TWENTE UNIVERSITY & UNIVERSITY OF MÜNSTER

THE CHOICE FOR EURO:

The Treaty on Stability, Coordination and Governance through a liberal intergovernmentalist lens

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Abstract:
The Treaty on Stability, Coordination and Governance (TSCG) was decided on in January 2012 to reinforce the economic policies set out in previous years. This thesis provides answers to how and why the TSCG came into existence by using a liberal intergovernmentalist framework and methods of congruence and process tracing. Its findings include the importance of Germany in both the agenda-setting and bargaining phase and the importance of economic interests in the decision-making process at both the national and the international level. Furthermore, although the concept of spill-over cannot be rendered unimportant, the demand and supply of the institution is found to be in line with liberal intergovernmentalist thought.

Treaty on Stability, Coordination and Governance

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Abbreviations

BEPG	Broad Economic Policy Guidelines
ECB	European Central Bank
ECJ	European Court of Justice
ECOFIN	Economic and Financial Affairs Council
ECSC	European Coal and Steel Community
ECU	European currency Unit
EDP	Excessive Deficit Procedure
EEC	European Economic Community
EFSF	European Financial Stability Facility
EMU	Economic and Monetary Union
EMS	European Monetary System
EPP	Euro+ Pact
ESM	European Stability Mechanism
EU	European Union
IGC	Intergovernmental Conference
IL	International Law
LI	Liberal Intergovernmentalism
MTO	Medium-Term Objective
OMC	Open Method of Coordination
RCI	Rational choice institutionalism
RQMV	Reversed qualified majority voting
SGP	Stability and Growth Pact
TSCG	Treaty on Stability, Coordination and Governance of the EMU

Table of Contents

Acknowledgements ... 2
Abbreviations ... 3
1. Introduction ... 5
 1.1. Subject and Research question ... 6
 1.2. Methodology, Research Method and Structure ... 7
2. Conceptual framework ... 9
 2.1. Realism ... 9
 2.2. (Liberal) Intergovernmentalism ... 11
 2.3. Rational Institutionalism ... 13
 2.4. A functionalist opposition ... 13
 2.5. A stability- and value-based approach to the concept of hegemony ... 15
 2.6. Conclusion ... 16
3. A historical analysis of economic, monetary and fiscal integration ... 18
 3.1. A quick summary of European economic integration up to the Crisis ... 18
 3.2. The EMU ... 19
  3.2.1. A three step process ... 20
  3.2.2. The SGP ... 21
 3.3. A window of opportunity for change: The Sovereign Debt Crisis ... 23
  3.3.1. The Sovereign Debt Crisis ... 23
  3.3.2.2009 - 2012: Crisis management, new measures and the 2012 Status Quo ... 23
 3.4. Conclusion ... 25
4. An interdisciplinary approach to the TSCG ... 27
 4.1. The Treaty ... 27
 4.2. The economic significance of the TSCG ... 29
 4.3. The TSCG: A legal monster ... 31
5. The TSCG: Domestic interests, bargaining and high stakes ... 34
 5.1. Throwing out a feeler ... 34
 5.2. The Summit on December 8th and 9th ... 38
 5.3. An international treaty it is… ... 39
 5.4. The implementation phase: ratification and entry into force ... 43
6. A liberal intergovernmentalist analysis ... 45
 6.1. National preference formation ... 45
 6.2. Interstate bargaining ... 46
 6.3. Institutional choice ... 49
 6.4. The concept of hegemony and the role of ideology ... 49
 6.5. Conclusion ... 50
Conclusion ... 52
Literature ... 55
Appendix ... 68

1. Introduction

"There is no example in history of a lasting monetary union that was not linked to one State."
-- Otmar Issing, Chief Economist of the German Bundesbank & ECB, 1991[1]

The Financial Crisis of 2007 and 2008 has led to both a global recession and the sovereign debt crisis in Europe. These crises are two of the European Union's most pressing issues and expert and political opinions on how to deal with these problems are as diverse as the continent itself. A returning problem seems to be inability of the existing EMU instruments to control member state behavior. With the Stability and Growth Pact as the poster child for the problematic nature of EU sanctioning, the system's credibility has been critically undermined.

The pre-2008 situation had two major mechanisms to ensure fiscal, economic and monetary stability, being the Stability and Growth Pact, hereinafter: SGP, and the BEPG which are broad economic policy guidelines set up by the Council. The BEPG are supposed to create common ground in member state economic policymaking by setting broad guidelines that the entire Council has to agree on. Although not legally binding, a monitoring mechanism is in place to peer pressure states into compliance, and consequently both the Commission and ECOFIN can give warnings and recommendations when a member state appears to be defaulting. (European Union, n.d.) Nevertheless, economic policy was and has remained a sovereign policy field, meaning that policies ranging from fiscal policy to labor market policies can almost entirely be decided on by the member state itself. The other mechanism, the SGP, has been set up entirely different. It is based on a rule that requires a 3% of GDP limit for the government deficit and a 60% of GDP limit on government debt (SGP Resolution, 1997). Although also using the methods of peer pressure, bench marking and transparency, one of the instruments of the SGP is the Excessive Deficit Procedure (EDP) which has provided the Council the possibility of sanctioning. The fallacy of the system was however shown in 2003 when Germany and France were let off the hook when sanctions were in order for breaching the SGP. As a response to the overall objections that arose, the SGP was reformed in 2005 to include medium-term budgetary objectives, so called MTO's. It furthermore obligated member states to outline in either their stability program or convergence program how they were planning on maintaining or reaching their MTO.[2] That this reform was not enough to ensure financial and economic stability was however already made clear in 2004 when it was made public that in order to enter the Eurozone, Greece had been untruthful about the state of its economy (Little, 2012).

To deal with these kinds of problems, and with that the Financial Crisis and Sovereign Debt Crisis, multiple reforms have been agreed upon, with the most important being the Economic Governance Pact (Six pack), the Euro Plus Pact (Euro+), the European Financial Stability Facility together with the European Stability Mechanism and most recently the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union -- often referred to as the Fiscal Compact, and hereinafter abbreviated as the TSCG. The treaty its foremost aim is to reinforce the trust between member states that they are all determined and sincere in adhering to the rules, repeating the

[1] Retrieved from Mayer (2011)
[2] Although the content is identical, the programs' names are different: stability program for Eurozone-members and convergence program for non-Eurozone members.

importance of both old institutions[3] such as the SGP and new legislation such as the Sixpack. Moreover, the signatories have also added new rules to strengthen the coordination and monitoring of national economic policies, putting into force the often declared, but not always executed, political will. Voices claim that Germany in the coming to existence of this treaty was so influential, its bargaining power reached levels of hegemonic power. Furthermore, the TSCG was not agreed upon unanimously in the Council and therefore received the status of an intergovernmental treaty instead of it becoming an integrated part of EU law. Nevertheless, the Commission was still given an important role. This, together with the fact that the ratification of the Treaty is far from completed, makes it an interesting topic for a thesis.

1.1. Subject and Research question

The TSCG functions as the case study for this thesis, aiming to analyze the politics behind the Treaty and to what extent it will be able to meet the goals set-out in the discussions surrounding the negotiations. An interdisciplinary course of action, looking from an economic, legal and political perspective, will provide an all-round overview of all the aspects surrounding the TSCG. Over the years, many theories on EU integration have attempted to explain or understand the ‘deepening’ process and with it the creation of treaties such as the TSCG. A part of the thesis will actually be about seeing whether deepening has really occurred, following the reasoning of a paradigm that stands out as a major theoretical strand consisting of realism, (liberal) intergovernmentalism and rational choice institutionalism. After studying the broad array of EU integration literature, it has been inferred that liberal intergovernmentalism has been especially successful in explaining big, important intergovernmental decisions in the European Council and ECOFIN, and it is with this in mind that the following research question was set up:

“What is the Treaty on Stability, Coordination and Governance, how and why did it come into existence and to what extent does it reflect liberal intergovernmentalist expectations?”

Because the integration of economic, fiscal and monetary sectors is an ongoing process, the choice for a case study within this integration process was aimed at an institution that had already been decided upon, correspondingly the TSCG. Using the theory of liberal intergovernmentalism together with the broader realist paradigm to counterbalance the research of functionalist and more supranational theories, I hope to create more legitimacy for the use of ‘realist’ theories to deal with the demand for and supply of EU institutions. This thesis will not stand on its own in this goal, seeing that since the crisis, more and more scholars have again started explaining EU economic policies from a ‘realist’ background.[4] Moreover, the empirical relevancy of the thesis can further be found in the ongoing euroscepsis within the EU. With this phenomenon in the background of European integration, it is important to know why further integration in the ‘fiscal’ area is occurring even though many actors at the national level are claiming they are attempting to bring back competencies to the level of the nation state.

My preliminary conclusion is that the use of liberal intergovernmentalism can explain the process of demand and supply of EU institutions. The research has quite some limitations however, not least due to its size. Because ratification is not completed in all countries, data on the implementation of the

[3] The word *institution* will be used interchangeably throughout this thesis meaning both an organization set with a certain task e.g. the European Commission, and – a broader interpretation – any structure or mechanism in society governing behavior of individuals and states such as rules, legislation, customs, etc.
[4] See e.g. Walt (2011), Moravcsik (2012) and Bulmer & Paterson (2013)

Treaty are scarce. The thesis will therefore not include the effects of the treaty. Furthermore, also due to a lack of time, most countries will only be included sporadically in the research while focusing on the most important players in the negotiation rounds. By far the most important player was Germany, followed by France and the UK. Next to this Poland as the new powerhouse, the Czech Republic as defector, and the European institutions will also receive attention. Thus, a larger N-study to empower or counter this study will probably be recommended. On a theoretical note, it is expected that parts of the TSCG can also be explained by e.g. historical institutionalism or classical realism. To also research this would make an interesting thought experiment. Nevertheless, the thesis is expected to show that the TSCG falls within the predictions of liberal intergovernmentalists to how and why treaties are being created.

1.2. Methodology, Research Method and Structure

As mentioned before, the thesis will be based on a single case study. Case methods are a very popular tool in the field of integration research not to the least because it makes it possible to use more hypotheses and variables. Although some argue that case studies should not be used to determine cause and effect and that they have limited use for making accurate predictions[5], applied research scholar Robert. K. Yin reasons otherwise. He believes case studies can be used to test or develop a theory (Yin, 1994). So next to the exploratory benefits of a case study, it can also be used to test hypotheses and create understanding of causal linkages. Agreeing with R.K. Yin, it is crucial with this type of research to be aware of the *difficulty* to prove cause and effect out of descriptive research. The interpretation of data will be done through a theoretical lens and it is the researcher's critical judgment that has to make sure that the proposed causality comes as close to the 'truth' as possible. It is imperative that the researcher is precise in checking the credibility of proposed causal links by collecting, validating and weighing evidence in a most neutral manner. In sum, while taking into account that proving causal effects will be difficult because of the impossibility to isolate factors from their respective contexts, I will nevertheless try to prove the plausibility of my premise through an (inductive) theory-testing use of process tracing and the method of congruence. With this *rule of thumb*, I intend to see if liberal intergovernmentalist predictions prove to be true for the TSCG case. The function of explaining the case aside, when the goal of the thesis shifts to being the understanding of the case, the abovementioned difficulties are much less important. When discussing neo-functionalist concepts of spill-over, this can be deemed an important divide. Empirical measurement of spillovers proves to be impossible due to the fact that these flows are invisible.

All description entails interpretation of course, so ensuring low inference during the exploring phases of the thesis is key. Primary and secondary sources will be used such as interviews, minutes of meetings, Commission work programs, official records, official statements by government officials and newspaper articles covering the TSCG. The newspaper articles will most likely be from papers and magazines with a good reputation such as the EUobserver, The Economist etc. Moreover, leaked documents will be used although these might be from more biased sources such as Eurosceptic think tank OpenEurope. The support of primary sources for this case study are not very high, so the uncertainty margin is rather wide. Nonetheless, the interpretation of the available sources will most likely lead to noteworthy conclusions for the research of the TSCG as a whole. For example, although a measurement of the skill of persuasive advocacy of a country will be an interpretation of the sources, it will still be helpful for outlining the overall framework. Academic literature is a very important component of qualitative research and ideas and concepts of key scholars in liberal intergovernmentalism and alternative theories will be used to create a solid theoretical framework. Due to the scope of the main research question, sub-questions were set-up in an attempt to structure

[5] See e.g. Lijphart (1971) and Keohane, King & Verba (1994)

the liberal intergovernmentalist concepts on institution-building. The five sub-questions are:

1) *A historical perspective: What economic, monetary and fiscal institutions have been supplied up to 2012 and how can this change be described?;*
2) *An interdisciplinary approach: What is the TSCG and does it have potential to be an effective instrument in dealing with the economic crisis?*
3) *Describing the process of agenda-setting and negotiations: How did the TSCG come into existence?*
4) *Can the theory of liberal intergovernmentalism with its concepts of national preference formation and interstate bargaining explain the politics behind the coming into existence of the TSCG?*
5) *To what extent is the model of institutional choice reflected in the final draft of the TSCG?*

To answer the research question, my thesis will examine the TSCG. First, a conceptual framework will be set out explaining the use of liberal intergovernmentalism. Then in Chapter 3, European economic, monetary and fiscal integration since 1945 will be discussed to analyze what rules and legislation were in place before the TSCG was decided upon. Chapter 4 will look at the TSCG from an economic, legal and institutional angle and answer what the TSCG is, where after the bargaining process itself and the foregoing domestic preference formulation will be discussed in Chapter 5 answering how the treaty came into existence. In Chapter 6 there will be an analysis on whether or not the case reflects liberal intergovernmental expectations. The results of the thesis will be then discussed in the Conclusion.

2. Conceptual framework

Very much part of the same group of theories, realism, intergovernmentalism and rational institutionalism all agree on basic assumptions of which the dominance of nation-states within IR and the utility-maximizing rational behavior of these nation-states are most important. More in detail however, one can see that the approaches slightly differ when it comes to some fundamental beliefs. It is on these beliefs that we will elaborate below in order to comprehend the theoretical background of liberal intergovernmentalism. Perhaps best suited for this conceptual framework, is the ALIS-scheme often used by Jean Monnet Chair Prof. Dr. Wolfgang Wessels (2005/2006). ALIS starts by looking at the fundamental **A**ssumptions of a theory together with implied **L**ogics. Then, conclusions are drawn about the role of **I**nstitutions within the theory, where after possible **S**trategies can be deduced that comply with the theory. Whereas the theory of realism will be set out completely with the scheme, the theories of (liberal) intergovernmentalism and rational institutionalism will build upon the realist ALIS-scheme outcomes to point out the differences between the three theories.

The scheme will then be used to describe the traditional opponent of LI, being neo-functionalism. Just as LI, neo-functionalism is a theory that tries to explain and describe the European integration process as a whole. A thorough analysis of the theory in this chapter is necessary due to the fact that in this thesis, it will be used to counter the main premises that liberal intergovernmentalism uses. Last, to follow-up on a more specific perspective on bargaining power, the concept of hegemony will be used to research whether or not the concept can be applied in the case of the TSCG.

2.1. Realism

Although realism itself is comprised of a body of sub-theories such as e.g. Classical Realism, Liberal Realism and Neo-realism, they all share core assumptions. The theory, seen by many as the most dominant theory in IR, has a long history that can be derived back to Thucydides' and Machiavellian writings that assume both states and individuals will do whatever it takes to protect their own interest (Machiavelli, 1532). The individual is selfish, an *animus dominandii,* and will do whatever it takes to survive. In IR research however, individuals are not seen as relevant actors, whereas states, being the highest authority, are seen as the key players of interstate politics. States are seen to react rationally and are all-knowing due to transparency in the world order. Survival, just like for the individual, is the main interest of the state that will only rely on self-help, meaning no other state can be trusted to guarantee state survival (Mearsheimer, 1994). With regard to the position of states in the world system, we can see that the struggle for power and the subsequent maximizing of power is a basic assumption of realism that also takes into account the relative position of states in the international balance of power.[6] Neo-realists such as Kenneth Waltz (1979) see this as a solely state focused construction with the anarchic structure as main influence in interstate politics. Some more classical realists such as Morgenthau however, have stressed the importance of the individual and with that ideology, popular support, diplomatic skills and nationalism in influencing policies relevant to survival and security (Morgenthau, 1993), clearly emphasizing the significance of, self-interested and self-centered, human nature as the main factor in interstate relations.

The assumptions discussed above of an egocentric mankind, the constant threat of war and survival as the main goal of the state, show the importance of security. Within (neo-)realism, this security dilemma is discussed by two opposing strands, namely offensive realism and defensive realism. Offensive realism sees maximization of power as a motive for a state to pursue being a hegemonic state in the international system (Mearsheimer, 2001). Conversely, defensive realists see a hegemony

[6] According to Hedley Bull (1977) '*a balance of power exists where no one state or group of states has more power than any other state or group of states'*

as a danger to survival – all against one – and therefore are in favor of a balance of power in the world order by strategic alliance building (Waltz, 1979). To ensure survival, the state will always pursue the establishing and expanding of resources to increase security.[7] Although predominately seen as material, the term resource can be interpreted rather broadly meaning everything from oil, weapons and money to a large population and the level of the economy. Due to the scarcity of these resources and complete transparency in the world system, other states will also try to increase their security by investing in more resources. This arms race brings about that only relative gains can be made, resulting in a zero sum game. The same can be said about the building up of alliances. The alliances will grow bigger and stronger until either a balance of power exists or one alliance becomes powerful enough to rule over the other.

Neo-realists believe the world to be in a constant state of anarchy, meaning there is no type of supranational authority to push ideas top-down onto the nation states (Waltz, 1979). Change, whether it be national or international, therefore only occurs on either a voluntary basis or by means of military or economic force of another state. These assumptions and logics create a clear view on the role of institutions in the world system. Institutions such as the United Nations and the European Union are seen as weak by realists who do not believe in universal values, transnational communities and supranational governance. Clarifying, realists assert there is no world government with an adjoined police force or an institution of state-transcending international law. International law (IL), realists believe, always reflect the interests of the strong. Building upon this argumentation, realists assert that when powerful states are in breach of IL, they can simply choose to ignore the outcome, thus making the institution useless. The lack of an international police or government to enforce IL is a clear depiction of the autonomy of nation-states in deciding if and when to pursue penalizing a state in breach of IL. Hence, realists emphasize that penalties will only follow when there are material gains for the penalizing state. This argumentation shows the control the more powerful states have over other states in enforcing their own rules and can be put forward further than solely about IL, rather to include all types of institutions that stronger states can impose upon weaker states (Krasner S. , 1999).

To elaborate on the EU as an institution, according to realist thought, the organization only functions as a tool for the member states to lower transaction costs. The Council plays the most important role: it is seen as the de-facto decision maker for international agreements. States are completely sovereign in the discussions and represent their state's interest to the best of their abilities. The decisions that are made only have power to the extent that the nation states give them power. Furthermore, the power distribution decides who dominates the discussions and with that the outcome. Although some states are stronger than others, in realist thought decisions will only be made when either everybody is in favor or else under real economic or military pressure. The Commission, seen by functionalists as an institution with the power to integrate further than the wishes of the states, is seen by realism as only a secretariat with civil servants, executing what has been decided by the autonomous nation states. It does not have any of the power of a sovereign state and exists at the mercy of the Council. Last, the European Parliament is seen as a talking group with no decision-making power and no legitimacy. This stance is not surprising when one takes into consideration that the institution makes it rather impossible for the nation states to uphold their interests, accordingly stripping it from any real power. Also, due to the fact that there is no real *European demos*, the EP has no legitimacy whereas the Council, of which the country leaders are accountable to their national parliaments, does. According to realists, the institutional structure results in state strategies that rely on veto power to ensure that state sovereignty is transferred as little as possible. These strategies are often embodied in famous speeches dubbing terms such as *L´Europe des patries*, the peoples of Europe and *Europa a la carte* (Wessels,

[7] See below for a more broad explanation on the concept of hegemony.

2005/2006). With realism focusing on relative gains, realist reasoning can conclude in a situation where although a state will gain from an agreement, it will not cooperate when the pay-outs for the other countries are relatively higher than for itself (Grieco J. , 1988).

2.2. (Liberal) Intergovernmentalism

Intergovernmentalism is probably best known as a method of decision-making in international organizations focusing on cooperation in specific fields without giving up sovereignty. It is also however a theory that defined EU integration literature during the 1960s and 1970s, opposing (neo-)functionalist views on supranationality. Laid out in key publications of Stanley Hoffmann in 1994 and 1966, intergovernmentalism is a theory that has taken realist notions to explain intergovernmental agreements and cooperation at a regional level, most notably the European Union. In a way, it tries to overcome the seeming contradiction between on the one hand the ever going European integration, and on the other hand Thomas Hobbes his vision of a competition among sovereign nation states (Roche, 2011).[8] The main intergovernmental assumptions are just like those of realism in that states are considered the core actors in interstate relations, chasing the maximum amount of power to protect their national interests, controlling both the nature and the pace of the integration process. It is with this in mind that Hoffmann divided the possibility of interstate cooperation in low- and high political policy areas. Distinctively, e.g. security and defense, policy areas with vital interests for the state, can be seen as high policies, whereas social policy or economic integration can be seen as low policy areas. Other than most realist scholars however, Hoffmann inferred different logics out of the abovementioned assumptions.

Just as realist scholar Morgenthau, Hoffmann rejected the classical realist notion that the state in interstate politics is a uniform institution. Instead, he asserted that in low policy areas, before a position is taken by a state representative during an international intergovernmental discussion, a bargaining process on a national domestic level has already taken place by interest groups, forming the government's opinion. Opposed to neo-functionalists however, the interest groups or *elites* of intergovernmentalism are not more powerful than the government which, by acting as an arbiter, simply rationally decides on the best stance for the government to pursue taking into account civil servants' opinions, but also re-election of political parties. The national bargaining serves to create more legitimacy, strengthening the legal sovereignty of the state in international discussions.

On institutions, Hoffmann further critiqued neo-functionalists for believing the EU process to be *sui generis* in international politics. Instead, he saw the EU as a part of a broader international political system more and more focused on cooperation to benefit economic, social and geo-political interests. The national preferences can be seen as representing these interests. Remarkably, Andrew Moravcsik would later take a step back in this regard arguing that foremost the balance of economic interests reflects the national preferences put forward in international negotiations. Although a state is fully autonomous in making decisions, Hoffmann believed these negotiations to be affected by the position of a state in the world order. To be more precise, within intergovernmentalism the external limitations on autonomy are set by the position of the nation state in the world system, affecting the decision-making strategies of states.

Liberal intergovernmentalism is worth mentioning as thé key development for intergovernmentalist thought within EU studies. Scholar Andrew Moravcsik wrote his book 'The Choice for Europe' (1998) as a counter reaction to neo-functionalism. Like intergovernmentalism, liberal intergovernmentalism stresses that national governments are the key actors in the integration process, but puts forwards a

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[8] Also known as "bellum omnium contra omnes". For more information, see Hobbes' Leviathan (1651 (2010))

new dimension to the national decision-making processes by adding a model of preference formation.[9] This preference formation model shows how national governments create a bargaining position based on the strength of various interest groups such as businesses, consumers, taxpayers, etc., letting go of the idea of the state as a black box. In doing so, for the negotiations the member states must take into account cross-country issue variation, the timing of innovations in EU policy, the consistency of the policy and accompanying negotiating demands, but also domestic actors and domestic policy discourse (Moravcsik, 1998).[10] Furthermore, the role of leading politicians is seen as crucial, since it is the "basic desire of politicians to remain in government," and they will decide on policy positions accordingly (Moravcsik, 1993, p. 488). However, the "slack in the principal-agent relationship between society and the state", allows for leaders to take political risks against the will of the majority in favor of a longer-tern view (Ibid). Other than realism, economic interests are seen as playing the key role in this decision, not (military) security. The creation of institutions is merely a part of the bargaining process to ensure that the state its bargained materialist objectives are met by safeguarding compliance, known as the rational choice theory of institutional choice which can be seen as a 'lock-in' policy. It is no surprise that liberal intergovernmentalists see EU institutions as only having limited significance. Within LI, institutions are seen as an international regime, which according to Stephen Krasner (1983, p. 2) is: "a set of principles, norms, rules and procedures in a given issue-area around which the expectations of the actors converge." Regimes are set up in order to solve transnational problems, often by a hegemon, and have an organizational core.

When it comes to the expected strategies of the nation states' governments and the supranational bodies, liberal intergovernmentalism has three expectations when it comes to the formation of treaties and with that the TSCG. First, we can expect member state governments to act in a way most beneficial for their respective countries in the bargaining process. This however includes relative gains and bargaining packages over a longer period, meaning countries can decide to participate even though on this single issue it does not benefit them. Second, this position is created taking into account many interest groups on a national level including government officials, the national central banks, the financial spokespersons of the parliamentary parties and, last but not least, the popular voice reaching the government through media and election polls. It is expected that economic interests will dominate this discussion. Third, the TSCG should be expected to be put up in the slimmest way possible, meaning it will not be given powers exceeding the lowest common denominator of the nation states. Furthermore, it will be set up in a way to show credible commitment to the agreed upon rules and legislation.

In sum, we can see that LI has incorporated some elements of, rivaling, neo-functionalist thinking into its framework giving a role to supranational institutions in the EU institution. However, rather than believing these institutions to have power, they are only agents that execute the tasks given to them. States remain the major players, and are affected by domestic interest groups in determining policy goals. This shows that state preferences are not unchangeable or uniform. Also interesting is that unlike realism, LI does not believe in complete information transparency. Rather, it sees the information asymmetry in the international system, and foremost the EU, as a variable that affects the bargaining power of a government. Bargaining power is not, as realists would assume, based on military and economic strength, but on strong preference formation. For the thesis, the strength of LI

[9] Moravscik (1998, p. 24) describes preferences as: "an ordered and weighted set of values placed on future substantive outcomes."
[10] Based on the two-level game theory of Robert Putnam (1988)

lies in the use of it. It is not a narrow theory, but rather an easy to use framework to test assumptions on the large decisions made in the EU (Moravcsik & Schimmelfennig, 2009), just like the TSCG.[11]

2.3. Rational Institutionalism

In explaining the process of European integration and the workings of its institutions, the new institutionalist theories focus on the role of institutions in structuring political behavior (Kohler-Koch, 1996). Remarkably, the literature divides itself into three rather fundamentally different strands, being rational choice-, sociological- and historical institutionalism. The here discussed deductive rational choice institutionalism (RCI) focuses on how institutions i.e. rules and norms of procedure change the preferences and conduct of national actors (Hall & Taylor, 1996). Based on practically identical assumptions, RCI lies near to liberal intergovernmentalism in its argumentation that actors create and use institutions such as the EU in order to reach their objectives. These institutions are necessary to reduce costs and with that maximize the gains of cooperation, but also to reduce the level of uncertainty that comes with cooperation. Acting rationally comes with the practice to combine stakeholders' wishes at a national level, so they can be presented at the international or European level. The actor will then make a cost-benefit analysis to strategically interact with the other actors. RCI is best known for its explanation of the struggle between the actors and the institutions they have created. This principal-agent model shows that when the principal, which in the case of the EU is usually the Council, creates a new institution i.e. the agent, an asymmetric information flow is created that benefits the agent. Thus creating a relationship in which the agent can easily pursue its own interest, possibly limiting the benefits and possibilities for the principal (Tsebelis, 1994). Other than liberal intergovernmentalism, RCI focuses on the workings of the institutions instead of their creation. This different level of analysis, leads to a focus on nation states' strategies in the *workings* of institutions, making it less suitable to explain the coming into existence of the TSCG.

2.4. A functionalist opposition

LI was written as a response to neo-functionalism (NF). In his book The Choice for Europe (1998), Moravcsik uses neofunctionalist hypotheses to counter his liberal intergovernmentalist premises. Neo-functionalism is a successor of the normative theory of functionalism that sees human nature as cooperative and rational.[12] Following that reasoning, states are seen as need-centric entities that focus on transnational problem solving as a method for issues that have arisen due to interdependency. The preference for transnational problem solving is both inferred from the belief that transnational bodies are not only more efficient than territorial ones, but also that European shared policies are a way to reduce armed conflict on the continent (Mitrany, 1943). Hence, functionalist scholars tend to plea in favor of European integration out of pacifist beliefs.

Its successor neo-functionalism was developed in the 1950ies as a new 'grand' IR theory of regional integration. Due to its premises, the theory quickly developed itself away from a normative agenda to be used as a *explanans* for European post-war integration. New for that time was that it tried to explain the step-by-step process of integration rather than its existence as a whole. As a result, the NF literature found that the European integration process was not only continuous and causal, but also cumulative and irreversible. A comparison for this *sui generis* process was therefore often made with the workings of a bicycle. The EU had to keep integrating, or else it would fall. This comparison is usually made alongside one of the main *logics* of neo-functionalism: spill-over.

[11] See Figure 1 for an overview of the Framework of Analysis.

[12] For more on functionalism and neo-functionalism see e.g. Sandholtz (1993), Sandholtz and Stone-Sweet (1998), Schmitter (2004), (2006) , Rosamund (2005), Haas (1958) (1975) and others.

The theory of neo-functionalism concentrates on different types of spill-over within European integration, viz. functional, political, cultivated and territorial (exogenous) spill-over. Functional spillover confers that co-operation in one policy area necessitates co-operation and therefore integration in other related areas. This is essential in order for the initial policy to function properly. Haas (1958)argued that the creation of the ECSC would lead to cooperation in more policy fields -- e.g. transportation -- to make the common market work properly and the European Union as it is today certainly shows this. Political spillover happens in bargaining situations where policies are discussed as package deals due to linkages between the subjects. Another explanation of political spillover is however focused on a shift in loyalty from the national to the European cause. This is also called elite-socialization and explains that people involved with the EU will tend to shift their loyalty to the European project and will act on the belief that many policies are better to be discussed at the European level rather than the national level. This can be the case with lobbyists, MEPs, local politicians, etc. Cultivated spillover in its turn can be seen as unintentional due to creation of European institutions. EU institutions provide initiatives for further integration, setting the agenda. An example are the White Papers published by the Commission. In 1985 the Commission published White Paper recommending the removal of non-tariff barriers, resulting in the SEA that same year. The last type, territorial spill-over, differs from the abovementioned three types because it does not involve the deepening of EU integration, but rather the widening and with that the enlargement process of the EU from 6 to 28 countries. In sum, spillover processes are diverse and inclusive. Moreover, E.B. Haas and others have even claimed that the spill-over process is not only expansive but also irreversible. This is due to the fact that member states will be under pressure to delegate more power and responsibility to the regional institutions as a result of the growing interdependence.

The second important *logic* of neo-functionalism is that due to growing interdependence, governments are pushed to centralize policies and regulation and create common institutions. Usually when the literature refers to interdependence it focuses on cross border transactions and communications, areas in which the EU now has competence. According to NF, the difficulties connected to these transactions are preferably solved at a supranational level. Consequently, the creation of a supranational authority such as the EU leads to changes in national and supranational behavior, resulting in supranational policy-making by both state and non-state actors. This circle pushes forward the process that neo-functionalists call supranational governance. Also important for this concept is that supranational institutions can be seen as power optimizing and acting as a policy entrepreneur, proposing all types of further deepening and cooperation. The “Community Method” as introduced by Robert Schuman and Jean Monnet as an alternative for intergovernmental cooperation was based on this belief of supranational governance.

Concerning non-state actors, NF considers lobbyist groups to exist both directly at the European level, as at the national level, where societal groups press the governments towards the idea of a federal Europe. On the institutional level, NF focuses on concepts of expertise and technocracy in that institutions follow a *form follows function* logic. Moreover, it perceives the role of supranational institutions such as the European Commission and European Parliament to be extensive: as an agendasetter, as an information supplier providing highly complex and extensive data, as a mediator on difficult policy subjects, as an aide assisting in the drafting of comprises due to its technical competences, and last but not least as a mobilizer, activating the masses and the press. In addition, the European institutions are seen as mutually enforcing each other, which can be linked to the above discussed concept of spill-over.

Expected strategies within NF are that institutions and interest groups will put forward change on the Council agenda as the result of the self-perpetuating process that integration is. This can include *high* policy areas such as a common fiscal policy. The TSCG would be the result of extensive lobbying and pressure from supranational institutions. Principles of solidarity are expected to play a role in the negotiation rounds, although similar to LI states' needs will be looked after by their leaders and respective lobby groups. The necessity for a new treaty will be found in the existence of the single market, SGP and Eurozone governance that are not functioning properly. Moreover, both institutions and states are expected to propose package deals to ensure integration on other subjects next to the TSCG, such as the Tobin tax and an economic government. Hence, NF expects the TSCG to be a treaty that ensures solidarity, inclusiveness and deep integration.

Concerning the relation with the intergovernmentalist theories above, intergovernmentalism as put forward by Hoffman argues that neo-functionalism is based on three inaccuracies. The first is that regional integration is not a self-contained process, but is actually influenced by a wider IR context with other outside actors also participating in the decision-making. The second is that neo-functionalism understates the strength of national governments with their formal sovereignty and democratic legitimacy. And third, although integration in low-politics sectors could occur, this would not unavoidably spill-over into high-politics sectors such as security and employment policy where nation states have more to lose. These criticisms were partly justified in the 1960s when with the failure of projects such as the European Defence Community and the boycott of French president De Gaulle of Council meetings, Ernst Haas declared his own theory obsolete. In the 1980s however there was a revival of neo-functionalist thinking due to the emergence of integration in new policy areas, challenging the critics' arguments. Also with regard to EMU neo-functionalist theory proved to be fruitful. In 2005, Heipertz & Verdun convincingly argued how functional spill-over had occurred with the adoption of the SGP. Due to the impossibility of creating a common currency without fiscal convergence, the SGP was adopted and with that partly supranationalized fiscal policy. In the thesis we will see if this is also the case for the TSCG.

2.5. A stability- and value-based approach to the concept of hegemony

In accordance with liberal intergovernmentalism, we can expect member state governments to act in a way most beneficial for their respective countries in the bargaining process. This negotiating power can however also be so powerful that is strips away a lot of the choice for other actors within a system. As a sub-theory for this thesis therefore, the concept of hegemony will be touched upon. The concept as discussed below will be used as a nuance of LI's bargaining power, rather than a counterfeiting theory. Although LI comes forward out of a position where negotiations are non-coercive, bargaining power can be so great that it overpowers the negotiations. Kindleberger's hegemonic stability theory (1973) fits in perfectly in this situation, describing a hegemon that exercises leadership, not only through coercive means, but also through diplomacy or persuasion.[13] The theory furthermore describes the setting of norms by a hegemon to improve the nature of interstate relations, and also benevolent actions of the hegemon towards the other states to ensure them to stay in the system. This also implies that a hegemon can make short-term concessions in order to create stability which serves its own long-term interests. It however necessitates a state to have military and economic means and one that, not irrelevantly, is willing to be a hegemon. This willingness is not important for Thomas Peterson. Peterson describes a different type of hegemony. Praising liberal intergovernmentalism for its explanatory power of the relationship between economic interests and politics (Pedersen, 2002), he identified the possibility of a cooperative hegemon in interstate relations. This type of hegemon has a strong position in the world – or European – structure, but is not able to fully dictate its wishes onto the other states i.d. periphery. The cooperative hegemon therefore actively pursues the establishment of an asymmetrical federation by means of soft power and a strategy of indirect rule. This implies a

[13] Also see e.g. Keohane (1984) and Krasner (1999).

hegemon that has an active role in regional institutionalization and that is willing and able to share power, aggregate power and shows commitment. Sharing power is the capacity of the hegemon to share powers through common institutions with significant competences. Aggregating power is the capacity of a hegemon to make allies rally around its political project through its leadership capacities. Showing commitment refers to the extent to which the hegemon can commit to long-term policies of institutionalization. This is directly opposed to the neo-realist interpretation of hegemony. which interprets the hegemon to use coercive measures. Their interpretation furthermore predicts that the hegemon will undermine the institution, the moment it stops being in its interests.

Although emphasizing the concept of hegemony is generally perceived a realist or liberal affair, the study of geopolitical hegemony has also been discussed by Marxist philosophers such as Antonio Gramsci. In his Prison Notebooks, Gramsci (1971) discussed hegemony to have a cultural dimension, or more specific: he argued the ruling elite to have a cultural dominance by imposing their ideology onto the whole of society. According to Gramsci, the reproduction of the common *Weltanschauung* in schools, media etc. led to the cultural values of the bourgeoisie being supported by the working class. Transposing this line of reasoning to this thesis, it would imply that the 'socialist' peripheral member states would genuinely believe the austerity measures of the *core* i.e. Germany, to be in their own interest. The entrenchment of these *bourgeois* norms, values and beliefs in interstate relations and in society as a whole, shows the persuasive power of the German economic ideology.

2.6. Conclusion

Above we have seen the realist theories that focus on security in interstate relations and that see international institutions as a means for powerful states to get what they want out of interstate relations. On the EU level, non-compliance for realists is a logical choice for every decision, not believing in package deals, side-payments etc. Although classical realists focus on the (pessimistic) nature of the individual and neo-realists focus on anarchy in the global system to explain integration outcomes, both emphasize relative gains have to be made before states cooperate. Furthermore, for all realists the main focus is security, usually given as the sole reason for EU integration so far. Consequently, some realist scholars such as Mearsheimer (1990) believed the European project would seize to exist after the end of the Cold War. Others have claimed that in order to prevent Germany from once again emerging as a (hegemonic) power, economic integration has continued, more or less guaranteeing smaller, and bigger, states' security (Grieco J. M., 1996). A Marxist explanation of this hegemony however is also possible with German austerity measures seen as the dominant ideology within the EU.

The theory of intergovernmentalism, also rationalist, recognizes the institutionalization process that has occurred in the world system, together with the importance of the domestic sphere in the government's decision-making process. Liberal intergovernmentalism has built upon these notions in elaborating on two-level decision-making. In its turn, RCI has proven to be quite similar to liberal intergovernmentalism, but focuses more on the daily workings of institutions making it less suitable for this thesis. All theories see the field of International Relations and with that European Union studies 'as it is, not as it ought to be' (Jorgensen, 2010). Furthermore, studying the literature, it is clear that the theories have evolved from each other, not replacing the preceding theory, but rather existing next to them in the theoretical paradigm. From the IR theory of realism came intergovernmentalism which in turn inspired liberal intergovernmentalism. The 'new' theory of rational institutionalism is based on all these predecessors while at the same time also stemming from an institution-based paradigm. The choice to use liberal intergovernmentalism for this thesis is because its main focus of state behavior lies with the intergovernmental meetings of the EU in the decision-making process rather than the security and defense emphasis of traditional realist accounts or the attention that rational choice institutionalists give to the workings of EU institutions.

Traditionally, neofunctionalism is juxtaposed with liberal intergovernmentalism due to the fact that both theories attempt to explain the European integration process rather than the existence of international cooperative institutions as a whole. As can be seen with the ALIS-scheme, NF is based on different assumptions and logics and therefore sees institutions such as the TSCG in a different light than LI. Its interpretation of European integration as a development over time and its emphasis on the role of supranational actors are a clear counterbalance to liberal intergovernmentalist interpretations of the TSCG.

3. A historical analysis of economic, monetary and fiscal integration

Economic integration between European states began when six countries signed a treaty establishing a Coal and Steel Community. Over the years institutions such as free market principles, a European Free Trade Area, a European Monetary System, a common currency with adjoined a European central bank and a Stability and Growth Pact have come into existence. With the 2010 sovereign debt crisis, a window of opportunity arose to push through radical changes in the economic, monetary and fiscal cooperation between states, altering the old institutions and creating new ones. Consequently, in the past couple of years, we have seen many new ideas, policies and legislation that are changing and deepening the European Union. A quick summary of the integration process will show how economic policy developed and why a fiscal union was not established next to the EMU. Paragraph 3.2 will discuss the development and legislation surrounding the SGP, where after paragraph 3.3 will discuss how the crisis exposed the weakness of the system and the changes in regulatory policy that followed. This chapter will end by discussing what will be needed to ensure a stable European economy, allowing an analysis in Chapter 4 of the economic significance of the TSCG.

3.1. A quick summary of European economic integration up to the Crisis

The idea of European integration has been around ever since the year 1923, when Count Richard Nikolaus von Coudenhove-Kalergi wrote his famous manifesto named 'Pan-Europa'. In the manifest he pleaded for a unified European state. Although right after publication a European wide movement was established, it took the devastating effects of the Second World War to put the idea into motion.

The end of the Second World War resulted in a divided Europe. To bring each other closer, in 1949, Western European countries established the Council of Europe. This organization intended to create a common democratic and legal area where the promotion of fundamental rights would be encouraged. However, six member states wanted to cooperate more than the mandate of the Council of Europe enabled. On May 9th, 1950 the French Foreign Minister Robert Schuman delivered a speech on deepening the cooperation between countries, stating his desire to "make war not only unthinkable but materially impossible" on the European continent (Schuman, 1950). Based on this idea, Western Germany, France, Italy and the three Benelux countries signed a cooperation treaty in 1951 establishing the European Coal and Steel Community (ECSC). The treaty stated specific goals to be achieved of which economic expansion, growth of employment and a rising standard of living were most important. (ECSC, 1951, p. art 2)[14] Enlightened by the success of the ECSC the countries decided to cooperate in more policy fields. Thus, the Treaty of Rome, creating a European Economic Community (EEC) was signed in 1957. This newly established common market was supposed to lift border controls and make it easier for people, goods and services to move freely across state borders. Although integration occurred on a high rate, it cannot be deemed supranational. Under German-French leadership, all agreements were made intergovernmental and with that unanimously, with French president Charles de Gaulle steering the European project in a confederal direction. Although integration in the *high policy area* of security failed[15], in 1962 the countries decided to deepen their *low policy* economic cooperation even more. They established a Common Agricultural Policy, removed customs duties on internal trade and decided to apply a common import tariff. The six countries thereby created the world's biggest trading group.

[14] The UK had decided not to participate for among other reasons a perceived loss of sovereignty. It would later do so again concerning the European Defense Community (Larsen, 1997, p. 53).

[15] The Fouchet Plan was proposed by Charles de Gaulle in 1961 and entailed a more integrated intergovernmental union with a common foreign and defense policy.

Although ideas about a single currency in Europe can be traced back to the 1920ies (Stresemann, 1929)[16], in 1969 the European Commission initiated research on more cooperation in the economic and monetary policy field. A report on how to reduce currency exchange rate volatility, ended in a recommendation on ensuring the movement of capital and the fixing of parity rates (Barre Report, 1969). The report proposed prior consultation at EEC level before greatly altering national economic policies in a way that it could affect the others, and the Council agreed. Fixing rates is not easily done, but after discussion the Council decided on attaching currency rates to each other with a method called *snake in the tunnel*. This single currency band focused on the US dollar as lead currency, but was already relinquished at the end of the 1970ies (European Commission, n.d.). The method had proved to be unsustainable when hit by the oil crises and policy divergences, but also “because national governments were still strongly attached to their monetary sovereignty” (Maes & Quaglia, 2006, p. 197). As a follow-up of the Barre Report, the Werner Report of October 8, 1970 recommended a program for the establishment of a monetary union and a plan to achieve such a union in several stages (Werner Report, 1970). Although the exact Werner Plan was never implemented due to i.a. German-French disagreements and pressure by the USA, it did lead to the European Monetary System (EMS) in the late 1970ies (Zimmerman, 2001). The core difference between the members then is still relevant today with Germany and the United Kingdom focusing on low inflation rates as the most important policy goal and France and Italy preferring high employment rates and growth (Verdun, 2010).

The EMS was introduced in March 1979 and defined exchange rates in relation to an average currency that was created *ex nihilo*, stepping more and more away from the dollar. National currencies had to be kept within approximately 2.25 per cent of this European Currency Unit (ECU) with an exception for Spain, Portugal, Italy and the United Kingdom who’s currencies could diverge about 6 per cent. The EMS was given an intervention mechanism and tools were created for when countries threatened to reach the maximum bandwidth. Although officially no currency anchored the ECU, in reality the Deutsche Mark led the other currencies do to its strength (Gros & Thygesen, 1998). Already, the importance of German exports could be seen in the overall worth of the ECU. In 1992, existing measures proved to be insufficient to deal with macro-economic divergences between the participating countries leading to the United Kingdom and Italy having to leave the EMS showing the weakness of the system. The German economic and monetary policies had affected the continent too much as a whole through the exchange rate policy (Bache, George, & Bulmer, 2011) and an alternative was sought for.

3.2. The EMU

In 1990, the unification of East- and West-Germany was a catalyst for the ideas of a single currency. Before 1990, politicians had had little interest in denationalizing their currencies, not only due to a fear of losing this economic tool, but also in fear of losing their electorate. Especially in Germany, the Deutsch Mark was a symbol of post-war prosperity and stability. In 1989, president of the Commission Jacques Delors proposed an intergovernmental conference to discuss the process towards a single currency, but the plan was not introduced as pressing as necessary (Delors Report, 1989). Especially the Germans saw a single currency as something that would not happen for another couple of decades. When the Berlin Wall fell, Chancellor Helmut Kohl, a proponent of further integration, realized that EC approval for unification would be difficult due to geopolitical interests and that the other member states would be worried about a new strong nationalist Germany.[17] Next to the arguments of a lasting peace in Europe, Kohl and his fellow PM’s also hoped a union would promote

[16] Only weeks before Black Friday in 1929, German politician G. Streseman asked in a speech at the League of Nations: "Where are the European currency and the European stamp that we need?”

[17] See e.g. Moravscik (1998) and Ungerer (1997) for a detailed discussion of the creation of the EMU

internal trade and investment in the EU (Emerson & Gros, 1992). A bargain was therefore struck with French President Mitterand who promised to bargain in the EC for German reunification in return for German approval for a fast introduction of a single currency. This ‘grand bargain’ allowed Germany to get a currency union on its stricter terms, but with a compromise to the French on timing. Although agreeing to some oversight that would later take the form of the SGP, Mitterand and Italian PM Giulio Andreotti did not agree with the establishment of a fiscal union. A fiscal union would have cost a lot for these countries by forcefully limiting the possibilities to battle economic stagnation with their expenditure and tax policies. To appease Germany a no bailout clause was added to divert risky behavior. That this was not enough soon became clear and the refusal for establishing a common fiscal union turned out to be a decision that has led to the situation the EU is in today.

3.2.1. A three step process

In December 1989, the Strasbourg IGC discussed both the EMU and a political union. Germany preferred the EMU to exist alongside a political union, but the French were unhappy with creating more European institutions. The discord ended up in France its favor when it was decided that some economic governance would be integrated, but every country would remain in charge of its own treasury. Accordingly, the Treaty of Maastricht was signed in 1992, thereby creating the European Union. Important to note is that this development was voluntary, with all member states agreeing to the creation of the EMU non-coerced, with the idea of creating economic benefits for themselves (McNamara K. R., 2011). International regime theories also take this approach, quite successfully arguing that the EMU was created to reach economic benefits that could not be reached unilaterally (Moravcsik, 1998). Next to creating the European Union, the signing also officially launched the EMU in a three step process. All member states pledged to participate in the first and second stages of EMU, but the United Kingdom[18] and Denmark[19] negotiated out of the third stage i.e. implementation of the Euro, and were given a special status that none of the new member states can obtain when acceding the European Union.

The first EMU stage ran from July 1990 until 31 December 1993 and arranged the free movement of capital between Member States, completing the single market. Then, from the beginning of 1994 to the end of 1998, stage two was implemented dealing with the convergence of national economic policies and the strengthening of cooperation between the national central banks. This stage also entailed the establishment of the European Monetary Institute under the leadership of Alexandre Lamfalussy. This independent institute, predecessor of the ECB, had as its core responsibility to coordinate the national monetary policies. For the member state governments, this second stage meant the rapid adaption to the convergence criteria set up in Maastricht by e.g. aligning their budgetary positions. These criteria as shown in Table 1 had to be adhered to, in order to enter the third stage. As (then) article 121.1 of the TFEU shows, the five criteria focus on HICP inflation, the budget deficit, the debt-to-GDP ratio, the exchange rates and long-term interest rates. In simpler terms: to become a member of EMU, countries were required to have stable low inflation, exchange rate stability and sound public finances. These criteria show great similarities to the SGP, not to the least because in order to make EMU successful there could not be too much economic divergence between member states. When in 1999, almost a dozen countries were deemed to have fulfilled the Maastricht Criteria sufficiently, the third step was put into motion, officially launching the Euro as the single currency in eleven countries. Interesting enough, it was clear that some countries that acceded did not fulfill the criteria. On the one hand, Belgium and Italy had too high debt ratios, but were admitted anyway due to the unlikeliness of

[18] Discourse analysis by Risse, Engelmann-Martin, Knopf, & Roscher (1999) clearly shows that the pound was used by EMU opponents as a link to the British identity. Moreover, these opponents argued that joining the Euro would cause Britain to lose the ability to govern itself. This concern was specifically focused at parliamentary sovereignty.
[19] Denmark has opt-outs in the areas of defense policy and monetary policy.

a successful launch of the Euro without the third largest economy of the region and the country in which the EU was located. Greece on the other hand had pursued creative accounting and as finance minister George Alogoskoufis put it: had never even had a budget deficit below the required 3 percent since 1999 (Howden & Castle, 2004). These accessions show both the political characteristic of the accession process and the importance of sovereign interests.

What is measured:	Price stability	Sound public finances	Sustainable public finances	Durability of convergence	Exchange rate stability
How it is measured:	Consumer price inflation rate	Government deficit as % of GDP	Government debt as % of GDP	Long-term interest rate	Deviation from a central rate
Convergence criteria:	Not more than 1.5 percentage points above the rate of the three best performing Member States	Reference value: not more than 3%	Reference value: not more than 60%	Not more than 2 percentage points above the rate of the three best performing Member States in terms of price stability	Participation in ERM II for at least 2 years without severe tensions

Maastricht Criteria - Table 1 (Source: (European Commission))

3.2.2. The SGP

The pre-2008 EMU had two major mechanisms to ensure fiscal – and thus economic and monetary – stability, being the SGP and the BEPG which are broad economic policy guidelines set up by the Council. The BEPG were supposed to create common ground in member state economic policymaking by setting broad guidelines that the Council has to agree to, next to the existing SGP rules. Although not legally binding, a monitoring mechanism was put in place to peer pressure states into compliance (European Union, n.d.). As mentioned before, these mechanisms were necessary, because fiscal policy was still in the hands of national governments, whereas monetary policy was put in the hands of the ECB. The basic set-up of the SGP was based on German economic success in that time and therefore focused on low inflation and low public lending. Its goal was to safeguard sound public finances by coordinating and surveilling member states' budgetary discipline. In 2002 already, there were concerns about the mechanism with Commission President Romano Prodi stating: "I know very well that the stability and growth pact is stupid. The pact is imperfect. We need a more intelligent tool and more flexibility" (James & Butters, 2005).

In 2001, the global economy took a dive resulting in the breach of the 3% rule by Portugal and Germany. In 2004, France also was not able to meet the criteria and the Commission requested the sanctions as agreed upon in the SGP. However, France, Germany, Italy and the UK blocked the sanctioning mechanism, dissolving the fear of sanctions for national governments.[20] The SGP was reformed in 2005 relaxing the rules of when a country was in excessive deficit, showing that, as

[20] Research shows that this reform has also impacted further integration in the form of the referenda about the European Constitution. Dutch voters mentioned the double standards used in the SGP as a reason for voting against the Constitutional Treaty. (Eurobarometer, 2005) A fifth of the respondents furthermore mentioned fearing the loss of sovereignty as their reason to vote "No".

Alberto Alesina and Francesco Giavazzi (2008) put it “the large countries in Europe can do just about anything they please with deficits.”

After the relaxation of some SGP rules, the altered institution had kept the most important rules of not being allowed to have more than a 3% of GDP government deficit and more than 60% of GDP government debt. Nevertheless, these rules were weakened by introducing multiple types of exceptions. It introduced a longer time period for reducing the excessive deficit under the limit, from one to two years, and furthermore added a two-year delay in case of unforeseen negative events. Also, where deficits were first only allowed to exceed the 3% in times of grave recession, the 2005 reform created weaker rules by also allowing delayed policy changes in times of low or stagnated economic growth. It was made possible to deviate from the 3% for structural reforms in public investment, pensions, innovation policy, and many other exceptions that were seen as important enough to allow a “modest, exceptional and temporary” excess deficit. (Mario Nuti, 2006, p. 5) These alterations were incorporated into the existing structure existing of two strands, being the preventive and corrective[21] arms. The preventive arm required countries to yearly publish a compliance report with forecasts for the coming three years. These stability and convergence programs were lengthened in 2005 to include a country-specific MTO which is a country-specific budgetary objective that states need to adhere to. The European Commission was tasked to assess these programs both at the beginning and end of a new year, taking into account the initial debt situation, economic growth and future costs of the aging population.[22] The preventive arm had two main policy instruments, of which the first was an early warning mechanism of the Council to prevent an excessive deficit to be developed. The second gave the Commission the right to directly address policy recommendations to the member states. When a member state failed to apply the rules set out, it would go into a EDP procedure under the corrective arm. This program was, and still is, based on Article 126 TFEU and entered into force when a member state was (in risk of) breaching the deficit rule. In multiple stages of recommendations, assessments, and Council meetings, failing member states were expected to get rid of their excessive deficit. That this did not transpire became painfully clear in 2003 and showed the SGP’s problematic nature.

The claim that a currency union cannot work without a high degree of economic integration can be easily supported (Krugman & Obstfeld, 2008). In this sense, the EU is institutionally failing to establish a solid economic policy framework due to the huge divergences in pension plans, employment policies, social laws etc. Furthermore, it is widely recognized that fiscal discipline is needed to secure an overall stable European economy.[23] Because of the reduced extent of threats to the national economy[24], incentives for fiscal discipline actually lessened with the introduction of the Euro and the SGP (Belke, 2011). This moral hazard came to light for the public at the beginning of the Sovereign Debt Crisis, when a bankrupted Greece showed some fundamental errors in the institutions surrounding the EMU. Academics had however foreseen these flaws with e.g. Willem Buiter already stating in 2005 that the SGP did not provide incentive for the required fiscal restraint. Moreover he also showed that politics had trumped the theoretical power of the SGP by stating that “the SGP has made a contribution, but only where its prescriptions were incentive-compatible for the target country, that is, aligned with that country’s domestic policy objectives”, complementing Alberto Alesina and Francesco Giavazzi findings on the primacy of nation states in the economic governance process of the EU (Buiter, 2005, p. 16).

[21] The corrective arm is also known as the dissuasive arm.
[22] For a more extensive explanation of MTOs, please see (Mulhearm & Vane, 2008, p. 102)
[23] See e.g. De Grauwe (2012) and Connelly (1996).
[24] The introduction led to lowered exchange rate risks due to the majority of trade being inside the EU, a large chance to be bailed-out when in trouble, etc. Sin and Valentinyi (2013) also add that it created unrealistic expectations about economic convergence between core and periphery nations.

3.3. A window of opportunity for change: The Sovereign Debt Crisis

In 2004 en 2007, ten new countries acceded the European Union, although a large share of the European population was not too happy with the enlargement. (Eurobarometer 61, 2004) On top of public opinion, in 2008 a more important matter ensued that brought down popular consent for the EU: the financial crisis. In the next paragraphs, it will be argued that the sovereign debt crisis brought to light the institutional failure of the 2005 SGP framework and that this triggered a round of institutional changes.

3.3.1. The Sovereign Debt Crisis

Due to among other things a housing bubble in the US and the correlating sub-prime loans, the financial crisis resulted in a global distrust on the money markets. This lack of trust caused a substantial increase in financial market turbulence and consequently growing risk aversion. Also the collapse of financial institutions and the bailout of too-big-to-fail banks by national governments were a side-effect of the crisis, with stock markets plummeting around the world, together with the collapse of the US housing market. In Europe, this led to the ECB stepping in to provide liquidity. Big and small banks started to remove risks from their balance sheets and tightened their loaning conditions. Slowly, the crisis started to reach the real economy, even affecting government bonds.

The Sovereign Debt crisis in its turn started in 2010. The Sovereign Debt Crisis was prompted by three developments. The first was the case of bad economic governance in Greece, together with a general lack of discipline of other national governments. Secondly, Italy, Portugal and Greece had been pursuing policies with a negative impact on competitiveness which threatened their economic growth. When, third, the financial crisis and the following deep recession hit the European Union, government revenues uncontrollably fell. Fiscal sustainability in the EU was no longer insured and e.g. Spain and Ireland showed major problems that infected the whole European market (Eijffinger & Hoogduin, 2012). In Greece, high public sector wage and pension commitments were one of the main reasons for the increase of government debt. Due to the negative image many lenders put forward even higher interest rates, and investors ‘fled’ to less riskier areas such as Germany and Switzerland. The way the Eurozone was formed in the Maastricht Treaty and subsequent rules and policies -- it has a shared monetary policy, but fiscal policy is regulated and formed nationally creating differentiated common fiscal systems and pension systems -- makes it harder to deal with the contagion of the crisis into the rest of the European Union, and more specific, the Eurozone. Many reasons have been given to explain the financial and sovereign debt crisis among which are failing credit rating agencies, bad government expenditure policies, bank bonus cultures, the upcoming of too complex financial products and inadequate hedge funds. To battle these triggers, many measures were proposed, decided upon and implemented. Below, we will however only focus on the measures intended to deal with the sovereign debt crisis, although this indirectly sometimes also deals with the financial crisis due to its intrinsic connection.

3.3.2. 2009 - 2012: Crisis management, new measures and the 2012 Status Quo

In May 2010, quick measures were taken by creating the European Financial Stability Facility (EFSF). The EFSF’s mandate was to provide financial assistance to member states through adjustment programs to maintain financially stable. Already the following October, the Council decided that the EFSF would become permanent under the name European Stability Mechanism (ESM). Together, the EFSF and the ESM issue debt instruments for e.g. the financing of loans as a form of financial assistance to euro area countries. This assistance takes the form of purchasing debt in primary and secondary debt markets, providing preventive assistance in the form of credit lines and by financing the recapitalization of financial institutions (ESM, n.d.). The assistance showed a type of solidarity between the member states that was soon seen as rather void after national debates in multiple member states showed the unwillingness of national peoples to support the problem countries. After the creation of the system, stocks surged up due to the belief that the mechanism would contain the Greek problems, nevertheless reaching a four-year low only a month later when this trust was lost (Wearden & Kollewe, 2010).

The ECB immediately felt how the problems of the sovereign debt crisis affected their ability to pursue monetary policy and altered its policies to include non-standard measures aiming to "preserve the transmission along the yield curve of monetary policy stance decided by the Governing Council of the ECB" (Drudi, Durré , & Mongelli, 2012). To achieve this aim, the ECB immediately started to buy government and private debt securities while at the same time trying to keep inflation from rising. To make sure loan deposits would not fall away for Greece, it furthermore changed its policy on credit ratings, now also accepting low rated debt instruments. Additionally, because it saw the danger of the ceasing of interbank loans, it stepped in to provide the needed liquidity next to it also providing additional financial assistance in the form of Outright Money Transactions (OMT). Over the past years, the ECB has taken an active role in battling the sovereign debt crisis, but it has kept a strong line in its belief that real institutional change outside of the ECB's mandate has to occur to solve the current problems.[25]

In 2011, as a first measure contributing to institutional change, the Euro-plus Pact (EPP) was adopted. Also known as the Competiveness Pact and The Pact for the Euro, the EPP is a complementary treaty to the SGP, that was signed by the entire Eurozone *plus* some other non-Eurozone member states.[26] The pact was proposed as a form of assurance for Germany and France to approve the increase in funds of the ESM. In the Pact the member states pledge to go even further with European economic integration than the former institutions required by making commitments to foster competitiveness and employment, to contribute to the sustainability of public finances and to reinforce financial stability, emphasizing their pledge to the Europe 2020 Strategy (European Counil, 2011). Just as the Europe 2020 Strategy, the EPP relies on the Open Method of Coordination (OMC) to make sure the member states abide by the commitments they have made. Although the political monitoring is done by the Council, the Commission was given the power of monitoring the implementation of the pact through the European Semester. (European Union, 2013) This annual cycle of inspecting, recommending and endorsing macro-economic, budgetary and structural policy has become a key aspect of European economic governance. Over the period of a year the Commission starts off the Semester with publishing the Annual Growth Survey, where after national action plans of member states are drawn up and assessed. The Commission then makes recommendations that the Council discusses and officially endorses (European Commission, n.d.). After the European Semester, the national semester can begin where national parliaments get to discuss the proposed plans. Best practice and benchmarking are used to coordinate national economic policies and ensure far-reaching policy decisions that increase the overall fiscal situation. The areas of competitiveness, employment, fiscal sustainability and financial stability are however still "sovereign", meaning that member states themselves choose what actions and "policy mixes" are appropriate for their own country. Although the EPP does not solve the problems of non-compliance, it has created a more concrete proposal on how to reach a better economic situation. From bargaining processes to public sector wages, the EEP gives more clear examples on what is expected of member states, and with that is an improvement of other instruments such as the BEPG and Europe 2020.

[25] For more on its role in the crisis please see Trichet (2010) and Drudi, Durré , & Mongelli, (2012)
[26] Currently Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania are participating, whereas the Czech Republic, Hungary, Sweden and the United Kingdom decided not to (The Economist, 2011). Britain has stated this to be due to sovereignty reasons, Sweden to protect is collective-bargaining system, Hungary in order to protect its taxation policy and the Czech Republic, because it believes fiscal harmonization is not in the interest of the country (EurActiv, 2011).

Following the EPP, in December 2011, the Sixpack was decided upon by the Council. In March 2010, the Council had asked Van Rompuy to research measures to strengthen the SGP. Only a few weeks before the report was due, the Commission provided proposals with the same aim which were accepted by the Council. The Sixpack are five regulations and a directive altering the SGP and, opposed to the EPP, are legally binding as secondary law.[27] It focuses on fiscal stability and macro-economic imbalances to strengthen the SGP. It enforces the SGP in multiple ways by, first, putting stricter rules around the 3% and 60% rules by giving a clear quantitative description of what a significant deviation of a MTO means,[28] making it harder to politically get out of sanctioning. Second, preventive action is strengthened by not only focusing on a member state's structural budget balance, but also on expenditure benchmarking (European Commission, 2012). Furthermore, the Excessive Deficit Procedure which is currently used by 23 out of the 28 member states, is no longer only applicable as a result of a government deficit, but it can now also be a result of government debt. Moreover, the creation of the Excessive Imbalance Procedure (EIP) should lead to convergence in the member states competitiveness and macroeconomic position. Most important of this Sixpack however is that enforcement has become less challenging due to the implementation of reverse qualified majority voting (RQMV). Opposed to the old system used under the 2005 SGP, now a proposal of the Commission is considered adopted, unless a qualified majority of the Council rejects it. In theory at least, this should strengthen compliance.

Following the Sixpack, on May 2013, the Twopack was implemented for the Eurozone countries. Where the Six-Pack reformed the SGP by adding new budgetary policy requirements, the Twopack focuses on coordination and the implementation of surveillance mechanisms (Council of the European Union, 2013). The Twopack consists out of two regulations that, unlike the all-encompassing Sixpack, are only applicable to Eurozone members. It focuses on the surveillance mechanisms of the Commission in two ways. Regulation 473/2013 complements the preventive arm of the SGP by enforcing the Commission its policy recommendations to be discussed early in the national budgetary process and by making detection easier resulting in more time for adaptation of the budgetary policy. Regulation 472/2013 in its turn makes it easier to start enhanced surveillance for countries that find themselves in a situation of (going towards) financial difficulties.

To conclude we can see that some important steps toward EU economic governance reform were taken after the crises uncovered some fundamental flaws. These are the reformed Stability and Growth Pact, the EPP, the European Semester, the new macroeconomic surveillance procedure, and the refurbished EU 2020 strategy.[29] Although these new institutions were created relatively quickly, they can be seen as an only incremental change of the EU economic governance system. This, because the member states that created the TSCG seemingly did not believe these measures to be enough to ensure a stable economic zone. Also from an economist standpoint the changes seem marginal because it is doubtful whether these changes have been enough of a correction to the old mechanisms, to create a stable and functioning regulatory system which is still lacking a fiscal and/or political union.

3.4. Conclusion

The process of European economic and monetary integration started in the 1950s when the ESCS was established as economic cooperation between six European countries. Ever since, the European Union has seen many enlargements, but certainly many 'deepenings' which have all been focused on the

[27] See Table 1

[28] Except for the United Kingdom, that is not bound under the Sixpack's Directive (2011/85)

[29] The EU 2020 Strategy is the EU's long term strategy for a sustainable and strong economy and was decided upon in 2010. It provides instruments in the form of country reports, project bonds, the cohesion funds and the structural funds to address competitiveness problems. It is linked to the European Semester and the EPP.

desire for a well working common market. In these years, policy changes have sometimes halted due to a perceived loss of power, member states' dissatisfaction with the loss of sovereignty that is perceived when integration materializes in new policy areas,[30] or rather quickened against the rules to allow for a politically desired outcome. These political motives were also a reason for withholding the integration in fiscal policy when the EMU was created. Though fiscal rules were created to ensure a functioning Union, the SGP proved not to be enough to oblige states to really pursue good economic, and fiscal, governance. These 'shortcuts' resulted in a situation where a trading bloc with a common currency had no real economic convergence, no real (enforcement of) budgetary discipline and no fiscal authority.

After the sovereign debt crisis, many new incremental measures such as the Euro-plus Pact and Sixpack have been introduced and implemented. The latest institution to be created has been the TSCG which aims to strengthen fiscal discipline and of which an elaborate explanation will be given in Chapter 4. Although other more radical new institutions were proposed such as a full-fledged European fiscal union -- including the possibility to enforce tax policy and budget cuts --, a European bank recovery and resolution authority, the creation of eurobonds, and the transformation of the ESFS to a European Monetary Fund, political primacy dampened the ideas to such an extent that only incremental change occurred.

We can see that since the crisis, integration did not halt. The EPP for example showed the existence of a multi-speed Europe with member states creating opt-outs and choosing when they want to participate. This primacy of nation states in creating, adapting and joining institutions can be seen as a weakness of the EU. The political prevalence over the established institutions created non-working rules and difficult to deal with situations of which the climax was of course the economic crisis. *Spill-over* and historical institutionalist *path dependency* seem to have occurred in trying to create solutions for these situations by creating more rules regarding socio-economic policies. Again however, it can be argued that these institutional flaws are hard to change due to political primacy and that the new measures have failed to tackle this problem. From Maastricht to the 2005 SGP and from the EPP to the Sixpack, real radical and effective change has yet to materialize.

[30] Although in this thesis only some short examples are mentioned such as the absence of a fiscal union, the UK and Danish EMU opt-outs and the rejection of a strong financial sector regulator by the UK and Germany, quite some literature underlines this. For more on the perception of sovereignty in the EU, see e.g. Schmidt (2004), Hansen (2002, p. 52), Risse, Engelmann-Martin, Knopf, & Roscher (1999) and Quaglia (2007)

4. An interdisciplinary approach to the TSCG

This chapter provides an explanation of what the TSCG is and will analyze its economic, legal and institutional significance. The explaining of economic and legal issues surrounding the TSCG will create more understanding about the institution and will therefore help decide whether or not the TSCG is in line with liberal intergovernmentalist expectations on institutional choice. In this chapter when the TSCG is mentioned, it refers to the final draft that was signed on March 2nd, 2012.

4.1. The Treaty

The TSCG is an intergovernmental treaty signed by 25 of the now 28 member states of the European Union. The TSCG is binding for Eurozone countries, and for all members that choose to oblige to the provisions set out in the Treaty. After the 12th ratification by Finland in December 2012, it has entered into force. The treaty is based on a proposal made by Germany in May 2010 asking for a so-called balanced-budget amendment in the Eurozone's national constitutions. A measure Germany had adopted for itself in 2009 in the form of a *Schuldenbremse* (Bundesregierung, 2009) . The original German idea was however drastically altered throughout multiple draft negotiation rounds which you will see in Chapter 5. Below you will find a quick overview of the main provisions in Table 2, whereas a more extensive overview of the differences between the Sixpack and the TSCG can be found in Table 3 in the Annexes.[31]

The sixteen articles of the TSCG are divided over six chapters following the preamble. Title I of the Treaty provides for the political commitment of the member states to strengthen EMU and Title II the relation to other EU institutions such as the TEU and TFEU. Title III, IV and V focus on fiscal measures and rules to be adopted by the member states. More specifically, Title III is the Fiscal Compact, Title IV discusses economic policy coordination and Title V confers governance in the Eurozone. Title VI is the closing chapter and discusses general provisions such as when the Treaty will enter into force.

Title	Measure
III	Varying Balanced Budget Rule: Correction mechanism must be implemented in national law.
	EDP Procedure is strengthened.
	A numerical benchmark for debt reduction (the 60% of GDP debt rule)
	Ex ante reporting
IV	More policy measures enhancing convergence
	Ex ante national policy reform discussion (to create a best practice forum)
V	Biannual Eurosummit
	Conference with EP and national parliaments on TSCG matters

Table 2 **TSCG Main Rules 1** **Source: ECB (2012) and TSCG (2012)**

Repeating much of already existing EU secondary legislation, Titles III and IV of the TSCG echo measures outlined by the Sixpack. They do however show a further going ambition for fiscal

[31] Also see Table 4 in the Annexes for an overview of the development of the legislation so far.

sustainability in the following ways. Article 3 TSCG restates the convergence rules to the MTO of the Sixpack. It however also obliges member states to adhere to the Golden Rule. Formally known as the balanced budget rule, this new imperative asks of the countries to adopt rules and legislation at the national level that aim to limit the national structural deficit to 0.5% of GDP.[32] This goes further than the Sixpack which put the limit on 1% or less of GDP. The next variance is that the TSCG also created more clear exemptions to these rules. Article 3 states that deviation from the MTO is allowed in exceptional circumstances such as periods of extreme economic downturn and unforeseen disasters. However, these deviations "should not endanger the fiscal sustainability in the medium-term" (TSCG, 2012, art 3). Another exemption is made for countries with a low debt level and with low risks for financial instability. These countries are allowed to have a structural deficit up to 1% of GDP in order to allow for large structural reforms. The second large addendum to the Sixpack lies with the implementation of the rules. As mentioned above, the TSCG enforces their rules by demanding of the signatories to incorporate the legislation on a national level, preferably at a constitutional level. These rules must have national correction mechanisms to ensure compliance to the MTO and national fiscal sustainability. Hence, the signatories will be both bound by European and national legislation. The third and last great change to the Sixpack has to do with the enforcement of the TSCG. The European Court of Justice (ECJ) has been given the power to give a binding ruling when asked by an fellow signatory to speak judgment. This can occur after a report by the Commission and after own assessment by a fellow signatory. When a fellow signatory refers a case to the Court, the ECJ will decide whether it believes a member state to have insufficiently executed the rules and legislation outlined in the Treaty. The maximum fine for non-compliance is capped at 0.1% of GDP, which can overall be seen as only a weak deterrent. It does however mean that the power to sanction has partially been transferred from the Council to the ECJ. It is important to note that the fine and role of the ECJ are limited to judging if the golden rule is or is not implemented in national law, not whether or not the rule itself is violated.

The other rules in the Fiscal Compact Chapter aim to reinforce the altered SGP such as the discussed debt rule and the use of RQMV in the EDP procedure (TSCG, 2012, art 7). It strengthens the EDP by adding ex ante coordination of debt issuance plans for member states. These reports are a detailed description of the structural reforms needed to correct the national excessive deficits. Moreover, the EDP is strengthened with regard to the use of RQMV. When a signatory breaches the deficit criterion, RQMV is now used at all stages of the EDP, instead only the stage that the Sixpack prescribes.

Title IV describes a duty to act towards the implementation and coordination of economic policies. All the planned reforms in competitiveness, employment, public fiscal sustainability and financial stability policies must therefore be discussed ex ante and if necessary coordinated among the members. Also this measure is not new and simply a repetition of the EPP. Next to the EPP, the measures under Title IV also use EU legislation by stating "to make active use whenever appropriate and necessary" of article 136 TFEU and article 20 TEU, again emphasizing the need for more co-operation.

Title V discusses the creation of new meetings called 'Eurosummits' (TSCG, 2012, art 12). These biannual meetings are for the Heads of States of the members of the Eurozone, together with the President of -- the EU institution -- the European Commission.[33] Other EU institutions can also participate, because the President of the ECB, the President of the EuroGroup and the President of the European Parliament may all ask to be heard or be called upon. Additionally, when the Eurosummit discusses competitiveness policies or the application of the TSCG, the non-Eurozone signatories of the

[32] Not bound by these fiscal rules are the UK, the Czech Republic, Croatia, Latvia, Lithuania, Bulgaria, Poland, Sweden and Hungary.
[33] Not to be confused with the EuroGroup which are meetings of the finance ministers of the Eurozone.

treaty partake in the discussions which is at least once a year. Reports on the Eurosummits will be distributed by the Chair of the Eurosummit to all EU member states, the Commission and the EP. Up to 30 November 2014, Herman van Rompuy will take the position as (non-voting) chair of the summit, where after a new president will be elected for a five year term.

The last Chapter Title VI discusses general closing provisions on the application of the Treaty. Although Article 15 ensures that all EU member states can join when they wish to, article 16 discusses that the member states participating in the TSCG want it to be incorporated into EU law within five years. This indicates a clear hope of the member states for turning this intergovernmental treaty into European Union legislation.

Therefore, we can deduce from the above that there are three main new rules that surpass the SGP as reformed by the Sixpack and Twopack. First, when the MTO is deviated from, the correction mechanism is automatically triggered. Second, these MTO programs and the balanced budget rule have to be incorporated in national law preferably at a constitutional level, and third, the creation of a financial sanctioning system that incorporates the ECJ when the legislation mentioned above is not adhered to. Interesting enough the adherence to the TSCG will probably not come down to the weak deterrence that the 1% of GDP sanction creates. The real enforcement can be found in the preamble of the Treaty that discusses the ESM instrument, where it stresses: "*the importance of the Treaty establishing the European Stability Mechanism as an element of a global strategy to strengthen the Economic and Monetary Union and POINTING OUT that the granting of assistance in the framework of new programmes under the European Stability Mechanism will be conditional, as of 1 March 2013, on the ratification of this Treaty […] on compliance with the requirements of this Article*." Although only little of the literature surrounding the TSCG discusses this paragraph, it seems to be a key instrument for deterrence.[34]

4.2. The economic significance of the TSCG

Because of the set-up, the Eurozone is prone to asymmetrical shocks. An asymmetrical shock is when an economic supply or demand shock is different from one region to another. Economic literature states that in order to have an optimal currency area, the area should only experience symmetrical shocks, so the central bank – in this case the ECB – can pursue beneficial monetary policy (Mundell, 1961). With the creation of the Euro, three distinct shock absorbers (Mundell, 1961) were not incorporated in the EMU. The first is as mentioned above monetary: exchange and interest rate policy has been transferred to the ECB, even though the EMU deals with asymmetric shocks. Second, the real economy: although the single market has improved mobility of goods, services and labor, production goods seem to be less mobile than expected in moving through the capital and labor markets of the EU. Workers and capital have not dispersed as expected, sustaining large discrepancies between member states. Third, fiscal policy: no redistribution system was put up to stabilize the divergences in competiveness, creating the abovementioned asymmetrical shocks. Thus, a form of solidarity is needed to create economic stability. Another fragment of the problem can be found in this lack of monetary policy. When pursuing economic policy – especially in times of negative shocks as the current crisis –, a country can now only alter issues such as employment and inflation through fiscal policy like increased government spending. This is likely to lead to budget deficits on a national level. As discussed in Chapter 3.2, the importance of keeping budget positions in check lies with the moral hazards a common currency can bring. At the moment in practically all EMU countries the budget deficit is threatened by some long term issues such as pension systems, the rising costs of

[34] All new bailouts will be dealt with by the ESM. This is an international organization that acts as a firewall for the Eurozone providing access to financial aid programs. Voting rights are distributed on the basis of the shares in the ESM funds, giving Germany a lot of power.

healthcare, and high structural unemployment.[35] Hence, it is clear that structural reforms are needed and that political pressure is necessary to reform in a way most beneficial to the monetary union. Peter Boone and Simon Johnson (2012) have summarized these desired reforms in five measures: first, excessive sovereign debt needs to be dealt with more stringently. Second, more strict competitiveness plans have to be created to ensure the reduction of budget deficits. Third, the ECB has to perform corresponding monetary policy. Four, European fiscal sustainability mechanisms have to be improved and five, institutional change should deal with instability in the financial sector.

So does the TSCG provide for these reforms? The fifth point has been dealt with - although one can wonder if effectively - when the financial authorities EBA, ESMA and EIOPA were reformed,[36] but was not discussed in the TSCG as it falls outside the scope of the treaty. The others will be discussed below. It is first important for this analysis to mention that these notions can be perceived differently depending on the economic school one adheres to. This thesis follows a macroeconomist approach to monetary unions as discussed by the Keynesian school of thought. On corresponding monetary policy, we can see that the TSCG mentions the ECB only once in the entire text. In article 12 it expresses that the President of the ECB shall be invited to the Eurosummits. Although this implies that the ECB has a role in the discussions surrounding Eurozone governance, it does not have any voting rights. Its role shall therefore most likely be only informative. The TSCG has furthermore also no solutions for the high private debt that caused problems in Ireland and Spain. These two countries did not have high government debt, but rather high private debt directly caused by the ECB's low interest rates. Due to the fact that the ECB had to create monetary policy for the slow-growth German market and the quick growth markets of the periphery, it was sure to end up with a rate destroying either the one side or the other. The TSCG has not provided a solution for this problem, nor has it created a type of firewall to protect countries' real economies from contagion.

On economic stability and the real economy, article 9 TSCG states: "*the Contracting Parties shall take the necessary actions and measures in all the areas which are essential to the proper functioning of the euro area in pursuit of the objectives of fostering competitiveness, promoting employment, contributing further to the sustainability of public finances and reinforcing financial stability*." This however is not new and can also be found in Title VIII of the TFEU, the EPP and in secondary legislation such as the Sixpack. On fiscal policy, the TSCG sets up more stringent rules than the Sixpack and other previous European legislation when looking at the MTO and the sanctioning mechanism surrounding it. However, these new rules are built on the current system and the added value from an economic viewpoint therefore seems to be only marginal, creating no real new approach to EMU governance. This conclusion is quite remarkable when linked to the multiple discussions about a more full-fledged fiscal union between Merkel and Sarkozy months prior to the TSCG negotiations (Kollewe, 2011), and linked to the name that was given to Title III of the TSCG: the Fiscal Compact. The term Fiscal Compact was termed at the end of November 2011 by ECB president Mario Draghi to describe reforms towards a genuine fiscal union (Smith, 2011). A closer fiscal union as was discussed by the above actors previous to the negotiations would imply intentions towards a common treasury, an integrated banking sector with adjoined regulation and most importantly: fiscal transfers. Key elements of fiscal reform that did not come about in the TSCG.

From a Keynesian standpoint, the TSCG can be described as having too much focus on austerity, a claim widely supported by European socialist political parties. The TSCG however does provide for competitiveness reforms and investments. Article 3 of the treaty declares that states "may temporarily

[35] A situation where the demand for labor is lower than the supply of labor. Usually caused by fundamental shifts in the economy and usually creates pressure on the welfare system due to increased costs (subsidies) and lower income (taxes).
[36] On the reforms in the financial sector see e.g. Quaglia (2007) and Gowers (2012)

deviate from the medium-term objective or the adjustment path towards it only in exceptional circumstances." Due to the fact that this describes the structural deficits, and not cyclical deficits, this article can be seen as a possibility for states to put forward fiscal stimuli. Furthermore, a severe economic setback is deemed a legitimate exception to adhere to the set out rules and deviate from the MTO. In that sense, the TSCG cannot be considered a rigid instrument, but rather one that ensures a more tailor-made solution for national economic and fiscal difficulties.

Concerning the need for political unity, the Eurosummits of Title V (TSCG, 2012, art 12) could be seen as a step towards a common economic government for the Eurozone. However, article 12 is set up with a rather broad description of what the task of these Eurosummits is, declaring*:"[…] to discuss questions relating to the specific responsibilities [...] with regard to the single currency, […] governance of the Euroarea, [...] and strategic orientations*." This description does not infer any decision-making power that is not present in the established EU institutions such as the Council and ECOFIN, and can therefore be seen as having little added value compared to already existent institutions and legislation.

On the level of national regulatory agencies, the TSCG can be seen as potentially having a large impact. A previous problem was the creative accounting used by e.g. Greece to adhere to the Maastricht Criteria. Another problem for economic stability can be the governments adoption of temporary solutions to reach the MTO. These solutions might lead to the short term demand of the quicker reaching of the MTO, but will not provide a stable economic climate in the long run. Examples of these creative accounting activities are temporary tax cuts or the privatization of national businesses that limit the country its budget deficit in the short term with a one-time money injection or cost reduction, but can increase costs in the long-term (Frankel, 2012). Also a type of self-fulfilling prophecy is used to remain on course to the MTO. Research shows that forecasts seem to fluctuate with the economic situation a country is in. When exceeding the 3% limit, a government will most likely publish positive forecasts, hoping to create a self-fulfilling prophecy (Frankel, 2013). Hence, not so much changing their policies, but rather their forecasts. Opposed to the supranational SGP, the TSCG requires states to implement the rules on a national level. National parliaments and national autonomous watchdogs are more able to see discrepancies in national reporting and when governments are in breach of the SGP and will be more capable to scrutinize national governments using parliamentary measures, the media and (the threat of) reelections (Frankel, 2013).

As a closing remark, it can be said that the TSCG is a political statement, and as such has political merit on how signatories will govern their economic and fiscal policies. These statements have all been made previously however in the multiple institutions established before the TSCG. Thus, agreeing with Daniel Gros (2012), when it comes to economic significance this is not enough. The provisions on economic policy coordination between signatories are not binding, nor are the Eurosummits more than an informal gathering of Heads of State to discuss matters also discussed in the Council and ECOFIN. In addition, supranational bodies such as the Commission and the ECJ were not given any new stronger powers to interfere at a national level, since they are only tasked with reporting and giving judgments when asked by the member states. However, the implementation of the rules in national legislation might lead to better monitoring and enforcement of the rules.

4.3. The TSCG: A legal monster

On December 16th, the Eurozone member states received a green light of the Council's legal department, meaning negotiations could begin. The TSCG is not a part of European law, but does use European Union institutions in its implementation. It furthermore has expressed in article 16 that the treaty should be incorporated in the EU structure preferably within five years. However, the use of these institutions within current EU law can be debated. Moreover, also the compatibility with the already existing legislation is unclear. Below, the issues will be elaborated upon to show that even though some serious doubt surround the TSCG, the signatories went ahead with it anyway.

First, the legality of the use of EU institutions can be seen as a breach of European law. As Andreas Fischer-Lescano maintains in a legal opinion requested by EP group GUE/NGL, member states are allowed to make international agreements and the TSCG signatories were therefore permitted by EU law to sign the treaty. They were not however in their right to command EU institutions to perform tasks such as monitoring and reporting on programs, balanced budget rule implementation and tasks connected to the convergence criteria *without* the consent of the full body of the Council (Fischer-Lescano, 2012). The lack of (asking for) consent of the UK and the Czech Republic has led to the illegality of the use of the TSCG, as can be seen in jurisprudence on the 1991 European Agreement on Social Policy (Ibid), where also the United Kingdom did not participate.[37]

Second, the assumption that the form of an international treaty was in line with EU law can also be disputed. The Lisbon Treaty provides for all member states to make international agreements, as long as these are not at odds with European legislation: the so-called duty of loyal cooperation (TEU, p. art 4(3)), (Commission of the European Communities v Hellenic Republic, 1984).[38] To ensure that the ”opting out” of some member states does not interfere with the wishes of others for further integration, the Lisbon Treaty also provides the possibility of enhanced co-operation. A good example of a treaty outside the EU framework is Schengen that does not include all member states, but was decided upon in the European Council with unanimity. By not attempting to use the methods provided for by the Lisbon Treaty, but rather shifting to an international treaty outside of the EU framework, the signatories defied the principle of subsidiarity. Because economic policy is not an exclusive competence of the EU, but rather a mutual competence, the principles of subsidiarity and proportionality are at play. The principle of subsidiarity provides for measures to be taken at the lowest level possible. Costa ENEL (1964) showed European law to be below international law, and therefore the member states first should have at least tried to implement these rules on a European level, were it through secondary legislation. Questions can than arise whether or not it was the task of member states or the Union to interfere in the creation of the TSCG. Considering that enhanced cooperation is an instrument of the Council, it can be argued that the institution had the task to comply with the subsidiarity principle.

Last, the TSCG’s relation to EU laws such as the TFEU and the Sixpack is problematic. The reversal of majority requirements, the binding balanced budget rule and the sanctioning options in the TSCG directly affect the EU policies and alter the processes that are supposedly improved. For example, article 126 TFEU that gives the prerogative of imposing penalties by qualified majority to the Council is at odds with article 7 TSCG that gives that same Council the right to do so with reversed qualified majority. Thus keeping in mind that the UK and the Czech Republic have not agreed to this change, it can be argued that because the TSCG has a different set-up, it alters the decision-making process of EU law such as the SGP and Sixpack. Thus, the new institution actually goes directly against EU law when altering the contents.

Since article 2(2) TSCG states that the “Treaty shall apply insofar as it is compatible with the Treaties on which the European Union is founded and with European Union law,” it will be interesting to see

[37] For a more detailed explanation please see Fiscer-Lescano (2012)

[38] In order to avoid infringing in Commission competences, the TSCG does not speak of monetary policy, but only of economic policy which in turn is a shared/mutual competence.

the case of the TSCG being brought forward to the ECJ. Due to the fact that it is an international treaty using the European institutions without Council consent and its contents can be disputed, it is clear that the treaty set-up is built on sand. Up to this day however, no actor has brought the case to Court although the European Parliament had threatened with it during the negotiation process. Thus, although the TSCG's relation to EU law is uncertain, there is a clear feeling that where there is a will, there is a way for the EU's member states.

5. The TSCG: Domestic interests, bargaining and high stakes

This thesis is based on the premise that states are unitary in external politics. This means that all state representatives act with a single voice in the Council meetings regardless of the opinions they voiced on a domestic level. The state's unilateral approach is created at a national level through dialogue between different interest groups that confer their preferences. The first question that is reflected upon in this chapter deals with the fundamental determinant of national preferences. By analyzing elite opinions, chief executives in the media and ruling party discourse, per country the national position will be described. In this thesis, leaders their preferences are seen as dominating for the input at the international level. Of course, this takes into account the diverse interests at the national level, but the decision-making power lies with the national leadership and its individual preferences. Furthermore important to keep in mind when reading this chapter is that, according to the rationality theory, national preferences can be idea based. Thus, discussions in the Council on the economy are not so much a factual affair, but rather a matter of opinions on economic theories. After evaluating what Moravscik (1998) calls Level I, an account of the negotiation process, Level II, is given.

The chapter will be structured in chronological order conferring the discussions that occurred before the Summit, the Summits and draft discussions themselves and the implementation phase. Due to the narrative character of this chapter the two 'levels' might come up out of order, though only when necessary for the flow of the storyline.

5.1. Throwing out a feeler

In the second half of 2011, then French President Sarkozy and *Bundeskanzlerin* Merkel had multiple meetings in which they discussed the possibility of a fiscal union as a way of solving the crisis (Kollewe, 2011). In August 2011, the German-French alliance sent a letter to Van Rompuy insisting on stricter rules then the Commission's Sixpack had provided for. This reiterated the Council task he was given months prior which was cut off by the Commission proposal of the Sixpack. Van Rompuy immediately started to prepare a report for the December Council, while Merkel directly started to look for support among the member states.[39] On December 5th, France and Germany again publicly announced their plans for Treaty change, yet already acknowledging the option that a Eurozone-only treaty was also a possibility. The proposal of that time would open doors for the Commission and EU financial regulators to object to budget policies of member states and would ease the sanctioning processes by involving the ECJ (Rooney, 2011). At the same time, the Commission put forward a Green Paper on Eurobonds, which was directly shot down by Merkel.

The position of Chancellor Angela Merkel was constructed out of several national interests. An important factor seemed to have been the German public. Just as in many other countries, in 2011 Euroscepticism had nestled itself deeply in the German population. Statistics show that two months prior to the December Summit, almost half of all Germans believed closer economic and fiscal cooperation in the EU to be necessary, but also that they were not willing to keep bailing out fellow member states in the EU (Köcher, 2011). This result of reduced solidarity can also be found in a Harris Poll, albeit from 2013 , that shows 41% of Germans to believe that there should be no more wealth transfers to weaker Eurostates, with 32% being unsure if it would be the right thing to do. Setting solidarity aside, 70% of the respondents claimed to be afraid that the Eurocrisis was threatening the Euro (Infocenter R+V, 2013), with 46% being in favor of a so-called *Grexit* (Köcher, 2011). The importance of these economic issues is visible in a poll documenting overall life issues of Germans, in which they viewed the economic crisis as an issue they saw as most worrisome with 88% of the

[39] According to Ludlow (2012), this happened both at bilateral conferences attended by Merkel herself, as in Brussels, where German chief diplomats were constantly messaging the necessity of treaty change.

respondents stating they were concerned about inflation. Interesting from a realist perspective is that this poll also shows Germans as not worrying about security in the traditional sense with only 15- to 20% worrying about terrorist attacks or any type of war involving Germany, either domestic or abroad. When asked to say what comes to mind when they think of the EU, the fourth and fifth most given answers were *peace* and *freedom* (Peterson, 2013), with economic or security issues not even making the list. Additionally Peterson found that 63% believed Europeans to belong together in a union, regardless of all the current difficulties.

In 2011, domestic opinion was very important to Merkel. With seven Bundestag elections being the order of the day together with the upcoming 2013 national elections, the perception of both her herself as a Chancellor and that of her Volksparteien were essential. In October 2011, Renate Köcher published a clear insight in German public opinion in the Frankfurter Allgemeinen Zeitung. It showed the CDU to be perceived as the “Europe party” and 61% of the correspondents even viewed the CDU/CSU coalition to be the main national supporter of indebted member states (Köcher, 2011). Furthermore, it showed that 78% of the population believed new bailouts were going to occur and that they were unhappy with how they were represented. A staggering 58% believed German interests not to be represented to its full potential. It was therefore in Merkel’s interest to appear strong in the TSCG negotiations, just as it was in Germany’s interest that she would strike a strong bargain. Furthermore, to appear a winner, she would need to convince the Bundestag and the German people that the German prosperity is due to the Euro, and not purely German diligence (Financial Times Editorial, 2012). Which for a country coming out of years of tough restructuring is not easy to accept (Ibid).

Policy wise, the domestic opinions can be easily traced back to the collective German stance on the TSCG. A stronger economic union, and more mechanisms to prevent bailouts were key objectives of the German proposal (Rooney, 2011). Also party politics has played a role of course. The CDU/CSU were aware that in order to pass a constitutional amendment, they would need a two-thirds majority. Themselves known for their austerity measures, the key opposition parties The Greens and SPD were more focused on measures such as a financial transaction tax and a more social dimension to the treaty involving growth components. This too, is to be found in the German negotiation position, although the government had not been against the tax. Luckily for Merkel, also the SDP and the Greens, shared the idea that there is a need for stricter fiscal rules (Dullien & Guerot, 2012), although pressure was put on increasing private sector involvement and a growth model. Especially according to the left, the banks had to pay for what they had done and closer economic integration including stricter measures would lead to a way out of the crisis. Being in favor of stricter measures, competitiveness enhancing measures, Eurobonds, an FTT, etc, they were rewarded for their stance in the regional elections up to November (The Economist, 2011). When it comes to transferring fiscal policy however, the parties had the same stance in that they did not want the ECB to play a bigger role. This stance was repeated end October 2011, when the Bundestag passed a non-binding resolution against the ECB's financing the euro-zone rescue fund, and on its buying bonds (Ibid). Coalition partner the FDP is a classical liberal party that believes it is the weaker countries own undertaking to reform their economy and were also is in favor of stricter sanctions and stricter control (Dullien & Guerot, 2012). Other opposition parties such as Die Linke were not willing to contribute, because they objected against the transfer of budgetary policy away from the national level as a whole (Troost, 2012). Hence, party politics played a role, although perhaps not a very large one. This also has to do with German elites acting as a whole on an international level: simultaneously projecting the “German” way as the only solution to the crisis (Guerot & Leonard, 2011). After years of being the “sick man of Europe” and responsive painful restructuring measures, Germans believed it was now time for other countries to do the same.[40]/[41]

This German way only focuses on austerity whether one of the other main reasons for the crisis, the banking crisis, was not mentioned in discourse at both the domestic and international level (Guerot & Leonard, 2011). German *Landesbanken* had, and still have, huge liquidity problems and national politicians had realized that the Euro needed to be saved in order to save their own highly indebted banks (Ibid). Also Merkel knew that were the Euro to collapse, German banks would fall due to their loans to the periphery. Moreover, a new German currency would uncontrollably influence the domestic economy in such a way that it would negatively influence the export economy (Bergsten, 2012). Thus, the abolishment of the Euro would be disastrous for both the EU ánd Germany, making it a key preference for Germany to keep the Euro alive. The economic export economy also shows the importance of an inclusive treaty to the East. Germany's trade with the Visegrad was already equal to that of biggest trading partner France. Import from these countries was approximately just as high as that from China. Inclusiveness aside, Germany was not against a multi-speed Europe *per se*. It was a German proposal to incorporate clauses on enhanced cooperation in the Lisbon Treaty several years ago (Poplawski, 2012), legislation now used for increased integration among Eurozone members.

In sum, the German vision on both the European Union and the crisis had led to a negotiating position including automatic sanctioning mechanisms, private sector involvement, a large role for the ECJ in assessing if countries are following the fiscal rules, no Eurobonds, no active role of the ECB and, also important, EU treaty change. Furthermore, Germany having favored the intergovernmental method ever since Merkel's 2010 speech in Bruges (Guerot & Leonard, 2011), preferred the limitation of the influence of institutions on the negotiating process. A stance in line with the French position that has always favored a strong intergovernmental Union. Over the past years however, France and Germany had disagreed on quite some matters revolving around the crisis. Bailouts, the role of the ECB, automatic sanctioning and the German economic export model, were only some of the issues France and Germany quarreled about. That is not to say they did not agree on the necessity of austerity measures to come out of the crisis. In November 2011, France announced new austerity measures as a reaction to Moody's threats on lowering France's AAA status. Right around the December Summit, Standard's & Poor reiterated this warning (Crawford & Czuczka, 2013), putting more and more pressure on Sarkozy to present subsequent measures.

Economic stagnation, together with the French socio-economic situation, had furthermore led to the French being aligned with countries such as Spain and Italy: the periphery (Horn, 2011). A position it preferred to get rid of as soon as possible (Ibid). On the domestic front, the austerity measures to overcome the slow growth and nearing bankruptcy were not popular. The raising of the retirement age, spending cuts and tax raises, were received negatively in almost all the media (Pilgrim, 2011).Furthermore, up to 86% of the public judged the economic situation in France to be "bad", with 76% believing the worst was still to come (Eurobarometer, 2011). When asked what the most important issues would be the coming year for the country, the top 4 consisted of the economic situation, unemployment, inflation, and government debt.

Interesting is that the French perceived the European Union to be just as equipped to solve the Eurocrisis as their national government. Accordingly, though focused on an intergovernmental form,

[40] This is based on the economic theory of ordoliberalism.

[41] In the Fall of 2011, Germany had proposed multiple far stretching plans such as mandatory supervision by a new Commissioner of countries that broke the SGP rules. This commissioner would be able to interfere in domestic fiscal policies. There was a strong backlash in other (peripheral) member states and Germany realized it should back down from taking a too drastic position.

France has preferred a type of economic government for years. This type of government should however only exist in the Eurozone countries as speeches by Sarkozy had presented. The 2011 economic situation according to Sarkozy was due to unfair disparities between countries to which the only answer would be solidarity. Solidarity in the form of common financial regulation, common rules on tax policies, common social policies, and Eurobonds (Charlemagne, 2011). This was in line with French diplomatic riots, such as the accusation of France that Ireland and the Eastern countries had “social and fiscal dumping” policies and were pursuing “disloyal competition" (Charlemagne, 2011). According to Sarkozy, these measures could only be solved by a common European economic, monetary and fiscal policy, albeit decided upon by unanimity. Thus, the French position focused strongly on the intergovernmental features of measures and the independent nature of the European institutions. This stance on sovereignty lead to a position on no automatic sanctioning, an independent role for the ECJ and a limited role for the European Parliament that France even wanted to reform back into a body made up by national parliamentary members (Montani, 2011). This can be traced back to three fundamental issues the French object to in general. First, they believe the Commission and the ECB to be too political. Second, the enlargements pushed through by a British-led “single market” coalition weakened French power and has led to a Union with a wrong emphasis on the single market instead of social policy. The third issue is that the German bargaining position has grown too strong. For France, the TSCG offered an opportunity to challenge these issues by sidelining the Commission in favor of other more intergovernmental bodies, and by shifting the decision-making power to a smaller Eurozone coalition. For France, it was a way to once again promote the benefits of a smaller, centralized and more protectionist union.

Concluding, France its interests going into the TSCG negotiations were quite complicated. The country was in a turbulent state, with large spending cuts, a 7,1% annual deficit and with the French presidential campaigns starting during the TSCG negotiations. On the 16th of October 2011, Francois Hollande became the Socialist presidential candidate running against the sitting President Sarkozy. Behind in the polls of his ‘socialist’ country, Sarkozy campaigned for a strong economy going towards a German model. Moreover, Sarkozy’s re-election would stand or fall with the success of the new economic ideology. It is in this light, he wanted the TSCG discussions to come to a result quickly, calling for: “the spirit of compromise and speedy decision making. (Channel4, 2011)” The preliminary German-French negotiations however, were extensively discussed in multiple meetings before resulting in the December 5th proposal.

The December 5th proposal consisted out of five main rules (Hewitt, 2011). First, automatic sanctions for countries running a 3%+ deficit were to be established in the EDP procedure, although a qualified majority would be able to block these. Second, a golden rule must be established and transposed in national law. Third, they mentioned the ESM. The rescue mechanism has to be put in place much earlier and therefore discussed and decided upon in 2012. Also, private investors will no longer be asked to carry the burden of ESM bailouts, so-called PSI. Fourth, a monthly Summit will be organized as long as the crisis continues. This is in line with French policy that has always proposed such endeavors and a lot more than the originally expected two Summits a year (Charlemagne, 2011). Last, although treaty change is preferred, the measures can also exist only within the Eurozone. Accommodating Germany, Sarkozy furthermore expressed that Eurobonds were off the table for the coming period.

Without involving other member states, Merkel and Sarkozy had coordinated their joint stance on both treaty change and the ESM. With the backing of the German-French axis, the weight perceived behind the proposal was impossible to ignore for the other member states (Crawford & Czuczka, 2013).

However, the proposal that was made public on December 5th, was not exactly a reflection of the policies of all member states. Especially, the UK had a skeptical reaction.

5.2. The Summit on December 8th and 9th.

On December 9th 2011, the Eurosummit was organized outlining two important economic issues. First, the solvency of both Italy and Spain was discussed together with new bail-out structures that now entail multiple mechanisms such as the ESM Treaty, ECB programs and an IMF support program (Bergsten & Kirkegaard, 2012). Second, the Fiscal Compact was put on the agenda by Germany which aimed to produce a set of binding rules constraining national budget policies (Ibid). The German input of this Fiscal Compact was to change the Lisbon Treaty, allowing for Europewide budgetary policy. However, Van Rompuy's draft was not solely the reflection of German wishes. The report was set up in close cooperation with both the Commission and EuroGroup President Juncker (Ludlow, 2012). It stressed the possibility of achieving much through secondary legislation and stressed the dangers of reinventing the wheel away from existing EU structures. When push came to shove, the report was discussed but generally left aside and the French-German proposal was discussed instead in the Council meeting (Ibid). A clear example of how the principal controlled the agent.

After nearly ten hours of talks that took place on the night of the 8th of December, the UK decided to step out of the negotiations vetoing the proposed treaty change. The main argument used was the fact that it was not in the interest of the UK to transfer more national sovereignty to the EU. The German-French proposal that was sent to Summit chair Van Rompuy included automatic sanctions for debt and deficit rule violations, coordinated employment rules, financial transaction tax, and an EU-wide corporate tax rate (Channel4, 2011). A common EU tax for the UK was non-negotiable, just as European-led financial services regulation. Within the country, opinions on the EU had been considerably negative. More specifically, a poll taken before the Summit by OpenEurope (2011) shows clear indication that managers from several different UK financial services firms would support a UK veto on the treaty were it to conclude any type of financial services regulation, even if it would reduce continental business opportunities. Also, the poll shows that were a financial transaction tax to be introduced, only 35% would not consider moving their activities outside of the UK and the EU, whereas already 12% was sure that they would (Ibid).[42] Also domestic party pressure was high. In the UK political sphere, the EU is often used as a scapegoat and this has polarized the debate surrounding EU Summits.

Only a couple of weeks before the Summit, Cameron had had to deal with his own party rebelling when 43% of Tory backbenchers defied a party proposal on an EU referendum (Chappell, 2011). As a result, Cameron once again proclaimed that he would not allow any further transfers of sovereignty to the EU. With his party divided on the matter, Cameron knew it would be difficult to get any changes through parliament, risking both his coalition, his position within the party and his public image. In October 2011, 41% of the public believed the UK's position in the EU to be too weak (Harris, 2013). Additionally, 44% believed David Cameron to be doing a bad job in handling the economic crisis. Although the domestic media portrayed it otherwise, the health of the British economy is dependent on the European Union. Moreover, although large financial companies preferred Cameron to veto the proposal, SMEs were highly dependent on the single market. A quicker solving of the crisis was therefore also in the UKs interest.

[42] Not mentioned throughout the thesis is that on the domestic level, interest groups' preferences are not only directly voiced. Indirectly, these groups can also exercise influence. For example, the business lobby sometimes actively voices their position such as in the UK. However, also through the habit of relocating business, shifting investments to other countries, etc. businesses assert power. Politicians will often do whatever it takes to prevent imposing costs on this interest group, trying to stay in power.

Hence with the LibDems at his side, Cameron pursued a middle strategy. The UK position was therefore a middle way, asking for some safeguards to please both his party and the public as a return for signing the Treaty.[43] Cameron asked for measures to be added on the single market to keep it "fair and open" (Chappell, 2011). This would include a waiver for third country businesses to adhere to some strict regulatory rules. In line with this request, he explicitly wanted an endorsement mentioned on the role of the supervisory authorities, claiming there could not be more "significant transfers of power" (Hewitt, 2011). Furthermore. he demanded for the Working Time Directive to be renegotiated, which for the Germans was unacceptable (Beach, 2013). As can be deduced from above, the UK's next best outcome was to say no to treaty change. Supported by many national politicians such as David Davis and London Mayor Boris Johnson, and also by coalition partner Nick Clegg, Cameron decided to pull out of the negotiations for treaty change.

Interestingly, the UK had wanted stricter regulation on banks, however at a national level, directly opposing the so-called Tobin Tax (Croft, 2011). The financial transaction tax is something Germany and France found important in this stage of the discussion, and they had already said they would go at it alone with the Eurozone when "others" did not agree. Although it was a large fear of the UK to be left out of single market discussions, as British MP Kenneth Clarke put it: "It's the devil's own job to collect," showing British unwillingness to budge for the French-German axis.

The French focused on reacting to the UK's demands on financial regulations, that they found absurd and another attempt of the UK to opt-out of European policy. Nicolas Sarkozy clarified that financial regulations mean the "regulation of financial services" when he said: "we were not able to accept the demands because we consider quite the contrary – that a very large and substantial amount of the problems we are facing around the world are a result of lack of regulation of financial services and therefore can't have a waiver for the United Kingdom" (Hewitt, 2011). A statement fitting in perfectly with the above described frustrations of France.

Before the Summit, not only the UK had been skeptical of the French-German proposal. Sweden, Bulgaria, Latvia, Lithuania, Poland, Romania, the Czech Republic, Denmark and Hungary however decided to bring the issue to their parliaments before deciding on the matter (European Council, 2011), which automatically gave them a stronger position in the negotiations that were to follow. Furthermore, not all that was decided upon by the other 26 member states was set in stone. On the morning of the 9th of December, it became clear that the Eurozone and some other EU member states were planning on going ahead with negotiations on budget discipline, albeit now on an international level instead of within the European framework (European Council, 2011). They first however had to wait on the Councils legal service to decide whether the agreed upon legal framework was in line with EU law (EurActiv.com, 2011). Already On December 16th, the Eurozone member states received a green light, meaning negotiations could begin.

5.3. An international treaty it is…

In December itself, the new proposed Treaty was already discussed by approximately a hundred delegates from the participating member states. Every country delegated three experts: a politician, a legal representative and an economic representative (Fleming, 2011). The Commission, the European Parliament and the ECB also all sent three delegates, although they were only given an observatory status. Moreover, although they did not intend to sign the treaty, the UK also sent representatives. The negotiations were supported by Council personnel and led by Council President Van Rompuy. The

[43] For an internal brief on the demands see http://www.scribd.com/doc/75193128/uk-protocol-demand-to-eu

member states preferred a quick process and already a week after the Summit, the first draft document was presented.

Then called an "International agreement on reinforced economic union", the first draft focused clearly on the precedence of EU law over the treaty, the constitutional nature of the binding national provisions and did not provide for automatic sanctioning or even the ECJ's right to sanction.[44] The first reactions were mixed. Council President Poland claimed it was important that the Treaty remained in line with EU law and EU structures claiming that the new shape of the Union should not be forced through by three European capitals. It was Polish policy to ensure that small states are not crowded out and that the Eurozone does not take over the structure of the entire EU (OpenEurope, 2011). This was supported by Sweden, that did not like the idea of going around the EU structure and that would only participate as long as it would not affect their choice of not having the Euro. The Swedish minority government, together with opposition party the Social Democrats, therefore agreed that Sweden should only join the TSCG when it would be ensured that the budget rules would not apply to Sweden and moreover, that it would not affect their labor market model. Likewise, Hungary, Denmark, Ireland and the Czech Republic announced they would hold a referendum or let their parliament decide whether or not to join the TSCG also claiming to only sign the Treaty when it would really be in their interest.

For Germany, it was important to get non-Eurozone members Poland and Denmark onboard for two different reasons. Poland, as the new powerhouse in the EU, is one of Germany's main partners in the European Union. As the strongest Visegrad member, its decisions are important for the German economy. Furthermore, in the EU's decision-making structure Poland often acts as a balancing power between the UK, France and Germany. With their shared view on how to deal with the economic crisis, Poland can be seen as a strong liberal partner for Germany. In turn, Denmark and Sweden were also important to keep committed. These Scandinavian countries were among the few in the European Union that still had a stable economy based on socio-liberal thinking. For France, these countries were more of an opposition. With its intention to create a permanent intergovernmental summit on economic matters i.e. a Eurozone government, the approval of other member states outside of the Eurozone could be deemed insignificant. Thus, giving in to the position of these countries was only necessary for France in order to guarantee the participation of Eurozone countries such as Germany.

Hungary and the Czech Republic had already displayed skepticism during the December 8th Summit. Although Hungary position was fairly unanimously focused on a fear for exclusion, the Czech Republic had no parliamentary agreement on its approach (Gniazdowski & Groszkowski, 2011). Even within the governing coalition, opinions were divided. Prime Minister Necas' party ODS (Civic Democratic Party) did not believe a multi-speed Europe to be a negative development and even agreed with the necessity of austerity measures. Nonetheless, they did believe that budgetary powers should remain at the national level and this was an ideological position backed by the population. Coalition party TOP 09 on the other hand, believed that non-participation would isolate the Czech Republic in common European structures and therefore stated to be in favor of signing the TSCG (Ibid). This echoes the Czech decision not to participate in the EPP. Also then, fiscal harmonization was deemed not to be in the interest of the country (EurActiv, 2011). As a middle way, it was decided upon in government that during the negotiations the Czech Republic would follow a strategy of making the smallest possible contribution to loans and the smallest possible transfer of power away from the domestic level (Ibid). The decision to actually sign or not would be discussed at the end of January.

[44] For the five drafts see: http://tinyurl.com/fiscaltreaty1, http://tinyurl.com/fiscaltreaty2, http://tinyurl.com/fiscaltreaty3, http://tinyurl.com/fiscaltreaty4, http://tinyurl.com/fiscaltreaty5.

Although of course this gave the Czech delegation a stronger hand to deal, for Germany and France its inclusion was seen as a more minor preference of enclosing all the remaining member states in the treaty. Chances were that it would not lead to large alterations in the treaty the Franco-German alliance had proposed.

The second draft was published on January 6th. It showed a clear alteration of article 10 made by Poland to include a reference to article 136 TFEU and enhanced cooperation. Also, article 12 was altered in favor of Poland's view: the Commissioner responsible for Economic and Monetary Affairs was added as an observer in the Eurosummits together with the President of the Eurogroup. This last amendment can be seen as a provision for France that preferred to give the Eurogroup a large role in the TSCG.

The third draft seemed to contain a gift for the UK. The phrase "deeper integration in the internal market" was left out and a smaller role was given to European Union institutions such as the Commission, stepping away from the Community Method. To the pleasure of France, peer pressure was introduced as an alternative to the Commission in asking the ECJ for its judgment. Previously, only the Commission could initiate the writing of a report or legal steps to the ECJ. In its turn, the European Parliament was of course not happy with this step away from the Community Method due to the fact that it effectively took away any supervisory and decision-making power they were aiming for. for their taste the new draft had insufficient provisions for solidarity and renewed growth (EurActiv.com, 2012). Then again, they had achieved to change some of the wordings. EP representative Elmar Brok negotiated two noteworthy changes to the phrasing of the draft. In line with Poland, Brok arranged for the compatibility of the TSCG with the EU treaties to be mentioned more explicitly, and furthermore successfully debated on a section that granted representatives of the European Parliament the right to address Eurozone summits (Fleming, 2012). This however was taken out again in the fourth draft. The third draft furthermore provided for a new view on the obligation to transfer the correction mechanism into national law. In the previous draft this had to be on a constitutional level or its national equivalent. For some countries, notably Denmark, this was unacceptable. From the beginning, Denmark had claimed not to change its constitution, just as it had not done in 60 years (EurActiv.com, 2012).[45] The new draft therefore also allowed laws with a permanent character and binding force as an alternative. Up to this draft, it had been German perseverance keeping constitutional change in the treaty. Taking pride in their *Schuldenbremse,* they saw it as a key element of creating stricter rules on fiscal policy. It appears that for Germany, having an inclusive treaty was more important than their strong stance on constitutional change. For the Czech Republic, the third draft was a success. It had successfully implemented a clause on the accession of other countries. This article 15 made it possible for any European Union country to accede to the TSCG and fell in the line of Czech thinking. It was still however considering not to sign the treaty. For Germany and France, this adaptation was of meager importance. Germany preferred an inclusive treaty and France at that time still had its pet subject the Eurosummit as a solely Eurozone affair.

The fourth draft contained a success for Germany. In the preamble "the granting of assistance in the framework of new programs under the European Stability Mechanism will be conditional, as of 1 March 2013, on the ratification of this Treaty by the Contracting Party concerned" was added, providing Germany with the assurance that when countries would not adhere to the TSCG, they would forfeit assistance under the ESM. This was a direct answer to the German sentiment that countries are

[45] Although generally portrayed as a symbolic gesture, practical problems with constitutional change also played a part in this decision. In order to change the Constitution, the Danish government would have to step down after a first vote, where after a new government would have to put the issue before parliament again. A high political risk.

receiving free money without having to do something for it. The draft furthermore showed a clear French and Danish victory with the reassurance of the power of national parliaments. The sovereignty argument was mentioned the following on the correction mechanism in article 3(2): “to fully respect the prerogatives of national Parliaments.” The role of national parliaments was furthermore altered from a passive to an active duty in article 13 TSCG. The national parliaments would now: “together determine the organization and promotion of a conference of the chairs of the budget committees of the national Parliaments and the chairs of the relevant committees of the European Parliament.” Hence, now the (budgetary committees of) national parliaments themselves can come together and arrange a conference, without having to wait for an invitation.

The biggest diplomatic fight however was between France and Poland. Up to then backed by the ‘South’, France opposed the idea of letting non-Eurozone members attend the Eurosummits (EurActiv, 2012). For Poland, this was unacceptable and it threatened not to sign up at all when not allowed to partake in the meetings. Tusk stated: "We will not accept such a model," possibly also hinting to the position of other non-Eurozone member states (EurActiv/Reuters, 2012).[46] As the fourth draft shows, France lost out on this issue, nevertheless still only giving up the attendance of these countries given that they were not given any voting rights ánd would only be invited when discussing overall socio-economic issues. The EuroSummit was not the only win for Poland. As mentioned before, Poland, not to the least due to its role as Council President,[47] was determined to keep the TSCG as inclusive as possible (Gostyńska & Tokarski, 2012). The first drafts of article 9 TSCG however still discussed the EuroPlus Pact. Because The EPP is not signed by Hungary – Poland’s Visegrad colleague – the text was replaced in the fourth draft by mentioning EPP objectives such as” fostering competitiveness, promoting employment, contributing further to the sustainability of public finances and reinforcing financial stability,” instead of the treaty itself.

With most disputes now solved by the *Sherpas* and the previous Summits, the final draft was discussed between the 27th and 30th of January. It contained only one more serious change “*The amounts imposed on a Contracting Party whose currency is the euro shall be payable to the European Stability Mechanism. In other cases, payments shall be made to the general budget of the European Union.*” Multiple non-Eurozone countries had objected to having to pay for *Eurotrouble* such as bailouts, the alteration facilitated for them to transfer sanction funds to a general budget, something that would be a lot easier to explain back in parliament. For the Czech Republic however, the many alterations had not been sufficient. Prime Minister Petr Necas reflected on five issues that had withheld him from signing the TSCG. First, he dismayed the method of changing the text of the document at the same day as deciding upon it (Government of the Czech Republic, 2012). He stated not to be able to make fundamental decisions for his country without being given the chance to rationally look at the discussed texts. Moreover, this method of changing and signing at the same time did not fit with the Czech political system. The President first had to be asked authorization , next to the fact that he needed the approval of the chambers of parliament (Ibid). Second, he did not agree with the fact that article 7 was downgraded in the third draft from being both about the debt criterion and the deficit criterion to only the deficit criterion (Ibid). Third, he opposed the restricted participation for non-eurozone members in Eurosummits, believing it should be a standard measure to be invited to the Eurosummit meetings (Ibid). Furthermore, the Eurosummits are flawed in another way he believes, with Eurosummits being organized on competitiveness as well. According to Necas, these discussions on the internal market should be a European Council discussion. Fourth, accession at

[46] Bulgarian President Rossen Plevneliev publicly stated to back Poland in this decision.
[47] Poland was the first of the T3-presidency, acting as president up to December 2011. It was then followed by Denmark in January, where after Cyprus started in July of the same year.

a later date would still be possible were the Czech Republic to decide it to be in its interests (Ibid). Fifth, Necas does not belief the TSCG to be an effective contribution towards resolving the crisis. Therefore, the transfer of power connected with the treaty cannot be justified. The Czech Republic is not a receiver of either IMF or EU aid programs, and even pays into a fund to establish Eurozone stabilization. It is also this fact that according to Necas puts the Czech Republic in a different position than most other member states (Ibid). It has no moral obligation toward any credit providers to sign the TSCG. Interestingly, this Czech argumentation aside, for France and Germany it was not a huge loss to lose the Czech Republic as a signatory. Already before the Summits had started, the Franco-German alliance had concurred that the contents of the treaty were more important than its inclusiveness and the absence of a relatively economically stable non-Eurozone country was not disastrous.

The European Parliament in its turn can also be deemed an unimportant player and German and French officials have not seemed to really take their suggestions into account. On January 18th, the European Parliament adopted a resolution in which they were critical of the method used to form the TSCG. They furthermore expressed their regret that the European Parliament's proposals were not taken into consideration and that the EP's representatives were only given an observatory status (European Parliament, 2012). This also applies to their position on the parliamentary summits to be organized. Although given the right to co-organize these parliamentary summits, it is clear that the member states, under the leadership of France, have laid the power and responsibility on the level of the national parliaments, clearly stepping away from the EP as an important player in the execution of this treaty. It is probably also therefore that in the resolution, the EP stressed the importance of the Community Method and democratic legitimacy of the policies set out in the TSCG and therefore proclaimed that it was in their full right to protect the Treaties. It is in this light that they said they: "reserve the right to use all political and legal instruments at its disposal to defend EU law and the role of the EU institutions, especially if elements of the final agreement are incompatible with EU law" (Ibid).

In sum, there were three main issues discussed in the negotiation rounds. The first was the constitutionalizing of the rules that ended up to also allow legislative instruments similar to a constitution. Second, the issue of the creation of a *de facto* economic government turned out to include the participation of non-Eurozone members in Eurosummit discussions, however only on those issues of the treaty that actually applied to them and without any voting rights. Third, on the role of institutions of the European Union in the Eurosummits and in the implementation of the treaty, it was decided that representatives of the European Parliament, Eurogroup, European Commission and European Central Bank can be heard at Eurosummits, however without being able to play a decisive role in the decision-making process. Moreover, the role of the Commission was kept minor throughout the entire process that the TSCG describes and the ECJ was only given the right to sanction the lack of implementation of the treaty in national law, instead of real enforcement on its contents.

5.4. The implementation phase: ratification and entry into force

On March 2nd, 2012 the TSCG was signed. In the coming phase of ratification, the problematic nature of the treaty would continue to be important. Many parties in national parliaments had already publicly criticized the treaty, so ratification would be difficult.

In some countries, approval was easier than expected. In Spain, only the second ever constitutional amendment was passed with ease (Barber, 2012). Spanish approval was not so much a new found belief in fiscal austerity measures, but rather a sense that it would increase the chances of receiving financial aid under the ESM (Ibid). In France, President Sarkozy did not achieve with the treaty what he had hoped: a stronger liberal economic France and the winning of the elections. Next to multiple scandals surrounding both himself and several befriended party members, the mounting unemployment rates, the closure of small enterprises and factories and overall low perceived economic security proved to be the final nails in Sarkozy's coffin, when in May he lost the elections (Cross, 2012). Domestic support for the treaty was low, not to the least due to the uproar the new socialist President Hollande had made during the negotiations of the treaty. From a Presidents' point of view however, it was quite important to get approval for the ratification of the treaty, not to the least to ensure good relations with Germany (Ibid). As an alternative, Hollande pledged to ensure a growth compact to counterbalance the TSCG. In June 2012, the Council discussion revolved around this growth pact and was unanimously accepted (European Council, 2012). Furthermore, in August 2012, the French constitutional court ruled the TSCG to be in accordance with French constitutional law preventing the necessity for either a referendum or a 60% legislative majority. With the ruling in place, the treaty ratification passed the two chambers relatively easily. On September 19th, 2012 the French socialist-led parliament and senate passed the ordinary national bill implementing the treaty (Duffy, 2012).

In Germany, opposition to the treaty came from everywhere. Just as in France, parliamentary opposition demanded an accompanying growth compact that took some weeks to prepare. Although it past parliament relatively easy, constitutional complaints were lodged in Karlsruhe over national sovereignty on budgetary matters and a lack of democratic legitimacy. After some months, the federal court deemed that enactment of the treaty was acceptable clearing the way for the ratification process. Although the treaty passed both the *Bundesrat* and *Bundestag*, the implementation turned out to be fairly difficult. In March of 2013, the upper house had still not passed the implementation law. The *Länder* again voted down the proposal due to their wish for increased federal money transfers and a mediation committee was established (Parkin, 2013). When in July 2013, the government agreed to increased financial help for the *Länder*, the constitutional amendment passed the house ensuring the TSCG's implementation.

In December 2012, the Finnish ratification prompted the TSCG's entry into force. At the moment, only Belgium and Bulgaria have not ratified the treaty (Timmermans, 2013). Moreover, some of the signatories have not yet implemented the TSCG rules in national law.[48] Imagining this status quo to stay, it will be interesting to see whether or not a fellow signatory will bring forward a case to the ECJ after January 1st, 2014. Also, considering a country such as Greece has failed to implement the budget rules in national law, it would be interesting to see whether or not this means they will lose their ESM funds.

[48] In July 2013, 7 of the EMU countries had not implemented the correction mechanisms (Heinen, 2013). Next to Bulgaria and Belgium, also Cyprus, Estonia, Greece, Luxembourg, Malta, The Netherlands and Romania have not implemented the rules in national law (up to November 1st, 2013)

6. A liberal intergovernmentalist analysis

Below, the levels of national preference formation and international bargaining will be analyzed to see to what extent the TSCG case complies with liberal intergovernmentalist expectations. Also concepts of hegemony and neo-functionalism will be mentioned as both added and countering notions for the case.

6.1. National preference formation

The process of creating a new 'European' intergovernmental treaty proved to be fruitful for Germany and France and surprisingly quick. Applying the liberal intergovernmentalist framework, it is first important to note what the fundamental determinants of national preferences were. By means of process tracing, it became clear that economic interests prevailed as a fundamental determinant for France, Germany and the UK over geo-political interests. With the economic crisis as the prominent issue defining popular attitudes towards government and politicians, economic interests were at the top of the agenda. This is closely interlinked with the leaders' strong wish for national re-election. For the three leaders Merkel, Sarkozy and Cameron, domestic unrest could project on their electoral results in the short-term and it was in their personal interest therefore to act on these problems connected with interdependency and ensure economic prosperity for their constituents.

A variation can be found in how the leaders transposed their similar liberal ideology into bargaining positions. Hence, fully realizing the importance of popular support, the leaders appeared to have pursued different strategies in creating negotiation positions. Sarkozy decided on showing the public the benefits of ordoliberalism on economic policies for France, perhaps misreading the public's capability of understanding his long-term view. In the UK, a stance against the German-French axis would be appreciated by the public and in order to achieve a personal gain – re-election – Cameron pursued a policy both beneficial for himself and the single market, which regardless of popular opinion, is still highly valuable to the British economy.[49] Whilst Cameron decided the 'will of the people' had to be followed, Merkel decided she would woo the public into seeing the benefits of the Euro together with showing them the determination other countries were willing to put effort in getting out of this crisis through the German-proven way of austerity. The thesis cannot provide an answer to whether economic interests have really advanced for Germany with on the one hand the country benefitting from a weak Euro both economically and politically and on the other hand, them having to transfer bail-outs and losing export markets in Europe itself. However, Merkel and Sarkozy appeared to strongly believe in the benefits of a strong Eurozone to tackle economic problems, taking into account the high level of interdependence in the region, at least showing the importance of economic interests over geo-political ones. For Merkel, this position played out beneficially in her 2013 re-election, even though for Sarkozy this liberal economic ideology proved to be his demise. Therefore, it is likely that both leaders had both long-term and short-term interests in mind when pursuing this treaty. As Moravscik (1993, p. 481) said: "An understanding of domestic politics is a precondition for, not a supplement to, the analysis of the strategic interaction among states." With the TSCG case there seems to be an intrinsic connection between domestic politics and the preferences that are corresponded at the international negotiating level with re-election having seemed to have played a crucial role in the three main players' positioning. Furthermore, it can be concluded that the three leaders seem to have made decisions quite autonomously. Not only did they strive for goals not corresponding with popular opinion, also parliamentary opinions were sometimes put aside, showing the power the leaders had in the whole process.

[49] Cameron is attempting to avoid having to write out a referendum on European Union membership, something that is sought for by members of his party and the public. Changes are high that such as referendum would lead to existing the EU which would be disastrous for the UK's economy.

6.2. Interstate bargaining

The domestic positions were used in the international bargaining process to achieve the national economic interests. For methodological purposes it is important to set out that in this chapter of the study, a liberal intergovernmentalist research structure is used for the international bargaining phase. That means that the premise is that the dependent variable is the outcome of the treaty whereas the independent variable is the capacity to exercise power and influence. This will not be measured through 'realist' security, but rather economic power which can be deduced by combining both the size of the population and the GDP. For this thesis, this ranking is taken from a study by Copsey & Pomorska who in turn deduced the rankings from an IMF report of 2008 (Ibid). The political power in the EU can be positioned in the following order: 1) Germany, 2) the UK and 3) France.[50] They are followed by Italy, Spain and Poland. Moreover, also intervening variables play a part in the negotiation process and can be found in the intensity of policy preferences, the receptiveness of other negotiators, and an ability at alliance forming (Copsey & Pomorska, 2010).[51]

Given the results in Level I, it is now key to determine what factors best explain the agreements made on the TSCG. As liberal intergovernmentalists see economic power as a determining factor in negotiations, Germany and even France stepped in with a strong negotiating position. There were however also other mediating variables that played part in this strong position such as strong policy preference, a high skill in alliance forming that occurred months before the treaty was officially proposed and, although harder to measure, great administrative capacity and high skills in persuasive advocacy.[52] Sarkozy however did lack political domestic support, whereas Merkel was in a rather neutral position, nevertheless proving to be just as strong of an Iron Lady on the domestic front as she was on the international level. Moreover, Germany had strong bargaining power due to the issue linkage they put in place: not signing the treaty would lead to the discontinuing of ESM funds, a credible threat to withhold financial assistance. For countries such as Ireland, Spain and a near-bankrupt Greece, such a power move would be disastrous for their economies and therefore they had only little choice. Actors least in need of the arrangement and the ESM - the side bargain - were able to enter more changes. The Scandinavian countries Denmark and Sweden and Eastern countries Poland , Hungary and the Czech Republic appear to have bargained in the most changes to the draft treaties, showing a strong bargaining position.

LI claims that threat of exit will shift the deal to benefit the claimant. Granting that attempts were made to create compromises and shifts in the core deal to the liking of the UK and the Czech Republic – i.e. an opt-out for the financial transaction tax and a stop to a more multi-speed Union towards the Eurozone – the core deal did not shift towards UK wishes. Hence, the threats of exit were unsuccessfully used, although they did lead to an alternative treaty outside of the EU structure and apparently prevented the FTT to be included in the treaty. It seems that intervening variables must have been at play. Although the intensity of policy preference was high, Cameron appeared to have little skill at alliance forming and low administrative capacity which was seen when the UK's diplomats were unable to produce the verbally offered alternatives for the treaty on paper in time. Other leaders appeared to be more and more aggravated with Cameron showing a lack in persuasive

[50] Even though France its economic position is declining rapidly, it is still a key player in both political and economic areas and therefore can still be seen as a strong player in the negotiations.

[51] Copsey uses more variables being the intensity of policy preference, skill at alliance building, administrative capacity, persuasive advocacy, receptiveness of other Member States, and domestic political strength. Due to the limited scope of the thesis, only three of the variables are researched.

[52] As the book of Crawford & Czuczka (2013) shows, the Germans are highly skilled negotiators in the European negotiating process.

advocacy and receptiveness of other Member States. Even his domestic political strength was low, with Cameron maneuvering between Tory Eurosceptics and coalition partner Nick Clegg.

Coming out of the negotiations a clear winner, the distribution of gains clearly tipped the scale towards Merkel who next to setting new more stringent rules on fiscal policy, also reached the goal of appeasing the domestic sphere. As Kirkegaard puts it (2012): “the political narrative on bailouts had changed from “*pouring ever more German taxpayers’ money into Greece*” to “*Germany providing support for Europe’s new Stability Union*”.” German leadership turned out to be strong in both initiating and negotiating the treaty. Already a strong player on the bases of GDP and size of the population, this German power was mainly derived from the fact that Germany linked the TSCG to the ESM mechanism. Moreover, with Merkel knowing that not transferring funds could lead to the collapse of the Euro – which could be disastrous for the country – a clear gain was the signing of the treaty by not only all Eurozone members, nut also most EU member states. Also Sarkozy ensured his goals of a more Eurozone focused institution together with little power transfers towards existing EU institutions. Although he had to step back from introducing a financial transaction tax, the French interests as voiced by Sarkozy were mostly met. The southern countries in their turn benefitted through the, although meager, assurance of continuing ESM funds and it is unclear what the negative consequences for these peripheral countries may be. Due to the absence of an international sanctioning mechanism international backfiring is unlikely. However, successive governments might feel the pain at the domestic level in the future when not adhering to the fiscal compact rules then enshrined in (constitutional) national law. For future ‘socialist’ governments this might be a difficult issue to overcome. As Poplawski says: “when the signatories signed the TSCG, they made a de facto agreement to adjust their economic systems to the German model (Poplawski, 2012)”, a model that might cost Spain, Portugal, Italy and even France a lot in the future.

Although it is clear that France and Germany ‘won’ the negotiations, it is more difficult to assess this for the UK. The best outcome for Britain was a treaty where financial services regulation could be opted-out from, something that French president Sarkozy called “unacceptable” (Channel4, 2011). It can be argued therefore that on this issue the UK neither won or lost. They did not get their way, but they did act on their best alternative of walking away. Next to that, financial transaction tax was not incorporated in the treaty. It is important to keep in mind that the UK’s veto was only an instrument used to get some safeguards about the single market. It was not in itself a protective measure, because the UK did not have to adhere to the new rules, but rather only accept others to adhere to those rules. A perceived loss could have been the perception of the UK in the other member states. although statements right after the Summit were quite negative, politicians and media from e.g. Denmark, Sweden, Hungry and the Czech Republic expressed their support and already a week after the Summit, even Merkel went on to say that the UK will remain a strong EU partner (Hawkes & Waerden, 2011). This, together with the positive reactions on his performance at the domestic level, made it a good call for Cameron. There are however also other opinions voiced on this matter. Sharon Bowles, MEP in the monetary affairs committee, stated Cameron’s position to be harmful for the UK. In her eyes, Cameron gave up a seat at exactly that table that is going to decide on policies affecting both the UK as a whole and the City. In favoring Eurosceptic Tories, he lost sight of British interests (Traynor, Watt, Gow, & Wintour, 2011). Not only politicians have that view with economic experts voicing the same concerns. Think tank Re-Define director Sony Kapoor put it the following: "While formally Britain will still have on vote on financial regulation, its voice in the discussions deciding the direction of regulation will be weaker than the others. (Reilhac, 2011)" It also seems that the French-German axis did not really care about the UK participating, although beforehand they had expressed their wish for an EU-wide treaty change. As Merkel put it: "Only one country, Great Britain, distanced itself. I really don't believe David Cameron was ever with us at the table. We're very pleased with the result. [The deal] was no weak compromise for the euro. (Traynor, Watt, Gow, & Wintour, 2011)"

It is also important to look at the role of supranational institutions - supranational entrepreneurship - in the policy process to see whether or not the liberal intergovernmentalist premise on supranational actors is correct. When looking at the TSCG, it appears that these institutions played little part in changing the preferences of member states. First, concerning agenda-setting, it appears that the Commission was obstructed in interfering in the process by Germany and France. Opposing the position neo-functionalists give the Commission as an ideational entrepreneur, throughout the year of 2011, Merkel and Sarkozy put issues on the agenda themselves, not awaiting action from the Commission. Due to their dissatisfaction with the more 'limited' Sixpack, the Franco-German alliance proposed the TSCG as a counteraction. Furthermore, also the preparation of the proposals was done by Germany. No technical assistance was used for the drafting, and the counterdraft put forward by Van Rompuy and Barroso was put aside at the Council meeting, clearly showing the lack of influence of these 'ideational actors'. Although given a monitoring role in the discussions, the institutions did attempt to affect the negotiations. The most prominent example is the attempt of the European Parliament to insert influence via MEP Elmar Brok. His main accomplishment of arranging speaking rights at the Eurosummit for European Parliament representatives in the third draft, was later removed when the treaty became more oriented towards national parliaments to guarantee democratic legitimacy. This step away from the EP, shows the little importance the signatories gave to 'European' democratic legitimacy. Moreover, content wise, the TSCG does not include any outlooks regarding project bonds or a financial transactions tax on the EU level, something the EP is in favor of. All this together should have been enough reason for the EP to step to the ECJ to judge over the legality of the treaty. However, the EP has not used its right to let the ECJ examine the compatibility of the treaty with EU law, showing the little influence they have used. In sum, the lack of supranational entrepreneurship counters neo-functionalist expectations and shows the primacy of nation states. In turn, intergovernmental predictions proved to occur in the bargaining process, showing the importance of bargaining power and side packages for the final draft of the TSCG.

On a final note, it appears that LI cannot provide an answer for the pressure states feel to respond to the crisis. Throughout the decades-long process of increased cooperation and integration of economic (regulatory) policy, many flaws have been incorporated that keep the institutions from functioning properly and which need further integration to successfully function. Therefore, it appears the amount of choice a state has in cooperating is overestimated in the LI framework when looking at the TSCG. The flaws in previous implementation of the SGP rules can be seen as the direct cause for why Germany and France see the treaty as necessary. Accordingly, the agenda-setting of the TSCG was due to German and French unhappiness with the status quo provided by the Commission's Sixpack to 'solve' the not properly functioning single market, SGP and Eurozone policies. Seeing the crisis is still present to this day, it can be argued that the TSCG is just one of the steps within the process of gradual changes that have been occurring in European economic governance.

Although real functional spill-over can be disputed by liberal intergovernmentalists by pointing out that the TSCG is not really a form of deepening integration, but rather a form of intergovernmental cooperation, to the least, there is a form of path dependency[53] taking place. Previous choices on

[53] Moravscik (1998, p. 489) sees Historical Institutionalism (HI) as a new name for NF with both explaining integration as a self-reinforcing process. Opposed to NF, HI research usually shows that states are the main actors in EU negotiations, but that these state actors are constraint in their decisions by the decisions their predecessors have made (Pierson, 1996). This is called *path dependency*. As scholar Schmitter argues: "real-life neofunctionalists may be an endangered species, but

institutions are restraining the current leaders in their decisions and ability to negotiate. For most countries in the periphery, potential choices have been taken away due to previous sign ups to institutions and policies such as the EMU and SGP. This is interesting, because the TSCG can be seen as a high policy area. Although not truly a fiscal matter, the TSCG at least intuitively interferes in previously solely national matters. Thus, creating a situation where national leaders are unable to truly autonomously make decisions on say, adapting their constitutions, the TSCG provides for a first step in the direction of integration in the high policy area of fiscal policy.

6.3. Institutional choice

Neo-functionalists tend to believe that federalist ideals can play part in the choice for a certain institutional set-up. This appears not to be the case with the TSCG. On the contrary, for Sarkozy intergovernmentalist ideology clearly attributed to the French stance on Eurosummits and the role of the European Union institutions. The form of the TSCG shows that the rules that already had to be complied to – Sixpack and Twopack regulations and directives – are now supported by the obligation to transpose these rules in national law. Due to the fact that under the old SGP rules, there was a failure to comply with the arranged deal, now the transposing in national law has reduced uncertainty about whether or not signatories will honor the commitments made. Especially due to the fact that the norms and rules must be enshrined on a constitutional or constitution-like level, future domestic political positions will most likely not alter the decided upon rules. Thus, there is a "removal of the varying influence of domestic politics" (Moravcsik & Schimmelfennig, 2009, p. 72), and therefore a more credible commitment to the economic regulatory rules.

This does not mean however that the TSCG has created a status quo where defecting is impossible. Just as was the case with the pre-2005 SGP, member states still need to decide whether or not to bring the lack of implementation forward for judgment at the ECJ. It might well be the case that no member state will do so, since it could lead to bad relations between the signatories. Regardless of the decided upon text, previously decided upon economic policies show this to be a real possibility.

Due to the fact that the deadline for implementation is not yet reached, it is impossible to say whether or not the TSCG is a paper tiger as previous policies turned out to be or if this time around member states will enforce it. It is therefore not possible to assert that the liberal intergovernmentalist thesis that the institution portrays a credible commitment and thus compliance, fits the TSCG case. The likeliness is however great considering most signatories have implemented the debt brake in their national (constitutional) legislation, transferring the monitoring and enforcement of the rules to the national level.

6.4. The concept of hegemony and the role of ideology

Above we have seen that the strong bargaining position of Germany was a combination of its economic power and the issue linkage to the ESM. Within the theorem of liberal intergovernmentalism, this position is attributed to mediating variables such as high skills in persuasive advocacy and administrative capacity. However, this does not preclude the existence of another process at play being a stability hegemony with neo-realist trades.

From a realist perspective it is easy to argue that the material capabilities of Germany are stronger than that of the other European member states. However, Germany is not strong enough to act as a genuine hegemon supporting this theory for several reasons. First, the lack of military capabilities. Although a normalization process towards the military seems to be occurring, Germans are prominently pacifist.

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neofunctionalist thinking turned out to be very much alive, even if it was usually being re-branded as a different animal". (Schmitter P. , 2004)

Hence, at least at the moment, the possibility of Germany becoming a real militant power is highly unlikely. Second, although by far one of the strongest economies in Europe, Germany its economic capability is not large enough to really adopt the role of hegemon. Its economy is predominantly export-based using the monetary advantages of the Euro, and furthermore, does not have a monopolistic claim over necessary goods in the EU, that would lead to high dependence of the periphery. Last, and most importantly, Germany does not want to be a hegemon. Showing its reluctance to dominate over the EU, a German policy maker claimed that "We do not want to lead the EU. We just want the others to obey the rules (Guerot & Leonard, 2011)." This does not mean that Germany will not quietly exert pressure within the EU, but it does show that their preferred mode of action lies in soft power and 'leading by example'. Thus, looking at the EU in general, Germany can better be seen as a hegemon as described by Kindleberger and Pedersen: one that uses both coercive means and persuasion to exercise leadership by sharing power, aggregating power and showing commitment.

It seems that in the case of the TSCG, it might be more accurate to split up the group adhering to German power. On the one hand, there are the Eurozone and ESM-receiving countries that were clearly forced into the TSCG, and on the other hand there is the rest including Poland and Denmark who's economies and ideology are more in line with Germany's and therefore fall in the category of persuasion. The latter group was not forced but rather chose to be part of the treaty. Although the evidence does not clearly support this, domination can be consensual on an ideological basis as well as material. Ordoliberal thinking has shaped the minds of state leaders as the only viable option to acquire economic interests. Hence, the particular interests of Germany are shaped as general interests for the European society as a whole. According to Scholte (2005, p. 38), European integration is becoming more and more concentrated on single market freedoms through policies of "liberalization, deregulation, privatization and fiscal restraint." For a co-operative hegemon, this gives benefits of diffusion as the policies have a 'lock-in' effect on liberal thinking. Consequently, the TSCG shows that former 'socialist' member states agree with a more laissez-faire attitude and austerity focus of the liberal countries, led by strongest state Germany. Nevertheless, counter-hegemonic elements can be found in the push for an accompanying growth pact. Furthermore, although one could therefore say that traces of a Gramscian hegemony can be found in the sources surrounding the TSCG case, it is unclear whether or not this is due to German dominance as a hegemon 'setting a good example' or rather simply due to their strong bargaining position.

6.5. Conclusion

The theory of liberal intergovernmentalism proved to be (partly) able to predict the outcomes of the TSCG. It is clear that throughout the entire process the member states were in control of the agenda-setting, negotiation rounds and output, showing the primacy of nation-states and the apparent lack of power of supranational actors. Moreover, the expected strategies of the nation states' governments indeed appeared to be mainly focused on domestic economic interests and the accompanying bargaining power was highly dependent on economic size: the three big players in the negotiations were also the strongest in relation to GDP-per-capita and population size.

The matter of issue linkage was very clearly used by Germany in order to impose the treaty onto the other signatories, showing asymmetrical interdependence. The ESM mechanism, under control of Germany, appeared to be the main reason for many countries to participate, where Merkel wanted their participation in order to show the German people that their bail-out funds went to countries that were restructuring their economic policies towards a more 'liberal' state. That German power had its limits can be seen in the absence of the UK and the Czech Republic in the treaty, and in the strong bargaining power of countries such as Denmark and Poland.

Although the concept of hegemony is definitely relevant in the bargaining structure, one can only speak of hegemony in the TSCG case over the Eurozone members and ESM recipients. For many of them, signing onto this treaty might prove to be very unfortunate in the future. Also however, Germany should be seen as a co-operative hegemon that acts in its own interests and that has to balance on a thin line in order to remain in control. Not all of its wishes were adhered to and this directly shows the lack of power it has as a traditional realist coercive hegemon. Although not a part of the liberal intergovernmentalist framework, the concept of hegemony proved to be an important concept in describing the bargaining phase of the TSCG and further research is recommended.

Not only hegemony theories proved accurate, but also the neo-functionalist concept of spill-over. Although traces of the concept of spill-over were found in the agenda-setting and bargaining process of the TSCG, other expected outcomes of neo-functionalists were proven to be unfitting to the case. The lack of supranational input in both the agenda-setting phase, the negotiating phase or the implementation phase is striking. Moreover, the strength of national governments with their formal sovereignty and democratic legitimacy towards European institutions proved to be much stronger than neo-functionalists predict, showing the TSCG negotiations to be the arena of rational self-interested national politicians, rather than supranational thinking bureaucrats. Taking all this together, one can say that the liberal intergovernmentalist predictions on national preference formation, interstate bargaining and institutional choice as described in the theoretical framework proved to be right in explaining and understanding the TSCG.

Conclusion

To answer the research question: "*What is the Treaty on Stability, Coordination and Governance, how and why did it come into existence and to what extent does it reflect liberal intergovernmentalist expectations?*", multiple research subquestions were formed, which will be discussed separately before concluding by answering the main research question. The goal of this thesis was twofold in that it focused on both on theory-testing and on understanding the TSCG from a multidisciplinary perspective. This, because only when one looks at a case study from multiple perspectives can one start to understand it completely.

The first subquestion dealt with the historical perspective and read: "*A historical perspective: What economic, monetary and fiscal institutions have been supplied up to 2012 and how can this change be described?"* In the historical analysis, flashes of path dependency and spill-over could be perceived in the attempts to create solutions for the crisis. The institutional flaws of the SGP were attempted to be solved by creating new regulations and institutions. This follows out of the neo-functionalist belief that the EU integration process is not only continuous and causal, but also cumulative and irreversible. However, from Maastricht to the 2005 SGP and from the EPP to the Sixpack, real radical and effective change has yet to materialize. Furthermore, the SGP 2005 reform was even a step back. Adding on the TSCG, it can be said that although the process of gradual change that occurred before the TSCG affirms the neo-functionalist concept of spill-over, it also showed that these institutional flaws are hard to change due to political primacy. Hence, although path dependency occurs as a "no way back without major losses" phenomenon, there certainly is choice as can be seen in the decision of the United Kingdom and Czech Republic.

Whether the TSCG leads to economic prosperity however, can be debated and was dealt with in this thesis by the subquestion: "A*n interdisciplinary approach: What is the TSCG and does it have potential to be an effective instrument in dealing with the economic crisis?"* As the historical analysis and the economic chapter showed, the main problem of the crisis is that there is no political and fiscal union to go together with the monetary union. Furthermore, there is no *real* single market. Additionally, the analysis showed that some large political flaws were made when not adhering to the Maastricht criteria and the SGP criteria proved to go unpunished, creating the wrong economic incentives. At the same time, there were big holes in European legislation, leaving issues such as moral hazard and competitiveness disparities exist. It is therefore easy to argue that the changes in economic policies were needed regardless of the crisis, but that they were pushed through faster by it. It is my expectation that the TSCG will not improve economic conditions for the signatories. Due to the focus on austerity instead of competitiveness and growth, the disparities that exist in the balance of payments between the core and the periphery will probably not improve. Moreover, as Table 3 points out, no real new economic instruments were introduced by the TSCG to tackle the crisis.

Legally, some steps were made that can be disputed and the case therefore actually shows the political primacy over institutions with their decision to create this 'alternative' institution. Up to this day, no legal action was undertaken surrounding the legal viability of the treaty. Not to say this will not lead to practical problems. The TSCG provisions have introduced a decision-making structure difficult to grasp. There are now normal Council meetings with 28 participating states, Eurozone meetings with 17 leaders present, TSCG Eurosummits with 25 signatories present and last, meetings set out by the EPP that include 23 member states. These proceedings are in line with liberal intergovernmentalist thinking that shows the European institutions to merely be the states' agents. The clearest example is the inability of the European Parliament to exert any type of real influence during the negotiations and their choice not to go to the ECJ to discuss the legality of the treaty. Nevertheless, the legal chapter also showed us that the TSCG brought about a change that might affect national economies more strongly than European economic policies created before. Since nearly all signatories have implemented the European rules in their national (constitutional) legislation, it might be that the member states will now have to adhere to the 'European' rules more stringently. National oversight institutions now have national legal power to enforce the TSCG rules. Hence, even though there was a weak deterrence mechanism, countries have appeared to take the institution seriously, making the TSCG no 'real' paper tiger, but rather a useful institution for tackling economic issues. Again, this more positive view presumes that austerity measures are an effective way out of the crisis, something that is widely disputed.

The remaining three subquestions focused on data collection and theory-testing. The third subquestion read: "*Describing the process of agenda-setting and negotiations: How did the TSCG come into existence?"* and described the five negotiation rounds. Chapter 6 then dealt with the last two subquestions that read the following: "*Can the theory of liberal intergovernmentalism with its concepts of national preference formation and interstate bargaining explain the politics behind the coming into existence of the TSCG?"* and "*To what extent is the model of institutional choice reflected in the final draft of the TSCG."* The TSCG negotiations turned out to revolve around a power structure that is hard to pin down. One interpretation of the treaty shows Germany as an (economic) coercive actor, forcing on a treaty due to national domestic sentiments. Another interpretation power relations is that of ESM funds as a side-payment in return for agreeing to the treaty. Meaning that bail-out dependent countries had to make concessions in order to receive the side-payments. In that sense, the negotiation was not coercive such as classical realist would say, but rather a bargain better struck by the more powerful larger states. Conversely, as the chapter on hegemony shows, there are multiple interpretations possible from the sources on the TSCG. The perspective of having bailout funds withdrawn from countries like Ireland, Spain or near-bankrupt Greece, does appear to correlate with how the media portrayed the situation at the end of 2011, as a coercive deal. On hegemony as ideological dominance, the sources show that there is a clear trend in policies revolving around austerity. Furthermore, it appears that the German Weltanschauung is accepted by politicians throughout Europe, although they still negotiate on counterhegemonic ideas on economic growth. Thus, without clear forceful pressure from Germany on ideology, it seems the connotation of Germany as a co-operative hegemon using both persuasion and diplomacy, coercive measures and leading by example, is most fitting for the TSCG case. Due to the fact that it is impossible to derive a clearer vision out of the available sources, the conclusion on whether a coercive hegemon was at play or liberal intergovernmentalist stronger bargaining occurred, is left in the open. What can be concluded however, is that when interpreting the information from a liberal intergovernmentalist background, it is clear that Germany had all the resources and capabilities to be the strongest negotiator in the negotiating room. A position they certainly made use of and it can be said that packaging the issue with the ESM treaty was a clear show of excellent negotiating strategy. Also the theory on preference formation on a national level proved successful with German, French and British negotiating positions being clearly defined by how the leaders portrayed the will of the people. Also on constitutional choice the theory proved rather fruitful. With the debt brake implemented in most countries, Germany has succeeded in creating, at least on paper, a more ordoliberal Europe. For both Merkel and German constituents, this formalization of austerity pledges was the most important goal of the treaty,[54] showing the connections between Level I, II and III of the liberal intergovernmentalist framework.

[54] Interestingly, although not to the extent of the peripheral countries, also Germany's debt exceeds the limits set out by the TSCG. It will be interesting to see whether or not Germany will uphold its debt brake or if this will result in another paper tiger just as the SGP.

Regarding the positive results concerning liberal intergovernmentalist expectations, this is most likely due to an a priori plausibility. The theory was sought to fit the case and it shows a deeper underlying methodological problem. Using a specific framework and specific concepts, certain aspects regarding the case might have been out of sight, falling outside of the framework's presumptions and therefore possible explanations. Looking away from static approaches, these difficulties can be overcome when reaffirming that the goal of the thesis was *Verstehen* rather than *Erklären.* It is with this in mind that the study can be deemed sufficient to answer the research question: "*What is the Treaty on Stability, Coordination and Governance, how and why did it come into existence and to what extent does it reflect liberal intergovernmentalist expectations?*". To answer, it can be concluded that the TSCG is an international treaty that came into existence, because Angela Merkel wanted to appease the German public which more and more was resenting the methods used to get the European Union countries out of the crisis. The road to achieving this treaty turned out to be fast and rather simple, but most of all different from the standard procedural practice. On the one hand, although it uses EU institutions, the treaty itself exists outside of the EU's legal framework and falls under international law. On the other hand, its regulatory features mimic and even incorporate EU institutions, making the tasks described by the Treaty a complicated legal matter. Although liberal intergovernmentalism comes far in explaining the state of affairs surrounding the TSCG, other theoretical concepts also give good insights to what happened. Spill-over, economic interests and cooperative hegemony are concepts one can associate with the TSCG. I would therefore recommend further research to be done within the neo-functionalist, historical institutionalist, contemporary realist and neo-Gramscian traditions. Also more case studies are recommended, focusing on countries such as the Czech Republic and Poland, but also the Southern peripheral countries that appeared to have given in to the treaty without a fight. Last, it would be interesting to research the national parliamentary debates and ratifications and perhaps combine these with research regarding a perceived democratic deficit of the TSCG due to the lack of control of the European parliament.

To conclude, it can be asked whether or not the TSCG has been an answer or important mechanism in the road to solving the crisis and for creating a strong European economy. As could be seen, the TSCG has not created institutional mechanisms towards a political, budgetary or banking union, mechanisms that are necessary to overcome this crisis. Hence, it seems that this is an institutional leap too far at the moment. The inclusion of the word *fiscal* in the name of the treaty however, could create an opening for real change. A real fiscal union would imply fiscal transfers, a surplus recycling mechanism, a unified banking sector, a treasury, etc. Therefore, as it is my belief that this is necessary to overcome the regulatory failures so far, the strongest countries should make a firm commitment to contribute to real change, whereas the more fragile countries should try their best in tackling mass deficits and crooked government policies. Only then can the irreversibility that spill-over brings lead to a more healthy European economy. It is in this context that the TSCG has provided for more political commitment towards this cause, and it can therefore be seen as one small step out of many. Stepping away from the liberal intergovernmentalist literature, I will end by quoting Jean Monnet that it is my hope that although "Europe will be forged in crises, […] it will also be the sum of the solutions adopted for those crises."

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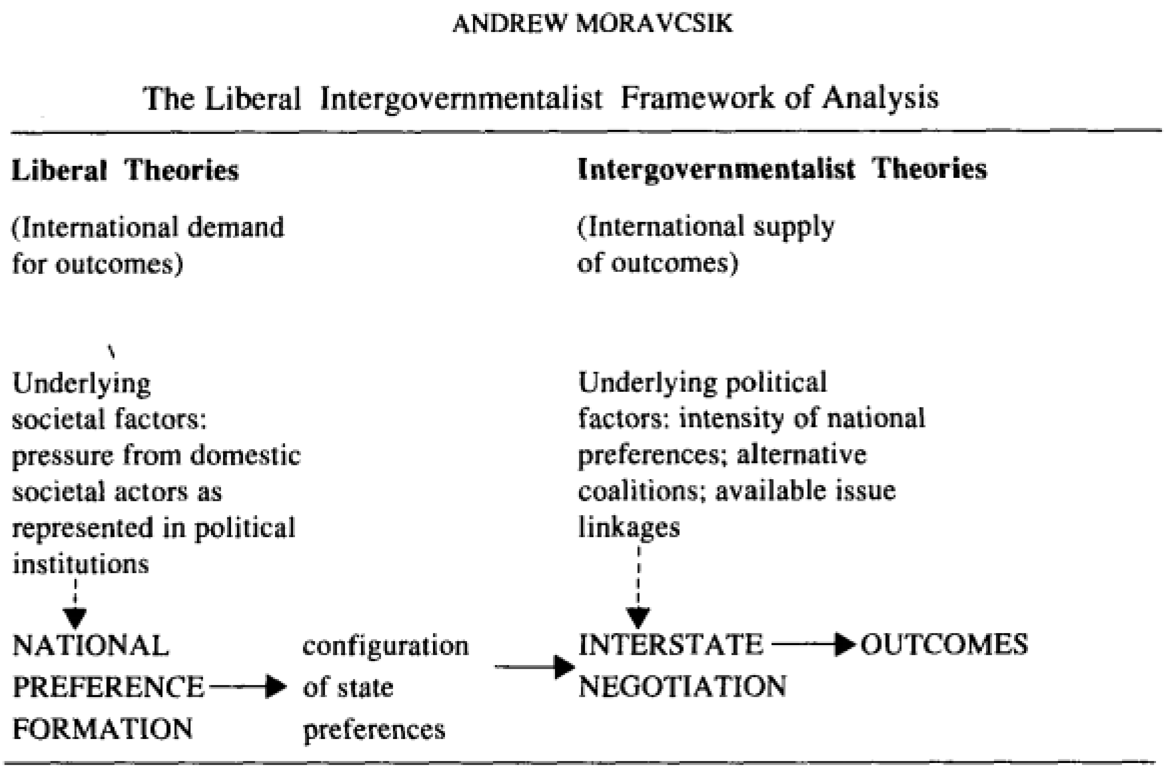
Appendix

In order of appearance:

Figure 1: The Liberal Intergovernmentalist Framework



Source: (Moravcsik, 1993, p. 482)

Table 1: The Maastricht Criteria

What is measured:	Price stability	Sound public finances	Sustainable public finances	Durability of convergence	Exchange rate stability
How it is measured:	Consumer price inflation rate	Government deficit as % of GDP	Government debt as % of GDP	Long-term interest rate	Deviation from a central rate
Convergence criteria:	Not more than 1.5 percentage points above the rate of the three best performing Member States	Reference value: not more than 3%	Reference value: not more than 60%	Not more than 2 percentage points above the rate of the three best performing Member States in terms of price stability	Participation in ERM II for at least 2 years without severe tensions

Source: (European Commission)

Table 2: The TSCG's main measures

Title	Measure
III	Varying Balanced Budget Rule: Correction mechanism must be implemented in national law.
	EDP Procedure is strengthened.
	A numerical benchmark for debt reduction (the 60% of GDP debt rule)
	Ex ante reporting
IV	More policy measures enhancing convergence
	Ex ante national policy reform discussion (to create a best practice forum)
V	Biannual Eurosummit
	Conference with EP and national parliaments on TSCG matters

Source: (TSCG, 2012)

Table 3: A comparative analysis of the Sixpack legislation and the TSCG

Type of regulation	Sixpack		TSCG		Comparison
Budgetary criteria	Structural deficit in line with MTO	Reg 1175/11	Structural deficit in line with MTO	Art 3	Parallel
	Annual structural deficit up to 1% of GDP.	Reg 1175/11	Annual structural deficit cannot exceed 0.5% of GDP	Art 3(1b)	Tightend
Possibilities to deviate from the MTO	Unusual events outside state control.	Reg 1175/11	Exceptional economic circumstances	Art 3(3b)	Parallel
	Periods of severe economic downturn	Reg 1175/11	Periods of severe economic downturn: When the debt level is below 60% GDP and the structural deficit is below 1% GDP	Art 3(1d)	Tightened (Clear definition added)
Enforcement	Warning correction procedure	Reg 1175/11	Enshrined in nat. law; Independent watchdog	Art 3(2)	EU vs. national procedure
	Non-compliance sanctioning mechanism: Interestbearing/ Non-interest bearing deposit of 0,2% of GDP	Reg 1173/11 (art 3/4)	Automatic correction mechanism	Art 3 (1e/2)	Additional
	Non-compliance: Automatic sanctions of 0,2% of GDP	Reg 1173/11 (art 6)	ECJ sanction up to 0,1% of GDP	Art 8	Earlier response

Based on (TSCG, 2012) and (Blizkovsky, 2012))

Table 4: The development of economic governance

Institution	Legal name	Establishing:
SGP: The basic institution	1997 Treaty of Amsterdam: Article 99 and 104 Now: art 121 and 126 of the TFEU.	Political commitment, preventive elements such as the monitored stability and convergence programmes and dissuasive elements such as the excessive deficit procedure.
	Resolution of the European Council on the Stability and Growth Pact, Amsterdam, 17 June 1997	
	Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies..	
	Council Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure	
2005 Reform	20 March 2005 adoption of the "Improving the implementation of the Stability and Growth Pact" report.	Changes described in the report were endorsed by the Council, foremost changing the EDP. The corrective arm measures are changed by e.g. introducing a country-specific MTO, expanding the early warning mechanism to surpass the Council and, most importantly, allowing member states to pursue policies deviating from their MTO for structural reforms.
	Council Regulation (EC) No 1055/2005 of 27 June 2005 amending Regulation (EC) No 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies	
	Council Regulation (EC) No 1056/05 of 27 June 2005 amending Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure.	
2011 Reform: The Sixpack	Regulation of the European Parliament and the Council amending Regulation (EC) No 1466/97 on the strengthening of budgetary surveillance and coordination of economic policies (No 1175/2011)	Budgetary discipline: MTO
	Council Regulation amending Regulation (EC) No 1467/97 regarding speeding up and clarifying the implementation of the excessive deficit (No 1177/2011)	Budgetary discipline: EDP
	Regulation of the European Parliament and Council Directive on the effective enforcement of budgetary surveillance in the euro area (No 1173/2011)	Budgetary discipline: enforcements / sanctions
	Directive of the Council on the requirements for the fiscal framework of the Member States (Council Directive 2011/85/EU	Budgetary frameworks
	Regulation of the European Parliament and of the Council on the prevention and correction of macroeconomic imbalances (No 1176/2011)	Macroeconomic surveillance
	Regulation of the European Parliament and of the Council on enforcement action to correct excessive macroeconomic imbalances in the euro area (No 1174/2011)	Macro-economic surveillance: enforcement / sanctions
2013 Reform: Twopack	Regulation (EU) No 472/2013 of the European Parliament and of the Council of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States in the euro area experiencing or threatened with serious difficulties with respect to their financial stability	More transparency, oversight and coordination.
	Regulation (EU) No 473/2013 of the European Parliament and of the Council of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the euro area	