1 Introduction

On April 26th, 2023, the European Commission presented a new legislative proposal to reform the budgetary rules of the Stability and Growth Pact (SGP). The Commission's goal was to revise the strict thresholds of 60 % for public debt and 3 % for the deficit ratio, rendering the rules of the SGP more flexible and adapted to each member state. These efforts by the Commission triggered controversial reactions, with orthodox member states such as Germany on the one hand opposing laxer economic and fiscal rules within the eurozone and the southern states on the other hand welcoming a relaxation of the current framework.[1]

The reform to the European Union's (EU) economic and monetary governance thus comes with the challenge of heterogeneous member state preferences and complicated constellations of reform-constraining and -supporting factors. To gain an understanding of these mechanisms, this paper revisits the European sovereign debt crisis of 2008–2013 with specific focus on the aspect of reform in order to find replies to the following questions: What are the factors that enable and restrain change in as complex a structure as the eurozone? In a time of crisis, how can these adjustments be used to counter the threats of the situation?

These questions are of particular interest seeing as scholarly literature does not agree on a common assessment of the reforms implemented during the European sovereign debt crisis, including the establishment of new surveillance mechanisms to the European Economic and Monetary

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1 "On EU Budget Rules Reform, Member States Stand", *What's up EU*, 12/04/2023, accessed on 02/05/0223 at: https://whatsupeuenglish.substack.com/p/member-states-divided-over-budget?utm_source=substack&utm_medium=email

Union (EMU), a European banking union, fiscal and economic adjustments, and changes to the national banking and administrative sectors.[2] While one string of literature regards these adjustments of the crisis as a "far-reaching […] major leap"[3], "dramatic shifts"[4], and "wide-ranging adjustment"[5], the other camp limits its assessment of the changes to "incremental"[6], "piecemeal"[7], and "not sufficient"[8]. In fact, disaccord exists on whether these reforms are beneficial to the European system at all: While some scholars call for adjustments to the eurozone to implement "common standards"[9] in a real "political union"[10] as a remedy against "contagion" by weaker states[11], this opinion clashes with worries about the "self-em-

2 Michele Chang, Federico Steinberg, and Torres García Francisco, eds. 2020, *The Political Economy of Adjustment Throughout and Beyond the Eurozone Crisis What Have We Learned?* Routledge Advances in European Politics (Abingdon, Oxon: Routledge, 2021), 9–12.

3 Frank Schimmelfennig, European Integration in the Euro Crisis: The Limits of Postfunctionalism, *Journal of European Integration*, 36:3 (2014), 323.

4 Jens van 't Klooster, "Technocratic Keynesianism: a paradigm shift without legislative change.", New Pol*itical Economy* 27(5) (2022), 2.

5 George Pagoulatos, "Integrating through Crises: Revisiting the Eurozone's Reform Conundrum" in *Europe's Transformations – Essays in Honour of Loukas Tsoukalis*, eds. H. Wallace, N. Koutsiaras, G. Pagoulatos (Oxford: Oxford University Press, 2021), 150.

6 Gabriel Glöckler Marion Salines and Zbigniew Truchlewski, "Existential Crisis, Incremental Response: The Eurozone's Dual Institutional Evolution 2007–2011." *Journal of European Public Policy* 19 (5) (2012): 665.

7 Erik Jones, R. Daniel Keleman and Sophie Meunier, „Failing Forward? The Euro Crisis and the Incomplete Nature of European Integration", *Comparative Political Studies* 49(7) (2016), 1010.

8 Miguel Otero-Iglesias, "Stateless Euro: The Euro Crisis and the Revenge of the Chartalist Theory of Money." *JCMS: Journal of Common Market Studies*, 53 (2014), 351.

9 Jan Kees de Jager, "Structural conditions for a viable EMU", speech from 24/05/2011, accessed in *Europa in Der Welt: Von Der Finanzkrise Zur Reform Der Union* [Europe in the World: From the Financial Crisis to the Reform oft he Union], eds. Pernice, Ingolf and Rüdiger Schwarz (Baden-Baden: Nomos, 2013), 289.

10 Otero-Iglesias, op. cit., 361.

11 Christoph Ohler, "Die Bewältigung der Schuldenkrise in Europa" [The Tackling of the Debt Crisis in Europe], speech from 01/11/2011, accessed in *Europa in Der Welt : Von Der Finanzkrise Zur Reform Der Union* [Europe in the World: From the Financial Crisis to the Reform oft he Union], eds. Pernice, Ingolf and Rüdiger Schwarz (Baden-Baden: Nomos, 2013), 313.

powerment"[12] of some actors and a "weakened […] discipline" of others in the context of reform attempts.[13] Common to these diverging scholarly claims however is the view that the implementation of change to the eurozone entails implications for all involved actors of European integration, thus both the member state level and the European level.[14]

What existing scholarly literature does not take into account enough is the mechanism that makes reform possible in the first place in this complex multi-level system of the EU. This gap in research is regrettable as debating on the benefits and threats of the reforms as outlined above only becomes possible once an understanding has been reached on the process of reform establishment. Thus, while taking into account the extant work in scholarly literature, this paper aims to shed light on the precise mechanisms of reform in the European sovereign debt crisis. This approach promises to help understand *how* change is introduced in the eurozone despite of, or due to, the different levels involved, and what the aspects are at play that accompany these reforms. Only by knowing which were precisely the enabling and the constraining factors to reform on the national and the European level in the European sovereign debt crisis can a credible assessment of their effect be reached.

The theoretical approach of this paper claims, in reliance on the definition of the European multi-level administration by Benz[15], that there is a high degree of interdependence within the eurozone between the national and the European level as they constitute a fusion of separate, yet interconnected actors that co-exist in a symbiosis of constant contact and influence. This complex interdependence can provide both promises

12 Eugénia Heldt and Tony Mueller, "The (self-)empowerment of the European Central Bank during the sovereign debt crisis." *Journal of European Integration 43(1) (2021),* 84.

13 Markus Ojala, "Doing Away with the Sovereign: Neoliberalism and the Promotion of Market Discipline in European Economic Governance", *New Political Economy*, 26:1 (2021), 203–215

14 Michael Bauer and Stefan Becker, "The Unexpected Winner of the Crisis: The European Commission's Strengthened Role in Economic Governance." *Journal of European Integration* 36 (April 2014): 222.

15 Arthur Benz, "European Public Administration as a Multilevel Administration: A Conceptual Framework" in *The Palgrave handbook of the european administrative system*, eds. M. Bauer and J. Trondal (Cham: Palgrave Macmillan, 2015), 34.

and constraints to the implementation of reform, as adjustments on each individual level have implications for the respective other level due to the interconnected nature of the union. Thus, each level tries to exert influence on the other in the implementation of reform while at the same time trying to regulate its own-level change to its maximum advantage. Trying to minimise the costs of own reforms, each level prefers changes to be made on the other level. Hence, reform on the own level tends to be constrained while change on the other level is encouraged. As this leads to a deadlock situation where the pushing and pulling factors of reform keep each other in balance, only an exceptional situation can break this stagnation and provide enough impulse for each level to implement change. This paper thus claims a complicated circle of interconnection where not only internal, level-specific aspects, but also external factors influence the establishment of change. The paper tries to identify these aspects of each level and their degree of interaction to provide a holistic understanding of reform mechanisms in the eurozone crisis, showing that the national and the European reform implementation depended on enabling and constraining elements of both levels simultaneously in the context of the crisis.

In sum, to better understand how reform was implemented in the European sovereign debt crisis and what the interaction mechanisms between the two levels were, this paper regards the specific aspects that characterised the emergence of reforms to the European level and to the national level. Based on two case studies of Ireland and Spain, the paper addresses the following research question: "To what extent were the reforms pursued during the European sovereign debt crisis sparked by an interconnection of the European and the national levels?"

A clarification is due here regarding the technical terms applied in this paper: The "European sovereign debt crisis" is used synonymously with "euro area crisis" and "eurocrisis"; and the "European level" is equal to the "supranational" level. "Reform" is regarded as a synonym to "adjustment" or "change". The term "institution" as used in this work does not necessarily refer to the seven official European institutions but also describes the structures and organisations created during the euro area crisis.

This paper recognises the high degree of interplay that exists between the national and the European level in the emergence of any type of change and thus takes into account the complexity of arguments surrounding reforms in the eurozone as outlined above. Thus, the analysis includes both the facilitating and the restraining mechanisms in the establishment of reforms by creating a theoretical framework which bases its argument upon a high degree of multi-level interdependence: Due precisely to the restricting and the facilitating aspects of reform on each level, it is only by taking into account all aspects on both levels simultaneously that the reform mechanisms in the eurozone can be wholly understood. To this end, the paper establishes a theoretical frame of an *upward spiral of mutually perpetuated reform* between the member state and the European level in the eurocrisis, claiming that the crisis formed an exceptional circumstance in which the respective restraints to reform were broken up on the national and on the supranational level simultaneously as each level managed to exert pressure on the other to introduce reform in the face of looming collapse.

The paper bases its claim on three hypotheses, the first of which forms the main working hypothesis by explaining the spiral of interconnectedness. H1 thus reads, "Because the failure of one or more countries impacted the whole union in a mechanism of interdependence, reform solutions were enabled only in a constellation of mutual influence." In a system of interconnectedness, integration deepens through crisis in an ever-tighter spiral by mutual perpetuation on the national and European level because one is dependent on the other's support or survival. In principle, reform was desirable in the eurocrisis on each level to counter respective own weaknesses and lacks, such as a fragile banking system on the national level and an incomplete integration on the European level, but internal factors such as political constraints or restraining preference constellations hindered these reforms. Due to the interconnected nature of the eurozone, however, the functioning of the system relied on the very strength and resilience of the respective other level as the collapse of one level would have brought the other down with it. Thus, each level became dependent on the other to implement reform but was under pressure to similarly induce change on its own level: Nationally constrained member state reform was only made possible due to the intervention by the EMU, on whose financial assistance the member states were dependent.

At the same time, previously hindered EMU reform was only enabled in the context of national failure, on whose survival the continuation of the common currency depended. Due thus to mutual weaknesses and the wish of one level for the other to change in order to provide relief to the first, a mechanism of interdependence developed that allowed the national and the European level to influence each other to implement previously impossible, unwanted, or unperceived reforms respectively. In the specific context of the eurocrisis, the threat of the collapse of the euro and thus of the entire eurozone, paired with the financial struggles and subsequent dependence of the member states, created mutual incentives for the member states and the EMU both to introduce change themselves and to pressure the other to implement reforms in their turn.

These claims are the focus of the second and third hypotheses which analyse each level of this spiral individually. They argue that national reform would not have been possible in the eurocrisis without the influence of the European level; and change to the supranational level of the EMU would not have been implementable without the influence of the member states. H2 zooms in on the specific aspects of the national level, claiming that a range of elements, including domestic constraints and policy errors, restrained reform until the financial dependence on the European level made reform possible as part of the EMU's bail-out conditionality. Change that had been impossible to make on the national level thus became implementable once the European level came into play, as H2 summarises: "The Irish and Spanish economic and banking failures necessitated EU intervention to implement national reforms due to domestic constraints to change."

Similarly, as H3 provides, the European level faced limitations to reform abilities prior to the crisis, with diverging member state preferences, a weak EMU architecture, and a restrictive policy towards financial aid to the member states rendering reform possible only once the crisis struck with such force that the common currency became endangered, hereby creating a window of opportunity for the EMU to finally introduce reform. H3 thus claims that "Reforms to the EMU's incomplete state at the time were facilitated by national failures, combined with the need for effective results."

The added value that this approach brings along is its holistic character which takes into account all aspects influencing reform to such a complex symbiosis as the eurozone: as scholarly literature commonly focuses only on one of the two levels, it cannot regard the entirety of contributing aspects, and thus comes to distorted conclusions. By analysing the interdependence of the specific aspects of reform that literature offers on a one-level basis, this paper thus creates the connection between the member state and the European level and enables a complete understanding of the changes introduced in the eurocrisis. Due to space constraints, the paper focuses on two member states as case studies, Ireland and Spain. The choice has been made for these two countries as they reflect interestingly similar, yet differing cases, both having experienced substantial economic growth in the pre-crisis years and yet becoming dependent on European bail-outs during the crisis. The methodology of this paper is thus a case-based multi-level comparative analysis that includes elements of process tracing and uses interviews for background knowledge and inside views on the topic.

The paper is structured as follows: after a brief elaboration on the methodology and choice of cases in chapter 2, a review of three important integration theories that analyse reforms during the eurocrisis shall be made in chapter 3, including Schimmelfennig's neofunctionalist and intergovernmentalist approach, Jones et al.'s "Failing forward" theory, and Ojala's neoliberal work. While Schimmelfennig claims that spill-over effects and national preferences created the possibility in the eurocrisis for major steps to be made in terms of eurozone reform, Jones et al. regret that these changes remained incremental in a constant vicious circle of "failing forward" towards new minimum compromises. Ojala rejects the entire principle of reform to the eurozone in form of a strengthened supranational level as it violates the neoliberal principle of free market discipline.

These findings are taken into account in chapter 4 which establishes the theoretical framework, introducing the spiral of mutually perpetuated reform by claiming an interdependence between the national and the European level in their reform endeavours. Chapter 5 then provides a brief overview of the precise reforms that were introduced in Ireland, Spain, and the EMU, to provide a context to the paper's claims. These changes include adjustments to the banking sector and the public finances in Ireland as well as the establishment of the Irish Fiscal Advisory Council; reforms to the banking sector and the labour market in Spain; and the introduction of unconventional measures, bail-outs, legislative packages, and new institutions on the EMU level. These empirical findings shall be used in chapter 6 to test the hypotheses set up in this paper, applying the claims of the hypotheses to the real-world changes of the eurozone crisis. Chapter 6 thus poses itself the following questions: How were the member states and the EMU interconnected in the implementation of their reforms (H1)? How did the EMU lift the national reluctance to reform (H2)? How did the member states enable reform on the European level (H3)?

The paper concludes that reforms made in the eurocrisis were enabled in a mechanism of interdependence between the member state and the European level. Thus, the mutual dependence of each level on the other to implement change for its own survival created a circle of simultaneous reform action on both levels. The paper hence provides an explanation of the reform mechanisms of the eurozone crisis, showing that changes were made in a situational context of two-way influence, and thus proving that reform was only rendered possible in the crisis in an interplay of both individual-level and level-combining aspects.