Bachelor Thesis:

What is dead may never die –

How the Stability and Growth Pact was remade during the Euro crisis

Lukas Spielberger

s1487493

University of Twente

Faculty Behavioural and Management Sciences

BSc European Public Administration

First Supervisor: Shawn Donnelly

Second Supervisor: Ramses Wessel

Abstract

Between 2010 and 2012, EU countries agreed on a significant deepening of the Stability and Growth Pact which restricts the authority over their national budgets and macro-economic policy. The new rules are widely controversial and their effectiveness is both publicly and academically disputed. How, then, can it be explained that so far-reaching reforms have been passed so quickly during the crisis? This study aims to explain how coalitions between countries formed in that period and how this effected the outcomes that were reached. During the crisis, ordo- and neo-liberal economic ideas were used to attack the previous institutional arrangement and to provide a comprehensive solution to the problems they identified. Those ideas united both affluent Northern European countries and Eastern European countries that had undergone internal devaluation voluntarily. Southern European countries were unable to formulate a broadly accepted alternative at the onset of the crisis and had to adopt the German paradigm. As soon as that changed in 2012, SGP reform progress stalled, even though institutional deficiencies persist.

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Introduction

Ever since the onset of the economic crisis in 2009, increased attention has been paid to the financial situation of European Union (EU) countries. With the danger of several states defaulting on their debt, the Stability and Growth Pact (SGP) has taken a more central role than in the years before the crisis. The SGP, originally advocated by the Germans as early as 1997, has been one of the most central elements of the Economic and Monetary Union (EMU). Its initial purpose is to safeguard sound budgetary policies and to trigger the Excessive Deficit Procedure (EDP) in case of violation. To that goal, the original SGP included a set of rules designed to secure low budget deficits across the EMU (Heipertz & Verdun, 2010). While in prosperous times, this regime was generally abode by and compliant countries kept their budget deficits low, when the crisis came, the rigidities of the SGP became obvious and in the year of 2009 a EDP was started against as many as 13 countries at once and at the time of writing, 8 Euro countries are still in the EDP.

In response to this failure of the SGP to prevent the most serious economic crisis of the EU, it would have been thinkable to abandon that arrangement. Arguably, more systemic solutions with structural transfers and common European bonds could have prevented the years of stagnation that followed (Matthijs & McNamara, 2015). What happened instead was that the rules of the SGP were increasingly tightened between 2010 and 2012, both through EU legislation and Intergovernmental Treaties outside its framework. In doing so, all countries surrendered a great degree of autonomy over their budgets to the EU and the austerity measures that had to be implemented following the prescriptions of the new SGP has sparked protests in many countries. Absent the return of either stability or growth immediately after the reforms, the economic rationale of the new set of measures is now being called into question (Blyth, 2013b; Matthijs, 2016a), but at the time those measures were decided upon, they all found unanimous approval. After 2012, the reform of the SGP abruptly ground to a halt even though further progress was –and still is– considered necessary. The goal of this study is to explain how this outcome can be explained. This is done by analysing the coalitions that have formed between countries during the reform of the SGP.

This article proceeds as follows. First, an overview over the SGP before the crisis will be provided to illustrate the already existent institutional framework before the crisis. This draws not only on the policies of the SGP, but also points out key players' behaviour prior to the crisis. Then, two theoretical approaches to coalition formation will be laid out, an interest-based approach and one that sees ideas as the driving force. Using these two approaches the reform of the SGP between 2010 and 2012 is described using process tracing methods in the empirical section. By studying the positions that countries took and the mode of cooperation between them it is shown how closer budget surveillance aimed at enforcing austerity won the day over systemic solutions or stimulus programmes. The penultimate section discusses the findings and provides an explanation for the way in which the SGP reform has taken place. The implications of those insights for the study economic governance and institution building in the EU form the concluding section.

Background

The Stability and Growth Pact

The SGP is a body of legislation consisting two regulations that have been passed in 1997 and amended in 2005 whose aim it is to ensure adherence to the convergence criteria laid out in the Maastricht Treaty. In addition, some non-legally binding texts, a resolution of the European Council, a report of the ECOFIN Council to the European Council and a code of conduct have been passed which carry political and procedural meaning. It formalises the obligation to keep general government budget deficits below 3% of Gross Domestic Product (GDP) and to strive for a balanced or surplus budget in the medium term (Heipertz & Verdun, 2010, pp. 3–5).

Functionally, the SGP comprises a preventive arm which obliges countries to submit annual stability programmes and a corrective one which specifies the application of the EDP in case of violation of the deficit targets. Under the preventive arm, countries are now obliged to submit country-specific medium-term objectives (MTOs) which take into account national economic data such as debt-to-GDP ratio, growth potential and automatic stabilisers. Should a country be unable to reach its MTO, a path of adjustment which takes into account the business circle and the structural deficit is expected to be followed. Finally, structural reforms, such as pension system overhauls, may allow countries to deviate from their MTOs if the reforms promise future savings. The corrective arm of the SGP refers to the application and implementation of the EDP. Even if a deficit exceeds the 3% benchmark, this can be justified in 'temporary and exceptional circumstances'. The Council enjoys considerable leeway in (not) applying the EDP by invoking a long list of 'other relevant factors' that might justify a temporary deviation from the deficit target (Heipertz & Verdun, 2010, pp. 101, 168). Failure to bring the budget deficit below the 3% threshold within a specified period or to act upon Council recommendations on how to do that is sanctioned by a non-interest bearing deposit at the European Commission of 0.2% of GDP plus components depending on the transgression as *ultima ratio*.

The SGP before the crisis

At the time that the SGP was proposed, European monetary integration was in its final phase and countries that wanted to join the common currency had to fulfil the convergence criteria of a budget deficit of 3% of GDP and gross national debt of 60% of GDP. A proposal by the then

German finance minister Theo Waigel for a Stability pact that clarified the budgetary rules that ensured compliance with the criteria was discussed. While the French had their reservations about the pact and demanded pro-growth and employment policies in return, most other countries did not object against it and the SGP was created (Heipertz & Verdun, 2010, p. 36). Against Germany's wish to include an automatic sanction system which would only be suspended in the case of a severe economic downturn, the eventual pact resulted in little more than a formalisation of political promises made before that (Segers & Van Esch, 2007).

That weakness became clear in the year 2003 when both Germany and France ran budget deficits that exceeded the 3% mark and the EU found itself incapable of reacting despite pressure from many small countries. After all, the SGP should apply to all EU countries equally (Heipertz & Verdun, 2010, p. 141). However, the French and German resistance sufficed to block the qualified majority which would be required to trigger the sanctions under the EDP. This led to clashes both within the Council and between the Council and the Commission which were eventually settled before the ECJ. While affirming the Council's practice of holding the SGP in abeyance, the Court also emphasised the importance of cooperation between both institutions.

Learning from the problems encountered in 2003, the Commission drafted a proposal for a revision of the SGP. Pushed forward by the Franco-German tandem and against the opposition of Finland, the Netherlands and Austria, the new SGP was somewhat more lenient and abandoned any former calls for automatic application of sanctions. Instead of the previous one-size-fits-all approach, it now accounted for country-specific economic differences. It went on to stipulate that the rate of adjustment of structural deficits not exceed 0.5% per year, and allowed for violation of the medium term objectives when structural reforms were applied that promised long-term savings (Heipertz & Verdun, 2010, p. 168). This increased the discretion of the Council, and thereby especially the big states, over the application of the SGP and weakened the supranational character of the SGP.

Thanks to uniformly strong economic growth in the following years, the revised SGP remained largely untested prior to the economic crisis of 2008. Yet when the financial crash happened, the economic outlook changed radically. Despite the extraordinary circumstances the European Council insisted on the application of the SGP and EDP's were started against all but 3 countries in 2009 (Matthijs, 2016a). Considering the difficulties the SGP encountered in much more benign economic times when it was revised, the fact that it was not suspended during the crisis certainly proved that it has become an accepted part of European economic policy whose core task was not even questioned in a period of a severe economic downturn. Still, in immediate response to the crisis, many states, including both France and Germany, launched stimulus programmes to revive the economy, rather than to try and stay within the 3% deficit margin (Dullien & Guérot, 2012; Vail, 2015).

All in all, it can be seen that after an initial German efforts to achieve automatic sanctioning of excessive deficits across all countries, practice has shown that the decision to start an EDP depended more on political than on formal criteria. The process to scrutinise national budgets has been made more flexible and adaptive to individual circumstances. In terms of coalitions, the importance of cooperation between France and Germany cannot be understated. The French were leading the block that called upon Germany to abandon its calls for automatic sanctioning and instead to politicise the decision making process on the application of the EDP, but supportive of the idea of macro-economic coordination in general. Smaller northern states have been among the most vocal in pushing for stricter application of the rules, especially when Germany itself violated the SGP in 2003.

The initial European reaction to the economic crisis in 2008 was somewhat ambivalent. On the one hand, almost all countries had deficits that formally exceeded the 3% value and some even deliberately launched stimuli to keep their economy afloat, showing little respect for the SGP in practice. On the other hand, their insistence on the commitment to keep the SGP formally intact revealed that the principal logic of the SGP, namely to coordinate fiscal policies and keep deficits at bay was not questioned.

Theory

Approaches to coalition building

Coalitions of states in EU decision making are groups of countries that share interests and objectives and cooperate politically in order to achieve them. Within this context, rationalist and idea-based approaches to coalition building will be compared regarding their power to explain the agreements on Eurozone governance reached during the Eurocrisis.

Rationalist theories assume that states are political actors that behave according to their interests within the framework of EU institutions. Hence states should be expected to form coalitions on the base of their interests and outcomes should be shaped according to the preferences of the states whose relative power results from interdependence between the states and the role of institutions in preserving the credibility of those commitments (Heipertz & Verdun, 2010; Moravcsik, 1993, 2013). Within rationalist thought, again, two different coalition building patterns can be distinguished, namely an institutionalist and a power-based one (Kaeding & Selck, 2005). Traditional liberal institutionalism in this context defines interest rather narrowly as economic pay-offs and would expect countries with joint economic interests to form coalition in inter-governmental negotiations (Moravcsik, 2013). This means that states cooperate in order to achieve mutual benefits in a collectively unsatisfactory situation. Factors that determine a state's position are highly contingent on the domestic situation, since the government that acts on the international stage is accountable to its domestic voters (Katzenstein, 1977), a situation that Robert Putnam (1988) described as a 'two-level game'. Given the differences between individual states' political economies, supra-national policies affect countries unevenly and be more or less painful to domestic constituents (Walter, 2015). As a result of imbalances of power and the asymmetric distributions of benefits and the resulting interdependence between states, those states that benefit most from the integration have to make most concessions while the countries that gain the least have considerably more clout. For coalition building, one could therefore expect that countries with similar interests would form coalitions in order to increase their influence on the agreements that are negotiated and effectuate at least concessions or 'package deals' (Heipertz & Verdun, 2010). The most consistent coalition pattern that has been observed using such a framework is the North-South divide (Kaeding & Selck, 2005) which has also been coined the creditor-debtor divide to account for the different fiscal situations countries found themselves in (Dyson, 2010; Zimmer, Schneider, & Dobbins, 2005).

To some, this consensus-directed approach does not go far enough and a number of scholars have argued that power, rather than interest is the determinant of the outcomes of those negotiations. In this case, the outcomes of negotiations might not stop at what is a mutual improvement, as countries that have the power to impose their will onto others will seize that opportunity (Art, 2015; Donnelly, 2013). Institutions might be shaped in way that leaving them is made more painful once a country is in there so that membership is the only option remaining (Keohane, 1984; Krasner, 1999; Walter, 2015). Stronger states might therefore be more than only powerful players and could be perceived as concrete threats by other countries whose interests they harm. Consequently, coalitions that are formed will do so with regards to the balance of powers and in reaction to those threats. Confronted with the two options of bandwagoning, i.e. aligning oneself with the hegemon, and balancing, countries will have to pick sides based explicitly on power (Heipertz & Verdun, 2010; Walt, 2000). This does not preclude the alignment of other interests, after all aligning oneself with the hegemon is less painful if both states strive for the same goals.

However, faced with the possibility of finding themselves in an institutional environment into which they have been coerced against their interests, states whose preferences do not match the hegemon's have higher stakes in the game and have to take considerations of containing threats into account as well. Most existing literature on EU economic policy making sees Germany and France as the two central players of this power game with the other states merely joining forces with one of them.

The idea-based or constructivist perspective holds that preferences and ideologies are more important than rationalist calculations. With uncertainty about outcomes being always present in politics, states have to rely on ideas to develop an understanding of the events happening and shape their preferences according to how they view the world (Blyth, 2002, 2003). As actors never have full knowledge about the consequences of a policy, ideas take a more central role in defining the behaviour of states in an international environment (Schmidt, 2008).

One common approach to look at coalition formation on the basis of ideas are advocacy coalitions. They are composed of actors from various governmental and private organizations who both share a set of normative and causal beliefs and engage in a non-trivial degree of co-ordinated activity over time (Sabatier, 1998). Sabatier (1998) goes on to sketch a tripartite belief system. Most centrally, the *deep core* belief system includes includes basic ontological and normative beliefs around which are inherent to all policy domains. Next come the *policy core* beliefs which represent a coalition's basic normative commitments and causal perceptions across an entire policy domain or subsystem. Finally the secondary aspects include more flexible instrumental beliefs for certain policy sub-fields. This approach has been used to explain the relatively stable coalitions that were present during the completion of the single market in financial regulation and served as a complement to interest-based approaches (Quaglia, 2010; Story & Walter, 1997). Such stable advocacy coalitions have been important in the creation process of the SGP (Heipertz & Verdun, 2010, Chapter 5). Hix (1999) found competition between EU countries to take place along the political left-right axis in the European Council on many different issues. A weakness of this approach is its assumption of a relatively stable environment in which different ideological camps with firm beliefs compete for influence. However, if ideas were to be the prevalent driver of coalition building, it would be possible that countries join them out of dogmatism and against pragmatic political considerations (Mügge, 2011).

A more recent approach to coalition building around beliefs is an actor-centred constructivist approach. It tries to reconcile material interests of individual actors with the need to form coalitions to achieve substantial change (Saurugger, 2013). To this goal, actors use ideas deliberately and as a means of strategy to reach certain objectives by embedding them in their discourses (Schmidt, 2008). While some have argued that only dominant actors have the privilege of using their ideas to shape the debates (Matthijs & McNamara, 2015; McNamara, 2006), others consider ideas as a versatile weapon which can be used by any actor to forward their cause (Jabko, 2006). Either way, demarcating the point at which ideas trump interest can prove difficult, because framing of debates may also be a tool to reach formulated material interests (Fourcade, Steiner, Streeck, & Woll, 2013). This approach acknowledges that there may exist an interaction between ideas and the interests of an actor. After all, ideas are lenses through which the world is seen and determine what responses an actor might favour (Blyth, 2003; Goldstein, 1993). The actor-centred constructivist approach sees coalition building as a result of this potential to provide clear answers in moments of uncertainty. Once the core beliefs have been formulated, the choice of viable coalition partners is constricted according to who shares them and is served by those ideas. Equipped with ideas, actors can challenge existing institutions in a moment of crisis by pointing out that the previous institutional arrangement has not worked and needs an overhaul (Blyth, 2002).

Expectations

The analytical frameworks presented above all provide different lenses through which coalition building during the Eurocrisis can be seen. For starters, the liberal intergovernmentalist approach would assume coalitions to form on the basis of shared economic interests. By looking at the current account balances of EU countries before the Eurocrisis broke out, the divide between the core and periphery states can be identified (Dyson, 2010; Kaeding & Selck, 2005). Germany, the Netherlands, Austria, Finland and Belgium all have an on average positive current account in the period from 2003-09. France and Italy had moderate deficits and Greece and Portugal found themselves at the bottom of the list. National debt and government accounts yield similar results (Talani, 2015) which suggests that the block of surplus states could cooperate based on common economic interests of providing monetary stability. At the same time, France and the Southern and Eastern European countries could be expected to form a coalition to protect their need to run deficits and to propose more supranational solutions, so to split the costs of adjustment. Overall, one could therefore expect a core-periphery divide. The extent to which French preferences diverge from the German ones is furthermore crucial to the acceptance of an eventual Franco-German compromise by the other countries. The farther apart the starting positions have been, the more multilateral support the final outcome is expected to receive (Schild, 2010; Webber, 1999).

The realist perspective would also include the possibility of powerful countries, most importantly Germany, using the crisis to enshrine their national interests in the institutional framework. While in that case the coalition patterns can be rather similar to those of the intergovernmental approach – countries whose interests overlap with those of Germany align themselves, those who would be harmed by stricter limits try to form a balancing coalition – the reasons for that taking place differ to some extent. Unlike the intergovernmentalist approach however, countries with dissimilar starting points, like the highly indebted Greek and the relatively balanced French could see themselves working together in an effort to contain German dominance or surzzrender to German pressure and commit to rules that harm them (Matthijs, 2016b). The traditional role of France as a counterweight to Germany in the history of the SGP stems from the UK's early opt-out from monetary integration and the notoriously highly indebted Italy's failure to establish itself as an important player in EMU politics (Heipertz & Verdun, 2010). At the same time, particularly small states might have to go along with Germany for lack of better alternatives in order not to upset the hegemon (Art, 2015; Matthijs, 2016b). In line with the history of the SGP, the formation of one block of countries with similar interests as Germany should see the other states rallying around France which is supposed to counterbalance Germany and try to effectuate looser rules and soften the criteria of the SGP.

With regards to ideas as an advocacy coalition building resource, the influence of the German ordo-liberal economic paradigm has to be pointed out first. In the history of the SGP, the emphasis on governing by the rules and seeing the state as a crucial actor to provide an environment in which markets can function effectively (Dullien & Guérot, 2012). Taken together with the neo-liberal positions, which are particularly reflected in the structural reforms that are presented as a way out of the crisis, this has been the dominant school of thought in broad parts of the continent and has already before the crisis left a significant mark on the institutional governance of the EMU (Fitoussi & Saraceno, 2013; Hall, 2014; Howarth & Rommerskirchen, 2013; Matthijs & McNamara, 2015; Saraceno, 2008). Countries that have a similar tradition of 'sound money' paradigms and stability cultures are on the one hand Finland and the Netherlands, both of which already pursued similar monetary policies to Germany before the introduction of the Euro (Heipertz & Verdun, 2010) and on the other hand the Baltic and Eastern European states (Bohle & Greskovits, 2007).

On the other hand, countries in the European South have a longer tradition of Keynesian thought which is reflected both in their intellectual history and the structure of their political economies (Hall & Soskice, 2001; Hall, 1989, 2014). Unlike the ordo-liberal tradition, this line of thought puts a greater emphasis on political management of monetary policy and economic demand.

Broadly speaking, the proposed response to a crisis would be to compensate shortfalls in private demand with public stimulus or investment programmes in order to keep up employment and economic growth (Jabko, 2015). This would undermine the goal of price stability and fiscal restraint held dear by the ordo-liberals, but eventually the benefits are expected to outweigh the costs (McNamara, 2006; Van Esch, 2014). France has been the representative of those ideas in the build-up to the monetary union and is therefore expected to lead the coalition of Keynesian countries (Hall, 2014; Matthijs & McNamara, 2015). In the time before the Euro-crisis, France has stood out as opposing German rule-based governance and calling for a *gouvernement économique* of the Eurozone in which political considerations could override existing rules in moments of crisis (Vail, 2015).

From an actor-centred constructivist point of view, those two competing blocks might seem too rigid. Rather than looking at intellectual traditions, it should be looked at who presented more economic coordination as a panacea to solve the crisis and prevent it from re-occuring and criticised the existing set-up of the SGP. Furthermore, after a narrative for the problems of the crisis has been developed, it can be accepted by anybody who sees their political interest served by it. If such a battle over the discourse is decided, even traditional adherents to other belief systems might see themselves forced to adopt the new narrative (Blyth, 2002). Given how deeply ordo-liberal beliefs are anchored in both the institutional set-up of the EU and the strategy of the European Commission (Donnelly, 2005; Jabko, 2006; Verdun, 2015), it can be expected that the rationale that supported its construction will be attacked. Creditor countries on the other hand, which do not want to have to pay for their own excessive lending for fear of public backlash might want to formulate an economic narrative of the crisis which protrays the ideal-type SGP as the way to overcome the crisis. This narrative rules out mutualisation of debt and frames budget responsibility as key to overcoming the crisis. Paradoxically, debtor country governments which can use austerity as a simple indicator of reform efforts, might advocate it, too, if they subscribe to the narrative of excessive deficits and structural weaknesses as causes of the crisis (Blyth, 2013a; Jabko, 2013). An alternative framing of the crisis would be the only way by which countries, whose interests are affected negatively could prevent a further automatisation of sanctions.

The reform of the Stability and Growth Pact

Setting the stage: November 2009 - November 2010

In late 2009, the economic crisis that had hit Europe worsened and brought especially

Greece in severe balance-of-payments problems. It is at this juncture that the future of EU economic governance was discussed and the reform of the SGP began. The issue of national debt became salient after the revelation by Greek prime minister George Papandreou that the Greek budget data that was submitted to the Commission on October 2 2009 had been cooked. Unlike in previous cases, the European Council laid the blame for this mishap primarily on the Greek system and not the previous government. German Chancellor Angela Merkel condemned this quickly and made clear that Germany would be unwilling to provide any assistance to Greece to cope with the situation (Merkel & Papandreou, 2010). Instead, she asserted that it was the Greeks' own fault, because they had knowingly dodged the SGP rules, and that it was therefore also the responsibility of the Greek government to bring down the deficit. Papandreou for his part insisted at the time that he would be able to comply and make the necessary budget cuts to bring down the debt, accepting the blame for his predecessor's profligacy. Arguably, following the budget cuts the Greek situation deteriorating far enough to make a bail-out necessary (Jones, 2010), because the absence of automatic stabilisers reduced the Greek GDP, which in turn raised the debt/GDP ratio. However, according the interpretation provided by Mrs. Merkel and Mr Papandreou, a national austerity programme to comply with SGP rules again was the consequent response to excessive spending before the crisis. An additional argument provided at the time was that lower wages would restore Greek competitiveness and attract investment (Krugman, 2010).

Invoking the Greek example, Mrs. Merkel and French President Nicolas Sarkozy agreed that more coordination of budgets has to take place on the European level to prevent a country from systematically violating the rules and lying about its budget figures (Bundeskanzlerin, 2009). Together with French prime minister Fillon, Mrs. Merkel later made clear that a closer supervision of national economic data would be the means by which events like the Greek crisis could be prevented from happening again (Merkel & Fillon, 2010). Furthermore France and Germany argued that the scope of monitoring from debt and deficit data to include structural issues and competitiveness needed to be included, too (“Brussels tables plans for closer EU economic union,” 2010). Sarkozy himself emphasised that 'there cannot be disagreements between France and Germany on subjects of this importance' (“Paris , Berlin struggle for unity ahead of EU meeting,” 2010).

Even though many countries immediately subscribed to the Franco-German telling of the story of the Greek crisis, other interpretations of the underlying problem were presented, too. Pointing out the difficulty for countries to take on new debt to service existing commitments Luxembourg's prime minister Jean-Claude Juncker was the first decision maker to call for a

Eurobonds, which would have meant the mutualisation of some debt (Bundeskanzlerin, 2009). While the proposal was rejected upfront by the German government, first academic proposals for a Eurobonds were circulated shortly after by several think tanks (Delpha & von Weizäcker, 2010). Lauded as a plausible answer to the Euro's systemic problems especially in the US economics sphere, the basic idea underlying the creation of Eurobonds was to stabilise bond markets and provide the countries that were in financial problems a way to get credit cheaply. By the end of 2010, Juncker received support for his idea from Italian finance minster Tremonti, with whom he authored an op-ed in the Financial Times about the issue, as well as from the German Social democrats, the main opposition party (J.-C. Juncker & Tremonti, 2010). Despite this advocacy however, the proposal never stood a real chance of being implemented. Besides the Germans, Austria and Finland, the Netherlands, Sweden the UK and even France spoke out against the proposal ("Rückendeckung für Merkel: Frankreich lehnt Euro-Anleihen ab," 2010). Given that those countries viewed the Greek crisis as the consequence of excessive spending by states, rather than as the consequence of their own banks issuing debt too cheaply, they were quick to identify the common bond instrument as a bad deal for themselves (Fourcade et al., 2013). It would, they asserted, raise the interest rates for 'fiscally sound' countries while making it possible for overindebted countries to take out even more loans. With the interest rates for them thus held artificially low, the fiscal 'sinners' (Matthijs & McNamara, 2015), could keep borrowing beyond their means and did not have any incentive to reduce their debt while the rich countries would have to pick up the tab. This so-called moral hazard argument, was used by the richer countries to quell any substantial discussion on the proposal from the moment it was presented, even though it disregarded any responsibility on the part of the lender.

Instead, the official story of what needed to be done to bring back stability to the Eurozone was established when a task force of finance ministers under the lead of President of the European Council Herman van Rompuy presented its diagnosis in October 2010. The report comprised four recommendations pertaining to the future of the SGP: the need for greater fiscal discipline enforced through a more rigid SGP, extended macroeconomic surveillance, better coordination and stronger and more independent institutions. These measures should serve to make it impossible for a government to violate the SGP and thereby prevent a crisis like the Greek one from reoccurring.

A first step towards this goal was the creation of a European Semester, a procedure in which national governments had to submit their budget proposals within a harmonised revision framework and that those would be reviewed by the Commission so to improve the quality of financial reporting. This proposal also brought the issue of sanctions for insufficient reforms on the agenda as the Commission proposal included deposits for slow debt consolidation. Predictably, both the French and the German reactions to the Commission proposal were positive, as they both considered budget deficits as the source of economic problems. They only differed in the way in which they wanted to implement it with Germany calling for the creation of a Treaty provision and France being a bit more reluctant towards that ("Brussels tables plans for closer EU economic union," 2010). Immediate backing for the proposal came not only from other rich Eurozone countries such as the Netherlands (Merkel & Balkenende, 2010), but also from Eastern European countries that had observed the SGP provisions and insisted that the crisis was the result of Greece breaching the rules (Grybauskaitė, 2010). Resistance was put forward by Non-Eurozone members, which should also be monitored under the proposal, albeit less strictly than Euro-countries. Swedish Prime Minister Frederik Reinfeldt was one of the few European leaders who questioned the supervision of fiscally sound non-Eurozone countries under the framework (Willis, 2010), but this resistance would not hold long, as even the UK, after having secured its own cosmetic concession, supported the monitoring mechanism. The inclusion of non-Eurozone countries in the European Semester was one of the issues that had divided Germany and France, too. While France understood the strengthening of economic governance as a step towards deeper integration of the Eurozone, Germany demanded all EU countries participate in the new mechanism ("Britain wins opt-out from EU ' economic government ,'" 2010). Following German pressure, the supervision of deficits had thereby grown from a practical Eurozone problem to a basic question of the course of EU policy.

At the time the European Semester was being negotiated, many different ideas as to how to sanction non-compliance with the budgetary rules were floated. The Commission's proposal suggested the withdrawal of EU funds for budget offenders. Even though sanctions in general were supported by the Franco-German tandem, that idea did not receive much support in the Council. Instead, a divide between the German preference for financial sanctions, for instance in the form of non-interest bearing deposits with the Commission and Sarkozy's idea of political sanctions through suspension of voting rights opened shortly ("Paris , Berlin struggle for unity ahead of EU meeting," 2010). After Germany, which did not have any substantive problem with suspension of voting rights per se agreed to do that only in exceptional cases, the idea was presented to the Council. There it drew heavy criticism from the countries that found themselves in difficulties at the time, as Ireland and Spain dismissed the idea immediately, faced with the realistic option of such a rule being used against them ("EU countries still divided over voting rights issue," 2010). By October 2010, the French resistance to financial sanctions all but vanished and it was agreed that they should become part of the preventive arm of the SGP to punish deviation from the adjustment path (Merkel & Sarkozy, 2010).

Also the way in which those sanctions should be issued was contentious. Germany, together with some smaller countries like Romania, the Netherlands and Finland all supported a strict and more automatic issuing of sanctions for countries that violated the budgetary discipline rules set out in the SGP ("EU countries still divided over voting rights issue," 2010). Already in early 2010, only one year after Germany had stabilised its own economy through a deficit-financed stimulus programme (Farrell & Quiggin, 2012), Angela Merkel stressed that harder sanctions should be used to effectuate compliance with the rules of the SGP (Merkel & Balkenende, 2010). Also smaller countries that had joined the Euro more recently or were on their way to do so and which had gone through considerable adjustment for that, were outspoken in favour of a more rigorous application of the SGP rules. Even they, however, acknowledged the contribution of the stimulus programmes to the easing of the crisis (Kažimír, 2010). The reasons why countries advocated more automatic sanctions differed, however. For Germany, it was above all seen as a way of speeding up sanctioning and having universal performance standards for all countries (Merkel & Fillon, 2010). Smaller countries also saw it as a way to prevent bigger states from extracting exemptions, as had happened in 2003 and making sure that others had to go through the same adjustment as they had to. Especially the Eastern European countries had conducted comprehensive structural reforms and austerity programmes to comply with the Euro accession path (Kažimír, 2010).

Surprisingly, QMV in the Council emerged as a decision making mechanism to determine the issuing of sanctions. The protest this triggered from the Dutch and Scandinavian delegations was all too predictable, but the reason why the sanctioning had been softened was French reluctance to go along (Watts & Traynor, 2010). Faced with the choice of abandoning either automatic sanctions or Treaty revision, the German Chancellor dropped the former. Germany prioritised the institutionalisation of a stricter crisis management which involved hair cuts from private parties, too (Vail, 2015) and the suspension for voting rights in the case of serious violation of SGP rules. The issue of opening the Treaty drew heavy criticism from the countries where the adoption of the Lisbon Treaty a few years earlier did not go smoothly, like Ireland and the Czech Republic, but also from Germany's usual ally Austria, because they could not guarantee the success of these measures (Faymann, 2010; Sallon, 2010). Wary of surrendering authority and paying for the Euro, the UK stated its opposition to Treaty change soon, but was more supportive of exclusively Eurozone action in that regard (Watts & Traynor, 2010). The decision to open the Treaty again marked a major concession by President Sarkozy on the other hand, given that he still ruled out Treaty changes at the beginning of the year. One other idea that had been brought forward by German finance minister Schäuble and his French colleague Lagarde in July, namely to install sanctions only for Euro members in the form of a political agreement, had at the time not received much support ("Debate on sanctions deadlocked over treaty issue," 2010). Both representatives of smaller countries and EU commissioners expressed their disapproval of the way in which France and Germany were coordinating their positions ahead of the European Council in November 2010 without the other countries (Watt & Traynor, 2010).

Germany and France had formed the spearhead of economic integration and were both trying to find ways of guaranteeing the better coordination of economic policies together with a reduction of national debt through limiting spending and their major fault lines concerned the means by which those goals should be achieved. While Germany received support from other rich countries, such as the Netherlands and Finland for its position, it also found Eastern European countries aligned with its calls for more Europeanised control over spending and the enforcement of rules. Substantial opposition to the narrative of a crisis of spending and the necessity for rigid spending rules was only brought forward by some single countries, but never stood chance of forming a counterweight to France and Germany.

By the time the European Semester was agreed upon, not only Greece but also Ireland had to be rescued through one of the bailout funds and further contagion loomed for Italy and Portugal (Newman, 2015). Unlike Greece, Ireland had obeyed the rules all the way before the crisis and its high debt was a result of the bailout for its own banks after the collapse of a real-estate bubble. Ireland, hence suited much worse as a bogeyman to justify stricter SGP rules and was consequently less frequently used as an example to criticise the existing rules. Greece provided an easier target for that. Because the previous governments had indeed lied to their European peers about their budgets and breached the previous SGP rules a closer coordination of national budgets seemed like the logical response. Providing the simple counterfactual story that the crisis would not have happened if Greece had limited its lending in line with SGP provisions, core countries attacked the existing arrangement as too lenient and presented the return to a more balanced budget as a way out of this predicament. But still, pragmatic solution approaches to the problem when it arose, such as European bonds might, with hindsight, have proven cheaper and more lasting than the haphazard bail-out agreed upon in 2010 (Jones, 2010). However, those approaches were impeded by the rhetorical adherence to the no-bailout rule the Germans had inserted in the Maastricht Treaty, which was only abandoned when it became clear that a Greek default would have harmed Northern European and French banks that held much of the debt (Matthijs, 2016b). Systemic solutions would also have meant significant visible costs for their tax-payers and would have been difficult to justify within the chosen frame. By forcing Greece and all other countries to subscribe to measures to share their economic data, the cause of the crisis was constructed as national misbehaviour rather than systemic shortcomings. Tellingly, in the cases of Ireland and, later, Spain, where the budget crises were much more the result of private sector over-indebtedness than the public sector's fault, the same frame was used and austerity was prescribed nonetheless (Blyth, 2013a).

Gaining momentum: December 2010 - June 2011

Once excessive deficits and the violation of the SGP rules were identified as the causes of the crisis and France and Germany had agreed on their mode of cooperation, time had come to bring back stability and competitiveness to the Eurozone and to adjust institutional integration to economic interdependency. The European Commission had already presented six proposals for a revamped SGP in September 2010, which should later be known as the 'Six-Pack', but Chancellor Merkel wanted to complement economic coordination with specific reform programmes.

At a Franco-German summit in Freiburg, Merkel and Sarkozy made clear how they wanted to prevent national governments from widening the economic gap between richer and poorer countries that had caused the crisis. While stopping short of a European solution for structural imbalances, as countries like Spain had suggested, they hinted at first steps towards closer coordination of national policies in areas such as taxation and labour. Not unlike in the case of deficits, this insistence on supervising national governments was described as a way of preventing populist policies that would harm the stability of the Eurozone (“France , Germany break taboo over fiscal union,” 2010). The principal idea was to bring about convergence of competitiveness and a 'level playing field' between Euro-contries which Sarkozy stressed was a crucial complement to sound finance. Naturally, convergence in competitiveness was interpreted as primarily of an adjustment by the weaker countries that were in trouble to the level of the stronger ones, not as the French insisted by everybody. The Germans for their part were adamant that their successful competitiveness reforms should serve as an example for every country and inspire other countries to go through fiscal adjustment, too, ignoring the danger its own export surplus posed for the stability of the Eurozone. Convinced of the applicability of its own success model for all other EU states, Germany also insisted all countries adopt the new proposal on economic coordination, rather than only the 17 Euro countries, which France suggested (Estonia was let into the burning building in 2011 after comprehensive austerity measures) (“Secret committee paving way for euro reform,” 2011).

The first proposal for a 'Competitiveness Pact', was presented by France and Germany to the European summit in Febuary 2011. This set of six structural reform guidelines went a long way towards conforming all EU countries to the German model and included for instance a raising of the retirement age or the elimination of inflation-indexed wage agreements (Phillips, 2011b). The only French element to be found in there was the provision to monitor those reforms in the European Council, rather than through the Commission (Charlemagne, 2011a). Given how big an intrusion into sensitive fields of national social policy this included, the proposal drew immediate criticism. Sweden, Finland, Portugal, Luxembourg, Austria, Belgium and Spain, rallied against the end of the indexation and the softening of social commitments ("Germany , France under attack for EU austerity plan," 2011; Willis, 2011). Slovakia and the Baltic countries opposed the raising of the retirement age, invoking the structural adjustment they had gone through already before the crisis (Rettman, 2011). Together with Malta and Cyprus, Ireland objected against the adjustment of tax bases (Charlemagne, 2011b). The final controversial idea circulated by Germany, with Swedish support, was the introduction of a debt-break, ideally enshrined in the constitution like the one Germany had passed in 2009, to prevent governments from ever running a deficit again. This idea had received support from Nicolas Sarkozy since 2010, when he had promised to implement the 'golden rule' still during his tenure. Some other countries had already adopted such a debt break earlier, while Spain had failed to reduce its debt despite having a golden rule since 2006 (Heinen, 2010), Estonia kept its national debt low with such a constitutional norm (Dyson, 2008). These new constraints were welcomed by the Baltic countries that saw them less as a transfer of sovereignty than as a means to prevent populist spending sprees instead of prudent saving, illustrated by the Greek example ("Lithuania joins EU ' s new economic pact barring economic populism," 2011). The fact that such a debt-break would make automatic stabilisers, as seen in 2009 impossible was noted by Italy, but did not suffice to discredit the proposal. Despite various national concerns, then, the general idea and the direction of the reforms of the Pact found broad acceptance. It was generally acknowledged that the gap in productivity and the existence of uncompetitive national policies were at the core of the European crisis and that the measures proposed would help tackle them. Open support for the proposals came from Poland and Denmark, but since both of them were no Euro-members it did not really strengthen the proposal and both those countries criticised the Franco-German tandem as a mode of policy making (Phillips, 2011c). In the same vein, Hungarian prime minister Viktor Orban pointed out that Eurozone countries should not determine the pace of integration for the entire EU, as he was reluctant to surrender more power ot Brussels (Reifermann & Schult, 2011).

Nonetheless, one month later at the meeting of Eurozone leaders, Germany got its way and extracted commitments to a watered-down proposal in return for its financing of a bailout fund. It featured a bit more leeway for national governments to choose the reforms which it has to implement and dropped the demand for tax harmonisation against Irish resistance and constitutional codification of the balanced budget rule for a more general translation into national law (Council of the European Union, 2011). Officially the Pact, then finally baptised Euro-Plus Pact, had as its goal to bring back competitiveness and employment through a set of supply-side reforms, such as flexible labour markets and providing additional incentives to work and bringing down current account deficits as well as government spending. It was eventually adopted by not only the Euro countries, but also Denmark, Poland, Latvia, Lithuania, Romania and Bulgaria at the European Council of March 24/25.

The Euro-Plus Pact was negotiated under the so-called Open Method of Coordination and therefore a matter exclusively handled by the European Council. At the time it was being discussed, the finance ministers were charged with agreeing on a set of five Regulations and one Directive by the Commission, the so-called Six-Pack whose primary objective it was to strengthen and broaden the SGP. The set of proposals comprised a clarification and speeding up of the EDP, the prevention and correction of macroeconomic imbalances, better surveillance and harder and more automatic sanctions for Euro-area countries that violated the Pact.

Within the ongoing discussion on the crisis, the set of proposals had received wide general support for their potential to coordinate economic policies when they were presented. Not only did the states that weathered the crisis rather well support the proposals, also Greece and Ireland, the two countries that had already been bailed out at the time, welcomed the Six Pack. Greek Prime Minister Papandreou said that, had such a mechanism existed 6 years earlier, the Greek crisis could have been prevented because domestic failures could have been corrected ("Οικονο μ ία Ο Γιώργος Παπανδρέου στη Σύνοδο Κορυφής « Κυρώσεις πρέπει να υπάρχουν και για το τραπεζικό σύστη μ α σε περιπτώσεις φοροδιαφυγής »," 2010). Ireland's finance minister acknowledged that spillover effects of national budgets had not been taken into account and that this had to change (Noonan, 2011). Outright criticism towards the goal of reducing the national debt by 5% if it is beyond 60% of GDP came from Italy, with its traditionally high levels of national debt against low levels of private debt, and Spain. With regards to the substance of the structural reforms, however, these countries also agreed that the proposals would go into the right direction (Bonanni, 2011).

The agreed-upon Reverse-Qualified-Majority-Vote (RQMV) sanctions mechanism, according to which sanctions would be issued by the Commission unless a majority of the Council vetoed it did not go far enough for many countries. Germany, the Benelux countries, the Baltic states and Slovakia had all advocated fully automatic sanctions in order to de-politicise the application of the SGP criteria (Phillips, 2011a). That decision was a compromise with the French who took 3 months to abandon their objections against any changes in the decision making mode that eventually yielded the RQMV (House of Lords, 2011). Also the UK was opposed to fully automatic sanctions (House of Commons, 2010).

Germany succeeded in keeping trade surpluses from the list of macroeconomic imbalances because its official position insisted that 'if export surpluses result from true competitiveness, you should not switch them off' (Merkel, 2011b). Chancellor Merkel furthermore made clear that convergence in the EU should not be oriented towards the weak but has to be directed towards the strong (Merkel, 2011a).

Given the introduction of the European Semester, and the worsening situation in Portugal, the Six Pack did not make it to the official ECOFIN agenda before February 2011 and after long and secretive backroom discussions, a general agreement was presented by the Council on March 15. The proposal was subsequently mired in negotiations between the Council and the Parliament, but eventually a deal was struck in September 2011.

What was agreed upon in this period of the Eurocrisis is that the coordination of economic policies had to go much further than before and that besides national budget imbalances, macroeconomic factors can pose a threat to the Euro-area, too. Interestingly, even though both the Six-Pack and the Euro-Plus Pact represented significant transfers of power in sensitive policy fields, such as worker protection, no country voiced overt opposition to any of them in principle. While richer countries could see their requirements for a bailout be followed, the countries in crisis thought that the reforms being passed were supposed to calm the bond markets and solve long-standing structural issues.

What stands out is the support for those reforms by the Central and Eastern European states that joined the Pact voluntarily. They had experienced severe downturns (even exacerbated through their own austerity (Blyth, 2013b; Grauwe & Ji, 2013)) and yet hailed the new rules that would force them to stay on that track, despite the fact their budget deficits already fulfilled the criteria. Given their low incomes and their current account deficits before the crisis, they would probably have benefited from EU-wide redistribution programmes. If it cannot have been for either material interests or external pressure that they welcomed the Pact, their support for it is best explained by them sincerely subscribing to neo-liberal beliefs and thinking that pro-business national reforms would bring an end to the crisis. Lithuanian president Grybauskaitė spelled this out clearly when she motivated her choice to subscribe to the Euro-Plus Pact as a way to prevent 'populism'

(“Lithuania joins EU ’ s new economic pact barring economic populism,” 2011).

The general prescription of neo-liberal structural reforms to emulate the German export-driven economic model was barely contested at all, even though it was clear that it would make adjustment much more costly for Southern European countries with more social commitments than for those that had already enacted such reforms. Also the insistence that the poorer countries adjust to the richer ones rather than implement European solutions to tackle imbalances between countries bears a significant imprint of Germany's and its Northern European allies' economic interests. Those were the countries that would have suffered losses if they had had to limit their exports or fund a considerably bigger structural funds (Streeck, 2015). All those issues were skilfully kept out of the discussion behind the accepted veil of restoring competitiveness, emulating success stories and achieving sound budgets.

One striking difference between the two pieces of legislation is that while the French pushed fiercely together with Germany for the Euro-Plus Pact, in the negotiations on the Six-Pack they turned out to be more of an restrictive force that tried to avoid more technocratic decision making, which was in line with French domestic political tradition. Even so however, France fell short of posing a counterweight or even trying to form a coalition against the German-led bloc of countries in favour of more Europeanisation of economic policy.

The speed at which the reforms were passed was remarkable, especially in the case of the Euro-Plus Pact which took little more than a month to be finalised after its official presentation. Part of this can be explained through market pressures, which forced especially Portugal and Spain to bite their lips (Hopkin, 2015). The general approval for the kinds of reforms it included can be traced back to an acceptance of the general narrative of the crisis as a problem of excessive government spending and lacking competitiveness. Therefore the collective decision to support those reforms and, in the case of six countries, to 'opt-in' can at best partially be explained through functional pressures. The economic paradigm according to which cutting red tape and social spending were necessary to bring back economic growth – rather than, say, the direct creation of jobs and investments in innovative technologies, as the initial response in France had been (Vail, 2015) – was barely ever questioned.

Tightening the noose: September 2011- March 2012

After the Euro-Plus Pact, it did not take long before the next rounds of crisis meetings had to be summoned. After the bailout for Portugal in spring 2011, the summer saw Spain and Italy, two considerably bigger economies get under pressure on the bond markets. Both those countries had to pass controversial austerity packages in return for German support, which should eventually drive their governments out of office in autumn 2011. The existence of market pressures even after two bold steps towards extended budgetary scrutiny and structural reforms were made was interpreted as the need for further integration by all big actors. The third phase of the reform of the SGP started in August 2011 at a meeting of Chancellor Merkel and President Sarkozy, in which they drafted new ideas for future economic integration.

Notwithstanding the new SGP provisions and the structural adjustment programmes under the Euro-Plus-Pact, the governments of the countries in crisis were seen as incapable of fending of market pressures on their own by enacting sufficiently credible reforms. In order to circumvent domestic political pressures that could hamper the reform processes, an even closer European control over the national budgets was suggested by several actors. ECB-president Trichet advocated a European finance ministry (Peel, 2011) and it should not take long before the plan to establish a suprantional body was taken up by more hawkish states. In early September, Dutch prime minister Rutte and his finance minister de Jager proposed a 'commissioner for budgetary discipline' in an article for the Financial Times (Rutte & de Jager, 2011). This commissioner's task should be to force countries that have excessive deficits to adjust their public finances, with the ultimate capacity to block budget proposals. This was necessary, they argued, because the previous SGP arrangement made it possible for some countries to violate the rules while other countries let that happen, which caused the crash. An independent commissioner could take the political dimension out of that process and prevent something like that from reoccurring. The Dutch made clear that they had coordinated that idea with their German colleagues and that they saw it as their task to convince enough countries to pass that proposal (Rijksoverheid, 2011). At a speech at the College of Europe in Bruges, Finland's finance minster Alexander Stubb seconded the idea of a 'budget tsar' as a necessity to enforce budget discipline on countries that disobeyed the rules (Stubb, 2011).

One proposal with a more French imprint was the creation of an economic government for the Euro countries, which was supposed to meet twice a year under a permanent president with the goal of coordinating economic policies while leaving some flexibility for individual circumstances (“Sarkozy , Merkel want Van Rompuy as ‘ Mr Euro ,’” 2011). The eventual goal of such a government, namely the coordination of national policies on the European level with a goal to bring down the debt and the deficits, however, was largely similar to the Dutch proposal and Sarkozy soon signalled that he could support the idea of a budget commissioner (“Sarkozy open to euro zone finance minister idea,” 2011). Opposition to the idea was voiced by Merkel's coalition partner FPD which feared the EU finance minister could levy taxes and was weary of creating any further supra-national institutions.

Another, far greater obstacle, which became clear at the European Council in October 2011 was the challenge to pass any such Treaty change given how unpopular the German-advocated austerity measures had been in the crisis countries. Italian then-still-prime minister Berlusconi stressed how difficult it would be to sell any such deal to his people and the question of whether an austerity commissioner would pass a referendum in Ireland was even more uncertain (Fleming, 2011). Still, largely at German insistence, the Council conclusions featured the idea of a limited Treaty change and welcomed the Commission's initiative to equip the budget commissioner with stronger monitoring and enforcement capacities (European Council, 2011). As another task force under the responsibility of Herman van Rompuy elaborated what exactly those Treaty changes could be, Nicolas Sarkozy, acquiesced in the German calls for more interference with national budgets and lent his support for the amendment procedure ("Sarkozy embraces German calls for EU treaty change, austerity," 2011). At the European Council in December 2011, Merkel and Sarkozy wrote a joint letter to van Rompuy in which they repeated their call for a biannual Euro-summit and the obligation of national governments to accept EU prescriptions on their budgets. Both proposals required Treaty changes and the letter urged to conduct them as fast as possible, which conflicted with Rompuy's proposal to take the quick amendment route instead. Spain, where conservative Mariano Rajoy had won the elections and Italy where Mario Monti's technocratic government had been instated in the meantime were both relatively supportive on the issue of deepening integration, but were more sceptical regarding the actual issue of Treaty change ("Text: Sarkozy and Merkel's letter to Van Rompuy," 2011). Central European countries were all more inclined towards stricter oversight and Treaty changes and Poland and the Czech Republic even vowed to opt-in in case the French got their way and an external intergovernmental agreement was passed should a Treaty amendment fail ("Ouverture des négociations : où les Etats membres se situent-ils?," 2011). The Dutch on the other hand were not outspoken in favour of Treaty changes anymore, faced with the possibility of having to subject it to a referendum at home, too. It was persistent British resistance against Treaty change that forced the other countries to eventually opt for an Intergovernmental Treaty instead of a new EU Treaty (Spiegel, Peel, Barker, & Pignal, 2011).

As in the case of the Euro Plus Pact, the conclusion of the Fiscal Compact took less than two months after France and Germany presented their idea. The idea of creating a supranational institution to monitor the observation had meanwhile vanished from the agreement again, whereas the Euro-summits were included in the Fiscal Compact. Pushes for fully automatic sanctions in case of non-implementation of Commission recommendations that, among others, Germany (Mussler & Bannas, 2011), the Netherlands (Zantingh & Monti, 2011), Finland (Toivo, 2011), and Estonia (Purju, 2012) advocated in order to take politics out of the decision making process, did not make it into the Fiscal Compact. They were blocked by a coalition led by France (Lequiller, 2012) and Spain (“España respalda un pacto fiscal para el euro y sanciones al déficit excesivo,” 2011), consisting of countries that traditionally were less likely to bring down their deficits and be the target of such automatic sanctions. They insisted that under circumstances beyond the control of the government, it might be necessary to violate the rules of the SGP. Here again it becomes clear that material interests by deficit-countries might have triggered resistance against the budget commissioner proposal, but the idea of creating a technocratic supervisor originated from economic orthodoxy. Especially Germany, which had made use of its intergovernmental power to shield itself from deficit procedures in 2003 and 2007, would certainly have lost that influence if the proposal had been passed.

If the creation of Euro summits was to a large extent a French brainchild, Germany's contribution to the Fiscal Compact was the introduction of the debt break. After that idea had not made it into the Euro-Plus Pact, it re-appeared on the agenda in Summer 2011 when the next steps of economic integration were discussed. In a letter to van Rompuy in August 2011, Merkel and Sarkozy reiterated their call for a balanced budget rule to be enshrined on the constitutional level (Merkel & Sarkozy, 2011). Sarkozy for his part had promised to follow the German example already in the beginning of the year, but his proposal for a constitutional change was consistently blocked by the Socialists in the assembly following the Senate elections in September (“French socialists bury anti-debt ‘golden rule,’” 2012). It so came that the first two countries to make real efforts to codify the 'golden rule' in their constitution were the two countries most under pressure by the financial markets, Italy and Spain (“Italy plans ‘golden rule’ to limit budget defcits,” 2011, “Spain to enshrine ‘golden rule’ in constitution,” 2011). In both those countries the balanced budget rule was presented as a way of calming the bond markets and a necessary step to receive further loans from the ECB. In the resolutions of the European Council in October 2011, only one sentence was dedicated to improving fiscal discipline through limited Treaty changes. When also France feared to lose its AAA rating, shortly after Schäuble said there would be no 'big bazooka' (Inman, 2011), Sarkozy was left with little else but to support the German initiative to codify the balanced budget rule in a Treaty amendment (“Sarkozy embraces German calls for EU treaty change, austerity,” 2011).

When the Franco-German proposal was finally discussed officially in the European Council, it quickly became clear that, notwithstanding its far-reaching implications, it would not meet much resistance. Smaller Central and Eastern European countries like Slovakia and the Baltic countries welcomed the push for closer scrutiny arguing that more budget discipline had to be enforced on profligate countries and they themselves had taken the bitter pill, too (Vida, 2012). In addition, many of them argued that the crisis countries could not be trusted with implementing austerity without that constitutional safeguard. Among the countries hit hardest by the crisis, Greece, meanwhile also under the rule of a technocratic pro-austerity government, did not show any objections. Italy insisted on the consideration of business cycle factors, but was not really opposed, either. The only real concerns were put forward by Spain which feared that exposure to external macroeconomic factors could lead to sanctioning ("Ouverture des négociations : où les Etats membres se situent-ils?," 2011). Eventually, both those considerations were accounted for and the going definition for the deficit referred to the cyclically adjusted budgetary balance.

Here again the dogmatic appeal of the balanced-budget rule was used by those countries that already had it to convince other countries to follow their example. For lack of credible alternative proposals on how to respond to the market pressures, the Spain and Italy were the first to adopt those provisions, irrespective of the unpopularity of those measures.

That the wish for a Euro-commissioner did not materialise in the Fiscal Compact did not mean that no budget oversight was transferred to the European level. One of the issues that divided the Franco-German tandem still in late November was the oversight of the compliance with the SGP and the translation of the balanced budget rule into national law by the ECJ. The French side was worried that this could undermine the democratic foundation of the SGP, but nevertheless, the judicial review could be found in the letter to van Rompuy ahead of the December European Council (Leparmentier & Ricard, 2011). During the negotiations the French found themselves rather isolated in their resistance against the involvement of the ECJ and surrendered to the broad coalition of austerity hawks that demanded some form of automaticity. With the involvement of the ECJ, it became clear that political decisions had finally given way to enforcement of the ordo-liberal paradigm. It made the reversal of those provisions all but impossible and thus prevented a softening of the rules, like in 2003, which had been depicted as the central flaw of the SGP all along.

Even before the end of the European Semester's first year, in November 2011 two regulation proposals, thenceforth called the 'Two-Pack' saw the light of the day, too. They were further intended to harmonise and strengthen the European Semester by synchronising the national budgetary processes, assess the conformity of budgets with the recommendations given in the European Semester and gave more teeth to the EDP (De la Parra, 2013). The Two-Pack was relatively uncontroversial in the Council and after less than three months, the ECOFIN Council was able to present a political agreement which only included minor changes to the Commission proposal. That proposal went into 'trilogue' meetings with the European Parliament soon, which would talk significantly longer.

In the Franco-German talks in August, the topic of Eurobonds was discussed once again, too. Both leaders acknowledged the merits of the idea, but only in the far future. This future came sooner than expected when the pressure on Spain, Italy and France threatened to endanger the entire Eurozone in autumn 2011, the proposal of common bonds resurfaced. This time, it was the European Commission that circulated a Green Paper, carefully entitled 'Stability Bonds', the same day the Two Pack was presented to cater for to the German stability culture, in which three different approaches at shared bonds were presented. That idea had been dismissed in advance in opinion articles by both the Dutch and the German finance ministers (Rutte & de Jager, 2011; Schäuble, 2011), but was presented as a feasible and sensible approach at overcoming the ensuing sovereign debt crisis again. The argument used against the introduction of a common debt instrument was that it would fail to solve the crisis because, in Schäuble's words, 'it could make it worse in the medium term by removing a key incentive for the weaker members to forge ahead with much-needed reforms'. According to Finland's Alexander Stubb, only markets could force the much-needed discipline on those states (Stubb, 2011). Once again neo-liberal market fundamentalism – which ignored the fact that markets had reduced lending costs to Greece before the crisis and thereby contributed to its payment problems (see Hopkin, 2015; Streeck, 2012) – trumped any willingness to consider systemic solutions instead of pressure on national governments. Under the pretext of such an instrument taking away incentives for reform for deficit countries (although those were abundant elsewhere, for instance the Euro-Plus-Pact and the EDP prescriptions) richer countries justified their objections against paying for a permanent stability bond, instead of the haphazard bail-outs whenever necessary.

Those concerns were echoed in public by both Sarkozy, who was expected more supportive of the idea and Italy's Monti, even though for them, the instrument might have provided a way out of the situation they found themselves in (Phillips, 2011d). Domestic politics in France put even more pressure on Sarkozy to justify this decision in the run-up to the presidential elections with his contender François Hollande calling for more solidarity. The other crisis states Greece and Spain, as main beneficiaries of lower borrowing costs took a positive stance on the idea of a common debt instrument (“Ouverture des négociations : où les Etats membres se situent-ils?,” 2011).

In terms of substance, the Fiscal Compact did not add much to the already existing provisions, but rather made them all but irreversible. While the Dutch and the Germans hailed this as a step towards a 'stability union' where deviating from balanced budgets is almost impossible, their Finnish allies were more sober about the proposal and criticised the immense transfer of sovereignty attached to it (Phillips, 2011e). Smaller countries have in general been rather hawkish with regards to the golden rule, while weak governments in France, Spain and Italy considered its introduction as a way to gain credibility at the bond market. At the same time, the Dutch proposal for a budget commissioner did not get very far despite its German support because France and the crisis states objected against even more automatic sanctioning. Finally, the decision by the UK and the Czech Republic not to join the Treaty took almost everybody by surprise, but did not stop the willingness of all other non-eurozone countries to sign the Fiscal Compact. Again, therefore the lure of surrendering autonomy and flexibility for the sake of sound budgets showed its appeal all over the EU and no government questioned the need to install a balanced-budget provision to overcome the crisis. Thanks to French support, the German narrative had eventually made it to the core paradigm of EU economic governance and created a Eurozone that confomed neatly to ordo-liberal norms (Art, 2015).

Consolidating the gains: May – December 2012

The signature of the Fiscal Compact should turn out to be the less controversial part and ratification in national parliaments was a very heated process. Not only did the Irish call a referendum, in the Netherlands the government collapsed in the face of controversial budget cuts and the ratification of the treaty and in Greece, the social democratic PASOK emerged victorious. The most decisive swing on power, however, took place in France where Socialist François Hollande, won the presidential election after taking the Senate election half a year earlier. This spelled the end of the powerful 'Merkozy' duo and precipitated a shift in the economic position advocated by the French. Before his election Hollande had vowed to block, or at least renegotiate, the Fiscal Compact, to end the austerity imposed by the Sarkozy government and to challenge the German leadership.

After the agreement on the debt break the issue of budget coordination seemed settled and the next key themes of the first half of 2012 were the issue of unemployment and the resulting backlash against austerity policies. At the European Council in March, when the Fiscal Compact was signed, leaders agreed that tackling unemployment should be one of the main considerations of the Commission's Annual Growth Surveys (European Commission, 2012). In April, Italy and Belgium, against the backdrop of public protests against austerity, contested the handling of the crisis on fundamental economic terms when they spoke out in favour of reviving demand to compensate for the shortfalls in consumption due to reduced private incomes and restrained public spending (Fleming, 2012a). Although Monti ruled out an expressedly 'Keynesian stimulus' and abandoning balanced budgets, this first initiative towards a more growth and employment-focused approach certainly marked a step in that direction. It also anticipated Hollande's election a little later, who had been outspoken in favour of more state involvement and a European employment strategy. Further support for such plans came from other social-democrats, such as the new Greek government and the Danish Council presidency. Even Slovakia, where the existence of a social-democratic government had not disturbed its allegiance to social spending cuts (Cienski, 2012) joined the new coalition that called for more growth. All of this shows the broad support for a Keynesian response to the crisis once it was clearly formulated, albeit only within the confines of the German-inspired budget rules. Facing economic pressures Hollande moderated his course towards the Fiscal Compact quickly. His stimulus plan fell short of boosting demand through a larger deficit, however, and he made clear that he remained committed to observing the national objective of reaching a balanced budget by 2017 nonetheless (Carnegy, 2012). Merkel had declared changing the negotiated Fiscal Compact a red line even before his elections. Instead, Hollande could do little more than offer a 'more pragmatic' approach together with the Chancellor which was supposed to complement the Fiscal Compact by a Growth chapter (Gammelin & Hulverscheidt, 2012).

With its strong economic performance, Germany was still a powerful player, but the momentum against austerity and pro-growth that swept Europe was certainly not in its favour. At a dinner with other heads of government, Merkel found herself rather isolated against a dynamic French president who tried to form a broad coalition composed of Southern and Eastern European to counter her pet reform. With France contesting the German economic paradigm, the collaboration between the two countries cooled down significantly and after Hollande's entry into office, the first summit in the crisis which was not preceded by a Franco-German preparatory meeting anymore (Sultan, 2012). Merkel's counter-approach was to present her own six point growth strategy which did not leave any room for softened austerity and defended the 'contractionary expansion' idea. Her austerity doctrine was still followed by Portugal and Spain, where the governments obediently implemented new budget cuts. But, for the first time she found herself on the defensive, because it was the result of her own approach to the crisis that had come under criticism, not the SGP rules that she had overturned. Merkel had little evidence to support her push for more of the same, and entirely had to rely on the promise that the austerity would pay off in the future. Growth in times of austerity should also be the *leitmotiv* of the European Council in June where a Growth Pact which foresaw a new agenda of growth-friendly fiscal consolidation. The reforms proposed in order to achieve higher employment, namely deregulation, innovation and the issuing of loans did not deviate significantly from the ideas presented a year earlier in the Euro-Plus Pact, but with a more social focus (European Council, 2012).

A somewhat more contentious issue that Hollande put on the agenda immediately after his elections were Eurobonds, which he portrayed as the way out of the sovereign debt crisis. At the first meeting after the French elections, Germany, the Netherlands and Finland had not changed their opposition and dismissed the proposal out of hand. Hollande received support for his push from Italy, Spain, Ireland and Austria (Volkery, 2012). Italy's Mario Monti had been in favour not only of Eurobonds, but also of introducing 'Project-Bonds' as part of the stimulus programme and had supported that instrument already before his tenure. France and Italy did not propose Eurobonds jointly only in order not to provoke Germany (Peel & Spiegel, 2012). Spain's support, according to prime minister Rajoy, came in response to the market pressures that the national bonds were facing at the moment and the difficulty to keep the deficit target at those borrowing costs (Daneshkhu, 2012). Here, too the countries that would benefit from the introduction of the common debt instrument presented a clearer message as to why it should be introduced than those that defended the status quo. Despite the wide endorsement of his idea, Hollande was aware that Eurobonds could not be implemented without a Treaty change and therefore conceded that it was a project for the future. At the European Council in June, the German chancellor commented that Eurobonds would not be implemented 'as long as she lived' and that in general it would only be possible if still greater control over national governments were transferred to Brussels (Alexander, 2016). Following this veto, the proposal was not mentioned in the Council conclusions again.

This opens an interesting new perspective to the behaviour shown before. Was the talk about the moral hazard and the argument that Eurobonds would not bring stability presented earlier just used as a cover story for material interests? The neo-liberal story of national responsibility increasingly came under pressure and failed by its own standards, as neither did austerity help to reduce debt nor did growth return (Blyth, 2013b; Streeck, 2015). As the idea was discredited and presented with a concrete counter-proposal, it could be defended by nothing more than crude power by its proponents.

The election of Hollande left the European Council struggling to find a new balance at its meeting in June. There its president van Rompuy presented a vague report entitled 'Toward a genuine economic and monetary union' in which he sketched the path towards future integration. It was an ambitious paper which outlined closer cooperation through an EU treasury and the issuance of common bonds in the medium term. The initial reaction of the European Council was rather reserved and it tasked its president with drafting a more specific proposal before the next meeting.

The turbulent summer, in which Spain and Greece needed a bailout and several crisis governments had to defend another round of austerity measures by tying them to confidence votes shifted the attention away from long-term reforms for a while. Concrete proposals did not appear on the agenda before the run-up to the European Council in October. Hollande, now confident in claiming to be the link between the pro-growth and the austerity camp in the European Council proposed that the surplus countries with sound finances raise their domestic wages in order to stimulate demand, which would have forced the rich countries to adapt to the new situation and to abandon their economic orthodoxy. He also suggested deeper integration of the Euro-countries by giving the president of the Eurogroup a stated mandate, but insisted that other steps towards integration on the social level would have to come first (Kauffmann, 2012). One day earlier Germany's Wolfgang Schäuble had repeated his call for a 'feared' currency commissioner who could veto national budgets even after they were accepted by national parliaments (Hulverscheidt, 2012).

The proposals that were featured in the Interim report to the European Council in October were more specific. In addition to closer supervision of the budgets by the Commission, it also proposed the same scrutiny for the implementation of the reforms given in the national recommendations. (Gammelin, 2012; Newsroom, 2012). This presented largely the continuation of the German and Dutch line that wanted the deficit countries to reform and adjust to neo-liberal technocratic norms. A proposal for a separate Eurozone budget which should be used to balance asymmetric shocks was welcomed as a systemic redistribution mechanism by France. This push for further Eurozone integration however raised fears over a deepening of the split between Eurozone and non-Eurozone members. Wary of transferring more money to Brussels, the surplus countries on the other hand made clear that in their view the existing structural funds and the EU budget had enough capacities and that additional transfers among the Eurozone countries could take place through those instead (Simon, 2012).

The 'Four Presidents' Report' which was eventually adopted at the European Council in December sketched a roadmap to further economic integration. While it still included the stronger coordination of national budgets before their adoption, as was outlined in the Fiscal Compact, the new proposal had dropped most of the demands that Hollande had made upon entry into office. His endorsement of a Eurozone budget, which was echoed by Spain and Italy was abandoned soon after the German side signaled its resistance (Fleming, 2012c). The compromise that was found between the Hollande's call for respect for national circumstances and Germany's drive for reforms was to agree to have 'mutually agreed contracts for competitiveness and growth' which aimed at promoting structural reforms even in financially stable countries (Fleming, 2012b). Of course, there this would be less difficult to implement than in the countries that were in payment difficulties, but it took away the impression that the rich countries dictated reforms without putting their money where there mouths were themselves.

The chapter of SGP reform was concluded when in March 2013 the Two Pack was signed into force. Even though some of the provisions had already been agreed upon in the Fiscal Compact, the accord was stuck between the Council and the European Parliament which insisted on the inclusion of a 'redemption fund'. Predictably this was vetoed by Germany and its allies since, in their opinion it constituted a different form of Eurobonds (Fox, 2013). Hollande's election and the resulting programmatic shift could not influence the Council's opinion on that topic anymore as the mandate for the trilogue negotiations was already agreed during Sarkozy's time.

Together with the Growth Pact, the renewed Eurobonds proposal was meant to reflect the end of Franco-German unison steering of the EU. Most of Hollande's criticism was directed towards the German-led handling of the crisis and the mode of decision making that had dominated in the past two years. He sought to form a coalition with the countries that were mired in crisis in 2012. All in all, however it seemed that Hollande had to tread more carefully once he was in office and that the fully confrontational course against Germany would not bring about any progress (Kauffmann, 2012). While he presented an ambitious counterproposal for more systemic solutions which enjoyed broad support among the countries that had suffered under the austerity dictate, he was fighting an uphill battle. As the austerity idea was stripped of its intellectual appeal, after all, their promises for stability and economic recovery had not materialised, they relied on their intergovernmental clout to protect their achievements. Indeed their reforms had been entrenched so far in the existing legislation that Hollande would not have been able to overturn them unless he had received German support for his initiative. Having succeeded in shaping the EMU according to their wishes, Germany and its traditional allies could just refuse to proceed any further.

Consequently, the rift between Germany and France led to a quick standstill in the integration process. Despite all assurance that integration had to proceed, the result of the first half year of Hollande's presidency was nothing more than a rough roadmap for the next years, most of which focused on implementing agreements that were already decided. Neither was that roadmap followed, nor was any other significant institutional progress made in the years since.

Discussion

Germany and France

The most influential coalition that determined the pace and depth of the reforms of the SGP during the period of 2010-12 was formed by France and Germany. Those two countries, which used to represent two conflicting blocs, took matters like the Euro-Plus Pact and the Fiscal Compact almost entirely into their own hands. Powerful and influential as this team may have been, it is striking how close their positions were on key questions of economic policy. Both countries had saved their own economies through large deficits in 2009, but still, by the end of 2010 they had agreed that excessive deficit spending was the main problem of the Eurozone and that austerity and close supervision of national economic policy had to be the answer. While in Germany this shift could be explained with the liberal FDP replacing the Social democrats in government (Matthijs, 2016a), in France this marked a remarkable ideological shift away from the Keynesian paradigm that had prevailed at the onset the crisis (Vail, 2015; Van Esch, 2014). Even though it should later come under market pressure, in 2010, France's immediate recovery from the crisis left it in a rather strong position at that time and there was little reason to abandon the course chosen before. The explanation why France converged with Germany instead of challenging the ordo-liberal orthodoxy has to be found in Sarkozy's accepting the German discourse, which was developed after the Greek crisis in 2010 (Fabbrini, 2013). After Sarkozy had converged to the German position, it became very difficult for any other party to present an alternative story. At that time, the general goal of bringing down deficits and conducting structural reforms was not contested by France at all, which left Germany with a a powerful supporter instead of a counterweight. Within the narrow frame that was adopted, France and Germany came to occupy the two boundaries of the accepted discourse, with France pushing for a more politicised and case-specific coordination of economic policy and implementation of reforms and Germany representing automatic sanctions and universal performance standards. Effectively, this did not amount to a great difference and so the criticism the tandem drew whenever they presented a new idea to deepen integration reflected their failure to cover a broader spectrum of opinions on the topic.

As for Germany, it can be said that on the issue of economic governance it has largely defied claims about a zig-zagging course as made by Rothacher (2015) and instead has driven a steady course, barely moving on key issues (Art, 2015; Matthijs & McNamara, 2015). Even in the face of rhetorical backlashes from crisis countries and weak support for the effectiveness of either its structural adjustment programmes or its insistence on austerity, it maintained its discourse about the crisis as a national problem of excessive deficits. The German approach showed somewhat more dogmatism than the French in that it insisted all EU countries participate in the new SGP, rather than only the Eurozone countries or those countries that were in difficulties. Starting from the case of Greece, where one small country had indeed flouted the rules of the SGP, Germany made a great effort to diagnose the problem in other countries, where this explanation could not hold (Legrain, 2014). It was Germany that criticised the previous SGP arrangement, which it had crafted itself, for being too flexible and having led to the crisis. Germany urged other countries to adopt its debt break and enact the same cutting neo-liberal reforms it itself enacted under the Agenda 2010 (Newman, 2015). Furthermore Germany was much clearer than France regarding where it drew its red lines. Following its framing of the crisis as primarily due to national failures, it was easy to justify to the domestic audience its resistance against common bonds or large structural transfers and to lay the responsibility on other countries to reform to adjust to its own standards. It thereby dodged any responsibility for its own excessive export surplus, low domestic demand or German banks' contribution to the crisis through excessive lending and kept those issues largely confined to Anglo-American economists' comments and off the political agenda (Jones, 2015). Arguably, here economic dogmatism and material interest overlap. On the one hand, the institutional reforms that were conducted also meant a significant loss of influence for Germany, on the other hand, because it got to design the new SGP, it could do it in a way that shifted the burden of adjustment onto others (Art, 2015). As soon as Hollande criticised austerity for its obvious shortcomings, Merkel turned stubborn to protect Germany against Eurobonds or larger transfers. Instead of defending her economic programme or seeking new compromises, Merkel stonewalled and further reform of the SGP stalled in the absence of a new consensus.

Rich states

Unsurprisingly the richer, northern European countries were supportive of Germany's position throughout the crisis. Like Germany, they would have shouldered the burden of any move towards a Europeanisation of the crisis (Schimmelfennig, 2015). Insisting that it was national responsibility to get their economies competitive and that they had always stuck by the rules, as many politicians emphasised, they made clear that they did not see themselves at fault. Calls on the crisis states to 'do their homework' followed naturally. Also the Dutch proposal for a budget commissioner can be interpreted as a consequence of the belief that she would enforce norms that would be the indisputable cure to the woes of the Eurozone, if they were modeled on ordo-liberal doctrine. Stressing the importance of abiding by the SGP as necessary condition to restoring stability was a figure of speech that was commonly used by richer countries to underline that the norms upon which the SGP was modeled were not to be questioned. It is in this regard ironic that the Dutch government in 2012 collapsed exactly due to the clashes between those norms and domestic political needs. Luxembourgian prime minister Juncker's venture to propose Eurobonds as systemic solutions represented one minor exception, but the proposal was vetoed consistently by Germany and the other rich countries.

Among the rich non-Eurozone countries, it is clear that those countries that saw the sovereign debt crisis as primarily a Eurozone problem, namely Sweden and the UK were reluctant to go along with a deepening economic coordination even though they adopted domestic austerity programmes and supported a stricter SGP measures for the Eurozone. Denmark on the other hand opted in the Euro-Plus Pact, insisting that the rules imposed there could benefit the competitiveness of the country. Here again the belief in the neo-liberal economic doctrine helps best understand why a Danish right-wing government would surrender more autonomy to the EU.

Crisis states

The countries that were mired in crisis were expected to try and form a block to present their economic interests, which would have meant more flexibility and respect for national circumstances, as well as a European approach to the crisis. Yet the Greeks' initial reaction to the emerging debt crisis went in the opposite direction as they promised to solve the crisis through national austerity. Greece's hand was further weakened during the bailouts and the ensuing austerity programmes which met a broad political backlash and led to the collapse of several pro-austerity governments. Remarkably, consecutive governments were convinced that the imposition of stricter rules of the SGP would have prevented the crisis, showing that the general discourse of the crisis was still accepted.

In a similar vein, Portugal, Ireland, Spain, and Italy made clear their objections against the SGP reforms as too rigid and demanded small concessions, but neither the governments nor the populations disputed the German story of the crisis (Hopkin, 2015). Without France as a leader of this block to propose a different approach for all of the Merkozy episode, Italy was left as the country that would lead the Southern block. The Italians were the ones who advocated Eurobonds most consistently even after the Monti government was installed. They also defended their own high level of national debt by pointing out the low level of public debt, calling into question the one-size-fits-all approach of the Northern European states. Nonetheless, this did not suffice to derail the ideas of reducing national debt through lower government spending and governing by the numbers. In the course the negotiations of the Euro-Plus Pact it shortly became clear that the Southern countries with strong labour unions opposed some of the neo-liberal reforms, but they were not able to withstand the pressure. Moreover the clout of the crisis countries was significantly weakened when they came under pressure from the bond market, but they saw no way of gaining back credibility other than cutting government spending. All the way through the crisis, the Southern European governments had to defend further tightening of budget rules against domestic resistance. This was done by stressing that there was no other reasonable way out of the crisis and that it was the first priority to get their budgets sorted out.

The criticism they voiced against France and Germany's approach to the crisis did not materialise in any substantial changes of the reform of the SGP. After the French *volte face* following the election of Hollande, those efforts found further support as systemic solutions and growth-oriented reforms reappeared on the agenda. However, even at that time, the fundamental priority of 'fiscal consolidation' was not abandoned and real government intervention in the economy was never proposed. Summing up, the crisis countries were largely aware of the fact that the reform of the SGP would harm the interests of their constituents, but because they were not immediately able to provide a convincing alternative interpretation of the crisis, they had to accept the constraints that the new SGP imposed upon them.

Central and Eastern Europe

The new EU members' large current account deficits before the crisis and the double-digit contraction of their economies in 2008 put them in a similar situation as Spain or Ireland. Still their governments prioritised low national debts and implemented deep budget cuts to overcome the crisis (Walter, 2015). What seemed like a largely national matter got European importance when those small countries advocated that approach for all other European countries, too. Austerity poster child Estonia, one of the few countries that did not violate the SGP during the crisis, frequently made references to the pains it had gone through to justify austerity programmes in other countries. Like Slovakia, the Baltic countries had gone through substantial adjustment to match the criteria for joining the Euro and they blamed the crisis countries for violating the SGP whose very idea was never questioned. The structural reforms and the balanced budget rule which were part of the reform changed fairly little in those countries, as they had modelled their political economies largely on the neo-liberal model already before the crisis (Bohle & Greskovits, 2007; Kuokštis, 2015; Schmidt & Thatcher, 2013). So even though those countries might have benefited from a looser application of the SGP or a stimulus programme, those proposals were dismissed out of hand as nothing but populism (Greeley, 2012; Grybauskaitė, 2010). Their being among the strongest advocates of more automatic sanctions, strict punishments of violations of the SGP and structural reforms, is consequently more easily explained through a commitment to neo-liberal norms than purely national interest.

Poland provided another case in point, as it too was an vocal supporter of the Euro-Plus Pact even though it had weathered the crisis without any year of negative GDP growth and largely through external adjustment (Walter, 2015). Why should the country have opted in the agreement although it had not experienced any problem, if not for believing that those reforms would benefit it? It could have followed the path of Hungary, which was in a much worse fiscal situation, permanently under the EDP, which chose to opt out and was much more sceptical of all those reforms, too.

Theoretical implications

Contrasting the above findings with the theoretical frameworks introduced at the beginning, it becomes clear that they all can explain the formation of coalitions during the reform of the SGP to some extent. To begin with, the intergovernmental theoretical framework the preference of the richer countries for more oversight and automatic sanctioning. Surplus countries certainly had an interest in having all countries adhere to their model rather than finance stimuli or Eurobonds for the poorer countries. It also explains why the Italy and Spain had the – comparatively – strongest objections against the strengthening of the SGP, given that they were the most likely to be sanctioned (Schimmelfennig, 2015). However, in the case of France, as well as the Eastern European austerity hawks, their commitment to tight budget rules cannot be explained. They all had current account deficits and while France managed to contain the crisis through a stimulus, the small countries in Eastern Europe experienced severe economic contractions following their austerity programmes. Their support for a strengthened SGP instead of systemic solutions can hardly be explained through material interest. Fiscally stable countries like Denmark or Poland opting in the reforms and supporting stricter norms for the Eurozone is similarly difficult to justify through the immediate benefits to their own economies.

The advocacy framework can provide an explanation for those countries supporting tighter budget rules. Neo-liberal ideas have played a significant role in the construction of their political economies and they had unquestioningly observed the SGP before the crisis as part of their Euro adoption agendas. Hence their belief that austerity, ideally enforced through technocrats rather than political decisions would bring back stability to the Eurozone. In Denmark's case the right-wing government in power at that time supported austerity for ideological reasons, too. Also Germany's insistence on the EU-wide adoption of the new rules – rather than only for Eurozone countries – is in line with the framework's expectations that they held the fundamental belief that their economic paradigm would suit everybody.

Regarding the other expected advocacy coalition, however, the framework has shown little predictive power. First, France, instead of leading a Keynesian coalition, largely supported Germany's course and only differed with regards to the policy instruments, not with regards to the eventual goals, which would in fact put it within the German advocacy coalition until 2012. Second, it was not before Hollande changed sides that the other countries with more Keynesian traditions jointly formulated their plans for stimulus programmes and common European bonds. Earlier plans by Italy had been vetoed down by the French themselves. Finally when Hollande and Monti tabled their plans for a stimulus package, they did not dare contest the general goal of 'fiscally friendly' growth openly anymore.

Their failure to do so can best be explained through the ideas-as-weapons approach. In the initial phase of the crisis, Germany and the other rich countries succeeded in providing a convincing diagnosis of the crisis. The previous, more flexible SGP arrangement was attacked and closer coordination was presented as the cure to ensure that countries adhere to the norms, which would, so the story goes, have prevented the crisis (Blyth, 2002, 2013b). This served to bring together the rich countries that had a material interest in strict spending rules and Eastern European countries that subscribed to the beliefs and already undergone those exact reforms. With France, as second most powerful actor, not contesting that story, but only differing on the implementation of closer budget supervision, it was difficult for other narratives of the crisis to find broad support. Whenever Eurobonds or stimulus programmes were proposed, Germany and its allies were quick to pour cold water on any such idea, thereby ensuring the prevalence of their narrative and the perceived inevitability of their policies. The basic idea of the crisis that was thus developed and institutionalised proved so resilient that when Hollande eventually contested it, it had become impossible to roll them back even though he found several countries to support his counter-narrative. Moreover, by then the focus on national debt and deficits as reasons of the crisis had become so widely accepted that even the new narrative would not challenge it.

To some extent, this framework intersects with a realist framework because pro-austerity technocratic governments were installed in Greece and Italy, so that they were in line with ordoliberal doctrine. Nevertheless, even if one assumes that the crisis narrative was only a tool by powerful countries to serve their own interests, it is still the idea that provides the explanation of how coalitions formed in the reform of the SGP.

Conclusion

The question why and how neo-liberalism has survived and even benefited from the crisis has puzzled political economists ever since (Mirowski, 2013; Schmidt, 2016). In the course of the sovereign debt crisis in Europe, many of those contested norms have not only been reactivated, but also institutionalised in a revamped SGP.

This study sought to shed light on the politics that brought about this lopsided outcome. In the beginning of the crisis, the identification of excessive deficits and high national debt as cause of the Greek problem was quickly generalised as an EU-wide problem by the most powerful countries. At that moment the German-led push for closer budget supervision and small deficits was not contested in principle, but only with regards to the instruments that were supposed to be used to achieve this. Hence even French calls for softening the course to fiscal adjustment did not object to the general idea of austerity policies and neo-liberal structural reform. With support from other rich countries that share the same economic interests the new set of prescriptions instantly received wide support. Eastern European countries which had already inflicted internal devaluation on themselves insisted others follow their example, despite questionable success and their being likely beneficiaries of approaches that prioritised redistribution. All this put the onus of the economic adjustment on those Southern European countries that were experiencing the crisis and had not been able to provide a convincing answer to the neo-liberal crisis narrative. On the contrary, many of the countries that were bailed out largely bought into the austerity narrative and justified it as a necessary corrective to previous spending sprees. It was not before the 2012 French elections which brought a more Keynesian government into power that the austerity doctrine was confronted with a credible counter-proposal. However, this swing came too late, since a great degree of deepened budget surveillance had already been institutionalised and some of the norms identified in the still prevalent crisis narrative still stand undisputed. When their crisis narrative was criticised, the richer countries resorted to more overt displays of power to protect their achievement.

Lately, austerity has received more public criticism, not only by the French, but also Italy and, prominently in early 2015, Greece. This political backlash, telling as it may be, has come too late to reverse any of the changes made in 2010-12. At the same time, calls for further institutional integration are repeated annually, most recently in the 5-presidents-report (J. Juncker, Tusk, Dijsselbloem, Draghi, & Schulz, 2015). German insistence on rigid rules for national austerity has however prevented any move towards more flexible arrangements or far-reaching integration reforms.

All of this speaks in favour of the hypothesis that powerful countries used economic ideas to protect their interest and that, inversely, those ideas brought together countries that subscribed to them. Ordo-liberal ideas were used to challenge the previous SGP framework and called for more technocratic policy making. Neo-liberal reform programmes aimed at weakening social protection through reduced state expenditure are now prescribed regularly with the stated goal of balancing budgets, against all public resistance. It were those two ideas that brought together countries with economic interests in shifting the burden of adjustment on the poorer countries instead of financing systemic solutions and those that had already undergone such a politically costly adjustment programme themselves.

The political success of this coalition in framing the crisis and providing a widely shared blueprint for a future institutional set-up illustrates the pervasiveness of this set of ideas. It should be kept in mind that the moral categories of Southern 'Sinners' and Northern 'Saints' that were commonly used during the Eurocrisis were purposefully crafted in its course, to support this story, as well (Fourcade et al., 2013; Matthijs, 2016b).

Great leaps in economic governance of the EU necessarily go back to ideas. The creation of the Euro and the initial SGP were both inspired by some ideas that decision makers had about how economic governance can function. In the SGP reform process, again, shared economic ideas made it possible for many countries to collaborate and to achieve significant reform in only two years.

After the introduction of the original SGP it took six years before its shortcomings led to a revision. Today again, there is a consensus that the reformed SGP is insufficient and that it is a matter of time until a response to its problems will become necessary. The question is whether a neo-liberal EU will be able to formulate it.

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