

# AN ANALYSIS OF: WHY WERE THE PROCEDURES OF THE EUROPEAN SEMESTER INTRODUCED



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## *A mutating animal*

## **Abstract**

This thesis examines the development of the European Semester and if there in the European monetary union exists high interdependency amongst euro countries, and whether or not in the reflection of the economic crisis in Europe, the interdependency made it necessary to develop more fiscal integration to avoid negative consequences amongst euro countries in the further. Thus, the thesis can be said to examine the impact of the recent economic crisis on EU member states and more precise the euro area, and try to study the political and institutional responses to the crisis. Additionally, with a high scepticism towards EU and the handing over of sovereignty to EU intuitions, therein lies a problematic concern and must be studied further to give both a deeper understanding of structural changes but also, why there exists a necessity to strengthen EU more.

The thesis' method is to test if neofunctionalism can explain the preferences and interest driving the development of fiscal integration, by examine the political and institutional development in the monetary and fiscal integration in recent years. The thesis examines the matter in practice by developing a deeper understanding of the European Union structure and the consequences of the economic crisis, by testing it in the light of neofunctionalism. The thesis focuses on the development of the integration leading up to the introduction of the European Semester.

The thesis concludes that the interdependency amongst euro countries and the weakness in fiscal political and institutional structure before the crisis, are strong incentives for the member states to reinforce fiscal policy at EU-level. In light of neofunctionalism the spill-over concept supports the integration from monetary integration over in fiscal integration as a functional and institutional spill-over, to ensure best possible benefits for member states based on the countries own interests. Or said in other words, the European Semester instrument was created to help ensure growth and stability in the euro area, reinforcing the fiscal dimension of the monetary union and ensuring mechanisms to guide national fiscal policies towards more convergence and more sustainable economic governance structures, in light of recent extraordinary economic and fiscal experiences, both at EU and national level.

## 1. Introduction and problem area

This thesis examines why the new fiscal procedures were necessary in reaction to the recent economic and fiscal crisis in Europe. With the out-break of the crisis the European Union has introduced a series of far-reaching changes in its institutional architecture for economic governance. In the centre of this is the European Semester of policy coordination. The aim was to contribute to consolidate the European Economic and Monetary Union by strengthening economic policy coordination (Europa.eu<sup>2</sup>, 2013). Many will see the European Semester as a web of different coordination processes, connecting with existing or new surveillance mechanisms, which can be very confusing. Nevertheless, it is important to make sense of and understand, the political and institutional progress at EU-level and the driving forces behind them, to bring light on the recent developments and the countries own initiatives to reinforce fiscal institutions and procedures at a supranational level.

Therefore, in this thesis the aim is to get a deeper understanding of the European Union and its economic and fiscal development in recent years, by examine the political and institutional developments caused by the economic and fiscal crisis, up to the creation of the European Semester. Hereby, the focus of this thesis will be:

Problem formulation: *Why were the procedures of the European Semester introduced?*

The problem formulation is the key question of research, which will be used in the development of this thesis. It will determine the problem area to study and guide the author towards a deeper understanding of the recent year's fiscal integration in EU. Hereunder, will now be described a limitation of the scope of the analysis later in the thesis, and a short introduction to the thesis structure, which will be further elaborated in depth as the reader of this thesis proceeds reading.

### 1.1 Limiting the scope of the analysis and short introduction of thesis structure

The EU is a unique governance structure with a numbers of institutions that meet the minimum requirement to constitute a supranational state, which enables for a common European interests to develop (EUCE, 2013:3). The EU can be said to have resulted in a long process of voluntary economic and political integration between countries in Europe, and liberalised trade, coordinated

macroeconomic policies, and created a centralised set of governing institutions with authoritative power in many policy areas. Scholars have struggled to define this political entity, consisting of member states that pool their sovereignty at the EU-level, at the same time preserving their own identities as independent states. Nevertheless, an interconnection amongst member states is clear to exist and further steps are taken for more integration amongst them (EUCE, 2013:1).

It would be interesting to examine this matter by testing whether the perspective of the neofunctionalism could help answer the question of why the procedures of the European Semester were introduced. Hereby, the method must anchor the theory and the case studies together, not focusing on other interesting developments in the EU, such as e.g. the first steps of integration with the Coal and Steel Community created by Belgium, Germany, France, Italy, Luxembourg and Netherlands in 1951, but instead, limiting the scope to the recent economic and fiscal crisis in Europe, and elaborate the political and institutional response in EU, in light of the crisis, to deal with the negative consequences.

Hence, to interpret the political and institutional from a neofunctional perspective a method or research design is essential, whereby the theory testing case study is a logical choice for this thesis and therefore, in the centre of the research design must be a hypothesis testing the case, as such is constructed here:

Hypothesis:

*In a monetary union, countries are so interdependent that an excessively loose fiscal policy in one country may have negative consequences for everyone else. Therefore, common rules for fiscal policy, and effective monitoring, are necessary in a currency union. The institutionalisation of the semester has thus been a spill-over effect created by the euro.*

In general, in a thesis work-process there must be great considerations of the process of working towards answering the problem formulation and also hypothesis, therefore a scientific philosophy is chosen to be an underlying or overarching directory of the thesis. Whereby, the author of this thesis obtains a deeper understanding of the problem area, and from the methodology used to find answers. Therefore, the author has examined the hermeneutic philosophy and used it, as the backbone of his research work and steps made in the thesis. This will be further explained in depth in the next chapter,

chapter 2, where the method is examined and described. In extension of the following chapter, in chapter 3, the theoretical consideration and approach will be presented. There next, an overview of the empirical data will be presented in chapter 4, with a coherent description of recent EU development related to the problem area. Hereafter in chapter 5, an analysis based on the research design and theory will be done in combination of the case and empirical presentation from earlier chapters. Finally, in chapter 6, a conclusion will be presented to answer, first the hypothesis, and then the problem formulation.

### **List of abbreviations**

<b>AGS</b>	Annual Growth Survey
<b>EC</b>	European Commission
<b>ECB</b>	European Central Bank
<b>EDP</b>	Excessive Deficit Procedure
<b>EIP</b>	Excessive Imbalance Procedures
<b>EMU</b>	European Monetary Union
<b>EP</b>	European Parliament
<b>ES</b>	European Semester
<b>EU</b>	European Union
<b>GDP</b>	Gross Domestic Product
<b>DMoF</b>	Danish Ministry of Finance
<b>NRP</b>	National Reform Programme
<b>SGP</b>	Stability and Growth Pact



## 2. Method

As mentioned in the previous chapter, there will in this chapter be an introduction to the methodology used in the thesis to answer the problem formulation and hypothesis. First, the hermeneutic approach or philosophy will be presented, and thereafter an explanation of how the hermeneutic approach will be used in this thesis. Secondly, there will be a presentation of the theory testing case study, which has been chosen as the research design to answer *why were the European Semester procedures introduced*, in practice, by using the hypothesis to examine the case through the perspective of neofunctionalism theory (presented in chapter 3).

### 2.1 The hermeneutic approach

In this chapter, the methodological approach of the thesis will be described. The methodological approach takes its starting point in the philosophical hermeneutics, from philosopher Hans-Georg Gadamer. It is logical to present the methodological approach early in the thesis, since this structures the way in which the thesis is designed, and influences the choices being taken along the way.

The hermeneutic approach deals with the understanding of the reality through interpretation of it (Gadamer, 2004:269). The hermeneutic approach characterizes the manner in which the thesis is prepared. In the author's work with the problem formulation "Why were the procedures of the European Semester introduced?" the expectation of the author is to continuously gain a greater understanding of the scope and content of the problem area about the procedures of the European Semester. Thus the author considers the understanding and learning in the same way as Gadamer's philosophical hermeneutics. Gadamer believes that the basic idea of hermeneutics is that we always understand something based on certain preconditions (Gadamer, 2004:269); in other words, we never meet the world without preconditions. The conditions we have decide what we understand and do not understand. When we approach a text, a behaviour or a picture which seems incomprehensible, it is always incomprehensible in light of the contextual background we have with us in the process of understanding new things, and it is the task of the interpreter to "*let himself be guided by the things themselves*" (Gadamer, 2004:269) and the "*first, last and constant task*" (Gadamer, 2004:269). This concept of *understanding* or *to understand* is the characterization of the way humans function. Thus, Gadamer is positioning philosophical hermeneutics in an ontological basis, where humans have a

*foreprojection* or preunderstanding and where it is a necessary condition to make it possible to understand anything. Understanding and the way humans recognize the world will therefore consist of a number of components (Gadamer, 2004: 269-270). Gadamer says, “*This constant process of new projection constitutes the movement of understanding and interpretation.*” (Gadamer, 2004: 269) According to Gadamer, there cannot be a true unprejudiced interpretation of reality, because people will always be marked by experiences and the understanding which already exists in a person. A person who is trying to understand is exposed to distractions from pre-understanding or pre-meaning that are not born out of the subjects we research. He then argues that to try and ensure some objectivity, it is important to acknowledge a pre-meaning exists, and to constantly be mindful of it (Gadamer, 2004: 270). Thus Gadamar claims that meaning and understanding always must be seen in the light of the preunderstanding a person may have. Therefore, a preunderstanding or prejudices must be accepted as a condition for meaning and understanding, and “*prejudice*” *certainly does not necessarily mean a false judgement, but part of the idea is that it can have either a positive or negative value*” (Gadamer, 2004: 273).

In Gadamer’s hermeneutic philosophy, to understand the process of understanding one must consider the composition of the parts of the whole, which in hermeneutics is described as the hermeneutic circle. A central element in hermeneutics is the hermeneutic circle, which focuses on the relationship between parts and the whole in humans’ creation of understanding or interpreting

“*Fundamentally, understanding is always a movement in this kind of circle, which is why the repeated return from the whole to the parts, and vice versa, is essential. ...this circle is constantly expanding, since the concept of the whole is relative, and being integrated in ever larger context always affect the understanding of the individual part.*” (Gadamer, 2004:189)

Thus, understanding and meaning are created in the relationship between the interpretation of parts and the whole. Gadamar believes the hermeneutic circle should actually be seen as a spiral (as it is not standing in the same place all the time), and there is no opportunity to step out of it. Gadamar claims that humans can never step out of the hermeneutic circle, as it represents the fundamental structure of the way we understand the world. Thus, the human perception can be illustrated as a spiral in which understanding the whole will change as the understanding of the parts is a continuous spiral (Gadamer, 2004:190).

Gadamer argues that understanding and meaning is created in the meeting between the interpreter and the examined object (Gadamer, 2004: 195). The interpreter’s own understanding and the context

in which this is in, will always be important for the understanding that is being created in the encounter with the object, since meaningful phenomena are only understandable in the connection or context in which they appear. It is the connection that gives them a certain meaning and creates the keys one must have in order to understand them. In order to read out the meaning they might have, the researcher must be mindful of their context. Therefore, the interpreter's own understanding always has an influence on the meaning that is being created, with the created opinion being provided by the context from which the interpreter is in and the context the object is a part of. In other words, the interpreter must be aware of his own context and the context of the object being studied (Gadamer, 2004:195).

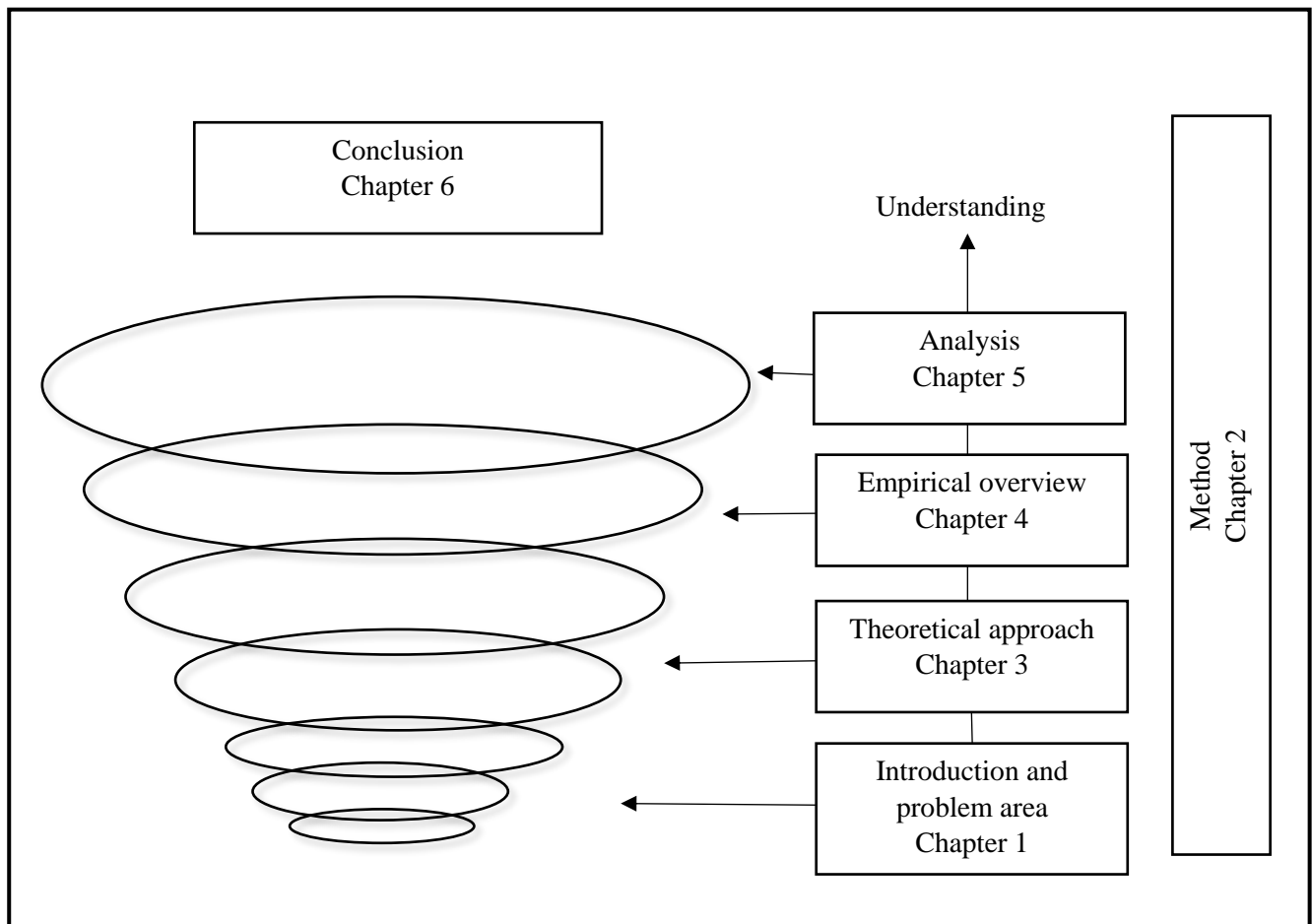
The author of this thesis will, therefore, according to philosophical hermeneutics, be influenced by my own preunderstanding and prejudices when I study the research field.

## 2.2 The hermeneutic influence on the thesis process

The hermeneutic starting point is that understanding of the reality happens through interpretation of it. This means that the author's understanding of why the procedures of the European Semester were introduced is based on a contextual background of continuous increased understanding of the theory and empirical work of the thesis. The author acknowledges Gadamer's understanding-concept and that the author's understanding for the complex research area is under constant development. Hereby the author believes that it is necessary to use a research method to gain better understanding of the problem area. This means that the author continuously use his empirical data from the interviews, literature study and material from the supervisor to increase the understanding of the research area. Additionally, the author used material received from his supervisor to continuously gain a better understanding of the problem area, thus acknowledging that understanding is contextual and bound by experience or conditions of preunderstanding whereby the author makes an effort to give a deeper insight and understanding of why the procedures of the European Semester were introduced. Hereby the author recognizes in accordance with the thesis philosophy of science that the author must focus on continuously trying to gain a greater understanding of the problem area.

Due to the hermeneutical basis, the author wants the thesis to contribute with a better and greater understanding of the problem area. To make it possible for the reader to understand the author's continuous increased understanding of the problem area, it must be clear why the author makes certain ongoing methodical and structural choices made in this thesis. To clarify these choices for the reader,

the author uses Figure 1. This figure will continuously show how each action of the subject field can be viewed through the preparation of the hermeneutical spiral, where the author continuously gains a greater understanding of the problem area. This figure will be presented at the beginning of each chapter, which will give the reader an overview and understanding of how far the author is in his understanding of the problem area.



**Figure 1 – The author's hermeneutic journey for better understanding**

### 2.3 Research design: Theory testing case study

To get a better understanding of the problem formulation, the author makes certain choices in relation to the research design of the thesis. This gives the author an overall frame for collecting empirical data and the analysis. To study the problem formulation, the author, in accordance with the hermeneutic approach, uses a qualitative method (Gadamer, 2004: 155). With this approach the author seeks the unique, where understanding of the given information and context is in focus. Thus,

this section can be seen as another step on the hermeneutic spiral to gain a better understanding of the problem formulation through the chosen research design.

## Theory testing case study

The author of this thesis has chosen a theory testing case study as the overall research design. The case study takes its theoretical impetus from its literature study, interviews, and material obtained through the supervisor.

In the thesis theory testing case study, the theory chosen is the basis of the case study (De Vaus, 2001:221). Depending on the phenomenon being studied, the researcher can choose a single or multiple theories to investigate. On the basis of the theory, it may be simple or complex; we predict that a case with a form of characteristics will have a specific outcome. The purpose of the theory testing case study is to see if the theory actually works in a real life situation, and if it shows positive linkage to the real life situation or phenomenon, whereby the theory is supportive. Alternatively, if the theory does not show linkage to the real world situation, the research must seek to understand, from the analysis of the case, why the predicted outcome did not occur (De Vaus, 2001:222). Hereby, to test the theory on the real world situation, the author sets up a hypothesis:

*In a monetary union, countries are so interdependent that an excessively loose fiscal policy in one country may have negative consequences for everyone else. Therefore, common rules for fiscal policy as well as effective monitoring is a necessity in a currency union. The institutionalisation of the semester has thus ben a spill-over effect created by the euro.*

Using the hypothesis gives the author a better frame to study the problem area and, according to hermeneutic philosophy, a better and more nuanced understanding. The frame makes it possible for the author to look at the information from different perspectives and form a fusion of the understandings gained from the literacy study, interviews, and material from the supervisor. Therefore, the theory testing case study will be the overall framework in the analysis and the hypothesis will be the basis of the method in the analysis to test the theory and see if it supports the

explanation of the problem area. In accordance with the hermeneutic philosophy and research design, a qualitative answer and better understanding of the problem formulation will be reached.

The theory testing case study has a deductive characteristic, where the established theory is the basis for the scope of the case, and analysis and interpretation of the case. This means that the case is anchored to the theory, and the scope of the case takes impetus in what elements are given in a social organization of the relevance related to the theory (Antoft, 2007:42).

To give a clear understanding of the overall frame in the research design, and its concepts, we look at the arguments made by the methodologist Diane Vaughan:

*“Theory elaboration [or testing] is a method for developing general theories of particular phenomena through qualitative case analysis.”* (Vaughan, 1992:175). Furthermore, Vaughan defines the concepts of theory testing (Vaughan, 1992:175):

- *“By theory, I mean theoretical tools in general (theory, models, and concepts) rather than a more restricted formal meaning (a set of interrelated propositions that are testable and explain some phenomenon).*
- *“By elaboration, I mean the process of refining a theory, model, or concept in order to specify more carefully the circumstances in which it does or does not offer potential for explanation.*
- *“By cases, I mean organizational forms that are analysed regarding some similar event, activity, or circumstances: for example, social control in a family, nation-state, or professional association. The cases can be ethnographies, analyses based on interviews and documents, or historical comparative studies.”*

By using Vaughan’s conceptual understanding of the theory testing research design, the author is given the tools to build on the obtained understanding from the literacy study, interviews and material from the supervisor, to take the next step in the hermeneutic circle and the analysis. The author can work towards a deeper understanding of why the procedures of the European Semester were introduced. Therefore, when following the above design, the next step is to find a corresponding theory to the case, as the case is anchored to the theory. With this search for a theory in this thesis, there must be a process of specifying it, and this is therefore done in the next chapter. Hereafter, the case and theory chosen will be tested in the analysis, by a thorough examination of the circumstances in which the theory does or does not offer potential for explanation of the problem area. Specifically,

this will be done in the light of the empirical data obtained (described in chapter 4) and then be anchored to the theory.

## 2.4 Interview method: Semi-structured interview

In the hermeneutic philosophy of Gadamer, dialogue is essential to get a better understanding “...*the basic in our actual lives for the specifically hermeneutic way we are related to other persons and our cultural past, namely, dialogue and especially the dialogue of question and answer.*” (Gadamer, 2004: 13). Gadamer explains that this experience is a continuous integrative process “...*in which what we encounter widens our horizon*” (Gadamer, 2004:13), and gives the author the possibility of adding to the information which he already has. Thus, the author chooses to take advantage of the semi-structured interview and ask the interviewees questions about the problem area of this thesis.

The author uses the semi-structured interview method, which is characterized by giving the interviewer a certain degree of flexibility during the interview itself. By using the approach, the interviewer is capable of shifting between the different questions in the interview guide according to what makes most sense in the situation (Bryman, 2012: 472). The interview guide can be seen as an orientation or guideline in the interview, ensuring the interviewer gets around to all the elements, without necessarily going through every question chronologically. Using the semi-structured method means it will also be possible to abandon the interview guide if an interviewee talks about other elements which could be interesting for the thesis: “*Questions that are not included in the guide may be asked as the interviewer picks up on things said by the interviewees.*” (Bryman, 2012:471). Thus, in the development of the interview guide for this thesis, the author focused on creating open and more general question, so the interviewees had more flexibility to answer the questions and ensure more subjective stories or answers.

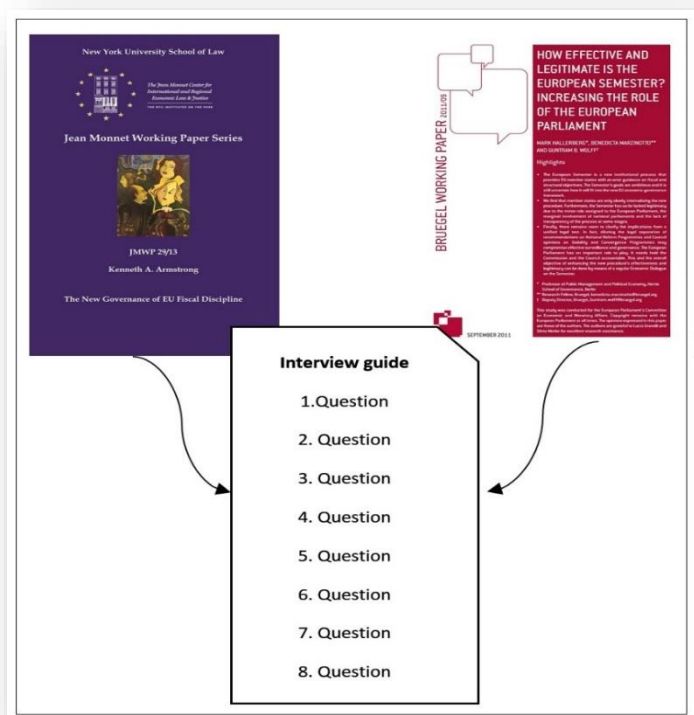
In addition, in accordance with the hermeneutic philosophy, the author wishes the interviewee’s own understanding be brought to light during the interview. This means that the author has chosen to make use of the narrative interview, which gives the interviewees the possibility to take control of the interview situation. Therefore, it will be easier for the interviewee to discuss the elements in their own understanding that they find most relevant in relation to the problem area. The narrative interview method must put the interviewee in focus, while the interviewer holds back, to make space for the story told by the interviewee. Thereby, it can be claimed that the interviewer acts as a “*neutral recording device*” (Mishler, 1986:164) but must be aware of particular features by which the narrative

interview is affected, such as “...*the different motives, interests, and constraints involved in each storytelling situation...*” (Mishler, 1986:157). Mishler also argues that in the story told by the interviewee, it is important to be mindful of the “*social and circumstantial context of the narrative and the structure of motivation*” (Mishler, 1986:157), which may influence the transaction between the teller and his audience. Thus, through the use of the semi-structured and narrative interview, in accordance with the hermeneutic philosophy, the author will develop an interview guide with open and general questions, but be mindful of the circumstances and motivations before, during and after the interview, to ensure the best possible processing of the information gained in the interviews. This will then result in a widening of the understanding of the problem area and be used as supportive information when analysing the hypotheses.

#### 2.4.1 Interview guide

The formation of the interview guide has its basis in the literacy study made. This means that the author’s understanding of the problem area after the literacy study was made about the European Semester forms the building blocks for the interview guide. From the literacy study, two literature studies were chosen, through a careful selection process (shown in the European Semester literacy study in section 4.1), to be the basis for forming the interview questions. Figure X shows how the author’s understanding of the information from the literacy study has formed the questions in the interview guide.





**Figure X – Understanding the formation of the interview guide**

As shown in the Figure X – *Understanding the formation of the interview guide*, is the Figure Y – The *interview guide* formed from the literature study performed about the European Semester. This interview guide forms the frame of the general questions during the interviews.

The generic interview guide can be seen in the below Figure Y – The interview guide.

**Interview Questions**

- 1) How would you define the European Semester? What it is and the aim of it?
- 2) What is the meaning/purpose of the European Semester guidelines? And why is it effective?
- 3) Why do you think member states choose to follow the guidelines of the semester?
- 4) Do you think the method of the European Semester is most effective because it is law-based or coordination-based?
- 5) Why do you think the European Semester is including social aspects/dimensions into its recommendations?
- 6) Do you think including social dimensions into the semester will help create new growth in Europe?
- 7) How do you think the European Semester will develop in the further?
- 8) Do you think the member states are sufficiently involved in the European Semester? To implement recommendations and guidelines as they want, or is it more top-down?

**Figure Y – The interview guide**

#### 2.4.2 Hermeneutic principles in interpreting scripture

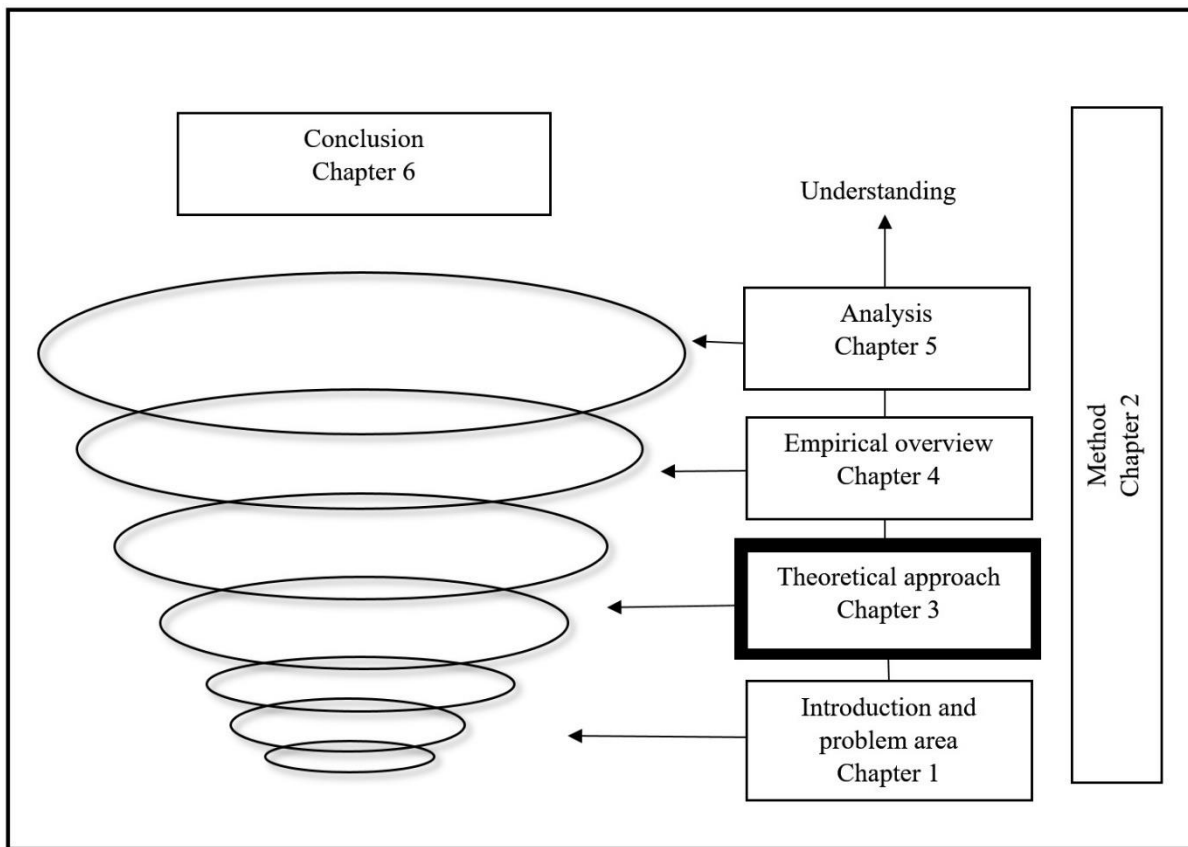
In the tradition of hermeneutics, there have been interpretations of scripture for centuries in many forms, especially with regard to judicial or literature texts, or e.g. the bible. In this section, the author presents the principles of interpreting scripture from the hermeneutic philosophy perspective. This shows the basis on which the author interprets the interviews.

The hermeneutic principles in interpreting scripture can be shown in seven principles. The first principle applies to the continuous reciprocating process between parts and the whole, as a result of the hermeneutic circle (Gadamer, 2004:177). Based on an often unclear and intuitive understanding of the text as a whole, its parts are interpreted separately, and from these parts are again supporting

in understanding the whole. The second principle is that an interpreted meaning ends when you have reached a good manifestation, or an inner unity in the text, where there is no logical contradiction (Gadamer, 2004:177). The third principle is the testing of the interpreted parts with respect to the whole sense of the text and possibly also with respect to other texts by the same author. The fourth principle is the text's autonomy; the text should be understood from its own frame of references through an interpretation of what the text says itself on a theme. The fifth principle of the hermeneutic interpretation of a text relates knowledge about the theme to the text. The sixth principle is that an interpretation of a text is not without prerequisites (Gadamer, 2004:178). The interpreter cannot jump out of the tradition of understanding he or she lives in. The interpreter of a text can, however, try to explicate his assumptions and try to be aware of how certain formulations of a question to a text already determine what kinds of answer is possible. The last principle is that any interpretation holds innovation and creativity. The interpretation goes beyond the immediately given, and enriches the understanding by bringing new differentiations and relationships in the text above, thus advancing the understanding as a whole (Gadamer, 2004:178).

After the interviews, the audio files were transcribed so the author could work on them in text format. Thereafter, the author chose to use the hermeneutic principles of interpreting scripts to get a meaningful overview of the collected empirical data. The full interviews can be found in Annex 3 and will be used to support the analysis process of testing the hypothesis in this thesis.

### 3 Presentation of theoretical approach



**Figure 2 – The author's hermeneutic journey for better understanding**

In this chapter, most essential theoretical arguments will be presented from the Andrew Moravcsiks *liberal intergovernmentalism* and Ernst B. Haas *neofunctionalism*. The author has, through the theoretical works of Moravcsik and Haas, in accordance with the hermeneutic philosophy and research design, gained a deeper understanding of the problem area in this thesis. This can be seen as the next step for the author in his journey towards greater understanding cf. Figure 2. The works of Ernst B. Haas are the key element in the earlier presented hypothesis and the basis for later analysis of the problem area. In this section of theoretical approach, the presentation will be the author's understanding and the basis of why neofunctionalism was chosen for this thesis. First, there will be, in accordance with the hermeneutic philosophy, a consideration of European integration theory in general to widen the understanding of the problem area. The author wishes to have a greater understanding of the scope and limitations of European integration. Second, the author will present a deeper understanding and consideration between neofunctionalism and liberal intergovernmentalism, which is the basis for the final theoretical choice applied in this thesis. Finally, i present the key theoretical arguments of neofunctionalism.

### 3.1 Considerations on European integration theory

In the book of Morten Kelstrup (et. al.) 'Europa i forandring', a consideration of the European integrational theories is presented. The author wishes for a better understanding of the theoretical scope and limitations, in accordance with the hermeneutic philosophy, of "Überlieferung" (Gadamer, 2004:16) or "traditional text" (Gadamer, 2004:16), meaning, that to understand what is "handed down from the past" (Gadamer, 2004:16) it is necessary to actively question ourselves and question the field we wish to understand. Thus, to achieve a better understanding of the problem area, the author first tries to understand and consider the scope and limitations of the European integration theories.

The considerations from Kelstrup's work are about the challenges when trying to interpret European integration. The earlier theoretical studies especially emphasize the main force behind the integration process which often tried to find new ways in which more integration was created (Kelstrup et. al., 2012:175). In recent years, according to Kelstrup et al., especially after the changes in Europe at the start of the 1990s, the theoretical studies of EU have to some degree changed characteristics. The authors of the book argue that as the EU has become an independent political unity with its own internal dynamics and with noticeable effects in the national societies, two new meaningful developments have occurred in European integration theory (Kelstrup et. al., 2012:175). The first development, which the authors of the book point out, is to focus on separate sub-areas within the EU, without necessarily focusing on the general explanations of the overall integration. The authors of the book believe that I can focus on (my translation) "*For example... individual policy areas individual institutions or various parts of the EU decision-making.*" (Kelstrup et. al., 2012:175). This means that no longer is it only the general explanations of the overall integration in EU which may be important to study. The authors point out a second new and meaningful development about recent theoretical approaches. The second development, according to the authors of the book, is the importance of studying *Europeanisation* as an individual field of research. In this field there have been several definitions of Europeanisation; one of the first was that of Robert Ladrech: "*Europeanization is an incremental process reorienting the direction and shape of politics to the degree that EC political and economic dynamics become part of the organizational logic of national politics and policy-making*" (Ladrech, 1994:17). In his later works, and the more recent Europeanisation works, he redefined it: "*Europeanization is ... understood as the change within a member state whose motivating logic is tied to a EU policy or decision-making process. The prime*

*concern of any Europeanization research agenda is therefore establishing the causal link, thereby validating the impact of the EU on domestic change.” (Ladrech, 2010:2).*

The Europeanisation focuses on the effects created from EU integration in member states instead of what the driving force is behind the European integration. According Kelstrup et al., one can say that the theoretical efforts or goals in EU studies today are not the same as earlier; where the purpose was to reach a single theory which could explain development in European integration, there now exists a focus on trying to give understanding to parts of the development in EU and in member states (Kelstrup et. al., 2012:176).

The considerations in the book also point to the difficulties in determining a single conceptual framework for discussing European integration. On one side, the book argues that researchers are like ‘blind people studying an elephant’, where they try to examine the big animal (EU) individually and end up with different conclusions on what the animal form is, because (my translation), “*They did it by each touching it, but each of them touched different parts of the big animal*” (Kelstrup et. al., 2012:176). Hereby the researchers had different opinions on what the form of the animal was and each of them had their own approach and experience with the animal, which only made them sceptical of the others’ opinions about the “*»nature of the beast«*” (Kelstrup et. al., 2012:176). In extension to the above considerations, the authors of the book also point to another difficulty when trying to determine a single conceptual framework for European integration. The difficulty is that theoretical debates change over time, and the EU itself – and hereby the subject of study – also changes (Kelstrup et. al., 2012:176). This makes sense because (my translation), “*There is of course a fundamental difference between the first organization of the Coal and Steel Community and the EU’s current political and legal system.*” (Kelstrup et. al, 2012:176). Thus, to develop a single conceptual framework in European integration is almost impossible, and taking into account that the research field (EU) is continuously changing itself, makes it “*»a moving target«*” (Kelstrup et. al., 2012:176) or “*»a mutating animal«*” (Kelstrup et. al., 2012:177) to study. The book sheds light on some meaningful difficulties of studying the EU and its integration, and where the recent theoretical approaches try not to find general explanations for the overall European integration, but makes an effort to provide a greater understanding of parts of the European integration. Thus, since the EU’s beginnings, scholars have debated the ‘nature of the best’ without reaching consensus.

These considerations are important to be mindful of when taking steps towards getting a better understanding of problem area in the thesis, in accordance with the hermeneutic philosophy, and

when finding the theoretical approach to base the thesis hypothesis on, which must be tested later in the analysis. Therefore, a consideration of both the phenomenon studied and the context it is studied in, was made here.

### 3.2 Neofunctionalism and liberal intergovernmentalism

In the following section there has been a deeper consideration of theoretical approach, in accordance with the hermeneutic philosophy and research design, to gain further understanding of the problem area. Therefore, in this section, a deeper consideration of theoretical approach is made between neofunctionalism and liberal intergovernmentalism, to explain on what basis the theory in this thesis was chosen.

In the mid-1970s, there was a crisis in the classical integrations theories, which especially affected neofunctionalism, and in general integration theories did not receive any particular attention for some time. The debates in international politics were mainly characterised by the tension between regime theorists and realist theorists, and in particular the realists progressed in the late 1970s. The situation changed when the European Community was showing progress in the mid-1980s. The progress became more obvious under President of the Commission Jacques Delors, with the initiatives of The Single European Act and the creation of a single market in the European Community (Kestrup et. al., 2012:194). The new progress was further reinforced after the reconstruction of Europe in from 1989-1991. This contributed to a new interest in the research of European development, both in the new development in the depth and the challenges which the European Community faced with the break-up in Central- and Eastern Europe. Furthermore, arguments of, e.g., revival of neofunctionalism were made, and both regime theorists and realist theorists showed more interest in the European development (Kestrup et. al., 2012:194). In the next section, a discussion of neofunctionalism and liberal intergovernmentalism will be made, to present the arguments behind this theoretical approach of this thesis.

Neofunctionalism was developed and refined between 1955 and 1975 by Haas, Philippe Schmitter and many others. The contribution from these theorists remains the most comprehensive and sophisticated effort to provide a general theory of European Integration and a benchmark for subsequent scholarship. Since 1975, regardless of many insightful case studies of particular issue-areas, overviews of EC/EU history, and criticisms of neofunctionalism, “*no comparable synthesis has appeared*” (Moravcsik, 1993:474).

The central prediction of the neofunctionalism was that European economic integration would be self-sustaining. The theoretical thought behind this was the concept of “*spill-over*” (Haas, 2004:15), thereby the first steps toward integration trigger endogenous economic and political progress leading to further collaboration. Elementary spill-over is a form of “*economic determinism*” (Moravcsik, 1993:475) based on the ‘end of ideology’ and the advent of a world in which “*the technocrat has become the eminence grise of all government... national and regional*” (Moravcsik, 1993:475). It is believed that economic strategy at the regional level is an unavoidable reaction to the complexity of modern economies. It is “*merely the adaptation... of forms of social and economic organization which evolved historically at the national level*” (Haas, 1964:62). Critics believe the same complexity is expected, over a longer period of time, to “*trap governments in a web of unintended consequences spun by their own previous commitments*” (Moravcsik, 1993:475).

Neofunctionalism categorises two types of spill-over, each of which widens and depends integration. The first, *functional spill-over* (Haas, 2004:20), occurs when incomplete integration challenges the effectiveness of existing policies, both in areas that are already integrated and in related sectors of the economy, thus generating pressure for deepening and broadening policy coordination. Functional spill-over is economic and reflects the closely intertwined nature of modern economies, in which government intervention in one sector causes economic distortions in other places. In the event of any half-done installation between sovereignty policy coordination, the EU would fail to deal with the complexity of working with the controversial problems on the European agenda, and in the end lose its legitimacy. The second, *political spill-over* (Haas, 2004:82), occurs when the existence of supranational organisations sets in motion a self-reinforcing process of institution-building. The regulation of a modern integrated international economy requires technocratic oversight by supranational authorities. In the case of the EU, these are officials, judges and parliamentarians in Brussels, Luxembourg and Strasbourg. These authorities inevitably gain a certain measure of autonomous initiative. Neofunctionalists stress in particular the political role of the European Commission as a driving force for further integration (Haas, 2004:82-95).

Despite the fruitfulness of its perceptions, neofunctionalism is also broadly regarded as having presented an unsatisfactory explanation of European integration (Moravcsik, 1993:475). The most broadly cited reason is empirical: “*neo-functionalism appears to mispredict both trajectory and process of EC evolution.*” (Moravcsik, 1993:475-476). It is argued that as the neofunctionalism forms a clear prediction about the trajectory of EU over time, it was that the authoritative systems which would lead to an automatic progression toward deeper integration and greater supranational influence.



Instead, critics from the liberal intergovernmental view argue that the process of community-building has proceeded steadily through a series of intergovernmental bargains (Moravcsik, 1993:476). Further argued by liberal intergovernmentalists, the process by which integration takes place does not support the neofunctionalist view, because integration has only sporadically spilled over into associated sectors and policies and, more recently, the independent influence of supranational officials has increased slowly and unevenly, if at all, according to liberal intergovernmentalists (Moravcsik, 1993:476). While empirical critiques of neofunctionalism are not without value, they should not be exaggerated. According to liberal intergovernmentalists, the empirical evidence does not seem to confirm the stress placed by neofunctionalism on political spill-over and the autonomy of supranational officials. However, other grounds, mainly the focus on economic interests, may still be feasible. They argue that it remains reasonable to argue that integration is a policy response of “*modern welfare states to rising economic interdependence*” (Moravcsik, 1993:476). A different criticism made is theoretical, specifically that it failed to make a lasting research programme since it lacked a theoretical fundament specified clearly enough to provide a comprehensive basis for precise empirical testing and enhancement. Liberal intergovernmentalists argue that only the early variants of neofunctionalism predicted a steady development toward federalism. However, with the failure of European integration to progress, and “*variation in integration across issues, time periods or countries (‘spillback’, ‘spill-around’, ‘encapsulation’)*”, however, neo-functionlism provided no clear direction for revision.” (Moravcsik, 1993:476). It could be said that further advance in neofunctionalist theory appeared to converge toward a gradually more complex and unspecific ideal-typical explanation of the single case of the EU. Increasing numbers of changes and alternate casual mechanisms were presented, according to Morvcsik: “*until the predictions became so indeterminate as to preclude precise testing.*” (Moravcsik, 1993:476). For example, Moravcsik argued that the uneven development of EC in the 1960s was interpreted as a result of the influence of “*dramatical political actors*” (Moravcsik, 1993:476), referring to Gaulle as the archetype. In addition, Liberal intergovernmentalists argue that although underlining the domestic politics of economic policy coordination, neofunctionalism does not correspond to modern theories of trade policy, which explain government choices on the basis of models of pressure from predictable distributional coalitions (Moravcsik, 1993:477). Thus liberal intergovernmentalists argue, that neofunctionalist analyses of international bargaining indicate the presence of dynamics such as upgrading the common interests through relations and supranational intervention, but offer no explanation, other than the variable skill of supranational leaders, for how governments choose among themselves (Moravcsik, 1993:477).

Even though liberal intergovernmentalism brings forth several valued arguments against the usability and explanatory power of neofunctionalism, there is a fundamental gap in liberal intergovernmentalism. At the core of liberal intergovernmentalism are three essential elements: “*the assumption of rational state behaviour, a liberal theory of national preference formation, and an intergovernmentalist analysis of interstate negotiation.*” (Moravcsik, 1993:480). Thus liberal intergovernmentalists believe that in international political integration, it is obligatory to be able predict and explain it; it requires a theory to elaborate how self-interested actors form unions and coalitions, internationally and domestically, and how conflicts among them are determined. Such theories as liberal intergovernmentalism, “*must be derived independently of the matter being studied, in the sense that they require a set of restrictive microfoundations – assumptions specifying the nature of the fundamental social actors, their preferences, and the constraints they face*”. (Moravcsik, 1993:477). One may therefore argue that liberal intergovernmentalism only focuses on a certain moment in the integration process. It was argued by Daniel Wincott, that liberal intergovernmentalism should be seen as an ‘approach’ rather than a ‘theory’, since liberal intergovernmentalism, as explained by Moravcsik, does not contain the conditions in which it could be empirically disproven. Hereby, Wincott further argues that it is impossible to treat the clear intergovernmental biases of liberal intergovernmentalism as working assumptions. Moravcsik is not trying to make a deduction on the basis of a few meaningfully chosen assumptions; rather, he is performing an act of closure upon certain potential sources of explanations (Wincott, 1995:603-606). This contention allows Wincott, grounding himself in policy analysis, to develop an alternative version of the recent history of European integration, highlighting the everyday practices of the EU as essential to its trajectory or integration. This re-establishes the meaning of supranational institutions in general and the European Court of Justice in particular (Wincott, 1995:603-606). The point here is not to declare the importance of standalone entrepreneurial institutions in general, but to emphasize the significance of the interaction between institutions. Moreover, Wincott points to liberal intergovernmentalisms’s failure to theorize the meaning of policy feed-backs into the EU system that are the consequences of previous decisions. Wincott also addresses the rationality perspective at the center of liberal intergovernmentalism:

*“Rather than assuming that the players in the EC game can review the alternative before them [states] synoptically and choose between them rationally, the approach presented here is based on the radical imperfection of knowledge. In such a world the position of an institution at the centre of a network of knowledge (in the case of the Commission) gives the individual[state] working in it an advantage to*

*be weighed against advantages of other players (for example the member-states)”. (Wincott, 1995:607)*

With this, Wincott underlines the importance of acknowledging the everyday decision-making in supranational institutions, and the importance of the advantages institutions have as centred in the network of knowledge, which gives valid arguments for questioning the rationale of liberal intergovernmentalism. In addition, Ben Rasamond brings forth another important criticism of liberal intergovernmental, that:

*“the two-level game approach adopted by the likes of Moravcsik ... has been argued, constitutes little more than a metaphor. Therefore, the approach is lacking in explanatory power and has no core propositions from which hypotheses might be generated. Its greatest usefulness is in the description of the outcomes of international exchange. It might be that the application of game theory might rectify the situation by injecting formal theoretical components into the basic metaphor. However, as two recent writers point out, ‘the application of formal game theory to international relations requires a variety of information, which has to be gained ex ante, otherwise the hypotheses cannot be tested’ (Wolf & Zangl, 1996:356)“ (Rasamond, 2000:147)*

He therefore argues that liberal intergovernmentalism is missing the explanatory power and does not contain propositions from which a hypothesis can be generated, because the game theory of international negotiations lacks the fully required variety of information which has to be gained ex ante, otherwise the prediction cannot be tested. In other words, the two-level theory lacks the explanatory power of the root causes which might push for further European integration.

Thus, the deeper consideration of the theoretical choice between liberal intergovernmentalism and neofunctionalism in this thesis is made. On the basis of Wincott and Ramond’s meaningful criticism, in accordance with hermeneutic philosophy and the research design, this thesis takes its theoretical position in the neofunctionalist theory.

### 3.3 Neofunctionalism

Ernst B. Haas was the founder of neofunctionalism, and in his work ‘The Uniting of Europe – Political, Social, and Economic forces 1950-1957’, explains neofunctionalism. Neofunctionalism characterizes states as players defending their preferences. They are expected to cooperate with other states when necessary to realize their preferences (Haas, 2004:13). Preferences are seen as results

from change in the domestic competitions and where new national preference continuous are trying to gain influence, also a permanent national preference is not possible, “*there is no fixed and knowable national interests*” (Haas, 2004:14) because they are ever changing. Political actors form their preference based on their values in a certain time or period, and thereby determine the national interest. Haas argues that neofunctionalism brought the assumption of ‘democratic pluralism’ over into policy formulations connecting to international matters by dividing the state into its actor-components (Haas, 2004:14). Further, Haas argues that regional integration was likely to happen when social actors, in calculating their preferences, chose to rely on “*the supranational institutions rather than their own governments to realize their demands.*” (Haas, 2004:14). Further, the institutions would in time increase in legitimacy and authority as they became the sources of policy meeting of the social actors’ demands (Haas, 14:2004). Neofunctionalism assumes that integration progress in a seemingly automatic request for further central services deepened when the central institutions were unable to satisfy the demands of their clients. Thereby, activities related to sectors’ integration initially would “*spill-over*” (Haas, 2004:15) into bordering sectors not yet integrated, but instead becoming the focus of demands for more integration (Haas, 2004:15).

Haas argues that social actors will seek to realize their value derived preferences and will choose whatever means are made available by the democratic order. If opposed, they will reconsider the situation and change interests and values and find new means of realizing these (Haas, 2004:15). However, an important assumption from neofunctionalism is that once a political substantial section of collective life is subject to supranational authority, the logic of spill-over will take care of the future. Haas also argues this process is irreversible, but not necessary a linear progress (Haas, 2014:15).

In neofunctionalism, a central concept mentioned is spill-over, which claims that agreements on integration in one economic area could, over time, cause other economic policy areas to integrate too, so as to ensure the full advantage of the integration in the first policy area. Haas also acknowledges that a political energy in the right direction might be essential and that a high authority which safeguards the integration project’s common interests, and not those of the member states, would be required (Haas, 2004:16). He also argues that the motivation behind more integration is driven by politicians’ own interests. Ernst B. Haas’s definition of neofunctionalism is:

*“Political integration is the process whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectations and political activates to a new centre, whose*

*institutions possess or demand jurisdiction over pre-existing national states. The result is a new political community, superimposed over the pre-existing ones.” (Haas, 2004:16)*

In other words, interpreted by another neofunctionalist Philippe Schmitter:

*“He [Haas] hypothesized that, with the help of an active and resourceful secretariat and support from the organized interests affected by such externalities, national governments might (fitfully) learn and (reluctantly) agree to change their original positions. According to this approach, integration is an intrinsically sporadic and conflictual process, but one in which, under conditions of democracy and pluralistic representation, national governments will find themselves increasingly entangled in regional pressure and end up resolving their conflicts by conceding a wider scope and developing more authority to the regional organizations they have created. Eventually, their citizens will begin shifting more and more of their expectations to the region and satisfying them will increase the likelihood that economic-social integration will ‘spill-over’ into political integration” (Schmitter, 2005:257)*

In an extension of this, there are four circumstances which might push for further integration. These can be seen as the root causes for further integration (Schmitter, 2005:258):

- Increased interdependence between member states
- A crisis of certain size
- Development of a powerful regional bureaucracy
- Development of independent, regional interest organizations capable of acting in a region

Both theorists did their main research-work on European integration and the European Community/European Union. The characteristic difference between Haas and Schmitter is that Schmitter made the contribution to establish a ‘new generation’ of neofunctionalists (Schmitter, 2005:258).

Schmitter’s conceptual framework is used in this thesis, and presented here:

1. *“States are not exclusive and may no longer be the predominant actors in the regional/international system”*
2. *“Interests, rather than common ideals or identity, are the driving force behind the integration process,”* [ but actors may learn and develop common ideals and identities].
3. *“Decisions about integration are normally taken with very imperfect knowledge of their consequences and frequently under the pressure of deadlines or impending crisis”*

4. *“Functions or issue areas provide the usual foci for the integration process (at least in Western Europe), beginning with those that are initially considered the least controversial and, hence, easiest to deal with.”*
5. *“Since actors in the integration process cannot be confined to existing national states or their interest groups and social movements ..., a theory of it should explicitly include a role for supranational persons, secretariats, and associations whose careers, resources and expectations become increasingly dependent upon the further expansion of integrative tasks”.*
6. *“[Actors ] Strategies with regard to integration are convergent, not identical”*
7. *“Outcomes of international integration are neither fixed in advance by the founding treaty, nor are they likely to be expressed exclusively through subsequent formal agreements”*  
(Schmitter, 2005:258)

As mentioned, the logic of Haas spill-over is the central mechanism to explain the expansive logic of European Integration (Haas, 1968:283-317). Later research work has categorized the factors and conditions producing integration’s expansive logic into *functional*, *political*, and *institutional* spill-over mechanisms (Schmitter, 1969; Tranholm-Mikelsen, 1991: 15-16).

*Functional spill-over* comes from the interlinkage of different policy sectors. The functional spill-over mechanism claims that a demand for more integration will happen when the gains of a specific policy sector remain sub-optimal, unless adjacent policy sector(s) will also be integrated, or if the specific policy sector has negative effects on other sectors, unless they are all being integrated collectively (Leuffen et. al., 2013:70).

*Political spill-over* occurs as a response to initial integrative steps once interest groups, bureaucrats, and other domestic political actors focus their expectations and activates on the new, supranational level of decision-making. To the extent that integration betters the possibility that the actor will realise their political goals at the supranational instead of the national level, the establishment of transnational coalitions and the development of common problem-solving perspectives are likely (Leuffen et. al., 2013:70).

*Institutional spill-over* is activated by the actions of the EU’s supranational actors, the European Court of Justice, The European Commission and the European Parliament. On one side, these actors support the processes of functional and political spill-over. They refer to networks between different policy sectors and underline the potential positive externalities of more integration. Contrariwise, they underline the negative externalities and consequences of potential failures to advance sector

integration. For this motive, supranational actors support the establishment of transnational partnerships. On the other side, supranational actors (primary the Commission), support the governments of EU member states to acknowledge their common interests and possibilities for efficient cooperation. Additionally, they play an important role in supporting the member states to upgrade their mutual interests in finding negotiating solutions that are considered optimal from an integration view. This argument presumes that the Commission or supranational institutions hold an information advantage over the member state governments, which they are keen to exploit entirely (Leuffen et. al., 2013:71)

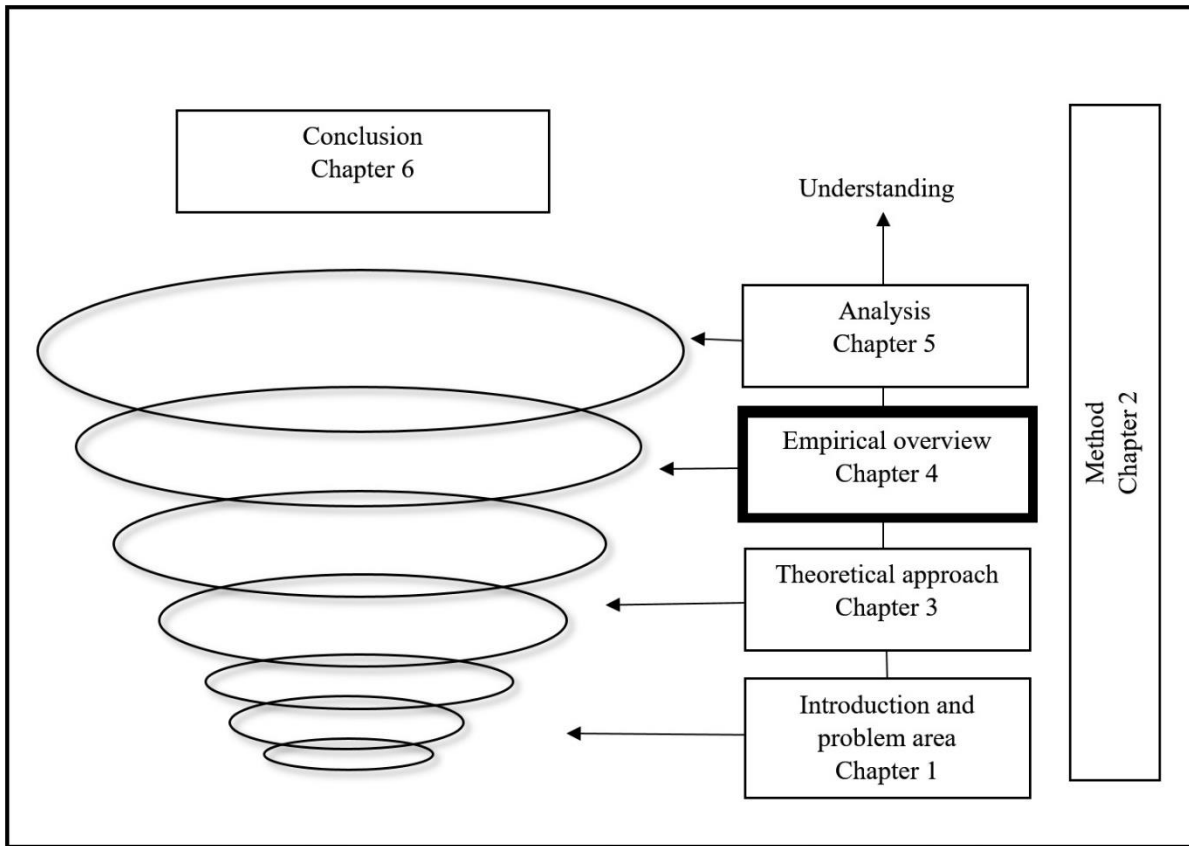
To further build on the theoretical approach in this thesis and the understanding of European integration, another tool is added. Dirk Leuffen, Berthold Rittberger and Frank Schimmelfenning (2013) introduce an innovative measurement of “*level of centralisation (vertical integration) and the territorial extension (horizontal integration) over time*” (Leuffen et. al., 2013:1). Here, the vertical integration is the degree of centralization of decision-making at the EU level, and, the horizontal integration is in the geographical dimension. In both dimensions there have been rather dramatic progress during recent decades, though development in different policy sectors has been uneven. For instance, monetary policy became centralized at the highest level, whereas foreign policy scores low.

Seen in the light of neofunctionalism and the measurement tool (vertical & horizontal integration), the problem might be explained this way: The European Semester came about because functional necessities generated pressures for a spill-over effect and a vertical integration was required to fulfil the interests of the governments of EU member states.

### **Points of criticism of neofunctionalism**

First, there is an argumentation that neofunctionalism ignores the wider concept of the integration and should take into account its international context as well. Secondly, neofunctionalism is criticized for not providing a general theory of regional integration in all settings, and of their origins. It has a model that member countries are democratic and developed. Thus, this model is not valid to explain integration in other regions of the world. Thirdly, a limitation of the theory is that the concept of spill-over is only applicable to Europe and not the rest of the world, especially in the case of less developed countries (Dosenrode, 2010: 21-22).

## 4 Empirical overview



**Figure 3 – The author's hermeneutic journey for better understanding**

In this chapter, based on this thesis's hermeneutic approach, to increase the author's understanding of the problem area, a literature study of the scientific literacy about the European Semester has been conducted. The execution of this literature study should therefore be seen as a further step in the hermeneutic spiral, where the author increases his knowledge around the problem area. Hereafter, a deeper overview of the historical developments up to the creation of the European Semester is described. Hereby, the author gains a deeper understanding of the problem area in this thesis, and this can be seen as the next step in the journey towards greater understanding cf. Figure 3.

### 4.1 Literature study of the European Semester

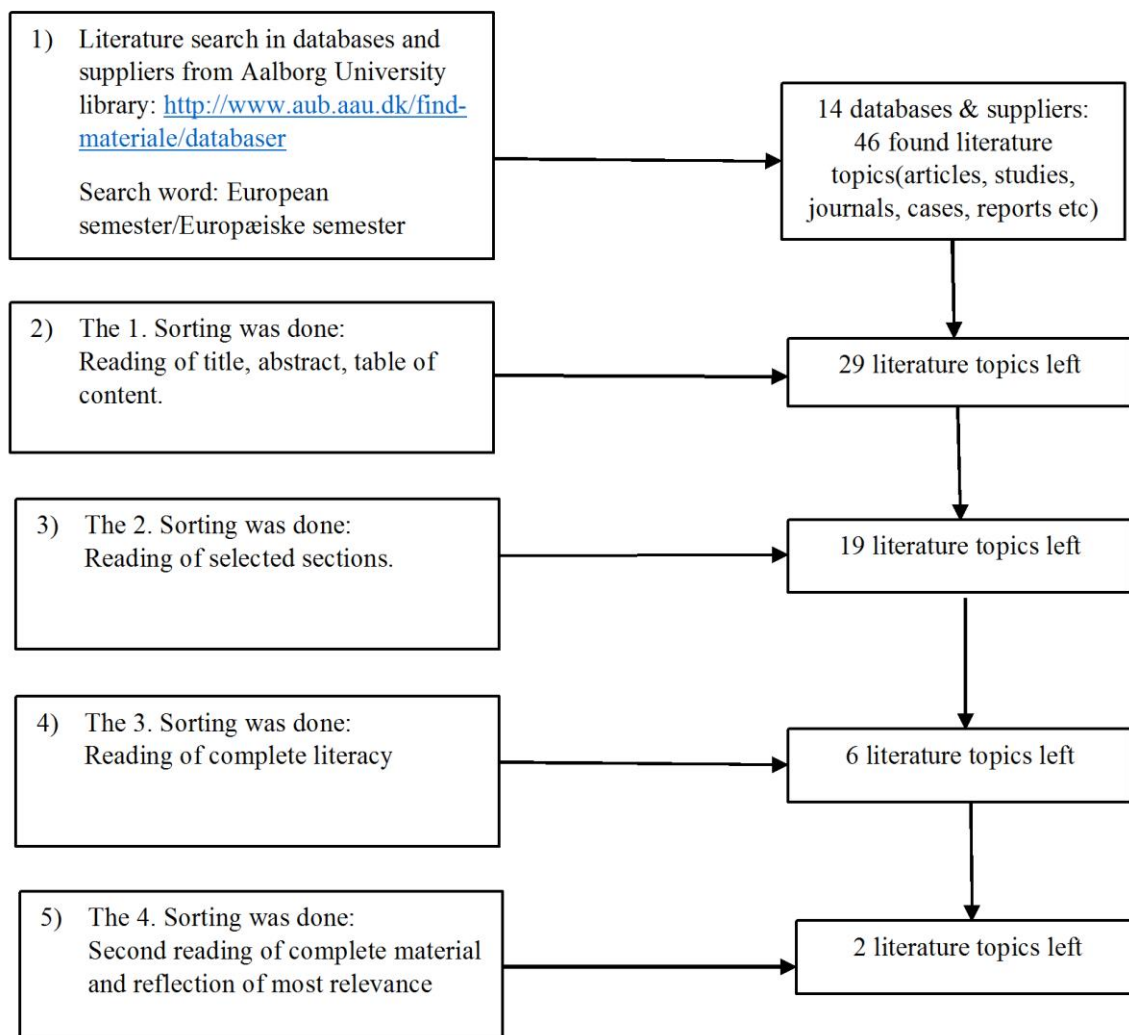
In this section, the method of the literature search on the European Semester literature will be presented. The literature search has been done from an explorative approach, where the author experimented with different data bases and suppliers and made a search string to illustrate it. The literature search was made to obtain an insight into which scientific literature is available on the



European Semester. A presentation of the search string, which databases and suppliers and overview of the found literature topics, together with a sorting of found literature can be seen hereunder.

The results of the search string were adequate and in the effort to create a systematic and reproducible literature search, all phases of the search are described and illustrated hereunder. This is done to give the reader the possibility of estimating the quality of the search and later on reproducing the search. Here is the search string and an illustration of the search phases:

#### Search string:



To give the reader a better chance of estimating the quality and reproducibility of the search, the author will present the search string phases.

In the first phase, a search was made in the AAU online library databases and suppliers. The key words of the search were ‘the European Semester’ and ‘det Europæiske semester’ with sortation up to maximum 500 found topics, which meant the author search found topics on each database up to a

maximum of 500 found topics. Relevant topics were then chosen and gathered. Here is a list of the databases and suppliers used:

- Altinget
- Biblotek.dk
- Cambridge Journals Online (Cambridge University Press)
- EUR-Lex
- Google Scholar
- Infomedia
- International political science abstracts
- Oxford Journals (Oxford University Press)
- SAGE books online
- SAGE journals
- SAGE Knowledge
- Web of Science Core Collection (Thomson Reuters)
- World Data Bank
- Worldwide political science abstracts

In the first phase the search in the databases gave a complete amount of 46 found literacy topics (articles, studies, journals, cases, reports etc.). Hereafter, in the second to fifth phases, the European Semester literature was read and sorted in four stages to determine the most relevant literacy for this thesis and its problem area.

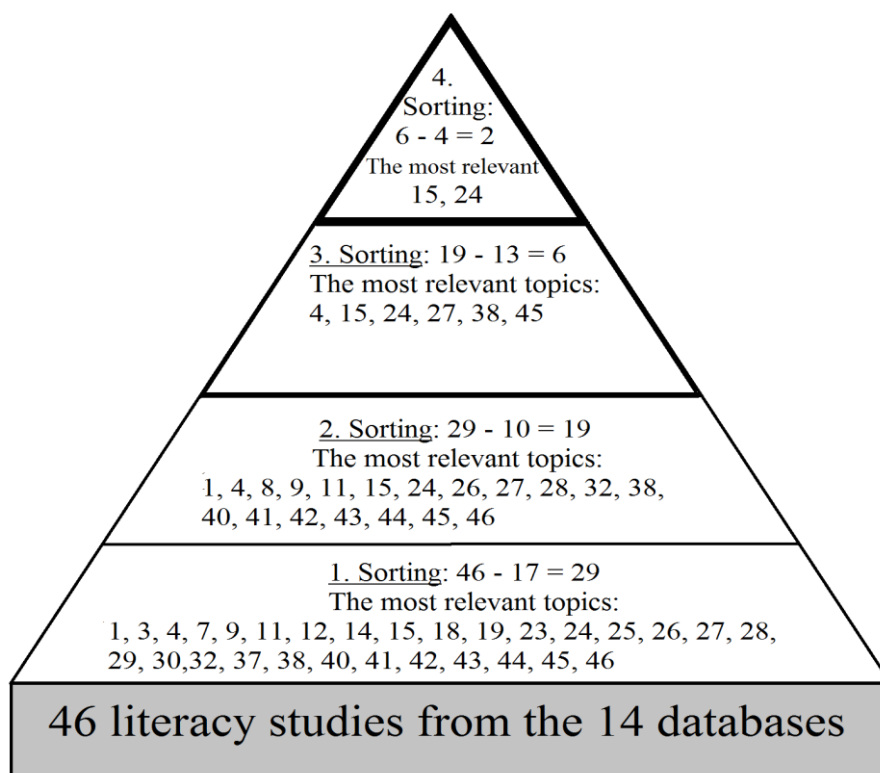
Hereunder is a complete overview of collected literacy on the topic and an illustration of the sortation made to ‘simmer down’ the data and determine which essential literacy should be used for this thesis research.

<b>Overview of headlines from the literacy studies found through the 14 databases</b>	
1.	Conference report on the Workshop ‘Socio-Economic Governance in the EU since the Crisis: The European Semester in Theory and Practice’ Amsterdam Centre for Contemporary European Studies (ACCESS EUROPE), 11–12 December 2015
2.	Countering European economic policies through meaningful European social dialogue on local and regional government

3. The building of economic governance in the European Union
4. EU social policy and the governance architecture of Europe 2020
5. The SAGE Handbook of Public Administration - Budgeting and Finance: Budget Watcher's Blues
6. The Federal Features of the EU: Lessons from Canada
7. Europeanisation in Times of Crisis
8. Public Opinion and Policy Outputs in the European Union: A Lost Relationship
9. National Parliaments and EU Fiscal Integration
10. STUDY ON ASSESSING THE ENVIRONMENTAL FISCAL REFORM POTENTIAL FOR THE EU28
11. EU Experimentalist Governance in Times of Crisis
12. Crisis, structural reform and the dismantling of the European Social Model(s)
13. Intergovernmentalism and Its Limits: Assessing the European Union's Answer to the Euro Crisis
14. Policy learning in the Eurozone crisis: modes, power and functionality
15. The New Governance of EU Fiscal Discipline
16. EU Country Specific Recommendations for health systems in the European Semester process: Trends, discourse and predictors
17. Sådan styrer EU Danmark
18. Lukket samråd om det nye "Nationale semester"
19. FAKTA: Sådan fungerer det europæiske semester
20. FAKTA: Se den årlige kalender for EU's semester
21. FAKTA: Det europæiske semester
22. Det betyder det europæiske semester
23. Danmark skal til EU-tjek
24. HOW EFFECTIVE AND LEGITIMATE IS THE EUROPEAN SEMESTER? INCREASING THE ROLE OF THE EUROPEAN PARLIAMENT
25. Economic Policy Coordination in the Euro Area under the European Semester
26. Socializing the European Semester? Economic Governance and Social Policy Coordination in Europe 2020
27. EU Economic Governance in Action: Coordinating Employment and Social Policies in the Third European Semester
28. THE EUROPEAN SEMESTER IN ACTION: STRENGTHENING ECONOMIC POLICY COORDINATION WHILE WEAKENING THE SOCIAL DIMENSION?
29. The Euro crisis and its impact on national and European social policies
30. The new European economic governance
31. THE STABILITY AND GROWTH PACT CRISIS AND REFORM
32. Socializing the European Semester?
33. How to fix Europe's monetary union Views of leading economists
34. THE LIMITATIONS OF POLICY COORDINATION IN THE EURO AREA UNDER THE EUROPEAN SEMESTER

35. The first European Semester and its contribution to the EU2020 Strategy
36. A new European interventionism? The impact of the new European economic governance on wages and collective bargaining
37. DOES THE EUROPEAN SEMESTER DELIVER THE RIGHT POLICY ADVICE?
38. Completing Europe's Economic and Monetary Union
39. Policy-Making in the European Union
40. Economic governance in Europe 2020: socialising the European Semester against the odds?1
41. An Assessment of the European Semester
42. EU 2020 Social impact of the new form of European governance
43. The country-specific recommendations (CSRs) in the social field An overview and initial comparison
44. The new European economic governance
45. European socioeconomic governance in action: coordinating social policies in the third European Semester
46. Is there flexibility in the European Semester process?

Hereunder is an illustration of the sortation made of the European Semester literacy, to give the reader the possibility to estimate the quality of the search and later on reproduce the search. Numbers represent the literature found in the above overview.



## 4.2 Presentation of the European Semester literature

In this section, an empirical overview of the development up to the European Semester is presented. This is done by first describing ‘*The institutional- and political structure of the European Union*’, then ‘*The economic crisis and the European Union’s struggle for stabilisation*’, ‘*The institutional- and political changes in the EU as response to the crisis*’ and lastly an ‘*Introduction of the European Semester*’. This section therefore follows the hermeneutic approach to gain an ever deeper understanding of the problem area, why the procedures of the European Semester were introduced. This will then build a bridge to the analysis, where the theory testing of neofunctionalist theory will be examined, based on the hypothesis. Additionally, the empirical data from the interviews will be used to support arguments for or against the explanatory power of neofunctionalism in the case of the thesis problem formulation.

### 4.2.1 The institutional- and political structure of the European Union

Whether or not the EU is a state in the traditional sense has been extensively debated, whereas the “*monopoly of the legitimate use of force*” (EUCE, 2013:2) is still placed on the member states. The unique characteristics of the European Union are difficult task to categorize precisely. The EU can be said to have several characteristics in common with federal systems, e.g. the USA. In addition, the German foreign minister, Joschka Fischer, described the EU in 2000 as a “*European Federation*” (EUCE, 2013:2), but this is perceived as controversial.

In the case of moving towards what J. Fischer called a ‘European Federation’, the system of a federal unity is “*characterized by sovereignty being shared and divided between different levels of government, such as the separation of power set out in the US Constitution*” (EUCE, 2013:2). In the case of constitutionally guaranteed territorial division of power, the EU meets this criterion, because the authority or sovereignty exists between the member states and the European Union. The member states hold law-making power, but their powers are limited by the EU Treaties (EUCE, 2013:2). As explained by Mario Draghi,

“*A central pillar of the EU’s institutional architecture has always been the principle of subsidiarity. This is the rule that action shall only be taken at the supranational level if the objectives to be pursued cannot be sufficiently achieved by EU members, either at the level of central government or at the regional and local level.*” (Draghi, 2012).

Resemblance to a federal state is also seen in the community law which has supremacy over national law. The European Court of Justice is a supreme judicial arbiter, and decisions from the EU very often have a direct effect on its citizens, while it is not required to have consent from all the EU member states (EUCE, 2013:3) The EU's institutional framework also can be seen as resembling a federal system, because the European-Commission, which has a near “[*monopoly*] on proposing legislation in the EU” (EUCE, 2013:3), is an independent institution from the member states.

Further, the citizens of EU can directly elect the members of the European Parliament that shares legislative authority with the Council (EUCE, 2013:3) In extension, Article 47 of the Treaty on the European Union clearly identifies the “*legal personality of the Union*” (EUR-Lex<sup>a</sup>), that makes it an independent entity in its own right. This means that the Union has the capability to:

*“conclude and negotiate international agreements in accordance with its external commitments; become a member of international organisations; join international conventions, such as the European Convention on Human Rights”* (EUR-Lex<sup>a</sup>)

Thus, the European Union can negotiate international agreements, join international conventions etc. on the same terms as states. The independent institution, the European-Commission, acts as communicator on behalf of the member states in international bodies, hereunder especially concerning humanitarian aid and trade policy areas (Europa.eu<sup>1</sup>). Nevertheless, the European Union also differs in some areas from traditional federal states, “*since there is no direct EU taxation, the EU budget is small compared to its GDP and since the EU relies on the forces of coercion of its member states to enforce its decisions.*” (Hix, 2007:582). In extension, the right to act independently with regards to foreign policy and defence is still a domestic competence, as the competences over criminal justice and taxation, and there is not established a head of state (EUCE, 2013:3). Hereby, the EU resembles a federal state in many characteristics but must be acknowledged as a unique system or typically called *sui generis*, which differs from a federal state and makes it a very unusual construction.

#### 4.2.2 The economic crisis and the European Union's struggle for stabilisation

With the outbreak of the financial shock and the bubble bursting in the US housing market in 2007, the most devastating economic crisis in modern times began (Zank, 2015:222). There were extensive consequences and many problems with the financial systems in Europe and North America were

uncovered. The problem arose from subprime mortgages, meaning banks bundled together mortgages into new assets, *“the loans are acquired by an “originator” (often an investment bank) which assembles “bundles” of loans of given type (mortgages, consumers credit, business loans, etc.) while trying to diversify their origins with the purpose of reducing the overall risk.”* (Brender & Pisani, 2009:4). This model apparently should have spread the risk and made the “new assets” more attractive to invest in. However, when the mortgages could not be paid by the house owners, an enormous problem was created and house prices collapsed. The majority of the new assets became worthless, creating severe difficulties for banks (Zank, 2015:222).

The experience from the crisis showed a weakness in the regulations of financial activities, and a number of mistakes made by governments worsened the crisis. For example, the US government reinforced the spreading of housing property to sections of the population that should have remained in rented accommodation. In addition, the US Central Bank kept its policy rates too low for a long time by *“reducing the cost of the risk-takers of the borrowing to finance their holding of risky assets”* (Brender & Pisani, 2009:71), thereby driving the emergence of the bubble (Zank, 2015:222). An important event in the history of the economic crisis took place in 2008, when the bankruptcy of the investment bank Lehman Brothers occurred, and the wildfire of the crisis spread through the Western world, causing signs of financial paralysis. The trust between banks weakened, meaning a number of banks were not ready to lend liquidity to each other, causing critical problems for several banks (Zank, 2015:222).

The self-reinforcing real estate bubbles have also developed in Europe, especially in the southern and western periphery. A known factor was the very low interest rates caused by the introduction of the euro in the countries, which meant the risk of devaluation was almost certainly unthinkable, whereby in these countries the capital and money market appear very safe to invest in (Zank, 2015:223). Additionally, inside the euro area, financial integration was perceived as very successful and the flow of capital into the attractive markets was easily done. On top of this, wage development in many of the countries was very different and meant that it had become unstable. Different observers, for example the European Central Bank (ECB), tried several times to draw attention to these issues, but leaders of the countries did not react; it was as if they had not considered that *“the introduction of the euro had changed the rules of the game”* (Zank, 2015:223). The use of devaluation could no longer be used to handle the problems. This argument was made by the ECB in its main policy conclusion of its 2012 report on ‘Euro area labour markets and the crisis’: *“Downward wage rigidities are an impediment to restoring competitiveness (and thus employment)”* (ECB, 9:2012). Thus, introducing

the euro made it impossible for the governments of crisis-ridden counties to restore competitiveness by devaluation. In other words, when an external devaluation is not possible, there is the possibility to devalue internally, and as argued in ‘How to fix Europe’s monetary Union’ the “...EZ could only be cured through the slow process of internal devaluation. Low inflation in the core implied deflation in the periphery” (Baldwin et. al., 2016:153). Prices and wages have to be kept frozen for longer periods, or even lowered to restore competitiveness. The consequences of this are tough on the population, but on the other side, troubling social aspects will also come from devaluation externally (Zank, 2015:225), because the value of foreign debt and prices of imported goods will rise (Zank, 2015:225). In extension, there is another aspect of the external devaluation that affects the country’s economic situation; a political difference is that “the income-reducing effects of an external devaluation are much more hidden.” (Zank, 2015:225). This means that populations rarely protest against devaluation, but direct wage reduction often causes protests. Thus, politicians have preferred external devaluation instead of internal devaluation over a long period from 1945 (Zank, 2015:225). From 1945 up to the massive financial turmoil in the 1970s the period afterwards contributed to the lesson, that countries which are prone to devalue national currency, are likely to get a devaluation-prone reputation which is a very expensive price to pay for the country in the long run. Interest rates have been driven extremely high as punishment from the capital markets. This is the reason EU countries chose to convert to the model of low inflation and stable exchange rate in the 1980s. Afterwards, capital markets followed consequently with substantial reduction in interest rates (Zank, 2015:225; Tsoukalis, 1997:150-52). Further exemplified, the “strategy of internal devaluation in combination with a stable exchange rate is not just theory” (Zank, 2015:225), because for example Denmark was on the economic brink of a meltdown, with a long period of high budget deficits, high inflation rates and successive devaluations, thus turned it around to internal devaluation successfully in the 1980s. The Danish government in 1982 chose to bring inflation down and decrease public expenses, and in doing so, stabilized the Danish economy and currency. In addition, the Danish currency was fixed to the ECU, or the deutschmark at the time. Thus, not choosing to leave the currency union at the time being with Germany, and devalue, but instead Denmark chose to de facto enter a currency union, with Germany. This may be seen as a step towards the EMU and convergence criteria, “No one spoke yet of EMU and ‘convergence criteria’, but this is precisely what Copenhagen worked to fulfil” (Zank, 2015:225)

As previously mentioned, in 2008 the real-estate bubble burst and the bankruptcy of Lehman Brothers created a shockwave of economic depression events. In 2009, the year the Lisbon Treaty entered into



force, Europe was thrown into the worst recession since 1945 (Zank, 2015:223). Large numbers of banks were crumbling, and to prevent economic paralysis, national governments chose to take control of banks and their massive losses. This caused the public debt to raise, and the reliability of some countries began to be questioned by capital actors. Doubt from the capital actors about the country's ability to honour their debts, because bonds emitted from these countries in questioning was getting harder to sell (Zank, 2015:223). Another noteworthy event amongst these economically depressed events was the example of Cyprus, which had severe problems because most of its economy was based on financial activities. The Cypriot banks could attract huge amounts of foreign capital, with discrete and attractive interest rates on deposits, and the financial sector became overblown compared to the size of the country. When the banks ran into critical problems, the whole country was affected tremendously (Zank, 2015:223).

The crisis was, as shown in the above explanations, not caused only by the introduction of the euro, but a number of different factors. In fact, an important element in explaining the economic crisis is that the European countries outside the euro zone also were affected by the crisis, such as the UK and Iceland (Zank, 2015:224). One may discuss whether or not the euro crisis is the correct headline for the historical events, because in actual fact, the euro continued to be largely stable, with inflation rates, in most years, somewhat below 2 per cent, which is the target chosen by the ECB (Zank, 2015:224). Nevertheless, the economic crisis must be acknowledged to have spread widely, even transatlantically, from the USA to Europe and the euro zone, causing a gigantic crisis for the EU and its political and institutional structure.

#### 4.2.3 The institutional- and political changes in the EU as response to the crisis

The Vice-president of the ECB, Victor Constâncio, gave a speech at the China-Europe Economists Symposium, in Beijing 2013, where he provided three key lessons for EMU decision makers (Constâncio, 2013<sup>1</sup>). Firstly, the financial crisis had demonstrated that financial contagion is the flip side of European financial market integration. Deep financial integration, “*without a commensurate deeper integration of financial stability policies is unstable*” (Constâncio, 2013<sup>1</sup>). Constâncio points to the potential vulnerability and quotes Dirk Schoenmaker as a “*“financial trilemma”: financial stability, financial integration and national supervision of banks cannot be achieved at the same time*” (Constâncio, 2013<sup>1</sup>); only two of them may go together. In the euro area, countries from the periphery had received large capital flows from central countries, which created financial imbalances in the

countries that received the capital flow. After 2008, these capital flows reversed, developing severe issues in the periphery and contagion problems in different parts. *“Financial stability – we have seen – is a common good and as such requires shared responsibility for its preservation”* (Constâncio, 2013<sup>1</sup>).

Second, shock absorbers at the national level, in some countries, are insufficient in the face of major financial and economic crises. Hence Constâncio argues that the European level has an essential role to play. The design of the euro area took for granted that stabilisation would take place at the national level and more or less automatically. Stabilisation would be provided by national fiscal policies that would respond to specific national settings. Thus, a fiscal brake at the EU level, organised in the Stability and Growth Pact, was designed to prevent fiscal irresponsibility, preserve fiscal space and hence allow automatic stabilisers to play out in full during depressions. However, the shockwaves after the 2008 financial crisis were extraordinary in a number of countries and surpassed the countries’ capacity to absorb the shocks. The euro area had no instruments to offer financial support for countries that were struggling or to prevent cross-border contagion. There were no institutions to help governments avoid being dragged down by their national banking systems. As Constâncio said, *“This underscored the pitfalls of a design that relies exclusively on the national level to fulfil the stabilization function.”* (Constâncio, 2013<sup>1</sup>).

Thirdly, Constâncio explains, the governance of economic policies at EU level has to be wider and deeper than expected prior to the crisis. From the introduction of the euro, there have been instruments in place for fiscal surveillance; these primarily focused on public deficits, and no one thought of the need to *“closely monitor macroeconomic imbalances and disequilibria on the labour, product or financial markets. Disequilibria originating from the private sector were supposed to be only short-lived and eliminated by market forces.”* (Constâncio, 2013<sup>1</sup>). As it was shown, however, public finances were not the primary issue; between 1999 and 2007 the average rate of public debt to GDP (gross domestic product) even declined by 5.6 percentage point in the euro zone. In addition, in 2007 the public debt ratios in Spain, Ireland and Portugal were in fact lower than the euro zone average. During that period, private debt in relation to GDP rose by 26.8 percentage points; hence, it could be observed that private sectors’ accumulated imbalances appear to have far surpassed those in the public sector (Constâncio, 2013<sup>1</sup>).

Over a period of time, with regards to the complexity of EU- decision-making, these lessons were translated into institutional changes. Large capital tanks were developed at the European level to be

able to channel financial support to crisis countries (Zank, 2015:227). A temporary European Financial Stability Facility (EFSF) was created in May 2010, by the euro countries. This was legally a private company under Luxemburg law (European Financial Stability Facility). The purpose of the instrument EFSF was to take up loans when necessary, which were guaranteed by member states, and transfer the money to a euro country asking for it. Additionally, countries borrowing from the EFSF had to agree to certain terms, depending on the structural programme set up by the European Commission and the euro finance ministers. In addition, the IMF (International Monetary Fund) contributed to these aid packages and thereby had to agree upon the terms for the program when a country asked for a loan (Zank, 2015:227).

In 2011 the European Council decided to establish a permanent money tank for the euro zone, the European Stability Mechanism (ESM). In contrast to the temporary EFSF, the ESM is an intergovernmental organization under international law. The mechanism and aim is fundamentally the same, but the lending capacity of €500 billion is somewhat higher than that of the EFSF. The EFSF ran parallel with ESM up to July 2013, where it then was decided to stop further activities (Zank, 2015: 228).

The EFSF and EMS made it possible for euro countries to seek substantial financial support in times of crisis. However, the instruments were not built to transfer automatically, as many critics have said is necessary for the EMU to work better. (Zank, 2015:228). A structural change was additionally made in 2012, when the euro group took the important decision to let the EMS finance banks directly and not only governments. Before, the governments in crisis countries were hit by the “*sovereign-bank nexus: in order to prevent financial contagion the governments had to take over bankrupt banks*” (Zank, 2015:228), but the consequence was the interest rates of governments bonds being raised, which also happened when doubts about solidarity spread in the markets. This changed as the decision to let EMS save banks directly was made, which made investors less worried.

In 1997, before the crisis, the EU member states agreed upon the Stability and Growth Pact (SGP). The SGP was designed to prevent member states experiencing excessive deficits (no more than 3 per cent deficits of the GDP in a country is acceptable, unless in the country is in a crisis). Even though the euro area countries introduced a compliance enforcement regime, where fines could be imposed in the case of a violation, the pact did not enforce it properly. An example of this was in 2003, when France and Germany were being targeted by an excessive deficit procedure by the European Commission, but the necessary qualified majority in the ECOFIN council could not be gathered. To

strengthen the “*corrective arm*” (Zank, 2015:228) of the SGP, the principle of reverse majority was introduced in 2011 as part of the so called Six-Pack. The Six-Pack was built upon five regulations and one directive: “*when the Commission proposes to start the procedure it will do so unless there is a qualified majority in the Council against it*” (Zank, 2015:228).

The “*preventive arm*” (Zank, 2015:228) of the SGP is designed to prevent a situation where the above will happen. Thus, the European Commission was given the mandate to monitor fiscal developments in the member states in a much more comprehensive way than before. Regular multilateral surveillance and discussion of national problems in the Council became part of the so called “*European Semester*” (Europe.eu<sup>2</sup>, 2013).

Along with the European Semester and the reforms of the Six-pack, a system of monitoring for economic policies was introduced, mirroring the budgetary monitoring established under the SGP. This was the so-called “*Macroeconomic Imbalance Procedure*” (Europe.eu<sup>2</sup>, 2013). Every year the European Commission screens the member states for potential imbalances and writes an Alert Mechanism Report, based on 11 indicators, which measures the evaluation of their economies over time. The indicators consist of, e.g., nominal unit labour costs, current account balance, the dynamics of private debt, unemployment, and the total liabilities of the financial sector (Europe.eu<sup>2</sup>, 2013). The report’s function is also to be the basis of recommendations made by the European Commission and the Council. Again, in cases of serious violation, euro zone countries can be subjected to sanctions, except if a qualified majority blocks this (Zank, 2015:229).

Additionally, 25 EU member states agreed on a Fiscal Compact, except the Czech Republic and the UK, which is an intergovernmental treaty. It requires the member states to incorporate key SGP provisions in their national constitutions. It was active from 2013. Finally, two extra regulations - “*two-pack*” (Europe.eu<sup>2</sup>, 2013) - to strengthen budgetary surveillance for the euro area countries were introduced. The governments have to submit their draft budgets to the European Commission and Council. The European Commission then analyses whether or not the draft is in line with the recommendation from the European Semester. Countries which received financial support were subjected to enhanced surveillance; for example, if they fulfil EFSF or ESM guidelines. If this was not the case, additional capital flow under the aid programmes could end (Zank, 2015:229).

#### 4.2.4 Introduction of the European Semester

The European Semester (ES) was first proposed in the European Commission's Communication of May 12 2010 and then approved by the Council on 7 September 2010 (EC<sup>1</sup>, 2010). The ES was a new institutional process aimed at strengthening coordination between countries and macroeconomic structural problems.

*"The euro area's governance and coordination of economic policies must be improved. This will involve both deepening and broadening economic surveillance arrangements to guide fiscal policy over the cycle and in the long term and, at the same time, address divergences in growth, inflation and competitiveness."* (Europa.eu<sup>3</sup>, 2008)

The formal proposals in its package of 29 September 2010 were organized into six legislative proposals. The six legislative proposals are as follows: 1) Proposals for a Council regulation; on speeding up and clarifying the implementation of the excessive deficit procedure, 2) Proposal for a regulation amending; regulation on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies, 3) Proposal for a regulation of the European Parliament and the Council; on the prevention and correction of macroeconomic imbalances, 4) Proposal for a Council Directive; on requirements for budgetary frameworks of the member states, 5) Proposal for a regulation; on the effective enforcement of budgetary surveillance in the euro-area, 6) Proposal for a regulation; on enforcement measures to correct excessive macroeconomic imbalances in the euro-area (Hallerberg et. al., 2011:5).

This introduced governance structure is anchored in the European Semester. It consists of a cycle of economic policy coordination that lasts for about six months and is repeated every year. The cycle starts with the presentation of the European Commission's so-called "*Annual Growth Survey*" (AGS) (Hallerberg et. al., 2011:5). The AGS sets a number of priorities for the EU as a whole and identifies objectives that would serve the realization of those priorities. The Council then endorses the AGS after discussion in the Council and the European Parliament, where the Council also invites EU member states to take into account the AGS in the drafting of their budgetary and structural reform plans, which they need to submit to the EU in the spring. On the basis of the AGS and the budgetary and structural reforms combined, the European Commission is set to deliver country-specific recommendations, with the Council expected to adopt them no later than July (Hallerberg et. al., 2011:5). The figure in Annex 1 illustrates and summarises the timetable and main elements of the Semester's governance structure.

The European Semester process is based on two procedural innovations, each supporting a specific objective. First, is a shift in the timing of the budgetary process. Since the late 1990s, member states have been required to submit Stability or Convergence Programmes (SCPs) as part of the Stability Pact's preventative arm. These documents typically contain multi-annual budgetary forecasts and details of national fiscal consolidation plans. Compared with the practice prior to 2011, the difference now is one of timing, as national governments must submit them before they are discussed in national parliaments and transferred into national legislation. *"The aim is to strengthen economic policy coordination between countries in form of ex-ante guidance."* (Hallerberg et. al., 2011:6).

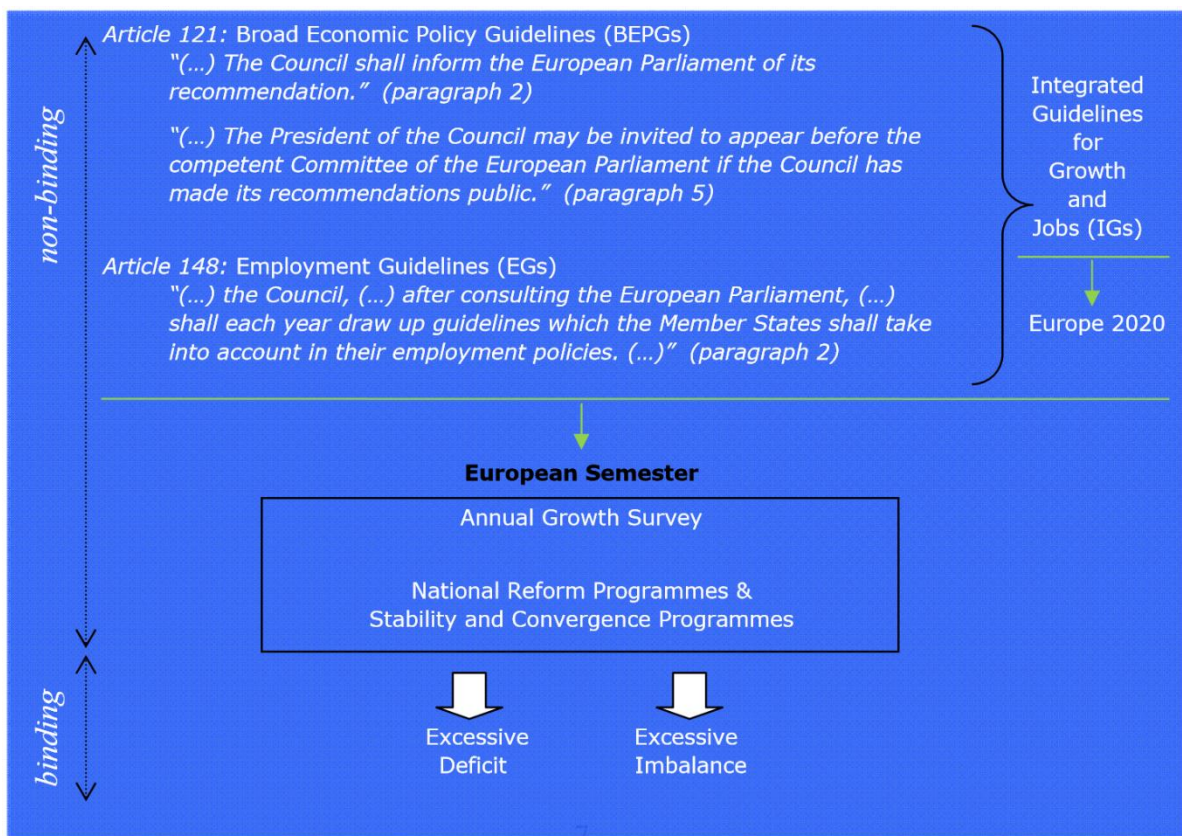
Secondly, is the alignment of the timing of fiscal and structural reform plans. Member states are now asked to submit their SCPs alongside their National Reform Programmes (NRPs). Introduced in their present form in 2005 under the revamped Lisbon Strategy, NRPs are used by governments to inform the EU of their multiannual commitments to structural interventions in the economy from pension to product, labour and capital markets reforms. The Semester's prescription is that they should be submitted together with budgetary forecasts, suggesting that member states need to take greater account of complementarities between policy areas (Hallerberg et. al, 2011:6).

The European Semester is legally enshrined in articles 121 and 14 of the Treaty on the Functioning of the European Union (TFEU), wherein EU member states commit to economic policy coordination to prevent them from implementing policies that could endanger the proper functioning of the Economic and Monetary Union (Hallerberg et. al., 2011:6). It also brings employment to the centre of EU economic policy and requires member states to submit regular reports on their employment situation. *"The Semester is thus underpinned by Treaty-based system of surveillance and ex-post monitoring that recognises specific roles for the European Commission, the Council and the European Parliament"* (Hallerberg et. al., 2011:6).

The European Semester is, in practice, built on the so called *"Integration Guidelines for Growth and Jobs"* (EC<sup>2</sup>, 2010:3) (IGs). The Council agreed to the European Commission's proposal to introduce a new strategy for jobs and growth *"Europe 2020"* (EC<sup>2</sup>, 2010:6), grounded in greater coordination of economic policies, which will focus on the main areas where action is needed to improve Europe's potential for sustainable growth and competitiveness. For this purpose, the Council agreed to establish EU priority targets, which develop common objectives and guiding actions of both member states and the EU. From these priority targets, member states establish their own national targets (EC<sup>2</sup>, 2010:6). The Europe 2020 Guidelines can be seen in Annex 2.

Parts of the Semester's overall framework relies on non-binding EU recommendations; this is, for instance, in the case of structural reforms for example in the relation to areas of welfare and labour markets. However, the guidelines from the EU are binding and may lead to sanctions if countries are in violation of the Stability Pact's Excessive Deficit Procedure (EDP) and the Excessive Imbalance Procedure (EIP). Thus, under the circumstances where countries are not living up to the Stability and Growth Pact's deficit target, the EDP will be activated and, with it, a legislative process with adjustment by the violating member state will be mandatory (Hallerberg et. al., 2011:7). Figure Z shows the European Semester legal architecture.

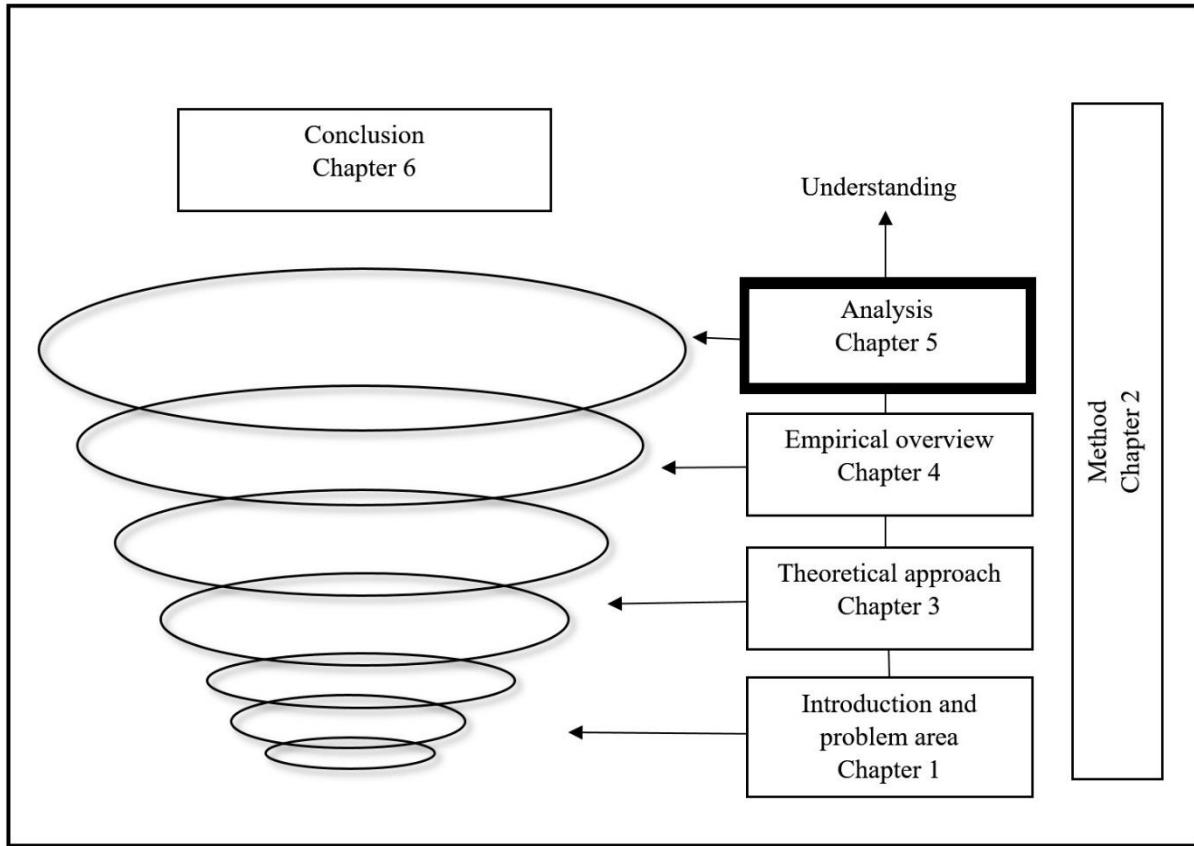
**Figure Z – The legal architecture of the European Semester**



(Hallerberg et. al., 2010:7)



## 5. Analysis



**Figure 4 – The author's hermeneutic journey for better understanding**

In this section of the thesis, there will be a thorough analysis of the hypothesis: *In a monetary union, countries are so interdependent that an excessively loose fiscal policy in one country may have negative consequences for everyone else. Therefore, common rules for fiscal policy, and effective monitoring, are necessary in a currency union. The institutionalisation of the semester has thus been a spill-over effect created by the euro.* This analysis will be done on the thesis theory, described in chapter 3, by applying the theoretical framework to the empirical insight of the European political and institutional development, described in chapter 4, with supplementation from the obtained interview data. Hereby, the hermeneutic spiral raised further and a deeper understanding of the problem area in this thesis. Thus, the journey of greater understand of the problem formulation moves towards an end, which is illustrated in Figure 4.



## 5.1 The consequences of a weak fiscal policy in a monetary union

As described in the empirical overview, a main lesson from the crisis showed a weakness in the regulations of financial activities only worsened the crisis. The institutional- and policy structures before the crisis, in EU, was not built to handle the overwhelming pressure created by the economic problems. As stated by the ECB Vice-President Vítor Constâncio: “...*the financial crisis demonstrated – quite compellingly – that financial contagion is the flip side of European financial market integration.*” (Constâncio, 2013<sup>1</sup>). With the euro came the positive effect of very low interest rates, which ensured low risk of devaluation, and the capital and money market became apparently safe. This made the introduction of the euro area a financially integrated success in many observer’s eyes. However, an uneven development in wages in the different countries destabilised the structure, and even with remarks made about these concerns by the ECB, the member states did not set up political actions to handle the escalating problems before the crisis came.

Furthermore, the introduction of the euro zone changed the game and it was no longer an option for countries to use external devaluation to handle the problem. On one side, huge capital inflows transferred by banks of core countries to banks in the periphery allowed for a large financial imbalance in the public and private sectors in the receiving countries. With the economic crisis, the huge inflows of capital turned, whereby problems for both the countries direct effected by the outflows of capital, and other parts of the euro area evolved into extraordinary problems. On the other side, through external devaluation the country’s foreign debt and the price of imported goods would rise, and “*it is very expensive when a national currency acquires a reputation of being devaluation-prone*” (Zank, 2015:225). Hereby, external devaluation would not restore the competitiveness in the country but place the country in an even deeper economic crisis. Thus, the game was changed and new ways of solving the extraordinary problems had to be found, for the whole euro area.

The design of the euro area was built on the belief that stabilisation would occur at the national level, almost automatically. The fiscal policies at national level in the EU member states and euro area are of course very individual in their institutional and political structures, and responses to problems, whereby different fiscal policies at national level were presumed installed. “*Accordingly, a fiscal brake at the EU level, coded in the Stability and Growth Pact, was designed to prevent fiscal profligacy, preserve fiscal space and hence allow automatic stabilisers to play out in full during downturns*” (Constâncio, 2013<sup>1</sup>). The design included fiscal space at national level to allow for country-specific constellations to absorb external shocks during downturns. However, the scale of the

shock from the crisis was extraordinary, and many countries had not taken into consideration the advice from the ECB and constructed a model to respond sufficiently in times of downturns. Which could have supported the stabilisation process, thus the crisis “*exceeded their national shock absorption capacity*” (Constâncio, 2013<sup>1</sup>), and a consensus started spreading amongst e.g. social actors, that a higher level of mechanism was needed.

No mechanisms at EU level were built to support countries in financial problems or avert cross-border contagion; “*there were no area-level institutions to prevent governments from being pulled down by their domestic banking systems.*” (Constâncio, 2013<sup>1</sup>). Therefore, as the banks crumbled and governments chose to take over their debts, to prevent a complete paralysation in the markets, the consequence was an enormous increase in public debt. Actors in the capital market began to seriously question whether the governments had the capacity to honour their debts, whereby “*the bonds emitted by these countries could only be sold if the interest rates included hefty risk premiums*” (Zank, 2015:223). In correlation with this, speculations began spreading regarding the possibility of these crisis-ridden countries choosing to exit from the euro and reinstate their own currency. This only widened the gap of trust between the financial markets and governments capability to ensure a solution for the serious problems, as a consequence drove interest rates even further up. Whereby countries possibility to work towards stabilisation got even more difficult and made it clear, how necessary it was to create a supranational instrument to support countries in economic crisis and prevent a built-up of debt in the further.

In light of the above mentioned, the consequences of only a weak fiscal mechanism at EU-level implemented with the introduction of the EMU, explains how countries in a monetary union are so interdependent that loose fiscal policy in one country may have negative consequences for everyone else.

In theoretical terms, with the introduction of the EMU in the Maastricht Treaty, a fiscal interdependence between member states was created, but the recent crisis clearly showed that “*financial integration, without a commensurate deeper integration of financial stability is unstable*” (Constâncio, 2013<sup>1</sup>). Thus, from a classical neofunctional perspective will explain that the demand for more integration occurs when the gains resulting from integration in one policy sector remain sub-optimal, unless an adjacent policy sector likewise is integrated; as Haas states, “*the notion that integration in one functional area would almost certainly lead to integration in others*” (Haas, 2004:11). The externalities (the crisis in this case) pushed for more integration in a particular policy

sector (monetary union) on the driving force from governments incite to take further integration steps in adjacent policy sectors (fiscal policy) in order to solve the externalities and prevent welfare loss in the future. Hereby, the driving force for more fiscal integration in Europe can be explained by a functional spill-over mechanism. Alternatively, institutional spillover also gives an explanation to the steps towards more fiscal integration, because earlier integration steps in monetary policy are driven by the interests and capacities of supranational actors.

## 5.2 The EU's necessity to establish cooperative mechanisms

Institutional and political changes were necessary in response to the crisis because it demonstrated that financial contagion is the flip side of the European financial market integration. As mentioned by the EC official *"After the crisis it was clear that something is needed to counter the effects of the crisis"* (Interview 1, 2010:1). The crisis made it clear, that deep economic integration without an equal integration of financial stability policies is unstable. The lessons made from the crisis, is that financial integration, financial stability and national supervision of banks cannot go together at the same time. The massive capital flows of money created financial and economic imbalances and had contagion effects in other parts of the euro area, showing a deep interdependence amongst euro countries. The monetary union showed a weakness in missing strong fiscal structure, and that it is a collective good for the countries, which requires collective responsibility for its continuous stabilisation (Constâncio, 2013<sup>1</sup>). The political and institutional foundation in EU was shaken by the extraordinary crisis or externalities, and showed the shock-absorbing capacities at national levels were not strong enough to stabilise the problems collectively, whereby countries most affected of the crisis needed support to get out of the crisis from other countries. With only mechanism for monitoring of public deficits in the EU area, introduced with the EMU, but no mechanism to monitor macroeconomic imbalances and instabilities on labour, product or financial markets, led to cracks in the foundation and the turmoil of the crisis.

A consensus started forming, that it is a necessity to work for more cooperative fiscal integration. These lessons transformed into institutional changes in the EU, and on basis from the demands in countries to stabilise their own markets. One must consider the complex influential role of transnational interest groups, networks, and effective policy entrepreneurship of supranational actors, which must have used their capabilities to push state governments to act and find solutions on the

economic crisis. Hereby, a collective interest and demand for more fiscal integration transferred the lessons into new institutions and procedures (Zank, 2015:227).

First, the creation of the intergovernmental temporary mechanism established the EFSF to support crisis-ridden countries with new capital. Leading to the permanent creation of the ESM, and further made an important decision to change the mechanism, from lending money direct to private banks instead of only government, making the actors on the capital market less nervous, thereby supporting the stabilisation of the interest rates. The lessons also transferred into a decision to strengthened the SGP, originally created to prevent member states to have excessive national debts, defined as no more than 3 per cent of national GDP. First, the SGP structure showed a missing mechanism to enforce the possible fines when a country violated the SGP, such as in the cases of Germany and France, where the qualified majority was not mustered. But, with the introduction of the Six-pack the corrective arm of the SGP was strengthened by the member states, giving the Commission the mandate to start an excessive deficit procedure, unless a qualified majority in the Council is mustered against it. Also a much needed decision alongside strengthening the corrective arm, was to create surveillance of fiscal developments in the member states in a much more advanced fashion then before, giving the Commission the mandate to strengthen the preventive arm. As said by Mario Draghi:

*“We need strong institutions to guarantee competitiveness and to encourage sustainable growth; to guide fiscal policies and ensure fiscal sustainability; and to supervise and stabilise the single financial market. We also need strong institutions to engage citizens more closely in the European project.”* (Draghi, 2012). So, a consistent mechanism to provide multilateral monitoring and discussion of national problems in the Council, which got introduced with the European Semester (Zank, 2015:228).

Taking the different parts from the crisis-lesson in the euro area, result in an exposure of the fundamental gaps in its structure which as a whole can be seen as an unfinished macroeconomic integration. It demonstrated that the parallelism of supranational monetary integration and intergovernmental fiscal cooperation was destabilizing. As said by Mario Draghi: *“maximising the benefits of the single currency requires not only a strong ECB; it also requires strong common institutions.”* (Draghi, 2012). Hereby, in theoretical terms, with the emerged crisis there was a demand from EU countries for more fiscal integration, meaning new institutions and procedures at EU-level, in light of an already high interdependence or as explained by Haas: *“a dense network of rules and organizations binding member governments, interest groups, bureaucracies, and politicians in ever-*

*tighter interdependencies*” (Haas, 2004:20). This is a characteristic case of functional spill-over. Where politically desired partial integration forms negative externalities, and pulling apart the strong integrated monetary policy would be too costly for the member states. States are bound to progress with supranational integration of the less integrated integration adjacent fiscal policy, to benefit most possibly from the first integrated area. Exemplified, as member states decided to strengthen the SGP with the Six-pack, a more advanced and broader macroeconomic monitoring mechanism was introduced, the Macroeconomic Imbalance Procedure (MIP). The introduction of the mechanism contained a more in depth monitoring of economic policies and national budgetary plans of the EU member states. Whereby, a broadening and deepening of economic governance of which the ECB President and Vice-president spoke of, and was operationalised by giving the Commission the task to consistently every year produce an Alert Mechanism Report which assesses the economic situation in the entire EU (Armstrong, 2013:11). Hence, giving preventive recommendations from the Commission and the Council, and in cases of severe violations, give sanctions unless a qualified majority blocks this. Furthermore, the introduction of the two-pack strengthened budgetary monitoring for euro area countries. By introducing further fiscal policy mechanisms to establish a more effective surveillance procedure of macroeconomic governance in the EU, euro countries have to submit their draft budgets to the Commission and Council, within the European Semester cycles (Zank, 2015:228). The exchange of transnational economic governance coordination, or as mentioned by the official at the DMOF “*a structure for dialogue*” (interview 2, 2016:1), is facilitated by the Commission and analysed in correspondence to the Council and Commission recommendations. In terms of vertical integration, a deepening can be observed of the monetary and fiscal integration, since the level of transnational exchanges and supranational actor capacity was strengthened in terms of fiscal policy. In other words, the decisions to centralise fiscal policy consist with moving upwards on the vertical scale from “*intergovernmental coordination*” (Leuffen et. al., 2013:151) to the “*effective pooling of sovereignty*” (Leuffen et. al., 2013:151). In terms of horizontal integration there is no outcomes of enlarging the EU or Eurozone geographically in relation to the debt crisis, and no supplementary explanation can be added, from this dimension to support or not support the hypothesis.

In the debt crisis an interesting resemblance to the creation of the EMU can be observed in terms of constellation and process. Both periods showed high interdependence among member states to push for more integration. Where in the recent crisis a high interdependence was shown amongst euro countries as an outcome from external factors from the banking crisis in the USA, which spilled over

to European banks, and compelled European countries to undertake the systematic rescue of the relevant banks to prevent a meltdown of the financial system. These rescue operations, in turn, sent public debt sky-high and ruined the markets' confidence in the ability of many European countries to honour these debts. It was clear the economy had major effects on the euro country and, said as mentioned by the EC official: *"everything is somehow interconnected"* (interview 1, 2016:3). Furthermore, the potential of countries leaving or exiting EU, threatened to set in motion a chain reaction in the markets, putting pressure on social actors and other countries in the euro area, and in worst case break down the monetary union (Zank, 2015:226). But, there is broad consensus among the euro countries that such a path of events would come at a high-priced cost, and instead concluded, that more integration is necessary in order to stop it from escalating. The demand for more integration came out of not only increased interdependence, but also from the weak enforcement and structure in the Eurozone's fiscal policy. SGP was not build strong enough, as an intergovernmental instrument, to impose sufficient fiscal discipline on the member states and ensure stability of the Eurozone in times of downturns. Whereas, in terms of neofunctionalism, the leap from intergovernmental to centralisation of supranational institution could be explained as a functional spill-over (Haas, 2004:15).

### 5.3 Moving towards a functioning monetary union and establishing the necessary fiscal procedures

The European Semester was a new institutional process aimed at strengthening coordination between countries and macroeconomic structural problems (Consilium.eu, 2016), or said by the official at the DMoF *"it is the overall frame of rules for coordination of economic policy amongst EU member states"* (interview 2, 2016:1). With the introduction of the Six-pack and the Two-pack, the new economic governance structure got anchored in the semester and national legislative, and established new procedures to stabilise the euro area and raise its credibility. Procedures to implement the excessive deficit procedure, strengthening the surveillance of budgetary positions and coordination of economic policies, the prevention and correction of macroeconomic imbalances, a requirement for budgetary frameworks of the member states, an effective enforcement of budgetary surveillance in the euro area, and to correct excessive macroeconomic imbalances in the euro area (Hallerberg, et. al., 2015:5) This is part of the widening and deepening of economic governance needed in a monetary union, as Draghi and Constâncio spoke of. *"...EU members have moved towards stronger*

*surveillance of domestic policies*” (Draghi, 2012), refereeing to two important mechanisms. First, the new Macroeconomic Imbalance Procedure, that aims to prevent build-up of new macroeconomic imbalances and enforce the correction of existing imbalances. The second is the fiscal compact, signed by all member states except UK and Czech Republic, that strengthens the credibility and sustainability for fiscal policies and made the countries take further steps of implementing it into their national legislation, whereby acknowledging their convergence and reform programmes as part of the whole EU economy (Draghi, 2012). Or said by DMoF: “*countries must see their own economic policy as a part of the whole picture*” (interview 2, 2016:1).

With consistent surveillance of the member states in the semester procedures, in the annual cycle, creates the advanced macroeconomic mechanisms needed, in reflection of the lessons from the crisis. “...*to guide fiscal policies and ensure fiscal sustainability ...*” (Draghi, 2012). As mentioned, the crisis created an extraordinary unstable environment and actors in e.g. the capital market lost faith in countries credibility. Whereby the establishment of a supranational instrument to guide fiscal policies and ensure fiscal sustainability, supervise the single financial market and engage citizens more in the European project, was a key instrument to develop and strengthen the euro area again (Draghi, 2012). Further with the minimum of fiscal enforcement integrated with the EMU, a clear awareness of the sup-optimal monetary union need adjacent fiscal mechanism to ensure stability, because of the level of interdependence in the euro area.

In light of Haas’ neofunctionalism, a regional integration is probable to happen when social actors, in calculating their preferences, chose to rely on “*the supranational institutions rather than their own governments to realize their demands*” (Haas, 2004:14). Thus, to create stability and credibility in the euro area and EU region, states were compelled to move ahead with new integration of the less integrated adjacent policy (fiscal policy, in this case). Hence, the creation of the semester procedures, and steps towards a supranational fiscal integration. An outcome in partly from autonomous actions made by the ECB and partly from the member states acknowledgment of the negative functional spill-over of partial macroeconomic integration. In other words, the agreement on integration in one economic area would over time cause other economic policy areas to integrate too, so as to ensure the full advantage of the integration in the first policy area (Haas, 2004:16).

It was without any doubt a necessary action to reconsider the design of the euro area, and the assumption that stabilisation of the monetary market would take place at the national level and more or less automatically. The design could no longer rely on a structure where national fiscal policies

individually should stabilize the euro area, and as Constâncio said “*Financial stability – we have seen – is a common good and as such requires shared responsibility for its preservation*” (Constâncio, 2013). An instrument at EU-level was a necessity to widen the fiscal surveillance, which primary focused on public deficits before the crisis, and now need to expand to surveillance of macroeconomic imbalances and “...*disequilibria on the labour, product [and] financial markets*” (Constâncio, 2013<sup>1</sup>). Because as it was seen, the average rate of public debt to GDP between 1999 and 2007 declined by 5.6 percentage point in the euro area, surveillance of public debts was not enough to ensure stability. Hence, a more advanced instrument need to be implemented in the EMU design and be placed at EU-level to ensure the common interests, or as it was put it other words by the official from the DMoF, “*a playing field for the coordination*” (interview 2, 2016:1).

With the introduction of the European Semester procedures and the interdependence between member states are, in terms of neofunctionalism, based on prior steps of integration and partly pushed in a certain direction by supranational actors. As the Commission announced “*The euro area’s governance and coordination of economic policies must be improved... to guide fiscal policy over the cycle and ... address divergence in growth, inflation and competitiveness*” (Europa.eu3). With the prior establishment of the monetary policy integration and recent negative externalities, shocking the endogenous interdependence of member states, motivating member states to take step towards stronger fiscal policy integration. In other words, when the crisis exposed how deep countries interdependence in the euro area had become with monetary policy, and how limited the autonomy of the highly-indebt countries had become de facto, supranational fiscal integration became possible (Hallerberg et. al., 2011:16). Whereby, new steps of integration took place with the introduction of the European Semester and its procedures, to monitor and coordinate economic policies and budgetary programs.

Hereby, the European Semester can be seen as a product from the demand for more fiscal integration in light of the extraordinary crisis, and was design to strengthen the already existing monetary union (EC<sup>1</sup>, 2010). Resulting in a tool to improve EU policy coordination both on macroeconomic and structural matters. Thus, the evolution of the European Semester illustrates the creation of a supranational institution and mechanism, of which can be explained by a neofunctional perspective. With the Council as the political dominant of the Semester process, officially responsible for approving all documents and decisions, with the Country-Specific Recommendations, and is the final negotiator of any disputes (until the ECJ becomes involved). But the machinery of the European Semester itself, cannot and does not run only by the Council. In practical terms, the role of the



Commission has been significantly strengthened by, among other, the Six-pack, and Two-pack, since it is now officially responsible for facilitating the EU's socio-economic priorities (from the EU2020 priorities), as mentioned by the EC official "*The ES is a project within the Europe2020 strategy*" (Interview 1, 2016:1), through the AGS, for selecting member states for In Depth Review under the MIP, for delivering draft CSRs, and for proposing eventual sanctions under the EDP and EIP (Hallerberg et. al., 2011:5-6).

## 6. Conclusion

In light of the analysis findings a conclusion will now be presented. The conclusion will be based on the neofunctionalism used in this theory testing case study of “*why were the procedures of the European Semester introduced?*”, following the methodology and analysis. Thus, in light of the theory testing method and the testing of hypothesis, is first, the hypothesis conclusion presented, and then, the conclusion of the problem formulation presented.

*In a monetary union, countries are so interdependent that an excessively loose fiscal policy in one country may have negative consequences for everyone else. Therefore, common rules for fiscal policy as well as effective monitoring is a necessity in a currency union. The institutionalisation of the semester has thus been a spill-over effect created by the euro.*

In conclusion, and in light of the analysis, the central concept of spill-over can support the explanation of institutionalisation of the European Semester. The demand for more integration came out of not only increased interdependence, but also from the weak enforcement and structure in the Eurozone’s fiscal policy. Thus, in neofunctionalism perspective moving from intergovernmental to supranational centralisation of fiscal policy, may be explained as functional spill-over of integration in a specific policy area possibly transmitted through the activities of transnational actors. Otherwise, it may have resulted from institutional spill-over of earlier integration steps in monetary policy driven by interests and capacities of supranational actors. Further, in terms of the vertical integration scale, it may explain a deepening of the monetary and fiscal integration, since the level of transnational exchanges and supranational actor capacity was strengthened in terms of fiscal policy. In other words, the decisions to centralise fiscal policy consist with moving upwards on the vertical scale from *intergovernmental coordination* to the *effective pooling of sovereignty*. Thus, integration in countries in the monetary union increases as an outcome of institutional and functional spill-over process, whereby meaning, common fiscal rules where a natural necessity to be integrated at EU-level and effective monitoring of fiscal policy at national level, to ensure economic stability and growth. Herby, the European Semester is a product from the demand for a stronger fiscal instrument at EU-level, to ensure stabilisation amongst the interdependence member states and prevent a breakup of the EMU.

Finally, to answer the problem formulation:

*Why were the procedures of the European Semester introduced?*

The neofunctionalism would explain the recent decisions to integrate fiscal policy as the outcome of functional spill-over from monetary integration, or as the outcome of institutional spill-over from the supranational institutions and rules in the area of monetary integration. The centralisation of fiscal policy, such as the European Semester, have been driven by transnational societal and supranational actors, and mirrors their preferences. The European Semester procedures were in conclusion established for countries to benefit from the existing monetary integration, and prevent the build-up of debts or irresponsible fiscal policy to escalate into a new economic crisis, and support the crisis-ridden countries to stabilise in a shocked economic and fiscal environment. Or said in other words, the European Semester instrument was created to help ensure growth and stability in the euro area, reinforcing the fiscal dimension of the monetary union and ensuring mechanisms to guide national fiscal policies towards more convergence and more sustainable economic governance structures, in light of recent extraordinary economic and fiscal experiences, both at EU and national level. Thus, deepening the cooperation amongst member states and in the end, improving their competitiveness and wealth.

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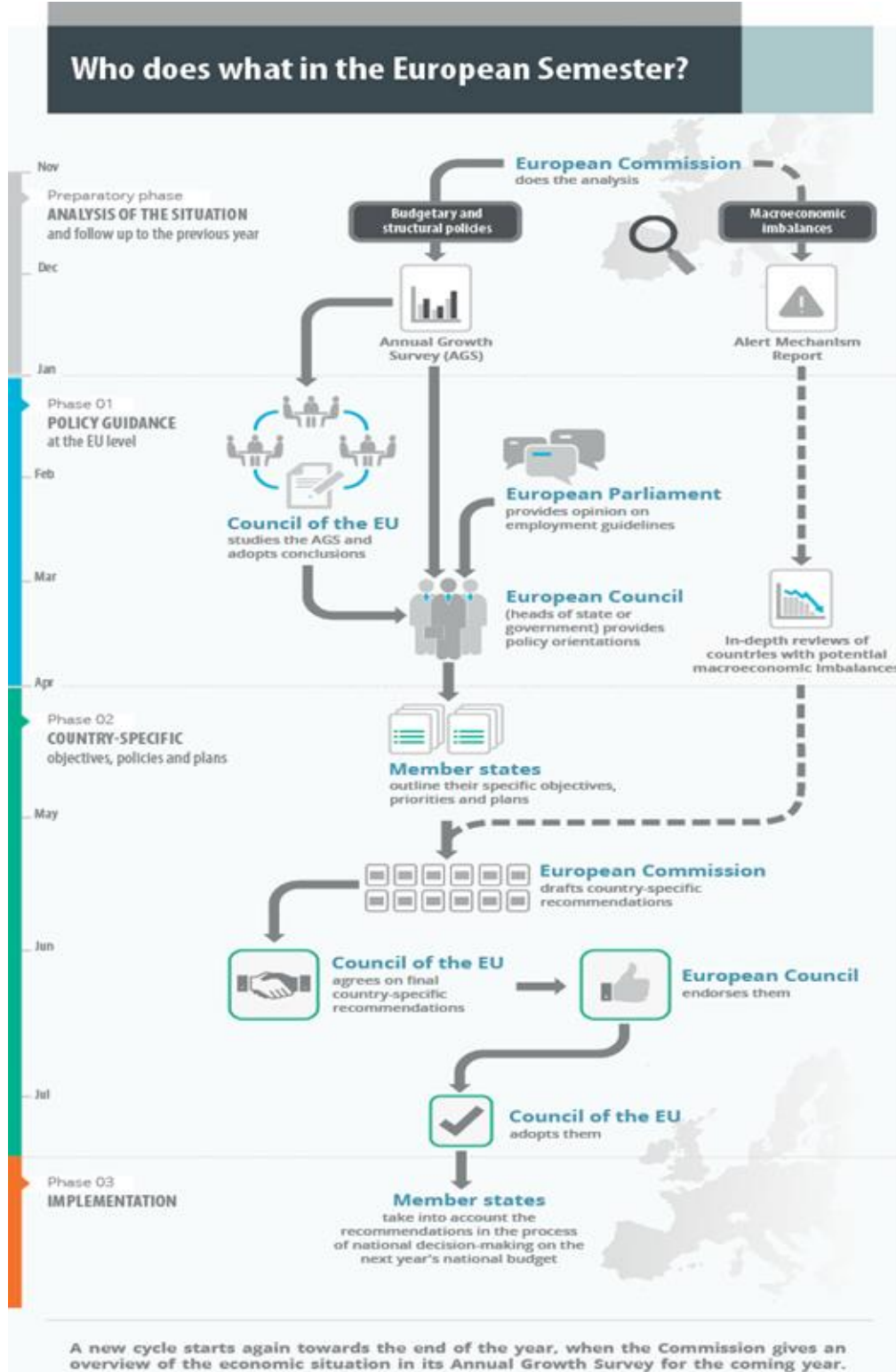
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## Annex 1 – Overview of the European Semester process



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## Annex 2 – Europe2020 Guidelines

From the 'Recommendation for a Council Recommendation of 27.04.2010 "*EUROPE2020*"

Integrated guidelines EUROPEAN COMMISSION 2020-A4 final.indd 1 02/03/2010 13:21:44 for  
the economic and employment policies of the Member States' page 4:

The "Europe 2020 Integrated Guidelines" are the following:

Guideline 1: Ensuring the quality and the sustainability of public finances

Guideline 2: Addressing macroeconomic imbalances

Guideline 3: Reducing imbalances in the euro area

Guideline 4: Optimising support for R&D and innovation, strengthening the knowledge  
triangle and unleashing the potential of the digital economy

Guideline 5: Improving resource efficiency and reducing greenhouse gases emissions

Guideline 6: Improving the business and consumer environment and modernising the  
industrial base

Guideline 7: Increasing labour market participation and reducing structural unemployment

Guideline 8: Developing a skilled workforce responding to labour market needs, promoting  
job quality and lifelong learning

Guideline 9: Improving the performance of education and training systems at all levels and  
increasing participation in tertiary education

Guideline 10: Promoting social inclusion and combating poverty

## Annex 3 - Interviews

**Interview 1:** Interview person position: Policy officer for Poland, Lithuania, Denmark in the European semester for the European Commission. 2016.

Acronyms:

J: Interviewee

I: Interviewer

ES: European semester

(Page 1)

J: Hello.

I: Okay, so first of all, the first question I would like to ask you is, and of course you your own words. How would you define the ES? what is it and what is the aim of it?

J: The ES is a project within the Europe2020 strategy so the country decided to, more, let's say, equal corporation to reach 2020 targets. So then the ES started, to a kind of yearly, an evaluation of what have been done by different countries and then propose measure for the following years. So it is a yearly exercise that lasts 12 months, there is an annual growth survey, then the Commission will issue a plan, then there is these fact finding from member states, fact finding missions. Then we do the country report which every year, I mean the time to prepare it gets shorter, and then in the end of the process in June-July there are these Commission recommendation, proposed by the Commission and approved by the Council.

I: Yes. I will just go on to the, the second questions. If you could use our own words, what is the meaning of the ES guidelines and why is it effective, you think?

J: First of course because they are members of the European Union so when they joined the EU the aim was too corporate deeper, I mean a common single market and remove all the barrier you know to the free movement of people and financial means, so the work deeper also making Europe more sustainable. After the crisis it was clear that something is needed to counter the effects of the crisis and to have, let's say, better corporation and investments the key factors which are important for the growth so, education, research, climate, so reduction of CO<sub>2</sub>, to reduce inequality, and so to have more social Europe, so that means they started the ES in which, they, the countries them self-engaged them self to, working even closer and propose the reason to also contribute to these 2020 aims, so, reducing the emission, investing more in the energy that comes from renewables, reducing the rates of pollution etcetera, etcetera.

I: Okay, so you would say the member states chose to follow the guidelines because they set up their own goals, together?

J: Yes.

I: Great. The next question; do you think the method of the ES is most effect because it is law based or coordinated based?

J: I would say, it is my opinion, my private opinion. It is quite ambitious because it is on the yearly basis, so there is not much time for the country to implement the recommendation, but in reality these recommendations quickly repeat them self, so in the end over the year they result is maybe a challenge for the countries because it is annual. On the other hand, it forces the countries to work towards a target. They cannot say “Oh, it would be next year” no, every year they have to screen what have been done and then they have to propose the next step for the next year and years. So it is annual, but in reality it is some going, I mean, in some years ahead. Because some reforms for education, you cannot do them in one year or half a year.

I: Okay. Well is it more the countries which want to follow the guidelines and recommendations, because there is law based, as the treaty says, they have to follow the excessive deficit and excessive imbalance paragraphs, and if they don't follow the recommendations and guidelines, they will be in conflict with the treaty. Or do you think on the other hand that the countries want to follow the recommendations and guidelines, because of the coordination of the goals they have together their common cooperation in the ES?

J: Yes, I think it depends on the country. So there are countries that want even more guidelines and recommendations. Some countries have overall done well in some policy, so sometimes there are some very hard negotiations, when the recommendations are proposed. Some countries try to change it and provide various arguments. So It really depends on the country but also on the topic. Some more than the other, like for example energy issues. It is quite important and expensive so negotiations can be tougher and when it comes to educations, then there is more consensus because we have the European benchmarks and of course they are not perfect but countries can confirm each other among them self. So this also is the exercise that helps them see where they are, and what they can do more of. I would not say it is direct competition, but countries look at each other to see how they are doing.

I: Okay interesting. So maybe it is more that they follow the guidelines because the benchmarking and the comparison between neighbor countries and so on?

J: It also depends on who is in power, I mean, the political party. So it really determines how they react to the guidelines.

I: It is really complex yes. The next question. Why do you think that the ES is including social aspects and dimensions into the recommendations?

J: Because it is one of the EU2020 targets, poverty/social exclusion is the fifth target, then it says that at least 20 million fewer people, who are in a poverty or social exclusion, I mean, should be brought to the mainstream, in the society. So, that's why, I mean, the ES really rely on the EU2020 targets. They are the most important, let's say areas, employment, research, climate change, energy sustainability, education and poverty and social exclusion. So, I mean, these five targets aim to have more sustainable growth and also, more innovation and contribute to the society, which is more, so more people can get stability.

I: In extension of that, the sixth question I want to ask, do you think the social dimension in the ES helps create new growth in Europe?

J: Yes, I think so, because, I mean, we have seen in the last crisis but also in the crisis in the beginning of the last century, that, when, I mean, when countries focus only on productivity and benefits and they forget social side more and more people are being excluded and it also, provoke all kinds of social unsureness. But, yes also, have a very high consequence of more unemployment which is one of the problems in short term contract, and people don't have stable jobs. Especially now young people they maybe have a contract for one year, so it creates a lot of instability and also it has consequences to people for their credit. So they don't have, you know, let's say, stable jobs so that also have an effect on the economy. So everything is somehow interconnected. And then they immigrate, and so that makes imbalances, they need for the labor force, and.. ehm, so Europe needs to look outside, okay, bringing people from different cultures might also create some other additional issue. So the social side is quite important.

I: Okay. Next question is; how do you think that the ES will develop in the future?

J: So that is a very interesting question, but I am not a decision maker. So I cannot say how it will look like or might look like, but the discussion where that maybe, so suggestions from member states that might be annual so that the countries have more time to, prepare their reforms and implement them. So, but it was just one of the ideas. So, it may look like there will be more cooperation an also some ideas, on more detailed masseurs the Commission will make some new millstones they will have to achieve, but nothing is decided yet.

I: Okay. My last question is; Do you think that the member states are feeling that they are involved enough in the ES and have enough, how do you say, free space to implement the guidelines and recommendations, or is it more a top-down approach where, the ES don't let the member states implement want to?

J: I mean, what I know from experience with meetings with the ministries or different representatives or different officials, is that they want to have more cooperation, so they want to have more say. Also in the choice of topic that we would like to discuss with them or different recommendations, so they want to have their say, and I think that they, say they take ES more and more seriously. In many countries there are special parliament debates and programs, special reform programs are made in the parliament, yes so, I think that it is taking quite seriously, and more and more and more implement the recommendations, and again, some countries would like to have more precise guideline, what to do, and some countries would, like Denmark is one of them, like, to have some ways which are more local or regional. They would like to have more overarching thinking and then implement it.

End.

**Interview 2:** Interview person position: Official at Danish Ministry of Finance. 2016.

Acronyms:

L: Interviewee

I: Interviewer

ES: European semester

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I: First question I would like to ask is, how would you define the European Semester? What is the aim and meaning of it?

L: Yes. It is a sort of hybrid the European Semester and can be difficult to define. If one had to, it would be something like, that it is the overall frame of rule for coordination of economic policy amongst the EU member states. That's properly the overall definition, and the meaning of it is exactly that you can coordinate EU policy and national economic policy, whereby it is in harmony to the general EU aims. The general goal of the ES to coordinate, and one can say, that the overall goal of the economic policy in EU is to create stability and secure growth and employment in EU. The semester is then the frame to ensure this and the frame for a lot of different rules. In the Semester are e.g. the Europe2020 goals, the overall economic policy such as the macroeconomic imbalance procedures and the stability and growth package are linked to the Semester. It is a lot of different procedures to help coordinate amongst the states.

I: Okay thank you, and next question is, what is the purpose of the European Semester guidelines? And do you think they are effective or not effective?

L: The purpose is to define a playing field for the coordination and one can say, in the treaty are some general paragraphs, that explains, countries must see their own economic policy as a part of the whole picture of EU. One can say, that the ES gives a further specification of how to coordinate exactly this, whereby the guidelines function as the specifications to the member states. Whether it can be said to be effective can of course be discussed, one can say, that now there at least are some rules for when to discuss what, so a structure of the dialogue. But one can say, if it is actual effective in getting the countries to implement the necessary policy is up to discussion.

I: Why do you think member states chose to follow the recommendations?

L: The short answer is that it is a requirement to be part of it, its agreed upon in collectively that there is this coordination in the ES, so its a requirement to participate in. And if you chose to turn it around it be illogical not to participate, because it is here the country can bring its opinion on how it sees the problem issues and how to solve them. And the Semester ends in some recommendations to the individual countries, and one can say, if you don't participate actively in the process up to then the country doesn't have any influence on these recommendations. So there is a big motivation be an active participant in the Semester.

I: Okay, my fourth question is, do you think the method in the ES is most effective because it is law-based or coordination-based?

L: One can say, that the ES does not by itself build on sanctions, but the part element in it, such stability and growth package and the macroeconomic imbalance possibilities to sanction, and there am I in the belief it is more effective just to point out to countries when there is an issue.

I: My fifth question is; why do you think the ES includes social aspects/dimensions in its recommendations?

L: Well, there has been some discussion about this and not full agreement on whether or not it should be in the recommendations. But the idea behind is, that one cannot look at hardcore economics without also including which social consequences it can have. So that is the one logical explanation and the other is more political one, with a wish to create more ownership amongst the populations in general with these procedures for economic cooperation etc. and there is in general a demand in the southern European countries to have a higher degree of consideration towards the social aspects.

I: Great my next question is; do you think including these social aspects in the ES helps create new growth in Europe?

L: Difficult question. One can say, the fact that there is focus on the social in EU is overall a good thing, and so continue and will possibly could help create growth and some general wealth in Europe. But when this is said, then the ES maybe not the right place to it and maybe a new separate formation of procedure for this, because typically one will experience that the more aims that are added to a procedure, the more things you have to handle, the muddier the picture gets and the harder it gets for the countries to know what they should do. Because typically the simpler it is the better it works, not in all cases, but in general it helps countries and populations to understand what to do. So if including the social aspects into the ES helps create growth, I don't think it necessarily will. But this does not mean it's not very important.

I: Okay the next question is; How do you think the ES will develop in the future?

L: The latest years have been a process to make it simpler and more focused, in the sense, you have put some of these ongoing assessments from the Commission about the country's economic policy to a single report, which arrives in February, and you have made these country recommendations more specific and reduced the number of them. To focus on the most urgent problems. So it is easier for the countries to know what to do in the following year. And I think that development will continue, of course there is a lower limit to how much you can reduce. But I think they are trying to make it more simple as much as possible without losing the substance. And also from a Danish perspective, one can worry about the focus on the Euro area can become bigger and bigger, so there would be a bigger focus on the Euro cooperation between Euro countries and on these Euro recommendation, where recommendations for the Euro area is given. This is possible point for the ES to develop on, and from a Danish perspective is it maybe to the worse. And yes, there will be an ongoing technical development of how the Commission evaluates the countries policies and sets goals for what the countries needs to get done, but that is more on the technical level.

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I: Interesting. My last question is; Do you think the member states are sufficient involved in the ES? In relation to implementation of the guidelines and recommendations or is it more top-down controlled?

One can say, because it is the member states whom is the ones adopts the recommendations to themselves, the power lies by the member states or the Council, but it is clear that it is the Commission that creates the reports and recommendations to these amendments, so with this perspective it is more top-down. But the Commission have to convince all the countries that their suggestions are the correct ones. But it can be difficult for the countries to get the recommendations changed, because they then have to convince a good portion of the countries to agree on the Commissions suggestions are not correct. And in this case, one must have a relatively good case. But the countries are involved in the Semester and hold bilateral meetings with the Commission along the way of the process in relation to these analysis, and the countries typically have their own convergence and reform programs where they show the steps they have taken towards the Commission's recommendations and how the situation is with the country's economy. But yes, the Commission has also some power.

End.