly. LI accounts for further crisis-related integration by underlining the substantial interdependence within the EA, which led to strong national preferences for the preservation of the euro (Schimmelfennig 2015). Instead, NF highlights more specifically the various functional interdependences that were (cultivated and) acted upon especially by markets, supranational institutions and transnational business interests (Niemann and Ioannou 2015).

For HI, layering on top or copying from existing or past institutional arrangements has been an effective strategy, especially when there is little time to come up with solutions. This explains the particular shape that new crisis-related institutions have taken (Verdun 2015), which is something that NF has difficulty accounting for because it is focused on the dynamics of integration.[xvii] However, in contrast to LI and NF, the process of institutional structures affecting possible solutions to current problems lacks agency in the HI approach (cf. Verdun 2015: 9-13 <THIS ISSUE: PUBLISHER TO ADD/UPDATE DETAILS AT PROOF>). The HI approach presented herein by Verdun (2015) places more emphasis on path dependent institutional structures (previous institutional structures affect possible solutions to current problems) and critical junctures (short periods of time when actors' choices are likely to affect outcomes). By contrast, NF highlights functional dissonances prompting further action and concrete agency (usually in line with its interests) pushing these dissonances (Niemann and Ioannou 2015).

For NT, the logic of legal constitutionalism underpins much of the new fiscal coordination framework put into place to respond to the SGP's weakness, at the expense of the framework's legitimacy. Similarly, CPE argues that Germany's ordo-liberal view of economic policy pervades the Europe project and, as result, has logically found itself in the institutional response to the crisis. Although this is not something that Verdun (2015) considers, one could reasonably argue that a HI perspective could help shed light on how the ideas of legal constitutionalism and ordo-liberalism became institutionalized within the EU. Unlike NT, CPE also offers an explanation for further European integration through the Amsterdam School's

argument that in capitalist societies elites associated with big capital enjoy privileged positions of power and are therefore able to exercise leadership over the integration process, which they see favourably as capital becomes more international in nature (Ryner 2015: 15-16 <THIS ISSUE: PUBLISHER TO ADD/UPDATE DETAILS AT PROOF>). Arguably, such a logic is not (entirely) dissimilar to that offered by LI and NF in terms of the role played by organised interests in the integration process.

Finally, a number of approaches look into the future. Naturally, NT and CPE do so most explicitly. Following from the previous paragraph, NT and CPE consider EMU's long-term sustainability to be at risk because the new institutions are not sufficiently legitimate in the eyes of citizens who suffer them. Bellamy and Weale (2015: 16-17 <THIS ISSUE: PUBLISHER TO ADD/UPDATE DETAILS AT PROOF>) hold that EMU should therefore be placed under a political constitution that, by increasing the power of national parliaments, reconciles the European monetary order with the legitimacy of member state governance. Hobolt and Wratil (2015), however, cast serious doubt on the new institutional order's lack of legitimacy since EA public opinion in favour of the euro and the EU's effectiveness has remained strong (and actually increased) as the crisis progressed and new institutions came into being. This leads them to question the view that national identities will continue to constrain the process of European integration in the long term, because people seem to have become more utilitarian in their understanding of the euro and its institutional framework. Other contributions also, to some extent, make use of their approaches to project into the future. For instance, NF emphasizes the

continued potential for further spillover given remaining functional dissonances, which suggests that the current (post-crisis) institutional design cannot be taken as the endpoint in the process of European integration (Niemann and Ioannou 2015: 28 <THIS ISSUE: PUBLISHER TO ADD/UPDATE DETAILS AT PROOF>).

Relationship (and division of labour) between approaches: towards domains of application?

Given their commonalities and differences, how do the different theoretical approaches to this special collection add up if we view the approaches as complementary rather than competitive? If we assume that theoretical approaches can have different purposes and scope, it is possible to see them as contributing to our overall understanding and adding up to a larger picture. There is be scope to go one step further and identify the 'respective turfs and "home domains" of each theory' and thus eventually 'bringing together each home turf in some larger picture' (Jupille *et al*. 2003: 21). This implies both specifying the scope conditions of theories as well as the division of labour between them.

The domain-of-application model of theoretical dialogue 'works best when multiple theories explain similar phenomena, when variables have little overlap, and when these variables do not interact in their influence on outcomes' (Jupille *et al*. 2003: 22). Of these conditions for making use of the domain of application approach, the first one is largely given: all theories focus on the crisis, although some approaches focus more on the management of the crisis, while others concentrate more on the (normative) implications of it. However, the partial overlap

between some of the theories makes a clear-cut specification of domains of application difficult at times. For example, interdependence (between issue/policy areas and economies) is viewed as an underlying cause for integration in NF, LI, and also in HI. Having said that, there are some opportunities for engaging in/with this model of theoretical dialogue (at least in a tentative fashion).

One obvious observation is that LI, NF, HI and to some extent PO contribute mainly to explaining integration, while NT and CPE contribute mainly to the normative implications of integration, especially the institutional choices that have been made. But this can be taken a step further. LI has its comparative advantage or 'home domain' when it comes to analysing the actual (crisis management) negotiations, where the national constellation of preferences and differential bargaining power go a long way towards explaining the institutional design chosen by decision-makers during the crisis. To broaden this further, LI is at its best when single (grand) events are analysed, where issues are substantially politicised, when single governments can block decisions and when the stakes and preferences are clear (Schimmelfennig 2015: 13 <THIS ISSUE: PUBLISHER TO ADD/UPDATE DETAILS AT PROOF>). Under these circumstances national governments are privileged: they are clearly in the driving seat and tend to enter into a bargaining mode (Moravcsik 1998; also cf. Niemann 2004).

However, as noted before in the literature, LI does not give us the whole process (e.g. Pierson 1996). To get the larger picture, HI and NF are more useful because they can explain processes over time and how single events are embedded in broader contexts.[xviii] They show that national preferences are not exogenously

given, but very much influenced by EU membership, prior EU decision-making and socialisation processes among negotiators. The two approaches particularly indicate how earlier decisions – like that of an incomplete/deficient institutional EMU design – create pressures on decision-makers for further (integrative) action, and/or affect possible solutions to current problems (in terms of crisis management). They are also complementary in doing so. According to HI, institutional structures affect solutions to problems at hand; however, it is not clear who accomplishes these structural demands.[xix] This is where NF may come in to help, whereby supranational agency, transnational interest groups (and market pressures), along with national policy-makers (whose preferences have been affected by functional rationales) act on structures.

The findings from the PO perspective in this special collection further strengthen our understanding of why decision-makers agreed on substantial further integration during the course of the crisis. High and stable public support for the euro inside the EA is very likely to have influenced policy-makers, especially in times of substantial issue politicisation. As the PO perspective does not constitute a properly fleshed-out approach to European integration (yet), it is difficult to specify its home turf. As Hobolt and Wratil (2015) suggest, public opinion may best be viewed as a driver (for or against integration) that could be incorporated into larger theories of European integration. At the very least, it would be useful to have a better understanding of how and when public opinion enters into the integration process. This may have been what Hooghe and Marks (2009) had in mind when they devised their postfunctionalist theory of European integration; however, they ended

up seeing public opinion mostly as a structural constraint on the integration process, which is the opposite of what seems to have happened during the crisis.

If public opinion matters for European integration, then why does capital continue to determine the integration process against the interest of labour, as the CPE perspective argues? Even more puzzling is why EA voters continued to support the euro as the crisis progressed and 'ordo-liberal' institutional arrangements were put in place. CPE's comparative advantage is certainly its ability to understand the institutional conditions under which the inherent crisis tendencies in capitalism are contained and managed by certain powers as well as the uneven (power and distributive) effects of particular crisis management strategies. It provides us with a perspective to critically analyse the development of the EU's (capitalist) economic system and its implications in terms of socio-economic justice/development. However, as with HI, it lacks a certain degree of agency: the economic structure is determinant. Socio-economic agents are forced to wait for the so-called 'inherent contradictions' of the capitalist system to play out and, thereby, bring an end to the system. In the EU's case, the crisis could have been this momentous occasion, as Ryner (2015) implicitly argues in the first part of his contribution. Why voters did not seize this moment, CPE does not say. Again, this demonstrates the importance for European integration theory to have a PO perspective in order to make the picture not only more complete but also clearer.

NT is least ambitious in its explanatory claims. This is because it seeks to explain the legitimacy of binding agreements between democratic states in the EU's political system rather than the emergence of the economic and financial crisis and

the subsequent process of economic integration. NT elaborates the normative implications stemming from the crisis, by analysing key concepts and their inter-relationships in a norm-governed order, with political legitimacy depending on the intelligibility of the norms. In that sense NT provides a normative complement to the more explanatory theories, such as LI, NF, HI and CPE. Unlike LI, NF and HI, and more in line with PO, it sees input legitimacy (cf. Scharpf 1999) as the key issue of the EU order. LI, NF and HI consider the integrative steps taken as solutions to increase the effectiveness of EMU governance and, thereby, output legitimacy. By contrast, NT sees input legitimacy as a *sine qua non* complement to such output legitimacy. Like CPE, NT also offers a critical-analytical complement to the more established theories, through its critical evaluation of the norms that are at work in the EU's economic constitution and the extent to which those norms are at variance with democratic values. Contrary to CPE, however, it offers a solution to the required legitimisation of economic integration that can emerge within the existing system, by moving from the existing legal constitutionalism to political constitutionalism as a basis for further integration. Finally, like CPE, it is able to make concrete policy and institutional proposals that might improve the integration process, like Bellamy and Weale's (2015) suggestion that national parliaments should be more involved into the EU/EA fiscal coordination framework in order to increase the latter's legitimacy and, therefore, improve EMU's long-term sustainability.

In order to move beyond fruitless discussion – where approaches of different purpose and scope either talk past one another, try to outcompete or

subsume each other, the evolving and emerging division of labour specified above has, in our view, amounted to a richer overall picture. The result of this dialogue may be viewed as 'minimal synthesis' (Jupille *et al.* 2003: 21) in the sense that the results of additive theorising are accepted as useful for gaining a deeper and richer understanding, without combining or subsuming approaches into a single grand theory through full-fledged synthesis. The deeper and richer understanding and insight that we have attained of the crisis and its management through this dialogue seem to prove this point.

CONCLUSIONS

This paper began with a simple yet crucial question with respect to the European economic and financial crisis: why did EMU not implode but instead further integrate? The contributions in this special collection tell us why. The reason is that economic interdependencies between EA member states, stemming from previous institutional arrangements, were such that no one wanted EMU to fail, including the general public. The issue then was how to prevent such a scenario from happening given time constraints and the distribution of costs (burden sharing). Spillover logics, past and existing EU institutional arrangements, and power relations dictated the institutional choices that were made. Even if ultimately those choices proved effective in quelling the crisis, notwithstanding the ECB's key role in managing the crisis, serious questions remain with respect to EMU's long-term legitimacy and sustainability. Nevertheless, the contributions and the insights they provided clearly demonstrate that there is no crisis in European integration theorising. The existing

picture has not only survived the crisis but it has also become richer: theories' domain of application and their division of labour have manifested themselves more clearly.

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ACKNOWLEDGEMENTS

We would like to express our deep gratitude to Jeremy Richardson and Berthold Rittberger for their valuable support, advice and comments with respect to this special collection. Richard Bellamy, Magnus Ryner, Amy Verdun, and Albert Weale also deserve special thanks for their useful comments on parts of the introduction to this special collection. Patrick Leblond would like to acknowledge the support received from the European University Institute, where he was Visiting Fellow during the final stages of this project.

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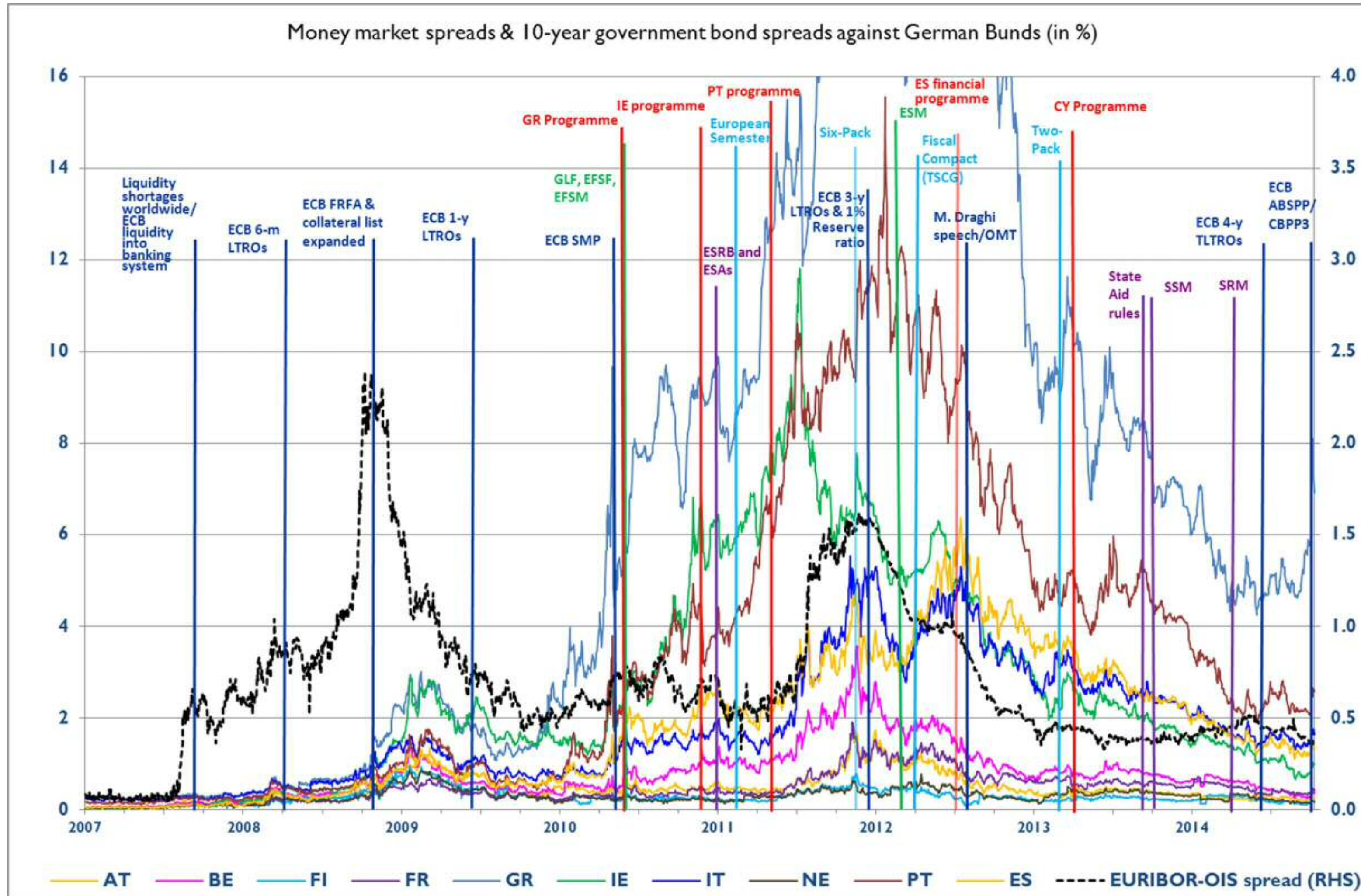
Figure 1: The European economic and financial crisis at a glance



Source: Bloomberg, and authors' calculations and, for the signposting of main events, judgement taking into account EU/EA decision making procedures and possible differences between i.a. announcement of Commission proposals, political agreements between EU Council and Parliament, adoption of legislation, entry into force of legislation and so on (see more below). The measure of tension in money market spreads is here shown as the difference between the long term 12-month Euribor and short term Overnight Index Swap (in percent on the right hand scale).

ECB: European Central Bank
LTROs: ECB Long-Term Refinancing Operations (6-month, 1-year, 3-years)
TLTROs: ECB Targeted Long-Term Refinancing Operations
FRFA: ECB refinancing operations conducted with a Fixed (as opposed to minimum-bid) rate and with Full Allotment
SMP: ECB Securities Markets Programme; OMT: ECB Outright Monetary Transactions
GLF: Greek Loan Facility; EFSF: European Financial Stability Facility; EFSM: European Financial Stability Mechanism
GR/IE/PT/ES/CY Programme: EU Economic Adjustment Programme for EFSF/ EFSM/ESM financial support
ESRB: European Systemic Risk Board; ESAs: European Supervisory Authorities i.e. European Banking Authority (EBA), European Securities Markets Authority (ESMA); European Insurance and Occupational Pensions Authority (EIOPA)
ESM: European Stability Mechanism
January 2011: initiation of European Semester
November 2011: Political agreement on Six-Pack
March 2012: signature of Treaty on Stability Coordination and Governance ("Fiscal Compact")
February 2013: political agreement between Council and Parliament on "Two-Pack" (adopted under Article 136 i.e. for euro area only), originally presented by Commission in November 2011; 2013
August 2013: the Commission's COM of 1 August 2013 updating the framework of the Single Market's State Aid rules
September 2013: Adoption of Single Supervisory Mechanism Regulation (entry into force of SSM Regulation on 3 November 2013)
March 2014: Political agreement on the SRM Regulation between Parliament and Council
ABSPP: ECB Asset Backed Securities Purchase Programme; CBPP3: ECB third Covered Bond Purchases Programme

NOTES

[i] For dire predictions about the future of the euro area, see for example Brittan (2013) and Greenspan (Ahuja 2011). Amongst the best-known critics of the euro and the EU's crisis management are: Blyth (2013); Feldstein (2012); Krugman (2011); Roubini (2012); Sinn 2014; and Soros with Schmitz (2014).

[ii] At the Eurogroup summit on 24 October 2014, EA heads of state or government called for closer coordination of economic policy in the EA and invited the four presidents to make further progress on the basis of their 2012 recommendations (http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/145444.pdf).

[iii] Since July 1, 2013, the EFSF no longer extends new loans. It only manages those it has already made (i.e. repayment), alongside the financial instruments that it has used to fund those loans. Once all the loans have been reimbursed by member states and all the funding instruments have also been repaid in full, then the EFSF will cease to exist.

[iv] A modified version of the ESM treaty, incorporating amendments to make the ESM more effective, was signed on 2 February 2012. Moreover, Article 136 of the Treaty on the Functioning of the European Union (TFEU) was amended to incorporate the possibility under EU law of establishing the ESM.

[v] See European Court of Justice Case C–27/04, Commission v. Council, judgment of 13 July 2004.

[vi] It is important to note that the term 'fiscal compact' only refers to the fiscal component of the TSCG, not the parts dealing with economic policy cooperation.

[vii] The Czech Republic and the United Kingdom are the only two EU member states that have not signed the TSCG.

[viii] The Two-Pack also obliges member states to base their draft budgets on independent macroeconomic forecasts and put in place independent bodies (e.g. a parliamentary budget officer) to monitor compliance with national fiscal rules.

[ix] This subsection draws heavily on Leblond (2014).

[x] The bank-sovereign nexus is also known as the 'doom-loop' whereby sovereign debt problems lead to bank vulnerabilities, which in turn make the sovereign debt problem worse as bond investors fear that the government might have to come to the banking system's rescue, and so on and so forth.

[xi] EU politics have created discrepancies between Basel III and the CRD IV package, according to Howarth and Quaglia (2013).

[xii] Microprudential supervision means the supervision of individual banks while macroprudential supervision means supervisory measures covering more than one bank or wider measures that avoid *inter alia* the creation of market bubbles. The SSM Regulation and the application of CRD IV also to the ECB as supervisor mean that the ECB has also acquired certain macroprudential powers beyond its previous financial stability responsibilities.

[xiii] The ECB supervises the remaining banks in cooperation with national supervisors (National Competent Authorities).

[xiv] The BRRD was a further addition to the single rulebook and aims to harmonize national rules and procedures for restructuring and recapitalizing failing or failed banks. Importantly in such a situation, it provides for 'bailing in' creditors of banks to avoid that taxpayer money is used to rescue banks.

[xv] The transfer and mutualisation of funds collected from national credit institutions is to be done through an intergovernmental agreement that requires ratification by national parliaments.

[xvi] The three other models are: competitive testing, sequencing and incorporation (subsumption).

[xvii] One may argue that NF is at a certain disadvantage here because early neofunctionalism was taken as a point for departure here. A revised neofunctionalist framework that takes countervailing pressures in account may arguably better equip the approach for analysing such issues (cf. Niemann 2006).

[xviii] While several studies have shown that spillover processes may also occur in more politicised 'high politics' arenas (Niemann 2008; Niemann and Ioannou 2015), the natural 'home turf' that is most conducive to the NF spillover logic has often been that of technical and depoliticised settings (see Burley and Mattli 1993).

[xix] It would be unfair to say that scholars working in the HI tradition have not taken agency into consideration at all (cf. Pierson 1998: 43ff). However, on the whole agents are rather reduced to

servants of structure, and the latter is arguably assigned a more important ontological status, which also comes out of the HI contribution to this special collection (Verdun 2015).