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Introduction

Recent Changes in EU Economic Governance: Methodological and Institutional Dynamics

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Abstract

A decade after the outbreak of the Euro crisis, enough time has passed to assess its impact on EU economic governance. This Special Issue aims to identify the institutional dynamics that have occurred since the crisis by using methodological approaches that reflect the rising complexity of decision-making under Economic and Monetary Union. The ambition of the contributing authors is to provide new theoretical insights and empirical findings and thereby to contribute to our understanding of the long-term ramifications of the Euro crisis for EU economic governance. This Special Issue addresses two broad research areas: power relations, institutional dynamics and decision-making practices, and the processes, efficacy and effectiveness of fiscal and economic policy coordination in the reformed setting of economic governance.

A decade ago, the Greek government announced revised figures for its deficits, triggering the Euro crisis and a host of reforms in EU economic governance. While the pace of reforms has slowed since the height of the crisis, enough time has passed to assess the impact of the crisis on EU economic governance. While market calm returned to the Eurozone around 2012 after the announcement of Banking Union and Mario Draghi's vow to do 'whatever it takes' to save the Euro, the decisions undertaken during this period had important repercussions for policymakers. The EU assumed greater control over sensitive policy areas during the crisis at a time when the legitimacy of the Euro and its institutions was questioned. How did this occur, and what have been the long-term ramifications for EU economic governance?

The Euro crisis resulted in some actors accruing more power and influence. For example, the European Central Bank (ECB) rose as a pivotal actor during the crisis, partially through its use of unconventional monetary policy and also through its responsibility for financial supervision as part of Banking Union. Moreover, Banking Union itself developed in a way that reflects certain power dynamics favouring the interests of some member states over others. In other cases, the member states were expected to take a stronger role in the implementation of domestic reforms. The latter relied on a mixture of hard and soft law within the framework of the European Semester and addressed fiscal and macroeconomic coordination as well as financial market surveillance and integration. One of the governance reform packages, the so-called 'Six-Pack', reformed the Stability and Growth Pact (SGP) and introduced the Macroeconomic Imbalance Procedure (MIP), a mechanism for preventing and correcting macroeconomic imbalances and thus aimed at strengthening fiscal and macroeconomic policy coordination and surveillance (Šikulová 2015; Franco and Zollino 2014; Bouwen and Fischer 2012). These newly introduced and reformed fiscal and economic policy coordination mechanisms, together with already existing ones such as the Broad Economic Policy Guidelines, are now carried out within the European Semester, an annual policy coordination cycle that delivers Country Specific Recommendations (CSRs) that aim to induce economic policy reforms at the national level.

Under this new setting of economic governance, supranational and national actors have been assigned new prerogatives and obligations. Consequently, the established reforms were accompanied by changes in power dynamics regarding both the relations between the national and supranational levels and the relations amongst supranational institutions and actors. These changes to the institutional setting of EU economic governance have opened up opportunities for analysis and constitute developments that deserve academic attention. Two promising research areas are of particular interest. The first one revisits power relations and institutional dynamics in the reformed economic governance framework as well as their repercussions for legitimacy and accountability in the EU. The second area concerns the processes, efficacy and effectiveness of fiscal and economic policy coordination, notably within the European Semester.

The contributions to this Special Issue focus on these two topics, bringing together the work of scholars from subfields of political science including political economy, comparative politics and international political economy. This introduction first presents the developments under Economic and Monetary Union (EMU) that have been identified and addressed by the literature so far. Based on this, it next describes the objectives of the articles in this Special Issue and their contribution to research on EU economic governance. This presentation includes brief summaries of the articles, which are grouped into the aforementioned categories: shifting power relations, institutional change, and decision-making practices; and the processes and outputs associated with the European Semester.

DEVELOPMENTS IDENTIFIED AND ADDRESSED BY THE LITERATURE THUS FAR

Certain aspects of the above-mentioned developments regarding EU economic governance have been identified and addressed by the recent academic literature. Regarding changing power dynamics during and in the aftermath of the crisis, it has been argued on the one hand that EU economic governance has gained a stronger supranational character in terms of the empowering of EU institutions in the implementation and application of governance rules (Guidi and Guardiancich 2018; Dehousse 2016; Carstensen and Schmidt 2017). In addition, the Commission has been increasingly flexible in its interpretation of the rules on economic governance (Schmidt 2016). The Commission has further gained greater control and authority over member states' statistical information (Savage and Howarth 2018). On the other hand, the 'new intergovernmentalism' literature argues that integration has occurred without supranationalisation and has empowered new bodies instead of the Commission or other 'traditional' supranational institutions (Verdun and Zeitlin 2018; Bickerton, Hodson and Puetter 2015).

The reinforcement of some actors has added to the persistent asymmetry between the economic and social dimensions of EU governance. Although the reformed governance framework acknowledges the importance of social policy issues, they have been subjugated to economic goals (for example Verdun and Zeitlin 2018; Maricut and Puetter 2018; Kvist 2013; Copeland and Daly 2018; Bekker 2015). While the downgrading of social policy objectives had occurred already well before the crisis when the 2004 Kok Report, a mid-term review of the Lisbon Strategy's economic policy coordination programme, led the Lisbon Strategy to focus on economic growth and job creation, leaving social and environmental concerns to the side. Nevertheless, there is evidence for an incremental empowerment of social policy actors within the setting of the European Semester (Zeitlin and Vanhercke 2018). Furthermore, the Commission has acted as a strategic actor in the aftermath of the crisis which advocates social policy measures, albeit against the backdrop of fiscally austere national governments (see Eihmanis 2017).

Regarding the functioning of coordination procedures that have been shaped by the reform of economic governance, recent research predominantly examines the European Semester and challenges its usefulness and effectiveness. To illustrate, studies on the implementation of policy guidance delivered by the European Semester, the CSRs, point to an overall unsatisfactory performance of the member states (Wolff and Efstathiou 2018; Samardzija and Skazlic 2016; Deroose and Griesse 2014; Darvas and Leandro 2015; Alcidi and Gros 2014). Moreover, scholars have analysed the balance between economic and social policy objectives and recommendations within the European Semester, as well as their interaction (for example Zeitlin and Vanhercke 2018; Copeland and Daly 2018). The focal point of these analyses is the position of the European Social Model and its future, notably in the context of dominant austerity policies (for example de la Porte and Heins 2015; Costamagna 2013; Armstrong 2012). It has been shown that the European Semester is a complex political and bureaucratic process. The hierarchical relationship between the dominant economic and the subordinated social policies essentially make the Semester an ambiguous policy coordination regime (Vanheuverzwijn and Crespy 2018; Bekker 2015) in which it is difficult to clearly correlate the intended purpose of the mechanisms with the policies and outcomes they produce. Moreover, the Semester's impact on national (structural) reforms and general economic prosperity is still uncertain (Samardzija and Skazlic 2018), and evidence points to a variation in the participation of national parliaments in the Semester among member states (Hallerberg, Marzinotto and Wolff 2018).

All of these factors have contributed to the exacerbation of the EU's perennial democratic deficit problem. According to Dawson (2015), decision-making after the Euro crisis combines intergovernmental forms of decision-making with aspects of supervision and implementation associated with the community method. While the model of decision-making has changed, the accountability structure has not and therefore does not allow for appropriate levels of control and scrutiny of decisions taken. In a similar vein, Schmidt (2015a) argues that the failure to produce good outcomes during the Euro crisis as well as the lessened influence of EU citizens on Eurozone policies have deteriorated democratic legitimacy. Further, EU actors reinterpreted the rules in force without, at first, publicly admitting it. While flexible rule interpretation might support output legitimacy, it is not without its consequences with regard to input and throughput legitimacy (Schmidt 2015b). Similar dynamics can be observed in the area of monetary policy, with the ECB stretching its mandate and thereby undermining the initial structure of its democratic legitimacy (Högenauer and Howarth 2016). As argued by Steinbach (2018), the Euro crisis has even changed the accountability structure of EU economic governance as a whole, deviating from the accountability structure as laid down in the Treaties. While prior to the crisis, economic governance was based on economic accountability (the determination of financing needs of states by the markets), post-crisis debtor states now are accountable to public creditors, and thus economic accountability has been substituted by political accountability.

It has nevertheless been shown that the crisis had a positive impact on certain aspects of democracy. According to Kriesi (2018), the dissatisfaction of citizens with their countries' economic and political performance during the crisis led to a strengthening of democratic principles at the national level. In a similar vein, Cordero and Simón (2016) find that by creating dissatisfaction with the economy, bailouts have had a positive impact on citizens' support of democratic values in those countries affected. On a more general level, while it is often claimed that there would be no demos in the European Union, Risse (2014) argues that the Euro crisis has enhanced the Europeanisation of national public spheres. In sum, while the political and economic reactions to the crisis have negatively affected democratic accountability of EU economic governance, the crisis has triggered movements at the national and trans-European levels that point towards an enhancement of democratic principles and contributed to the development of a European public sphere that could be at the basis of a trans-European accountability structure.

AIM OF THE SPECIAL ISSUE

The multifaceted nature of the new EU economic governance framework and complexities as illustrated by altered institutional dynamics, problems of legitimacy and the questionable effectiveness of economic and fiscal policy coordination calls for further thorough examination. Hence, the aim of this Special Issue is to provide new theoretical insights and empirical findings on particular aspects of EU economic governance in addressing the above-depicted themes. In doing so, it offers an interdisciplinary angle to the issues at hand and, we believe, utilises data produced by the reformed EU economic governance through innovative methodological techniques.

The first group of contributions to this Special Issue focus on power relations, institutional dynamics and decision-making practices in the aftermath of the crisis. While Chang examines the changing legitimacy of the European Central Bank (ECB), O'Dwyer revisits the role of expertise in EU economic governance from a gender perspective. Sacher, applying a partially legal reading of policy coordination and decision-making practices, studies the enforcement of sanctions under the macroeconomic conditionalities that link EU cohesion policy to economic governance.

In more detail, Chang's contribution addresses the topic of legitimacy and accountability in the case of the ECB. This highly independent institution moved from the pursuit of a very narrow mandate based on price stability towards the application of unconventional monetary policy. This move and hence the ECB's increased role in financial markets extends the debate on legitimacy towards accountability concerns. Ultimately, Chang shows that the accountability of the ECB has increased incrementally since the Euro crisis, accompanying a gradual institutional change by layering. Consequently, the ECB's accountability requirements have become more substantial, though whether they correspond to the ECB's increased role is debatable.

Undertaking a structural perspective on power dynamics in EU economic governance, O'Dwyer finds that the role of experts in EU economic governance is not harmful, but can instead generate democratic deliberation and guide decisions. Nonetheless, the role of experts unavoidably raises the question of democratic legitimacy of EU economic governance. In this vein, O'Dwyer argues that depoliticised expertise served as a legitimisation channel for the governance structure since it lacks input legitimacy. She concludes that, above all, this specific legitimisation process is gender natured, as supported by the empirical illustration of male dominance within EU economic governance. By touching upon the issue of the EU's democratic deficit, the two contributions expand the perspectives based on which we can understand and assess both power and institutional dynamics in the current economic regime of the EU.

Combining political science analysis and legal scholarship, Sacher applies the legal concepts of hard and soft law to analyse the nature of enforcement in a specific case. More precisely, Sacher analyses the 2016 strategic softening of macroeconomic conditionalities in the case of Spain and Portugal, a provision that foresees the suspension of EU investment funds in case of non-compliance with the Stability and Growth Pact (SGP). Drawing on the 'usage of Europe' approach, Sacher finds that the hard law character of the macroeconomic conditionalities softened by the European Commission's flexible application of the provisions, and by the European Parliament's strategic usage of the rules of the procedure.

In sum, the contributions by Chang and O'Dwyer expand the perspectives based on which we can understand and assess power and institutional and decision-making dynamics in the current economic regime of the EU. Moreover, O'Dwyer and Chang's contributions relate to the issue of the EU's democratic deficit that is not only reflected in accountability structures (Chang), but is present on a structural level in the form a gendered expertise regime within EU economic governance (O'Dwyer). By partially applying a legal perspective, Sacher's contribution illustrates the use of the institutional flexibility of the setting of EU economic governance and contributes to our understanding of both the difference between the legal framework and political practice, and the interaction between them.

Further exploration of challenges related to economic policy coordination is undertaken by the second group of contributions to this Special Issue. These contributions focus on the outputs of EU policy coordination processes. In particular, they examine the EU's annual coordination cycle of economic policies: the European Semester and its policy-oriented output, namely the CSRs. Moreover, the contributions apply a methodologically innovative angle to the issues at hand.

The Semester brings together different coordination instruments and reporting requirements. This exercise therefore creates a significant amount of documents and data, which can be used for the in-depth analysis of the dynamics, functioning and policy orientation of the Semester. As shown by D'Erman, Haas, Schulz and Verdun, who developed and made use of a large data set, EU economic policy coordination does not follow a 'one size fits all' approach, with reform recommendations broadly corresponding to the different 'types' of capitalism that are present at the national level. In particular, thematic orientation of CSRs vary across member states and time, and the distinctive character of national economic models. This finding suggests that policy recommendations produced within the Semester are rather nuanced with regard to domestic (national) differences, even if they seek a certain degree of convergence.

Instead of exclusively analysing the content of CSRs, Tkalec focuses on the process of CSR adoption. In particular, the author uses textual data produced by the European Semester in order to demonstrate the existence of a difference in opinions between the Commission and the Council in the articulation of policy recommendations. He uses quantitative sentiment analysis complemented by qualitative case studies, and he finds that the Council's amendments to the Commission's CSR proposals tend to be substantive. The most disputable policy recommendations concern fiscal, social and labour market issues. Ultimately, through the amendments, the Council tends to emphasise the importance of national traditions and practices in policymaking.

These two contributions provide examples of using innovative methods to approach policy coordination under the European Semester and its complexity. First, quantitative sentiment analysis used by Tkalec points to potential advantages and limitations of large-scale text analysis notably in the context of EU economic governance. Second, the innovate approach to coding of CSRs and dataset creation undertaken by D'Erman, Haas, Schulz and Verdun highlights relevant variables and produces a compelling empirical foundation for further examination of CSRs. Therefore, both analyses add to the methodological toolkit that can be used to analyse EU economic governance.

In his methodological commentary, Schulz shows that the dominant methods in the application of actor-centred approaches to EU economic governance are qualitative document analysis and interviews. Attempting to uncover alternatives, the author explores viable methods that have the potential to enrich this academic field. He argues that newly accessible data such as biographic information could prove useful when studying EU economic governance. These data might be analysed using methods such as automated content analysis which, due to sophisticated software advancements, has become a reliable technique in the social sciences.

CONCLUSION

EMU has been subject to a great number of changes since the Euro crisis that have not only touched upon the institutional set-up of policymaking, but have also invited us to rephrase our questions regarding the EU's democratic deficit. This Special Issue aims at identifying these institutional dynamics using innovative methodological approaches and thereby building on and extending the state of research in the area of EU economic governance. The variety of research topics and approaches applied by the contributing authors thereby reflects the complexity of decision-making under EMU and the challenges for research created by the institutional dynamics since the beginning of the Euro crisis. We therefore hope that this Special Issue contributes to our quest for understanding the long-term ramifications of the Euro crisis for EU economic governance.

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