4 Theoretical Framework / Approach

4.1 The Upward Spiral of Mutually Perpetuated Reform

Chapter 2 has summarised the views of some of the most important European integration theories regarding reform mechanisms in the eurocrisis and their impacts, which provide a differentiated overview of the current state of scholarly literature on the subject. This paper takes these findings into account as the basis to elaborate upon and question, using some of the above claims to back its own arguments and dropping others as unconvincing or unjustified. The current chapter outlines the theoretical framework developed in this paper and provides a description of the arguments that the following chapters then detail on.

The theory that this paper develops regarding the adjustments achieved within the context of the European sovereign debt crisis can be described as an *upward spiral of mutually perpetuated reform*. The paper claims that the eurozone crisis created a unique and unprecedented situation which offered both the national and the European level the chance to implement reform where it had previously not been possible due to domestic or supranational constraints. Member states such as Ireland and Spain and the architecture of the EMU had experienced substantial weaknesses before the crisis set in, but both levels had failed to implement change prior to the crisis.[55] The fact that reform was eventually introduced both on the member state level and at the supranational level during the crisis – in form of structural and financial reform in Ireland and Spain and in form

55 Walter, op. cit., 113/124; Michele Chang, Federico Steinberg, and Torres García Francisco, op. cit., 9.

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – (cc) BY-NC-ND - https://www.tectum-elibrary.de/agb

of new institutions and elaborated centralised mechanism in the EMU – shows that the crisis presented a context which finally enabled the previously impossible change. The aim of this paper is to understand the mechanisms behind these adjustments and to gain insight into which aspects led to a reformational turn *on both levels simultaneously and within a relatively short time span*. It appears, as derived from the empirical evidence, that reforms were made to an accelerated extent both on the national and on the European level during the crisis,[56] and that an interconnection exists between the two levels. Therefore, this paper focuses on the understanding of this interconnection of the two levels as a trigger of reform.

The claim of the paper is that a *reciprocal* reform enhancement took place during the eurocrisis, enabled not by a one-sided way of authoritarian enforcement of change but by a mechanism of mutual weakness and threatening failure linked with respective dependence on the functioning of the other level. In a rare setting of simultaneous potential collapse at the national and at the European level – with national banking systems failing as much as the common European currency was facing realistic threat of collapse – a once-off concoction of parallel struggle developed which created only two possible outcomes: mutual failure, and the abandonment of the euro as well as the dramatic fall of national systems; or mutual reform, with the promise of saving the common currency and rescuing member states.

While existing literature agrees that the EU has proven to be surprisingly resilient in and against crisis in the decades that it has existed[57], as well as sharing the view that the eurozone crisis led to some change, whether incremental or substantial[58], scholarship has not so far created the link between national and supranational reform. This paper therefore looks into this research gap, asking what exactly the mechanisms were that allowed the EU to be as resilient at it turned out to be in the eurocrisis, and how change became possible suddenly, both domestically and on

56 Hemerijck and Matsaganis, op. cit., 42.; Schwarzer, op. cit., 35–38; Bauer Becker, op. cit., 216–225; Henning, op. cit., 171 and box 8.1.

57 Marianne Riddervold, Jarle Trondal and Akasemi Newsome, “European Union Crisis: An Introduction” in *The Palgrave Handbook of Eu Crises*, eds. Marianne Riddervold, Jarle Trondal and Akasemi Newsome (Cham: Palgrave Macmillan, 2021), 6.

58 Cf. chapter 2 and Schimmelfennig’s versus Jones et al.’s contradictory evaluations of the reforms as “large steps” and “incremental” respectively.

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – (cc) BY-NC-ND – https://www.tectum-elibrary.de/agb

the European level, when member states such as Germany, treaty-given constraints, and domestic politicisation had repeatedly hindered reform in the years before the crisis.

Answering these questions, this paper argues that it was the simultaneous failure of both levels which put the EMU as a whole under such pressure that reforms, previously still circumventable, became inevitable even in the eyes of the strongest opponents. A mutual spirit of giving in and conceding meant that reforms became acceptable on both levels *as long as* the other level showed similar willingness to change: national reforms, so the paper claims, would not have been possible without the dependence of the failing member states such as Ireland and Spain on the EMU's financial assistance and the subsequent subordination of the struggling member states to European pressures to reform. Similarly, changes to the EMU architecture and scope of action would not have been achievable without the looming threat of member states' financial and banking systems collapsing and the common currency consequently failing, imposing a similar pressure on the supranational level to implement reforms that would previously have been unthinkable. The paper, in sum, shows that national and supranational reforms mutually perpetuated each other in a circle of interdependence, with one level relying on the other's reform to prevent a collapse of the system and exerting pressure on the other level accordingly, yet being forced to implement simultaneous changes due to existing own weaknesses, pressures from the other level, and the urgency of the crisis situation.

This theoretical construction thus creates a formerly unregarded link between the two levels, addressing the following questions: How did the shortcomings of each level respectively facilitate change on the other? What are the mechanisms of interconnectedness that enabled such substantial change on both levels at the same time, and in a relatively short time span, when they had been vigorously prevented before?

The paper, while claiming that the eurozone crisis created a window of opportunity that allowed for substantial changes on both levels which greatly improved the economic and financial architecture both nationally and supranationally, recognises the yet existing shortcomings of the EMU a decade after the crisis, with the banking union as yet remaining incom-

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – BY-NC-ND - https://www.tectum-elibrary.de/agb

plete, fiscal union a project of the future, and a real political union currently lacking. Nevertheless, the paper argues that an upward spiral of deepening integration through unity-enabling reforms emerged during the crisis years.

This assessment of the crisis adjustments relies, in part, on the claims made in previous scholarly literature as summarised in chapter 2, while also in part contradicting the arguments of extant works. Thus, this paper aligns with Schimmelfennig's estimation of the eurozone crisis having enabled substantial steps towards deeper financial and fiscal integration and profound technocratic adjustments[59], an impressive reform development that Jonest et al. second by recognising the eurozone crisis as "one of the most rapid periods of deepening of integration in EU history"[60]. Such integration took the form of the establishment of a banking union in 2012 and the creation of institutions tasked with financial and fiscal surveillance such as the ESM and the SSM, as well as the change of tools applied by the ECB towards non-standard measures of financial assistance including OMT, SMP, and bail-outs of struggling countries. The paper however also emphasises the simultaneous development of reform on the national level, including the restructuring of the banking system, financial surveillance, and changes to the labour market, showing that reforms were not only made in the supranational, but also in the domestic field.

To explain these parallel developments, the paper takes up Schimmelfennig's dual intergovernmentalist and neofunctionalist argumentation which claims that both national governments and the European institutions experienced a certain empowerment. The equilibrium created between the two level is a key reason behind the mutual reform perpetuation between the national and the supranational level because both levels managed to pressurise the other in a mechanism of respective dependence: for the EMU, it was the risk of possible contagion and the threats to the common currency that provided pressure to create centralised supranational solutions, while the national governments were put under pressure by the EMU due to their reliance on financial assistance from the European level.[61] Reform obstacles that national governments had previously faced to domestic polit-

59 Schimmelfennig, op.cit., 326.

60 Jones, Kelemen and Meunier, op.cit., 1012.

61 Schimmelfennig, op.cit., 329.

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – (cc) BY-NC-ND – https://www.tectum-elibrary.de/agb

ical constraints[62] were overcome in the crisis because of the positive feedback loop of common national preferences to reform the eurozone[63], with the pressure exerted by the European level for domestic reforms finally granting national governments enough leeway to implement change without facing the responsibility of single-handedly battling national political pressures.[64] Thus, in opposition to Hooghe and Mark's theory of a post-functionalist turn in times of crisis and an ensuing constraining dissensus, this paper argues that national reforms were in fact facilitated by the European level when domestic governments had previously intended, but struggled, to implement long-needed change.[65]

The latter point is one where this paper contradicts Jones et al.'s claims of continuous lowest common denominator solutions: going against the failing forward-logic of incremental change due to the unwillingness of actors to introduce substantial reforms and delegate power to the supranational level[66], this paper claims that national governments in fact welcomed the pressure imposed by the EMU to implement reform due to the above-described former domestic constraints. Rather than Jones et al.'s rather negative assessment of the crisis management, this paper claims that the spiral of deepening integration was one of positive motion rather than failure. In this light, this paper also argues that the reforms implemented both nationally and supranationally, spanning from the establishment of the banking union to new institutions, surveillance mechanisms, tighter fiscal rules, and unprecedented unconventional measures creating a lender of last resort of sorts,[67] went further than mere unintended spill-over effects and incremental change. Rather, this paper argues, the

62 Sebastián Royo and Federico Steinberg, „Using a sectoral bailout to make wide reforms", in *The Political Economy of Adjustment Throughout and Beyond the Eurozone Crisis What Have We Learned?*, eds. Michele Chang, Federico Steinberg, and Torres García Francisco, Routledge Advances in European Politics (Abingdon, Oxon: Routledge, 2021), 177.

63 Schimmelfennig, op.cit., 330.

64 Ibid., 334–335.

65 Royo and Steinberg, op. cit., 177.

66 Kincaid, op. cit., 19.

67 Kathleen R. McNamara, "The Forgotten Problem of Embeddedness: History Lessons for the Euro", in *The Future of the Euro*, eds. Matthias Matthijs, and Mark Blyth (New York, 2015), 21.

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – (cc) BY-NC-ND - https://www.tectum-elibrary.de/agb

reforms implemented during the eurozone crisis were surprisingly substantial, going far beyond what national and supranational willingness would have conceded before the crisis, in a unique situation of high pressure and urgency that created a once-off window of opportunity.

After all, dominant member states such as Germany, and the treaties themselves, had constrained the implementation of any bail-out or lender of last resort-options[68] before the crisis, and the circumvention of these impediments[69] must be assessed as utterly substantial, considering the restrictive nature of the financial union prior to the crisis. It is in this aspect that this paper contradicts the claims made by Ojala, who argues that the intervention by the supranational institutions in form of the involvement of the ECB in government bond markets and the provision of bail-outs by the EMU reduce the system's stability.[70] According to Ojala, the European institutions acted coercively and authoritatively, endangering the stability that market discipline should otherwise provide and thus rendering the system susceptible to further crisis by stripping the market of the necessary risk of sovereign insolvency. Here, this paper claims to the contrary that the implementation of reform at the European and at the national level in fact *enhanced* stability by implementing increased mechanisms of surveillance, oversight, and order. The paper argues that the reforms which were mutually imposed by the national and the supranational level in fact brought about *more* market discipline by imposing strict conditionality[71] that demanded national reforms, increased credibility and accountability in the case of European reforms.[72] These reforms were thus necessary precisely to maintain the functioning of a market that would have crumbled had suitable reforms not strengthened the respective banking and structural systems.

68 Schimmelfennig, op. cit., 327–328.

69 Nicole Scicluna, "Integration through the disintegration of law? The ECB and EU constitutionalism in the crisis." *Journal of European Public Policy* 25 (12) (2018), 1881.

70 Ojala, op.cit., 210.

71 Miguel Otero-Iglesias and Federico Steinberg, "The restructuring of Spain's banking system. A political economy approach" in *Economic Crisis and Structural Reforms in Southern Europe : Policy Lessons*., eds. Paulo Manasse and Dimitris Katsikas (Abingdon, Oxon: 2018), 228.

72 Scicluna, op. cit., 1884.

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – (cc) BY-NC-ND - https://www.tectum-elibrary.de/agb

It is, in fact, the very lack of institutional authority and of a political union that had created weakness to the EMU in the first place, rendering it fragile due to a missing European sovereign[73] and a wanting institutional structure[74]: In opposition to Ojala, Otero-Iglesias claims in his 2015 work "Stateless Euro" that only reforms to the EMU, introducing a lender of last resort and non-standard measures such as the SMP and OMT programmes, ensured the survival of the union.[75] For the EMU to function, so the arguments of scholars such as Otero-Iglesias and McNamara, a credible union and deep integration are vital for the EMU to be able to function.[76] In an architecture of 28[77] sovereign member states only loosely integrated financially and economically such as they were before the crisis, only reform could create the integrated banking, fiscal, regulatory, and political union that would provide more strength and stability, rendering it sustainable on the long term.[78] These aspects had all been repeatedly circumvented prior to the crisis, establishing the weakness that finally allowed the EMU to reach the brink of failure, and it was only in the face of the euro's death that the eurozone crisis finally made increased integration through reforms possible.

The upward spiral of mutually perpetuated reform as suggested in this paper provides the explanation as to *how* these changes were made possible, finally enabling the long-needed yet ever-constrained adjustment of the EMU towards a real union. Admittedly, the spiral has not yet reached the top, and the union as it exists today remains incomplete, with neither a fiscal nor a political union a reality.[79] However, the crisis managed to finally force both national and supranational policy-makers to acknowledge the weaknesses of their systems and to tackle them in an unprecedented reform effort, leading if not to a complete, then to a greatly improved union defined by deeper and stronger integration. The following sections shall outline the precise mechanisms behind these developments by presenting the hypotheses made in this paper.

73 Otero- Iglesias, op. cit., 350.
74 McNamara, op. cit., 25–26.
75 Schöller, op. cit., 74.
76 Otero-Iglesias, op. cit., 356.
77 Due to the UK still adhering to the EU in the crisis years.
78 McNamara, op. cit., 28.
79 Glöckler, Salines and Truchlewski, op. cit., 677–679.

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – (cc) BY-NC-ND - https://www.tectum-elibrary.de/agb

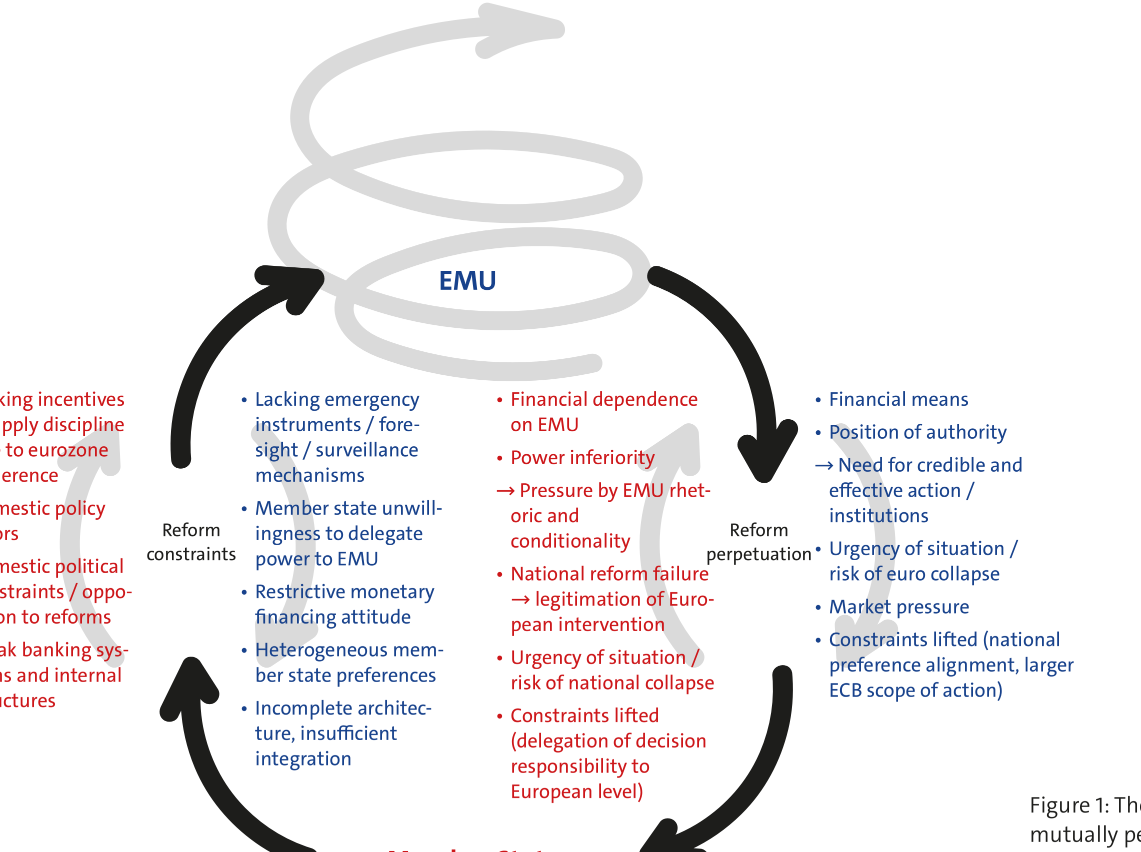

Figure 1: The spiral of mutually perpetuated reform. Own image.

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – (cc) BY-NC-ND – https://www.tectum-elibrary.de/agb

4.2 Hypotheses

This paper establishes three hypotheses which support the claim of the spiral of interconnectedness. The hypotheses are created in such a way that all aspects constituting the complex spiral are regarded justly, explaining the interaction of the two levels while still not overlooking the individualities of the national and the supranational level. To this end, H1 focuses on the spiral as a whole, analysing in a holistic view the strong interdependence between the national and the European level. The level-specific reform mechanisms are then regarded in detail in two sub-hypotheses, H2 and H3, which shall each focus on one level at a time – first on the mechanisms of change in Ireland and Spain, and then on the adjustments made to the EMU. Thus, while H1 explains the spiral as a whole, H2 and H3 zoom in on the two constituting levels of the spiral. All three hypotheses taken together enable a comprehensive analysis of the eurozone reform mechanisms.

H1 – "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."

H1 constitutes the main working hypothesis of this paper, establishing the above-introduced spiral of interdependent reform perpetuation. The main argument is that the reforms eventually introduced both nationally and on the European level during the eurozone crisis were enabled by a complex mechanism of mutual influence that goes beyond the one-way reform causes identified in common scholarly literature. H1 tries to explain the crisis reform constellation by applying more than a simplistic explanation of national and supranational adjustments as separate, non-connected processes. Such limited explanations would claim that national reforms were introduced in a one-sided fashion by the EMU through enforced conditionality in failing member states in an authoritative move[80], or that the EMU governance made adjustments simply in a self-empow-

80 Ojala, op. cit., 211.

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – BY-NC-ND - https://www.tectum-elibrary.de/agb

ering strive of the ECB[81] to gain strength and influence. This paper's circle of interdependence rather shows that the changes achieved during the crisis can only be explained holistically by not only taking into account level-specific, individual aspects, but by looking at level-combining factors and understanding the influence that both levels had on the respective other, creating reforms that would not be explainable in a one-way analytical approach. Thus, H1 argues that the circle creates a much more complex network of interdependent reasons for achieved reforms which promises to offer a comprehensive understanding of the intricate reform mechanisms in the crisis.

Herman Van Rompuy, the first-ever permanent president of the European Council and one of the European leaders during the eurozone crisis, verbalised in a 2012 speech the interconnection of the national and the European level that H1 claims. According to Van Rompuy, the common currency had created such an "economic and political interdependence"[82] that a downright "Europeanisation of national political life"[83] developed, putting member states and the supranational level in a relationship marked by co-responsibility and cooperation. Once the crisis hit, its unprecedented response mechanisms including strengthened supervision and stability, so Van Rompuy, became possible only due to this interdependence between the European and the national level.[84]

While thus Van Rompuy claims that the crisis was resolved thanks to the strong connection between the two levels, scholarly literature (Otero-Iglesias, McNamara, Jones et al., Copeland, Glöckler) shows at the same time that a main crisis-*creating* aspect was the very same interdependent, yet only partially integrated nature of the eurozone. Member states and the supranational governance formed a connected symbiosis between the two levels that had thus become dependent on each other but could not

81 Heldt and Müller, op. cit., 84.

82 Herman Van Rompuy, President of the European Council, "The discovery of co-responsibility: Europe in the debt crisis", speech, Speech at the Humboldt University, Walter Hallstein Institute for European Constitutional Law, 6th February 2012, accessed on 22/04/2023 at: https://www.eerstekamer.nl/eu/documenteu/_the_discovery_of_co/f=/vixnbiwjrsod.pdf

83 Ibid.

84 Ibid., 89–90.

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – (cc) BY-NC-ND – https://www.tectum-elibrary.de/agb

however rely on the sufficient functioning of this union due to holes and lacks in the interconnection: Whilst monetary union had been established and deepened for decades before the crisis entered into existence, financial and fiscal policies remained firmly national[85], just as much as member states refused to delegate oversight and regulatory power to the European level for fear of competency and power loss. What followed was financial fragmentation and a dangerous imbalance within the eurozone[86] that rendered the EMU prone to crisis. EU governance was being formed on two different levels simultaneously[87], creating precisely the interdependence that made the crisis, once it formed in single member states, a European one in a domino effect.

In sum, thus, the connection between the two levels created both the *cause* and the *remedy* to the eurozone crisis, for as much as the incomplete integration of the EMU formed weaknesses that triggered the crisis, the revival of the eurozone depended on the crisis outcome in the peripheral member states.[88] Each level had become so dependent on the other that they both suffered from the other's weaknesses, yet relied on the other to exit the crisis. The only cure to the crisis, due to this extant yet wanting interconnection of member states and the European economic governance, lay therefore in the patching up of its weaknesses. It is according to this rationale – heavy dependences in an insufficiently integrated relationship having created weaknesses which perpetuated the crisis – that adjustments were implemented: the crisis reforms responded *to* the weakening aspects of interconnection *with* increased interconnection by introducing more financial oversight of the EMU over national policies, tighter fiscal rules for member states monitored on the European level, and coordination of national policies in a centralised manner by the EMU. The hope was, with increased surveillance and improved coordination, that imbal-

85 Jones, Kelemen and Meunier, op. cit., 1021.

86 Jean Pisani-Ferry, *The Euro Crisis and Its Aftermath* (Oxford: Oxford University Press, 2014), 97.

87 Bauer and Becker, op. cit., 226.

88 Jonathan Hopkin, "The Troubled Southern Periphery: The Euro Experience in Italy and Spain", in *The Future of the Euro*, eds. Matthias Matthijs and Mark Blyth (New York, Oxford University Press, 2015), 161.

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – (cc) BY-NC-ND – https://www.tectum-elibrary.de/agb

ances and differences between the member states rooting in insufficient integration would be overcome, thus avoiding looming disaster.

It becomes apparent that reforms made in the wake of the crisis were not simply adjustments applied to the EMU or the national level in order to strengthen each domain one-sidedly, but rather the reforms aimed at improving the conditions for a successful interplay of the two levels. One level, so the hypothesis claims, was dependent on the other level's reform in order to avoid collapse, while reform was simultaneously enabled in the first place by the other level. The crisis thus became a dramatic, sudden, and unique window of opportunity where the fate of the eurozone relied on the crisis outcome in the periphery[89], the member states however in turn relying on supranational assistance to survive their national struggles and reform their systems.[90] Similarly, national recovery was only rendered possible when the EMU decided to create supervisory and coordinating institutions and to implement unconventional measures to aid struggling countries, while this change to the EMU was enabled in turn only by the exceptional national crisis situation[91]. Reform was hence a parallel event on the national and European level, stemming not from one-sided sudden change but from the falling together of looming collapse on the national and the supranational level due to existing own fragility and the dependency on the respective other level to overcome these weaknesses.

89 Hopkin, op. cit., 161.

90 Royo and Steinberg, op. cit., 163–165; Kevin Cardiff, "Back to a different normal", in *The Political Economy of Adjustment Throughout and Beyond the Eurozone Crisis What Have We Learned?*, eds. Michele Chang, Federico Steinberg, and Torres García Francisco, Routledge Advances in European Politics (Abingdon, Oxon: Routledge, 2021), 104.

91 László Andor, "Risks of a Slow-Motion EMU Reform.", *European Journal of Economics and Economic Policies* 16 (2) (2019), 232.; Paul Copeland and Scott James, "Policy windows, ambiguity and Commission entrepreneurship: explaining the relaunch of the European Union's economic reform agenda", *Journal of European Public Policy*, 21:1 (2014), 1.

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – (cc) BY-NC-ND – https://www.tectum-elibrary.de/agb

H2 – "The Irish and Spanish economic and banking failures necessitated EU intervention to implement national reforms due to domestic constraints to change."

H1 has shown that the member states and the EU were so closely interconnected that they became dependent on one another to overcome the crisis. It turned out, however, that both levels were not able to provide this support on their own due to weaknesses and instability. The only way out of this mutual fragility lay in the simultaneous reform of each part: both on the member state and on the European level, changes had to be made. For the system to survive, both levels would have to become strong and reliable; the construction would collapse as soon as one of them failed. Each level's ability to become stronger however relied on the other's equivalent strengthening, and as long as one side remained weak, the other would come crashing down with it because it depended on the support of the first.

Both a strong member state level and a strong European level therefore follow as necessities from the interconnection shown in H1, and the way to achieve this strength lay in the pursuit of reform by both levels respectively. H2 and H3 focus on the mechanism that enabled these reforms nationally (H2) – here, in Ireland and Spain – and in the EMU (H3), explaining by zooming in on the two levels individually which precisely were the circumstances that enabled change.

Following the logic of interdependence, H2 claims that reform in Ireland and Spain was only made possible by the intervention of the European level which pressurised and facilitated change that had previously been unimplementable. Ireland and Spain constituted similar, yet diverging cases in the eurozone crisis, as both economies had benefitted from massive economic growth in the years prior to the crisis[92], only to suffer immensely once the expansionary curve dropped. With growth rates of up to a staggering 5 % of GDP per annum, Ireland and Spain had entered in the years before the crisis into a similar economic expansion due to strong inward capital flows and a booming housing market. However, Ire-

92 Stefanie Walter, Ari Ray and Nils Redeker, *The Politics of Bad Options: Why the Eurozone's Problems Have Been so Hard to Resolve*. (Oxford: Oxford University Press, 2020), 5.

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – BY-NC-ND - https://www.tectum-elibrary.de/agb

land and Spain similarly became fatally dependent on these housing and – in the Irish case – construction bubbles. In Spain, additional weaknesses in the banking sector existed, with the *cajas* system of small banks not being sufficiently diversified[93]. When the Lehman Brother collapsed in the USA in 2008, the fragile architecture of the Irish and Spanish economies was unveiled as interest rates rose and capital outflows increased. Both the Irish and the Spanish governments endeavoured to save the increasingly deteriorating situation by introducing national reforms – in the form of a fiscal consolidation package in Ireland and a labour market reform in Spain.[94] In both cases, these national efforts proved insufficient to counter the increasingly critical situation, first in Ireland – who received an ECB/IMF bailout in late 2010 – and later in Spain – who's partial bail-out aimed specifically at restructuring its banking sector was provided by the ESM in May 2012. For both Ireland and Spain, the European intervention created the reversing element that set their respective economies back on track and enabled the gradual return to pre-crisis levels of economic performance.[95] It appears, thus, that the interference by the supranational level formed the vital ingredient towards recovery in both cases, both Ireland and Spain having become dependent on EU-level assistance in order to exit from the crisis after their national adjustments had failed to provide relief.[96] Only with European help did Ireland and Spain manage to create stronger national structures that allowed them to eventually exit from the supranational assistance programmes and return to self-sufficiency and independence.[97] What, though, was the remedy that the European level introduced in Ireland and Spain that helped them recover from the crisis when national efforts had missed this goal?

Reforms came hand in hand with supranational assistance both in the Irish and in the Spanish case. Bail-outs and assistance programmes as received by both struggling member states were linked to individual, country-specific conditionality that included detailed instructions on the

93 Ibid., 123.
94 Ibid., 113/124.
95 Chang, Steinberg and Torres, op. cit., 9–12.
96 Walter, op. cit., 113/124.
97 Chang, Steinberg and Torres, op. cit., 9–12.

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – (cc) BY-NC-ND – https://www.tectum-elibrary.de/agb

adjustment of the respective national systems – focussing not only on the banking sectors but reaching as far as increased competitiveness, productivity, administration and fiscal adjustment.[98] What national governments had failed to implement due to a range of domestic constraints, the European level managed to impose thanks to its power advantage and a both pressurising and facilitating influence on national reform endeavours. H2 claims, in a connection of these two counterparts, that the spectrum of national impediments paired with numerous impulse-giving aspects on the European side constituted the reason why reform became possible on the national level once the supranational level entered into play.

These mechanisms can be summarised as follows: On the domestic level, both Ireland and Spain had developed profound weaknesses in their banking sectors and economic drivers, relying heavily in times of economic growth on capital inflows, foreign investment,[99] and a national banking system that lacked oversight[100] and resilience. Having enjoyed long periods of strong economic growth since, and thanks to, their adherence to the eurozone,[101] Ireland and Spain had quickly developed a reliance on the continued expansion of their economies, lacking incentives to be fiscally prudent and control inflation once they had been admitted to the select club of eurozone members.[102] National policy errors[103] that had accelerat-

98 Luís A. V. Catão, "Reforms and external balances in Southern Europe and Ireland", in *Economic Crisis and Structural Reforms in Southern Europe : Policy Lessons.*, eds. Paulo Manasse and Dimitris Katsikas (Abingdon, Oxon: 2018), 107–109.

99 Walter, op. cit., 112/123.

100 Yiannis Kitromilides, "The Irish Tragedy", in *The Euro Crisis.* International Papers in Political Economy, eds. Arestis, Philip, and Malcolm C Sawyer, (Basingstoke: Palgrave Macmillan, 2012), 179.

101 G. Russell Kincaid, "The euro crisis", in *The Political Economy of Adjustment Throughout and Beyond the Eurozone Crisis What Have We Learned?*, eds. Michele Chang, Federico Steinberg, and Torres García Francisco, Routledge Advances in European Politics (Abingdon, Oxon: Routledge, 2021), 17.

102 Anton Hemerijck and Manos Matsaganis, "The legacy of the eurozone crisis", in *Who's afraid of the welfare state now*, eds. Hemerijck and Matsaganis, (Oxford: Oxford University Press, forthcoming 2023). 11/41.

103 Jesús Ferreiro and Felipe Serrano, "The Economic Crisis in Spain: Contagion Effects and Distinctive Factors", in *The Euro Crisis.* International Papers in Political Economy, eds. Arestis, Philip, and Malcolm C Sawyer, (Basingstoke: Palgrave Macmillan, 2012), 247–248. Kitromilides, op. cit, 180.

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – (cc) BY-NC-ND – https://www.tectum-elibrary.de/agb

ed the crisis – such as the blanket guarantee introduced by the Irish government in 2008 – and domestic reform efforts that had failed to ease the national struggles[104] were accompanied by the further deteriorating factor of domestic opposition to intended reforms.[105] These national political constraints paired with architectural weaknesses of the economy and the banking sector provided the range of national restrictions to change that only the intervention by the European level was able to break up.

What precisely were hence the mechanisms that allowed the supranational level to achieve what national policy-makers had repeatedly failed to implement? First and foremost, a certain power asymmetry existed between the European and the national level. While the struggling member states were regarded as the "southern sinners"[106] that had failed to match their obligations as economically capable eurozone members, the European level managed to represent with the help of a scapegoating rhetoric[107] and a general demeanour of exercising immense pressure on Ireland and Spain an authoritative, disciplining entity superior to the struggling member states.[108] While this power imbalance put Ireland and Spain under substantial pressure, it also worked as a facilitating environment for the struggling countries to finally achieve full-fledged reforms: what had previously been constrained on the national level was now non-negotiable due to the strict conditionality imposed by the European level in their bail-out and assistance programmes[109], ridding the national governments to a certain extent of the political responsibility for the unpopular reforms and moving the political accountability for the implemented decisions to the European level instead.[110]

104 Walter, op. cit., 113/124.

105 Royo and Steinberg, op. cit., 169; Walter, op. cit., 125.

106 Hemerijck and Matsaganis, op. cit., 37.

107 Pagoulatos, op. cit., 151.

108 Ibid., 149.

109 Wolfgang Schäuble, Bundesminister der Finanzen "Reform der europäischen Finanzregeln – für eine bessere Verfassung Europas" [Reform of the European financial rules – for a better European constitution], speech, 26/01/2011, accessed in *Europa in Der Welt : Von Der Finanzkrise Zur Reform Der Union*, eds. Pernice, Ingolf and Rüdiger Schwarz (Baden-Baden: Nomos, 2013), 229–231.

110 Schimmelfennig, op. cit., 334–335.

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – (cc) BY-NC-ND - https://www.tectum-elibrary.de/agb

Additionally, it was a range of situational factors linked specifically to the unique crisis context that allowed for a spurt in national reforms that would have been unthinkable in other circumstances. These aspects include the overlap of domestic preferences to save the euro as the first-most goal in the crisis[111], creating an enabling atmosphere where pulling at the same end of the rope became possible. The very real and immediate risk of national collapse formed such urgency to the crisis situation that both Ireland and Spain, if not simultaneously, hit a dead end where the only solution became the acceptance of supranational aid, whatever the conditions attached to this. Having put off much-needed reforms prior to the crisis by turning a blind eye on the existing weaknesses of their respective domestic structures, Ireland and Spain were finally faced with the undeniable truth of their fragile architecture once the crisis hit. With the stakes high, and collapse looming around the corner, the supranational level quite simply offered the rescuing buoy to Ireland and Spain, the ECB forming the only entity that was financially and politically able to aid the struggling member states out of their mess.[112]

What followed, thus, were unprecedented internal reforms to the banking sector, fiscal policy, labour market, productivity, and competitiveness that were made possible only due to an environment of dependence of Ireland and Spain on the European level who in turn managed to use pressure and its financial power to mould the Irish and Spanish structures as it wished. Paving the way to economic recovery and improved domestic architecture, the European level both imposed and facilitated change in the failing member states that the countries on their own would not have been able to implement. H1 hence claims, in sum, that the changes made to the Irish and Spanish domestic level were done so in a mechanism of dependence on the supranational level which acted both as a discipliner and as an enabler in a time when the national governments struggled from major domestic constraints to implement on their own some much-needed change.

111 Ibid., 328.

112 Magnus Schöller, "Leadership by Default: The ECB and the Announcement of Outright Monetary Transactions." *Credit and Capital Markets – Kredit und Kapital* 51 (1) (2018), 85.

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – (cc) BY-NC-ND – https://www.tectum-elibrary.de/agb

H3 – "Reforms to EMU's incomplete state at the time were facilitated by national failures, combined with the need for effective results."

H2 having focused on one side of the spiral – the member states and how they were able to introduce reform during the European sovereign debt crisis – H3 now does the equivalent for the other side of the spiral, the supranational level of the EMU. Just as reforms in the member states – here, Ireland and Spain – were possible due to the intervention by the supranational level, H3 claims that a similar mechanism existed simultaneously for the reforms undertaken on the level of EMU: the national crisis context created a situational impulse to the supranational level that enabled reform where it had previously been undermined.

As in the case of the member states Ireland and Spain, the EMU had similarly been suffering prior to the crisis from a weak and incomplete architecture. As the very word says – "Economic and Monetary *Union*" – the strong and reliable functioning of the EMU would demand a stable, fully integrated cooperation between its constituents, the member states and the European level. This full-fledged political union, upheld by the four pillars of monetary, financial, fiscal and economic union[113], however remained far from reality before the crisis, with only the monetary pillar having been strengthened over the course of decades, financial and fiscal policies however remaining distinctly national.[114] The unwillingness of the eurozone member states to delegate surveillance and coordination competencies to the supranational level led to the pre-crisis inability of the supranational level to strengthen its fragile architecture, rendering the EMU an incomplete and only partially integrated body.[115]

To further constrain the ability of EMU to implement changes to its set-up in the crisis onset, strong member states such as Germany[116] and the European treaties posed difficulties to a rapid response to the weaknesses of the EMU: Germany, following an ordoliberal and austere line, repeatedly put itself in the way of adjustments such as lending provisions

113 McNamara, op. cit., 26; Pagoulatos, op. cit., 148.

114 Jones, Kelemen and Meunier, op. cit., 1018, 1021.; Scicluna, op. cit., 1878.

115 Copeland and James, op. cit., 9.

116 Schimmelfennig, op. cit., 330; Walter, op. cit., 131.

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – (cc) BY-NC-ND - https://www.tectum-elibrary.de/agb

and bail-outs,[117] while the treaties formally prohibited monetary financing and primary market bond purchases.[118] Another weakness lay in the European level's gullible attitude prior to the crisis, lacking formal emergency procedures[119], failing to apply enough foresight and overview to recognise its crisis-prone architecture, and providing insufficient surveillance of its member states.[120] Rather than introducing change to the EMU in the pre-crisis years of calm by increasing surveillance, coordination, and integration beyond the monetary level, the EMU refrained from introducing preventive measures and thus was faced with a full-on crisis once the international financial balances changed.

It was precisely this situational context, however, that allowed the EMU in a unique window of opportunity to finally implement much-needed change once the crisis set in. In a reversed mechanism to that presented in H2, H3 claims that the crisis surrounding the eurozone's member states created a context in which the EMU was granted the room for action and the political excuse to adjust its architecture and mechanisms.[121] Just as the struggling member states had been forced to become stronger in order to prevent the eurozone from collapsing, the EMU was under similar pressure to change and become a reliable constituent of the interdependent symbiosis. Reforms to the EMU that had been previously impeded by constraining member state preferences, a battle for sovereignty on the member state level and lacking proactive behaviour by the EMU, became suddenly implementable as the crisis threatened the common currency.

The high stakes that the crisis presented rendered the situation so urgent that previously procrastinated reform became no longer refusable. The risk of losing the euro and the connected potential collapse of the eurozone presented such a threat to the Union that the project simply had become

117 Schimmelfennig, op. cit., 327–328.

118 Treaty article (See Chang rpesentation) art. 125 (bailout), art ? primary market.

119 Scicluna, op. cit., 1886.; Kitromilides, op. cit., 185.

120 Pagoulatos, op. cit., 149.

121 Martin Westlake, EECS Secretary General, speech, 03–04/05/2012, Dublin meeting of the Secretaries General of the national Economic and Social Councils and the European Economic and Social Committee. Accessed on 28/04/2023 at: https://www.eesc.europa.eu/ceslink/sites/default/files/toolip-old-resources/docs/4-may-2012-dublin-speech-mw-to-national-esc-sgs.pdf

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – BY-NC-ND - https://www.tectum-elibrary.de/agb

"too big to fail"[122]. The dramatic extent of the crisis thus gave the European level a certain leeway of action and freedom to implement previously unthinkable measures and changes as has been famously reflected in the "Whatever it takes" speech by then-President of the ECB, Mario Draghi.[123]

In fact, in a paradoxical mechanism, the very severity of the crisis actually provided the supranational level with several action windows that lifted previous resistance: The high risk of contagion[124] from one or few member states to the entire eurozone gave the EMU the excuse to become more invasive and authoritative in its policies than the situation before the crisis had allowed. The failing of the member states enabled the establishment of supranational institutions[125] such as the SSM, ESM, and banking union as measures to better monitor and coordinate the member states that had proven incapable of doing so on the domestic level. Furthermore, the common national preference of all member states to preserve the euro aligned the countries in such a way that a centralised European coordination became justifiable, as much as previously resisting member states such as Germany were finally overridden in the turmoil of the crisis.[126] Furthermore, earlier limitations to the ECB were similarly lifted[127] as it was able to legitimate its controversial unconventional measures[128] including interest rate reduction as well as bail-outs and secondary market bond purchases with the narrative of implementing these measures to save the struggling member states.[129] Hence, the ECB became freer in its use of a crisis response toolkit, with the framing of its actions as pav-

122 Otero-Iglesias, op. cit., 357.

123 European Central Bank, "Speech by Mario Draghi, President of the European Central Bank at the Global Investment Conference in London", 26 July 2012, accessed on 19/04/2023 at: https://www.ecb.europa.eu/press/key/date/2012/html/sp120726.en.html

124 IMO, Schäuble, op. cit., 226.

125 Westlake, op. cit.; McNamara, op. cit., 40.

126 Schimmelfennig, op. cit., 330.

127 Daniela Schwarzer, "The Euro Area Crises, Shifting Power Relations and Institutional Change in the European Union.", *Global Policy* 3, 34.

128 European Parliament, "EMU reform and the 'new normal' for economic policy", *Monetary Dialogue*, Brussels: European Union, 2018, 11–12.

129 Heldt and Müller, op. cit., 94.

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – (cc) BY-NC-ND – https://www.tectum-elibrary.de/agb

ing the way for change[130] allowing the ECB even to de facto take on the role of a lender of last resort[131], a previously unthinkable development.

However, the change made to the scope of competency and interference by the EMU was not one of strategic self-empowerment[132], but one made by the supranational level under high pressure to solve the crisis. The supranational level, equipped both with the financial means and the authority to take on a dominant role in the crisis, urgently needed to perform as a reliable, credible, and responsible body capable of helping its member states out of their struggle.[133] The introduction of reforms to surveillance, coordination, and regulatory bodies within the EMU became a necessity that the EMU had to implement quickly to create stability in the failing eurozone. All adjustments introduced on the supranational level aimed at providing a remedy to the apparent collective action problems within the eurozone[134], such reforms including the establishment of a banking union, of surveillance bodies such as SSM and ESM, of coordination devices including the Euro Plus Pact and Europe 2020, and of economic measures such as the European Semester and economic legislation packages. The supranational level was thus forced to respond to the increasingly critical situation, introducing adjustments to counter the profound market pressure[135] and the dependence on the EMU that member states portrayed.

Change, thus, became possible on the level of the EMU in unprecedented ways, with new institutions and mechanisms of surveillance and coordination being established rapidly and profoundly.[136] How was reform to such a static and heterogeneous body as the EMU made possible when heavy constraints had impeded any substantial change to the supranation-

130 Andor, op. cit., 232.

131 Randall Henning, "The ECB as a Strategic Actor: Central Banking in a Politically Fragmented Monetary Union", in James A. Caporaso, and Martin Rhodes (eds), *The Political and Economic Dynamics of the Eurozone Crisis* (Oxford: Oxford Academic (2016), 168–169.

132 Heldt and Müller, op. cit., 94.

133 Schöller, op. cit., 82.

134 Schwarzer, op. cit., 29.

135 Ibid., 35.; Schöller, op. cit., 77/84.

136 Jones, Kelemen and Meunier, op. cit., 1012.

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – (cc) BY-NC-ND - https://www.tectum-elibrary.de/agb

al level in financial, fiscal, and economic policy prior to the crisis? H3 has shown that the reforms introduced were the result both of an accumulation of adjustment-enabling conditions – such as member state preference alignment, financial dependence, and an unsupportable high stake – and of intense pressure and responsibility on the side of the EMU. The extent of the introduced reforms, reaching to the limits of what the treaties allowed and creating whole new institutions, was also the result of a spill-over mechanisms that facilitated change on the supranational level: one bail-out paved the way for the next, institutionalisation in one policy field enabled the centralisation of another, and with time came less contestation of the unconventional and unprecedented ways in which the EMU responded to the crisis. To summarise, hence, the EMU underwent substantial change in the years of the crisis enabled in a similar dependence on nationally provided circumstances that the member states, in a mirrored way, had experienced in the implementation of their respective reforms. H3 thus forms the EMU-focussed counterpart to H2's concentration on the member state level, both of them together explaining the precise mechanisms of level-specific change which the spiral of interconnectedness of H1 combines.

https://doi.org/10.5771/9783828851047-23, am 02.06.2024, 07:59:31
Open Access – (cc) BY-NC-ND - https://www.tectum-elibrary.de/agb