Framing the Eurozone Crisis:
A Case of Limited Ambition

Abstract

The eurozone crisis provided a new opportunity for obtaining supranational fiscal integration within the European single currency area. This study applies a framing analysis to the crisis discourse that emerged from within the European Union's (EU) intergovernmental forums involved in fiscal policy coordination. As well as linking policy frames to two different integration scenarios for the Economic and Monetary Union (EMU), the broader influence of macroeconomic ideology is also emphasised. It is found that the response to the intensification of the crisis in Europe was to employ framing devices supporting intergovernmental fiscal discipline. While there were emergent supranational discourses over the longer term, these were reflective of a limited reform ambition. A key constraining factor here were the sovereignty concerns and issues of moral hazard circulating amongst member states, which together have ensured that a supranational fiscal policy is unlikely to be obtained in Europe.

Keywords: Eurozone, Crisis, Neoliberalism, Intergovernmentalism, Reform, Economic Governance

*This research was conduction out of the University of East Anglia by:
Dr Thomas Warren*
Senior Research Associate
School of Politics, Philosophy, Language and Communication
University of East Anglia
Norwich Research Park
Norwich
NR4 7TJ
United Kingdom

Email: thomas.warren@uea.ac.uk
Mobile: +44 (0) 7412 503879

Acknowledgments: I wish to thank the interviewees based in Brussels for their willing participation and insightful remarks. I would also like to thank the staff and research community based at the University of East Anglia for their support and guidance.

Introduction

This article considers the response from within the intergovernmental forums to the eurozone crisis and the future prospects for fiscal supranationalism in Europe more broadly. When political scientists have turned their attention to the politics of the crisis, it has often figured as a case study to support the grand theoretical claims made by the 'new intergovernmentalism' (Bickerton et al. 2015; 2015a). This approach has tried to theorize a new paradox in European integration in the post-Maastricht era: 'Member States pursue more integration but stubbornly resist further supranationalism' (Puetter 2012, 168). Certain institutional dynamics associated with the new intergovernmentalism can be found to be at work within EMU where, particularly since the onset of the crisis, there have been marked increases in intergovernmental policy coordination within the European Council and ECOFIN Council structures (Hodson 2011; Puetter 2012). However, the approach is still at an early stage of development and deep empirical analysis of the political deliberations and policy environment within these settings are still lacking. Further criticisms have been made. In particular, Schimmelfennig (2015, 724) points out that, 'They do not distinguish intergovernmentalism and supranationalism by the integration outcomes (either substantive or in terms of the level or scope of integration)'. Thus, claims of an 'integration paradox' taking place within EMU specifically or across the wider EU remain uncertain.

This article focuses on the issue of EU fiscal governance reform following the intensification of eurozone crisis. The potential role of ideas as engines of policy change within EMU is a prospect taken seriously here (Dyson 2000). With this in mind, the discursive institutionalist theoretical framework proposed by Schmidt is employed (Schmidt 2008, 2010). This approach is well suited to considering the role of ideas and discourse interactions in bringing about change in an EU institutional context (see Schmidt 2015). It is applied through a framing analysis of the reform discussions that emerged from within the key intergovernmental forums involved in guiding the crisis response (Goffman 1974). This article identifies the dominant policy frames ('problems' and 'solutions') organising the reform debate, and links them to two alternative reform paths for EU fiscal governance: intergovernmental and supranational. In doing so, this article clarifies far more precisely the different political and economic policy options for reforming EMU governance, as well as previously underdetermined concepts such as 'fiscal union' and 'political union'. As well as linking individual policy frames to different integration scenarios, the important role of macroeconomic ideology in guiding framing preferences is also emphasised.

Theoretical and Methodological Framework

It could be assumed that the eurozone crisis would confirm neo-functionalist beliefs concerning the dynamics of the European integration process: the weaknesses revealed in the asymmetric single currency area create strong pressures for a functional 'spillover' of supranational competencies to the European level (Rosamond 2005). However, when political scientists have turned their attention to the crisis, it has often been directed at the intensified intergovernmental policy coordination that has taken place within the European Council and ECOFIN Council (Hodson 2011; Puetter 2012; Bickerton et al. 2015; 2015a). While broader new intergovernmentalist claims of an 'integration paradox' in Europe involving integration without supranationalism remain undetermined (see Schimmelfennig 2015), these findings do suggest that deep supranational integration may not be obtained in EMU. Moreover, it has previously been found that a supranational reform agenda was not internalised by the Commission (Warren et al. 2017). Together these findings are important as the long-term sustainability of the single currency area without significant steps being taken towards a more deeply integrated fiscal union has been questioned (De Grauwe 2013). Through a framing analysis this article will seek to explore if the crisis response from within the intergovernmental institutions was to push for supranationalism within EU fiscal governance, or alternatively, a retaining of intergovernmental control at the EU level. And, if the later course prevails, it will seek to offer a more complete theoretical explanation of why member states continue to resist supranationalism, even in the face of significant centralisation pressures. A deeper understanding of the political determinants of the EMU policy environment will also help facilitate a more complete explanation of why a supranational reform agenda was found not to have been internalised within DG ECFIN.

The overarching theoretical framework informing this analysis is discursive institutionalism (Schmidt 2008; 2010). Of particular relevance here is the distinction made by discursive institutionalism between ‘coordinative discourse’—which takes place internally within the EU policy making setting—and ‘communicative discourse’—which take place externally between EU policy actors and the general public (Schmidt 2005). This study integrates discursive institutionalism alongside a frame analysis. Framing has been criticised for its lack of consistency in application of theory and method, with many different variants being operationalised without adequate clarification (Cacciatore et al. 2016). Framing has also been found to share common processes with agenda-setting and priming, although framing offers a more ‘encompassing conceptual approach’ (Aday 2006, 768). Here, a sociological approach to framing is adopted, which can be traced back to the work of Goffman (1974). A frame is understood as a ‘schemata of interpretation’, which can shape actors’ perceptions of reality and, in turn, influence political behaviour (Goffman 1974, 21). Inspired by Goffman’s approach, Benford and Snow (2000) make an important distinction between ‘prognostic’ and 'diagnostic' framing: the construction of particular problem representations and possible solutions. This is valuable for facilitating a deeper understanding of the diagnosis of the causes of the eurozone crisis arrived at, as well as an exploration of the interlinking reforms suggested to solve or at least deal with the problems posed by the eurozone crisis.

Ideas within frames can be understood as occurring at different levels of generalisation: specific policy ideas related to problem and solutions (e.g. strengthened rules-based surveillance versus debt mutualisation); normative ideas which attach value to political action (e.g. fiscal discipline versus fiscal solidarity); and finally these can be connected to programmatic ideas related to broader policy paradigms and ideologies (Schmidt 2005; 2008). As a means to locate the key framing ideas that are likely to figure in the institutional discourse on the eurozone crisis, a wider review of the reform literature on EU fiscal governance will be completed (see the section below, 'Literature Review'). Table (1) helps to link the different problem and solution policy frames that will be uncovered as part of this discussion to two different integration scenarios for EMU: intergovernmental and supranational. As well as showing how ideas relate to different policy measures (problems and solutions) and normative arguments, the wider role of macroeconomic ideology in guiding framing preferences for EMU reform is also highlighted here[1]. Following a framing analysis, the dominant frames uncovered will also be explored in relation to the wider interplay between ideas and institutions within EMU[2].

---

[1] See also Warren et al. (2017) for a discussion of how macroeconomic ideology guided policy frames within DG ECFIN during the eurozone crisis.

[2] Informed by the wider 'new institutionalism' literature, this broader theoretical exploration charts the ideational as well institutional path dependences working to limit the scope for reform within EMU (Bulmer 1994; Pierson 1996; Hay, 2006).

Two guiding macroeconomic ideologies are important for understanding developments in European monetary integration: neoliberalism and Keynesianism. Neoliberalism is a highly contested term, although from an ideological standpoint it favours market based solutions and methods over government intervention (Holden 2011). In contrast, perhaps the most important insight of Keynesianism is the recognition of the need for demand management by the state both in economic downturns and booms (Skidelsky 1992, 572-624). Keynesian theory, therefore, demands a far more active role for the state in managing the economy through fiscal policy. Neoliberal ideas have been found to have become deeply embedded within the EMU policy framework, including the prevalence of 'sound money' and 'sound finance' ideas imparting fiscal discipline (Dyson 2002). There is no prior reason why neoliberalism should be associated with intergovernmentalism and Keynesianism with supranationalism. However, when applied to events taking place during the eurozone crisis, a Keynesianism philosophy demands a level of centralised fiscal solidarity amongst member states, which would imply edging towards a more supranational model of fiscal integration. On the contrary, building on, rather than replacing, the Stability and Growth Pact (SGP) arrangements for fiscal discipline would preserve the intergovernmental logic of EMU governance, and is more aligned with neoliberal preferences.

The focus here is on the framing activities that took place within the European Council and ECOFIN Council (shadowed by the informal 'eurogroup'), although these frames will also be located in the context of the wider crisis discussions taking place within the EU Commission and ECB settings. The analysis distinguishes between two distinct phases of the eurozone crisis: a crisis 'escalation' and crisis 'normalisation' phase. The crisis escalation phase can be traced back to the intensification of the global financial crisis in the summer of 2007. With attention focused on the frailties of the American financial system, the eurozone economy at first assumed a 'safe-haven' status for many commentators (Wyplosz 2009)—although there was some prescient warnings as to the multiple risks the downturn could pose to the institutions of the European single currency area (Feldstein 2008). In early 2010, following significant upwards revisions in the budget deficit figures for Greece, there was a sudden erosion in market confidence in the Eurozone leading to long-term government bond yield spreads increasing dramatically for the periphery member states (Checherita et al. 2010). With the risk of sovereign default and uncontrollable contagion effects at its most serious, the President of the European Council, Herman Van Rompuy, swiftly put together a case for the supremacy of a European Council led Task Force in guiding a 'fast-track' process for EMU reform.

By the fall of 2012, market reactions towards the eurozone had normalised significantly. Key here was the ECB fulfilling its function as a lender of last resort (De Grauwe 2016, 126-141), which was aided by Mario Draghi's statement at the end of July 2012 that '[w]ithin our mandate, the ECB is ready to do whatever it takes to preserve the euro'. In response to the calming in market conditions, the attention of European leaders switched to the measures required to stabilise EMU over the longer term. Laying the foundations for these reform discussions were two strategic documents: the December 2012 report, prepared at the request of the European Council by President Van Rompuy, jointly with the Presidents of the European Commission, the ECB, and the Eurogroup, entitled *Towards a Genuine Economic and Monetary Union* and the Commission's own *A Blueprint for a Deep and Genuine Economic and Monetary Union: Launching a European Debate*, published in November 2012. Building on the previous documents, in June 2015, the President of the Commission, in close cooperation with the Presidents of the Council, the ECB, the Eurogroup and the

European Parliament, presented the so-called 'Five Presidents' Report' entitled *Completing Europe's Economic and Monetary Union*. Official documents and speeches throughout these deliberation phases will be supplemented by a series of semi-structured interviews that were conducted with senior EU officials located within the European Council, ECOFIN Council and DG ECFIN during the most important phases of the crisis. It is important to differentiate between the full internalisation of discourse within institutions and discourse that is deployed in rhetoric as a strategic political device (Hay 2006). Interview data is then useful for forming a comparison between communicative discourses to the general public and the internal coordinative discourses of policy construction taking place among policy actors (Schmidt 2008).

Literature Review

The escalation of the Eurozone crisis in 2010 fixed attention on the design failures of the eurozone and the practicalities of having a monetary union without the accompanying integration of the fiscal side (De Grauwe 2013). Since 2010, most of the reform proposals suggested to complete the architecture of EMU have centred on the prospect of implementing two neo-Keynesian fiscal solidarity mechanisms: 1) centralised fiscal capacity (or federal budget) for stabilisation purposes; 2) and the introduction of debt mutualisation schemes. A Policy Contribution for Bruegel details the four main options for developing a fiscal capacity for the eurozone with stabilisation functions: 1) unemployment insurance; 2) payments related to deviations of output from potential; 3) the narrowing of large spreads; 4) and discretionary spending (Wolf 2012). Suggestions for debt mutualisation include the so called European Safe Bonds (Euro-nomics group 2011) and Redemption bonds (Bofinger *et al*. 2011). In view of the salient features of fiscal policy, it is understood as imperative that progress towards a more supranational fiscal union is accompanied by deeper political integration to guarantee the democratic legitimacy of EMU governance (Schmidt, 2015).

Despite calls being made for EMU to be completed through a process of supranational fiscal integration, there is an altogether different integration route that would maintain the intergovernmental logic of fiscal arrangements in Europe. Neoliberal monetarist principles are pervasive here, with discussions of fiscal solidarity being disregarded in favour of a limited fiscal discipline agenda (von Hagen et al. 2009; 2011). The main concern under this integration scenario is with heightened budgetary surveillance and enforcement mechanisms, which could be secured under the preventative and corrective arms of the pre-existing SGP framework. The fundamentally decentralised character of EU fiscal governance would also be preserved. In the literature, support for such a limited reform agenda is often supported by a belief that the eurozone crisis was primarily the result of excessive fiscal profligacy in the periphery member states (Sinn 2010). Of course, the distinct lack of political integration envisioned here would mean that channels of democratic legitimacy would remain largely indirect via member state governments.

Through this discussion of the literature, two reform scenarios for EMU have been identified: intergovernmental and supranational. These two models can be understood as being supported by a selection of different policy frames, implying different definitions of what the problem is and different ideas of what the suitable policy solutions may be (see Table 1). First, the intergovernmental reform scenario is guided by a simplistic fiscal profligacy diagnosis of the eurozone crisis. Such an interpretation of the crisis strongly implies neoliberal policy solutions in the form of strengthened rules-based fiscal discipline. Framing the crisis in these more limited terms may also be both politically and intellectually attractive.

This is because these frames do not demand challenging integration steps being taken towards a deeper level of fiscal and political union. Alternatively, the more far reaching supranational reform scenario is informed by a broader interpretation of the crisis problem as a problem of regional imbalances. In turn, possible solutions are understood as going far beyond neoliberal fiscal discipline in the direction of the implementation of neo-Keynesian solidarity measures, including debt mutualisation and an enlarged EU budget. The need to ensure the democratic legitimacy for decisions taken at the Union level is also problematized under this integration scenario, leading to demands for the simultaneous development of a flanking political union.

Table 1: Framing the Eurozone Crisis

	Fiscal Integration	Political Integration	
Intergovernmental Model	Crisis Problem: The crisis is framed as a problem of **fiscal profligacy** amongst certain member states. Crisis Solution: Reform solutions limited to strengthening **fiscal discipline** within EMU through the implementation of reforms building on the rules-based SGP framework. **Guided by the economic ideas of neoliberalism**	Limited references to political reform. Relies on **indirect legitimacy** via representative of member states in the Council and European Council.	**Limited fiscal union with indirect channels of democratic legitimisation.**
Supranational Model	Crisis Problem: The crisis is framed as a **problem of regional imbalances resulting** from the accumulation of private debt. Crisis Solution: Reform solutions centred on completing EMU by increasing **neo-Keynesian fiscal solidarity mechanisms** through debt mutualisation and/or the development of an enlarged EU budget function. Fiscal transfers also understood as being dependent on a **centralisation of budgetary sovereignty** at the European level. **Guided by the economic ideas of Keynesianism**	Political Problem: Problem of accompanying reform process with sufficient channels of **democratic legitimacy and accountability.** Political Solution: Solution in the form of the development of a flanking **political union** aspect, via a strengthening of the European Parliament (alongside increased involvement of national parliaments).	**Full fiscal and political union.**

Building on Warren et al. (2017)

Framing the Eurozone Crisis

Crisis Escalation Phase

Following the intensification of the global financial crisis in July 2007, the eurozone was at first considered by some to be a 'safe haven' (Wyplosz 2009). With the full implications of the deepening global financial crisis for the eurozone not yet apparent, the crisis problem was initially framed by European leaders as one created externally by the financial excesses built-up within the 'Anglo-Saxon' economies. As one DG ECFIN official observed, 'Governments believed the crisis to have originated primarily in poor regulatory practices in New York and London...and Europe was being pulled into the crisis through the global financial system' (Secretariat Official in DG ECFIN 2 2013). A similar sentiment was also reflected in more communicative discourse as European leaders attempted to externalise the crisis. The German Chancellor, Angela Merkel, was uncompromising in asserting before the German Bundestag that 'excessively cheap money in the US was a driver of today's crises' (Financial Times 2008). Moreover, French President, Nicolas Sarkozy, proclaimed in similar terms that 'the crisis was a product of the Anglo-Saxon model' (Financial Times 2009).

Despite European leaders framing the 2008 financial collapse as an almost exclusively 'Anglo-Saxon' phenomenon with epicentres in New York and London, European leaders, led by Nicolas Sarkozy as the then acting president of the Council, did push for a strong coordinated European response alongside the G20 and American economies (Hodson 2011). In this early period, the framing of solutions to the crisis in Europe, overlapping with the international response and IMF recommendations, was guided heavily by Keynesian principles as leaders sought to avert financial contagion and recessionary spillovers into the real economy through coordinated fiscal expansion. In Europe, this translated into an attempt to combine both national and EU resources to 'support demand' and 'cushion economies from the worst effects of the financial meltdown' (Secretariat Official in DG ECFIN 1 2013). In November 2008, after an extraordinary summit of the euro area Heads of Government led by Nicolas Sarkozy, the Commission proposed a Keynesian 'European Economic Recovery plan' (ECRP), which championed a substantial coordinated fiscal stimulus: 'The Commission is proposing that, as a matter of urgency, Member States and the EU agree to an immediate budgetary impulse amounting to € 200 billion (1.5% of GDP)' (Commission 2008).

Importantly though, a key principal underpinning the plan was that any budgetary stimulus should be 'timely, targeted, and temporary'—and that 'Member States should commit to reverse the budgetary deterioration and return to the aims set out in the [SGP's] medium term objectives' (Commission 2008, 6-7). As Joaquín Almunia, Vice President of the European Commission, commented at the time: 'we have red lines, we cannot put an excessive burden on the next generation' (Commission 2008a, 6). Similarly, the conclusions of the ECOFIN Council continued to support the long-term application of the SGP: 'we remain fully committed to sound and sustainable public finances. The Stability and Growth Pact provides adequate flexibility to deal with these exceptional situations' (Council 2009). Thus, while European leaders led by Nicolas Sarkozy, along with the broader international community, embraced more Keynesian orientated fiscal stimulus in order to counter the expected downward trend in demand presented by the intensification of the global financial crisis, the long-term European commitment to the neoliberal rules-based SGP framework remained relatively stable during this early crisis period.

In the Spring of 2010 Greek public debt was downgraded by the main credit rating agencies to junk status and a growing spread in yields emerged in Eurozone sovereign bonds (Checherita et al. 2010). Recalling these events later, President Van Rompuy noted that this sudden loss of confidence in the Eurozone provoked by Greece was a ‘real shock’ for which ‘we were not prepared’ (Council 2014). As one official in DG ECFIN remarked: ‘It was now internal: a crisis of the Eurozone’ (Secretariat Official in DG ECFIN 2 2013). As the crisis intensified within the eurozone it was reframed by European leaders as a problem of fiscal profligacy amongst the periphery member states. On 11 February 2010, in a short emergency statement issued by Heads of State, they remarked that ‘all euro members must conduct sound national policies in accordance with the agreed rules’ (Council 2010). The discussion was also centred on Greece, with the Greek government being told ‘to implement all these measures in a rigorous and determined manner to effectively reduce the budgetary deficit by 4% in 2010’ (Council 2010). From a reading of the coordinative discourse, it was now Germany that was seen to be providing ideational leadership for framing the crisis in behavioural terms on Greek fiscal profligacy.

> As the largest eurozone country of course Germany’s voice was perhaps louder than the rest. I think it is fair to say that there was a perception in Germany that the troubles in the sovereign debt market had been caused by excessive government spending by certain periphery member states. (Council Directorate for Economic Policy Official 2013).

The Commission also concurred with these views. In fact, the EU executive took the unprecedented step of issuing a series of strict recommendations to ensure that the budget deficit of Greece was brought below 3% of GDP by 2012 (Commission 2010a). Joaquín Almunia, Vice President of the European Commission, commented that ‘this is the first time we have established such an intense and quasi-permanent system of monitoring’ (Commission 2010a).

In response to the escalating crisis in the eurozone, President Van Rompuy argued the case in March 2010 for the pre-eminence of a European Council led Task Force in driving reform negotiations on EMU governance. The framing of policy solutions within the framework of the Task Force setting was guided more by a neoliberal ideology towards the imposition of strengthened intergovernmental fiscal discipline. In the first statement issued by the Task Force on the 25 March 2010, the shift in policy responses by European leaders was already firmly established: ‘the current situation demonstrates the need to strengthen and complement the existing framework to ensure fiscal sustainability in the euro zone’ (European Council 2010b). Moreover, the final conclusions of the March 2010 European Council summit further instructed the Task Force ‘to identify the measures needed to reach the objective of an improved crisis resolution framework and better budgetary discipline...exploring all options to reinforce the existing legal framework’ (European Council 2010a).

Again, in the coordinative discourse, officials drew attention to the renewed ideational leadership played by Germany in framing policy solutions for the crisis:

> You have to understand that for Germany in particular the idea of having enforceable rules and sanctions to maintain budgetary discipline is central to their vision of how EMU should operate. And during the crisis it was Germany that pressed the hardest for heighted budgetary surveillance (Member of the Cabinet for the European Council President, 2014).

A separate official commented on what they perceived as the inevitably of Germany’s leading role in setting the reform priorities within the task force: ‘But of course Germany takes a leading role here in view of its economic size. So Germany automatically was seen to take on a leading role, whether it wanted it or not '(Council Directorate for Economic Policy Official 2013). In contrast, French President, Nicolas Sarkozy led continued pleas for more fiscal solidarity: 'The euro is our currency. It implies solidarity. There can be no doubt on the expression of this solidarity' (BBC 2010). However, while it has been observed that 'France under the stewardship of Sarkozy also had a role to play here', it has been noted that he, in effect, was 'forced to concede too many of Germany's demands during the crisis deliberations' (Council Directorate for Economic Policy Official 2013). Thus, while Nicolas Sarkozy played an important role in leading a more Keynesian international response at the onset of the global financial crisis, as the crisis intensified within the eurozone the French President was forced to abandon solutions involving fiscal solidarity in favour of Germany's more limited fiscal discipline objectives.

These framing priorities were reflected in the Final Report of the Task Force released to the public in October 2010. The main pillar of the suggested reforms was geared towards 'greater fiscal discipline... through a stronger stability and growth pact' (European Council 2010, 3-4). As part of its ongoing institutional dialogue with the Task Force, the ECB also offered its public support for legislative measures supporting a more rigorous 'quasi-automatic' implementation of the SGP rules (ECB 2010). Three key objectives were embedded in the Final Report of the Task Force: 'the need for a greater focus on debt and fiscal sustainability', 'to reinforce compliance' and 'to ensure that national fiscal frameworks reflect the EU's fiscal rules' (European Council 2010, 1-12). In remarks following the final meeting of the Task Force, President Van Rompuy documented that the 'task force's commitment to a stronger Pact was high from the beginning to the end' (European Council 2010c). Converging with the framing activities of the Task Force, in September 2010 the Commission proposed the so-called 'six-pack' of legislative proposals centred on the concept of 'prudent fiscal policy-making' (Commission 2010, 1). These 'fast-tracked' proposals sought to strengthen the impact and effectiveness of the preventative arm of the SGP by giving it 'teeth' (EU Commission 2010, 4-5). These early framing activities led by deliberations within the Task Force also helped set the subsequent policy agenda in the form of a legislative 'two-pack' (proposed in November 2011) and intergovernmental 'fiscal compact' (agreed 8-9 December 2011). Building on the legislative six-pack, both measures were limited to strengthening intergovernmental fiscal discipline under the SGP, through strengthened budgetary surveillance and reinforced compliance (see Commission 2012).

Crisis Normalisation Phase

From the summer of 2012 to the winter of 2013 there was a gradual reduction in the eurozone periphery bond yield spreads. Key here was the ECB fulfilling its function as a lender of last resort (De Grauwe 2013; 2016). With the ECB able to temporarily normalise market reactions within the eurozone, it offered the prospect that European leaders may seek to reframe the crisis as demanding more supranational solutions. This assumption appeared to be confirmed when President Herman Van Rompuy, following a European Council summit at the end of June 2012, first mentioned the prospect of laying down a 'longer-term vision' for strengthening EMU (European Council 2012c). Following prior negotiations in the European Council, President Van Rompuy, jointly with the Presidents of the European Commission, the ECB, and the Eurogroup, presented in December 2012 a report entitled *Towards a Genuine Economic and Monetary Union*. However, despite the possibility of a critical juncture event, the framing of policy solutions within the report continued to prioritise the strengthening of intergovernmental fiscal discipline over the short-term.

> The near term priority is to complete and implement the new steps for stronger economic governance...The other elements related to strengthening fiscal governance in the euro area ('Two-Pack'), which are still in the legislative process, should be finalised urgently and be implemented thoroughly (European Council 2012, 8).

These reform priorities were also reflected in the coordinative discourse: 'The priority has remained the implementation of the measures contained in the ''six-pack'' and ''two-pack'' proposals' (Council Directorate for Economic Policy Official 2013). And again, Germany's ideational leadership in framing policy solutions was observed to be pivotal here: 'There is an understanding amongst member states that budget discipline has to be ensured before more financial support can be offered. This is also a German insistence' (Council Directorate for Economic Policy Official, 2013). Moreover, while the ECB internally called for a 'quantum leap' in integration within EMU, this was strictly interpreted in terms of 'further strengthening the budgetary discipline of the euro area Member States' (ECB 2012:8).

When discussing the reform solutions for implementation over the long-term (five years and more), there was a shift in the discourse of the *Towards a Genuine Economic and Monetary Union* report towards the language of supranationalism. However, these framing devices were only reflective of a limited reform ambition. For example, the report mentions the possibility of gradually developing a 'fiscal capacity', which could help 'cushion the impact of country-specific shocks' and 'prevent contagion across the euro area' (European Council 2012, 9). Yet the precise form that any fiscal capacity should take within the euro area was left vague, with the report acknowledging that 'the exact conditions and thresholds for the activation of transfers would need to be studied carefully' (European Council 2012, 11). Moreover, it was also emphasised that the development of a fiscal capacity within the eurozone should 'not lead to permanent transfers between countries' and that this process should occur 'without resorting to the mutualisation of sovereign debt' (European Council 2012, 10-12). Tellingly, within the subsequent Conclusions of the December 2012 European Council, any mention of a fiscal capacity or shock absorption function for EMU was omitted, along with plans for debt-mutualisation (European Council 2012a).

In the coordinative discourse, officials were able to account for the limited ambition shown in framing supranational solutions to the eurozone crisis by pointing towards a mixture of sovereignty concerns and issues of moral hazard amongst member states. For example, one official highlighted the constraining influence of these national interest ideas on integration within EMU:

> A degree of debt mutualisation or financial risk sharing could, in theory, help lower borrowing costs amongst the periphery member states and help ward off pressure from the financial markets... but it effectively means the transfer of sovereignty, at least to some extent. That is the biggest obstacle: that is what it is all about. In the end it comes down to sovereignty and money (Council Directorate for Economic Policy Official 2013).

Similar ideas were raised by one official who, when asked to comment on the probability of securing supranational fiscal integration, answered candidly: 'I think it is not very probable because of state sovereignty concerns' (Advisor to the Cabinet of the European Council President 2014). The official argued that this is because a 'fiscal union with tax powers going to the European Union level would be completely turning upside down the way the Union is currently running' (Advisor to the Cabinet of the European Council President 2014). A separate official also drew attention to the importance of 'concerns of moral hazard', predominantly amongst the 'core member states who want to be able to influence the periphery member states' debt situation' (Member of the Cabinet for the European Council President 2014).

There were also discussions in the *Towards a Genuine Economic and Monetary Union* report concerning the development of a flanking 'political union' aspect, although again the supranational framing of the discourse was lacking in ambition. In order to underpin the 'democratic legitimacy and accountability' of decision making the report called for the 'the involvement of the European Parliament as regards accountability for decisions taken at the European level', while at the same time 'maintaining the pivotal role of national parliaments, as appropriate' (European Council 2012, 16-17). The promise to maintain a 'pivotal' role for national parliaments, even in the event of a vertical transfer of powers to the European level, would appear to stem from an observation made in the report that 'decisions on national budgets are at the heart of Member States' parliamentary democracies' (European Council 2012, 16). The report, then, explicitly divorced itself from supranational political solutions. In the coordinative discourse, sovereignty concerns were again raised as major hurdle to political integration: 'People have different interests and different concepts of what a political union would be and as to what sovereign powers should be transferred'—adding that 'we are not even discussing this' (Council Directorate for Economic Policy Official 2013).

In November 2012 the Commission published its own Communication outlining *A blueprint for a deep and genuine economic and monetary union: Launching a European Debate*.

Converging with the Van Rompuy report, the immediate framing of policy solutions was restricted to fiscal discipline objectives: ‘immediate priority should be given to the full deployment of the new economic governance tools brought by the ‘‘six-pack’’ as well as rapid adoption of current Commission proposals such as the ‘‘two-pack’’ (Commission 2012, 12). Once again, like the Van Rompuy report, the blueprint did cautiously embed more supranational frames when addressing the long-term reform agenda for EMU (five years and more). This is in keeping with the EU Commission’s pledge that ‘steps towards more responsibility and economic discipline should be combined with more solidarity and financial support’ (EU Commission 2012, 11). Accordingly, the framing of solutions shifted to demand more in the way of fiscal solidarity, with tentative ideas for a ‘fiscal capacity’ (or ‘federal budget’) and even ‘debt mutualisation’ schemes being aired as possibilities ‘to support member states in the absorption of economic shocks’ (Commission 2012, 25-26). However, these solidarity mechanisms were envisioned as being implemented strictly after the new arrangements for fiscal discipline have been fully implemented. Also, the procedural details and legal basis for the solidarity mechanisms was left vague, with proposal covering options from ‘contractual arrangements’ to an ‘insurance’ type system. As one official commented: ‘I think there needs to be some ingredients of fiscal union. It’s not entirely clear which ones and to what extent; there are different views and these are tricky questions’ (Senior Fiscal Policy Advisor in DG ECFIN 2013). Moreover, the blueprint also shied away from committing itself to any process of supranational political integration, with the EU Commission arguing that the ‘the Lisbon Treaty has perfected the EU's unique model of supranational democracy’ (Commission 2012, 35).

In June 2015, the President of the Commission, in close cooperation with the Presidents of the Council, the ECB, the Eurogroup and the European Parliament, presented the so-called

'Five Presidents' Report' entitled *Completing Europe's Economic and Monetary Union*. It is notable that in the updated report the framing of policy solutions for fiscal integration was even less ambitious than it had been in earlier institutional reports drafted during earlier periods of the crisis. Apart from repeating the need to improve compliance with the new rules contained in the 'six-pack', 'two-pack' and Treaty on Stability, Coordination and Governance, there were no institutional innovations suggested for implementation over the short-term. Instead, intergovernmental fiscal discipline was again framed as the priority solution—with repeated references made to 'responsible budgetary policies' (Commission 2015, 14). The report also warned that 'every Member State must stick to the rules, or the credibility of this framework is at risk' (Commission 2015, 14-15).

In terms of the framing of solutions over the longer-term (five years or more), previous references to a 'fiscal capacity' and limited forms of debt mutualisation were completely omitted. Instead, the Five Presidents tentatively floated the idea of a 'euro area-wide fiscal stabilisation function' (Commission 2015, 14-15). Postponed strictly for 'in the longer term', the development of such a function is envisioned as the culmination of a process of 'convergence' and 'further pooling' of decision-making on national budgets (Commission 2015, 14-155). The report also cautioned that 'it should not lead to permanent transfers between countries' and that efforts should be made to 'guarantee it is consistent with the existing EU fiscal framework' (Commission 2015, 15). Tellingly the report was also explicit that 'the exact design of such euro area stabilisers requires more in-depth work' (Commission 2015, 14). As part of the Commission Presidents' 2015 'State of the Union' address, he argued for 'a more effective and democratic system of economic and fiscal surveillance' (Commission 2015a). However, there was again a noticeable lack of progress on political union. While the report affirmed 'a key role for the European Parliament and national

Parliaments', practical steps to ensure the democratic legitimacy of decision making were limited to proposals to consolidate the external representation of the euro and the integration intergovernmental solutions (i.e. Treaty on Stability, Coordination and Governance) within the EU legal framework (Commission 2015, 17-18).

Framing in Context

The dominant framing activities uncovered need to be understood in the context of the wider EMU policy environment. One of the key foundations of EMU was the ideational consensus reached in Europe on neoliberal economic principles in the 1980's (McNamara 1998). However, while there developed a relative consensus that monetary policy would function in accordance with neoliberal principles, very little thought was given during the deliberations at Maastricht on the 1992 Treaty on European Union (TEU) as to the possibility of accompanying these integration steps with progress towards a supranational fiscal union. As Verdun commented: 'Fiscal policy harmonisation was just simply one step too far; there was no support for a transfer of sovereignty over these matters to the European level' (Verdun 1998, 122). From an early stage, therefore, political necessity dictated that fiscal policy would remain firmly in the intergovernmental realm. Yet from the perspective of underpinning EMU with an institutional framework that is in keeping with neoliberal ideas of 'sound money' and 'sound finance' (Dyson 2002), European economic and monetary integration was not completed at Maastricht. It was against this backdrop that the then German Minister for finance, Theo Waigel, advanced a proposal for a rules-based 'Stability Pact for Europe' in 1996. In summary, owning to the political constraints preventing fiscal supranationalism, coupled with the importation of neoliberal ideas, intergovernmental fiscal discipline became institutionalised at heart of EMU early on.

Since its formation, the course of EU fiscal governance reform has been characterised by a strong ‘path-dependency’ (Pierson 1996). In fact, in view of the path-dependent constraints of the political environment, on top of the prevailing neoliberal ideational consensus, the rules-based framework for EU fiscal governance was never seriously challenged by European leaders throughout the first ten years of the single currency area (see Heipertz and Verdun 2011. While the onset of the eurozone crisis had the potential to represent a ‘critical juncture’ in the path for EMU integration (Bulmer 1994), the revival of concerns amongst member states over sovereignty and moral hazard have continued to render the intergovernmental structure of EMU a political necessity. However, although the minimal structure of EMU remains a manifestation of different conceptions of national interest, the prevailing neoliberal ideology has simultaneously continued to condition perceptions as to the efficacy of the SGP rules-based framework for fiscal discipline.

Thus, while French President Nicolas Sarkozy, in tandem with the international community, was seen to be influential in leading a brief resurgence of more Keynesian oriented demand stimulus during the early stages of the crisis, European leaders defended the continued application of the SGP as the overarching framework for EU fiscal governance. The dramatic shift in early 2010 from ‘Anglo-Saxon’ external excesses to the internal vulnerabilities within the eurozone only exaggerated the path-dependent effect of competing national interests amongst member states while reinforcing the reversion to neoliberal solutions. First, policy makers were responding with a degree of shock and panic to a crisis of potentially ‘existential proportions’ (as termed by a Member of the Cabinet for the European Council President, 2014). Operating in this environment of crisis, diagnosing the crisis in behavioural terms as resulting from fiscal profligacy and offering intergovernmental reform solutions limited to strengthening the SGP would have been both intellectually and politically attractive. Not only were these policy frames fully in line with the neoliberal logic of 'sound money and finance' enshrined since Maastricht (Dyson 2002), but they could also be implemented via secondary legislation under the current legal basis provided by the SGP framework. Moreover, buttressed by its economic weight and its considerable structural power within the EMU set-up, Germany was also increasingly in a strong position to provide ideational leadership in framing neoliberal solutions to the crisis. This can be contrasted with France who, as the crisis progressed, was forced to abandon more Keynesian solutions in favour of Germany's more limited fiscal discipline objectives.

Conclusion

The intensification of the crisis within the eurozone brought with it a marked intensification of intergovernmental policy coordination within EMU. As the crisis progressed, the response by European leaders was to adopt problem and solution frames supporting intergovernmental fiscal discipline. Importantly, these frames were intellectually attractive as they were fully consistent with the neoliberal foundations underpinning EMU governance. Also, these frames were politically simple to express as they could be implemented in full under the pre-existing SGP legal framework. While there was a partial shift in the discourse towards supranationalism following the normalisation of the crisis, these discourses were always reflective of a limited reform ambition. In this context, a supranational framing of the crisis was found to be limited by constraining ideas of national interest concerning state sovereignty and issues moral hazard. Germany was also able to draw on its economic weight and bargaining power to provide ideational leadership, further directing the reform agenda towards intergovernmental fiscal discipline.

In relation to the wider literature, these findings are broadly consistent with 'new intergovernmentalist' claims that supranationalism is unlikely to be obtained in the post Maastricht integration phase. This study though has helped develop a deeper political understanding of the current integration impasse in EU fiscal governance, and of the ideational and institutional path-dependencies working to limit the scope for far reaching reform. This analysis has also contributed to existing critical analysis on European integration by emphasising the central importance of neoliberal ideology in guiding framing preferences. Finally, one major consequence of these findings is that the imbalance between monetary and fiscal integration within the EMU framework will likely remain. However, further investigation will be needed to assess the long-term sustainability of running a single currency area with a decentralised system of fiscal policy.

References

Aday, S. 2006. ‘The Framesetting effects of news: An experimental test of advocacy versus objectivist frames.’’ Journalism and Mass Communication Quarterly 83 (4): 767-784.

BBC. 2010. ‘‘France offers support to Greece’’ 7 March.
Available at
« http://news.bbc.co.uk/1/hi/business/8554754.stm »
Accessed 22 January 2017

Benford, R. D. and Snow, D.A. 2000. ‘‘Framing Processes and Social Movements: An Overview and Assessment.’’ *Annual Review of Sociology*, 26:1, 611-639.

Bickerton, C.J., Hodson, D. and Puetter, U. 2015. ‘‘The New Intergovernmentalism: European Integration in the Post-Maastricht Era.’’ *Journal of Common Market Studies* 53 (4): 703-722.

Bickerton, C.J., Hodson, D. and Puetter, U. eds. 2015a. *The New Intergovernmentalism: States and Supranational Actors in the Post-Maastricht Era,* Oxford: Oxford University Press.

Bofinger, P., Feld, L.P., Franz, W., Schmidt, C.M., and di Mauro, B.W. 2011. ‘‘A European Redemption Pact. ’’ CEPR Policy Paper, 9 November.

Cacciatore, M.A., Scheufele, D.A. and Iyengar, S. 2016. ‘‘The End of Framing as we Know it...and the Future of Media Effects.’’ *Mass Communication and Society*. 19 (1): 7-23.

Checherita, C., Attinasi, M. and Nickel, C. 2010. ‘‘What explains the surge in euro-area sovereign spreads during the financial crisis of 2007-09?’’ ECB Working Paper, no. 1131.

Commission. 2008. Communication from the Commission to the European Council: ‘‘A European Economic Recovery Plan’’ 26 November, Brussels.

Commission. 2010. Press release, EU economic governance: ‘‘The Commission delivers a comprehensive package of legislative measures’’ 29 September, Brussels.

Commission. 2010a. Press Release: ‘‘Commission assesses Stability Programme of Greece’’ 3 February, Brussels.

Commission .2012. ‘‘A blueprint for a deep and genuine economic and monetary union: Launching a European Debate’’ 30 November, Brussels.

Commission .2015. ‘‘Completing Europe’s Economic and Monetary Union’’ 22 June, Brussels

Commission .2015a. Speech by Jean Claude Junker: ‘‘State of the Union Address’’ 14 September, Brussels.

Council. 2010. ‘‘Statement by the Heads of State or Government of the European Union’’ 11 February, Brussels.

Council . 2014. ‘‘Speech by President Herman Van Rompuy at the Brussels Economic Forum’’ 10 June, Brussels.

De Grauwe, P. 2013. ‘‘Design Failures in the Eurozone: Can they be fixed?’’ LEQS Discussion Paper, No. 27.

De Grauwe, P. .2016. *Economics of Monetary Union, 11th Edition.* Oxford: Oxford University Press.

Dyson, K. 2002. *The Politics of the Euro-Zone: Stability or Breakdown?* Oxford: Oxford University Press.

ECB .2010. ‘‘Reinforcing Economic Governance in the Euro Area’’, note by the European Central Bank, Frankfurt, 10 June.

ECB .2012. ‘‘Opinion of the European Central Bank on Strengthened Economic Governance of the Euro Area’’ Frankfurt, 7 March.

European Council. 2010a. ‘‘ European Council Conclusions’’, 17-18 March, Brussels.

European Council. 2010b. ‘‘Statement by the Heads of State and Government of the Euro area’’, 25 March, Brussels.

European Council. 2010c. ‘‘Remarks by the President of the European Council following the last meeting of the Task force on economic governance’’, 18 October, Brussels.

European Council .2012. ‘‘Towards a Genuine Economic and Monetary Union’’, 5 December, Brussels.

European Council. 2012a. ‘‘European Council Conclusions’’, 13-14 December, Brussels.

European Council. 2012b. ‘‘Towards a Genuine Economic and Monetary Union: Interim Report’’, 12 October, Brussels.

European Council. 2012c. ‘‘Remarks by President Herman Van Rompuy following the European Council’’, 29 June, Brussels.

Feldstein, M. 2008. ‘‘Will the Euro Survive the Current Crisis?’’ Project Syndicate Paper, 15 December.

Financial Times. 2008. ‘‘Merkel sees danger in cheap money’’, 27 November.
Available at
«http://www.ft.com/cms/s/0/67467116-bc25-11dd 79fd18c.html? =true»
Accessed 17 January 2017

Financial Times. 2009. ‘‘Seeds of its Own Destruction’’, 8 March.
Available at
https://www.ft.com/content/c6c5bd36-0c0c-11de-b87d-0000779fd2ac
Accessed 18 January 2017

Goffman, E. 1974. *Frame Analysis: An Essay on the Organization of Experience*. New York: Harper and Row.

Hay C. 2006. ‘‘Constructivist Institutionalism'', In *The Oxford Handbook of Political Institutions, edited by Rhodes, R, 3-23.* Oxford: Oxford: Oxford University Press.

Heipertz, M. and Verdun, A. 2011. *Ruling Europe: The Politics of the Stability and Growth Pact*. Cambridge: Cambridge University Press.

Hodson, D. 2011. *Governing the Euro Area in Good Times and Bad*. Oxford: Oxford University Press.

Holden, P. 2011. *A Dictionary of International Trade Organizations and Agreements*. London: Routledge.

McNamara, K. R. 1998. ‘‘*The Currency of Ideas: Monetary Politics in the European Union*’’ New York: Cornell University Press.

Pierson, P. 1996. ‘‘The path to European integration: a historical institutionalist approach.’’ *Comparative Political Studies* 29(2): 123-163.

Puetter, U. 2012. ‘‘Europe’s deliberative intergovernmentalism: the role of the Council and European Council in EU economic governance.’’ *Journal of European Public Policy* 11 (2): 161-178

Rosamond, B. 2005. ‘‘The uniting of Europe and the foundation of EU studies: revisiting the neofunctionalism of Ernst B. Haas.’’ Journal *of European Public Policy* 12 (2): 237-54.

Schmidt, V. A. 2008. ‘‘Discursive Institutionalism: The Explanatory Power of Ideas and Discourse. ’’ *Annual Review of Political Science* 11(1): 303-326.

Schmidt, V.A. 2010. ‘‘Taking ideas and discourse seriously: explaining change through discursive institutionalism as the fourth ‘new institutionalism.’’ *European Political Science Review*. 2(1): 1-25.

Schmidt, V.A. 2015. ‘‘The Eurozone’s Crisis of Democratic Legitimacy: Can the EU Rebuild Public Trust and Support for European Economic Integration?’’ European Commission Discussion Paper, No. 015, September.

Schimmelfennig, F. 2015. ‘‘What's the News in ‘New Intergovernmentalism’? A Critique of Bickerton, Hodson and Puetter.’’ *Journal of Common Market Studies* 53(4): 723-730.

Sinn, H.W. 2010. ‘‘Reining in Europe’s Debtor Nations.’’ Project Syndicate Paper, 23 April.

Skidelsky, R. 1992. *John Maynard Keynes: The Economist as Saviour 1920 – 1937*. London: MacMillan.

Verdun, A. 1998. ‘‘Understanding Economic and Monetary Union in the EU.’’ *Journal of European Public Policy* 5(3): 527-33.

von Hagen, J., Schuknecht, S. and Wolswijk, G. 2009. ‘‘European government bond spreads in the current crisis.’’ CEPR Policy Paper, 21 December.

von Hagen, J., Schuknecht, S. and Wolswijk, G. 2011. **‘‘**Government bond risk premiums in the EU revisited: The impact of the financial crisis.’’ *European Journal of Political Economy* 27 (1): 36-43.

Warren, T., Holden, P. and Howell, K. (2017) ‘‘The European Commission and fiscal governance reform: a strategic actor?’’ *West European Politics 40 (6): 1310-1330.*

Worlf, G.B. 2012. ‘‘A budget for Europe's Monetary Union.’’ Bruegel Policy Contribution, Issue 12/22.

Wyplosz, C .2009. ‘‘The Euro’s Finest Hour?’’ IMF Opinion, June 09.

Cited Personal Interviews

Council of the European Union

Council Directorate for Economic Policy Official. 2013. Interviewed by the author (Brussels, 27th September).

Senior official in the unit for economic policy

Council Directorate for Economic Policy Official 1. 2013. Interviewed by the author (Brussels, 28th September).

Official in the unit for economic Policy

Advisor to the Cabinet of the European Council President. 2014. Interviewed by the author (Brussels, 4th April).

Senior advisor to the President

Member of the Cabinet for the European Council President. 2014. Interviewed by the author (Brussels, 2nd April).

Senior advisor to the President on economic and euro area issues

EU Commission

Secretariat Official in DG ECFIN 1. 2013. Interviewed by the author (Brussels, 26th September).

Part of the Commission provided Secretariat

Secretariat Official in DG ECFIN 2. 2013. Interviewed by the author (Brussels, 25th September).

Part of the Commission provided Secretariat

Official in DG ECFIN (2013) Interviewed by the author (Brussels, 25th September).

Fiscal policy official

Policy Advisor in DG ECFIN (2013) Interviewed by the author (Brussels, 24th September).

Adviser on policy coordination and strategic planning

Senior Fiscal Policy Advisor in DG ECFIN (2013) Interviewed by the author (Brussels, 23rd September).

Senior fiscal policy advisor

Senior Director in DG ECFIN (2013) Interviewed by the author (Brussels, 26th September).

Senior official in charge of coordination work in DG ECFIN